

Financials



Source: Thomson Reuters Eikon

Market data

EPIC/TKR	BUR
Price (p)	1203.0
12m High (p)	1245.0
12m Low (p)	536.5
Shares (m)	208.2
Mkt Cap (£m)	2,505
Total Assets (\$m)	1,196
Free Float*	86%
Market	AIM

*As defined by AIM Rule 26

Description

Burford Capital is a leading global finance and professional services firm focusing on law. Its businesses include litigation finance and risk management, asset recovery and a wide range of legal finance and advisory activities.

Company information

CEO	Christopher Bogart
CIO	Jonathan Molot
Chairman	Sir Peter Middleton

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www.burfordcapital.com

Key shareholders

Directors	14%
Invesco Perpetual	22.7%
Woodford Investments	10.0%
Old Mutual	6.0%
Aberdeen Asset	4.9%

Next event

14 Mar 2018	Full year results
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Analyst

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Burford Capital

Fund business shows good progress

This morning Burford issued an announcement giving an update on their fund management business and some changes in management. Burford acquired Gerchen Keller Capital (“GKC”) one year ago. This has been integrated successfully, with positive news in 2017 on fundraising and performance fees earned. The three principals at GKC took on senior roles within Burford. Now, having completed the integration, they are redefining their roles within the company. They will remain involved as Senior Advisors and serve on the Investment Committee, rather than continuing in executive roles.

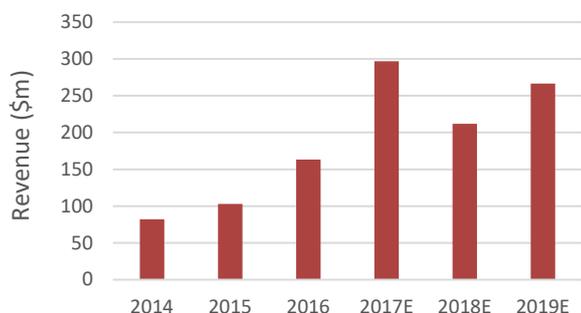
- **Financial update:** In 2017 Burford expects to earn \$13m in management fees from the funds, with another \$3m from performance fees. The latter is ahead of their expectations at the time of acquisition. One of the investments that Burford took onto its balance sheet has also been resolved with a \$2.9m gain.
- **Management changes:** The most significant announcement is the formal appointment of Elizabeth O’Connell as CFO. Some of the other promotions appear to be replacing the executive roles that the GKC former principals would have been fulfilling.
- **Valuation:** We have made only small adjustments to our estimates, but with the shares having largely traded in a range in 2017H2, valuation has not changed much. The prospective P/E for 2019 of 20.4x is not excessive for a growth company, with a 16.5% RoE giving strong metrics all round.
- **Risks:** The investment portfolio is still diversified, with exposure to over 500 claims, but retains some very large investments, which means revenue may be volatile. As the company matures we would expect that to decrease, but not to disappear. The Teinver case shows that this volatility is not simply a negative.
- **Investment summary:** Burford has already demonstrated an impressive ability to deliver good returns in a growing market while investing its capital base. As the invested capital continues to grow, the litigation investment business will continue to produce strong earnings growth.

Financial summary and valuation

Year end Dec (\$m)	2014	2015	2016	2017E	2018E	2019E
Revenue	82.0	103.0	163.4	297.0	212.0	266.5
Operating Profit	60.7	77.2	124.4	230.3	140.6	184.8
Reported net income	45.4	64.5	108.3	200.6	110.0	153.0
Underlying net income	53.0	64.5	114.2	216.2	121.7	164.7
Underlying Return on Equity	12.1%	16.0%	22.2%	30.0%	13.8%	16.5%
Underlying EPS (\$)	0.26	0.32	0.55	1.04	0.58	0.79
Statutory EPS (\$)	0.22	0.32	0.53	0.96	0.53	0.73
Dividend per share (\$)	0.07	0.08	0.09	0.11	0.12	0.14
Yield	0.4%	0.5%	0.6%	0.7%	0.7%	0.9%
NAV per share (\$)	1.87	2.12	2.22	2.92	3.45	4.18
P/E (x) (underlying)	62.3	51.1	29.4	15.5	27.6	20.4
Price/NAV (x)	8.6	7.6	7.3	5.5	4.7	3.9

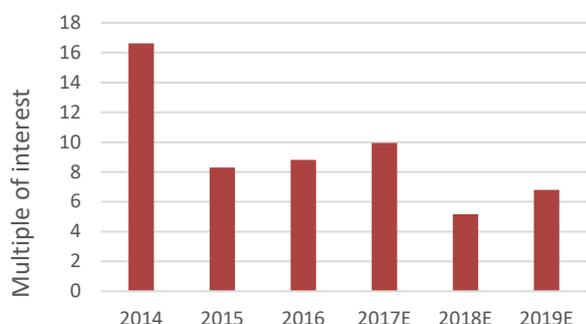
Source: Hardman & Co Research

Revenue



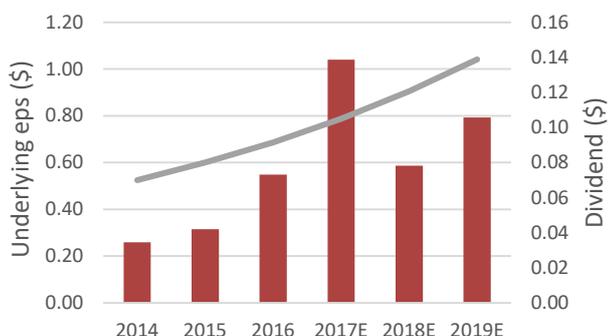
- ▶ Long term growth depends on pace of investment and conclusions
- ▶ Accelerated investment in 2016 will boost 2017 and 2018 revenue
- ▶ 2017 figures boosted by sales from Petersen case and result of Teinver claim
- ▶ GKC acquisition adds revenue from 2017 onwards

Interest Cover



- ▶ No debt prior to 2014
- ▶ Retail bond issues in 2014, 2016 and 2017
- ▶ \$43.75m loan note issued for GKC acquisition now redeemed
- ▶ 2014 issue was mid-year so only partial accrual of coupon

Eps and dividend



- ▶ 2017 results boosted by sales from Petersen case
- ▶ Full effect of large single \$100m investment coming through properly in late 2016 and into 2017
- ▶ Some large single claims may introduce volatility in the future

Source: Company data; Hardman & Co Research

Burford Fund Management

Background

Almost exactly one year ago, Burford acquired Gerchen Keller Capital. This was a fund management operation based in Chicago which ran funds which invested in litigation finance and related areas. At the time of acquisition it had \$1.3bn of assets in four funds and some 'sidecars'. It also had 20 staff.

The three principals of GKC (Adam Gerchen, Ashley Keller and Travis Lenkner) took payment in a mixture of loan notes, which have since been repaid, and equity. The amount of the latter is dependent on fees earned and is locked in until December 2019. Fuller details are available in the Hardman & Co [note of 19 December 2016](#).

Update

Since the acquisition, Burford has integrated the business and made significant progress in growing it. Importantly, given litigation finance investments are split between Burford's balance sheet and a fund, there is now a single investment platform, all operating under the Burford brand.

There has also been progress with fundraising. Earlier this year, Burford raised \$500m for a new fund and started to earn performance fees from the existing funds sooner than was expected at the time of acquisition.

In the statement, Burford have given an update on financial progress. Estimated management fees in 2017 will be \$13m, with another \$3m from performance fees. This compares to \$15.4m in revenue in 2016. Revenues from the new fund are paid on amounts drawn down for investments. Although it has committed \$311m into six investments, these appear to be too late in the year to contribute significantly.

Burford took two investments onto its balance sheet at the time of the acquisition at a cost of \$4.3m. One of these has resolved for a \$2.9m gain.

In the three Partners Funds, which were taken on at the time of acquisition, 24 investments have been resolved. The return on invested capital of these is 64%, broadly in line with Burford's prior figures. The duration is a bit shorter at 1.6 years, though this may partially be a function of GKC being a younger business and longer cases haven't resolved yet. The gross IRR of 52% is accordingly higher than Burford's to date.

Although Burford make no forward looking statements, Hardman & Co would expect the business to continue to make progress. The existing funds should continue to mature and we'd expect a growth in performance fees in particular. The position on management fees will be more complicated. The older funds having a finite life, so the management fees will decline as investments resolve. In 2018 we should see a much bigger contribution from the new fund. We'd also expect further fundraisings at some point, though no firm plans have been announced yet.

Management Changes

The three former GKC principals are now changing their role within Burford. They will become Senior Advisors and continue to serve on the Investment Committee. They will relinquish their other operating responsibilities, though we understand a significant portion of these in 2017 was managing the integration of the two businesses.

It is clear that they have a strong entrepreneurial drive, and it is perhaps no surprise that they will be interested in new opportunities. Their ongoing involvement in Burford does suggest that this is an amicable arrangement. Their shares are restricted until the end of 2019 and there is a non-compete agreement in place until 2020. Prior to GKC, Messrs Gerchen and Keller were involved in risk arbitrage and we understand they see opportunities that are well away from any areas that may be affected by the non-compete.

Between the acquisition of GKC and Burford's ongoing hiring (22 people in 2017), there is now a deep pool of staff which can be drawn on. There are several new appointments announced, most of which are normal in a growing business and will expand Burford's capabilities, with some appearing to be the taking on of executive functions being vacated.

Not amongst the latter is the appointment of a new CFO, Elizabeth O'Connell. She has been with Burford since its inception and has held the CFO role in previous employments. This appointment does seem to close a gap that growing company needs, though in practice she was already fulfilling the role. We are also pleased to see the renewal of the contracts of the CEO, Christopher Bogart, and CIO, Jonathan Molot. There will clearly be continuity at a senior management level.

We note that most of the senior appointments are female. Statistically, companies that are better balanced by gender at a senior level tend to perform better, so this should please investors.

Estimate Changes

The revenue figures for the fund business were a little behind our estimates, largely as we'd overestimated the contribution from the new fund, so there have been small downgrades to our estimates. There has also been an adjustment for the appreciation of sterling against the US Dollar, which has increased interest costs.

Summary

We do not see the management changes as having any meaningful effect on Burford as an investment. Burford will continue to benefit from the expertise of the former GKC principals, while the team as a whole now has the strength in depth to absorb the operational responsibilities.

The fund business itself still looks like a good acquisition and should continue to progress.

Financials and Forecast

We note, as before, that our revenue forecasts largely reflect an expected average based on analysis of Burford's track record. Individual cases are binary in nature and, therefore, impossible to explicitly forecast. Burford has a few large cases, including the Petersen claim, which may have a significant but impossible to forecast impact on the results.

Summary financials						
Year end Dec (\$m)	2014	2015	2016	2017E	2018E	2019E
Revenue	82.0	103.0	163.4	297.0	212.0	266.5
Expenses	21.3	25.8	39.0	51.2	59.8	70.1
Operating Profit	60.7	77.2	124.4	230.3	140.6	184.8
Finance cost	3.7	9.3	14.1	23.7	27.8	27.8
Exceptional items	-9.7	0.0	-5.9	-3.8	0.0	0.0
Reported pre-tax	47.3	67.9	104.1	206.3	112.5	156.7
Reported taxation	-0.7	-2.2	4.8	-5.7	-2.5	-3.7
Minorities	1.2	1.2	0.6	0.0	0.0	0.0
Underlying net income	53.0	64.5	114.2	216.2	121.7	164.7
Statutory net income	45.4	64.5	108.3	200.6	110.0	153.0
Underlying Basic EPS (\$)	0.26	0.32	0.56	1.04	0.58	0.79
Statutory Basic EPS (\$)	0.22	0.32	0.53	0.96	0.53	0.73
Dividend (\$)	0.07	0.08	0.09	0.11	0.12	0.14
Balance sheet						
Total equity	382.7	433.1	462.2	607.5	717.5	870.5
Invested Capital	207.5	252.9	394.3	532.1	689.9	870.6
Fair Value Balance	266.8	334.2	559.7	820.3	1,084.3	1,401.3
Total Assets	533.2	608.7	826.4	1,219.6	1,329.6	1,482.6
NAV Per share (\$)	1.87	2.12	2.22	2.92	3.45	4.18
Return on Equity	12.4%	15.8%	21.0%	30.0%	13.8%	16.5%

Source: Hardman & Co, £1=\$1.34

Notes

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