

# Gordon Dadds Group

## Update Note

25<sup>th</sup> July 2019

**Price** 152p

**TDIM**

GOR

**Market Cap**

£56.0m

**Net Debt (FY19a)**

£2.9m

**Free Float**

51.8%

**Average Daily Volume**

121k

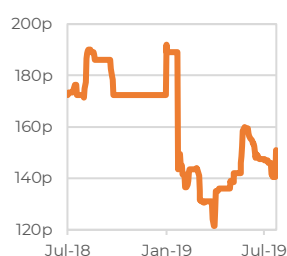
**Broker**

Arden Partners

**Listing**

AIM

**Share Price Performance**



Source: Bloomberg

Gordon Dadds is a highly acquisitive legal and professional services company with a full service offering and an innovative remuneration model to attract and retain talent.

**Oliver Jiggins**

+44 20 7397 2933

OliverJ@capitalaccessgroup.co.uk

**Scott Fulton**

ScottF@capitalaccessgroup.co.uk

### Encouraging Full Year Results

FY 2019 closed with the acquisition of Ince UK and FY 2020 opened with the consolidation of the international offices and the acquisition of Gibraltar-based Ramparts, both of which further validate the exciting potential of the Gordon Dadds business model.

What these results clearly demonstrate is that Gordon Dadds has built itself a solid global footprint, and has the capability and desire to further strengthen their offering in each of their 8 jurisdictions, both through acquisitions and by hiring teams of solicitors in the more traditional manner. This strategy not only provides direct growth, but by ensuring the Group can offer any service required by its clients it offers material cross selling opportunities.

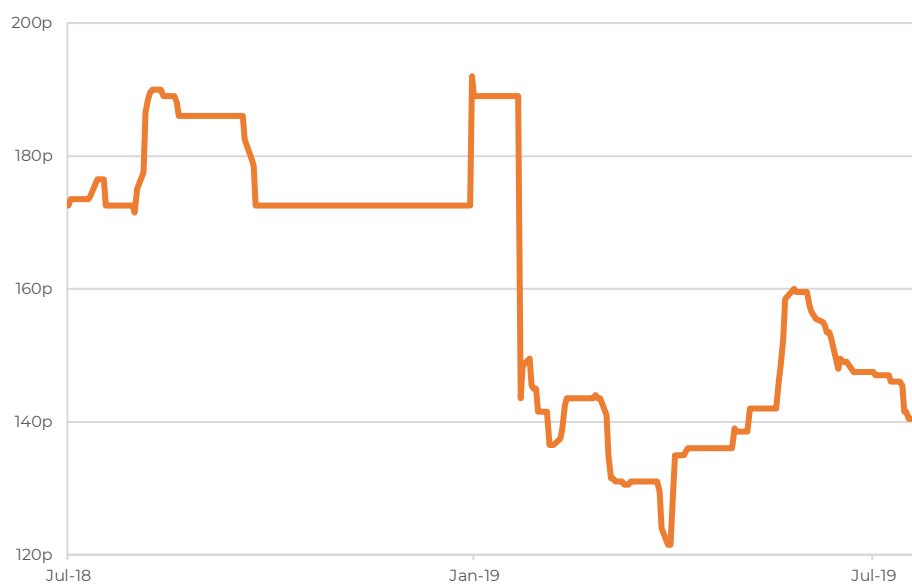
We have not reforecast our 2020/2021 numbers at this stage, but will do so over the coming weeks once we've fully digested the results. We can't accurately forecast for big acquisitions, but it's clear management has the appetite and experience to carry these out, as well as to continually add smaller bolt-on acquisitions.

Year to March	Revenue (£m)	Adj. PBT (£m)	Adj. EPS (GBp)	DPS (GBp)	PER	Yield
FY18a	£31.2	£2.5	10.4p	4.0p	13.5x	2.85%
FY19a	£52.6	£5.9	18.8p	6.0p	7.5x	4.27%

- **Financial highlights** include 69% revenue growth to £52.6m, and 70% Adj. PBT growth to £5.9m, representing only a single quarter of inclusion of Ince & Co. The annualization of this alone will provide a significant boost to revenue (to around £100m) and, ceteris paribus, profit.
- Adjusted diluted EPS was up 79% to 18.8p and the dividend, as widely expected, was raised 50% to 6p, demonstrating 3x coverage. We would expect significant dividend growth next year if this coverage is maintained rather than increased.
- The acquisitions from the last two years, including the transformative Ince & Co business, are now fully integrated and the operational benefits are being felt already.
- **Operationally**, the acquired businesses of Ince have settled in nicely and are contributing to the bottom line as planned. After the year end, agreements were reached with the Ince & Co businesses not acquired during the transaction.
- Following this and the Ramparts acquisition, Ince is truly multi-jurisdictional, with operations and relationships in 8 jurisdictions.
- One exciting development was the acquisition of the Ramparts business, which operates in Gibraltar – an area where Gordon Dadds has previously had to cede lots of work to competitors. Adding gaming capacity and ship arresting capacity here could contribute materially to the top and bottom line.
- The success of Ince is testament to the business model and management's ability to carry it out. We expect further large transactions to surface, but can't predict these with any reliability.
- The next steps are likely to involve further bolstering of the international offices, to ensure each one can provide full service and thus take advantage of the cross-selling opportunities found elsewhere in the group. This implies further M&A, but also the on-boarding of teams such as was recently done in Hong Kong, where Gordon Dadds recently hired in a team of 3 partners and 25 staff to expand their offering there. We believe this approach can be replicated elsewhere.
- Management also commented that they're open to "selective expansion into new territories". With the experience of Ramparts, we judge this to be a strategy with a very good chance of success.

# Data Bank

## Gordon Dadds Share Price



Source: Bloomberg

## Share Price Performances (comparative group)

	Share Price	1M	3M	12M
<b>Gordon Dadds Group</b>	152	2.7%	11.4%	-12.2%
Gateley Holdings	162	0.9%	2.2%	-4.1%
Keystone Law Group	504	-7.0%	3.9%	42.0%
Knights Group Holdings	320	21.7%	15.5%	84.4%
Rosenblatt Group	102.5	-10.1%	17.8%	-2.4%
<b>Peer Average</b>		<b>1.4%</b>	<b>9.9%</b>	<b>30.0%</b>

Source: Bloomberg

**Income Statement Forecasts**

<b>Year to March (£m)</b>	<b>FY18a</b>	<b>FY19a</b>	<b>FY20e</b>
Legal services	30.8	47.7	76.0
Other	0.4	4.9	2.0
<b>Group Revenue</b>	<b>31.2</b>	<b>52.6</b>	<b>78.0</b>
<i>Revenue Growth</i>	25.4%	68.3%	52.9%
Staff Costs	-10.8	-18.3	-32.0
Partners' Profit Share (PPS)	-6.2	-9.3	-15.0
Other OpEx	-9.5	-17.4	-18.0
Non recurring costs	-2.3	-14.3	3.5
<b>Total OpEx</b>	<b>-28.8</b>	<b>-59.2</b>	<b>-61.5</b>
Reported EBITDA	2.4	-6.7	16.5
<b>Adj. EBITDA (ex non recurring)</b>	<b>4.7</b>	<b>7.6</b>	<b>13.0</b>
<i>Reported EBITDA Margin</i>	7.7%	-12.7%	21.2%
<b>Adj. EBITDA Margin</b>	<b>15.1%</b>	<b>14.5%</b>	<b>16.7%</b>
<i>OpEx/Revenue</i>	92.3%	112.7%	78.8%
<i>Staff Costs/Revenue</i>	34.4%	34.8%	41.0%
<i>Gross Margin</i>	54.3%	56.2%	50.0%
Depreciation & Amortisation	-2.1	-1.7	-1.5
Reported EBIT	0.3	-8.3	15.0
<i>Reported EBIT Margin</i>	0.9%	-15.8%	19.2%
<b>Adj. EBIT</b>	<b>2.6</b>	<b>5.9</b>	<b>11.5</b>
<b>Adj. EBIT Margin</b>	<b>8.2%</b>	<b>11.3%</b>	<b>14.7%</b>
Net Finance Income/cost	-0.1	-0.0	-0.5
Associates	-0.0	0.0	0.0
<b>Adj. PBT</b>	<b>2.5</b>	<b>5.9</b>	<b>11.0</b>
Reported PBT	0.2	-8.3	14.5
Tax Charge	-0.0	-0.2	-2.0
Tax Rate	0.0	0.0	18.0%
Minorities	-0.0	-0.0	0.0
<b>Adj. Net Profit</b>	<b>2.4</b>	<b>5.7</b>	<b>8.2</b>
Number of Shares in Issue (m)	23.2	30.4	37.3
<b>Adj. EPS (GBp)</b>	<b>10.4</b>	<b>18.8</b>	<b>22.0</b>
<b>DPS</b>	<b>4.0</b>	<b>6.0</b>	<b>9.0</b>
Adj. Dividend Cover	2.6x	3.1x	2.4x

Source: Gordon Dadds PLC &amp; Capital Access Group

**Cash Flow Forecasts**

<b>Year to March (£m)</b>	<b>FY18a</b>	<b>FY19a</b>	<b>FY20e</b>
PBT	0.2	-8.3	14.5
Net Finance Income/Cost	0.1	0.0	-0.5
Fair Value Adjustment	0.0	0.0	0.0
D&A	2.1	1.7	1.5
Adjustments for Combination	2.3	14.3	0.0
Partners' Remuneration	6.2	9.3	15.0
Receivables	-1.5	-15.6	-5.0
Payables	-1.3	-1.4	0.5
Provisions	-0.3	6.6	-1.0
<b>Operating Cash Flow</b>	<b>7.9</b>	<b>6.4</b>	<b>25.0</b>
Interest & Other Financial Costs	-0.2	-0.1	-0.6
Taxation	-0.0	-0.6	-0.5
<b>Net Operating Cash Flow</b>	<b>7.7</b>	<b>5.8</b>	<b>24.4</b>
Net Acquisitions	-8.9	-18.7	-6.0
Interest Received	0.2	0.2	0.1
Capex	-0.1	-0.8	-0.1
Disposals	0.0	0.0	0.0
Associates	0.0	0.0	0.0
<b>Investing Activities</b>	<b>-8.8</b>	<b>-19.2</b>	<b>-6.0</b>
Movement in Debt	-3.6	7.0	0.0
Members' Capital	19.8	11.5	0.0
Share Issue Costs	-0.9	-0.5	0.0
Payments to Members	-4.7	-1.2	0.0
Dividends	0.0	-7.7	-14.0
<b>Financing Activities</b>	<b>10.6</b>	<b>9.2</b>	<b>-1.8</b>
<b>Net Cash Flow</b>	<b>9.4</b>	<b>-4.3</b>	<b>-15.8</b>
Opening Net Cash/(Debt)	-0.4	8.9	2.6
Closing Net Cash/(Debt)	8.9	4.7	0.2
Free Cash Flow	7.7	5.3	2.8

Source: Gordon Dadds PLC & Capital Access Group

This document is a marketing communication which is designed to educate and inform professional investors about the subject Group. The subject Group pays Capital Access Group a fixed annual fee to cover the costs of research production and distribution, and the research has not been prepared in accordance with regulatory requirements designed to promote the independence of investment research. Capital Access Group does not make recommendations. Any comments in this report regarding the valuation of a financial security are based on comparisons with similar securities; they are not forecasts of a likely share price. This document is not an offer to buy or sell, or a solicitation of an offer to buy or sell, the securities mentioned.

Capital Access Group does not buy or sell shares, nor does it conduct corporate finance transactions, nor does it undertake investment business either in the UK or elsewhere. Capital Access Group is not regulated by the Financial Conduct Authority (FCA). Neither Capital Access Group nor the analyst responsible for this research owns shares or other securities issued by the Group analysed in this research note, nor do they have a position in any derivative contract based on those securities.

This research is provided for the use of the professional investment community, market counterparties and sophisticated and high net worth investors as defined in the rules of the regulatory bodies. It is not intended for retail investors. Any such individual who comes into possession of this research should consult an authorised professional adviser.

The information contained in this document has been compiled from sources believed to be reliable, but no guarantee whatsoever is given that the information is complete or accurate, or that it is fit for a particular purpose. This document was issued by Capital Access Group without legal responsibility, and is subject to change or withdrawal without notice. By reading this document, you confirm that you have read and understand the above, and that you shall not hold Capital Access Group or any of its members and connected companies liable for any loss that you may sustain should you decide to buy or sell any of the mentioned securities."



**Capital Access Group**

107 Cheapside

London

EC2V 6DN

[www.capitalaccessgroup.co.uk](http://www.capitalaccessgroup.co.uk)