# Begbies Traynor Group

21 July 2021

## Acquisitions underpin outlook in recovering markets

**Strong FY21 results were in line with our most recently upgraded forecasts (May 2021) and reinforce our conviction that BEG is set to deliver material earnings growth over the next few years. We would identify the following key drivers, two internal and one market related:**

- FY21 did not reflect the full impact of substantial earnings enhancing acquisitions secured towards the period end. A 49% increase in the contracted year end order book of committed insolvency revenue shows the potential, but the overall impact on FY21 revenues was relatively modest. Acquisitions, including MAF Finance secured post the year-end, build the potential for organic growth over the medium term, whilst added scale assists margins groupwide. Further acquisitions are under consideration, for which finance is in place.

- Restoration of normal trading for the Property Services division. Both divisions reported strong final quarters, and Property's core activities (auctions, property agency and business sales) traded at pre-pandemic levels. That will benefit FY22e revenues and rebuild divisional margins.

- Recovery in corporate insolvency volumes will drive organic growth, as government support is gradually withdrawn. Volumes are currently artificially suppressed i.e., ***near thirty-year lows***, well below a 'normal' cycle for the UK economy. Simple restoration of the latter would deliver a significant increase y-o-y, which should benefit BEG as the UK's leading independent provider. We assume a pick-up in Q4 calendar 2021, H2 for BEG, but incorporate a relatively modest contribution from this source in our forecasts. Data for June 2021 confirmed **a meaningful y-o-y recovery in numbers**.

## FY21 results and prospects

The group appears to have very effectively shrugged off much of the impact of the pandemic and demonstrated an ability to outperform its underlying markets. Revenue from new insolvency appointments was in line y-o-y despite a 34% overall market decline. In the context of subdued corporate insolvency volumes, the results are especially impressive. Revenue was 19% ahead (13% acquired, 6% organic) at a raised 14.8% operating margin. That reflects scale benefits, but not yet the full impact of acquisitions.

The FY21 results complete a five-year period during which BEG has delivered annualised (CAGR) growth in revenues and adjusted EPS of 14% and 20% respectively (50:50 organic/acquisition) and paid down all debt despite completing 13 value enhancing acquisitions. FY23e incorporates a conservative assumption regarding a return to normal post the pandemic, with the outlook for growth healthily underpinned by both the enhanced scale and the breadth of both divisions. **We have held our FY22e forecast and 165p/share fair value estimate, equivalent to a 17.9x FY22e PER and a 1.9% prospective yield (2.9x covered by adjusted earnings).**

**Summary forecasts**

| Year end 30 April | 2019A | 2020A | 2021A | 2022E | 2023E |
|---|---|---|---|---|---|
| Revenue (£m) | 60.1 | 70.5 | 83.7 | 103.5 | 110.0 |
| Adjusted PBT (£m) | 7.0 | 9.2 | 11.5 | 17.0 | 18.5 |
| Adjusted EPS (p) | 4.8 | 5.7 | 6.9 | 9.2 | 9.9 |
| Dividend per share (p) | 2.6 | 2.8 | 3.0 | 3.2 | 3.4 |
| Yield on distribution | 1.9% | 2.0% | 2.2% | 2.3% | 2.5% |

*Source: Group report & accounts and ED estimates*

**Company Data**

| | |
|---|---|
| EPIC | BEG |
| Price | 137p |
| 52 weeks Hi / Lo | 149p / 80p |
| Market cap | £208m |
| ED Fair Value / Share | 165p |
| Avg. daily volume | 352k |

**Share Price, p**


*Source: ADVFN*

**Description**

Begbies Traynor is a leading UK business recovery, financial advisory and property services consultancy. It handles the largest number of corporate appointments in the UK, and principally serves the mid-market and smaller companies.

Its other services include corporate finance, valuation and sale of properties, businesses and other assets, and property consultancy, planning and management.


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## Strong FY21 result despite challenging markets

The Group reported 19% higher revenue at £83.8m (FY20: £70.5m). Acquisitions contributed 13% and organic growth 6%. Operating profit was £12.4m (FY20: £10.1m), a 14.8% margin (2020: 14.3%), principally due to scaled up business recovery and financial advisory. Margins were adversely affected by the impact on property services of the Q1 lockdown which reduced divisional revenue by c.£1.7m. That was partly offset by £0.4m of cost reductions, a net £1.3m profit impact (FY20: £0.6m negative impact). Adjusted for that, the underlying group margin would have been c. 16%. Shared and central costs fell slightly to 7.4% of group revenue (2020: 7.6%). Adjusted PBT was 25% up on the prior year at £11.5m.

**FY Results**

| y/e 30 April, £m | 2021 | 2020 |
|---|---|---|
| **Revenue** | | |
| Business recovery and financial advisory | 59.7 | 49.6 |
| Property services | 24.1 | 20.9 |
| **Total** | **83.8** | **70.5** |
| | | |
| **Operating profit** | | |
| **Business recovery and financial advisory** | **14.7** | **11.6** |
| *Margin* | *24.7%* | *23.4%* |
| **Property services** | **3.9** | **3.9** |
| *Margin* | *16.1%* | *18.5%* |
| **Segmental result** | **18.6** | **15.4** |
| *Margin* | *23.0%* | *21.9%* |
| Shared and central costs | **(6.2)** | **(5.3)** |
| **Operating profit (before transaction costs and amortisation)** | **12.4** | **10.1** |
| Finance costs | (0.9) | (0.9) |
| **Adjusted profit before tax** | **11.5** | **9.2** |
| Transaction costs | (6.5) | (3.2) |
| Amortisation of intangible assets arising on acquisitions | (3.1) | (3.1) |
| **Profit before tax** | **1.9** | **2.9** |

*Source: Company data*

## Financial condition

Operating profit and favourable working capital movements are reflected in a net increase in free cash flow. Two substantial acquisitions towards the end FY21 of were financed by a £22m fundraising (£20.9m net of expenses) in March 2021 (£10m vendor placing and £12m cash placing). Deferred consideration payments due in FY22, at £5.1m, are well-covered by anticipated free cash flow. BEG has access to £20m of undrawn committed facilities (which mature in August 2023) and £3.0m of cash at end FY21.

**Cash movement**

| y/e 30 April, £m | 2021 | 2020 |
|---|---|---|
| Free cash flow | 12.3 | 7.7 |
| Net proceeds from share issues | 20.9 | 7.8 |
| Acquisition and deferred consideration payments | (23.9) | (9.1) |
| Dividends | (3.6) | (3.2) |
| **Increase in net cash** | **5.7** | **3.2** |

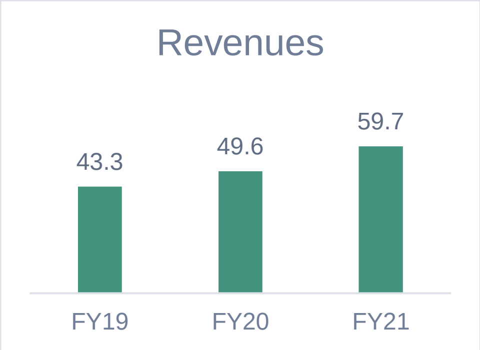
*Source: Group FY21 results presentation*

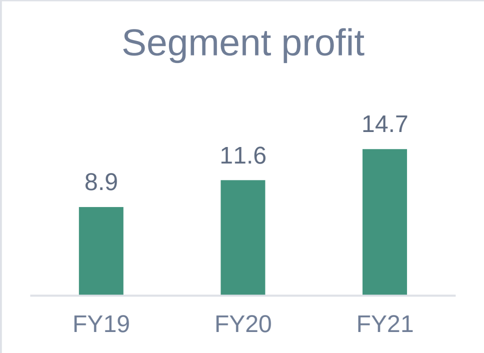
## Divisional performances support growth outlook

**Both divisions look well-placed**, with FY22e underpinned by contributions from acquisitions yet to reflect their full potential in the results or indeed our forecasts, which themselves include relatively conservative assumptions regarding market recovery and the outlook for the enlarged business.

### Business Recovery and Financial Advisory

**Contribution, £m**




*Source: Group report & accounts*

The division reported 20% revenue growth (14% acquired, 6% organic) and higher margins. despite an insolvency market 34% below the prior year, and at levels last seen in 1989.

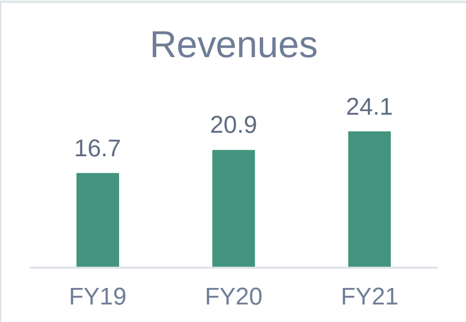
The division increased its market share and average case size and ended the period with an acquisition driven £28.3m order book of committed insolvency revenue (up 49% y-o-y). It secured two significant additions, CVR Global (January 2021) and David Rubin & Partners in March 2021, towards the period end. These materially increase the scale of group operation in the London market and added its first offshore offices, both sources of potential future growth.

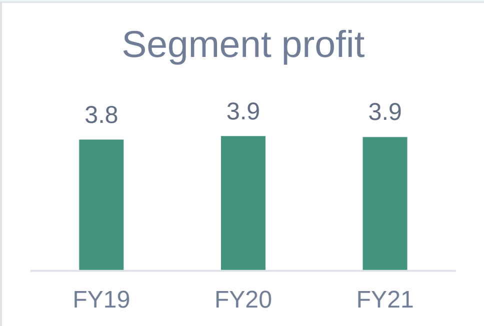
The advisory team recorded growth in corporate finance income. Its markets remained active despite Covid-19 and a complementary business, finance broker, MAF Finance Group was acquired in May 2021.

### Property Advisory and Transactional Services

This division finished FY21 in strong condition. Profits have been steady despite results being net of lockdown related hits estimated at £0.6m in FY20 and £1.3m in FY21. The latter's impact was reflected in a 16.2% operating margin (FY20: 18.7%), but activity and transaction levels recovered to pre-lockdown norms during Q4, which sets the business up for growth in FY22. The acquisition of HNG in February 2021 built its property management, agency, and lease advisory teams, and added scale to London operations.

**Contribution, £m**




*Source: Group report & accounts*

## Insolvency market: signs of recovery, but remains subdued

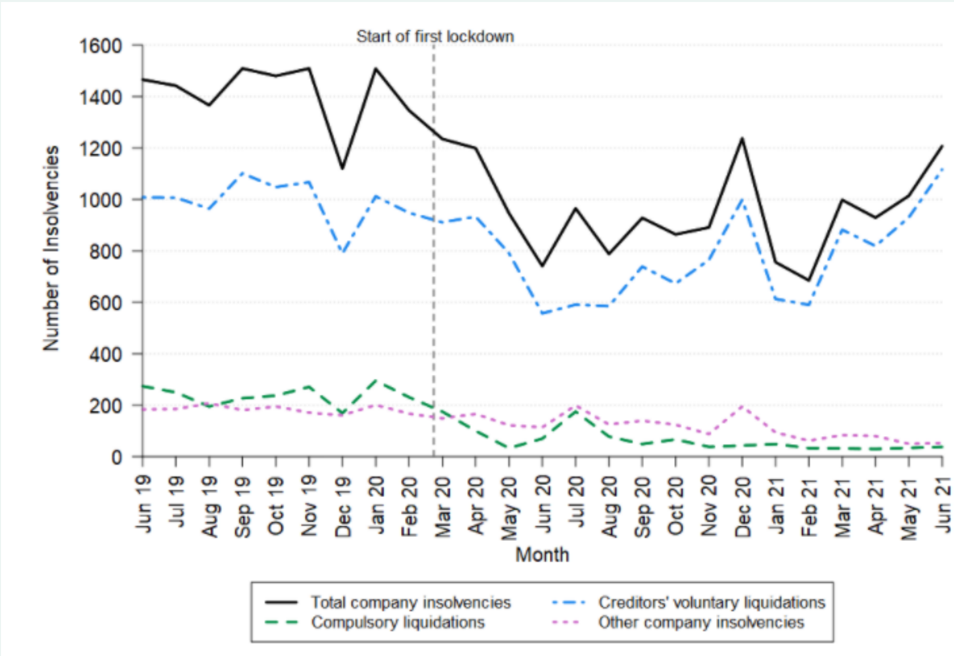
Although there remains uncertainty over the pace at which Government support measures will be withdrawn, a return to a more normal economic environment would allow creditors to pursue amounts owed. We have taken a conservative view regarding the pace at which government support unwinds, with other constraints such as court backlogs due to the national lockdown. The temporary prohibition on certain winding up petitions/statutory demands has been extended to September 2021, and prevention of forfeiture of leases for non-payment of rent to March 2022.

According to UK Government Insolvency Service data, there were 1,207 registered company insolvencies in June 2021. This figure was:

- 63% higher than the number registered in the same month in the previous year (741 in June 2020), but
- 18% lower than the number registered two years previously (pre-pandemic; 1,466 in June 2019).

There were 1,116 Creditors' Voluntary Liquidations (CVLs), which was similar in number to pre-pandemic levels. The overall reduction in company insolvencies compared with June 2019 was driven mostly by the lower number of compulsory liquidations.

**Historical trend of company insolvencies for the last 25 months**




*Source: Insolvency Service (compulsory liquidations only); Companies House (all other insolvency types)*

Average monthly company insolvencies were 1,419 for the fifteen months from January 2019 to March 2020, but just 917 for the period from April 2020 to April 2021. **However, there has been some recovery to 1,014 in May and 1,207 in June.**

If market volumes return to what previous averages over the next 12-18 months that should directly benefit BEG, as the UK's largest independent provider of insolvency services. There is also clearly some potential for a cyclical spike in insolvencies as government and lender support is progressively withdrawn, and in line with companies whose finances have been undermined by the impact of multiple lockdowns, higher levels of debt and constrained working capital post pandemic and face insistent creditors.

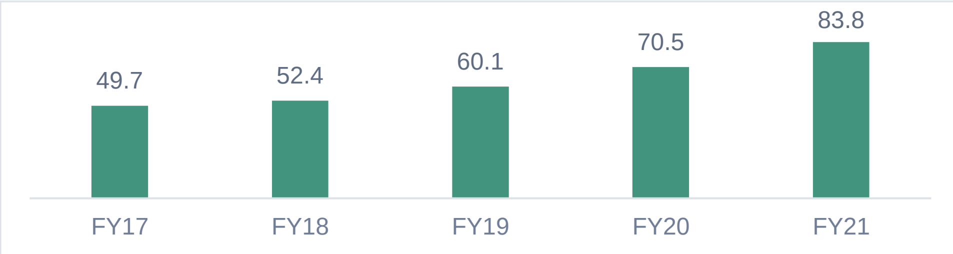
## Outlook

Both divisions are attractively positioned to grow organically over the next few years, with the outlook transformed by substantial earnings enhancing acquisitions which have increased recovery and advisory divisional revenue by c 40% on a pro forma basis and we expect it to build upon recent progress.

### Strong five-year record, momentum building

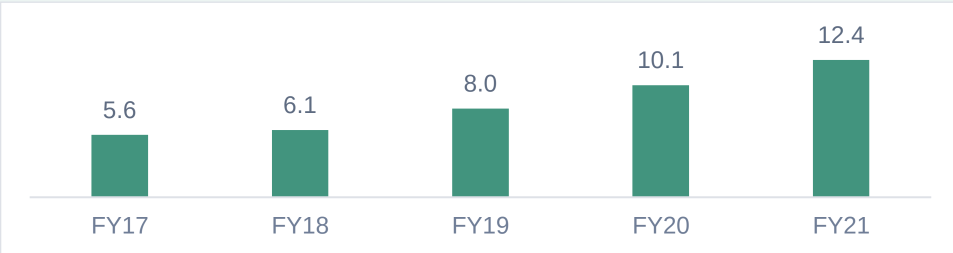
**The five-year record clearly illustrates the growth momentum**, which includes annualised increases (CAGR from FY17 to FY21) of **14% in revenues, and 20% for adjusted EPS**, both split 50:50 between acquisition-led and organically driven growth. Dividend growth on that basis for the same period is 8% pa. BEG has completed 13 earnings enhancing acquisitions since FY17 and ended FY21 with net cash.

**Group Revenues, £m**




*Source: Group report & accounts*

**Operating Profit *, £m**




*Source: Group report & accounts, *before transaction costs and amortisation*

The enlarged group has an upgraded profile in important existing (London) and potential UK and overseas markets.  That division has an enlarged London team of 26 partners, and annual fee income from London offices has increased to c.£28m from £13m on a pro-forma basis. Enhanced advisory capabilities now include forensic accounting and pensions advisory, and its first offshore locations were added during FY21.

The addition of MAF Finance in the current year adds strong growth opportunities and underpins the division's relationships with UK lenders, while property services has secured significant new UK government contracts which it expects to improve its ability to work with the NHS and UK educational entities.

The group results are expected to have greater second half weighting than previously, due to the end of government support measures and underlying recovery in demand for both divisions' services. The group plans to issue a further trading update on activity levels at its AGM in September.

**Despite the recent additions BEG retains a strong appetite for further acquisitions, with a strategy to maintain a balance of cyclical and counter cyclical revenue streams. We estimate that the capacity (cash and undrawn debt) is in place to comfortably finance another £20m of acquisitions and remain within the Group's prudent debt ratios.**

# FINANCIALS

| Income statement | | | | | |
|---|---|---|---|---|---|
| **Y/E 30 April, £m** | **2019** | **2020** | **2021** | **2022E** | **2023E** |
| Revenue | 60.1 | 70.5 | 83.8 | 103.5 | 110.0 |
| Direct costs | (34.3) | (40.3) | (48.3) | (59.2) | (63.3) |
| Gross profit | 25.8 | 30.2 | 35.6 | 44.8 | 47.2 |
| Other operating income | 0.4 | 0.4 | 0.2 | 0.4 | 0.4 |
| Administrative expenses | (22.2) | (26.7) | (32.9) | (36.2) | (37.0) |
| | **4.0** | **3.9** | **2.8** | **9.0** | **10.6** |
| Adj. Operating profit (before amortisation and transaction costs) | 7.6 | 10.1 | 12.4 | 17.8 | 19.4 |
| Transaction costs | (1.2) | (3.2) | (6.5) | (3.6) | (3.6) |
| Amortisation of intangible assets arising on acquisitions | (2.4) | (3.1) | (3.1) | (5.2) | (5.2) |
| **Operating profit** | **4.0** | **3.9** | **2.8** | **9.0** | **10.6** |
| Finance costs | (0.5) | (1.0) | (0.9) | (0.9) | (0.9) |
| Profit before tax | 3.5 | 2.9 | 1.9 | 8.1 | 9.7 |
| **Adjusted PBT** | **7.1** | **9.2** | **11.5** | **17.0** | **18.5** |
| Tax | (1.1) | (2.0) | (1.8) | (2.5) | (3.0) |
| **Profit after tax** | **2.4** | **0.9** | **0.2** | **5.6** | **6.7** |
| **Earnings per share** | | | | | |
| Adjusted EPS - basic | 4.8p | 5.7p | 6.9p | 9.2p | 9.9p |
| Adjusted EPS - diluted | 4.7p | 5.7p | 6.7p | 8.9p | 9.6p |

*Source: Group financial statements*

| Balance sheet | | | | | |
|---|---|---|---|---|---|
| **Y/E 30 April, £m** | **2019** | **2020** | **2021** | **2022E** | **2023E** |
| **Non-current assets** | | | | | |
| Intangible assets | 59.4 | 59.4 | 77.6 | 77.6 | 77.6 |
| Property, plant and equipment | 1.8 | 1.8 | 2.1 | 2.1 | 2.1 |
| Right of use assets | 0.0 | 7.0 | 7.5 | 6.0 | 5.8 |
| Trade and other receivables | 3.2 | 4.6 | 4.0 | 4.0 | 4.0 |
| | **64.4** | **72.8** | **91.2** | **89.7** | **89.4** |
| **Current assets** | | | | | |
| Trade and other receivables | 32.7 | 36.5 | 45.4 | 38.0 | 40.0 |
| Cash and cash equivalents | 4.0 | 7.2 | 8.0 | 10.7 | 13.3 |
| | 36.7 | 43.7 | 53.4 | 48.7 | 53.3 |
| **Total assets** | **101.0** | **116.6** | **144.6** | **138.3** | **142.8** |
| Current liabilities | | | | | |
| Trade and other payables | (22.7) | (22.2) | (33.3) | (31.5) | (33.5) |
| Current tax liabilities | (2.0) | (1.9) | (2.6) | (2.5) | (2.5) |
| Lease liabilities | 0.0 | (2.2) | (3.0) | (3.0) | (3.0) |
| Provisions | (0.6) | (0.9) | (0.6) | (1.0) | (1.0) |
| | (25.2) | (27.2) | (39.4) | (38.0) | (40.0) |
| **Net current assets** | **11.4** | **16.5** | **14.0** | **10.7** | **13.4** |
| Non-current liabilities | | | | | |
| Trade and other payables | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Lease liabilities | 0.0 | (6.1) | (5.8) | (2.5) | (3.0) |
| Borrowings | (10.0) | (10.0) | (5.0) | (5.0) | (5.0) |
| Provisions | (0.8) | (1.9) | (2.6) | (2.6) | (2.6) |
| Deferred tax | (5.3) | (5.7) | (5.5) | (0.5) | (1.0) |
| | **(16.1)** | **(23.8)** | **(18.9)** | **(11.1)** | **(11.6)** |
| Total liabilities | (41.3) | (51.0) | (58.3) | (49.1) | (51.6) |
| **Net assets** | **59.7** | **65.6** | **86.3** | **89.3** | **91.2** |

*Source: Group financial statements*

**Cash flow statement**

| Y/E 30 April, £m | 2019 | 2020 | 2021 | 2022E | 2023E |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| **Cash generated by operations** | **8.0** | **4.7** | **16.2** | **17.1** | **18.6** |
| Income taxes paid | (1.4) | (2.2) | (2.3) | (2.5) | (2.8) |
| Interest paid on borrowings | (0.5) | (0.4) | (0.3) | (0.4) | (0.4) |
| Interest paid on lease liabilities | (0.5) | (0.5) | (0.5) | (0.5) | (0.5) |
| Net cash from operating activities | 5.7 | 1.7 | 13.0 | 13.7 | 15.0 |
| **Investing activities** | | | | | |
| Purchase of intangible fixed assets | (0.2) | (0.7) | (1.0) | 0.0 | 0.0 |
| Purchase of property, plant and equipment | (0.8) | (0.1) | (0.3) | (0.3) | (0.3) |
| Deferred consideration payments | 0.0 | (0.7) | (0.2) | (3.0) | (4.0) |
| Acquisition of businesses (net of cash acquired) | (1.8) | (3.0) | (22.0) | 0.0 | 0.0 |
| Cash from acquired businesses | 3.4 | 3.4 | 1.5 | 0.0 | 0.0 |
| **Net cash used in investing activities** | **0.6** | **(1.1)** | **(22.0)** | **(3.3)** | **(4.3)** |
| **Financing activities** | | | | | |
| Dividends paid | (2.6) | (3.2) | (3.6) | (4.7) | (5.0) |
| Net proceeds on issue of shares | 0.0 | 7.8 | 20.9 | 0.0 | 0.0 |
| Repayment of obligations under leases | 0.0 | (1.9) | (2.7) | (3.0) | (3.0) |
| Proceeds on issue of SIP scheme shares | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Repayment of loans | (1.0) | 0.0 | (5.0) | 0.0 | 0.0 |
| **Net cash used in financing activities** | **(5.8)** | **2.7** | **9.7** | **(7.7)** | **(8.0)** |
| **Net increase (decrease) in cash and cash equivalents** | **0.5** | **3.2** | **0.7** | **2.7** | **2.7** |
| Cash at beginning of year | 3.5 | 4.0 | 7.2 | 8.0 | 10.7 |
| **Cash at year end** | **4.0** | **7.2** | **8.0** | **10.7** | **13.3** |

*Source: Group financial statements*

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