

Begbies Traynor Group plc 59.75p

Trading Update & Board Change

8 June 2010

Share Price: 59.75p



12m High: 115p

12m Low: 59.75p

Market Cap: £54m

Shares in Issue: 89.5m

Gearing: 31%

Interest Cover: 17.4x (latest 12 months)

EPIC Code: BEG.L

Sector: Support Services

Market: London AIM

Nominated Adviser & Broker:
Shore Capital and Corporate

PR: Hogarth

Website: www.begbies-traynorgroup.com

Description: An independent corporate insolvency practitioner with national coverage in Great Britain. Also offers corporate finance, tax consultancy and forensic and investigative services.

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There were few surprises in the full year trading update released by Begbies Traynor this morning. The main one, perhaps, was the impending departure of John Gittins, the Chief Financial Officer, who leaves on 20 August, after the preliminary results' release, to become the finance director of NCC Group plc.

So far as trading is concerned, we are pleased to note that strong second half cash flow has resulted in year-end net debt of £20.6m, some £0.5m below our previous forecast. This should reduce net gearing below 31%, against 31.5% at the interims. After adding back other borrowings, year-end net bank debt was £16.2m, giving headroom of £18.8m (53%) within the recently renewed facility.

The statement that insolvency activity was relatively flat between H1 and H2 comes as no surprise. Not only was it flagged in the interim results, but it also reflects the impact of an 8% fall in corporate insolvencies in the six months to 31 March 2010 compared to the previous six-month period. Begbies, too, is taking a cautious view of the short term outlook for the sector

The trading update also states that – while, as expected, the Taxation division returned to profitability in H2 – the two divisions outside the core Insolvency activity, again as expected, delivered a small loss. Finally, the statement discloses that the full year result will include exceptional costs of c£0.8m, related to the bank refinancing (the write-off of unamortized arrangement fees) and further restructuring.

To reflect the tenor of the statement, we have trimmed our FY 2010 forecast by just over 3.5%, expecting adjusted PBT of £10.45m and EPS of 7.83p. Working this through to FY 2011, and also adjusting our net interest charge to take account of rising rate expectations – 3-month Sterling LIBOR has risen by 35% since it bottomed last October, and some commentators see Bank Base Rate at 3.5% within 12-months – we have reduced our forecast by 10%, expecting adjusted PBT of £11.6m and EPS of 8.68p. In terms of adjusted PBT, our revised forecasts still represent growth of 6% and 11%, respectively.

The share price has been hit hard by recent economic uncertainty, and by this announcement. Given that FY 2010 results are expected to be in line with consensus, and that R3 expects corporate insolvency levels to remain high into 2012, we find the recent fall, to the 12-month low, hard to justify.

Y/E	Group Sales	Declared Profit	Adjusted Profit	Adjusted EPS	P/E ratio	Dividend	Yield
April	£m	£m	£m	p	x	p	%
2008A	48.1	5.7	7.0	6.0	9.9	2.5	4.2
2009A	62.1	7.2	9.8	7.8	7.7	2.8	4.7
2010E	69.7	8.2	10.5	7.8	7.6	3.1	5.2
2011E	75.0	10.6	11.6	8.7	6.9	3.4	5.7

Consolidated Financial Statements – Year End April

£'000	2007A	2008A	2009A	2010E	2011E
Profit & Loss					
Revenue	41,910	48,108	62,143	69,700	75,000
<i>sales change</i>	+26.1%	+14.8%	+29.2%	+12.2%	+7.6%
Gross profit	23,583	23,838	31,478	33,180	35,700
<i>Gross profit margin</i>	56.3%	49.6%	50.7%	47.6%	47.6%
Operating profit	10,472	8,122	11,032	11,040	12,650
<i>operating margin</i>	25.0%	16.9%	17.8%	16.0%	16.9%
Net interest payable	(792)	(1,085)	(1,184)	(590)	(1,050)
<i>interest cover</i>	13.2x	7.5x	9.3x	18.7x	12.0x
Adjusted profit before tax	9,680	7,037	9,848	10,450	11,600
Amortisation of intangibles	(520)	(1,125)	(1,176)	(1,030)	(700)
Exceptionals	(665)	(235)	(1,396)	(1,200)	(250)
Reported profit before tax	8,495	5,677	7,249	8,160	10,590
Underlying taxation	(3,281)	(2,188)	(3,155)	(3,450)	(3,830)
Tax on exceptionals	306	315	538	530	220
<i>effective tax rate %</i>	33.9%	31.1%	32.0%	33.0%	33.0%
Continuing profit after tax	5,520	3,804	4,632	5,240	6,980
Adjusted earnings per share	8.49p	5.98p	7.77p	7.83p	8.68p
Dividend per share	2.5p	2.5p	2.8p	3.1p	3.4p
<i>Dividend cover</i>	3.4x	2.4x	2.8x	2.5x	2.6x
Cash Flow					
Adjusted EBITDA	10,455	9,080	11,420	12,640	14,100
Interest	(700)	(1,085)	(1,184)	(590)	(1,050)
Taxation	(1,981)	(1,835)	(1,008)	(1,460)	(1,960)
Working capital	(2,401)	(3,249)	(11,470)	(5,150)	(2,540)
Net Capital Expenditure	(1,641)	(3,794)	(2,582)	(2,880)	(2,000)
Dividends	(1,505)	(2,026)	(2,199)	(2,590)	(2,870)
Net Cash Flow	2,227	(2,909)	(7,023)	(30)	3,680
Acquisitions & Share Issues	1,115	(8,607)	7,313	(3,100)	(2,820)
Balance Sheet					
Working capital	14,555	20,039	30,424	34,690	37,230
Goodwill & Intangibles	42,432	50,399	53,716	53,250	52,950
Tangible non current assets	4,277	6,843	7,012	7,250	7,150
Net capital employed	61,264	77,281	91,152	95,190	97,330
Net debt	(5,271)	(17,803)	(17,488)	(20,620)	(19,760)
Deferred consideration	(5,168)	(7,718)	(6,423)	(3,020)	(200)
Deferred taxation	(1,000)	(2,311)	(3,519)	(4,600)	(6,120)
Shareholders' funds	49,825	49,449	63,722	66,950	71,250
<i>Net gearing</i>	21.0%	51.6%	37.5%	30.8%	27.7%

Begbies Traynor Group

8 June 2010

Management	Major Shareholders
Executive Chairman: Ric Traynor	Ric Traynor 29.71%
Chief Financial Officer: John Gittins	Other Directors 1.05%
Corp Development Director: Graham McInnes	Caledonia Investments 15.66%
Executive Director: Geoffrey Hill	Goldman Sachs 4.50%
Non-executive Director: John May	Baillie Gifford 4.20%
	Isis Equity Partners 3.47%
	Octopus Asset Management 3.13%
	Royce & Associates LLP 3.02%
Key Dates	Key Milestones
4 June 2009: Trading update	30 January 2008: Acquisition of Shaw Tax BTG Tax established
9 July 2009: Preliminary results	22 February 2008: Acquisition of CoyleClarke
2 October 2009: AGM	13 May 2008: Acquisition of Fanshawe Lofts Acquisition of Cardiff team
10 December 2009: Trading update	12 September 2008: Placing at 165p raises £12.5m net
21 January 2010: Interim Results	
7 June 2010: Year-end Trading Update	

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