Begbies Traynor

Building further share in key markets

15 December 2021

The first half result was impressive, considering how important market drivers have been artificially suppressed by government support measures. Growth in revenues and profits reflect successful implementation of earnings enhancing acquisitions, 13 of which have been completed over the last five years. In addition to extended service lines, additional market share and profile, the new group entities have delivered cost savings, cross selling opportunities and other synergies, all of which should underpin future organic growth.

Interims: 39% increase in revenues, +60% in adjusted PBT

A strong first half with 39% revenue growth and **a pleasing 16% operating margin** (H1 20/21:14.4%), was driven by underlying progress from both divisions (insolvency operations increased market share of an artificially suppressed market) and contributions from recent acquisitions.

The Business Recovery division reported a 48% increase in first half revenue to £38.7m (H1 20/21: £26.1m), driven principally by first-time contributions from acquisitions (£13.2m). A small £0.6m fall in organic revenues reflected an insolvency market currently characterised by higher volumes of lower value cases, which we expect will progressively see more of the larger, more complex cases over the forecast period. That segment's profits was 47% ahead at £9.7m (H1 20/21: £6.6m), and operating margins broadly level at 25.1%. Property and Transaction Services revenues were 19% ahead at £13.6m, with profit at £2.4m, 50% up on a pandemic-affected comparable.

Outlook: divisions to benefit from better scale, profile and market shares

BEG is firmly on track to hit full year targets which are well ahead of FY21, despite a relatively modest pick-up in insolvency volumes so far. The size and timing of any recovery in insolvency volumes is only one component of the core investment case. Recent acquisitions and organic investment has built a strong base upon which to grow revenues from multiple sources. That and a strong balance sheet underpins a commitment to additional acquisitions and organic growth initiatives.

Insolvency volumes remain a key driver. The group is well placed to capitalise on market growth, having built its market share (of volumes) from 10% to 14%. As UK insolvencies returns to 'normal' volumes BEG has the capacity to accommodate further demand, particularly in London and the South East where recent acquisitions have provided manpower, expertise and a higher profile.

Valuation

Our forecasts are unchanged and underpinned by an anticipated second half weighting. We have included the benefit of growing contributions from prior year acquisitions and potential for a broadly based, complementary professional services business, which is yet to fully capitalise on its potential. **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).**

Forecasts

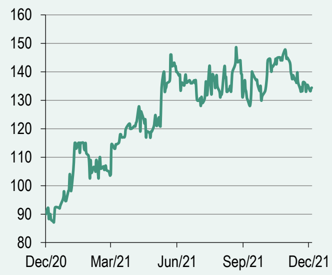
Year end 30 April	2019A	2020A	2021A	2022E	2023E
Revenue (£m)	60.1	70.5	83.7	103.5	110.0
Adjusted PBT £m)	7.0	9.2	11.5	17.0	18.5
Adjusted EPS (p)	4.8	5.7	6.9	9.2	9.9
Dividend per share (p)	2.6	2.8	3.0	3.2	3.4
Yield on distribution	1.9%	2.1%	2.2%	2.4%	2.5%

Source: Group report & accounts and ED estimates

Company Data

EPIC	BEG
Price	134p
52 weeks Hi/Lo	150p / 86p
Market cap	£203m
ED Fair Value / share	165p

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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Interim results

Acquisitions, improved market shares and organic growth

The interim results were in line with previous updates and confirmed ongoing recovery across service lines adversely impacted by the lockdown. Property Advisory outperformed a weaker comparative, while a broadly similar return y-o-y by Recovery and Advisory (Insolvency) reflected significant increases in its share of a reduced, but cyclical market. That helped BEG offset challenges faced by its key markets since the start of the pandemic, particularly those suppressed by government financial support measures.

Contributions to the 39% increase in H1 revenue to £52.3m were 36% acquired, 3% organic. An increase in operating margins to 16.0% (H1 20/21: 14.4%) delivered a 60% increase in adjusted PBT (adding back transaction costs and amortisation of intangibles) to £8.0m. The 32% increase in adjusted basic EPS to 4.1p reflects a 19% increase in shares in issue period to period.

Summary interims

6m to 31 Oct, £m	H1 2021/22	H1 2020/21	Change
Revenue	52.3	37.5	+39%
Adj. profit (pre amortisation and transaction costs)	8.4	5.4	+56%
Margin	16.0%	14.4%	
Adjusted profit before tax	8.0	5.0	+60%
Adjusted basic EPS (p)**	4.1p	3.1p	+32%
Interim dividend (p)	1.1p	1.0p	+10%
Net cash (debt)	1.2	0.7	+71%

Source: BEG interims

Statutory PBT was £2.7m (H1 20/21: £0.5m), post an increase in non-cash amortisation costs from recent acquisitions to £2.6m (H1 20/21: £1.5m) and £2.7m of transaction costs (H1 20/21: £3.1m). Statutory results also reflect a one-off non-cash deferred tax charge of £1.8m, post an increase in the UK corporation tax rate to 25%, resulting in £0.3m post tax loss (H1 21: loss £0.3m). Basic loss per share was 0.2p (2020: 0.3p).

The group remains in a strong financial condition. Net cash at end H1 was £1.2m (30 April 2021: £3.0m, 31 October 2020: £0.7m) post £3.5m of acquisition and deferred consideration payments. BEG's cashflow characteristics underpin its intention to continue to pursue strategic acquisitions, and it has access to significant headroom in bank facilities which remain in place until 2023.

Cash flow H1 21/22

6m to 31 Oct '21, £m	
Oct 20 free cash flow	**6.0**
Prior period VAT payments deferred to H2	(2.7)
Increased pre-tax profits	3.0
Tax payments	(0.6)
Working capital - largely timing of payments in H1	(2.5)
Oct 21 free cash flow	**3.2**
Dividends	(1.5)
Acquisition payments	(2.2)
Deferred consideration payments	(1.3)
Cash outflow	**(1.8)**

BEG interims

Business Recovery and Financial Advisory

£12.6m of report divisional revenue growth splits into £13.2m from acquisitions, net of a £0.6m lower organic contribution. The latter reflects H1 market dynamics which leaned towards higher volumes of lower value cases, which we discuss below. Operating margins were broadly in line y-o-y at 25.1%

An increase in the period end insolvency order book to £29.0m vs £20.9m a year earlier, and £28.3m at 30 April 21 was achieved via acquisitions and higher market shares and underpins the outlook. The outlook is also backed by a strong H2 corporate finance deal pipeline, which builds on a positive period for completions in H1. Finance broking (MAF acquired in May 21) is performing in line with expectations.

Divisional breakdown

6m to 31 Oct, £m	Revenue			Profit		
	2021/22	2020/21	Change	2021/22	2020/21	Change
Business recovery and financial advisory	38.7	26.1	48%	9.7	6.6	47%
Property advisory and transactional services	13.6	11.4	19%	2.4	1.6	50%
Shared and central costs				(3.6)	(2.7)	33%
Total	52.3	37.5	39%	8.4	5.4	56%

Source: BEG interims

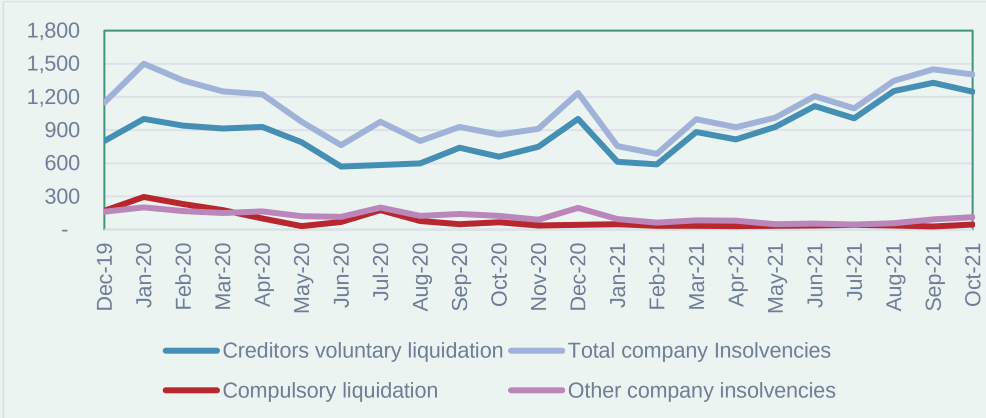
Insolvency market recovery gradually emerging

If the UK is yet to see a surge in company insolvencies post the chaos of the last 18 months, volumes have gradually picked up as the government financial support measures have progressively been wound down.

The majority of support available was actually withdrawn at the end of September and the current schedule would see everything lifted by end March 2022. That support, both financial and legislative, undoubtedly contributed to a 10% fall in corporate insolvency numbers in the 12 months to 30 September 2021 and a 26% decline vs pre-pandemic levels a year earlier.

Insolvencies have recovered to 3,765 (Q3 calendar 2021) from 2,374 (Q1 calendar 2021). That has however been weighted towards liquidations, typically smaller company insolvencies, where appointment volumes are back at pre-pandemic levels. Conversely administrations, generally larger more complex instructions and of most value to BEG, have picked up slowly and remain well below pre-pandemic levels.

Company insolvencies



Sources: Insolvency Service, Companies House

The outlook for a busier H2 and beyond is supported by an inevitable increase in pressure from creditors as support is unwound, as well as the broad impact on UK businesses of rising inflation, supply chain issues, compounded by significant increases in corporate debt as a result of the pandemic. Government measures will probably only have delayed the inevitable for a proportion of UK businesses.

As such the group is well placed to grow on the back of higher insolvency market volumes. It is the largest provider of UK insolvency services, measured by case volumes, and over the 12 months to end October 2021 increased its share of both liquidations and administrations from 10% to 14%.

Market dynamics were reflected in the first half income mix i.e., a shift towards lower margin smaller appointments, higher volumes and predictability. Two acquisitions in particular, CVR (January 2021) and DRP (March 2021) have significantly increased the scale of its insolvency business, notably in London, a key market. Integration of both is complete and local teams have been merged into common locations.

These were supplemented in May 2021 by the purchase of MAF Finance Group. MAF is a finance brokerage which arranges facilities for investment in new asset purchases and to refinance existing facilities. This acquisition complemented the division's existing advisory and transactional services and will help it build deeper relationship with banks and other lenders.

BEG's strategy to capitalise on market recovery and progressively build margins includes organic growth and a maintained commitment to securing further acquisitions, plus initiatives designed to improve efficiency and increase automation. Central costs fell as a percentage of revenue to 6.9% in the first half (H1 20: 7.2%)

Property Advisory and Transactional Services

This division's result was well ahead of a lockdown-impacted prior period. The 19% y-o-y increase in Property Advisory and Transactional Services revenue to £13.6m in the period reflects a £1.6m organic recovery in activity levels vs the lockdown impacted comparative and a £0.6m first-time contribution from acquisitions.

This performance reflects the benefit and integration of acquisitions since January 2021. These have added scale and capabilities, enhanced by active investment in fee earner recruitment designed to extend a client base and take advantage of increased opportunities from public sector frameworks.

Segmental profits in H1 increased by 50% to £2.4m (H1 20/21: £1.6m), and operating margins to 17.6% (2020: 14.0%). Operating costs were higher at £11.2m (H1 20/21: £9.7m), in line with the normalisation of the cost base vs the short-term cost reductions put in place during the comparative period, and acquisitions.

Recent acquisitions include:

- October 2021 – The group recruited a team from Fernie Greaves Chartered Surveyors team which joined its existing Eddisons Sheffield office and broadened its reach across South Yorkshire and the East Midlands.
- February 2021 – Acquisition of HNG to enhance property management, agency and lease advisory services. This team is fully integrated, merged with the Eddisons' original London team.

FINANCIALS

Consolidated statement of comprehensive income					
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, ED estimates

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	1.8	1.8
Right of use assets	0.0	7.0	7.5	6.0	5.8
Trade and other receivables	3.2	4.6	4.0	4.3	4.3
	64.4	72.8	91.2	89.8	89.5
Current assets					
Trade and other receivables	32.7	36.5	45.4	50.0	40.0
Cash and cash equivalents	4.0	7.2	8.0	10.5	13.2
	36.7	43.7	53.4	60.5	53.2
Total assets	101.0	116.6	144.6	150.3	142.7
Current liabilities					
Trade and other payables	(22.7)	(22.2)	(33.3)	(38.0)	(33.5)
Current tax liabilities	(2.0)	(1.9)	(2.6)	(2.5)	(2.5)
Lease liabilities	0.0	(2.2)	(3.0)	(2.5)	(2.5)
Provisions	(0.6)	(0.9)	(0.6)	(0.5)	(0.5)
	(25.2)	(27.2)	(39.4)	(43.5)	(39.0)
Net current assets	11.4	16.5	14.0	17.0	14.2
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)	(4.6)	(3.0)
Borrowings	(10.0)	(10.0)	(5.0)	(6.0)	(5.0)
Provisions	(0.8)	(1.9)	(2.6)	(2.5)	(2.5)
Deferred tax	(5.3)	(5.7)	(5.5)	(7.3)	(7.3)
	(16.1)	(23.8)	(18.9)	(20.4)	(17.8)
Total liabilities	(41.3)	(51.0)	(58.3)	(63.9)	(56.8)
Net assets	59.7	65.6	86.3	86.4	85.9

Source: Group financial statements, ED estimates

Consolidated 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)	(0.3)	0.0
Cash from acquired businesses	3.4	3.4	1.5	0.2	0.0
Net cash used in investing activities	0.6	(1.1)	(22.0)	(3.4)	(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	2.6	2.7
Cash at beginning of year	3.5	4.0	7.2	8.0	10.5
Cash at year end	4.0	7.2	8.0	10.5	13.2

Source: Group financial statements, ED estimates

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