Begbies Traynor Group

13 December 2022

Resilient income streams drive H1 result

Another strong half reflects the benefits of an increasingly diverse base of cyclical and counter-cyclical revenues, built progressively via a series of strategic acquisitions and organic investment. The double-digit revenue and profit growth delivered by both divisions in H1 puts the group on track to achieve full year forecasts. The detail reveals consistent growth derived both organically and from a series of acquisitions which have added to the breadth of professional expertise and BEG's coverage of its key target markets.

A confident outlook anticipates further progress from business recovery and financial advisory, backed by an increased order book, enquiry levels and its counter cyclical revenue streams, with economic headwinds expected to result in higher volumes of corporate appointments. Property advisory is similarly well positioned. It received steady new instructions and sees potential to continue to develop its service mix. The group's strong balance sheet gives it scope to capitalise upon a reported pipeline of further potential strategic acquisition opportunities.

Interim results: 12% revenue and 13% adjusted PBT growth

The headline H1 result includes 12% revenue growth, 13% higher adjusted PBT, and a 0.1p/share Increase in the interim dividend to 1.2p, confirming BEG's commitment to progressive dividends, post 10% compound annual dividend growth since 2017. End H1 net debt was £2.4m, net of £7.4m of acquisition related payments in the period, with further committed bank facilities available.

Business recovery and financial advisory, **BEG's largest division** reported a 15% increase in its order book in the last six months to £33.9m and higher enquiry levels. It remains the UK leader with a 14% share of the overall market (by volume of appointments) and 10% of administrations. Insolvency appointment numbers and value were up in H1 and included high profile administrations. Advisory services now includes finance brokerage Mantra Capital acquired in July 2022. It reported organic and acquisition led growth and an encouraging pipeline of new engagements.

Both property advisory and transactional services' steady performance was built on resilient income streams and a continuing flow of new instructions. It again combined contributions from organic growth and acquisitions. Budworth Hardcastle acquired in June 2022 is trading well.

Valuation: counter cyclical businesses underpin outlook

We have held our full year forecasts and plan to review them when BEG reports its Q3 trading update in late February 2023. Our current estimates underpin **a retained 175p/share fair value**, with upside potential if UK insolvencies, particularly administrations, continue to gather momentum, and the group secures further acquisitions which continue to build expertise and capacity. We have reflected on BEG's rating vs the broader market and its intrinsic value vs its peers in this note.

Summary forecasts

Year end 30 April	2020A	2021A	2022A	2023E
Revenue (£m)	70.5	83.7	110.0	117.7
Adjusted PBT £m)	9.2	11.5	17.8	19.7
Adjusted EPS (p)	5.7	6.9	9.1	10.0
Dividend per share (p)	2.8	3.0	3.5	3.7
Yield on distribution	1.9%	2.1%	2.4%	2.5%

Source: Group report & accounts and ED estimates

Company Data

EPIC	BEG
Price (last close)	146p
52 weeks Hi/Lo	156p/97p
Market cap	£226m
ED Fair Value / share	175p

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

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

Andy Edmond
0207 065 2692
andy@equitydevelopment.co.uk

Interim results: six months to end October 2022

First half highlights were 12% revenue growth to £58.5m (H121: £52.3m), 13% higher adjusted PBT to £9.0m (H121: £8.0m). Headline interim PBT was £5.0m (H1 21: £2.7m) which includes acquisition related items; a £0.6m increase in non-cash amortisation costs to £3.2m and a £1.9m drop in transaction costs at £0.8m. Adjusted diluted EPS was 4.4p, 13% up and headline diluted EPS 2.3p (H121: 0.2p loss).

Net debt at end October was £2.4m (30 April 2022: £4.7m cash, 31 October 2021: £1.2m cash), reflecting £7.4m of acquisition related payments in H1 net of cash acquired. BEG retains a strong balance sheet as a result of recent performance and 2021 fund raising. Further committed debt facilities are available to finance further acquisitions and investment in organic growth initiatives.

Results summary

£m	H122	H121	FY 2022
Revenue	58.5	52.3	110.0
Adjusted EBITDA	11.9	11.1	24.0
Share-based payments	(0.7)	(0.7)	(1.6)
Depreciation	(1.7)	(2.0)	(3.8)
Operating profit (before transaction costs and amortisation)	**9.5**	**8.4**	**18.6**
Finance costs	(0.5)	(0.4)	(0.8)
Adjusted profit before tax	**9.0**	**8.0**	**17.8**
Transaction costs	(0.8)	(2.7)	(8.3)
Amortisation of intangible assets arising on acquisitions	(3.2)	(2.6)	(5.5)
Profit before tax	**5.0**	**2.7**	**4.0**
Tax	(1.3)	(1.2)	(2.7)
Deferred tax charge due to change in tax rate		(1.8)	(1.8)
Statutory profit/(loss) for the period	**3.7**	**(0.3)**	**(0.5)**
Adjusted diluted EPS (p)	4.4p	3.9p	8.8p
Interim dividend (p)	1.2p	1.1p	3.5p
Net cash (debt)	(2.4)	1.2	4.7

Source: BEG interim statement

The statement confirmed a 9% increase in the interim dividend to 1.2p. BEG has grown dividends by 10% pa compound since 2017 and remains committed to a long-term progressive dividend policy.

Confident full year outlook

The group is well on track to achieve market expectations for the fully year. The nature of the group's profile focuses attention on business recovery, its largest service line, where the outlook is supported by activity levels but moreover, the sheer scale of economic headwinds faced by the UK.

Financial advisory teams reported a similarly encouraging pipeline of engagements across all service lines and property advisory and transactional services held up well despite a challenging economic environment. The latter has a resilient income profile, underpinned by continuing new instructions and the potential to further develop of its service mix.

BEG encompasses a broad service range, diversified client base, organic growth initiatives and pipeline of acquisition opportunities. Its genuine counter-cyclical characteristics put it in a strong position to continue to build on its consistent growth record in the future. That's underpinned by the potential for forecast growth to be buoyed by acquisitions which have been a consistent feature of the past eight years.

Divisional results

Breakdown by division

£m	Revenue			Profit		
	2022	2021	growth	2022	2021	growth
Business recovery and financial advisory	42.4	38.7	10%	10.7	9.7	10%
Property advisory and transactional services	16.1	13.6	18%	2.8	2.4	17%
Shared and central costs				(4.0)	(3.6)	10%
Total	**58.5**	**52.3**	**12%**	**9.5**	**8.5**	**12%**

Source: BEG interim results

Business recovery and financial advisory

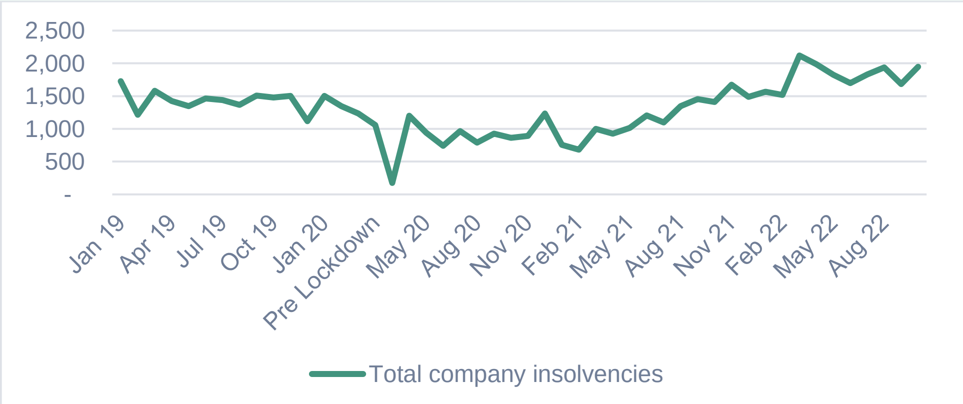
This division reported 10% revenue growth, £2.6m organic and £1.1m from acquisitions. Segmental profit was also 10% ahead at a 25.2% operating margin (H121: 25.1%). It recorded increases in both the number and value of appointments and an end order book 15% ahead y-o-y.

Insolvency appointments in H1 included larger, mid-market insolvency and restructuring cases. The period featured positive contributions from its expanded London office and offshore practice. High profile appointments included Worcester Rugby Club, Avonside Group (the UK's largest roofing contractor), Silverbond Enterprises Limited (the former operator of the Park Lane Casino in London) and Jehu Group (South Wales construction business). In addition, it advised on the first SME court sanctioned restructuring plan of Houst, the short-term holiday lettings operator, and commenced a pilot project with a major bank to assist in recovery of bounce back loans.

BEG is number one ranked nationally overall for overall corporate appointments with a 14% share (Source: CVLs, administrations and CVAs as disclosed in the London, Edinburgh and Belfast Gazettes, Accountant in Bankruptcy and Companies House) and second by administrations (10% share). Recent investment has enhanced its market position, notably its expansion of its London office and offshore practice. The division has the necessary expertise and reach for a leading adviser of UK SMEs and mid-market corporates.

As the market-leader by volume of appointments, attention focuses on UK insolvency data, appointments, both liquidations and higher-value administrations. UK Insolvency Service statistics reveal a steady pick-up in potential sources of demand for the division's services. The 20,731 corporate insolvencies (England & Wales) in the year to end Sep 2022 reveal anticipated growth post removal of Government Covid support measures. That figure is 23% above that for the comparable pre-pandemic period.

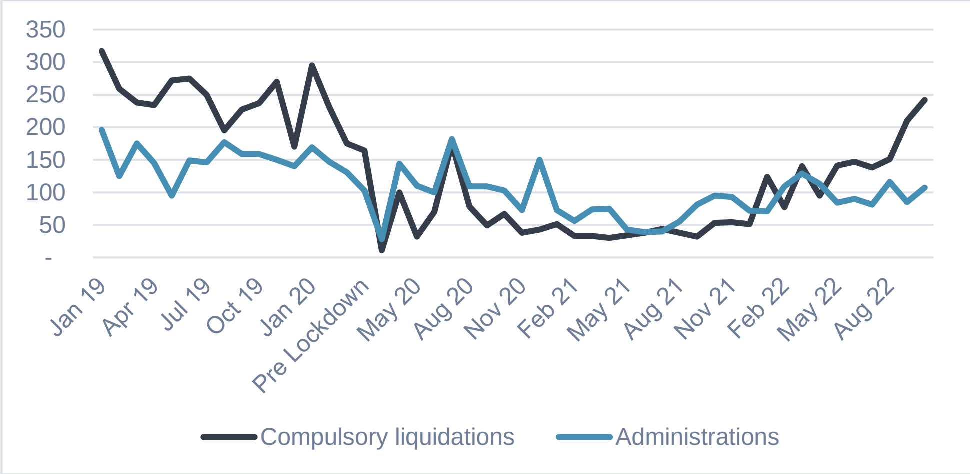
UK insolvencies trending higher



Source: UK Insolvency Service (corporate insolvencies in England and Wales, seasonally adjusted, year ended 30 September)

A breakdown of that growth reveals that it is primarily higher liquidations, but the period also saw an uptick in administrations, typically the larger and more complex instructions which are of most value to the group. That latter category is however still c 35% below pre-pandemic levels.

Liquidations / Administrations



Source: UK Insolvency Service

Financial advisory

Advisory services reported a solid H1 performance. Corporate finance deal completions and BTG Funding Solutions, BEG's finance brokerage, performed in line with expectations. The latter is a relatively new entity, comprising Mantra Capital (acquired July 2022) and MAF Finance Group (acquired May 2021).The combined team has broad sector expertise and can provide finance broking services to commercial and residential real estate, healthcare and asset finance, plus insurance broking, across broad sectors.

Finance broking complements other advisory and transactional services, particularly debt advisory and restructuring, and valuation/sale of assets. Mantra Capital performed in line with BEG expectations and its integration into the group's wider advisory team is on track. A pipeline of instructions gives this division confidence regarding H2 activity levels.

Property advisory and transactional services

Divisional performance is also a combination of organic initiatives and acquisitions and demonstrates another resilient income stream in a challenging economic environment. BEG acquired Budworth Hardcastle chartered surveyors In June 2022 which added capacity in valuation, commercial property agency and building consultancy services, and increased its regional profile. Integration of this business has been completed and it has performed in line with expectations.

H1 revenue was up 18% to £16.1m, including £1.8m of first-time contribution from acquisitions and £0.7m of organic growth. Segment profit was up 17% at £2.8m, at a 17.4% operating margin (H1 21: 17.6%). The division's underlying resilience is derived from activities such as property valuation services to secured lenders, a proportion of which relates to distressed loans. It scaled up the team complement over the last 12 months via acquisitions and has built a national practice. That's backed by consultancy services such as building consultancy, commercial property management, transport planning and highway design, specialist insurance broking and vacant property risk management.

BEG's transactional teams include commercial property agency, online property auctions, business sales agency and plant and machinery sales (through online auction, marketed sale or private tender). Transactions held up well in H1 for services provided across insolvency, defensive and pro-cyclical transactions.

Valuation considerations: 175p Fair Value, rating vs peer group

We have focused on how strategic initiatives over the last approximately eight years have successfully built revenues/profit and enhanced the diversity and resilience of BEG's divisional income streams. We have sought to put both results and financial forecasts in context vs current and expected UK economic trends.

On that basis, we see the group as a compelling combination of well-placed cyclical businesses with resilient revenues and a substantial counter-cyclical business recovery operation, ideally situated to capitalise upon the expected difficult economic environment faced by the UK over the next two years. It has consistently invested in growing these businesses organically and via acquisitions with plans to continue to do so in the future. Our assessment of Fair Value (175p) broadly reflects our view of BEG's rating vs the broader equity markets, essentially a standalone valuation that considers the strong track record and growth prospects.

For additional perspective, we have listed other entities which replicate at least part of the group's counter cyclical business profile. This comprises UK quoted companies structured to thrive across the economic cycle, specifically exposed to business restructuring work. The two other companies have comparable revenues are also appear well positioned to generate additional activity during a UK recession.

Peer group data

	Share price p	Market Cap £m	Net cash/debt £m	EV £m
Begbies Traynor (BEG)	146	228	4.7	224
FRP Advisory (FRP)	166	413	18.1	395
K3 Capital Group (K3C)	324	232	13.7	218

Source: Company accounts, ADVFN

An admittedly small sub-group may be about to diminish if the prospective takeover of K3 Capital by Sun Capital goes ahead. K3C has just released strong interim results and expect a full year outcome of ''*profits which are comfortably in line with the Board's expectations.*''

We have set out adjusted numbers for comparison as these companies take slightly differing approaches to presentation of underlying returns. With these interims, BEG included an additional figure for adjusted EBITDA which excludes share-based payments (SBPs). This is a transparent approach which could, considering the scale of some SBPs, significantly impact EBITDA and the EV/EBITDA rating. On an even playing field however, a like-for-like comparisons further illustrates why BEG is attractive investment vs its peers. We see the comparison as another useful component of the valuation and investment case, with the potential K3C takeover indicative of corporate interest in the sector.

FY21 comparables

	Revenue £m	Adj. PBT £m	Adj. EBITDA £m	EV £m	EV/EBITDA	EV/PAT
BEG	83.8	11.5	16.9	224	13.2	25.9
FRP	79.0	17.5	23	395	17.2	30.1
K3C	47.2	14.7	15.7	218	13.9	19.8

FY22 comparables

	Revenue	Adj. PBT	Adj. EBITDA	EV	EV/EBITDA	EV/PAT
BEG	110.0	17.8	23.9	224	9.4	16.7
FRP	95.2	17.7	25.7	395	15.4	29.8
K3C	70.7	18.4	20.4	218	10.7	15.8

Source: Company accounts

FINANCIALS

Income statement					
Y/E 30 April, £m	**2019**	**2020**	**2021**	**2022**	**2023E**
Revenue	**60.1**	**70.5**	**83.8**	**110.0**	**117.7**
Direct costs	(34.3)	(40.3)	(48.3)	(62.2)	(64.7)
Gross profit	**25.8**	**30.2**	**35.6**	**47.8**	**53.5**
Other operating income	0.4	0.4	0.2	0.2	0.2
Administrative expenses	(22.2)	(26.7)	(32.9)	(43.1)	(42.0)
Operating profit	**4.0**	**3.9**	**2.8**	**4.9**	**11.7**
Adj. Op profit (before amortisation and trans. costs)	7.6	10.1	12.4	18.6	20.7
Transaction costs	(1.2)	(3.2)	(6.5)	(8.2)	(2.0)
Amort. of intangible assets arising on acquisitions	(2.4)	(3.1)	(3.1)	(5.5)	(7.0)
Operating profit	**4.0**	**3.9**	**2.8**	**4.9**	**11.7**
Finance costs	(0.5)	(1.0)	(0.9)	(0.8)	(1.0)
Profit before tax	3.5	2.9	1.9	4.0	10.7
Adjusted PBT	**7.1**	**9.2**	**11.5**	**17.8**	**19.7**
Tax	(1.1)	(2.0)	(1.8)	(4.5)	(3.0)
Profit after tax	**2.4**	**0.9**	**0.2**	**(0.5)**	**7.7**
Earnings per share					
Adjusted EPS - basic	4.8p	5.7p	6.9p	9.1p	10.0p
Adjusted EPS - diluted	4.7p	5.7p	6.7p	8.9p	9.7p

Source: Group financial statements

Balance sheet					
Y/E 30 April, £m	**2019**	**2020**	**2021**	**2022E**	**2023E**
Non-current assets					
Intangible assets	59.4	59.4	77.6	75.3	76.3
Property, plant and equipment	1.8	1.8	2.1	2.0	2.0
Right of use assets	0.0	7.0	7.5	5.5	5.4
Trade and other receivables	3.2	4.6	4.0	4.2	7.5
	64.4	**72.8**	**91.2**	**86.9**	**91.1**
Current assets					
Trade and other receivables	32.7	36.5	45.4	49.7	55.0
Cash and cash equivalents	4.0	7.2	8.0	9.7	12.0
	36.7	43.7	53.4	59.4	67.0
Total assets	**101.0**	**116.6**	**144.6**	**146.3**	**158.1**
Current liabilities					
Trade and other payables	(22.7)	(22.2)	(33.3)	(37.2)	(40.5)
Current tax liabilities	(2.0)	(1.9)	(2.6)	(1.8)	(1.0)
Lease liabilities	0.0	(2.2)	(3.0)	(1.7)	(1.0)
Provisions	(0.6)	(0.9)	(0.6)	(1.5)	(1.3)
	(25.2)	(27.2)	(39.4)	(42.2)	(43.8)
Net current assets	**11.4**	**16.5**	**14.0**	**17.2**	**23.3**
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)	(5.0)	(5.0)
Borrowings	(10.0)	(10.0)	(5.0)	(4.6)	(10.0)
Provisions	(0.8)	(1.9)	(2.6)	(2.0)	(2.5)
Deferred tax	(5.3)	(5.7)	(5.5)	(8.0)	(8.5)
	(16.1)	**(23.8)**	**(18.9)**	**(19.6)**	**(26.0)**
Total liabilities	**(41.3)**	**(51.0)**	**(58.3)**	**(61.8)**	**(69.8)**
Net assets	**59.7**	**65.6**	**86.3**	**84.5**	**88.4**

Source: Group financial statements

Consolidated cash flow statement					
Y/E 30 April, £m	**2019**	**2020**	**2021**	**2022**	**2023E**
Cash flows from operating activities					
Cash generated by operations	8.0	4.7	16.2	14.5	21.5
Income taxes paid	(1.4)	(2.2)	(2.3)	(3.6)	(8.0)
Interest paid on borrowings	(0.5)	(0.4)	(0.3)	(0.3)	(1.0)
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**	**10.0**	**12.0**
Investing activities					
Purchase of intangible fixed assets	(0.2)	(0.7)	(1.0)	(0.2)	(0.5)
Purchase of property, plant and equipment	(0.8)	(0.1)	(0.3)	(0.9)	(1.0)
Deferred consideration payments	0.0	(0.7)	(0.2)	(0.0)	(5.0)
Acquisition of businesses (net of cash acquired)	(1.8)	(3.0)	(22.0)	(0.5)	(1.0)
Cash from acquired businesses	3.4	3.4	1.5	0.4	1.1
Net cash used in investing activities	**0.6**	**(1.1)**	**(22.0)**	**(1.1)**	**(6.4)**
Financing activities					
Dividends paid	(2.6)	(3.2)	(3.6)	(4.6)	(5.1)
Net proceeds on issue of shares	0.0	7.8	20.9	0.5	0.0
Repayment of obligations under leases	0.0	(1.9)	(2.7)	(3.2)	(3.2)
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	5.0
Net cash used in financing activities	**(5.8)**	**2.7**	**9.7**	**(7.2)**	**(3.3)**
Net increase (decrease) in cash and cash equivalents	0.5	3.2	0.7	1.7	2.3
Cash at beginning of year	**3.5**	**4.0**	**7.2**	**8.0**	**9.7**
Cash at year end	**4.0**	**7.2**	**8.0**	**9.7**	**12.0**

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

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

Equity Development, Park House, Finsbury Circus, London EC2M 7EB

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