Begbies Traynor Group

Half year results presentation

Ric Traynor – Executive Chairman

Nick Taylor – Group Finance Director

December 2018

A good first half performance

Revenue

£28.0m

(2017: £26.0m)

Adjusted PBT

£3.2m

(2017: £2.9m)

Adjusted EPS

2.2p

(2017: 2.0p)

Interim dividend

0.8p

(2017: 0.7p)

Reduced net debt further and extended banking facilities to 2023

Initial contributions from prior year acquisitions

Increased activity from organic investments and new insolvency appointments

Well placed to deliver current market expectations

Financial review

Income statement

£m	Six months ended 31 Oct 18	Six months ended 31 Oct 17	Year ended 30 Apr 18
Revenue	28.0	26.0	52.4
Operating profit (before amortisation and transaction costs)	**3.4**	**3.1**	**6.1**
Interest costs	(0.2)	(0.2)	(0.5)
Adjusted profit before tax	**3.2**	**2.9**	**5.6**
Transaction costs	(1.4)	(1.0)	(1.4)
Amortisation	(1.2)	(0.9)	(1.9)
Profit before tax	**0.6**	**1.0**	**2.3**
Tax	(0.5)	(0.6)	(0.9)
Profit for the period	**0.1**	**0.4**	**1.4**
Adjusted basic EPS	2.2p	2.0p	4.0p

Adjusted results exclude the charges which arise due to acquisitions under IFRS 3

Segmental performance

£m	Six months ended 31 Oct 18	Six months ended 31 Oct 17
Business recovery and financial advisory		
Revenue	20.0	19.2
Operating profit	3.6	4.1
Margin	*18.0%*	*21.4%*
Property services		
Revenue	8.0	6.8
Operating profit	2.1	1.3
Margin	*25.9%*	*19.7%*
Shared and central costs	(2.3)	(2.3)
Operating profit	3.4	3.1
Margin	*12.1%*	*12.0%*

Business recovery and advisory

- Revenue increase due to:
  - First time contribution from Springboard acquisition
  - Increase in activity levels with higher level of insolvency appointments; partially offset by
  - Non-recurrence of success fee on contingent case of £0.8m
- Anticipate completion on several contingent cases in H2, giving a second half weighting to revenue and profit
- Cost increase due to acquired business, investments and increased people costs
- Operating margins impacted by phasing of contingent fee income

Property services

- Revenue increase due to:
  - First time contribution from CJM acquisition
  - Increase in activity levels from building consultancy (education sector with seasonal bias to summer)
  - Completion of number of long-running property receiverships
- H2 revenue expected to be lower than H1
- Operating costs increased primarily due to effect of prior period acquisition
- Operating margins benefitted from first half weighting of revenue

New accounting standards

- **IFRS 15 ‘Revenue from Contracts with Customers’**
  - new model for revenue recognition, based upon transfer of control rather than transfer of risk and rewards
  - on majority of group’s engagements no change in point of recognition
  - on two of group’s engagement types will be an immaterial change in revenue recognition
    - £0.1m increase in revenue and operating profit in current period from new policy
    - retrospective application method applied (adjustment to retained earnings rather than restatement of prior periods)
    - reduction to net assets and retained earnings at 1 May 2018 of £1.1m

- **IFRS 9 ‘Financial Instruments’**
  - impacts trade receivables, with move to expected loss method of providing for future impairment
  - no impact on reported revenue and profit in period
  - retrospective application method applied (adjustment to retained earnings rather than restatement of prior periods)
  - reduction to net assets and retained earnings at 1 May 2018 of £0.3m

Balance sheet

£m	31 Oct 18	30 Apr 18	31 Oct 17
Non current assets	60.6	62.3	58.9
Current assets	28.9	30.8	28.8
Liabilities	(20.5)	(18.4)	(17.1)
Provisions	(0.9)	(1.2)	(0.8)
Net borrowings	(6.3)	(7.5)	(6.9)
Current tax	(1.4)	(1.5)	(1.2)
Deferred tax	(5.1)	(5.4)	(5.2)
Net assets	**55.3**	**59.1**	**56.5**

Impact of adoption of IFRS 15 and IFRS 9

- Opening adjustment to net assets of £1.4m at 1 May 2018
- Prior periods not restated

- **Non current assets:** reduction due to acquisition accounting charges
- **Current assets reduced to £28.9m - without adoption of new accounting policies £30.2m (Apr 18: £30.8m)**
  - Receivables and unbilled income £25.0m - without adoption of new accounting polices £26.3m (Apr 18: £27.3m)
  - Other debtors and prepayments £2.8m (Apr 18: £2.2m)
  - Deemed remuneration £1.1m (Apr 18: £1.3m)
- **Liabilities increased to £20.5m – without adoption of new accounting policies £20.3m (Apr 18: £18.4m)**
  - Trade payables £1.2m (Apr 18: £1.4m)
  - Accruals £7.3m (Apr 18: £5.6m), includes final dividend of £1.7m paid in Nov 18
  - Other taxes and social security £2.1m (Apr 18: £2.3m)
  - Deferred income £2.2m - without adoption of new accounting polices £2.0m (Apr 18: £1.8m)
  - Other creditors £5.5m (Apr 18: £5.6m)
  - Deemed remuneration £2.2m (Apr 18: £1.7m)
- **Future deferred consideration payments anticipated**
  - H2 FY19 - £1.5m
  - FY20 - £2.0m
  - FY21-23 - £1.0m

Cash flow

£m	Six months ended 31 Oct 18	Six months ended 31 Oct 17	Year ended 30 Apr 18
Cash from operations	3.2	4.9	9.1
Tax	(0.6)	(0.4)	(1.0)
Interest	(0.2)	(0.2)	(0.6)
Operating	2.4	4.3	7.5
Investing	(0.4)	(0.3)	(2.4)
Financing (excl RCF movements)	(0.8)	(0.6)	(2.3)
Reduction in net borrowings	**1.2**	**3.4**	**2.8**
Net borrowings	**(6.3)**	**(6.9)**	**(7.5)**

- **Operating:**
  - Solid operating cash generation in the period
    - Comparative included working capital benefits
  - Tax payments of £0.6m (2017: £0.4m)
  - Interest payments of £0.2m (2017: £0.2m)
- **Investing**
  - Cap-ex of £0.3m (2017: £0.2m)
  - Deferred consideration £0.1m (2017: £0.1m)
- **Financing**
  - Dividend payments £0.8m (2017: £0.6m)

- *Reduction in drawn level of RCF £1.0m (2017: £2.0m) excluded from table*

Extended banking facilities

- Agreed a two year extension to existing banking facilities
- Commercial terms unchanged
- Provided by HSBC on unsecured basis
  - £25m committed revolving credit facility; and
  - £5m uncommitted acquisition facility
  - August 2023 maturity
- Significant headroom in committed banking facilities
- Strong position with gearing reduced to 11% (Oct 17: 12%) and interest cover improved to 14x (Oct 17: 12x)

Full year financial guidance

- Adjusted tax rate 22% (FY18: 22%)

- Transaction/amortisation costs:
  - Deemed remuneration £1.3m (Full year: £2.7m)
  - Amortisation £1.1m (Full year: £2.2m)

- Anticipate second half increase in net debt (in line with previous guidance) due to:
  - Arrangement fees for bank facility extension of £0.1m
  - Working capital outflow (including LTIP payment) of £1.5m
  - Provisions outflows of £0.5m
  - Tax payments of £0.8m and interest payments of £0.2m
  - Cap-ex of c£0.4m
  - Deferred consideration payments of £1.5m
  - Final dividend of £1.9m paid November 2018
  - Anticipate net debt to increase from the half year position by c£3m as a result

Full year outlook

- Business recovery and advisory:
  - Expect stronger second half profit performance due to:
    - anticipated completion of number of contingent fee engagements; and
    - higher activity levels
  - Operating costs to reflect incremental bonus and ongoing investment costs
- Property:
  - Revenue to be weighted to first half of year
  - Operating costs broadly in line with H1
- Well placed to deliver upon current market expectations
- Anticipate a further year of growth in revenue and earnings
- Q3 trading update in March 2019

Business review

Our operating businesses

Begbies Traynor

Begbies Traynor is the UK's leading independent business recovery practice handling the largest number of corporate appointments, principally serving the mid-market and smaller companies.

BTG Advisory including Springboard Corporate Finance

BTG Advisory provides transactional support, valuations and advisory services.

Eddisons including Pugh Part of Eddisons

Eddisons is a national firm of chartered surveyors, delivering advisory and transactional services to owners and occupiers of commercial property, investors and financial institutions.

The business includes Pugh & Co, the largest regional firm of commercial property auctioneers (by number of lots).

We provide these services to businesses, professional advisors, other stakeholders, investors and financial institutions.

Insolvency – Corporate and Personal

Corporate – procedures aim to either rescue the business (where feasible) or realise the value of assets and distribute available funds to creditors.

- Administrations
- Liquidations
- Receiverships
- Creditors' voluntary arrangements

Personal – provide advice to debtors and creditors on all aspects of personal insolvency.

- Bankruptcy and individual voluntary arrangements (England and Wales)
- Trust deeds and sequestrations (Scotland)

Financial Advisory

Services include:

- Restructuring and turnaround
- Financial consulting, including debt advisory, due diligence and valuations
- Corporate finance
- Forensic accounting and investigations
- Litigation support

Advisory services

- Commercial property valuations
- Property receiverships
- Property management and accounting
- Building and project consultancy
- Property insurance and risk management

Transactional services

- Property auctioneers
- Machinery and business asset auctioneers
- Commercial property agency

Business recovery and financial advisory

- Insolvency market:
  - Increase in activity levels over last year – 12 months ended Sep 18: 15,789 (Sep 17: 14,923), increase of 6%
  - Follows three years between 2015 and 2017 of c14,700 pa - lowest level since 2004
- Increase in activity levels in the period from:
  - Investment in new work generating resource
  - Increase in number of new insolvency appointments
- Maintained market share and remain leading appointment taker by volume
- Springboard Corporate Finance team (acquired March 2018) working alongside London advisory team and identifying growth opportunities
  - New debt advisory partner appointed in Sep 18
- Headcount increased to 364 (Apr 18: 351, Oct 17: 342):
  - Chargeable team retain capacity to deliver growth

Notable cases

THE TIMES

House of Fraser vote clears way for cuts

Deirdre Hipwell Retail Editor

House of Fraser's contentious plan to close more than half of its stores has been approved by creditors in a move that could lead to 6,000 job losses.

The department stores group said that at least three quarters of its creditors had voted in favour of its proposal to shut 31 of its 59 outlets in Britain and Ireland and to seek rent cuts on a further ten.

As part of House of Fraser's proposed company voluntary arrangement — an insolvency process that allows a retailer to close stores and cut rents at landlords' expense — 2,000 staff will be made redundant, as will 4,000 people who work in clothing and beauty concessions in stores.

The company also plans to move its head office in Baker Street in central London and its office in Glasgow to new locations.

Frank Slevin, chairman, said: "The approval of the CVAs is a seminal moment in House of Fraser's history. We must now continue with the implementation of our restructuring plan."

House of Fraser, which dates back 165 years to its formation in Glasgow, is controlled by Nanjing Cenbest, which is owned in turn by Yuan Yafei, a Chinese billionaire. He bought the group for £155 million four years ago, promising a big expansion in China. However, like many other high street retailers, House of Fraser has found trading difficult as costs have risen and consumers have shifted their spending to online rivals.

The chain also has had to cope with high management turnover and doubts about the support of Nanjing Cenbest, which is in discussions to sell 51 per cent of House of Fraser to C Banner, another Chinese group that owns Hamleys, the toy retailer.

The sale is conditional on the CVA being approved and, if it goes ahead, C Banner will inject up to £70 million into House of Fraser.

Alex Williamson, chief executive of House of Fraser, which has been advised by KPMG, said that the CVA would result in more sustainable costs, and added: "This was clearly a difficult decision to take, but is, ultimately, the only one to secure our future."

Although House of Fraser's CVA has secured support, it may be challenged. Mark Fry, of Begbies Traynor, which has been advising a group of House of Fraser landlords, including Legal & General, claimed that the CVA had been agreed without proper engagement with the landlords. "The landlords have a 28-day window to consider whether to make a legal challenge against the process," he said.

A person close to House of Fraser disputed his view, saying that there had been hundreds of meetings and proper engagement with landlords.

Landlords claim that CVAs are prejudiced against them compared with other creditors. This year New Look, Mothercare, Carpetright and others have carried out CVAs. Melanie Leech, chief executive of the British Property Federation, which lobbies for landlords, said that House of Fraser had "exposed the dark arts of how CVA votes are put together" and their lack of fairness and transparency.

If there is no legal challenge, the 31 House of Fraser shops should close by early next year. Some fear that even with the CVA, any turnaround could be too little, too late because House of Fraser is burdened with hundreds of millions of pounds of debt.

sky news

Blue Inc fights to avoid becoming fashion victim again

The owners of Blue Inc have called in Begbies Traynor to find a buyer for the serially troubled business, Sky News learns.

21:38, UK, Monday 12 November 2018

Blue Inc's roots can be traced back to 1912. Pic: Blue Inc

By Mark Kleinman, City editor

The menswear retailer Blue Inc has been put up for sale as it battles to avoid becoming the latest fashion victim on Britain's increasingly troubled high streets.

Sky News has learnt that the owners of loss-making Blue Inc, which used to be chaired by the former Marks & Spencer boss Lord Rose, have asked Begbies Traynor, the professional services firm, to find a buyer for the business.

Sources said the chain, which has already been through a string of restructuring processes to shed unprofitable stores, was seeking new owners to take control of the business "in the short term".

It was unclear on Monday what Blue Inc's fate would be if it did not secure a swift injection of new capital, although industry insiders cast doubt on its ability to survive for long.

"It has been through so many periods of near-collapse it's a wonder it's still around at all," said one.

BBC NEWS

Camp Bestival founders 'back in control' after administration

19 October 2018

Share

Camp Bestival has been held at the Lulworth Estate since 2008

The founders of Camp Bestival have said they are "back in control" of the music festival after it was forced into administration by creditors last month.

Creditor Richmond Group bought the festival brand and its assets last week after offering £1.1m.

It is understood the stake in the family-friendly festival has since been taken over by Live Nation.

Founder Rob da Bank said Live Nation Gaiety and promoter SJM would help provide "the support structure needed".

Last month, Camp Bestival admitted it was facing "financial challenges" and was looking for a new partner after Bournemouth-based Richmond Group filed notices of intent to appoint administrators to Bestival Group, Bestival Ltd and Camp Bestival.

Administrators Begbies Traynor confirmed it had completed a sale last week to Richmond Group.

A statement from Josie and Rob da Bank on the Camp Bestival website said: "With the help of Live Nation Gaiety and SJM we will really be able to bring more of our creative vision to life with the support structure needed going forward.

"Our aim has been and will always be to create the best ever family festival.

"We look forward to sharing this new chapter with you. More news very shortly."

THE TIMES

Humberts is laid low by prime suspect

A penthouse in Henley-on-Thames is on sale with Humberts

Share Save

An estate agent with a 176-year history that specialises in high-end properties has called in administrators.

Humberts is on the brink of failure because of "turbulent market conditions and pressures on the industry as a whole", Ian Westerling, its managing director, said.

The agency, which was founded in 1842, specialised in country houses before expanding in London. It has been in administration before, when it merged with Chestertons, a rival, in 2009, before demerging in 2013.

This house in Nottingham is also on the market with the company

Property services

- Auctions - property, machinery and business assets (M&BA)
  - Integrated CJM team (acquired Feb 18) with existing Eddisons M&BA team
  - Developing internet auction platform for all asset sales
    - All M&BA auctions are completed on line
    - Initial on-line property auction planned for early 2019
- Consultancy services
  - Building consultancy offering to education sector going well
  - Seasonal bias to summer months when works are completed
  - Managed 44 projects this year compared to 7 in the prior year
  - Further increase in proposals submitted for next financial year
- Valuations
  - Completion of long-running insolvency appointments
  - Continuing to recruit experienced valuation surveyors
- Headcount increased to 194 (Apr 18: 182, Oct 17: 177)
- Continue to seek opportunities to invest in the division, through senior recruitment and acquisitions

Strategy and expertise

Strategy

Our aim

- **To be recognised as a leading professional services consultancy delivering:**
  - business recovery,
  - financial advisory, and
  - property advisory services.

With expertise in

- **Business restructuring and insolvency**
- **Transactional support**
- **Valuations and advisory services**
- **Commercial property consultancy and management**

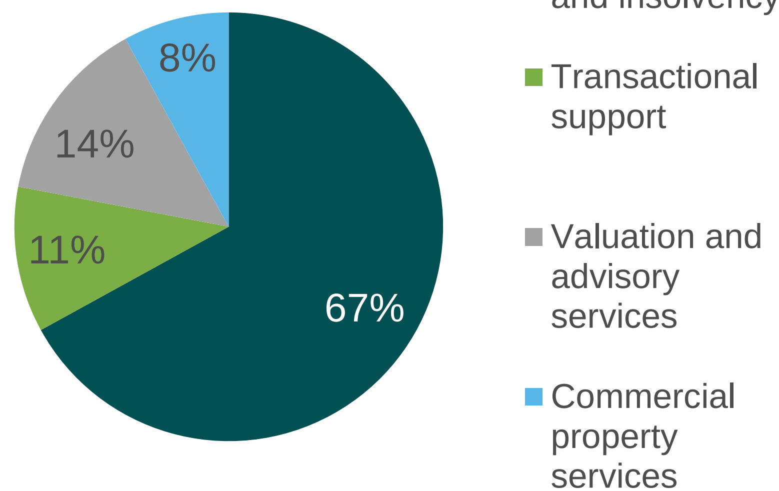
Client base of

- **UK businesses**
- **Financial institutions and the investment community**
- **Professional advisors**
- **Commercial property owners and occupiers**
- **Individuals**

Our expertise

	Business recovery	Property services
Business restructuring and insolvency		
• Corporate recovery	✓	
• Personal insolvency	✓	
• Restructuring	✓	
• Property receiverships		✓
• Machinery and business asset disposal		✓
• Specialist insurance broking		✓
Transactional support		
• Corporate finance	✓	
• Property auctions		✓
• Machinery and business asset disposal		✓
• Commercial property agency		✓
Valuation and advisory services		
• Due diligence	✓	
• Debt advisory	✓	
• Forensic and investigations	✓	
• Commercial property valuations		✓
Commercial property services		
• Property management and accounting		✓
• Building and project consultancy		✓

% of revenue



Business development areas

- **Business recovery**
  - Senior recruitment and selective acquisitions to increase market share
  - Continuing investment in internet marketing and direct work generation
  - Investment in technology to enhance working practices

- **Financial advisory**
  - Grow corporate finance services (including debt advisory) following Springboard acquisition
  - Development of other advisory services (through recruitment) to complement London team

- **Property services**
  - Continuing organic development of valuation and building consultancy teams will continue to rebalance the business from insolvency-led appointments
  - Development of machinery and business asset disposal offering
  - Selective bolt-on acquisitions to enhance expertise or geographical coverage

Summary

Summary

- Good financial performance in the first half year
- More favourable insolvency markets than in recent history
- Well placed to deliver on expectations for the full year
- Continue to develop, diversify and invest across all our service lines
- Strong financial position to make investments and build scale, whilst retaining a strong counter-cyclical focus

Investment case

- Listed on AIM since 2004
- A leading business recovery, financial advisory and property services consultancy with over 600 staff and partners operating across the UK
- As the UK's leading independent business recovery practice, we handle the largest number of corporate appointments, principally serving the mid-market and smaller companies
- Over 65% of the group's activities are derived from counter-cyclical activities
- Our complementary financial advisory and property services activities provide diversified income streams
- We have growth potential across all the group's service lines
- Our board has a progressive dividend policy
- We have developed a strong financial track record

Appendix

Market position

Business recovery and financial advisory

Number of corporate appointments	HY19
Begbies Traynor	597
FRP	250
Leonard Curtis	247
Quantuma	181
TOTAL	7,425
Market share	8%

Source: London, Edinburgh and Belfast Gazettes, Accountant in Bankruptcy, Companies House

Other competitors

- Big 4 accountancy firms – focussed on larger engagements and advisory
- National full service accountancy firms
- Local boutique specialists

Property services

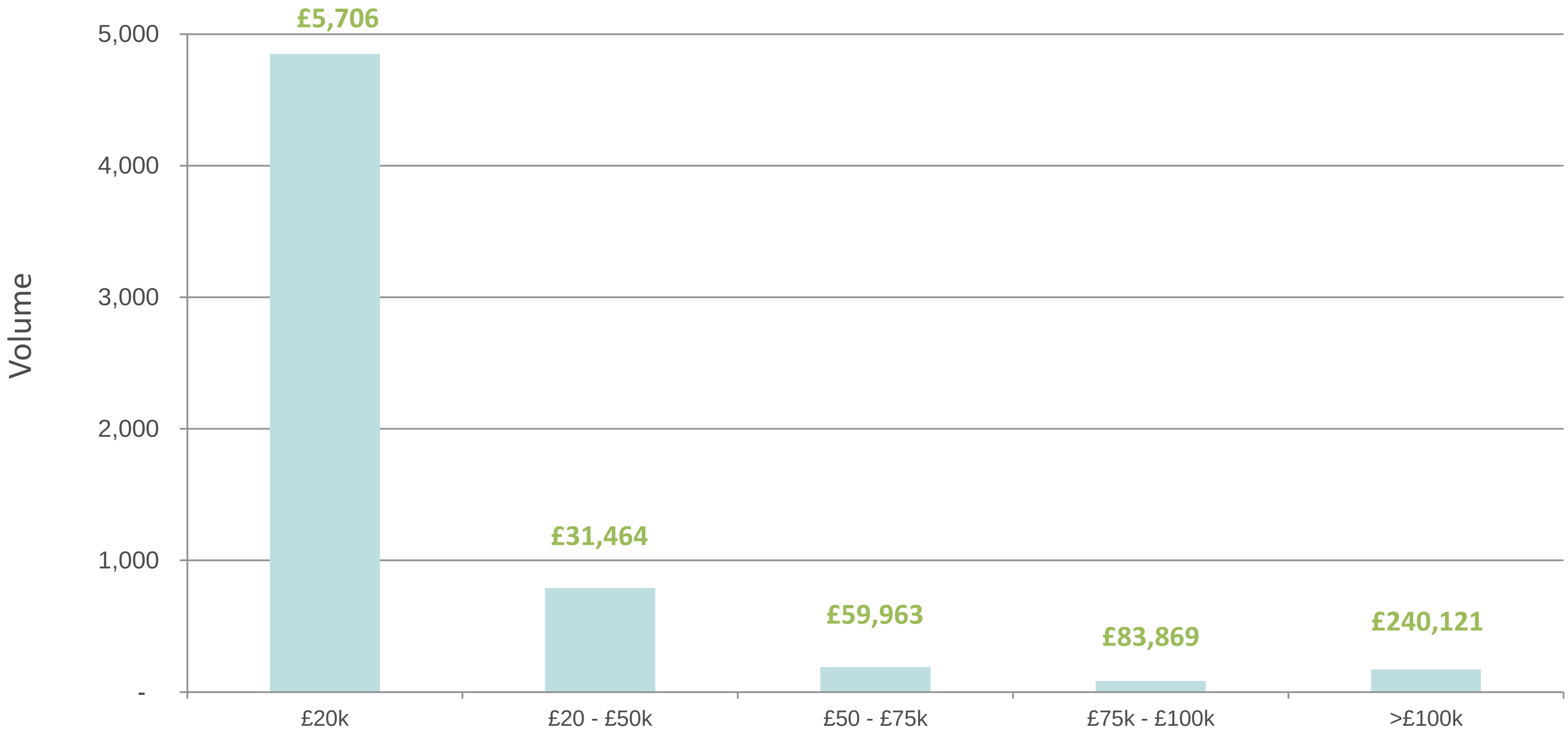
- Market place
  - Eddisons is a top 25 firm by revenue
  - Top 10 firms (including CBRE, JLL, Savills) have revenue of £100m to £990m with a significant national agency presence
  - Significant number of small, local firms serving regional markets
- Eddisons focussed on specialist expertise
  - Auctions
  - Property consultancy
  - Valuations
- Future development focussed on specialist service lines or geographical strength

Ownership structure

The group has 110.5m shares in issue. The ownership profile is:

Name	% holding
Ric Traynor	24.6%
Other management	1.5%
Major institutions:	
• Hof Hoorneman Bankiers	10.8%
• Fidelity	9.5%
• Insinger Gilissen	6.7%
• Close Brothers	4.5%
• Allianz Global Investors	4.0%
• Nordea Asset Management	3.1%

Profile of our insolvency caseload



*   *As at 31 October 2018*