# Driver Group Plc

## Good start to Q3, pipeline growing

12 June 2024

**The strategic plan implemented in late CY22 is working, with utilisation levels benefitting from the move to a hub-and-spoke operational model and a return to profitability in the smaller Middle East ('ME') and APAC regions. H2 24 has started positively, particularly in Asia, as the relatively new office in Seoul is delivering on its early promise. The order pipeline continues to expand, benefitting from the rise in expert headcount. The Board has set aside £1m of 'excess cash' to buy back shares and to evaluate M&A in existing and related sectors.**

### Rising utilisation, ME & APAC return to profit

- The interim results to March 24 were broadly in line with expectations, reflecting strong performances across the UK, Europe, ME, and APAC. The cost rationalisation programme was successfully completed in H1. This, in combination with improving revenues, enabled the smaller ME and APAC regions to return to profitability. Utilisation levels improved further to 79.6% (H1 '23: 79.2%), aided by the application of the hub-and-spoke model, as the delivery of client services benefits from increased collaboration between global offices. The North American business stuttered due to temporary staffing issues, which have since been resolved.

- The outlook is positive, led by ME, APAC and the UK. The APAC region continues to benefit from the opening of the Seoul office some 15 months ago, with the pipeline growing. The ME region has secured significant projects from the Kingdom of Saudi Arabia, which augurs well over the medium term. The UK and European businesses are benefitting from undertaking client services originating elsewhere. Meanwhile, **re-branding the Group to Diales** from July 1st conveys an expert-led, added value service offering, moving the Group away from a reputation for lower margin claims work (Driver Trett).

- The expansion of future revenues is predominantly driven by headcount and focuses on recruiting high quality, added-value experts. The Board has stated they have set aside £1m of 'excess cash' for potential acquisitions (£0.75m), with the remainder for share buybacks, commencing immediately. The focus of M&A will be to target teams of experts to fill gaps in expertise in areas related to existing disciplines, thereby potentially driving average margins higher. The interim dividend was unchanged y-o-y, modestly covered by earnings. Net cash as at the end of May 24 amounted to £4.2m.

### Valuation

**We maintain our fair value of 40p/share. With a sector-leading yield, currently standing at 6.0% for FY24, compared to the average of its peer group of 0.5%, Driver's share price remains undervalued relative to a basket of its peers and is heavily backed by cash and the NAV.**

**Forecasts**

| Y/e 30 Sep, £m | 2021A | 2022A | 2023A | 2024F |
|---|---|---|---|---|
| Revenue | 48.8 | 45.1 | 42.6 | 43.0 |
| Adj. PBT | 2.0 | -0.5 | 1.1 | 1.2 |
| Adj. EPS (p) | 2.4 | -1.8 | 1.4 | 1.6 |
| DPS (p) | 0.0 | 1.5 | 1.5 | 1.5 |
| P/E (x) | 10.4 | -13.9 | 17.9 | 15.6 |
| EV/EBITDA (x) | 2.1 | 10.6 | 3.9 | 4.3 |
| Yield | n/a | 6.0% | 6.0% | 6.0% |

*Source: ED estimates, Company historic data*

**Company Data**

| | |
|---|---|
| EPIC | DRV |
| Price (last close) | 25p |
| 52 weeks Hi/Lo | 33p/21p |
| Market cap | £13.2m |
| ED Fair Value / share | 40p |
| Net cash (May '24) | £4.2m |

**Share Price, p**


*Source: ADVFN*

**Description**

Driver is involved in the provision of specialist dispute avoidance and dispute resolution services to the global construction and engineering industries.

Driver currently has 28 offices in 16 countries, including eight in the UK, six in Europe, three in the Americas, five in APAC, and six in the Middle East and Africa. The Group currently employs 186 fee earning employees.

The business is split into the following reporting regions: Europe and Americas (EuAm). The Middle East (ME) and APAC.


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## Interims on track to match FY expectations

| FY24 Interims | | | |
|---|---|---|---|
| **£m** | **H1 '23A** | **H1 '24A** | **Change yoy** |
| EuAm | 19.9 | 18.9 | -4.9% |
| ME | 2.4 | 2.7 | 11.4% |
| AP | 1.7 | 2.0 | 13.4% |
| Intersegment | -1.3 | -1.1 | -15.4% |
| Group revenues | 22.7 | 22.5 | -1.1% |
| Cost of sales | -16.5 | -16.4 | -0.5% |
| Gross profit | 6.2 | 6.1 | -2.8% |
| GP % | 27.5% | 27.0% | -1.7% |
| OpEx | -5.6 | -5.5 | -2.0% |
| Other op. income | 0.0 | 0.0 | |
| EuAm | 2.9 | 2.3 | -20.2% |
| ME | -0.1 | 0.1 | -276.9% |
| AP | -0.1 | 0.1 | -171.7% |
| Central costs | -2.0 | -2.1 | 4.1% |
| Group EBIT | 0.8 | 0.5 | -29.3% |
| EuAm | 14.8% | 12.4% | |
| ME | -3.2% | 5.1% | |
| AP | -8.0% | 5.0% | |
| Group EBIT | 3.3% | 2.4% | |
| Interest | 0.0 | 0.0 | -236.4% |
| Adj PBT | 0.7 | 0.6 | -23.0% |
| Exceptionals | -0.2 | 0.0 | -75.7% |
| Reported PBT | 0.5 | 0.5 | -2.8% |
| Taxation | -0.2 | -0.1 | -48.3% |
| Tax % | 28.4% | 19.0% | -32.9% |
| Adj. Earnings | 0.3 | 0.4 | 26.5% |
| Adj. EPS (p) | 1.0 | 0.8 | -20.0% |
| DPS (p) | 0.8 | 0.8 | 0.0% |
| Net cash/(debt) | 5.3 | 3.6 | -32.4% |
| Net assets | 16.5 | 15.4 | -6.6% |

*Source: Company*

Overall revenues were broadly flat y-o-y at £22.5m (H1 ’23: £22.7m on a continuing basis). Encouragingly, double-digit growth was seen in the ME and APAC regions, broadly offsetting the shortfall in the larger Europe & Americas (‘EuAm’) region.

The revenues stated in the table above include intersegmental work, while in the text below, we are quoting external sales only. Much of the difference equates to projects undertaken in other regions.

### EuAm – Revenues -3.5% to £18.5m, EBIT -20.2% to £2.3m

EuAm performed well across Europe, with enquiry levels consistent on a sequential half-yearly basis and utilisation rates continuing at high levels of 70.1% (H1 '23: 72.8%). The continued high utilisation was despite several projects completing simultaneously at the end of H1. As such, the UK and Europe continues to expand, seen as the central business hub. Much of the regional shortfall emanated from North America and reflected short-term staffing issues, which have since been resolved. Two new hires have also been recruited and are showing promise.

### ME – Revenues +2.9% to £2.2m, EBIT £0.1m vs -£0.1m

Revenues improved modestly y-o-y in the Middle East on a continuing basis, following the closure of underperforming offices and a reduction in staff numbers. The long-standing issue of overdue debtors is mainly consigned to history, with cash collection on newer contracts within expectations. Work generated in the Middle East is now processed both locally, and in the Group's key European hub, ensuring that utilisation levels have improved further to 77.3% (H1 '23: 76.3%).

### APAC – Revenues +24.2% to £1.8m, EBIT £0.1m vs -£0.1m

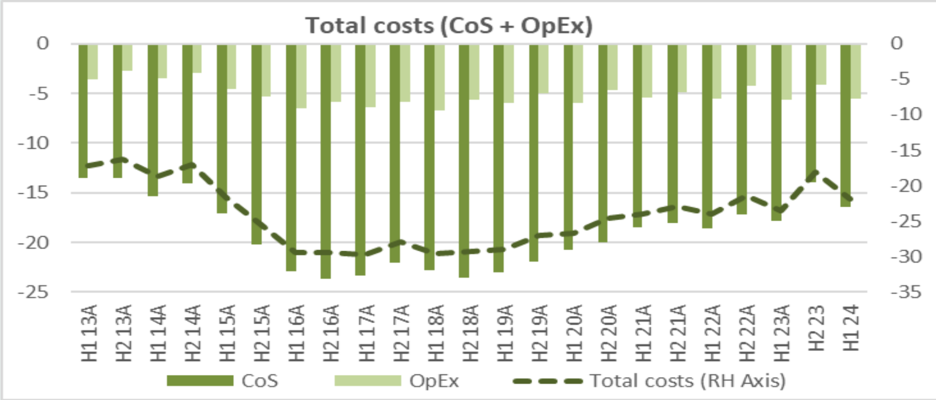
APAC delivered the strongest growth relative to the other reporting regions and returned to profitability. The rationalisation that began in late CY22 resulted in a lower cost base, notwithstanding the office opening in Seoul 15 months ago. Utilisation levels in APAC jumped by the highest amount of all the regions in H1 '24 to 77.5%, compared to 72.8% a year earlier. Under the leadership of the head of the Australian operations, the region is meeting budgeted expectations. The work emanating from South Korea is encouraging, largely focused on higher margin expert and claims, in turn benefitting other offices, including those in EuAm.

## Costs declined y-o-y – CoS -8.2% to £15.6m, OpEx -2.0% to £5.5m

We note the y-o-y improvement in the cost base, aided by the business transformation programme, which commenced in November 2022. The initial goal was to eradicate losses in the smaller regions – ME and APAC – by reducing the cost base to appropriate levels and moving to a hub-and-spoke operational model, whereby the work is delivered globally via collaboration between offices. The hub-and-spoke model ensures that utilisation levels remain high across the Group.

During the period, we witnessed the closure of the previous head office in Haslingden, the move of the finance function to Blackburn, and an office move in London to smaller, serviced premises. We expect to see a full period effect of such changes during H2 '24. The cost reduction programme is now complete.

**Costs progression**




*Source: Company*

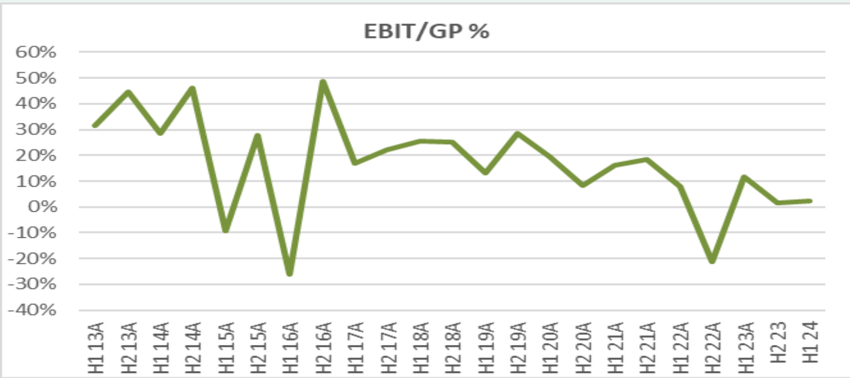
Moving forward, part of the focus will be to make strategic hires, either individually or via the acquisition of teams with complementary expertise.

## Margins

Gross margins on a continuing basis were unchanged y-o-y at 27.0% in H1 ’24. Pre-central costs the Group’s adj. EBIT margin fell by 67 bps to 2.4%, with the EuAm operating margin declining 270 bps to 12.7%. The latter reflected the temporary staffing issues in North America. Elsewhere, returns moved into the black, rising to 6.1% in the Middle East and 5.6% in APAC.

The proportion of gross profit feeding through to adj. EBIT ticked up y-o-y, suggesting a stabilisation following an eight-year downward trend. We expect that as revenues rise, driven by a combination of new hires and a wider geographical reach, more of the gross profit will feed through to EBIT, closer to historic levels and accelerating the growth in profitability.

**EBIT/GP ratio has stabilised, with early signs of improvement**




*Source: Company*

We have previously highlighted the causal link between utilisation levels and profitability. Implementing the ERP system and the trial of a real-time and more accurate measure of utilisation in Europe, should result in further efficiency gains and improved management reporting moving forward. H1 utilisation levels across the Group delivered modest gains to 79.6% (H1 ’23: 79.2%).

The move to profitability in the smaller regions is encouraging, with the c.£0.5m y-o-y turnaround almost offsetting the reduction in EBIT within the EuAm region and the modest increase in central costs.

## Dividend maintained

Net interest turned positive owing to the strong balance sheet, resulting in adj. PBT of £0.6m (H1 '23: £0.7m). The tax charge dropped significantly to 20.9%, reflecting brought forward tax losses in the two smaller regions. Adj. and diluted EPS of 0.8p (H1 '23: 1.0p) reflected the lower Group EBIT margin, but the dividend was maintained at 0.75p/share, reflecting both net cash and the Group's capital allocation policy.

## Cash generation

Net cash levels declined £2.2m during the period to £3.6m. The key drivers of this included:

- The dividend (-£0.4m),
- Taxation (-£0.2m),
- Working capital (-£1.3m), and
- The final net payment associated with the termination of the joint venture with MHPM in Canada and the Middle East (£0.8m).

Operating cash flow equated to £0.8m, representing an impressive 156% of EBIT. We are encouraged that the Middle East long debtor book has been mainly collected.

# Financials & Outlook

**Despite a modest reduction in revenues during H1, the upbeat start to Q3 warrants unchanged estimates**.

With the cost-cutting at an end, the next stage of the business transformation programme is focused on business development, either through the marketing of the Group's services or via the hiring of revenue generators and experts. The Group will be rebranded to Diales commencing 1 July 2024, potentially resulting in a more focused marketing approach, thereby homogenising the regional approach. Diales, a name associated with providing experts and added value services, replaces Driver Trett, a name associated with claims.

In discussing capital allocation, the Board has decided to spend £0.25m initially on share buybacks, with c.£0.75m set aside for potential acquisitions. If the Group cannot find appropriate targets, the Board will return the cash set aside for M&A to shareholders via further share buybacks. The Group is in the process of constructing a dedicated talent pipeline to rapidly fill gaps as they emerge, and to identify potential teams to acquire. The preference of the M&A search is on hiring of teams and incentivising them to perform rather than on purchasing established companies. Areas targeted include those with existing or closely related disciplines, thereby widening the Group's appeal to clients.

One will be aware that Driver's operating model can vary depending on the pipeline of opportunities and the downtime between projects (often, the experts running the projects are the ones who were involved in pitching to the client in the first place). As such, the Board seeks to move to a more balanced approach with enough 'rainmakers' in the business to ensure that utilisation levels remain high as the pipeline of opportunities improves. New enquiry levels are encouraging, underpinning confidence for the remainder of H2 '24.

Utilisation has continued at the high levels experienced in FY23 and H1 '24 into Q3 '24, highlighting the success of the move to the hub-and-spoke operational model. The second half has started positively with the UK, Middle East, and APAC performing well. The improvement is most pronounced in the APAC region, benefitting from the office in Seoul, which has a strong order pipeline. The ME region has secured significant projects from the Kingdom of Saudi Arabia, which augurs well over the medium term.

A new office was opened in Dublin in February 2024, taking the total number of offices globally to 28, located across 16 countries.

## Valuation

We have constructed peer group comparison valuation models to determine the fair value of the Group's shares, utilising FY24 estimates. We consider FY24 EV/EBITDA, PER, EV/Sales and dividend yield. While a size-related discount is appropriate, the existing differential to its peers is inappropriately wide.

Two other factors support a fair value higher than the current share price:

- A sector-leading yield, currently standing at 6.0% for FY24, compared to the average of its peer group of 0.5%
- The NAV offers significant support to the existing share price. The NAV at the half-year end stood at 28.6p, representing a premium of 14.4% to the last closing share price.

**With no change to estimates, we consider it appropriate to maintain our fair value at 40p/share.**

One should remember the level of net cash. We expect this to improve from the H1 '24A position of £3.6m to £4.9m by the year-end, even accounting for the recently announced share buyback programme of £0.25m. In support of this view, net cash rose to £4.2m as of May 2024.

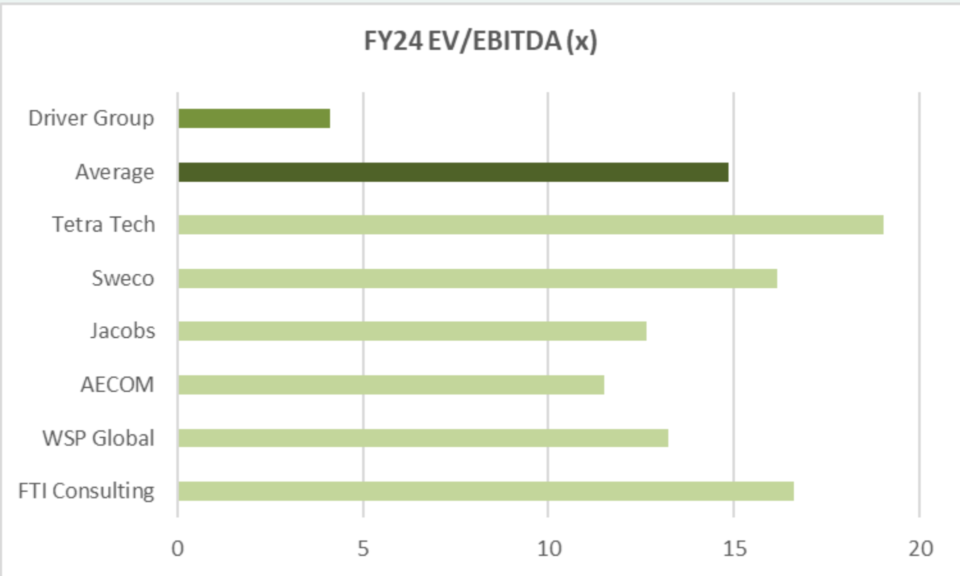
Were we to strip the cash from the market capitalisation, the PER would decline further, increasing the discount to its peers.

### Net cash as a % of mkt cap & NAV

| | FY23A | H1 24A | FY24F |
|---|---|---|---|
| Net cash, £m | 5.8 | 3.6 | 4.9 |
| Net cash / share (p) | 10.8 | 6.8 | 9.2 |
| Cash as a % of market cap | 43.3% | 26.5% | 36.7% |
| NAV, £m | 16.0 | 15.4 | 16.3 |
| NAV / share (p) | 29.6 | 28.6 | 30.3 |
| Net cash as a % of NAV | 36.5% | 23.2% | 30.3% |

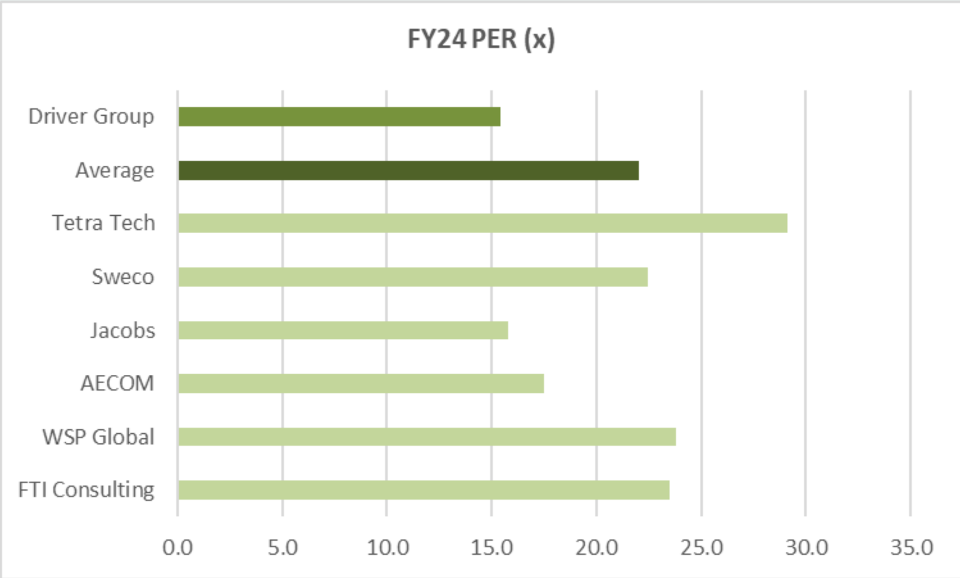
*Source: Company*

### Peer group comparative valuation: FY24 EV/EBITDA (x)



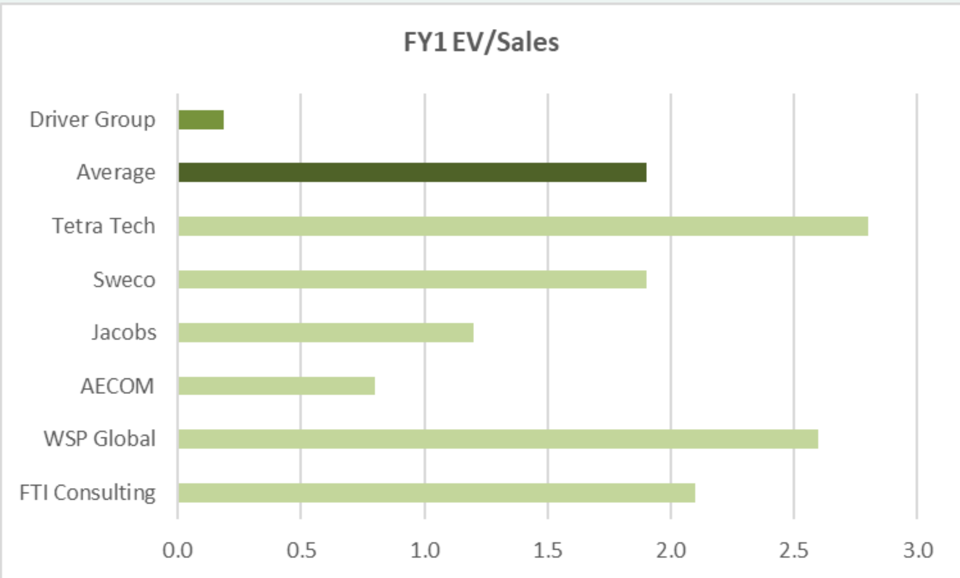

*Source: Koyfin*

**Peer group comparative valuation: FY24 PER (x)**



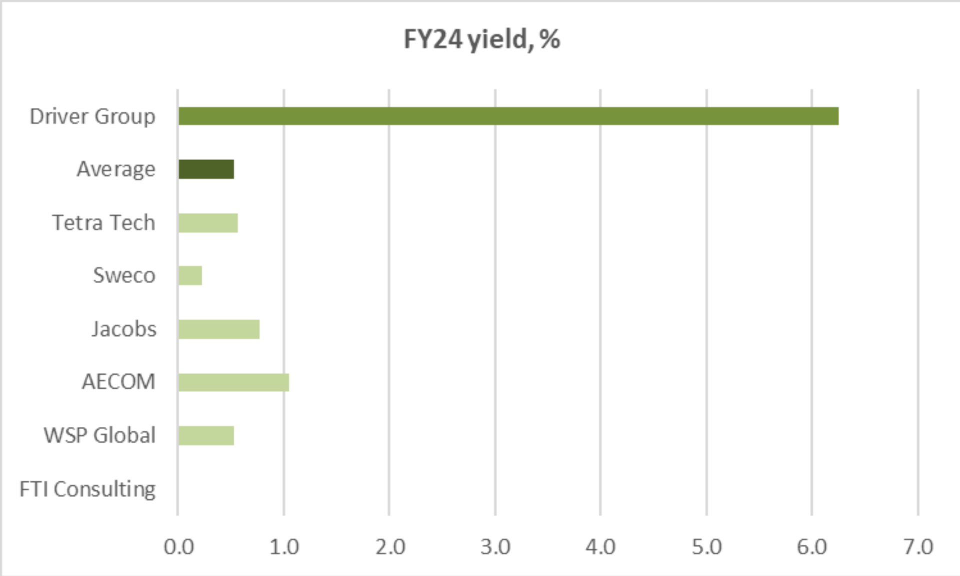

*Source: Koyfin*

**Peer group comparative valuation: FY24 EV/Sales (x)**




*Source: Koyfin*

**Peer group comparative valuation: FY24 Dividend yield (%)**




*Source: Koyfin*

## Summary Profit & Loss

| Year to Sep, £m | 2020A | 2021A | 2022A | 2023A | 2024F |
|---|---|---|---|---|---|
| Europe & Americas | 31.0 | 33.7 | 35.1 | 35.6 | 36.0 |
| Middle East | 14.4 | 10.9 | 6.4 | 4.2 | 4.2 |
| APAC | 7.7 | 4.1 | 3.6 | 2.9 | 2.9 |
| Revenue | 53.1 | 48.8 | 45.1 | 42.6 | 43.0 |
| CoGS | -39.9 | -36.5 | -35.8 | -31.9 | -32.0 |
| Gross profit | 13.1 | 12.2 | 9.3 | 10.8 | 10.9 |
| Gross margin (%) | 24.7% | 25.1% | 20.7% | 25.3% | 25.5% |
| Op costs | -10.6 | -10.3 | -9.8 | -9.8 | -10.0 |
| Other Op. income | 0.1 | 0.2 | 0.1 | 0.0 | 0.2 |
| Operating profit | 2.6 | 2.1 | -0.4 | 1.0 | 1.1 |
| Op margin (%) | 4.9% | 4.3% | -0.9% | 2.3% | 2.5% |
| Net Interest | -0.1 | -0.1 | -0.1 | 0.1 | 0.1 |
| Associates | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| PBT (Adjusted) | 2.5 | 2.0 | -0.5 | 1.1 | 1.2 |
| Exceptionals | -1.5 | -0.1 | -1.5 | -0.6 | 0.0 |
| PBT (Reported) | 1.0 | 1.9 | -2.0 | 0.4 | 1.2 |
| Tax | -0.4 | -0.7 | -0.5 | -0.3 | -0.3 |
| PAT | 0.6 | 1.1 | -2.4 | 0.1 | 0.8 |
| Minority interests | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Earnings | 0.6 | 1.1 | -2.4 | 0.1 | 0.8 |
| Ordinary Dividends | 0.0 | 0.0 | -0.8 | -0.8 | -0.8 |
| Retained Profit | 0.6 | 1.1 | -3.2 | -0.7 | 0.0 |
| EPS (Adjusted) (p) | 4.0 | 2.4 | -1.8 | 1.4 | 1.6 |
| DPS (p) | 0.8 | 0.0 | 1.5 | 1.5 | 1.5 |
| Ave no of shares (FD) (m) | 54.7 | 54.3 | 54.9 | 54.0 | 54.0 |

*Source: Company historics, Equity Development estimates*

## Summary Cash Flow

| Year to Sep, £m | 2020A | 2021A | 2022A | 2023A | 2024F |
|---|---|---|---|---|---|
| Operating profit | 2.6 | 2.1 | -2.9 | 0.4 | 1.1 |
| Depn. & Amortn. | 1.4 | 1.2 | 1.2 | 0.9 | 0.8 |
| Working capital movement | 2.3 | -2.3 | 2.7 | 1.5 | -1.3 |
| Other | 0.0 | 0.0 | 0.0 | -0.2 | 0.0 |
| Operating cash flow | 6.3 | 1.0 | 1.0 | 2.6 | 0.6 |
| Net Interest | -0.1 | -0.1 | -0.1 | 0.1 | 0.1 |
| Taxation | -0.5 | -0.8 | -0.5 | -0.2 | -0.3 |
| Net capex | -0.3 | -0.5 | -0.6 | -0.1 | -0.2 |
| Operating FCF | 5.3 | -0.4 | -0.2 | 2.3 | 0.2 |
| Net (Acquisitions)/Disposals | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividends | -0.7 | -0.4 | -0.8 | -0.8 | -0.8 |
| Share Issues | 0.0 | 0.0 | -0.5 | 0.0 | -0.3 |
| Minority payment | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other financial | -1.8 | -1.0 | 0.0 | -0.6 | 0.0 |
| Increase Cash/(Debt) | 2.8 | -1.7 | -1.5 | 0.9 | -0.9 |
| Opening Net Cash/(Debt) | 5.4 | 8.2 | 6.5 | 4.9 | 5.8 |
| Closing Net Cash/(Debt) | 8.2 | 6.5 | 4.9 | 5.8 | 4.9 |

*Source: Company historics, Equity Development estimates*

## Abbreviated Balance Sheet

| Year to Sep, £m | 2020A | 2021A | 2022A | 2023A | 2024F |
|---|---|---|---|---|---|
| Intangible Assets | 3.2 | 3.5 | 3.8 | 3.7 | 3.6 |
| Tangible Assets | 0.5 | 0.4 | 0.4 | 0.4 | 0.3 |
| Investments/other | 2.1 | 2.1 | 1.6 | 1.4 | 1.3 |
| Net Working Capital | 7.4 | 9.8 | 6.5 | 5.5 | 6.8 |
| Capital Employed | 13.2 | 15.8 | 12.2 | 10.9 | 12.1 |
| Other | -1.0 | -1.0 | -0.8 | -0.8 | -0.7 |
| Net Cash/(Debt) | 8.2 | 6.5 | 4.9 | 5.8 | 4.9 |
| Provisions Liabilities/Charges | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net Assets | 20.4 | 21.3 | 16.4 | 16.0 | 16.3 |

*Source: Company historics, Equity Development estimates*

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