

31 March 2022

## Fix underway

With plans in place to review the Middle East and APAC regions, the trading update suggests that management were taken by surprise. The rationalisation process is likely to be more severe than originally anticipated, potentially including an overhaul of reporting procedures. We expect the focus to turn to gross margins, cash collection and higher utilisation levels – involving headcount reductions, office closures, and a focus on higher quality customers.

The likely scale of the required actions increases short-term uncertainty in the business. We anticipate positive news will emerge in due course, commencing with the appointment of a new CFO. Until then we have suspended any financial estimates. Following the trading update we have reduced our fair value / share to 49p, based on a heavily discounted peer group comparison valuation model.

The problematic regions of the Middle East (ME) and APAC have bitten Driver Group sharply during Q2. Plans were already in place to review the regions, using independent consultants, so questions may be asked over reporting procedures. With the resignation of the CFO, David Kilgour, a thorough overhaul of such processes can more readily be undertaken. Ironically, the Group was set to commission its new ERM software that gives the CEO a real-time view of how the business is performing.

One must note that most consultancies tend to be volatile in nature, with projects often running across more than one reporting period and tending to be lumpy in nature. As such, straight-line growth tends to be unusual.

There appear to be two key issues: a loss-making contract in the APAC region and an unexpected drop in revenues in the Middle East. On current projections the APAC business will have been loss-making for four half-years by the end of H1 '22, albeit until the current period the trend was improving. The division has struggled following the departure of the team in Singapore some 18+ months ago.

Until the start of FY21, the Middle East has been more consistent than APAC (profits pre-central costs from FY17 to FY20), albeit there have been issues with cash collection. Q1 was disrupted by Covid-related delays, and it may be that there is a strong pipeline of orders waiting for an upturn in confidence. With the rise in energy prices, one wonders if that will be the catalyst?

Management initially identified £1m+ of cost savings at the operating level which suggests that major surgery is required. To put it into context, excluding central costs, the ME and APAC regions had a combined CoS + OpEx of £16.2m in FY21, suggesting a reduction of 6%+. We think there is a need to go further, creating short-term uncertainty within the ME and APAC regions and hence, we have suspended financial estimates for now.

The rationalisation of the cost base is to focus predominantly on the closure of marginal locations and a reduction in staff numbers. In terms of the staff reductions, the focus on utilisation suggests that all offices across the two regions are likely to be affected. A greater focus on its future client base suggests that margins and cash will be the focus of projects from hereon in.

The EuAm region (Europe and Americas) continues to perform well. The region has been the key profits generator and as such, as management devotes more time to the problematic regions, momentum needs to be maintained in EuAm. We think the new software will help in this regard.

## Estimates withdrawn; a trickle of positive news anticipated

We have withdrawn estimates in reflection of the likely short-term uncertainty. We anticipate a trickle of good news in coming months, commencing with the appointment of a new CFO.

### Company Data

EPIC	DRV
Price (last close)	28p
52 weeks Hi/Lo	69p/29p
Market cap £m	£15.9m
ED Fair Value/share	49p
Net cash	£3.9m

### Share Price, p



Source: ADVFN

### Description

Driver group is a multi-disciplinary consultancy group, providing clients with specialist commercial management, planning, programming, and scheduling, and dispute resolution support services to the engineering and construction industries.

Driver group has 31 offices in 18 countries, including eight in the UK, five in Europe, four in the Americas, seven in APAC, and seven in the Middle East and Africa.

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

### David O'Brien (Analyst)

0207 065 2690  
[david@equitydevelopment.co.uk](mailto:david@equitydevelopment.co.uk)

### Hannah Crowe

0207 065 2692  
[hannah@equitydevelopment.co.uk](mailto:hannah@equitydevelopment.co.uk)



## Contacts

### Andy Edmond

Direct: 020 7065 2691

Tel: 020 7065 2690

[andy@equitydevelopment.co.uk](mailto:andy@equitydevelopment.co.uk)

### Hannah Crowe

Direct: 0207 065 2692

Tel: 0207 065 2690

[hannah@equitydevelopment.co.uk](mailto:hannah@equitydevelopment.co.uk)

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Equity Development, Park House, 16-18 Finsbury Circus, London EC2M 7EB

Contact: [info@equitydevelopment.co.uk](mailto:info@equitydevelopment.co.uk) | 020 7065 2690