Begbies Traynor Group

A positive outlook as insolvency volumes build

11 December 2023

Pleasing H1 results

A strong first half performance included double digit revenue and profit growth in line with the recent update. The FY24 outlook is positive: the statement anticipates ongoing growth towards a £200m pa medium-term revenue target. That characterises the potential management sees and its confidence in the visibility and repeatability of its current strategy.

Recent investment has put BEG in a good position to extract growth both organically and via further additions. It plans to build on existing services and enhance the breadth and diversity of its client base. This includes organic initiatives and acquisitions, primarily in-fill purchases of the kind of smaller entities and teams which have extended its competencies and geographical profile. Recent acquisitions are reported to be trading in line with expectations and organic initiatives delivering. We expect the group to deliver more of the same, but don't rule out larger acquisitions, finance for which is readily available. There was £1.1m of net cash at end October and significant headroom within committed bank facilities when required.

Current focus is on potential for BEG to capitalise on its position as UK market leader by volume of insolvency appointments. Demand for its services is expected to continue to grow progressively over the next few years and it added capacity during the period. Group revenues are however, broadly based as both divisions contributed to 13% overall revenue growth in H1 (8% organic, 5% from acquired businesses). Adjusted PBT was 10% up despite higher finance charges and a 0.1p increase in the interim dividend to 1.3p extends distribution growth in a seventh consecutive year.

Outlook and valuation

We increased our revenue forecast to reflect the strength of the first half performance but hold adjusted PBT at prior levels for now. We will review that when BEG releases its Q3 trading update in February and consider the group's ambitions, particularly its medium revenue target, in more detail.

The statement anticipates growth in insolvency activity and a broadly consistent H2 for financial advisory. Property advisory and transactional services are on track to report another year of strong growth. That confidence is based on existing services, a diverse and growing client base, organic initiatives and acquisition pipeline, plus higher contributions from counter-cyclical activity.

Despite recent volatility we hold our 175p/share fair value estimate (equating to 18.2x FY24e PER, 2.1% yield). The business is ideally positioned to take advantage of key trends, particularly higher insolvency volumes, and ongoing investment, both organic and acquisition based will continue to build capacity, extend its geographical profile, and enable the Group to capture additional cyclical and counter cyclical income streams.

Summary forecasts

Year end 30 April, £m	2021A	2022A	2023A	2024E
Revenue	83.7	110.0	122.0	135.0
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	2.6%	3.1%	3.4%	3.6%

Source: Group report & accounts and ED estimates

Company Data

EPIC	BEG
Price (last close)	113p
52 weeks Hi/Lo	151p/105p
Market cap	£175m
ED Fair Value / share	175p

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.

Roger Leboff (Analyst)
0207 065 2690
roger@equitydevelopment.co.uk

Andy Edmond
0207 065 2691
andy@equitydevelopment.co.uk

Strong first half, group on track to achieve FY24 forecasts

The interim results were in line with the recent update. H1 23 revenue was 13% ahead y-o-y, adjusted PBT (underlying, net of costs related to acquisitions was 10% up at £9.9m. PBT growth was achieved despite a material increase in finance costs to £0.85m. Statutory PBT of 3.0m (2022: £5.0m) incorporates higher acquisition-related transaction costs at £3.9m (H122: £0.8m) and £3.0m of non-cash amortisation costs of (2022: £3.2m).

Summary Interim results

Y/e 30 April, £m	H1 2023	H1 2022	FY 2023
Revenue	65.9	58.5	121.8
Adjusted EBITDA	**12.8**	**11.9**	**26.6**
Share-based payments	(0.2)	(0.7)	(1.3)
Depreciation	(1.9)	(1.7)	(3.5)
Operating profit (before transaction costs and amortisation)	10.7	9.5	21.8
Finance costs	(0.8)	(0.5)	(1.1)
Adjusted profit before tax	**9.9**	**9.0**	**20.7**
Transaction costs	(3.9)	(0.8)	(8.4)
Amortisation of intangible assets arising on acquisitions	(3.0)	(3.2)	(6.3)
Profit before tax	**3.0**	**5.0**	**6.0**
Tax	(1.8)	(1.3)	(3.1)
(Loss) profit for the period	**1.2**	**3.7**	**2.9**
Adjusted diluted EPS (p)	4.6	4.4	
Interim dividend per share (p)	1.3	1.2	

Source: BEG interim report

Adjusted diluted EPS at 4.6p (2022: 4.4p) reflects higher UK corporation tax rates. Net cash at the period end was £1.1m vs £3.0m six months earlier, which broadly matches £4.0m of acquisition related payments in the period (net of cash acquired).

Divisional performances; broad contributions in H1

Segmental overview

£m	Revenue			Profit		
	2023	**2022**	**growth**	**2023**	**2022**	**growth**
Business recovery and financial advisory	47.0	42.4	11%	11.4	10.7	7%
Property advisory and transactional services	18.9	16.1	17%	3.7	2.8	32%
Shared and central costs				(4.4)	(4.0)	10%
Total	**65.9**	**58.5**	**13%**	**10.7**	**9.5**	**13%**

Source: BEG interim report

Both divisions made strong contributions. Business recovery and financial advisory was 11% up in H1 23 (9% organic) to £47.0m. Insolvency work was the key driver for segmental profits 7% up at £11.4m.

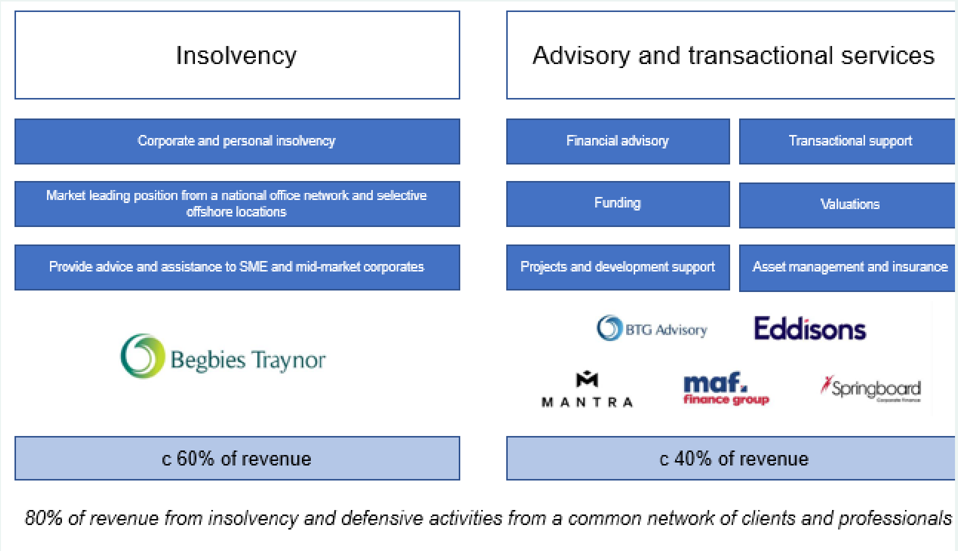
Divisional operating margins however fell slightly to 24.2% (2022: 25.2%), mainly as financial advisory traded in a quieter market vs a strong comparable for the equivalent period. Overall, this segment was resilient.

Advisory work related to refinancing and restructuring solutions mitigated an anticipated reduction in corporate transactions (M&A and other capital investment). Conversely, formal insolvency appointments were up 17% at £38.8m (H1 22: £33.3m) to offset lower advisory services revenue of £8.2m (H122: £9.1m).

Growth in insolvency volumes to benefit the UK's market leader

Insolvency remains the largest contributor to Group revenues:

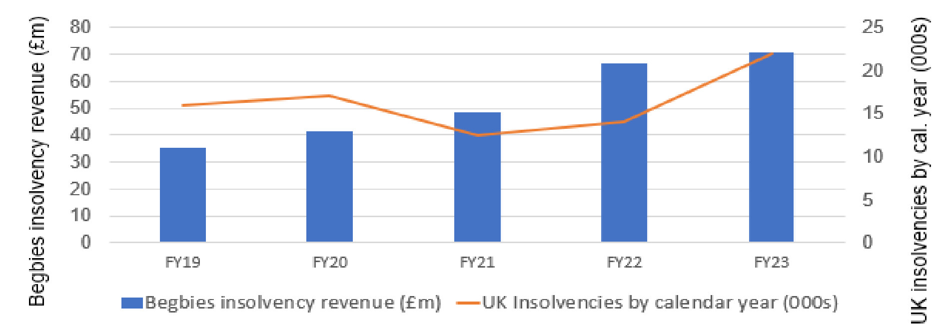
Divisional summary and comparison

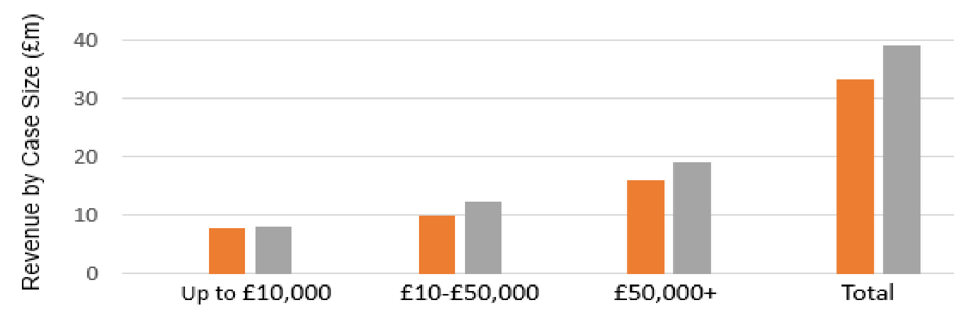


Source: BEG documents

BEG's insolvency team remains the UK market leader by volume, and it is seeing benefits from investment in a national office network. It added to the scale in H1 and has capacity to accommodate anticipated further growth. In September it acquired a Cardiff-based insolvency team from Jones Giles & Clay.

Insolvency data





Source: BEG presentation

That pick up in insolvency work reflects levels of corporate distress and is in line with growth in the number of UK corporate insolvencies to 24,326 in the 12 months to 30 September 2023 (*Source: Insolvency Service quarterly statistics)*. The period end insolvency order book was £35.0m (Oct 2022: £33.9m, Apr 2023: £35.2m). Market growth so far has leaned towards liquidations, voluntary and compulsory, generally smaller company insolvencies. Volumes of larger, more complex administrations did also increase in the period and now approach pre-pandemic levels.

Property Advisory & Transactional Services

This division reported 17% revenue growth (4% organic) to £18.9m (H122: £16.1m). Segment profit was 32% higher at £3.7m (H1 22: £2.8m), at a 19% operating margin (H122: 17.4%). This operation continued to progress despite the challenging environment for UK commercial real estate, a result of its broad expertise and services.

Valuations and instruction levels were driven by revaluations and loan security reviews, which offset lower instructions for new loan valuations, another example of contra cyclicality within the business portfolio. BEG grew its team via the acquisition of Andrew Forbes in November 2023, post the period end. This extended its regional presence across the South West and grew its national valuations team. Auctions reported higher volumes from sales of property, plant and machinery, which helped mitigate weaker transactional markets - both commercial property and business sales agency. Building consultancy expanded in H1 and saw increased activity levels across a broad client base. The asset management and insurance teams reported robust performances.

In early H1 23 BEG acquired **Banks Long & Co**, a multi-disciplinary chartered surveyor which provides commercial property agency, property management, building consultancy and valuation services. This develops the group’s regional offering across Lincolnshire and Humberside. It trades well and the integration is proceeding to plan. The November 2023 addition of valuation specialist Andrew Forbes extended regional coverage into the South West.

BEG plans to continuing to invest to develop its property services operation, enhance and broaden service offerings and geographical coverage. Its target is to increase the scale of the division to a c £40m annualised revenue run rate.

Consolidated statement of comprehensive income

Y/e 30 April, £m	2020	2021	2022	2023	2024E
Revenue	**70.5**	**83.8**	**110.0**	**121.8**	**135.0**
Direct costs	(40.3)	(48.3)	(62.2)	(67.7)	(75.7)
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

Contacts

Andy Edmond
Direct: 020 7065 2691
Tel: 020 7065 2690
andy@equitydevelopment.co.uk

Hannah Crowe
Direct: 0207 065 2692
Tel: 0207 065 2690
hannah@equitydevelopment.co.uk

Equity Development Limited is regulated by the Financial Conduct Authority

Disclaimer

More information is available on our website www.equitydevelopment.co.uk

Equity Development 16-18 Finsbury Circus, London EC2M 7EB

Contact: info@equitydevelopment.co.uk | 020 7065 2690