

# Gordon Dadds Group

## Update Note

31<sup>st</sup> January 2019

**Price** 145p

**TDIM**

GOR

**Market Cap**

£41.7m

**Net Debt (F)**

£10.2m

**Free Float**

51.8%

**Average Daily Volume**

18.5k

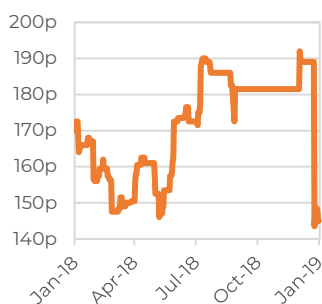
**Broker**

Arden Partners

**Listing**

AIM

**Share Price Performance**



Source: Bloomberg

Gordon Dadds is a legal and professional services company based on an Alternative Business Structure (ABS). It is focused on a recruitment and acquisition strategy.

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### Acquisition of Ince UK & Placing

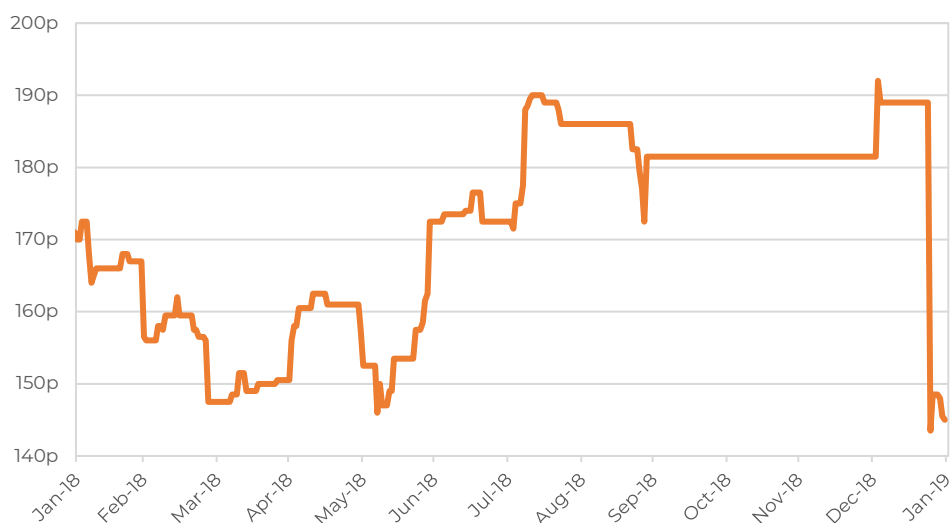
With the acquisition of Ince UK, Gordon Dadds completes a transformative 2018 and starts 2019 actively with an over-subscribed placing. Ince UK brings over £30.0m of expected annual fee income, a significant addition to the Group's skill-set and the scope for considerable cost synergies. In the last 12 months, it has acquired almost £40.0m of potential new revenue through four acquisitions for a total of £35.0m and an initial outlay of less than £15.0m. This is a testament to the Group's innovative operating model and its attractiveness to both firms and fee earners alike. Given the potential scale of Ince UK, our 2020 forecasts increase substantially while we have also raised our current year estimates to reflect the Ince deal and the growth apparent in the interim results. With £11.5m raised by February 2019, the Group should finish the current year with net cash. Based on our DCF approach, its theoretical value is measurably above the current level.

Year to March	Revenue	PBT (adj)	EPS (adj)	DPS	PER	Yield
FY18A	31.2	3.0	10.5	4.0	13.9	2.8%
FY19E	51.0	5.4	14.3	6.0	10.1	4.1%
FY20E	78.0	11.0	22.0	9.0	6.6	6.2%

- Gordon Dadds has acquired the UK assets and operations of Ince & Co, a specialist in maritime and insurance law. Ince UK generated £30.5m of fee income from 22 equity partners in the year to April 2018. Gordon Dadds is paying an estimated total of £27.3m, up to £12.3m of which was mostly payable on completion with the remaining £15.0m turnover-based goodwill over a three-year timeframe. In addition, qualifying Ince personnel will have options over up to 3.0m new shares at 140p. Gordon Dadds will also receive 60.0% of the value of Ince's outstanding work-in-progress/debtors as this is realised.
- It is likely that arrangements will be concluded within the next 12 months such that the international operations of Ince will be consolidated into the group. These were not included in the recent acquisition owing to the time required to complete due diligence. Contributing a further £30.0m plus of profitable revenue, this is likely to cost a further 15.0% goodwill of prospective revenue or some £15.0m, £10.0m of which is already in our forecasts.
- The Group intends to realise cost synergies immediately. It is integrating Ince UK's back-office with its own operation in Wales and has already relocated some of its main London operations to Ince UK's premises in Aldgate. This should produce annualised cost savings of c. £5.0m from an Ince overhead of £13.0m by March 2020.
- Ince UK is unlikely to have a full impact on short term forecasts. However, we have increased our current year adjusted PBT by 12.0% to reflect the deal and growth shown in the interim results which accompanied the Ince announcement. These revealed a 56.0% gain in revenue, producing a 91.0% increase in adjusted PBT. Applying these metrics to our existing forecast inferred a meaningful offset to the initial impact of the Ince operation such that growth is maintained. In a full year (i.e. to March 2020), we expect Ince UK to contribute more than £5.0m with synergies to adjusted EBIT which, combined with continued growth in the underlying business, has resulted in a 92.0% increase in our adjusted PBT forecasts.
- Gordon Dadds has secured £12.5m of debt funding to finance the Ince acquisition, £6.0m as a term loan and £6.5m in an RCF. In addition, the Group announced a placing (24th January 2019) to raise c. £11.5m (gross) from the issue of 8.2m new shares at 140p. This issue is subject to shareholder approval which will be sought at a General Meeting on 11th February 2019. If approved, the new shares commence trading on 12th February 2019.
- We assume that Gordon Dadds retains the term loan but does not draw down the RCF. With the placing proceeds in place by February 2019, the balance sheet should show a net cash position at year end. This holds out the scope for further acquisitions in a sector where Gordon Dadds is demonstrating continued success.

# Data Bank

**Figure 1: Gordon Dadds Share Price**



Source: Bloomberg

**Figure 2: Share Price Performances (comparative group)**

	Share Price	1M	3M	12M
<b>Gordon Dadds</b>	<b>145</b>	<b>-20.11%</b>	<b>-20.11%</b>	<b>-15.20%</b>
Gateley Holdings	169	+33.07%	+7.30%	-5.85%
Keystone Law	420	+17.32%	+17.32%	+72.13%
Knights Group	230	+27.08%	+23.32%	--
Rosenblatt Group	78.5	+6.80%	-4.85%	--
<b>Average</b>		<b>+12.83%</b>	<b>+4.60%</b>	<b>+17.03%</b>

Source: Bloomberg

**Figure 3: Comparative Valuation (2019)**

	Share Price	EV/EBITDA	PER	Yield	Dividend Cover
<b>Gordon Dadds</b>	<b>145</b>	<b>7.7</b>	<b>10.1</b>	<b>4.1%</b>	<b>2.4</b>
Gateley Holdings	147	8.1	11.2	5.6%	1.6
Keystone Law	322	9.0	29.6	0.6%	5.4
Knights Group	191	12.4	17.6	1.0%	5.4
Rosenblatt Group	73	10.2	18.6	3.4%	1.6
<b>Average</b>		<b>9.9</b>	<b>19.3</b>	<b>2.7%</b>	<b>3.5</b>

Source: Capital Access Group & Bloomberg

**Figure 4: Comparative Valuation (2020)**

	Share Price	EV/EBITDA	PER	Yield	Dividend Cover
<b>Gordon Dadds</b>	<b>145</b>	<b>4.1</b>	<b>6.6</b>	<b>6.2%</b>	<b>2.4</b>
Gateley Holdings	147	7.3	10.4	6.0%	1.6
Keystone Law	322	7.0	22.2	0.9%	5.0
Knights Group	191	9.6	13.2	1.5%	5.0
Rosenblatt Group	73	5.8	9.7	5.1%	2.0
<b>Average</b>		<b>6.8</b>	<b>12.4</b>	<b>4.0%</b>	<b>3.2</b>

Source: Capital Access Group & Bloomberg

**Figure 5: Interim Results Analysis**

Year to March Reporting Period	2018A			2019F		
	H1	H2	FYR	H1	H2	FYR
Group Revenue	12.9	18.3	31.2	20.1	30.9	51.0
Staff Costs	-4.8	-5.9	-10.8	-8.1	-14.9	-23.0
Other OpEx	-3.6	-5.9	-9.5	-7.0	-6.0	-13.0
Non-Underlying Items (NUI)	-1.9	-0.4	-2.3	-0.7	-7.8	-8.5
Total OpEx	-10.4	-12.2	-22.6	-15.9	-36.6	-52.5
EBITDA (reported)	2.5	6.1	8.6	4.2	-5.7	-1.5
EBITDA (ex NUI)	4.4	6.5	10.9	5.0	2.0	7.0
EBITDA Margin	34.5%	35.2%	34.9%	24.7%	6.6%	13.7%
OpEx/Revenue	65.5%	66.9%	90.7%	75.3%	93.4%	86.3%
Staff Costs/Revenue	37.6%	32.3%	34.4%	40.4%	48.2%	45.1%
Total Remuneration/Revenue	37.6%	32.3%	55.9%	40.4%	48.2%	45.1%
Depreciation & Amortisation	-1.0	-1.2	-2.1	-0.7	-0.8	-1.5
EBIT (reported)	1.6	4.9	6.5	3.6	-6.6	-3.0
EBIT Margin	12.1%	26.8%	20.7%	17.7%	nm	-5.9%
EBIT (ex NUI)	3.5	5.3	8.8	4.3	1.2	5.5
EBIT (adjusted) Margin	26.9%	28.9%	28.1%	21.2%	4.0%	10.8%
Net Finance Income/cost	-0.2	0.1	-0.1	0.1	-0.2	-0.1
Associates	-0.1	0.0	-0.0	-0.1	0.1	0.0
PBT Adjusted	3.2	5.4	8.6	4.3	1.1	5.4
PBT Reported	1.3	5.0	6.3	3.5	-6.6	-3.1

Source: Gordon Dadds PLC &amp; Capital Access Group

**Figure 6: Income Statement Forecasts**

<b>Year to March</b>	<b>2018A</b>	<b>2019F</b>	<b>2020F</b>
Legal services	28.9	49.1	76.0
Other	2.3	1.9	2.0
Group Revenue	31.2	51.0	78.0
<i>Revenue Growth</i>	25.4%	63.3%	52.9%
Staff Costs	-10.8	-23.0	-32.0
Partners' Profit Share (PPS)	-5.7	-8.0	-15.0
Other OpEx	-9.5	-13.0	-18.0
Non-Underlying Items (NUI)	-2.3	-8.5	3.5
Total OpEx	-28.3	-52.5	-61.5
EBITDA (reported)	2.9	-1.5	16.5
EBITDA (ex NUI)	5.2	7.0	13.0
<i>EBITDA Margin (reported)</i>	9.3%	<i>nm</i>	21.2%
<i>EBITDA Margin</i>	16.7%	13.7%	16.7%
<i>OpEx/Revenue</i>	90.7%	102.9%	78.8%
<i>Staff Costs/Revenue</i>	34.4%	45.1%	41.0%
<i>Gross Margin</i>	55.9%	50.5%	50.0%
Depreciation & Amortisation	-2.1	-1.5	-1.5
EBIT (reported)	0.8	-3.0	15.0
<i>EBIT Margin</i>	2.5%	<i>nm</i>	19.2%
EBIT (adjusted ex NUI)	3.1	5.5	11.5
<i>EBIT (adjusted) Margin</i>	9.9%	10.8%	14.7%
Net Finance Income/cost	-0.1	-0.1	-0.5
Associates	-0.0	0.0	0.0
<b>PBT Adjusted (ex-NUI)</b>	<b>3.0</b>	<b>5.4</b>	<b>11.0</b>
<b>PBT Reported</b>	<b>0.7</b>	<b>-3.1</b>	<b>14.5</b>
Tax Charge	-0.0	-0.5	-2.0
<i>ETR</i>	4.1%	10.0%	18.0%
<i>Minorities</i>	-0.0	-0.0	0.0
Net Profit	2.4	4.3	8.2
Number of Shares in Issue	23.2	29.8	37.3
EPS	10.5	14.3	22.0
DPS	4.0	6.0	9.0
Dividend Cover	2.6	2.4	2.4

Source: Gordon Dadds PLC &amp; Capital Access Group

**Figure 7: Cash Flow Forecasts**

Year to March	2018A	2019F	2020F
PBT	0.7	-3.1	14.5
Net Finance Income/Cost	-0.1	-0.1	-0.5
Fair Value Adjustment	0.0	0.0	0.0
D&A	2.1	1.5	1.5
Adjustments for Combination	2.2	0.0	0.0
Partners' Remuneration	5.7	8.0	15.0
Receivables	-1.5	-5.0	-5.0
Payables	-1.3	1.0	0.5
Provisions	-0.0	2.5	-1.0
<b>Operating Cash Flow</b>	<b>7.8</b>	<b>4.8</b>	<b>25.0</b>
Interest & Other Financial Costs	-0.2	0.0	-0.6
Taxation	-0.0	-0.0	-0.5
<b>Net Operating Cash Flow</b>	<b>7.6</b>	<b>4.8</b>	<b>24.4</b>
Net Acquisitions	-8.9	-16.4	-6.0
Interest Received	0.1	0.1	0.1
Capex	-0.1	-0.1	-0.1
Disposals	0.0	0.0	0.0
Associates	0.0	0.0	0.0
<b>Investing Activities</b>	<b>-8.9</b>	<b>-16.4</b>	<b>-6.0</b>
Movement in Debt	-3.6	6.0	0.0
Members' Capital	0.0	11.0	0.0
Share Issue Costs	19.8	0.0	0.0
Payments to Members	-0.9	0.0	0.0
Dividends	-4.7	-7.0	-14.0
<b>Financing Activities</b>	<b>0.0</b>	<b>-1.1</b>	<b>-1.8</b>
<b>Net Cash Flow</b>	<b>10.6</b>	<b>8.9</b>	<b>-15.8</b>
Opening Net Cash/(Debt)	<b>9.3</b>	<b>-2.7</b>	<b>2.6</b>
Closing Net Cash/(Debt)	-0.4	8.9	0.2
Free Cash Flow	8.9	0.2	2.8

Source: Gordon Dadds PLC & Capital Access Group

**Figure 8: DCF Analysis**

Year to March	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Revenue	31.2	51.0	78.0	81.9	86.0	88.6	91.2	94.0	96.8	98.7	100.7
Revenue Growth	25.4%	63.3%	52.9%	5.0%	5.0%	3.0%	3.0%	3.0%	3.0%	2.0%	2.0%
Operating Profit/(Loss)	0.8	(3.0)	15.0	11.3	12.0	12.4	13.2	14.1	14.5	15.3	15.6
Operating Margin	2.5%	-5.9%	19.2%	13.8%	14.0%	14.0%	14.5%	15.0%	15.0%	15.5%	15.5%
Operating Profit Growth	-	-485.1%	-	-24.7%	6.5%	3.0%	6.7%	6.6%	3.0%	5.4%	2.0%
Depreciation	2.1	1.5	1.5	1.0	1.0	1.0	0.8	0.8	0.8	0.8	0.8
Debtors	(1.5)	(5.0)	(5.0)	(1.0)	(1.2)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)
Creditors	(1.3)	1.0	0.5	0.0	0.2	0.2	0.2	0.2	0.2	0.2	0.2
PPS	7.8	9.9	11.1	12.3	12.9	13.3	13.7	14.1	14.5	14.8	15.1
<b>Cash Used in Operations</b>	<b>7.9</b>	<b>4.4</b>	<b>23.1</b>	<b>23.6</b>	<b>24.9</b>	<b>25.4</b>	<b>26.4</b>	<b>27.7</b>	<b>28.5</b>	<b>29.6</b>	<b>30.2</b>
Interest Received/(Paid)	(0.1)	0.1	(0.5)	0.0	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Taxation	(0.0)	(0.0)	(0.5)	(2.0)	(2.2)	(2.2)	(2.4)	(2.5)	(2.6)	(2.8)	(2.8)
<b>Net Cash Generated/(Used)</b>	<b>7.9</b>	<b>4.5</b>	<b>22.1</b>	<b>21.6</b>	<b>22.9</b>	<b>23.4</b>	<b>24.2</b>	<b>25.4</b>	<b>26.1</b>	<b>27.1</b>	<b>27.6</b>
Capital Expenditure	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Acquisitions (net of disposals)	(8.9)	(16.4)	(6.0)	(5.0)	(5.0)	(3.8)	0.0	0.0	0.0	0.0	0.0
Purchase of Own Shares	(0.9)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payments to Members	(4.7)	(7.0)	(14.0)	(12.3)	(12.9)	(13.3)	(13.7)	(14.1)	(14.5)	(14.8)	(15.1)
<b>Net Increase/(Decrease) in Cash Held</b>	<b>(6.7)</b>	<b>(19.0)</b>	<b>2.0</b>	<b>4.2</b>	<b>4.9</b>	<b>6.2</b>	<b>10.4</b>	<b>11.2</b>	<b>11.5</b>	<b>12.1</b>	<b>12.4</b>

Source: Gordon Dadds PLC &amp; Capital Access Group

<b>Discount Rate</b>	<b>12.0%</b>
NPV	17.5
Growth Rate	0.5%
Terminal Value	120.8
Plus Debt/(Less Cash)	(0.2)
<b>NPV</b>	<b>138.1</b>
Number of Shares in Issue	40.3
<b>NPV per share</b>	<b>342.3</b>
Current Share Price	145
Upside/Downside	136%

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