Begbies Traynor Group

Good results and strong momentum into FY25

15 July 2024

Investors should by now be used to BEG's characteristically reliable results. FY24 was the tenth successive year of revenue growth, up 12% (6% organic) to £136.7m. That was just ahead of our forecasts, well on track to the £200m medium term revenue target. A confident outlook underpins FY25e forecasts i.e. organic growth and full contributions from recent acquisitions.

There is clear potential for investment initiatives to contribute and the group is reviewing more of the type of acquisition which has built operational scale, geographical coverage and market share. Four additions added £5m to FY24 revenues and opportunities are under review, readily financeable from cash and undrawn facilities. End FY24 net debt was £1.4m (FY23: £3m net cash), impressive as it covered £11.1m of acquisition payments and EBT share purchases.

Business recovery to build on growth track record

All operations performed as expected. Business recovery and advisory revenues were up 7% y-o-y, business recovery by 13%, and insolvency particularly active, as signs emerge that corporate distress is finally translating into larger administrations. BEG is the UK market leader by volume and recently expanded its team of insolvency practitioners, which provides further capacity as demand for its services builds. Non-insolvency activities were also comfortably ahead. Advisory and corporate finance appear well set; repeat business levels are consistently high and BEG cites potential for recovery in M&A activity this year. Debt advisory and funding are on positive trajectories.

Record year for Property advisory: 26% revenue growth

Property advisory had a particularly strong – indeed a record - 12 months, reporting 26% revenue growth to £40m and higher margins, both organic growth and contributions from acquisitions. BEG's property operation dates from the Eddisons acquisition in 2014. In the decade since has grown annual revenues from £14m to a current £45m run rate, crucially, performing across the economic cycle.

Outlook and valuation

Since mid-2022 revenues and adjusted operating profit have increased by c 24% and c 29% respectively, which keeps BEG on track to achieve its ambitious £200m pa medium-term revenue target. Recent share price weakness is hard to justify considering that, the acceleration in insolvency volumes and potential for further acquisitions.

The latest, 5% increase in the FY24 dividend to 4.0p is the seventh consecutive annual increase. Management remains ambitious and delivering initiatives to increase income scale, diversification and resilience, and build client relationships and already high levels of repeat business and referrals. The next update will be the AGM in September, when we will look at the value inherent in the group's competitive positioning, outlook for key markets and break down valuation metrics in more detail.

Summary forecasts

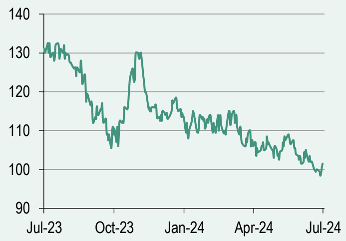
Year end 30 April, £m	2022A	2023A	2024A	2025E
Revenue	110.0	121.8	136.7	148.0
Adjusted PBT	17.8	20.7	22.0	23.0
Adjusted EPS - diluted (p)	9.1	10.1	9.9	10.1
Dividend per share (p)	3.5	3.8	4.0	4.2
Yield on distribution	3.5%	3.7%	3.9%	4.1%

Source: Group report & accounts and ED estimates

Company Data

EPIC	BEG
Price (last close)	101.5p
52 weeks Hi/Lo	137p/97p
Market cap	£160m
ED Fair Value / share	175p
Avg. daily volume	291k

Share Price, p



Source: ADVFN

Description

Begbies Traynor (BEG) 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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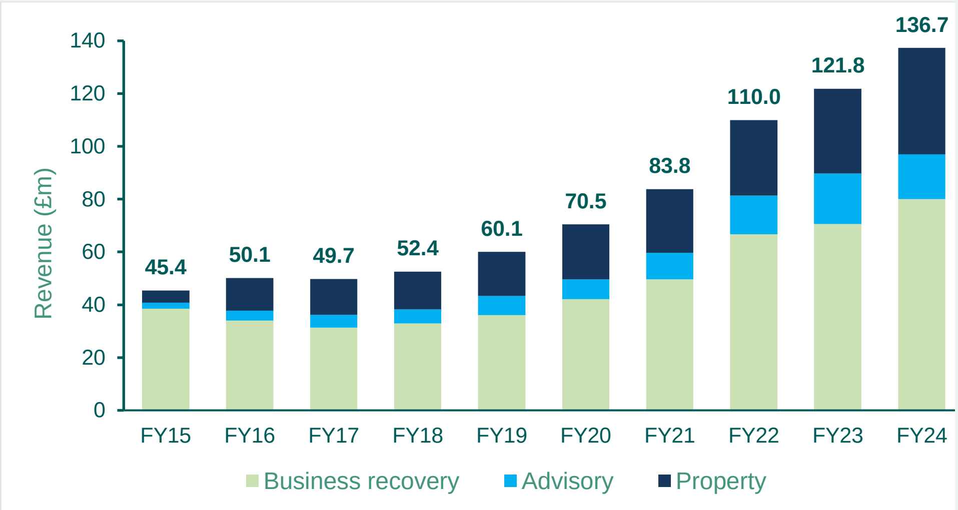
Growth maintained, positive start to FY25

FY24 results top-off a decade of profitable growth during which BEG has enhanced, diversified and scaled up its revenue base via targeted organic initiatives and M&A. These have progressively increased the breadth of its core activities, accessed new markets and disciplines.

We've examined BEG's medium term £200m revenue target previously. Based upon current growth momentum, see it on track to achieve this run rate by end FY27. **The positive start to FY25 underlines** the growth outlook and market expectations. BEG reports encouraging activity levels in all service lines and positive momentum groupwide. **The group's confidence in its growth platform is encapsulated in the following:**

- **Successfully executed growth and diversification strategy since 2014.** The strategic template is proven, scalable and reproducible. BEG has expanded team capacity, client and geographical coverage over the last few years and plans further organic growth initiatives.
- **Material FY24 growth - CAGR of 13% revenue and 22% adjusted PBT, seventh successive year of dividend growth**
- **The business is strongly cash generative and has access to a recently enlarged debt facility which provides flexibility to execute its growth strategy**
- **FY25 begins with encouraging activity levels in all service lines and positive momentum and market conditions for the group's services remain positive**

Group revenues



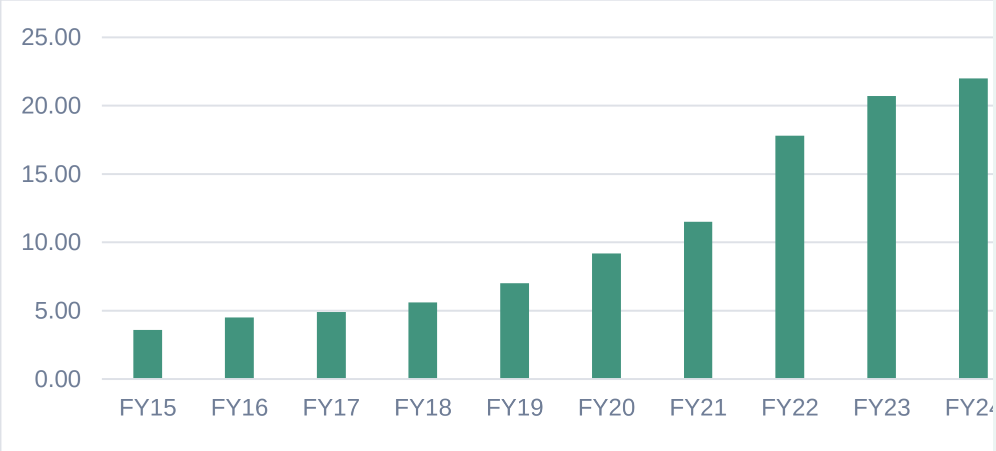
Source: BEG documents

Further recruitment will develop team capacity and expertise and improve potential for cross-sales of service lines and expertise to a wider client base. This recently included investment in IT processes that enhance working practices and improve client service levels.

FY24: all divisions on track, record year for property advisory

The group has built a diversified base of both pro- and counter- cyclical revenues, underpinned by strong client relationships and high levels of repeat business and referrals. That has delivered consistent growth and enabled BEG to meet or exceed market forecasts despite mixed operating markets, notably for insolvency work in recent years. We fully expect that to continue and in our view that makes recent equity performance anomalous.

Adjusted PBT – 10 years PBT (£m) with CAGR +22%



Source: BEG financial reports

The growth strategy is well tested and has delivered consistent returns since 2014. BEG intends to continue to grow its activities and consolidate in its target markets, which it regards as fragmented and a source of potential returns. FY24 revenue was up 12% at £136.7m (FY23: £121.8m), 6% of which was organic. Adjusted EBITDA grew 7% to £28.5m (FY23: £26.6m) - before share-based payments, depreciation, amortisation, and non-underlying acquisition related payments under IFRS.

There was a small drop in margins to 20.9% (FY23: 21.8%) as growth was offset by reduced M&A transactions for its corporate finance operation. It also absorbed investment in IT and recruitment.

Adjusted PBT was 6% up at £22.0m (FY23: £20.7m). Adjusted diluted EPS was 9.9p (FY23: 10.1p). With the 0.7p negative impact which was related to the increase in UK corporation tax rates, EPS would have increased by 0.5p.

Financial Summary

Year end 30 April, £m	FY24	FY23	Change
Revenue	**136.7**	**121.8**	**+12%**
Adjusted EBITDA	28.5	26.6	+7%
Share-based payments	(0.6)	(1.3)	
Depreciation	(4.0)	(3.5)	
Operating profit (before transaction costs and amortisation)	**23.9**	**21.8**	**+10%**
Finance costs	(1.9)	(1.1)	
Adjusted profit before tax	**22.0**	**20.7**	**+6%**
Non-underlying items	(16.2)	(14.7)	
Profit before tax	**5.8**	**6.0**	**-3%**
Tax	(4.3)	(3.1)	
(Loss) profit for the period	**3.7**	**2.9**	**+28%**

Source: BEG FY24 results

Adj. PBT adds back a deduction for non-underlying items. The components are detailed below but it relates to acquisition accounting under IFRS. For acquisitions where vendors remain with the group, the consideration is charged to profit rather than capitalised within non-current assets. This accounting treatment (and disclosure as a non-underlying item) is consistent with that followed by other listed and acquisitive professional services PLCs.

The contingent payments are set out and agreed in the sale and purchase agreements and their purpose is to preserve the value of goodwill and customer relationships in the acquired businesses. This also results in acquisition related negative goodwill being credited to income in the year of acquisition.

Non-underlying items

£m	2024	2023
Acquisition consideration (deemed remuneration in accordance with IFRS 3)	11.1	12.3
Negative goodwill	(0.8)	(4.3)
Transaction costs	0.3	0.4
Amortisation of intangible assets recognised on acquisition accounting	5.6	6.3
	16.2	**14.7**

Source: BEG FY24 results

Strong cash generation and enlarged debt facility provide strategic flexibility

End FY24 net debt was £1.4m (FY23: £3m net cash). There was a decrease in net cash, although the underlying figure was positive, as that was net of £8.2m of acquisition consideration and £2.9m of EBT share purchases.

Cash flow summary

£m	2024	2023
Adjusted EBITDA	**28.5**	**26.6**
Working capital	(4.0)	(2.8)
Cash from operating activities	**24.5**	**23.8**
Tax	(6.7)	(5.3)
Other payments (interest, capex, lease payments)	(5.9)	(4.4)
Free cash flow	**12.4**	**14.1**
Purchase of own shares (net of proceeds)	(2.4)	0.2
Acquisition payments (net of cash proceeds)	(8.5)	(10.6)
Dividends	(5.9)	(5.4)
Decrease in net cash	**(4.4)**	**(1.7)**

*Source: BEG FY24 results * including deemed remuneration under IFRS 3*

BEG agreed £35m of new and enhanced facilities in February 2024 - a £25m unsecured, committed RCF (£7m utilised end April 2024) and a £10m accordion. These have a three-year term to February 2027, with two 12-month extension options.

Acquisition driven growth strategy to maintain momentum

Acquisitions have helped accelerate growth and improve revenue diversification and resilience. This strategy has enhanced value, built revenues and added operating synergies. We expect this to remain a significant component of the strategy to build revenue scale towards £200m pa over the medium term, funded by BEG's cash generation, strong balance sheet and access to undrawn debt.

Breakdown of revenues and profit

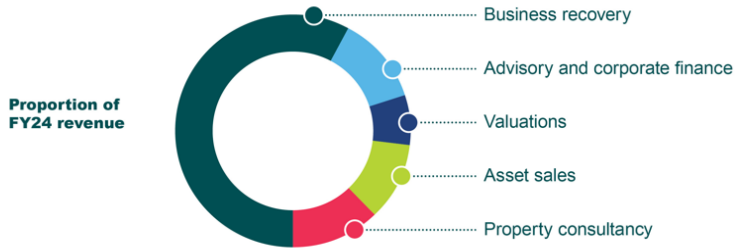
£m	Revenue			Profit		
	2024	2023	growth	2024	2023	growth
Business recovery and financial advisory	96.4	89.7	7%	25.5	24.3	5%
Property advisory and transactional services	40.3	32.1	26%	7.6	5.5	38%
Shared and central costs				(9.2)	(8.0)	15%
Total	**136.7**	**121.8**	**12%**	**23.9**	**21.8**	**10%**

Source: BEG FY24 results

The group's initiatives add value to its existing service lines, including acquisitions. All targets are entities which add market share, expertise and geographical coverage. It also seeks complementary professional services businesses that extend its service offering and its well-established template provides a reliable process to identify target businesses, assess their value and complete successful integrations.

Diversified UK advisory revenues

Business recovery and advisory		Property advisory		
Business recovery	Advisory and corporate finance	Valuations	Asset sales	Property consultancy
Corporate and personal insolvency	Debt advisory and finance broking	Property	Property auctions	Building consultancy
Business restructuring and turnaround	Corporate finance	Assets	Plant and machinery	Transport planning
Contentious insolvency	Special situations M&A	Businesses	Commercial property agency	Commercial property management
Creditor services	Financial advisory	Loan security	Business sales	Insurance and protection



Source: BEG FY24 results presentation

The two components are

Organic growth focused on:

- Recruitment, retention, and development of core teams
- Cross-sales of group service lines and expertise
- Investment in IT and processes

Earnings-accretive acquisitions to add:

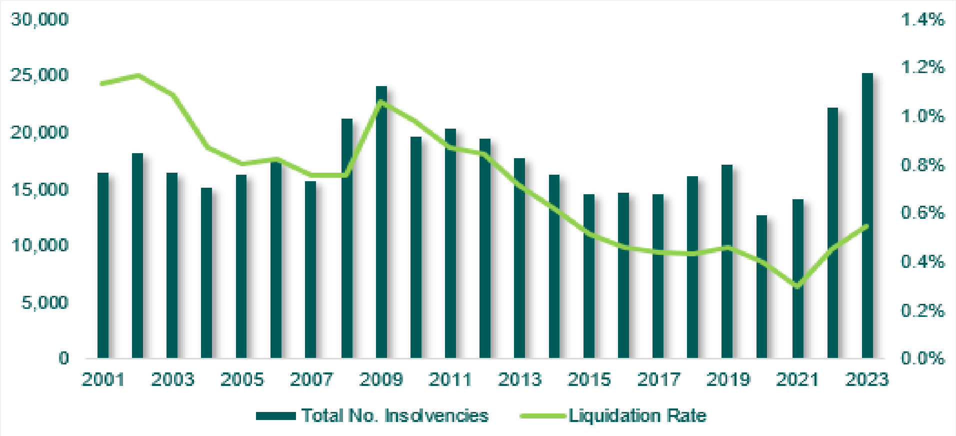
- To existing service lines where it builds market share, expertise, and geographical coverage
- Complementary professional services

UK insolvency volumes expected to grow this year

Market data points to higher UK insolvency volumes into 2025. Pressure from higher interest rates appears to be taking a toll on the UK corporate sector. Currently however, administrations (typically larger insolvencies) remain significantly below their previous peak in 2008 as are liquidations running at below half the previous recessionary peak.

BEG's Red Flag insolvency market research and UK Insolvency Services data suggests that volumes are likely to remain elevated even if there is a decline in UK interest rates to more 'normalised' levels. The UK economic environment is regarded as more challenging than that prevailing post the 2008-2010 recession. Higher distress levels are likely to drive up insolvency volumes this year.

Corporate insolvencies



Source: UK Insolvency Service

The group retained its market-leading positions by volume in FY24. It is ranked first nationally for overall appointments, second for administrations. In the period it worked on higher profile cases such as the administrations of Worcester Rugby Club and the receivership of Britishvolt EV battery site. New appointments include the administrations of Readie Construction, Breathe EV, Fortress Capital and Thought Fashion and it reports solid momentum since the year end.

As the economy recovers some UK business sectors will continue to face working capital and other funding challenges. BEG extended national coverage and profile over the last few years, increasing its insolvency practice from 93 to 98 practitioners in FY24, supported by a total professional team of 625 (2023: 590). Team capacity is a better guide to the practical upper limit for this operation, but there is clear potential for revenue growth across all case sizes. Larger, more complex appointments (and most profitable cases) currently represent over 50% of divisional revenue. The group's regional network and digital marketing improve access to routine cases.

Advisory: well-placed for additional growth

The statement included positive outlooks for both advisory and corporate finance teams. A busier pipeline of M&A instructions is expected to be followed by higher M&A activity later this year, and it confirmed positive debt advisory and funding levels, with momentum maintained from last year. It confirmed that the **current year has started positively** with encouraging activity levels in all service lines and market conditions which are conducive to further progress.

The group continues to build its senior team and review potential acquisitions. The pipeline of M&A advisory transactions is reported to be encouraging, and it anticipates recovery in M&A instructions during the course of FY25.

Property advisory division: record year

BEG created this division via the acquisition of Eddisons in 2014 and, as a result of organic investment and 15 acquisitions (total £34m investment cost), has grown revenues from £12m initially to a £45m current run rate. It is now a mid-tier UK national adviser with a broad range of services and geographical coverage.

Property advisory division financial summary

Source: BEG FY24 results

This division's strong performance reflects prior initiatives to capitalise upon opportunities to consolidate within a fragmented market. During the period this focused on building the asset sales team (property, plant and machinery). BEG now operates a UK-wide auctions practice with pro-forma revenue of c £10m pa from typically, over 250 lots per month. There was a 50% y-o-y increase in assets sold during the period and the group was a top five ranked agent by volume in 2024 (*Source: Estates Gazette*).

Acquisitions such as SDL in December 2023 built upon the previous purchase of Mark Jenkinson, which the addition of general practice Banks Long in May 2023 secured a strong commercial property agency team and enhanced the group's profile across Eastern England and South Yorkshire. The purchase of Andrew Forbes in November 2023 extended the business into Southwest UK.

BEG's also looks to ratchet up returns from Consultancy and maintain the focus on development of relationships with key clients in the education sector. Other ongoing recruitment is planned to increase the team complement.

After a record performance, property advisory is also set to build across all core disciplines - valuations, asset sales and consultancy. BEG sees a fragmented market in which there are prospects for further acquisitive and organic development to build its market position.

Consolidated statement of comprehensive income

Y/E 30 April, £m	2022	2023	2024	2025e
Revenue	110.0	121.8	136.7	148.0
Direct costs	(62.2)	(67.7)	(77.8)	(81.4)
Gross profit	47.8	54.1	58.9	64.0
Other operating income	0.2	0.2	0.5	0.6
Administrative expenses	(43.1)	(47.2)	(51.7)	(53.5)
	4.9	7.2	7.7	11.1
Adj. Operating profit (bef. amortisation and transaction costs)	**18.6**	**21.8**	**23.9**	**25.1**
Non-underlying items	(13.7)	(14.6)	(16.2)	(14.0)
Operating profit	**4.9**	**7.2**	**7.7**	**11.1**
Finance costs	(0.8)	(1.2)	(1.9)	(2.1)
Profit before tax	4.0	6.0	5.8	9.0
Adjusted PBT	**17.8**	**20.7**	**22.0**	**23.0**
Tax	(4.5)	(3.1)	(4.3)	(6.0)
Profit after tax	**(0.5)**	**2.9**	**1.5**	**3.0**
Earnings per share				
Adjusted EPS - basic	9.1p	10.5p	10.3p	10.6p
Adjusted EPS - diluted	8.9p	10.1p	9.9p	10.1p

Source: Group financial statements/ED forecasts

Balance sheet				
Y/E 30 April, £m	**2022**	**2023**	**2024**	**2025e**
Non-current assets				
Intangible assets	75.3	73.4	72.4	72.5
Property, plant and equipment	2.0	2.0	2.2	2.5
Right of use assets	5.5	7.8	11.2	8.5
Trade and other receivables	4.2	5.2	2.8	2.8
	86.9	88.3	88.6	86.3
Current assets				
Trade and other receivables	49.7	55.6	63.3	68.5
Cash and cash equivalents	9.7	8.0	5.6	4.8
	59.4	63.6	69.2	73.3
Total assets	146.3	151.9	157.8	159.6
Current liabilities				
Trade and other payables	(37.2)	(42.6)	(50.0)	(50.0)
Current tax liabilities	(1.8)	(1.1)	0.0	0.0
Lease liabilities	(1.7)	(1.6)	(2.1)	(2.1)
Provisions	(1.5)	(1.0)	(0.9)	(0.9)
	(42.2)	(46.3)	(53.0)	(53.0)
Net current assets	17.2	17.2	16.2	20.3
Non-current liabilities				
Trade and other payables	0.0	0.0	0.0	0.0
Lease liabilities	(5.0)	(6.7)	(9.6)	(9.6)
Borrowings	(4.6)	(5.0)	(7.0)	(7.0)
Provisions	(2.0)	(2.1)	(2.9)	(2.9)
Deferred tax	(8.0)	(7.4)	(7.0)	(6.5)
	(19.6)	(21.2)	(26.4)	(26.0)
Total liabilities	(61.8)	(67.5)	(79.4)	(79.0)
Net assets	84.5	84.4	78.4	80.6

Source: Group financial statements/ED forecasts

Consolidated cash flow statement

Y/E 30 April, £m	2022	2023	2024	2025e
Cash flows from operating activities				
Cash generated by operations	14.5	23.8	24.5	26.5
Income taxes paid	(3.6)	(5.3)	(6.7)	(7.0)
Interest paid on borrowings	(0.3)	(0.7)	(1.3)	(1.5)
Interest paid on lease liabilities	(0.5)	(0.4)	(0.8)	(0.8)
Net cash from operating activities	10.0	6.4	9.2	17.2
Investing activities				
Purchase of intangible fixed assets	(0.2)	(0.1)	(0.0)	(0.0)
Purchase of property, plant and equipment	(0.9)	(0.9)	(1.4)	(1.4)
Deferred consideration payments	(0.0)	0.0	0.0	(8.0)
Acquisition of businesses (net of cash acquired)	(0.5)	(0.7)	(3.6)	0.0
Cash from acquired businesses	0.4	1.2	1.6	0.0
Net cash used in investing activities	(1.1)	(0.5)	(3.4)	(9.4)
Financing activities				
Dividends paid	(4.6)	(5.4)	(5.9)	(6.0)
Net proceeds on issue of shares	0.5	0.2	0.5	0.0
Repayment of obligations under leases	(3.2)	0.0	0.0	0.0
Purchase of own shares	0.0	0.0	(2.9)	0.0
Capital element of lease payments	0.0	(2.4)	(1.9)	(2.6)
Drawdown of loans	0.0	0.0	2.0	0.0
Net cash used in financing activities	(7.2)	(7.6)	(8.2)	(8.6)
Net increase (decrease) in cash and cash equivalents	1.7	(1.7)	(2.4)	(0.8)
Cash at beginning of year	8.0	9.7	8.0	5.6
Cash at year end	9.7	8.0	5.6	4.8

Source: Group financial statements/ED forecasts

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