Begbies Traynor

Acquisition boosts scale and market share

12 March 2021

BEG has announced another substantial acquisition, of insolvency practice David Rubin & Partners (DRP). It has agreed to pay up to £25m (on a cash/debt free basis with normalised working capital) for DRP, a long-established operation with offices in London and Guernsey. Following its recent £20.8m purchase of CVR in January, the group has secured a significant scale up of its business recovery & financial advisory arm in 2021 i.e., another c £20m pa of revenues from the two deals is expected to take that operation's turnover above £70m p.a.

In line with all BEG's previous acquisitions, the terms are expected to **immediately enhance EPS** and, in combination with CVR, to increase this segment's market share to 12% (by volume of CVA appointments) vs 10.5% for the six months to September 2020 (prior to either acquisition).

DRP Financial summary

y/e 30 April, £m	2019/20	2018/19	2017/18
Fee income[1]	10.3	10.1	9.8
Normalised PBT (reported on same basis as the group)[2]	3.3	3.5	3.2
Net assets	4.6	4.2	3.6

Source: Group website [1]Revenue as reported adjusted to exclude recovery of disbursements and WIP movement [2]PBT reported, adjusted to align partner remuneration and excl. goodwill amort, interest costs and WIP movement

DRP's revenues are derived from broad insolvency work, but it has special expertise in sports insolvencies. Its biggest office is in London (c £10m pa turnover), so the deal provides BEG with a significant increase in profile and reach in a key market. Including CVR, annual fee income generated by the group's London offices is expected to increase from £13m to c £28m on a proforma basis.

This is BEG's largest acquisition to date. A maximum £25m is payable via £12m initial consideration, funded by a £10m vendor placing and £2m from an ordinary share issue, and £13m deferred consideration/earn out dependent upon financial performance during the five years post acquisition.

Valuation

The latest acquisition was funded by a 'significantly oversubscribed' £22m shares issue at 105.5p/share, which also provides cash for further growth. The new shares represent 16.3% of the existing issued capital prior to issue. **We have held our existing forecasts, and will adjust them for the acquisition, cash raised and enlarged equity base post admission on 17 March.**

In addition to immediate EPS enhancement, DRP increases potential for significant synergies. These will be derived from increases in scale, geographical representation, and market share, and in our view benefit the predictability and quality of underlying revenues. This reinforces our conviction that BEG will build on an excellent growth record (four years 16% CAGR adj. EPS) and its strong prospects (+50% EPS growth forecast in next two years). The deal further underpins our **140p fair value/share** (16.3x FY22e PER and 2.3% yield) set out in our initiation note published on 2 March 2021.

Summary forecasts (not including DRP acquisition)

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	2.5	2.7	2.9

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

Company Data

EPIC	BEG
Price	110p
52 weeks Hi/Lo	115p / 62p
Market cap (excl. new shares)	£142m
ED fair value/share	140p
Avg. daily volume	91,000

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.

To watch a video of the Executive Chairman and Group FD discussing the merits of the DRP acquisition and fundraising: click here

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