

ANEXO GROUP

BUSINESS SUPPORT SERVICES

10 May 2021

ANX.L

131p

Market Cap: £152m

SHARE PRICE (p)



12m high/low

147p/116p

Source: LSE Data

KEY DATA

Net (Debt)/Cash	£(40.5)m (at 31/12/20)
Enterprise value	£200.6m
Index/market	AIM
Next news	AGM, 16 June 2021
Shares in Issue (m)	116.0
Executive Chairman	Alan Sellers
CFO	Mark Bringloe
Bond Turner MD	Samantha Moss

COMPANY DESCRIPTION

Anexo is a specialist integrated credit hire and legal services group.

www.anexo-group.com

ANEXO GROUP IS A RESEARCH CLIENT OF
PROGRESSIVE

ANALYSTS

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Solid performance breeds confidence

Investment in growth continues

Anexo's recent FY 2020 results reflected a year in which the Group demonstrated its resilience in an operating environment which was influenced by COVID-19 and the associated lockdowns and restrictions. Revenues and Adjusted EBITDA are in line with our expectations. The Group has proposed a final dividend of 1p, to make 1.5p for the full year. Given the improving vehicle numbers and cash collections in FY 2020 and the Group's investment in capacity, the outlook comment is understandably confident as the opportunities for growth continue to emerge. We expect to see the Group remain flexible in its approach to balancing investment in those growth opportunities with its focus on cash collections. Meanwhile, the VW case remains a potential significant positive impact on revenue and profits, although we only reflect the costs in our estimates at present. In addition, there are other emissions cases for which we have estimated investment spend of £5m in our new FY 2022E estimates. Overall, we believe that Anexo remains well set for further growth in FY 2021E.

- We have upgraded our revenue estimate for FY 2021E by 4% to reflect the good finish to FY 2020 and the growth opportunities that previous investment has brought to the Group. We continue to take a conservative view on the cumulative effects of the investment in nudging down our corresponding PBT by £0.7m (-8%).
- The first half of FY 2020 saw cash generation while the second half presented an opportunity for Anexo to expand its introducer network more quickly than previously envisaged. While that meant cash absorption rather than generation in H2 2020, there was a rapid increase in vehicles on the road.
- The Credit Hire business, EDGE, saw a record performance in vehicle provision during FY 2020. It provided vehicles to 7,230 individuals (FY 2019: 7,182) – a good performance bearing in mind the various restrictions imposed during the year.
- Bond Turner, the Legal Services business, saw its staff numbers benefit from investment in capacity with the number of senior fee earners increased to 145 from 127 at the end of FY 2019. Case settlement numbers and cash collections improved further during the year.
- The conversion of profits to cash flows from operating activities turned from a cash outflow of £0.8 million in FY 2019 to a cash inflow of £0.2 million in FY 2020 after investment in the VW Emissions case of £2.9 million.

FYE DEC (€M)	2018	2019	2020	2021E	2022E
Revenue	56.5	78.5	86.8	94.3	102.4
Adj EBITDA	18.7	31.8	25.4	29.6	31.7
Fully Adj PBT	16.1	23.1	16.1	20.1	22.1
Fully Adj EPS (p)	11.8	16.6	11.2	13.6	14.9
EV/Sales (x)	3.6x	2.6x	2.3x	2.1x	2.0x
EV/EBITDA (x)	10.7x	6.3x	7.9x	6.8x	6.3x
PER (x)	11.1x	7.9x	11.7x	9.6x	8.8x

Source: Company Information and Progressive Equity Research estimates.

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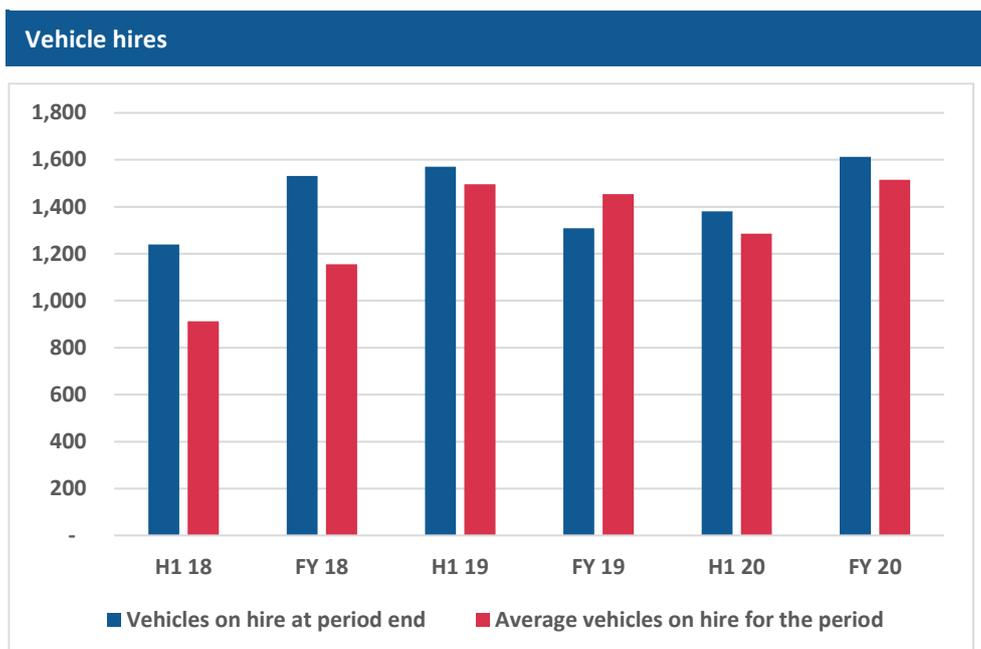
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A game of two halves

Although the majority of Anexo's FY 2020 was affected by COVID-19, it was still something of a game of two halves. The first half performance was solid in the face of a difficult, evolving operating environment. Although it resulted in a decline in business and cash collections, the Group was resilient and activity levels towards the end of H1 led to a pick-up in H2. The Legal Services business continued to recruit and there was positive momentum in what is usually a slower period during the summer months. If the first half was one of cash generation, then the second saw an opportunity presented by competitors' struggles which enables Anexo to expand its introducer network more quickly than previously envisaged. While that meant cash absorption rather than generation in H2 2020, there was a rapid increase in vehicles on the road. Both revenues and associated costs of sales were ahead of our expectations for FY 2020 with Adjusted EBITDA and Adjusted PBT in line with our estimates. The Group's January trading update had noted the in-line outturn for the latter number which was £16.1 million.

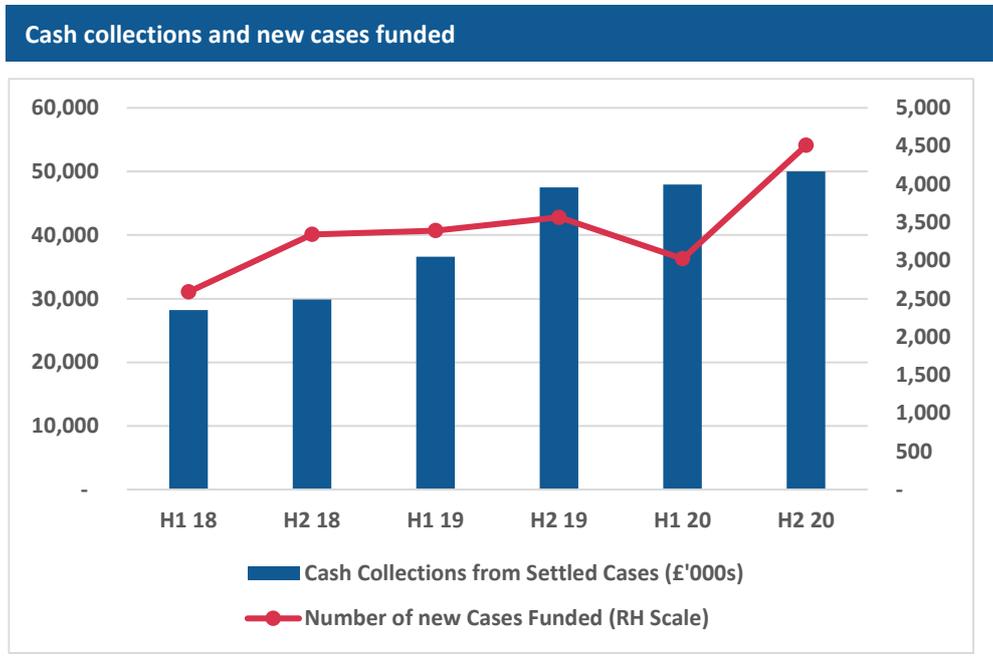
Credit Hire

Despite the impact of the pandemic on its operating environment which initially prompted a sharp decline in vehicle hires at the start of the first lockdown, EDGE, saw record performance in vehicle provision during FY 2020. It provided vehicles to 7,230 individuals (FY 2019: 7,182) – a good performance, in our view, given the various restrictions imposed during the year. With many EDGE customers classed as key workers, vehicle numbers recovered strongly and reached record levels prior to the announcement of the second national lockdown in October. Vehicle numbers on the road peaked in excess of 1,900, before dropping back to 1,613 at the end of the year when the number of vehicles on hire was still up 23.3% to 1,613 compared to a year earlier (FY 2019: 1,308). The average number of vehicles on hire throughout the financial year was up 4.2% to 1,515 (FY 2019: 1,454). The number of new cases funded rose from 6,959 to 7,535 in FY 2020, reflecting the Group's investment.



Source: Company information

Revenues within the Credit Hire division grew by 7.5% to £51.6 million from £48.0 million in FY 2019. Increased costs led to a reduction of 2.3% in gross profit to £33.5 million (FY 2019: £34.3 million). Given its focus on funding acceptance of the most valuable claims, the Group continues to see a bias towards McAMS, its motorcycle division, given the lower take-on costs associated with a motorcycle claim compared to similarly valued car claims.

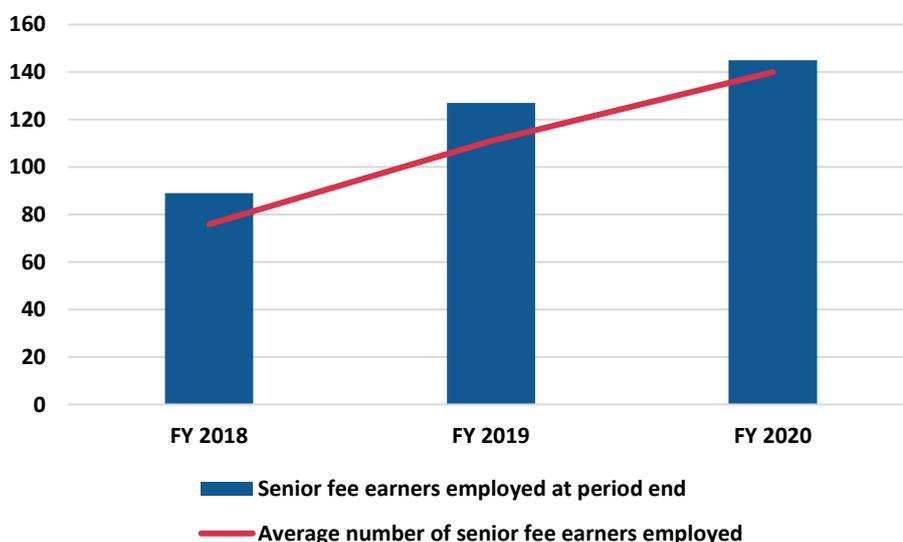


Source: Company information

Legal Services

Bond Turner saw its staff numbers benefit from investment in capacity with overall staff numbers reaching 518 at the end of FY 2020 from 442 a year earlier. As we note earlier, the number of senior fee earners increased to 145 from 127 at the end of FY 2019. This investment continued to produce improved case settlement numbers and cash collection. Revenues increased by 15.2% to £35.2 million (FY 2019: £30.5 million). Cash collections rose by 16.4% to £98.0 million in FY 2020.

Investment in senior fee earners continued throughout FY 2020



Source: Company information

Following the signing of the lease for the Leeds office, Bond Turner has so far recruited 14 staff, of which 9 are senior fee earners. Management expects to continue recruitment across its three offices throughout 2021.

The VW Emissions Case

As previously announced, Bond Turner is acting on behalf of approximately 14,356 individuals. Anexo's marketing campaign is ongoing, with all marketing costs being written off as incurred. We understand that the last date for new claimants to join the case will occur in September this year. Our estimates contain a further £3.0m of VW related costs in FY 2021E but we continue to assume no revenue from the case at present. With similar cases against other manufacturers, we assume that Anexo will look to participate.

Numbers

Revenues

After reporting flat revenues in H1 2020, Anexo reported full year Group revenues of £86.8million, up 10.5% from £78.5 million in FY 2019, as the number of cases funded increased during H2 and the investment in legal staff started to produce increases in fee income and cash receipts.

Operating Costs

Group administrative expenses before exceptional items increased 37.4% in FY 2020 to £42.6 million from £31.0 million in FY 2019 reflecting the continued investment in staff by Bond Turner to which we refer above. Bond Turner's staffing costs increased to £16.6 million (FY 2019: £13.5 million). As before, the investment in the VW Emissions class action of £2.9 million in FY 2020 (FY 2019: £0.9m) has been expensed at Group level, mainly as marketing costs.

Profitability

Adjusted EBITDA of £25.4million in FY 2020 compared to £31.8million in FY 2019. Adjusted operating profit before exceptional items was also in line with market expectations and a little ahead of our £18.2 million estimate at £18.7 million – down 25.9% on FY 2019's £25.3 million – with the adjusted operating profit margin reducing to 21.3% (2019: 32.2%). As we note above, adjusted profit before tax and exceptional items reported was £16.1 million compared to £23.0 million in FY 2019), down 29.9%. There were three main cost items – all known – which influenced the decline: investment in staff and associated IT costs as well as the VW case acquisition costs. They totalled £6.5 million in FY 2020. Although, as flagged in the January 2020 trading update, the VW case costs were lower than originally expected by around £1.8m in H2. We assume that reflected Anexo's commercial judgment on the cost of acquiring new cases. Adjusted diluted EPS of 11.2p (FY 2019: 17.0p) was also in line. The Group has proposed a final dividend of 1p, to make 1.5p for the full year.

Cash Flow

Cash collections increased from £84.1 million in FY 2019 to £98.0 million in FY 2020, reflecting the early impact of new recruits whose full potential (in terms of driving settlements) will not be realised will not be reached until late this year at the earliest. The increase in the average number of vehicles on the road rise in 2020 was reflected in revenue performance of the Credit Hire division but it had a corresponding impact on cash flows in the second half of the year. The conversion of profits to cash flows from operating activities turned from a cash outflow of £0.8 million in FY 2019 to a cash inflow of £0.2 million in FY 2020 after investment in the VW Emissions case of £2.9 million (2019: £0.9 million). Investment in new cases absorbed a net £20.7 million of funds in FY 2020 (2019: £26.3 million) although that was mitigated by the £13.8 million increased level of cash collections. Including the £6.9 million from its June 2020 fundraise, Anexo reported a net cash inflow in FY 2020 of £6.0 million (FY 2019: net cash outflow of £3.3 million).

Net Debt, Cash and Financing

Anexo ended FY 2020 with a cash balance of £8.2 million (FY 2019: £2.3 million). Borrowings increased from £38.5 million in 2019 to £48.7 million at the end of 2020 to fund the additional claims, investment in the VW emissions claim and expansion of the vehicle fleet. As previously announced, Anexo secured £2.1 million of additional funding from a litigation funder as well as an additional £5.0 million of funding from Secure Trust Bank Plc under the government backed CLBILS scheme. At the end of FY 2020, Anexo reported a net debt position of £40.5 million (FY 2019: £36.2 million). Excluding lease liabilities, those figures are both a shade under £27 million.

Estimates

With Anexo exiting 2020 with good momentum and growth opportunities for the coming years, we upgrade our revenue estimate for FY 2021E as outlined in the table below. We continue to take a conservative view on Anexo's investment in growth when adjusting our PBT estimate. We introduce first-time FY 2022E numbers as shown in the subsequent table and these include a £5m estimate for investment in new emissions cases.

Changes to estimates

£m unless stated	FY20A			FY21E		
	Est	Act	Diff (%)	Old	New	Change (%)
Revenue	81.5	86.8	6%	90.6	94.3	4%
Adj EBITDA	24.8	25.4	2%	30.5	29.6	-3%
Reported PBT	15.3	15.5	1%	21.1	19.4	-8%
Fully adj PBT	16.1	16.1	1%	21.8	20.1	-8%
Reported EPS (p)	10.6	10.6	0%	14.3	13.1	-8%
Fully adj EPS (p)	11.1	11.2	1%	14.7	13.6	-8%

Source: Progressive Equity Research estimates

Half-year breakdown of actual and estimated numbers

£m	H1 19	H2 19	FY 19	H1 20	H2 20	FY 20	FY 21E	FY22E
Credit Hire	23.2	24.8	48.0	20.7	30.9	51.6	55.4	59.4
Legal Services	13.5	17.0	30.5	15.9	19.2	35.2	38.8	43.0
Revenue	36.7	41.8	78.5	36.6	50.1	86.8	94.3	102.4
Cost of sales	-7.2	-8.5	-15.7	-7.6	-11.2	-18.8	-20.3	-22.4
Gross profit	29.5	33.3	62.8	29.1	38.9	68.0	73.9	80.0
Depreciation & gain on sale of fixed assets	-1.2	-1.1	-2.3	-1.1	0.6	-0.5	-0.6	-0.6
Depreciation on right of use assets	-2.8	-1.4	-4.2	-2.0	-4.1	-6.1	-6.3	-6.4
Amortisation	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1
Emissions cases administration expenses	0.0	-0.9	-0.9	-0.7	-2.2	-2.9	-3.0	-5.0
Non-emissions cases administrative expenses	-13.6	-16.4	-30.0	-17.4	-22.3	-39.7	-41.3	-43.2
Operating profit before exceptional items	11.8	13.4	25.3	7.8	10.9	18.7	22.6	24.6
Share based payment charges	-0.3	-0.3	-0.7	-0.3	-0.3	-0.7	-0.7	-0.7
Non-recurring administrative expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating profit	11.5	13.1	24.6	7.5	10.6	18.1	21.9	23.9
Total finance costs	-1.1	-1.1	-2.2	-1.1	-1.4	-2.6	-2.5	-2.5
Profit before tax	10.4	12.0	22.4	6.3	9.1	15.5	19.4	21.4
Taxation	-2.0	-2.4	-4.4	-1.4	-1.8	-3.2	-3.9	-4.3
Profit and total comprehensive income for the year attributable to the owners of the company	8.4	9.6	18.0	5.0	7.3	12.3	15.5	17.1
Adj EBITDA	15.9	16.0	31.8	11.0	14.4	25.4	29.6	31.7
Adj EBITDA (excluding emissions cases costs)	15.9	16.9	32.8	11.7	16.6	28.3	32.6	36.7
Adjusted operating profit before tax	11.8	13.4	25.3	7.8	10.9	18.7	22.6	24.6
Adjusted operating profit before tax (excluding emissions cases costs)	11.8	14.4	26.2	8.5	13.1	21.6	25.6	29.6
Reported PBT	10.4	12.0	22.4	6.3	9.1	15.5	19.4	21.4
Reported PBT (excluding emissions cases costs)	10.4	12.9	23.3	7.0	11.4	18.4	22.4	26.4

Source: Company information, Progressive Equity Research estimates

Financial Summary: Anexo Group

Year end: December (£m unless shown)

	2018	2019	2020	2021E	2022E
PROFIT & LOSS					
Revenue	56.5	78.5	86.8	94.3	102.4
Adj EBITDA	18.7	31.8	25.4	29.6	31.7
Adj EBIT	17.2	25.3	18.8	22.7	24.7
Reported PBT	14.3	22.4	15.5	19.4	21.4
Fully Adj PBT	16.1	23.1	16.1	20.1	22.1
NOPAT	17.2	20.7	15.0	18.1	19.7
Reported EPS (p)	10.2	16.0	10.6	13.1	14.5
Fully Adj EPS (p)	11.8	16.6	11.2	13.6	14.9
Dividend per share (p)	1.5	1.5	1.5	1.7	1.9
CASH FLOW & BALANCE SHEET					
Operating cash flow	(2.1)	6.2	6.3	16.4	19.7
Free Cash flow	(13.5)	(6.5)	(1.1)	0.6	3.4
FCF per share (p)	(12.3)	(5.9)	(1.0)	0.6	2.9
Acquisitions	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0
Shares issued	9.2	0.0	6.9	0.0	0.0
Net cash flow	(2.2)	(6.5)	5.8	0.6	3.3
Overdrafts / borrowings/leases	(22.8)	(38.5)	(48.7)	(48.7)	(48.7)
Cash & equivalents	5.5	2.3	8.2	8.8	12.2
Net (Debt)/Cash	(17.3)	(36.2)	(40.5)	(39.8)	(36.5)
NAV AND RETURNS					
Net asset value	75.8	91.7	110.4	124.2	139.1
NAV/share (p)	68.9	83.4	95.2	107.0	119.9
Net Tangible Asset Value	3.3	11.5	15.3	15.9	16.3
NTAV/share (p)	3.0	10.4	13.2	13.7	14.0
Average equity	65.7	83.7	101.1	117.3	131.6
Post-tax ROE (%)	35.1%	19.3%	19.9%	0.0%	0.0%
METRICS					
Revenue growth	24.7%	38.9%	10.5%	8.6%	8.6%
Adj EBITDA growth	18.4%	69.8%	(20.3%)	16.7%	7.1%
Adj EBIT growth	14.0%	47.2%	(25.6%)	20.8%	8.6%
Adj PBT growth	10.3%	43.3%	(30.0%)	24.6%	9.7%
Adj EPS growth	5.7%	41.3%	(32.5%)	21.5%	9.7%
Dividend growth	N/A	0.0%	0.0%	13.3%	11.8%
Adj EBIT margins	30.4%	32.2%	21.7%	24.1%	24.1%
VALUATION					
EV/Sales (x)	3.6	2.6	2.3	2.1	2.0
EV/EBITDA (x)	10.7	6.3	7.9	6.8	6.3
EV/NOPAT (x)	11.7	9.7	13.4	11.1	10.2
PER (x)	11.1	7.9	11.7	9.6	8.8
Dividend yield	1.1%	1.1%	1.1%	1.3%	1.5%
FCF yield	(9.4%)	(4.5%)	(0.8%)	0.4%	2.2%

Source: Company information and Progressive Equity Research estimates

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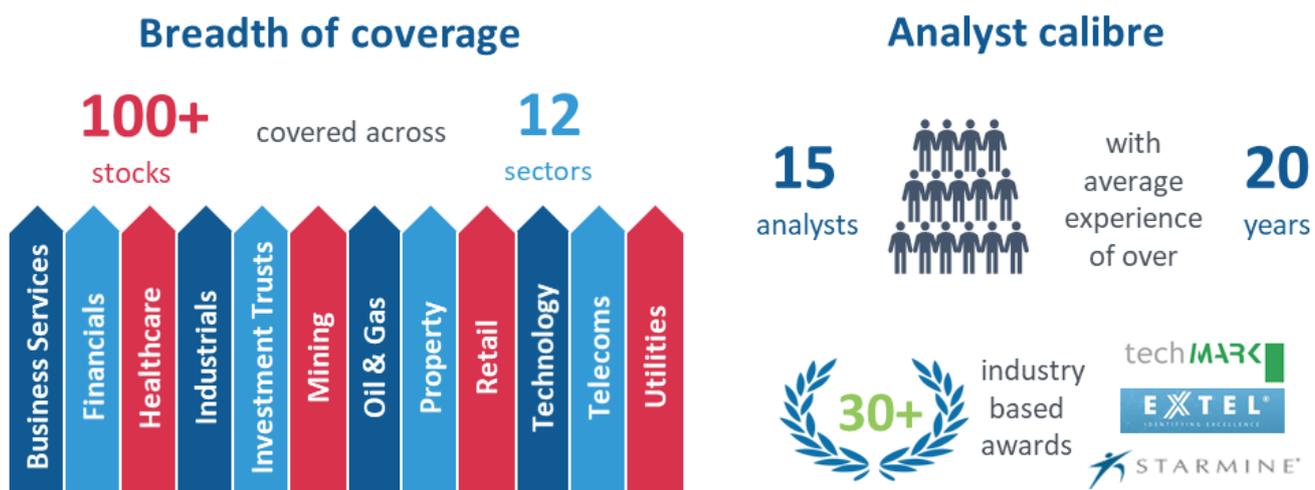
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