# Begbies Traynor Group

## Delivering sustainable, quality growth

2 March 2021

**Begbies Traynor's track record demonstrates its ability to generate consistent growth in increasingly sustainable revenues across the economic cycle. This stems from a strategy driven by value-accretive acquisitions over the past six years, designed to build both upon existing and develop new, complementary disciplines. Returns have also been enhanced by organic investment in service line expansion, employee development / recruitment, and processes focused upon improved working practices and client service.**

**The results are clearly visible in 16% CAGR in EPS from FY16-FY20, consistently positive cash generation and 8% pa dividend growth since 2017. Earnings growth is significantly ahead of the UK insolvency market (4% CAGR FY16-FY20), reflecting improved market shares from an increasingly diversified business, divisional cross sales / referrals, and the benefit of the acquisition strategy.**

The current portfolio combines corporate and personal insolvency, corporate finance, financial advisory and a broad range of property consultancy and transactional services. That is an increasingly well-balanced revenue base, including counter-cyclical and more stable, contracted, cyclical income. That will support further acquisitions, investment in organic growth and progressive distributions.

### Outlook

We expect more of the same strategically, as management intends to secure further earnings accretive acquisitions from a pipeline of potential additions. That will be backed by ongoing organic investment in existing insolvency, property, and professional services. There is also the prospect of a cyclical resurgence in insolvency revenues. That division, the UK's largest independent provider of insolvency services by volume, should see higher demand for its products over the next 18 months as the full extent of the distress experienced by UK corporates during lockdown is apparent.

### Valuation

**An excellent growth record (four years 16% CAGR adj. EPS) and strong prospects (+50% EPS growth forecast in next two years) are not adequately reflected in a 12.4x FY22e PER and 3% yield. Our 140p fair value / share is 16.3x FY22e PER and a 2.3% yield, ratings that we regard as more suited to BEG's track record and outlook.**

Acquisitions to date are reflected in earnings growth and included in January, BEG's largest single addition to date, the £20.8m (£12m upfront) purchase of insolvency practitioner CVR Global. There is, however, significant further potential for synergies, opportunities for cross referral and to bring in-house the work previously referred to external providers. Encouragingly, all 16 acquisitions completed since 2014 have been secured on an EPS accretive basis, which builds both cover and potential for further growth in distributions. We forecast 0.2p/share dividend increases for both this year and FY22e and the anticipated market upturn could build dividend cover beyond the 2.0x target.

### Summary forecasts

| Year end 30 April | 2019A | 2020A | 2021E | 2022E |
|---|---|---|---|---|
| Revenue (£m) | 60.1 | 70.5 | 76.5 | 88.9 |
| Adjusted PBT (£m) | 7.0 | 9.2 | 10.2 | 13.6 |
| Adjusted EPS – basic (p) | 4.8 | 5.7 | 6.6 | 8.6 |
| Dividend per share (p) | 2.6 | 2.8 | 3.0 | 3.2 |
| Yield on distribution (%) | 2.4 | 2.6 | 2.8 | 3.0 |

*Source: Group report & accounts and ED estimates* **final div paid in shares during the pandemic*

**Company Data**

| | |
|---|---|
| EPIC | BEG |
| Price | 106.5p |
| 52 weeks Hi/Lo | 115p / 62p |
| Market cap | £138m |
| ED fair value/share | 140p |
| Avg. daily volume | 91,000 |

**Share Price, p**


*Source: ADVFN*

**Description**

Begbies Traynor (Begbies) 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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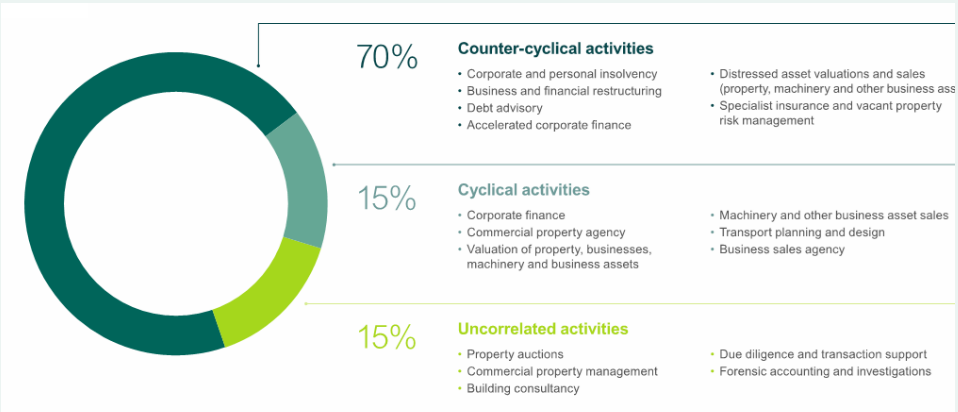
## Investment case

**Strategic acquisitions over the last six years, supported by organic investment in the development of portfolio businesses have built two independent, complementary sources of revenue.** Approximately 70% of the group's projected revenues can be characterised as counter-cyclical, although this is derived from both the Business Recovery and Property Divisions.

Over the last few years, a period which appeared better suited to cyclical businesses, the group has progressively increased its share of counter-cyclical activities, grown them at a rate ahead of the underlying market and built its profile with key sources of referral.

In parallel it built a more cyclical and sustainable income base of property and professional services, corporate finance, and valuation work, which it plans to continue to scale up to offset the future impact on group performance of the insolvency cycle (typically, four years duration), Over the last few years, it has also secured opportunities to combine these disciplines and achieve significant cross referral of business.

**Group Activities**

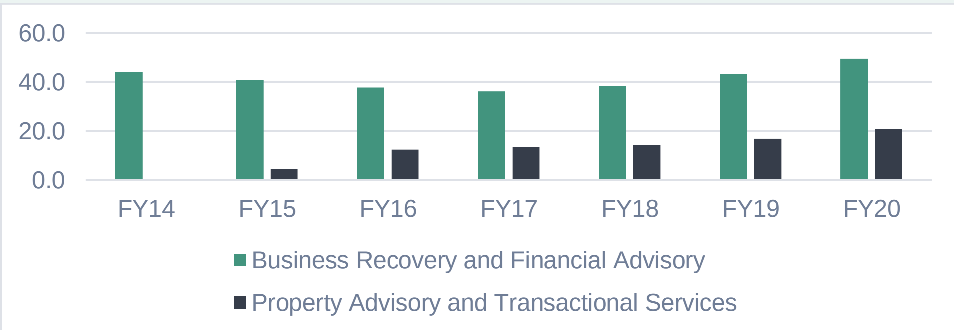



*Source: Group presentation*

Growth in operational segment reported revenue streams (which overlap the counter and cyclical split set out above) is illustrated in below. Business recovery and insolvency services remains the larger operation, but property advisory services give the group **a broad, complementary service base.** Underlying progress is somewhat skewed by divisional acquisitions, but the flatter revenue performance by a counter cyclical operation such as business recovery is as anticipated during a relatively stronger period for the UK economy. The pick-up over the last few years reflects acquisitions and investment-led organic growth.

Aggregate revenue has grown from £44.1m (FY14) to £70.5m (FY20), and operating profit from £6.5m to £10.1m.

**Segmental Revenue (£m)**




*Source: Group annual reports*

## Value-enhancing strategy underpins growing yield

The group plans to leverage opportunities to grow across the economic cycle to continue to finance an ongoing investment programme, acquisition and organic, and a progressive dividend policy.

**Property Advisory** income has grown steadily since the end 2014 purchase of chartered surveyors Eddisons. We now see the emphasis increasingly shifting towards organic growth in operations which have achieved scale, although this will continue to be supported by value accretive acquisitions which help it fulfil a number of specific strategic ambitions.

Ultimately, the intention is to continue to build strong, sustainable financial performance, and continue to generate growing, positive cashflows which will be applied in a range of initiatives.

| | |
|---|---|
| **Organic Growth** | Retention and development of existing partners and employees<br>Recruitment<br>Enhanced cross-selling of group service lines and expertise to a wider client base<br>Investment in technology and processes to enhance working practices and improve client service |
| **Acquisitions** | Value-accretive acquisitions in core market segments as follows:<br>• Insolvency to secure an increase in market share<br>• Property services to enhance expertise or geographical coverage<br>• Complementary professional services businesses which develop the group and its service offering |

## Enhanced potential not reflected in shares' rating

**Begbies' determination to continue to build a revenue base capable of delivering attractive, sustainable performance across the economic cycle should underpin both a twice covered 3.0% progressive yield and the appeal to the medium-term investor.**

We do not see the prospect of a significant increase in demand for the group's services over the next 18 months reflected in BEG's current FY22e rating of 12.3x adjusted EPS, or indeed the potential for accelerated growth in dividend distributions. Our fair value/share estimate is 140p, equivalent to 16.2x FY22e EPS and a 2.3% yield.

### Positive current trading

Begbies closest listed comparable is FRP Advisory Group plc (FRP). FRP is similarly positioned, but its higher focus on insolvency work makes it more geared to non-cyclical revenue trends. FRP's current FY22e valuation is 15.5x FY22e EPS, 3.3% yield (consensus forecasts).

Both groups recently produced encouraging trading updates in respect of recent trading, despite a market subdued by ongoing government assistance for UK companies. The statements reiterate Begbies' view that the direction of travel points to a significant increase in corporate insolvency over the next 18 months, possibly compounded by the additional pressures on some industries due to Brexit.

# Divisional Overview

## Business Recovery and Financial Advisory

**Begbies is the UK's leading independent business recovery practice**. It handles the largest number of UK corporate appointments, with a focus on the mid-market and smaller companies. All formal insolvency appointments require a licensed insolvency practitioner and the group sources its appointments from its existing network of professional advisers (lawyers, accountants) and financial institutions, as well as directly via internet searches and other communication. The business seeks to act as a trusted advisor to its clients and provide innovative and entrepreneurial advice and solutions.

| | |
|---|---|
| **Corporate insolvency** | This operation aims to rescue businesses where feasible, or if not to realise the value of any assets and distribute available funds to creditors. It covers administrations, liquidations, receiverships and CVAs. This business will particularly benefit from cyclical growth in insolvency numbers nationally, due to its market-leading position. |
| **Personal insolvency** | Provision of advice to debtors and creditors on all aspects of personal insolvency; bankruptcy and IVAs (England and Wales); trust deeds and sequestrations (Scotland). |
| **Corporate finance** | Debt advisory, due diligence, transaction support, accelerated corporate finance, business, and financial restructuring. It also provides buy and sell side support on private company transactions. |
| **Financial advisory** | Complementary activity to business recovery. It carries out financial advisory work, including forensic accounting and investigations, debt advisory, business and financial restructuring, due diligence, and transactional support. Forensic accounting and investigations include fraud and financial crime investigations and acts as an expert witness for dispute resolution. Following the CVR acquisition the team now has a pensions advisory service line. |

Insolvency work typically generates hourly fees paid from asset realisations. On a limited number of appointments that fee may be based on a percentage of asset realisations. All fees (basis and levels) must be approved by creditors. Corporate finance fees will generally reflect fixed retainer and contingent success fee upon successful completion of transaction.

Expansion in this division will come via targeted recruitment, focused business development and acquisition. Divisional acquisitions since 2014 are set out below. BEG pays c 5-7x post tax earnings, typically a combination of an initial payment, deferred consideration subject to maintained performance, and a stretch earn out target which rewards further growth. The efficacy of a template designed to tie in and incentivise critical management is manifested in the performance of acquisitions to date.

**Divisional Acquisitions**

| | | Activity | Initial cost | Potential deferred consideration | Earn out period | Historic revenues |
|---|---|---|---|---|---|---|
| Jun 2014 | Ian Franses | Insolvency | £0.6m | £1.4m | 3 years | £1.5m |
| Sep 2015 | P&A and Broadbents | Insolvency | £0.9m | £0.0m | 0 years | £3.0m |
| Mar 2018 | Springboard | Corporate finance | £2.8m | £0.5m | 5 years | £2.3m |
| Feb 2019 | KRE and Dunion | Insolvency | £0.5m | £0.2m | 1 years | £0.7m |
| Sep 2019 | Regeneratus | Advisory | £0.5m | £1.1m | 4 years | £0.6m |
| Oct 2019 | ALJ | Insolvency | £2.4m | £4.0m | 5 years | £3.1m |
| Jun 2020 | Grant Thornton cases | Insolvency | £0.3m | £0.3m | 1 years | £0.0m |
| Jan 2021 | CVR Global | Insolvency | £12.0m | £8.8m | 3 years | £9.5m |

*Source: Group Annual Report & RNS*

## Property advisory and transactional services

The group's property services business dates from its December 2014 acquisition of chartered surveyors Eddisons. It has grown consistently since, as Begbies implemented a strategy to strengthen and broaden both the services and geographical coverage of this division. Its plan is to continue to develop and invest in this business.

**Profitability has grown from £1.3m at inception to £3.8m in the group's last financial year.**

Services are provided for a broad range of professionals including accountants, lawyers and insolvency practitioners, commercial property owners (investors, developers, and landowners) and occupiers, property agents, public sector bodies, banks, financial institutions, and institutional investors.

| | |
|---|---|
| **Property consultancy, planning and management** | A broad range of building consultancy, commercial property management, specialist insurance and vacant property risk management advice, transport planning and design. This covers all aspects of the ownership and management of commercial assets, including rent, service charge and insurance premium collection, arrangement of specialist insurance, management of vacant property risk, transport planning and design. It also provides project management, surveys, dilapidations, space planning and fit out. |
| **Valuations** | This service covers property, small to medium sized businesses, machinery, and business assets |
| **Transactional Services: auctions and asset sales** | Begbies handles the sale of properties, machinery, and other business assets via its own physical and on-line auctions. The division's business sales and commercial property agencies operate in northern and eastern England. |

### Distinct divisional remuneration structure improves revenue balance

In addition to providing a distinct, cyclical revenue stream, the property services division's remuneration structure is different from that generated by its business recovery and insolvency services operations.

This operation typically receives an agreed fee for valuations, building and project consultancy, and transport planning, and a percentage of asset realisations in the case of auctions, asset sales, and fixed charge property receiverships. It is also due a commission on insurance policies written.

This division's growth dates from its acquisition of chartered surveyors, Eddisons, at the end of 2014. **BEG is committed to grow it cyclical, complementary revenue base, and achieve scale that materially supports the group's identity as a business able to progress at all stages of the economic cycle.**

### Divisional acquisitions

| | | Activity | Initial cost | Potential deferred consideration | Earn out period | Historic revenues |
|---|---|---|---|---|---|---|
| Dec 2014 | Eddisons | Chartered surveyors | £5.0m | £3.5m | 5 years | £13.4m |
| Dec 2015 | Taylors | Property & business valuations | £1.1m | £0.8m | 5 years | £1.5m |
| Jun 2016 | Pugh | Property auctions | £2.0m | £2.6m | | |
| Feb 2018 | CJM | Industrial plant & machinery disposal | £0.3m | £0.3m | 3 years | £1.2m |
| Feb 2019 | Croft | Transport planning | £1.5m | £0.0m | 0 years | £1.8m |
| Apr 2019 | BSM | Chartered surveyors | £1.6m | £1.4m | 3 years | £3.1m |
| Oct 2019 | Ernest Wilson | Business sales agency | £4.0m | £1.6m | 3 years | £2.2m |
| Feb 2021 | Hargreaves Newberry Gyngell | Chartered surveyors | £0.4m | £0.6m | 2 years | £1.5m |

*Source: Group Annual Report & RNS*

## Outlook: prospects underpinned by strategic build

The growth strategy has enhanced the market profile and scale of BEG's core business and improved its access to more remunerative, larger scale insolvency contracts. The addition of a property services division and a focus on building scale and attracting more reliable, recurring income, has established a broader, better balanced revenue base, capable of generating steady growth across the economic cycle. These service lines have performed resiliently in a challenging economic environment over the last 12 months.

## Business Recovery poised to capitalise upon a cyclical upturn

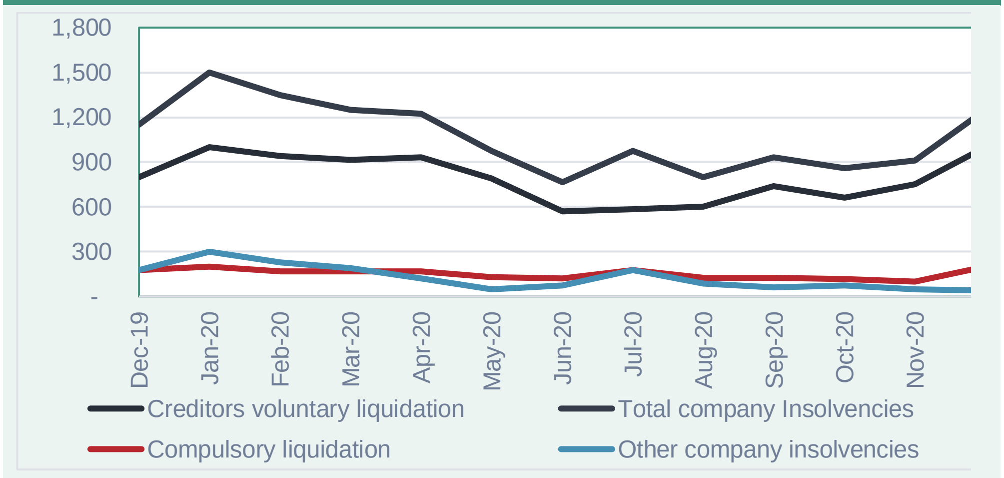
Business recovery is by nature a cyclical business and the full benefit of recent investment is yet to be reflected in reported figures. Although the division is specifically structured to capitalise upon the kind of strong pick-up in demand for services that usually follows an economic downturn, the last few years' growth in divisional revenue and earnings has been achieved against a backdrop of flat or subdued corporate insolvencies.

As government support falls away, possibly over the next 12 months, and that situation reverses, we expect Begbies' operation to experience a steady pick up in new business flows. Our forecasts incorporate some increase in volumes over the next 12-18 months, predominantly related to the division's larger scale post recent acquisitions. BEG has reported an increased order book of committed future insolvency revenue, and recent investment has enhanced its market position and profile.

### UK insolvencies subdued, but corporate distress is increasing

The figures below (2020) appear counterintuitive, considering the pandemic led collapse in GDP. Levels of corporate insolvencies have actually fallen since the start of the first UK lockdown, a reflection of the artificial measures.

**Registered company insolvencies**




*Source: UK Insolvency Service (compulsory liquidations) and Companies House (all other insolvency types)*

However, the reduction in recorded company insolvencies is attributed to government financial support for companies in response to the coronavirus and lockdowns. The UK government introduced legislation in June last year - the Corporate Insolvency and Governance Act 2020 - which included measures designed to relieve the burden on businesses during the coronavirus pandemic.

The numbers of registered company insolvencies for England and Wales in December 2020 were, admittedly, higher than the comparable month in 2019 for the first time since the start of the first UK lockdown. There is, however, more potential for volatility within statistics for individual months, which makes it premature to asset that this represents an emerging trend. And the numbers of company insolvencies registered in December 2019 were themselves low compared to all other months in that year.

These included a moratorium to give companies breathing space from their creditors while they sought a rescue, and a new Companies Act procedure which allows companies to restructure unmanageable debt. The Insolvency Service does not record whether an insolvency is related directly to the coronavirus pandemic, which makes it difficult to assess its specific effect on insolvency volumes.

## 'Red Flag' evidence provides indication of increased distress

The group's own market intelligence, its recent '*Red Flag Alert Report'* for Q4 2020 provides some possible insight into potential reversal of the trend.

**This reported that 630,000 UK businesses were in significant financial distress as the new lockdown came into effect. That is a 13% increase from Q3 2020 to Q4 2020, the largest numerical quarterly increase since Q2 2017, and a 27.5% y-o-y increase of another 136,000 businesses since Q4 2019.**

**The report picked up an increase in financial distress across all 22 sectors monitored and for London, a 33% increase in significant financial distress since Q4 2019.**

The group's research also detected a 27.5% increase in significantly distressed companies since Q4 2019. Financial services increased by 38%, real estate and property services by 39%, and hotels and accommodation were up 32%.

The longer-term picture for total annual corporate appointments reveals a similarly subdued picture, but also illustrates the sector's intrinsic cyclicality and based upon past experience, the potential for a significant spike as the UK lockdown is progressively lifted. The tail-off over the last 12 months, which would normally reflect a strong stable economy, is the result of political imperatives related to the Covid-19 pandemic.

**Total Corporate Appointments – England & Wales**


*Sources: UK Insolvency Services*

The measures may only be a stay of execution for many indebted companies and in some cases have exacerbated cashflow issues, by preventing creditors from collecting debts, some of which would otherwise have been paid. Legislation has imposed temporary restrictions on the use of statutory demands and certain winding-up petitions (which would lead to company compulsory liquidations) and enhanced government financial support for companies and individuals.

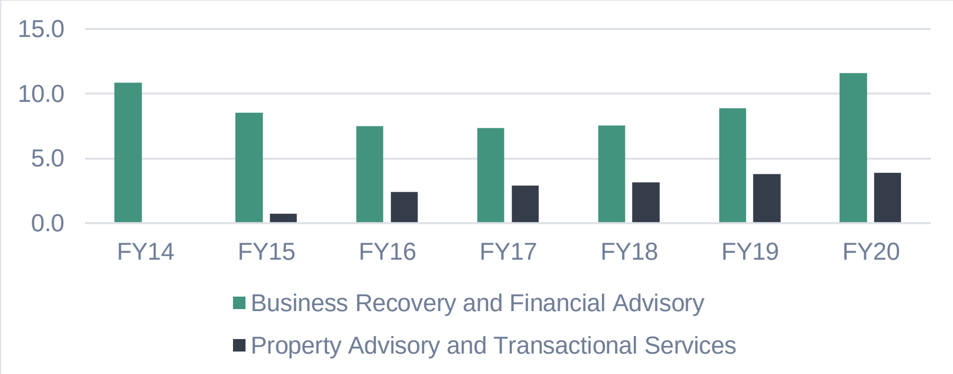
## Financials

Over the last six years Begbies has built complementary and relatively stable revenue streams, designed to offset the inherent cyclicality of its core operation. It has established multiple sources of potential growth, which we expect to be reflected in earnings as new additions are fully integrated and earn-outs completed.

Acquisitions have in-filled and added entirely new services to the group complement and provided access to multiple sources of potential growth. Begbies now provides UK-wide business recovery, financial advisory and property services. Its in-house expertise includes licensed insolvency practitioners, accountants, chartered surveyors, and lawyers. It is well positioned as the UK's largest corporate insolvency practitioner, considering the implications of a recent increase in detected stress levels amongst UK companies.

**Progress building complementary income streams is visible in segmental profit**, set out in the chart below. We regard this as a particularly positive performance during the quieter part of the UK insolvencies cycle, during which Begbies has secured and integrated new acquisitions.

**Group – Segmental Profit (£m)**




*Source: Company*

It is also visible in EPS growth, with the cash generative nature of those earnings reflected in steady reductions in net debt. **Begbies' own analysis puts the sources of recent growth at approximately one third organic, two-thirds from acquisitions.** It remains committed to further growth and reports a pipeline of organic and acquisition opportunities across all its service lines.

The current revenue split set out below illustrates contributions from cyclical, counter-cyclical, and uncorrelated activities. These are sourced mostly from insolvency services, corporate finance advice and commercial property consultancy.

**Group revenues**

| £'000s | FY19 | FY20 |
|---|---|---|
| Insolvency and advisory services | 40,459 | 45,977 |
| Corporate finance | 2,854 | 3,653 |
| Commercial property management | 2,098 | 2,439 |
| Property consultancy services | 8,921 | 10,717 |
| Commercial property, businesses, and other asset disposals | 5,726 | 7,717 |
| | **60,058** | **70,503** |

*Source: Group annual report*

## Interim results to end October 2020

The most recent results, for the six months to 30 October 2020 recorded an 11% revenue increase (9% acquired) on the back of first-time contributions from acquisitions and organic growth. It confirms that overall, Begbies effectively managed the downside impact of both the lockdown and continued to grow despite a subdued insolvency market.

**Income Statement**

| £m | H1 2020 | HI 2019 |
|---|---|---|
| Revenue | 37.5 | 33.8 |
| Adjusted profit before tax | 5.0 | 4.0 |
| Profit before tax | 5.0 | 1.9 |
| Adjusted basic EPS (p) | 3.1 | 2.6 |
| Basic EPS (p) | (0.3) | 1.1 |
| Interim dividend (p) | 1.0 | 0.9 |
| Net cash (debt) | 0.7 | (2.3) |

*Source: Group interim results to 31 October 2020*

Adjusted basic EPS was 19% up at 3.1p (2019: 2.6p) and net cash £0.7m (FY20: £2.8m net debt) . The interim dividend was 1.0p (H119: 0.9p), an 11% increase and confirmed a commitment to a long-term progressive dividend policy.

Adjusted PBT (net of non-cash acquisition accounting charges) was 25% up y-o-y. The group reported positive performances by all business areas, including recovery in property advisory and transactional services lines impacted by the spring lockdown. Operating margins were 14.6% (H119: 13.2%).

### Business recovery and financial advisory

A strong underlying performance and initial contributions from prior year acquisitions drove y-o-y growth in divisional revenue and profits. The impact of the relatively subdued insolvency market was offset by increases in both its market share of new insolvency appointments and average case sizes, and an increase in its order book of committed future insolvency revenue to £20.9m (Apr 2020: £19.0m, Apr 2019: £15.4m).

**The statement also confirmed that there was no significant business impact from the second (November) lockdown. which helped offset wider market weakness.**

### Property advisory and transactional services

Solid operating margins and a reported strong performance by building consultancy partially offset the negative impact of the spring lockdown.

**Divisional and group progress H1**

| | Revenue | | | Profit | | |
|---|---|---|---|---|---|---|
| | 2020 | 2019 | growth | 2020 | 2019 | growth |
| Business recovery and financial advisory | 26,146 | 23,043 | 13% | 6,571 | 4,864 | 35% |
| Property advisory and transactional services | 11,347 | 10,736 | 6% | 1,554 | 2,137 | -27% |
| Shared and central costs | | | | (2,657) | (2,541) | 5% |
| **Total** | **37,493** | **33,779** | **11%** | **5,468** | **4,460** | **23%** |

*Source: Group interim results to end October 2020*

**The results also reiterated the group's attractive cash generative characteristics, with another £3.43m reduction in net debt (H1 19: £3.75m reduction).** Net cash was £0.7m at the end of October 2020 and the recent purchase of CVR Global, Begbies' largest to date, was funded from existing debt facilities. That brought acquisitions in the second half of the current financial year to £22.4 including potential deferred consideration. The increase in net debt remains well within the target debt ratio of 1.0 to 1.5x EBITDA.

**Cash flow - H1**

| £'000s | 2020 | 2019 |
|---|---|---|
| Net cash from operating activities (before deemed remuneration) | 7,453 | 4,616 |
| Capital expenditure | (309) | (355) |
| Capital element of lease payments | (1,166) | (1,154) |
| **Free cash flow** | **5,978** | **3,107** |
| Net proceeds from share issues | 0 | 7,817 |
| Acquisition payments | (350) | (1,881) |
| Deferred consideration payments | (1,054) | (4,380) |
| Dividends | (1,149) | (914) |
| **Reduction in net debt** | **3,425** | **3,749** |

*Source: Group interim results to end October 2020*

That strong cash generation has supported the strategy, over the last six years**, to build the depth and breadth of the group's financial base** via targeted acquisitions and investment in existing operations. BEG has extended the reach and capacity of insolvency services, its original area of expertise, and created an entirely new diversified revenue stream, derived from property advisory and transactional services.

Acquisitions completed since 2014 are set out below and illustrates the extent to which these have been funded from cash/undrawn facilities and share issues, the last of which was in October 2019.

**Acquisitions**

| Date | Target | Sector | Initial Consid. | Cash | Shares issued | Potential earn-out | Period |
|---|---|---|---|---|---|---|---|
| Jun 2014 | Ian Franses | Insolvency | £0.6m | £0.6m | | £1.4m | 3 years |
| Dec 2014 | Eddisons | Chartered surveyors | £5.0m | | 13.10m | £3.5m | 5 years |
| Sep 2015 | P&A and Broadbents | Insolvency | £0.9m | £0.9m | | | |
| Dec 2015 | Taylors | Property & business valuations | £1.1m | £0.5m | 1.39m | £0.8m | 5 years |
| Jun 2016 | Pugh | Property auctions | £2.0m | £2.0m | | £2.6m | 5 years |
| Feb 2018 | CJM | Industrial plant & machinery disposal | £0.3m | £0.2m | 0.13m | £0.3m | 3 years |
| Mar 2018 | Springboard | Corporate finance | £2.8m | £1.4m | 1.89m | £0.5m | 5 years |
| Feb 2019 | Croft | Transport planning | £1.5m | £1.1m | 0.64m | | |
| Feb 2019 | KRE and Dunion | Insolvency | £0.5m | £0.5m | | £0.2m | 1 years |
| Apr 2019 | BSM | Chartered surveyors | £1.6m | £1.1m | 0.84m | £1.4m | 3 years |
| Sep 2019 | Regeneratus | Advisory | £0.5m | £0.5m | | £1.1m | 4 years |
| Oct 2019 | Ernest Wilson | Business sales agency | £4.0m | £3.0m | 1.16m | £1.6m | 3 years |
| Oct 2019 | ALJ | Insolvency | £2.4m | £2.1m | 0.30m | £4.0m | 5 years |
| Jun 2020 | Grant Thornton insolv. Cases | | £0.3m | | | £0.3m | 1 years |
| Jan 2021 | CVR Global | Insolvency | £12.0m | £12.0m | | £8.8m | 3 years |
| Feb 2021 | Hargreaves Newberry Gyngell | Chartered surveyors | £0.4m | | | £0.6m | 2 years |
| | | | **£35.6m** | **£25.7m** | | **£27.0m** | |

*Source: Group RNS*

## Forecasts & Sensitivities

Our forecasts incorporate initial contributions from recent acquisitions, and organic growth as the enlarged group capitalises upon an increased breadth of expertise, higher market profile and opportunities for cross referral. It has already reported larger market share of UK insolvencies and average deal sizes, which it views as inherently more profitable.

There has also been an increase in the proportion of sustainable revenue sources, post investment in cyclical businesses and success in building that division's exposure to areas such as public sector work,

That is offset by additional debt service charges post use of undrawn facilities to finance the £12.4m initial cost of the CVR Global acquisition in January. We have adjusted projected debt reduction for deferred consideration related to that transaction; £8.8m over the next three years.

The interims confirmed the intention to capitalise on a strong financial position and continue seek further opportunities to develop both organically and via selective acquisitions. All acquisitions to date have been secured on an earnings accretive basis, with deferred consideration linked to well-defined deliverables based on maintained pre-tax profit across an agreed post-acquisition period, generally three to four years, with 25-50% of upside to the vendors. The template seeks to tie in key management and employees, with the five-year lock-in a key component of performance, which maximises the medium-term return on investment.

**Begbies has delivered consecutive years of earnings growth in every year since 2015, with 16% compound growth in adjusted EPS over the last four years.**

We see some areas of sensitivity for forecasts:

- **The pace of the pick-up in demand for insolvency services over the next two years.** This counter-cyclical market can generally be expected to pick up as the economy slows. However, as we discuss above, in 2020 England & Wales recorded their lowest figure for insolvencies for over 30 years, although there was a 17% y-o-y rise in Q4 2020 (vs a relatively low comparable). As the economy reopens and some support measures fall away, the pattern should revert to its more typical shape, although further measures (or extensions to existing ones) may be introduced to attempt to help more UK companies to survive post lockdown.

  We have sought to take a conservative approach and assumed a modest pick-up in UK insolvencies during the second half of calendar 2021.

- **The scale of acquisitions, integration of recent purchases, and the speed at which material synergies are achieved.** We have not incorporated further acquisitions in the forecast period, although the EPS accretive terms of transactions to date suggest that further enlargement has potential to underpin the strategy, including dividend growth. There are already indications that investment has translated into higher quality new appointments, larger insolvency business pipelines, synergies/introductions between new group entities, and average deal sizes.

  The track record is reassuring and includes consistent contributions to earnings and strong cash generation.

| Consolidated statement of comprehensive income | | | | | |
|---|---|---|---|---|---|
| **Y/E 30 April, £m** | **2018** | **2019** | **2020** | **2021E** | **2022E** |
| | | | | | |
| **Revenue** | 52.4 | 60.1 | 70.5 | 76.7 | 88.9 |
| Direct costs | (30.1) | (34.3) | (40.3) | (44.0) | (51.0) |
| **Gross profit** | 22.3 | 25.8 | 30.2 | 32.7 | 37.9 |
| Other operating income | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| Administrative expenses | (19.9) | (22.2) | (26.7) | (30.0) | (32.0) |
| **Operating profit** | **2.8** | **4.0** | **3.9** | **3.1** | **6.3** |
| | | | | | |
| Transaction costs | (1.4) | (1.2) | (3.2) | (4.3) | (3.0) |
| Amortisation of intangible assets arising on acquisitions | (1.9) | (2.4) | (3.1) | (3.7) | (5.2) |
| **Adj. Operating profit** | **6.1** | **7.6** | **10.1** | **11.1** | **14.5** |
| | | | | | |
| Finance costs | (0.5) | (0.5) | (1.0) | (0.9) | (0.9) |
| **Adjusted PBT** | **5.6** | **7.1** | **9.2** | **10.2** | **13.6** |
| | | | | | |
| **Profit before tax** | **2.3** | **3.5** | **2.9** | **2.2** | **5.4** |
| Tax | (0.9) | (1.1) | (2.0) | (0.7) | (1.7) |
| **Profit after tax** | **1.4** | **2.4** | **0.9** | **1.5** | **3.7** |
| | | | | | |
| **Earnings per share** | | | | | |
| Adjusted EPS - basic | 4.0p | 4.8p | 5.7p | 6.6p | 8.6p |
| Adjusted EPS - diluted | 3.8p | 4.7p | 5.7p | 6.3p | 8.3p |

*Source: Group historic data, ED estimates. Adj. operating profit excludes amortisation and transaction costs*

## Balance sheet

| Y/E 30 April 2019, £m | 2018 | 2019 | 2020 | 2020E | 2021E |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Intangible assets | 59.1 | 59.4 | 59.4 | 62.6 | 57.3 |
| Property, plant and equipment | 1.5 | 1.8 | 1.8 | 1.7 | 1.7 |
| Right of use assets | 0.0 | 0.0 | 7.0 | 6.6 | 6.6 |
| Trade and other receivables | 1.8 | 3.2 | 4.6 | 4.5 | 4.5 |
| | **62.3** | **64.4** | **72.8** | **75.4** | **70.2** |
| **Current assets** | | | | | |
| Trade and other receivables | 30.8 | 32.7 | 36.5 | 38.0 | 44.0 |
| Cash and cash equivalents | 3.5 | 4.0 | 7.2 | 4.5 | 10.2 |
| | 34.3 | 36.7 | 43.7 | 42.5 | 54.2 |
| **Total assets** | **96.7** | **101.0** | **116.6** | **117.9** | **124.4** |
| **Current liabilities** | | | | | |
| Trade and other payables | (17.3) | (22.7) | (22.2) | (26.0) | (26.0) |
| Current tax liabilities | (1.5) | (2.0) | (1.9) | (1.6) | (1.6) |
| Lease liabilities | 0.0 | 0.0 | (2.2) | (2.0) | (2.0) |
| Provisions | (0.8) | (0.6) | (0.9) | (1.1) | (1.1) |
| | (19.6) | (25.2) | (27.2) | (30.6) | (30.6) |
| **Net current assets** | **14.7** | **11.4** | **16.5** | **11.9** | **23.5** |
| **Non-current liabilities** | | | | | |
| Trade and other payables | (1.1) | 0.0 | 0.0 | 0.0 | 0.0 |
| Lease liabilities | 0.0 | 0.0 | (6.1) | (5.5) | (5.4) |
| Borrowings | (11.0) | (10.0) | (10.0) | (7.0) | (5.0) |
| Provisions | (0.4) | (0.8) | (1.9) | (1.7) | (1.5) |
| Deferred tax | (5.4) | (5.3) | (5.7) | (6.0) | (5.7) |
| | **(17.9)** | **(16.1)** | **(23.8)** | **(20.1)** | **(17.6)** |
| **Total liabilities** | **(37.5)** | **(41.3)** | **(51.0)** | **(50.8)** | **(48.2)** |
| **Net assets** | **59.1** | **59.7** | **65.6** | **67.2** | **76.1** |

*Source: Group historic data, ED estimates*

## Consolidated cash flow statement

| Y/E 30 April, £m | 2018 | 2019 | 2020 | 2020E | 2021E |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Cash generated by operations | 9.1 | 9.2 | 4.7 | 7.6 | 14.3 |
| Income taxes paid | (1.0) | (1.4) | (2.2) | (2.3) | (2.0) |
| Interest paid on borrowings | (0.6) | (0.5) | (0.4) | (0.6) | (0.8) |
| Interest paid on lease liabilities | 0.0 | 0.0 | (0.5) | (0.4) | (0.5) |
| **Net cash from operating activities** | **7.5** | **7.3** | **1.7** | **4.3** | **11.1** |
| **Investing activities** | | | | | |
| Purchase of intangible fixed assets | (0.1) | (0.2) | (0.7) | (0.6) | 0.0 |
| Purchase of property, plant and equipment | (0.4) | (0.8) | (0.1) | 0.0 | 0.0 |
| Deferred consideration payments | (1.1) | (1.0) | (0.7) | (0.5) | (1.2) |
| Acquisition of businesses (net of cash acquired) | (0.8) | (1.2) | (3.0) | (8.5) | 0.0 |
| Cash from acquired businesses | 0.0 | 0.0 | 3.4 | 0.0 | 0.0 |
| **Net cash used in investing activities** | **(2.4)** | **(3.2)** | **(1.1)** | **(9.6)** | **(1.2)** |
| **Financing activities** | | | | | |
| Dividends paid | (2.4) | (2.6) | (3.2) | (3.4) | (3.7) |
| Net proceeds on issue of shares | 0.0 | 0.0 | 7.8 | 0.0 | 0.0 |
| Repayment of obligations under leases | 0.0 | 0.0 | (1.9) | (2.0) | (0.6) |
| Proceeds on issue of SIP scheme shares | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Repayment of loans | (6.0) | (1.0) | 0.0 | 8.0 | 0.0 |
| **Net cash used in financing activities** | **(8.3)** | **(3.6)** | **2.7** | **2.6** | **(4.2)** |
| Net increase (decrease) in cash and cash equivalents | (3.2) | 0.5 | 3.2 | (2.7) | 5.7 |
| **Cash at beginning of year** | **6.7** | **3.5** | **4.0** | **7.2** | **4.5** |
| **Cash at year end** | **3.5** | **4.0** | **7.2** | 4.5 | **10.2** |

*Source: Group historic data, ED estimates*

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