Driver Group

Creditable results and research initiation

08 June 2021

In the context of ongoing lockdowns and the comparative period showing little sign of being affected by the pandemic, we think results for the six months to March 2021 are highly creditable. The Europe and Americas division continues to perform at new heights, with a new Head of the combined Middle East and APAC regions expected to improve the performance from those regions in the medium-term. Optimism for the outlook resulted in a return of an interim dividend, with net cash available to fund working capital once recovery begins to feed through and potentially, bolt-on acquisition(s).

On valuation, we think that its current share price could leave DRV in a vulnerable position within a consolidating sector. Although we are not producing financial projections at this stage, we have postulated what the implications of the five-year strategy review implemented in H2 20 could mean for profitability in FY25. We think that there is real scope for optimism on this topic, which we believe the share price fails to acknowledge. Similarly, our peer group valuation model suggests a significant potential upside for the fair value of DRV's shares.

In the context of continued lockdowns in several jurisdictions in which the Group operates, the loss of a team in Singapore, and the comparative period only seeing an impact of the pandemic in its final weeks, we think the interim results demonstrate a resilient performance. Revenues were static on H2 20, which was also affected by the pandemic, with gross margins broadly unchanged at 25.9% and EBIT margins of 4.2% (H1 20: 5.1%). The latter follows the ME and APAC regions moving to a H1 loss and profitability at its highest ever levels in EuAm.

Two new offices opened in New York and Madrid, not only improving service levels in the US and Spain but also increasing access to South America. Utilisation levels declined modestly to 72.1%, with the number of fee earners rising from the year end.

Cash flow remained strong at the operating level, although the level of net cash declined by £1m during the period to £7.2m, representing 34.8% of NAV. A dividend of 0.75p (H1 20: nil) was proposed within the interim results, highlighting not only the strong balance sheet but also management's confidence in the medium-term outlook.

Activity levels were broadly unchanged in May and June from levels experienced during H1. The visibility on the forward order book is typically limited, although the pipeline YTD has continued to build. The issue continues to be ongoing lockdowns in markets important to the Group, which in turn has prevented the growth in opportunities from converting into revenues. Guidance suggests no improvement is likely during the remainder of the current year.

We have chosen not to produce financial projections for FY21F or beyond at this stage, largely reflecting a lack of Company guidance to markets. However, we have focused on the five-year strategic plan and speculate on how profitability may look in FY25F. As a result, we feel that the share price fails to reflect future potential**,** rather focusing on the short-term. In a consolidating sector, DRV could also utilise the balance sheet to enhance organic growth with acquisitive growth.

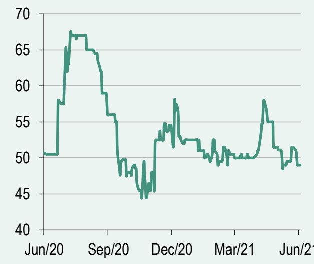
Significant apparent undervaluation

With its global reach and at what currently appears to be a nadir in profit terms, we think the current valuation leaves DRV as vulnerable and a potential target of a larger peer/private equity. Our valuation models using historic data suggest that DRV is significantly undervalued vis-à-vis its larger peers. **Even when one applies a material size discount, we believe there is the potential for a significant rerating of DRV's shares.**

Company Data

EPIC	DRV
Price (last close)	50p
52 weeks Hi/Lo	68p/44p
Market cap	£27.1m
ED Fair Value / share	72p
Net cash (Mar '21)	£7.2m

Share Price, p



Source: ADVFN

Description

Driver Group (DRV) 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 industry.

Driver group has 31 offices in 18 countries, including eight in the UK, five in Europe, four in the Americas, six 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.

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Contents

Interim results

Driver Group PLC has released results for the six months to 31 March 2021. The first half of 2020/21 was impacted by COVID-19 and related lockdowns across several territories in which the group operates. By contrast, only the final weeks of the comparable period in 2019/20 saw any disruption due to the pandemic. Under such circumstances, we think that the H1 outcome is very creditable.

Interim results

Six months to 31 March, £m	2021	2020	Change, y-o-y
Revenue	25.0	28.0	-11.0%
Cost of sales	-18.5	-20.7	-10.8%
Gross profit	**6.5**	**7.3**	**-11.5%**
Gross margin, %	25.9%	26.0%	
OpEX	-5.5	-5.9	-7.9%
Other operating income	0.1	0.1	-8.2%
Op Profit	1.0	1.4	-26.4%
Operating margin, %	4.2%	5.1%	
Net interest	0.0	-0.1	-34.0%
Adj. PBT	**1.0**	**1.4**	**-26.1%**
Exceptional items	-0.2	-0.1	
Reported PBT	0.8	1.3	-36.5%
Taxation	-0.3	-0.3	-3.3%
Tax rate	28.7%	22.0%	
Adj. PAT	0.7	1.1	-32.5%
Adj. EPS (p)	**1.3**	**1.9**	**-31.4%**
DPS (p)	**0.8**	**0.0**	
Net cash/(debt)	**7.2**	**3.3**	**118.8%**
Net assets	20.8	20.1	3.3%

Source: Company, ED

In addition to the impact of COVID-19, the loss of senior staff and associated team members to a third-party competitor in Singapore also disrupted trade. Overall, revenues declined 11.0% to £25.0m, which is unchanged from H2 20, that was similarly impacted by the pandemic.

We are hopeful that as the effects of the pandemic on activity levels unwind, the period from H2 20 to the end of FY21 should prove to be the low point in trading for Driver Group. Adjusted operating profit of £1.0m, representing a 4.2% EBIT margin (after central costs), declined 26.4% y-o-y.

Fee earner headcount fell by 28 to 301, with utilisation rates on a Group-wide basis of 72.1% (H1 21: 73.1%). The number of technical experts within Diales rose to 50 (H1 20: 46), with the brand accounting for 16.6% of fee earners by the period end.

Following the resignation of the team in APAC, management has introduced a new long-term incentive plan to retain key employees. There are plans to supplement the number of service lines offered within Diales, initially adding a forensic accounting service. The discipline is complementary to those currently provided by Diales and fits with the strategy to increase the proportion of revenues from higher margin assignments.

Divisions

By region, **EuAM** remains the most dominant, representing £17.2m or 68.8% of revenues and 136.5% of EBIT (pre-central costs). Revenues increased 11.8% y-o-y, to the highest recorded levels in the Group's history The rise in headcount y-o-y, combined with static utilisation rates (at 71.6%) of fee earners was a major factor in the strong performance across the whole of the EuAm region in H1 21. A widening of the geographical spread of the EuAm region saw office openings in New York and Madrid, to aid penetration not only into the existing North American and Spanish markets, respectively, but also into South America.

The **ME** region delivered £5.7m or 22.8% of revenues, moving to a £0.4m EBIT loss (pre-central costs). Headcount declined during the period, in part reflecting the closure of the Project Services activity in a portion of the region. The impact of the lower headcount was in part offset by the increase in utilisation rates to 75.0% (H1 20: 72.3%). The 28.4% annual decline in half-yearly ME revenues represent the lowest contribution since H2 14.

The impact on trade was even worse in the **APAC** region, with the reported revenues of £2.1m falling 55.7% y-o-y, to the lowest level since 2015. This sharp fall reflected not only the reduction in headcount (including that from the loss of the team in Singapore) but also the decline in utilisation rates to 67.6% (H1 20: 77.1%), the lowest level since FY14. The loss in the region amounted to £0.3m, pre-central costs, and a loss margin of 13.3%. A new long-term contract was secured during the period with a major contractor in Seoul, boosting the Group's presence in South Korea.

A new, combined regional head of ME and APAC was appointed at the beginning of September, from a competitor. With lockdowns continuing across several of the jurisdictions in which the new head has responsibility, we anticipate that he will continue to fight fires for the remainder of the current year, whilst at the same time implementing plans to generate revenue and profit growth from FY22F onwards.

A start was made in the implementation of the five-year plan (more on this later), although this has yet to feed into margins. A start was made on three of the aims, to increase the proportion of revenues from added-value expert assignments, the focused recruitment of key talent (expert and technical) and the removal of cost from the property portfolio. Some of the reduction in the top-line n the ME and APAC regions reflected a purposeful reduction in the lower margin Project Services revenues.

Financials

Cost of sales fell 10.8% to £18.5m, resulting in an unchanged gross margin of 25.9%. Gross profit declined 11.5% y-o-y to £6.5m, after stripping out the movement in impairment of £0.06m. Admin costs also declined (-7.9%) to £5.5m (H1 20: £5.9m), which represents the lowest H1 level since H1 15. Overall costs fell 10.2% y-o-y to £24.0m, which is the lowest H1 level since H1 15. The reduction in the cost base highlights management's actions to right-size the business in the face of pandemic related reduction in revenues.

Adj. PBT of £1.0m (H1 20: £1.4m) was after a near halving of net interest y-o-y. The tax charge rose to 34%, from 24% last year because of the losses in the lower rate jurisdictions. Adj. EPS, excluding share-based payments and the impairment movement, fell to 1.33p, from 1.95p a year earlier. Confidence in the outlook has resulted in the announcement of a 0.75p dividend (H1 20: 0.0p).

Driver Group continues to report a strong net cash position. The period end cash balance amounted to £7.2m, which suggests growth in cash flow of £3.9m y-o-y and, £1.0m utilised since the FY20 year end (the seasonal peak in terms of cash generation). Capex of £0.2m, rose 88.2% to £0.2m, reflecting expenditure on software. Net working capital registered an outflow of £1.4m during the half due to the timing of trade payables.

Last year's final dividend of 0.75p was paid prior to the H1 21 period end, resulting in a cash outflow of £0.4m (H1 20: £0.7m).

Current trading

Activity levels in May and June were broadly unchanged on levels experienced during H1. The visibility on the forward order book is typically limited, although the pipeline YTD has continued to build. The issue continues to be ongoing lockdowns in markets important to the Group, which in turn has prevented the growth in opportunities from converting into revenues. Guidance suggests no improvement is likely during the remainder of the current year.

History

Driver Group was established in 1978, a trading division of a quantity surveying partnership. The business was separated from its parent in 1988 and incorporated into BWS International in 1998. A reorganisation of the business in 2001 led to the creation of the Driver Group, followed in 2005 by a public listing of the Group's shares. The launch of the Group's first office outside of the UK was in 2006, in the UAE.

In 2008, the Group opened an office in Oman, with the acquisition of CMC shortly afterwards. CMC added project control solutions to customers, which was rebranded as Driver Project Services in 2010. In the same year, the Group launched Driver Group Africa (pty) Ltd and opened a further office in the Middle East (Oman) to further accommodate the strong growth in the region.

Trett Consulting was acquired in 2012, widening the range of services on offer, including commercial, contract, dispute resolution, and planning and programming across Europe, Asia Pacific, and the Americas. 2012 was also the year that Diales, the Group's expert witness support service was launched, utilising a highly experienced and growing talent pool.

2013 and 2014 proved to be memorable years for the Group, with new offices opening in Australia, Germany, and Hong Kong, with Diales launched in the Asia Pacific region. Driver Trett entered the Canadian market via a joint venture with MHPM in 2014 and again in the Middle East, before opening a third office in Sydney, and the acquisition of Initiate Consulting Ltd in the UK by the end of the year.

Four new offices were opened in 2015 – Cape Town, Durban, Kuwait, and Paris. 2020 saw Mark Wheeler appointed as Group CEO, a partnership formed with EVRA Consulting in South Africa, and the opening of offices in New York City (to develop the Diales brand in North and South America), and Madrid (with additional Spanish-speaking fee earners to aid the push into South America).

Geographic spread of offices

Source: Company

Business overview

Driver Group offers a wide range of dispute, expert advisory, and project management services to its clients, bridging the gap between the engineering and construction, legal and financial sectors. The services are provided via three distinct brands.

Driver Group: Services provided to clients

Source: Company

Sector experience includes:

- Building
- Energy and mining
- Transport and infrastructure
- Shipbuilding and marine
- Oil and gas
- Renewables
- Process engineering and industrial

The client base includes several large, national, and multinational contractors and enjoys a high level of repeat business. In the year to September 2020, a significant proportion of revenues related to instructions from previous clients or ongoing projects.

Driver Trett's experience within the **building** sector covers new build, refurbishment and fit out projects across the private and public sectors. Key areas include planning, costing, and controlling of the works undertaken.

The Group is a specialist in civil and structural engineering, mechanical, electrical and instrumentation, insulation, HVAC, and coatings, and is able to deliver commercial solutions and support project delivery within the **energy and renewables** sectors.

Driver Trett has more than 30 years' experience of working with teams at every stage of the implementation process of the highly complex and essential **transport and infrastructure** projects.

Clients tend to face challenges that are **unique to shipbuilding and marine projects**, requiring contractual, financial and programme skills. Driver Trett employs several such experts, with the required depth of knowledge in the field.

The **oil & gas and mining** sectors remain a significant market, with client's operations often technically challenging and required to work under extreme conditions. Not only has Driver Trett got longstanding relationships with national and international operators but also with contractors in the field.

Intense competition within the **process and industrial** sector, often reflecting raw material pricing, has resulted in pressure of capital and operational budget but also, the drive to reduce emissions. Driver Trett has experience in the field of a technical nature, as well as in offering commercial advice and project support.

Driver Trett

Driver Trett contributes the majority of Group sales and specialises in dispute avoidance and resolution. The brands' commercial management, front-end programming and project monitoring services are aimed at avoiding formal dispute resolution proceedings. Potential risks are identified prior to developing into more complex disputes, enabling clients to take proactive measures to manage any issues which occur.

Driver Trett provides the following services:

- Dispute avoidance and dispute resolution
- Contract management and commercial improvement
- Live planning and programme assistance
- Assistance and forensic delay analysis
- Training and seminars

The key to disputes is to avoid them altogether. Driver Trett helps clients to achieve this. In the case of where disputes do arise, Driver Trett offers support in relation to cost, time or quality issues, delivering effective solutions. Involvement can begin at the preliminary, investigative and preparation stage and run through commercial discussions, negotiations, or formal dispute processes. Members of the team can act as mediators, adjudicators, arbitrators, or litigators.

Having a clear contractual and commercial strategy for managing the contract, works and associated risk is essential for the successful delivery of a project. Tailored risk analysis and management is offered to clients before a contract commences and through to completion. At the pre-contract stage, Driver Trett also offers a full range of pre-tender and measurement services via its quantity surveyors.

Robust planning and programming are essential in the smooth delivery of any construction and engineering project. In this regard, Driver Trett offers support from the inception of a contract to completion (and beyond, i.e., asset management, via maintenance and shutdown regimes), including feasibility and baseline audits, project monitoring and progress reporting, ongoing risk identification and forensic delay analysis.

Driver Trett understands the numerous techniques involved in analysing the causes of delay and identifying the most appropriate approach in each circumstance. Such knowledge results in the delivery of trustworthy reports able to withstand challenges from the client's client.

In addition, the brand has a vast knowledge base gained over many years and is an Official Chartered ICES training provider, with a wide range of tailored training programmes on offer. All assignments undertaken are managed by a director who retains responsibility until the project's conclusion.

The strategic partnership with EVRA Consulting Ltd, Africa's leading claims and dispute resolution consultancy, was set up to support the group's clients in the region. EVRA provides project controls, 5D BIM, claims advisory, alternative dispute resolution, and expert services across multiple sectors throughout Africa.

Diales

Diales accounted for almost a quarter of revenues in FY20 and benefits from the highest margins of the three brands. Diales has provided expert witness and advisory services for almost 40 years and focuses on the higher profile litigation, arbitration and alternative dispute resolution cases than dealt with by Driver Trett. The key services are as follows:

- Expert witness and expert advisory services
- Assistance in litigation, arbitration, adjudication, negotiation, mediation, and other dispute resolution services
- Provision of highly experienced adjudicators, arbitrators, and mediators

Diales operates across all areas of the construction and engineering industries, offering focused support within Delay Analysis. Quantum and Damages, and Technical. Additional areas within the construction and engineering sectors include architectural, mechanical, electrical, and project management. The breadth of coverage by discipline is to be expanded through the imminent launch of a forensic accounting service, complementing the existing areas offered to clients.

The 50 current experts employed by Diales each have a minimum of 15 years' industry experience and have been cross-examined or have completed internal and external cross-examination training. Also, the experts have been trained both in litigation and arbitration. Typically, 50% of the consultants' workload within the brand offering is as an expert.

Driver Project Services

Project Services is the smallest brand with the lowest margins, accounting for 20% of revenues in 2020. The project services operations offer support to clients for the duration of a project across both private and public sectors, with success measured in terms of time, cost, and quality, as measured by customer requirements. The project is delivered through an effective management of all briefing, design, cost, programme, procurement, and construction processes.

The planning specialists are responsible for the preparation, review, discussion, and acceptance of the contract/master programme/tender programme. The programme is monitored and updated, with any unforeseen events analysed and reported on how they may affect progress and/or completion. Should the event stall progress, mitigation and acceleration programmes be set in place to avoid project overruns.

Several parties have an influence on the budget of a project, with regular reviews necessary to reduce the risk of an escalation in costs. The sooner financial risks to the budget are recognised and managed the better, with responsibility for any additional costs assigned.

All stakeholders need to buy into the process, led by the project manager. Changes to scope on design principles, need to be recorded, accepted, and signed off during the process. Regular monthly reports are critical in the communications, ensuring that all parties are aware of time, cost, and quality issues.

Documentation is key, with all personnel requiring access to project documents and will have access to the most up to date revisions. The project manager is responsible for reviewing all contract documentation and assessing additional information required to complete the project.

All potential lead contractors undertake a rigorous pre-selection process to tender for the project, based on technical expertise, resources, senior personnel, local reputation, and financial strength.

The successful administration of a project's contract involves:

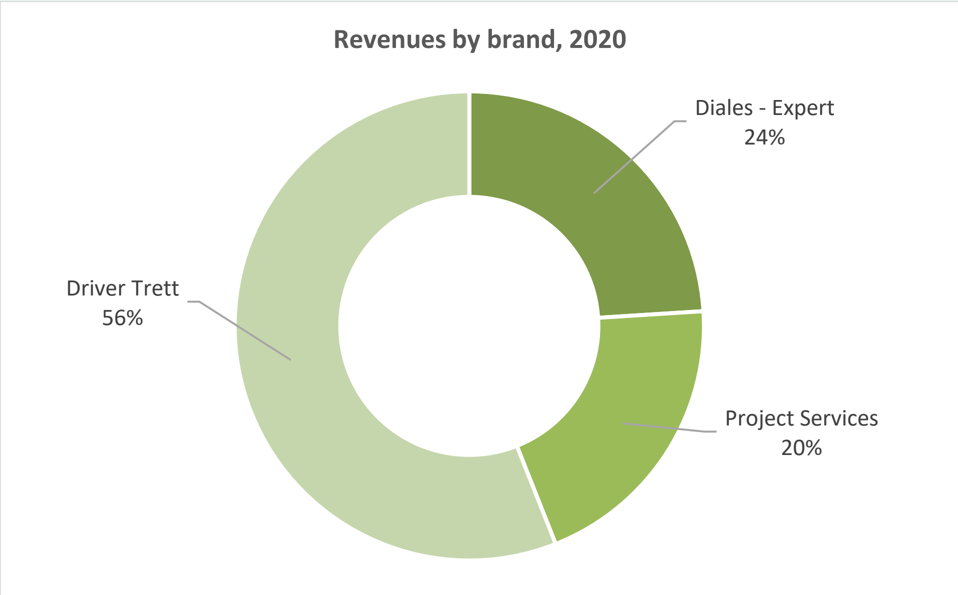
- General contract management
- Management of meeting and reports
- Financial management and certification
- Management of variations through change control procedure
- Programme monitoring and assessment of extensions of time
- Pre-completion assessment and commissioning
- Management systems for handover, defects liability and maintenance periods
- Lessons learned workshops.

Quality management procedures cover everything from the submittal of samples to site inspections and completion certification. A review of the contractor's quality plan is undertaken, with omissions identified and rectified. Monitoring quality is an ongoing process until the completion of the project, with compliance to drawings and specifications essential.

Robust health and safety procedures are implemented throughout the life of the project, with 'zero tolerance' to potential issues.

Group overview

Driver Group: Revenues by brand, 2020



Source: Company

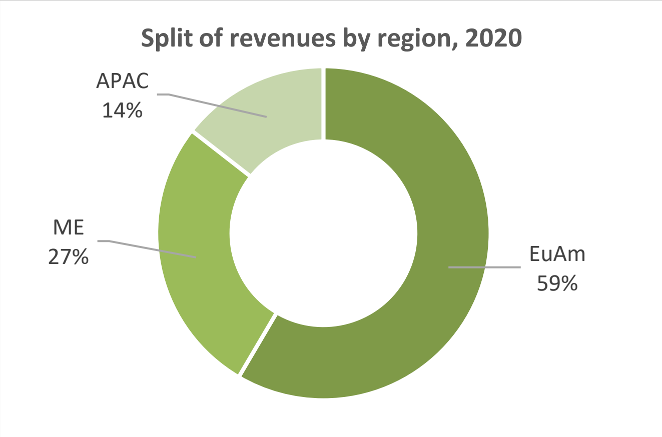
The business started in the UK and currently operates from seven offices, each of which houses a unique blend of skills. Sector coverage includes construction, engineering, infrastructure, transportation, power, and energy. Many of the UK are qualified in both technical and legal disciplines, with access to the Diales experts.

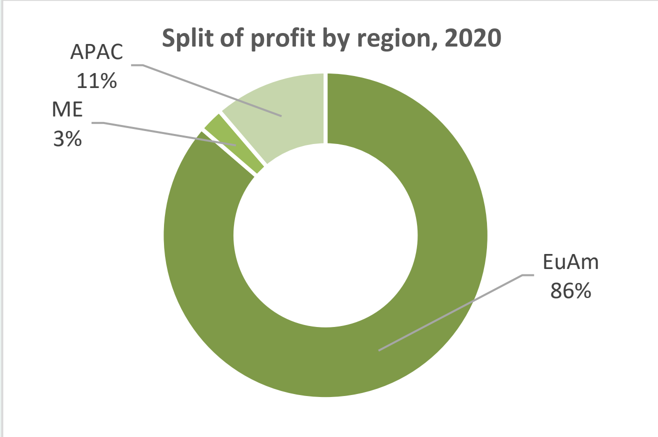
The UK remains the largest single national source of revenues across the Group. Driver Group has had a presence in Continental Europe for more than 30 years, with over 40 fee earners, housed across four offices. In the Americas, the Group operates out of four offices, of which the newest is New York, the remainder in the major business centres in Canada.

Driver Trett has been operational in the Middle East and Africa since 2006. The Group has six offices in the Middle East and a strategic partnership in South Africa, which extends to the remainder of the continent. Driver Trett has worked on some of the largest, most complex, and iconic buildings and infrastructure in the Middle East.

In the APAC region, Driver Trett operates from six offices, of which three are in Australia. The region includes several of the most rapidly growing economies in the world, rich in natural resources and home to several of the largest construction and infrastructure projects. Local teams are supplemented, when required, by visiting specialists from other international offices.

Regional split of revenues and profitability, 2020





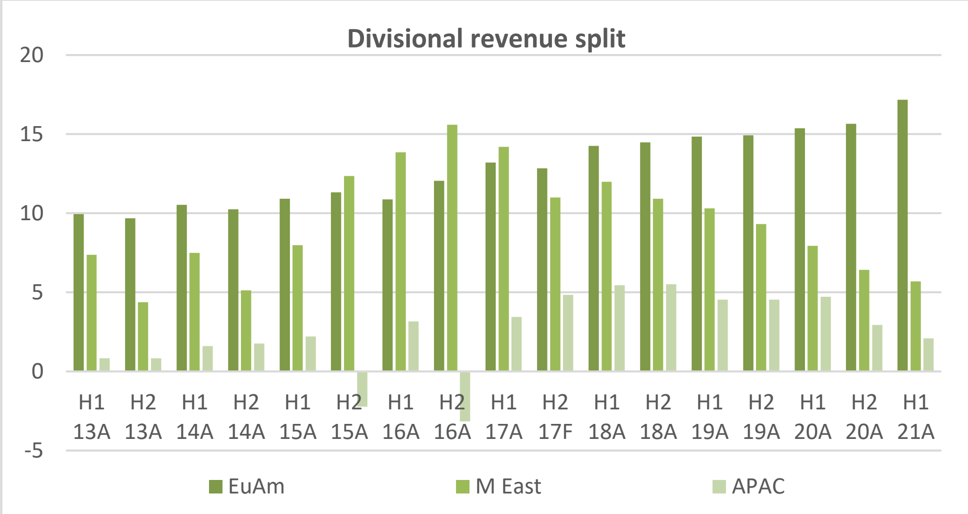
Source: Company

The EuAm (Europe and the Americas) performed strongly during FY20, notwithstanding the impact of the pandemic. FY20 revenues increased 4.2% to £31.0m, with segmental profits rising 2% to £3.99m. The improvement in the top-line was driven by the performance in the UK (revenues +8.5% to £23.23m), with a modest decline reported in Europe (-4.6% to £6.61m) and a more difficult performance in Canada (-26.4% to £1.06m). Profitability, pre-central costs rose 2.0% in FY20 to £4.0m vs FY19.

The ME (Middle East) region stuttered because of a softer market reflecting the uncertainty relating to COVID-19, notwithstanding modest improvement in Kuwait. The region remained break-even during FY20.

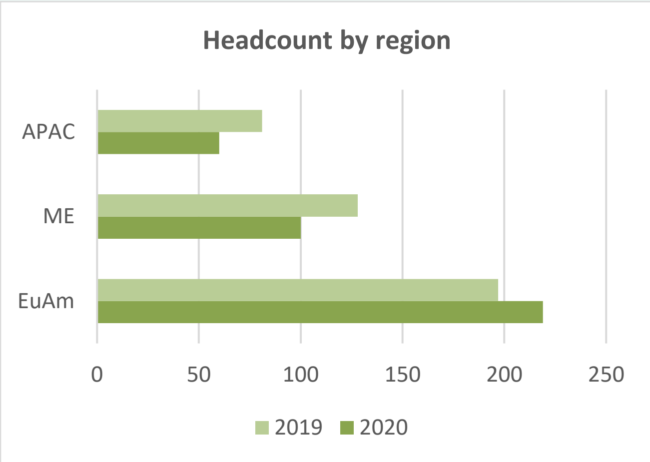
Similarly, APAC was also affected by the pandemic, with revenues falling 15.5% to £7.7m, with segmental profit of £0.5m (FY19: -£0.4m), representing a £0.9m turnaround y-o-y. Revenue would have been broadly unchanged were it not for the closure of a low margin Project Services business in the region. The closure also benefitted regional profitability, as did 2019's restructuring.

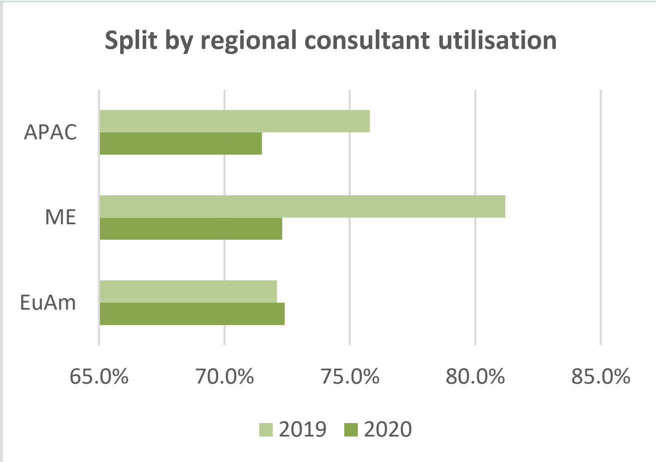
Split of revenues by region, £m



Source: Company

Regional split of headcount and consultant utilisation, 2020





Source: Company

Fee earner headcount stood at 301 at the end of H1 21. This represents an improvement over the September 2020 year end, although utilisation levels modestly improved to 72.1% in H1 21, compared to 72.0% Group-wide in FY20.

The EuAm region remains the one bright spot with the number of consultants rising, although utilisation levels declined 50 basis points to 71.6% in H1 21. One suspects that as the effects of the pandemic decline, following wide-scale vaccinations, that growth in both fee earners and utilisation levels will result as activity levels improve.

Market & competitors

Market factors

Expert witness

The size of the expert witness market globally is not readily quantifiable; however, studies have shown that pre-pandemic approximately 55% of projects finished later than planned and/or over budget. In the last 18 months, this statistic may very well be closer to 100% of projects. As construction is typically around 10% of GDP in developed nations and considerably more in the developing world, we fully anticipate the number of opportunities to increase over the short-to-medium term for both Driver Trett and Diales.

In the US, IBISWorld estimate that the expert witness consulting market stood at US$298.6m in 2020 and is expected to grow by 3.1% to US$307.9m in 2021. Growth in 2021 is likely to slow from a CAGR of 4.3% between 2016 and 2020. The CAGR to 2024 is likely to amount to 2.6% per annum.

Most companies involved within the expert witness market globally are self-employed sole operators. In fact, IBIS suggests in the US alone there are 12,454 expert witness consulting services businesses in 2021, which represents y-o-y growth of 9.4% and equates to a level not dissimilar to the CAGR in the 2016-2020 period. Industry employment is measured at 34,582, averaging 2.78 employees per business and underlining the view that most businesses are self-employed sole operators. In fact, IBISWorld is of the view that no major industry player enjoys more than a 5% market share.

The COVID-19 related pandemic has seen a decline in the demand for such services, reflecting the need to social distance and as a result, the additional time taken for hearings to occur.

The overall market is driven by:

- Demand from law firms, reflecting an increase in the number of lawsuits
- Growth in corporate profitability, as better able to fund consulting services required in civil cases
- Government consumption and investment
- Growth in household income
- Rising crime rate

The above, combined, highlights the increasingly litigious nature in developed and rapidly developing economies.

The key international centres for dispute resolution are New York, London, Paris, Hong Kong and Singapore, where greater freedom of representative lawyers, procedures, language and the tribunal apply. Other centres exist, although the laws of arbitration in those centres tend to follow prominent and separate bodies e.g. The Hague, Washington DC, and Geneva.

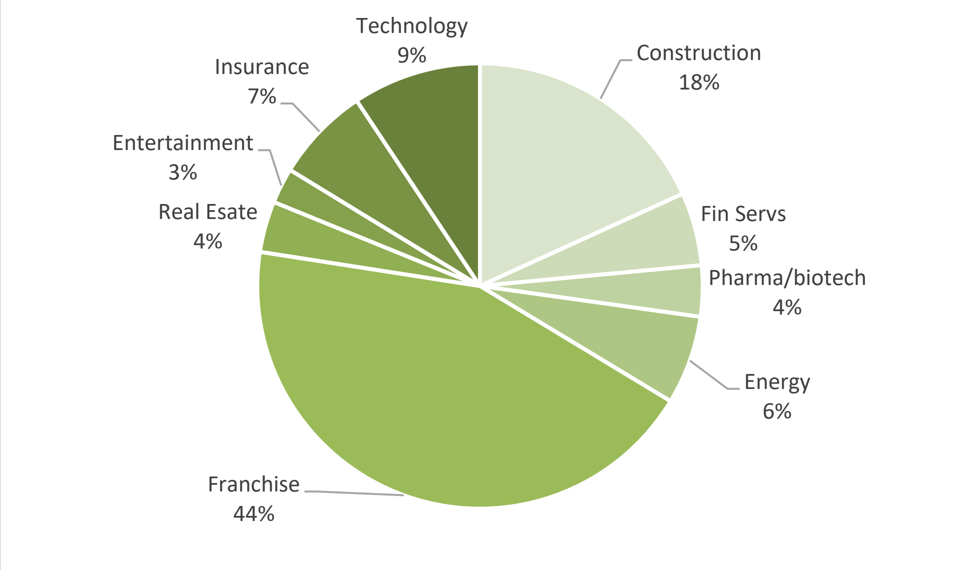
Research from EPEUS suggests that the hiring of an expert witness at the early stage of dispute work, as this typically gives rise to the following benefits:

- The prospects for success in arbitration rise
- Cases tend to be settled earlier, with associated related costs therefore lower and,
- A ‘sense check’ is performed in terms of the factual evidence

Dispute resolution

Apart from franchising (272 cases), the construction industry (113) is the second largest source of dispute resolution cases (source: ICDR.org). In combination, the energy, construction, and engineering sectors typically account for approximately a quarter of all dispute resolution cases.

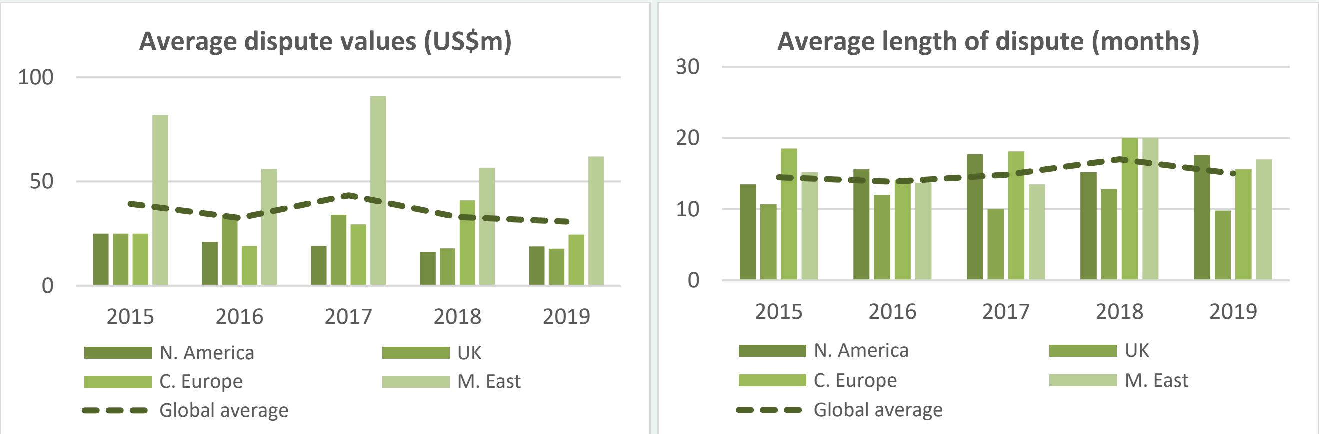
Dispute resolution cases by sector



Source: ICDR.org

The global average value of construction disputes tracked by Arcadis decreased slightly y-o-y in 2019 (the latest figures), to **US$30.8m**, from US$33.0m a year earlier, with the largest one US$1.5bn. However, the overall number of disputes increased. The average length of disputes decreased over the same period to 15 months from 17 months in 2018.

Average dispute values (US$m)



Source: ME Global Construction Disputes Report 2020

The onset of the global COVID-19 pandemic will potentially result in rising disputes, including those relating to project delays, a reflection of social distancing on site where work has continued and, where work has ground to a halt and needs to restart at a later point in the future.

Delays have typically extended schedules by more than 71% (source: RICS, World Built Environment Forum, November 2020), with the cumulative value of sums in dispute at c.US$48.6bn globally, and the average claimed value equating to more than half of the original planned capital costs.

The growth of new dispute resolution mechanisms, such as adjudication and dispute avoidance boards are increasing the global access to justice by enabling parties to resolve disputes in a cost and time efficient manner.

The most common form of disputes are:

- Parties failing to understand or comply with their contractual obligations
- Errors or omissions in the contract document
- Failure to properly administer the contract
- Design-related issues
- Deficiencies in workmanship.

In future years we anticipate that an increasing number of disputes will be generated because of:

- Public private partnerships (PPPs)
- Infratech
- Green design and new construction techniques

PPPs are contracts between a public sector institution and a private company, with the private company assuming financial, technical, and operational risks, and in turn benefits through payments from government budgets and fees from users. A typical PPP lasts between 25 to 30 years, involving new contractual structures, onerous risk transfer and a difficult delivery model. We think this is likely to prove to be fertile ground for disputes.

Infratech is the deployment or integration of digital technologies with physical infrastructure to develop assets which use data and respond intelligently. Examples include the use of connected sensors to optimise and manage traffic flows on smart motorways. The innovation and change involved in Infratech is likely to cause disputes, particularly between joint venture partners, when one is a technology company using new products.

Similarly, the growing use of building information modelling (BIM) to create and manage information related to a construction project will also impact on dispute resolution due to the sheer amount of data involved, and the scale of a related audit trail.

Demand for green design and construction, with a specific emphasis on climate resilience, carbon reduction and alternative forms of energy, is increasing markedly. As the nature of construction projects change, so will the basis of disputes. Engineering disruption claims, which are common, are likely to increase as more novel project designs are approved.

Typically, the disputes are resolved via:

- Litigation
- International arbitration
- Adjudication
- Alternative dispute resolution (ADR)/mediation
- Dispute avoidance boards

Competition

Driver Group operates in fragmented industries, with multiple competitors, many of which are small (particularly within the expert witness field). Publicly listed peers that compete across the range of activities that Driver Group is involved in are difficult to find (FTI Consulting is an exception, listed on the New York Stock Exchange, under the symbol FCN), with mostly private companies such as:

- HKA Global
- FTI Consulting Inc
- Secretariat International Inc
- BlackRock Expert Services
- Ankura

HKA Global has approximately 1,000 professionals in over 40 offices and 21 countries worldwide. The business is a provider of consulting, expert and advisory services for the construction, manufacturing, process, and technology industries. The key focus of the business is risk mitigation and dispute resolution. HKA is headquartered in Warrington, England. The business is owned by Bridgepoint, acquired in 2016. Revenues in 2019 amounted to US$180.7m.

FTI Consulting is a global business advisory firm covering a wide range of services, including change management, risk mitigation, dispute resolution, financial, legal, operational, political & regulatory, reputational, and transactional. The business has approximately 6,400 employees worldwide and has 118 offices across 85 cities across the globe. The market capitalisation of FTI Consulting Inc was US$4.70bn as at 01/06/21. The business is headquartered in Washington DC. The revenues of the company stood at US$2.46bn in 2020.

Secretariat operates across a wide range of industries, focused on construction delay, construction damages, government contracts, economic damages, and forensic investigations. Secretariat operates from 20 offices across N. America, Europe, Asia, and Australia, employing 235 in total. The business has its global headquarters in Atlanta, Georgia. The estimated revenues of the business are US$85m.

BlackRock Expert Services Group is owned by Kroll. The services offered include expert witness, dispute resolution, advisory and investigative services that are beyond dispute. The consultancy is a specialist firm of construction & engineering, technology, and accounting & valuation professionals, across the construction & engineering, consumer goods & services, financial services, health care, materials, oil & gas, technology, telecommunications, transportation, and utilities sectors. The business is based in London employing over 200 professionals, operating from five offices (of which two are international) and reported revenue of £45.5m in 2020.

Ankura is a global firm of experts and advisors with knowledge of cross-disciplinary and cross-industry experience across a broad range of business-related matters. The business operates across much of the sectors within the economy and from 34 offices globally, with headquarters in Washington DC. Ankura has 1,500 employees worldwide. In 2018, the business purchased Navigant’s disputes, forensic, legal technology, and transaction advisory services businesses, providing scale. Estimated revenues amount to US$500m+.

Board of Directors

Steven Norris – Non-Executive Chairman

Steven was appointed to the Board in December 2014. He served as a Member of Parliament between 1983 and 1997 and as Parliamentary Private Secretary in the Departments of Environment, Trade and Industry, and the Home Office before becoming Minister for Transport in 1992. Steven also holds board positions with Soho Estates (Chairman), This Land Ltd (Chairman), Cubic Corporation Inc (NYSE: CUB) and Optare plc (Deputy Chairman). Steven is also the Chairman of the National Infrastructure Planning Association, a Commissioner of the Independent Transport Commission and served on the treasury's HS2 Growth Task Force. Steven is an Honorary Fellow of the Association for Project management, a Companion of the Institution of Civil Engineers, an Eminent Fellow of the Royal Institution of Chartered Surveyors, and an Honorary life member of the Railway Civil Engineers Association.

Mark Wheeler – Group Chief Executive

Mark joined Driver Group's board in May 2017, having been with the business since 2006. Mark has over 30 years' engineering experience within the construction industry, including major civil engineering, building and power projects. He specialises in providing expert services support, particularly in mechanical and electrical building services disputes, quantum & technical reports for support in construction dispute resolution and has cross examination experience. Mark also has experience of working with a wide range of contracts, including JCT, FIDIC, NEC3 and NEC4, specialising in complex engineering projects, such as power station, substation, education and healthcare projects. Mark also has experience of time extension and disruption claims.

David Kilgour – Chief Financial Officer

David joined the Board of Driver Group in December 2017. He is a Chartered Accountant with over 25 years' experience within the engineering, infrastructure, and utilities sectors. David was previously the Managing Director of Amec plc's Global Renewables division until 2015 and a divisional Finance Director within United Utilities between 2000 and 2008. David also has extensive experience in finance and operations internationally.

Peter Collini – Non-Executive Director

Peter joined the Driver Group Board in May 2017, where he is the Senior Independent Director and Audit Committee Chairman. He is a corporate finance professional with 30+ years of experience, leading over 70 transactions with a total value of more than £20bn. Peter founded Riverhill Partners LLP, an independent advisory practice in 2005, focusing on public, private equity, and state-owned businesses. He practised tax with PwC where he gained an ACA and, at Willis Faber where he secured his ACII. Peter joined Deutsche bank, rising to the position of Managing Director within its debt restructuring advisory team. Peter graduated from Oxford University with an MA in Engineering Science.

Elizabeth Filkin, CBE – Non-Executive Director

Prior to joining Driver Group, Elizabeth was a Parliamentary Standards Commissioner, with major roles in both the private and public sectors. In addition to her role at Driver Group, Elizabeth chairs the Employers' Initiative on Domestic Abuse (since 2017), TecSOS and The Independent Advisory Board of Marston Holdings, also serving on several Trusts. Previously, she served as a Non-Executive Director for Annington Homes (Chairperson, for ten years until 2018), Britannia Building Society, HBS, Logica, Jarvis and Hay Management Consultants, and as an Audit Commissioner.

John Mullen – Non-Executive Director

John is the most recent member to join the Board, in June 2020. John is a Chartered Quantity Surveyor and a Civil Engineering Surveyor with over 40 years' experience across buildings, infrastructure, civils, engineering, energy, oil and gas and process projects. John was one of the founders of Driver group, joining its predecessor, BWS International Construction Consultants Partnership in 1983. John is one of the world's leading quantum experts, working across many different jurisdictions, advising on disputes with a value of up to US$2.75bn. He is also the co-author of Evaluating Contract Claims and The Expert Witness in Construction.

Driver's Five-year Strategy

Following the appointment of Mark Wheeler as CEO, the Board undertook a review of the business and with it, the formation of a five-year strategic plan. The crux of the plan is to focus on the expert and dispute resolution services, in the targeting of a double-digit EBIT margin by the end of FY25.

A more sustainable financial performance is targeted, backed by a strong balance sheet. Shareholder value should be enhanced through:

- Growth
- Staff
- Margin

Each focus area of the strategic plan is sub-divided into several parts. **Growth** is achieved via a widening of the geographical and sector spread, through technology and processes to improve the service levels to clients, and a focus on expertise (Diales). Within the H1 results, entry into the complementary forensic accounting expert market was announced.

The recruitment and retention of key **staff**, particularly with a focus on experts (Diales), with rewards linked to risk, and the culture of the Group maintained.

The focus on the higher **margin** expert witness and dispute resolution services, while removing cost from the office network (a requirement to be large enough to service clients and deal with large contracts, without causing issues in between contracts). It is also important that fee earners between projects are generating leads or new work. In combination, the above are the major tenets of the target of double-digit margins by FY25.

Over the last 12 months, notwithstanding the team departure in the APAC region, the expert offering in the Middle East has been strengthened, with offices opened in New York and Madrid, and the setting up of a strategic partnership in South Africa. The NYC office not only results in an improved service to the Group's North American clients but also, improves access to South America (also benefitting from additional Spanish speaking fee earners in Madrid). The strategic partnership with EVRA Consulting Ltd, Africa's leading claims and dispute resolution consultancy, improves the service offered to the Group's customers in Africa.

The strength of the balance sheet enables management to both grow organically, via strategic ventures and by acquisition to achieve its five-year targets and providing a range of flexible options.

Financials

Guidance was withdrawn in March 2020, reflecting the uncertainty related to the COVID-19 pandemic. With several of the Group's markets remaining in lockdown, visibility on the outlook remains limited at best. As such, we are not issuing estimates for the full year or beyond. Although the EuAm region performed well in FY20, notwithstanding the impact of the virus, the ME and APAC regions saw a slowdown in activity levels.

In the absence of guidance from the Company, we have produced a range of estimates for the full year to September 2021. We have combined the interim results, the outlook statement and a traditional H1/H2 split (with 49.9% of revenues arising in H1 over the last eight years), to generate the range. **We think that FY21F revenue and adj. PBT are likely to be in the range of £48m to £52m and, £1.8m and £2.2m, respectively.**

Sensitivities

Group revenues can be materially affected by changes in the following:

- Oil price
- The economic cycle
- Sizeable disputes

As a proportion of revenues, the Middle East & Africa region accounted for 27.1% in FY20, although this has been as high as 50.5% in FY16. Generally, revenues from the region tend to fluctuate with the oil price, albeit with a lag. When oil prices are high, money is rarely an issue and as a result, disputes tend not to result in lengthy cases. When the oil price is low, the cost of a dispute, plus the associated risk tends to result in lower activity levels. However, at all stages in between, disputes generally result in claims.

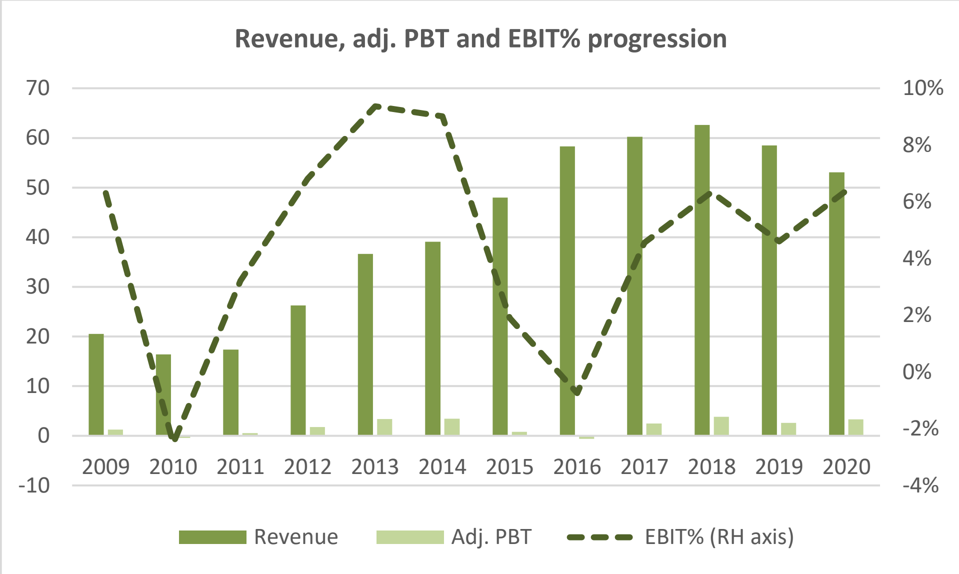
With many construction contracts commencing as confidence returns to businesses post-recession and with the duration of projects generally lengthy, there tends to be a lag in comparison to the economic cycle. Also, Driver Trett and Diales' involvement is either part way through or at the end of contracts, with settlement in some cases taking months and, in some cases, more than a year, with Driver Group thus remaining busy often into a recession.

Large dispute cases tend to be more complex, more expensive, and last much longer than the norm. Indicators of this may often be seen in the level of utilisation of fee earners, resulting in fewer gaps between cases (and in some cases, no gaps). However, such a period when large disputes ran across financial years, the following year saw a decline in utilisation levels, as larger cases tend not to be replaced by similar levels of activity. A prime example of this would be in the year to September 2018, with utilisation rates of 80% and Group revenues of £62.6m, with FY19 recording utilisation of 76.8% and revenues of £58.5m.

As such and as with any project-based company, revenues can in some cases be lumpy, affected by the gaps between old and new contracts. The higher margin areas of the business, Driver Trett and Diales tend to be more unpredictable, for the reasons stated above. As a generalisation, if the number of offices, consultants and utilisation rates rise, so will revenue and profitability over the medium term, if not necessarily in the short-term.

To demonstrate this, we highlight the revenue and adj. profits trend in the chart below. Between 2011 and 2018, revenues grew by a CAGR of 20.1% to £62.6m, with adj. PBT by 32.1% to £3.8m over the same period. EBIT margins rose from 3.2% in 2011 to 6.3% in 2018, peaking at 9.4% in 2013.

Revenue, adj. PBT and EBIT% progression



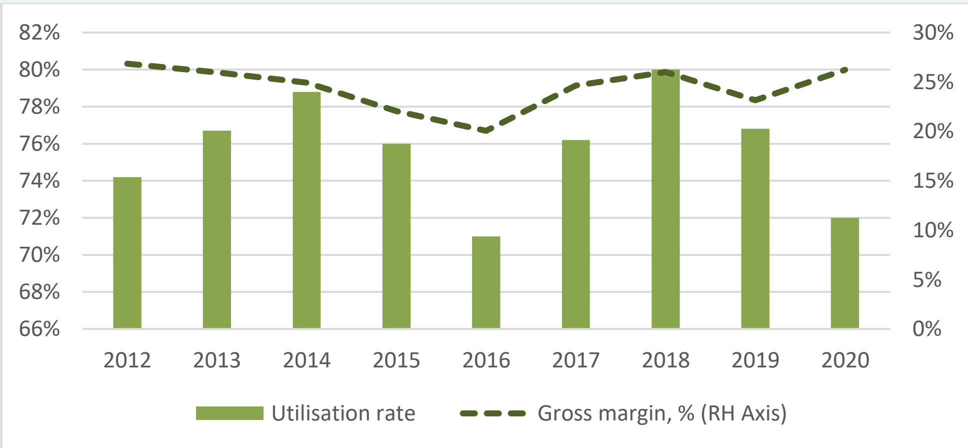
Source: Company

The three brands typically deliver a range of margins, with Project Services the lowest. We highlighted earlier that the focus within the five-year strategic plan is on the higher margin brands. As such, we anticipate that revenues from Project Services would decline, albeit with profitability levels benefitting from a higher blended margin.

Generally, **costs tend to be fixed in the short term**, fluctuating with the number of offices. Areas such as administration, audit, PI insurance, marketing and others have a degree of predictability to them. However, fee earner numbers do fluctuate, with approximately 20% sub-contracted and the remainder FTE's. Typically, the ratio of sub-contracted consultants rises in the lower margin Project Services area.

Gross margins have fluctuated within the 20.1% (FY16) to 26.9% (FY09) range over the last 12 years, reporting 26.2% in FY20 and 25.9% in H1 21. Interestingly, while there is a degree of correlation between the movements in utilisation rates of fee earners and gross margins (lower downtime, results in higher revenue), the period FY12 to FY13 and FY20 demonstrate a low R^2. The decline in the lower margin Project Services business played a part, we believe, in the y-o-y improvement in gross margin, falling to 20% of revenues (21% in FY19), with the highest margin segment gaining 200 bp's to 24% of revenues during FY20.

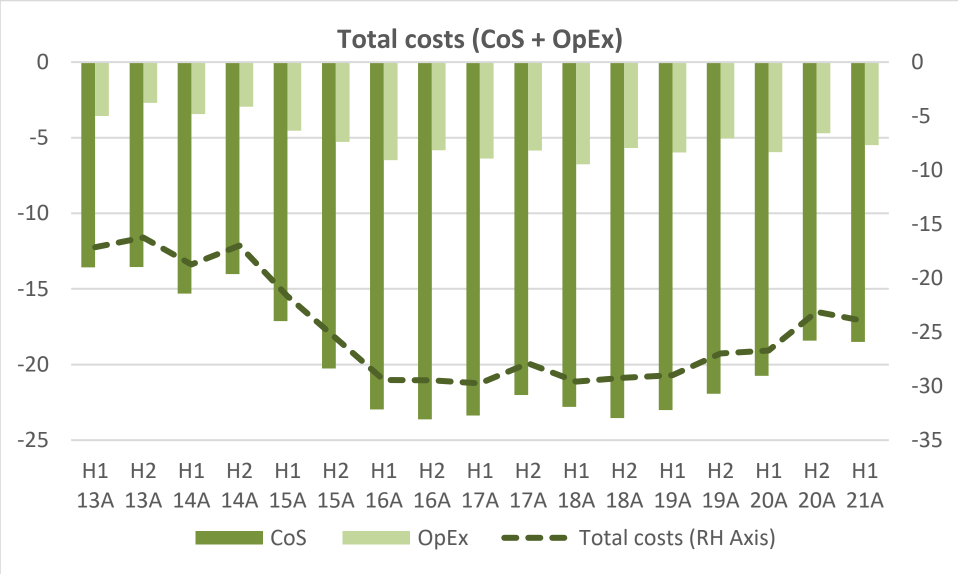
Gross margin % vs utilisation rate %



Source: Company, ED

In terms of operating expenses (OpEx), the range in the last 12 years has been between a low of 16.3% in FY14 and 26.5% in FY10, although the recent five-year average is 20.0%, with highs and lows within 190bps of the average. Group revenues of £25.0m in H2 20 and H1 21 represent the lowest level since H1 15, so it is no surprise that the semi-fixed operating costs were at the top of the range in H1 21, at 21.9%.

Cost progression, £m



Source: Company

While most costs are fixed in the short term, headcount costs have varied with the average number of admin/support staff increasing by just 3.75% between FY19 and FY20. In addition, sub-contractor numbers (fee earners) have declined by 5.9% over the same two-year period, broadly in-line with utilisation rates, although the number of fee earners has declined by 14.2%. The latter has been most noticeable in APAC (-33.8%) and in the Middle East (-34.5%), while in Europe and the Americas, average fee earner numbers rose 21.1% over the 2018 to 2020 period.

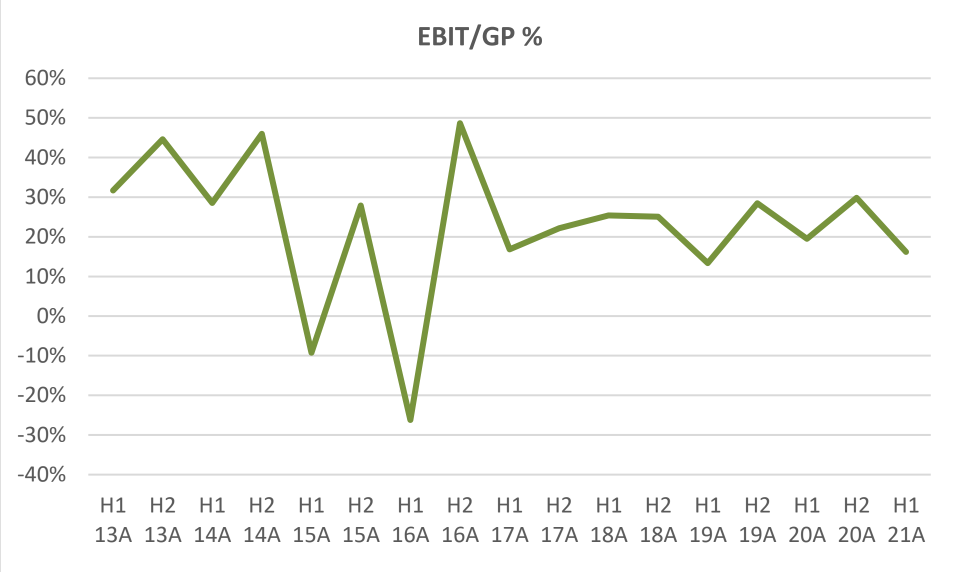
Overall, headcount related costs declined 12.7% in the two-year period to FY20. Some of this reflects a rationalisation of the cost base and in H1 2021, the loss of a team to a competitor, and the closure of Project Services in part of the APAC region. Staff costs represented 72.3% of overall costs (CoGS and OpEx) in FY20 (vs. 70.2% in FY18). No figures were issued on headcount costs in the recent interim results, except to suggest that fee earner numbers rose to 301 by the end of H1 21, which augurs well for FY22F and beyond.

The five-year strategy highlighted the desire to remove cost from the office network. While we are yet to see this, the rate of growth slowed during FY20. In FY18, rent on offices amounted to £1.5m (representing 2.5% of overall costs), rising to £1.7m (3.1%), before rising again to £1.8m in FY20 (3.7%).

Group costs were flat in FY20 versus FY18 as a percentage of revenues and lower than in FY19. We highlight below the proportion of EBIT that flows through from gross profit. The peaks were in the periods FY13 and FY14, plus H2 16, when the proportion of EBIT ran in the range of 30% to 50% converted gross profit.

Typically, in H1 the level of EBIT feeding through declines, with H1 21 at 16.2% versus 29.8% in H2 20. Not only would we anticipate a higher proportion of profitability to be reported in H2 21, should the trend continue but, we also believe there is scope to increase the overall heights back to the pre-2017 levels as the five-year strategy begins to take effect from FY22F onwards.

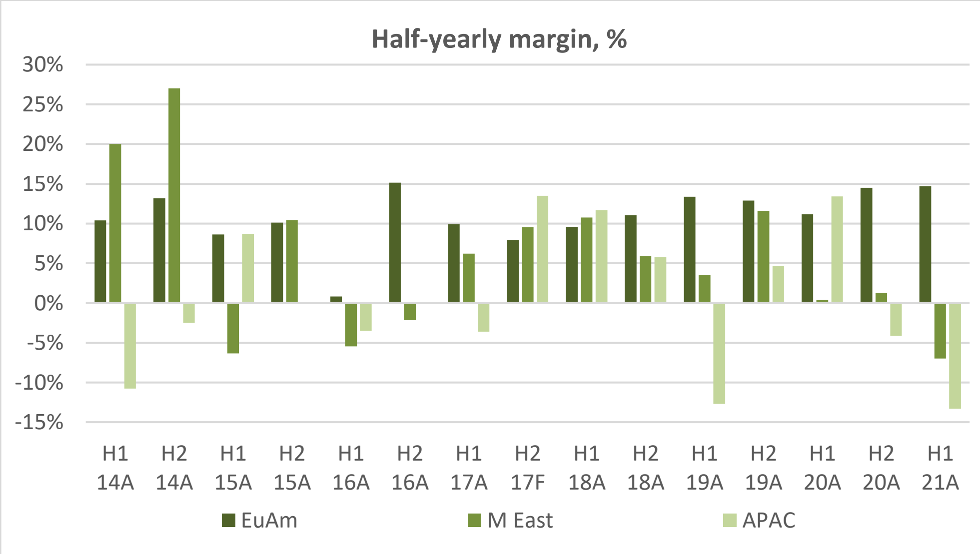
Operational leverage



Source: Company

We highlight margin progression, by region in the following chart. From H2 '18, the EuAm region has consistently delivered returns between 10% and 15%, reaching 14.7% in H1 21 (pre-central costs). The introduction of a new regional Director, focused on a combined ME and APAC, during Q4 '20 and the five-year strategic plan to increase the proportion of the higher-margin expert revenues and, to reduce costs should begin to bear fruit over the short-to-medium term.

6 months margin progression by region



Source: Company

Net interest is minimal, reflecting the high level of net cash, which at the end of FY20 represented 40% of the net asset value of the Group and 34.8% at the end of H1 21.

In view of the number of countries in which Driver Group operates, the tax charge is very much dependent upon which countries perform and generate profits. As such, the tax charge in FY20 increased due to a strong performance in the UK, with reduced profitability from jurisdictions with lower tax rates (Middle East and APAC). The tax charge rose to 23% during FY20 (FY19: 15%). The move to losses in both the ME and APAC regions during H1 21 resulted in the tax charge rising further to 34%.

EPS, adjusted for the compensation for the loss of office of the outgoing CEO (£0.67m) and the movement on the impairment of trade receivables from 2018 (£0.78m), **rose 42% to 5.7p per share**. In H1 21, adj. EPS declined to 1.33p (H1 20: 1.95p), with the comparable period only affected by the disruption from the COVID-19 pandemic in its latter weeks.

The dividend was reinstated at the year end, with 0.75p paid in March 2021 (FY19: 0.75p). This trend continued, highlighting management's confidence in the outlook, with the recommendation of a 0.75p interim dividend in H1 21.

Where could the achievement of the Group's five-year strategy lead?

The Group's five-year strategy targets double-digit operating margins by the end of FY25. This is likely to be achieved through a combination of an increased focus on the margin mix of sales and a close control of costs, particularly in the rightsizing of offices. On this basis, the lower margin (c.10% gross return on sales) Project Services division will shrink as a proportion of revenues.

Were we to assume that a 10% EBIT margin is achieved by the end of FY25F, using a range of revenue CAGR's, we aim to demonstrate that the outlook for profitability looks potentially compelling. With an associated reduction in the importance of Project Services reducing overall growth in the top-line over the next four-and-a-half years, accounting for 20% of FY20 turnover or c.£10.4m. Even if the levels of Project Services revenues remain unchanged by FY25, it is likely to represent a much smaller share of overall turnover by then, with the margin mix of business improving as Driver Trett and Diales are the focus of top-line growth. **To be conservative, we have assumed that revenue from Project Services declines by half in the period to FY25F (to £5.3m)**. We anticipate that net interest grows modestly, which we believe to be conservative as the higher working capital requirement is more than offset by the higher EBITDA and as a result, improved cash generation.

We highlight the results in the table below. With a halving of Project Services revenues assumed throughout, the CAGR in top-line within Driver Trett and Diales ranging from 0% to 15% and, 10% EBIT margins by FY25F (improved margin mix of sales), **adj. PBT rises by a range of 41% (0% revenue CAGR) to 171.8% (15% revenue CAGR) in the five-years to FY25F. We highlight the CAGR in profitability in the table, ranging from 7.1% (0% revenue CAGR) to 22.1% (15% revenue CAGR).** One will recall that we highlighted the FY11 to FY18 period earlier, when the CAGR in revenues was a much higher 20.1%, with the CAGR in adj. PBT higher again. On this basis, we believe the assumptions in the table below to be relatively conservative.

CAGR growth to 2025

£m	2020A	FY25F, 0%	FY25F, 2.5%	FY25F, 5%	FY25F, 7.5%	FY25F, 10%	FY25F, 12.5%	FY25F. 15%
Driver Trett	29.7	29.7	33.6	37.9	42.7	47.9	53.6	59.8
Diales	12.7	12.7	14.4	16.3	18.3	20.5	23.0	25.6
Sub-total	42.5	42.5	48.0	54.2	61.0	68.4	76.5	85.4
Project Services (CAGR = -12.9%)	10.6	5.3	5.3	5.3	5.3	5.3	5.3	5.3
Total revenue	**53.1**	**47.8**	**53.3**	**59.5**	**66.3**	**73.7**	**81.8**	**90.7**
Group CAGR, revenues, %		*-2.1%*	*0.1%*	*2.3%*	*4.5%*	*6.8%*	*9.0%*	*11.3%*
EBIT margin @ 10%		4.78	5.33	5.95	6.63	7.37	8.18	9.07
Net interest @ -£0.15m		-0.15	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15
Adj. PBT	**3.282**	**4.63**	**5.18**	**5.80**	**6.48**	**7.22**	**8.03**	**8.92**
CAGR in adj. PBT		7.1%	9.6%	12.1%	14.6%	17.1%	19.6%	22.1%

Source: Equity Development

Summary Profit & Loss				
Year to Dec 31, £m	**2017A**	**2018A**	**2019A**	**2020A**
Europe & Americas	26.0	28.7	29.8	31.0
Middle East	25.9	22.9	19.6	14.4
APAC	8.3	11.0	9.1	7.7
Revenue	60.23	62.62	58.49	53.07
CoGS	-45.4	-46.3	-45.0	-39.2
Gross profit	14.8	16.3	13.5	13.9
Gross margin (%)	24.6%	26.0%	23.1%	26.2%
Op costs	12.2	12.4	11.0	10.6
Other Op. income	0.1	0.1	0.2	0.1
Operating profit	2.7	4.0	2.7	3.4
Op margin (%)	4.6%	6.3%	4.6%	6.4%
Net Interest	-0.3	-0.1	-0.1	-0.1
Associates	0.0	0.0	0.0	0.0
PBT (Adjusted)	2.5	3.8	2.6	3.3
Exceptionals	-1.3	-1.1	0.6	-1.5
PBT (Reported)	1.2	2.7	3.2	1.7
Tax	0.0	-0.6	-0.5	-0.4
PAT	1.3	2.2	2.7	1.3
Minority interests	0.0	0.0	0.0	0.0
Earnings	1.3	2.2	2.7	1.3
Ordinary Dividends	0.0	0.0	-0.7	0.0
Retained Profit	1.3	2.2	2.1	1.3
EPS (Adjusted) (p)	5.5	4.1	3.7	5.3
DPS (p)	0.00	0.00	0.75	0.75
Ave no of shares (FD) (m)	45.5	56.5	56.8	54.7

Source: Company historic data

Driver has a strong recent history of generating cash, with net cash at the FY20 period end of £8.2m. Operating cash flow has averaged 118.4% of EBIT during the last four years. In FY20, this was helped by improved cash collection (representing a £2.1m inflow), as debtor days declined from 102.2 days to 100.9. While this remains high, one should bear in mind both the nature of the lengthy contracts and some of the jurisdictions in which Driver Group operates.

The main features of cash outflow included capex, dividends, scheduled repayments of the term loan and lease repayments. Capex is relatively modest, amounting to just £0.3m in three of the last four years, and relating to IT spend during FY20. Dividend payments from previous years amounted to £0.65m, with an unchanged dividend of 0.75p proposed during FY20. The term loan was reduced by £2.12m, with IFRS 16 lease repayments of £1.07m. The £3m revolving credit facility (RCF), which allowed for unforeseen circumstances because of the pandemic, was not required and repaid during October 2020.

Not only was the FY19/20 interim dividend cancelled but other cash saving strategies introduced to improve liquidity during a very uncertain FY20. Examples of cash retention methodologies include:

- Non-essential capex was postponed
- Discretionary operational expenditure was deferred
- The salaries of the Board were deferred by 20%
- Underutilised staff saw pay reductions
- A relaxation of banking covenants agreed with its bank

Net assets at the FY20 year-end increased to £20.4m (FY19: £19.5m), with the biggest changes during the year the £1.8m IFRS 16 right of use asset (netting off against the £1m lease creditor), the reduction in working capital, and improvement in net cash to £8.2m. Net assets nudged upwards in H1 21 to £20.8m.

Summary Cash Flow

Year to Dec 31, £m	2017A	2018A	2019A	2020A
Operating profit	2.7	4.0	2.7	3.4
Depn. & Amortn.	1.2	0.6	0.4	1.4
Working capital movement	-0.5	1.6	-2.7	2.3
Other	-0.8	0.0	0.0	0.0
Operating cash flow	2.6	6.2	0.4	7.1
Net Interest	-0.3	-0.1	-0.1	-0.1
Taxation	0.0	-0.4	-0.6	-0.5
Net capex	-0.3	1.3	-0.3	-0.3
Operating FCF	2.1	7.0	-0.7	6.1
Net (Acquisitions)/Disposals	0.0	0.2	0.0	0.0
Dividends	0.0	0.0	-0.3	-0.7
Share Issues	8.1	0.0	-1.0	0.0
Minority payment	0.0	0.0	0.0	0.0
Other financial	-0.5	-0.1	0.4	-2.6
Increase Cash/(Debt)	9.7	7.1	-1.5	2.8
Opening Net Cash/(Debt)	-9.9	-0.2	6.9	5.4
Closing Net Cash/(Debt)	-0.2	6.9	5.4	8.2

Source: Company historic data

We think the balance sheet strength will allow Driver Group to supplement organic growth through M&A, a strategy it is familiar with.

Currently we anticipate that the outlook to FY25F is likely to witness above average adj. PBT growth as operating margins reach 10% - but could potentially be more exciting, should acquisitions be closed.

Abbreviated Balance Sheet

Year to Dec 31, £m	2017A	2018A	2019A	2020A
Intangible Assets	3.0	3.0	3.0	3.2
Tangible Assets	1.0	0.8	0.7	0.5
Investments/other	0.1	0.1	0.3	2.1
Net Working Capital	12.5	8.8	10.2	7.4
Capital Employed	16.4	12.6	14.1	13.2
Other	0.0	0.0	0.0	-1.0
Net Cash/(Debt)	-0.2	6.9	5.4	8.2
Provisions Liabilities/Charges	-0.1	0.0	0.0	0.0
Net Assets	16.1	19.5	19.5	20.4

Source: Company historic data

Valuation

The decision of the Board to refrain from providing guidance on financial projections, reflecting the uncertainty due to the pandemic with many countries remaining in lockdown, means that we are basing our view on valuation on a peer group comparison, utilising historic ratios.

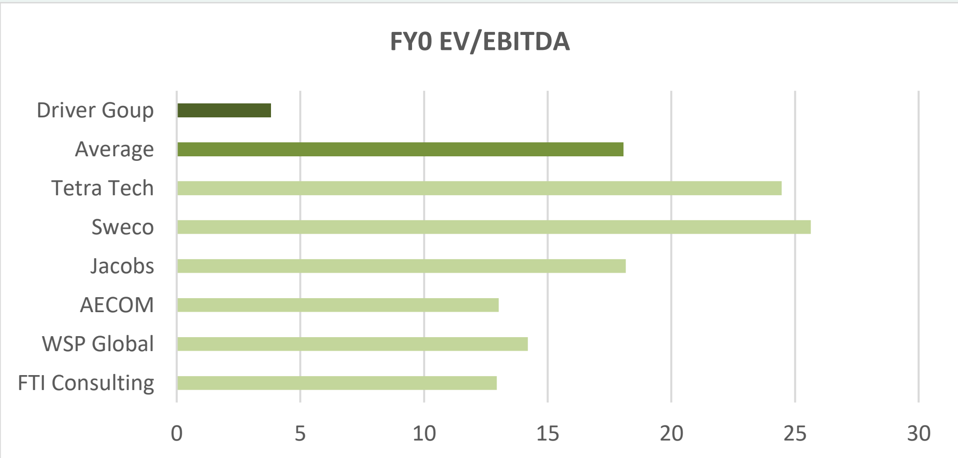
We have used comparative valuations of competitors listed on stock exchanges. In view of the market capitalisation of Driver Group relative to its larger peers, we have utilised a 25% to 50% 'size' discount to the average of its peers.

The comparative peer group valuation suggests that Driver Group is trading on a 73% discount to the average of its peers, which we feel is unjustified. Applying a still material 25% discount, suggests a fair value of 106p / share, more than twice the current share price.

Increasing the discount to a substantial 50% still results in a value of 72p / share. We think that this highlights just how undervalued the current market cap is in industry terms.

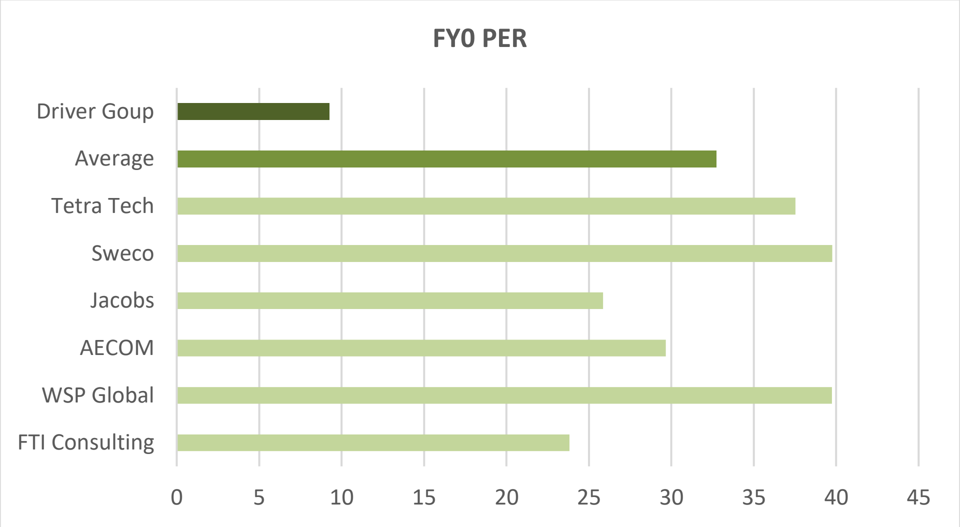
The global consulting sector is consolidating. This is evident when one takes a closer look at the make-up of not just Driver Group but all its larger peers – each one has supplemented organic growth with M&A, whether to add a wider geographical presence or adding disciplines, or both. We think at the current share price that Driver Group is potentially a target, offering a strong presence in Europe in its fields, with global reach, not least into the Middle East, the Americas and APAC.

Peer group comparison: FY0 EV/EBITDA (x)



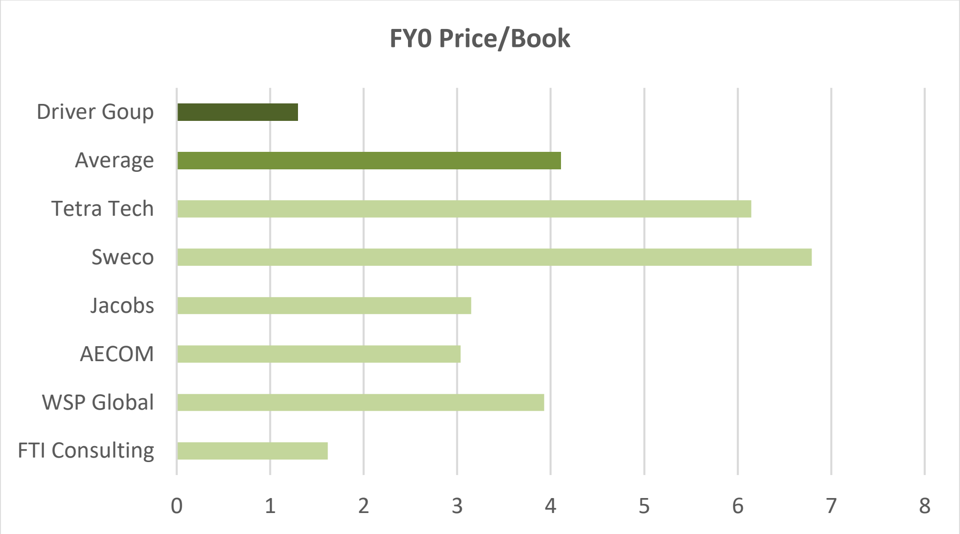
Source: MarketScreener

Peer group comparison: FY0 PER (x)



Source: MarketScreener

Peer group comparison: FY0 Price/Book (x)



Source: MarketScreener

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