

Key Statistics

Code	: DRV
Listing	: AIM
Sector	: Construction & Engineering
Market Cap	: £22.59m
Share in issue	: 31.10m
Current Price	: 76.50p
12 month High/Low:	: 105.00p/47.00p

Stock Performance

Source: InvestEgate



Financials

£'m	2014	2013	2012	2011
Revenue	39.08	37.24	26.26	17.37
PBT	3.06	2.59	1.20	0.35
Profit	2.30	2.21	0.96	0.27

Source: Driver Group Plc Annual Results

Company description

Driver Group Plc is a United Kingdom-based company which provides dispute resolution, project management, contractual and financial services in the sectors of building, energy, infrastructure, marine, mining, oil and gas, and process and industrial. The Company delivers services through four divisions: DIALES, which provides expert witness support services; Driver Project Services, which is its project resource team; Driver Project Management, which includes provision of transaction advisory services for the delivery of concession projects using Private Finance Initiative, Public-private partnership and Design Build Finance Operate procurement options, and Driver Trett's team, with specialist commercial management, planning, programming and scheduling, and dispute resolution support services.

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Constructing The Road to Success

Most of us will at some point, if not several points, be obliged to undertake some level of construction project management. That is to say we will have put in a new kitchen, bathroom or extension which will involve any combination of: planning permission, architecture, plumbing, plastering, tiling, roofing, carpeting, electricity, skip delivery, bricklaying, concreting, carpentry, and (not least) compliance with building regulations. For the project to be successful, all of these activities need the right people to turn up at the right time, with the right tools and the correct quantity of the right materials. The scope for things to go wrong is significant and this just for a small domestic alteration. Imagine the disputes that can be generated by a project the scale of Cross-Rail?

- **Scaled up into fast growing Middle Eastern market**
- **Strong market position in Dispute Resolution**
- **High barriers to entry**
- **Low valuation**

Driver Group plc is a specialist provider of consultancy, advisory and project management services to the construction and engineering industries, with a particularly strong specialism in Dispute Resolution. The Company is implementing its Growth & Strategic Plan aimed at positioning it for material growth in the medium term to 2018. The business has been geared up to generate significant new business in the fast growing Africa, Asia & Middle East region. Of course costs are being incurred now, but the benefits are in the future and the single digit forward PE and 2.6% yield gives plenty of upside for new investors.

For disclosures, refer to the Disclosure Section

The Business

Driver's USP – and indeed barrier to entry - is the high quality of their forensic people. Driver is a multi-disciplinary consultancy which provides specialist commercial management, planning, programming and scheduling, project management, and dispute resolution support services for the global construction industry. Its expertise supports the delivery of major projects worldwide and bridges the gaps between the construction, legal, and financial sectors. Whether a single consultant or a multi-disciplinary team, Driver Group has the depth and experience to offer support in the following sectors: Building, Energy, Infrastructure, Marine, Mining, Oil & Gas, Industrial, and Transportation.

Driver Group's services and solutions can be deployed at all phases of a project's life cycle; pre-contract, contract, planning and commercial, project management, quantity surveying and even during dispute resolution.

The Company divides into three reporting lines; **Initiate** (a recent Project Management acquisition) (10% Sales) and Dispute Resolution which divides into two regional blocks; **Americas, Europe & UK** (52% sales); and **Africa, Asia & Middle East** (38% Sales).

The acquisition of Initiate means the group can now offer project management services to the infrastructure market in the UK, enabling the Group to get involved in projects earlier and to access additional revenue streams. The plan is already underway to roll Initiate out into the fast growing Middle Eastern segment.

The customers for the Dispute Resolution consultancy are the large infrastructure construction groups who are typically involved in the Commercial, Contracting, Quantity Surveying and Project Management areas, and probably lack the dedication of a dispute resolution team. Particularly this is the case where there is a large joint venture and multiple consortia are working together – Projects like CrossRail, or Heathrow or London Underground. Understandably the customers wanting dispute resolution do not want their names bandied around but they are typically the better known names that you will see on the hoardings surrounding any major construction projects. In Asia the slant is slightly different in that very often the lead contractor is Korean or Chinese and needs help dealing with the international contractors in the normal course of the project, as well as with any disputes that arise.

Margins

Utilisation is the hours booked of the 'billable' staff. A 85% utilisation rate is good and 70% is breakeven. The utilisation rate in H1 2015 was 73% but this looks likely to have improved in the current half.

Margins are all about utilisation and the rates paid relative to the fixed costs, and the Gross Margins have dipped to below 20% in the latest half, (March 2015) as a result of a major scale up of personnel in the Africa, Asia and Middle Eastern region. Along with the new COO, 61 new hires have been made as a deliberate decision to invest in the growth of the region. Previously the Company had only recruited in ones or twos so this is a step change to win new and bigger contracts quickly. Already there has been a significant up-tick in activity in Q4 so the early signs are promising.

A target level of gross margin would be more like 30%, and the Q4 margin is likely to be closer to that number, than the 20% of H1.

Competitors

Within the world of Dispute Resolution the primary large competitor is **Hill International (HIL:NYSE)** though very often Hill is on the other side of the dispute, so not so often competing with Driver. Other competitors are the subsidiaries of larger Companies such as **Arcadis NV (ARCAD:AMS)**, **Navigant (NCI:NYSE)** and **FTI Consulting (FCN:NYSE)**. There are some smaller competitors with maybe less than 50 employees.

Outlook

Africa, Asia & Middle East is the area where there has been the most significant changes made. The overhead has been reduced by around 9% though the staff numbers have been scaled up ahead of a significant uptake in business in this region. The region is now starting to work as a unit rather than the three separate entities that it used to be, providing cost synergies and expertise sharing. Additionally there is a new focussed senior management and combined with the roll out of Initiate in the region, should drive revenues and profits alike over the next several years. At the time of the interim report to March 2015 (RNS 2 June 2015) the next quarter was looking good. At the last Trading Update (RNS 6 October) Driver reported "revenues at record levels across the group" with 30% organic growth for this region; which looks very good.

Americas, Europe & UK and **Initiate** are continuing to grow in line with management's expectations with more aggressive growth anticipated in Continental Europe than elsewhere in the region. The trading update reported 9% organic growth in H2.

For the business as a whole, organic growth (before Initiate) was recorded at 20% in the October update. However, there is a receivable of £200k due from SSI, (the steel plant in Redcar that closed) so they will have to provide for that, and the FX has not been helpful to the tune of £250k, but the underlying business is on target for double digit growth the 2015/16 (next) year with a growing pipeline.

Fee rates have been rising, on average by 22% mostly from Africa, Oman, UAE and UK.

There are no plans to acquire further businesses at this stage. As previously discussed the assets are the people and very often they can be hired without the need to take on a whole business. Like all good managements they are not averse to considering deals and if there was a possible merger of equals that could take the Company to a different league that might be worth considering, as would a further vertical such as a Cost Management company for example, but further acquisitions would have to be compelling and is not a primary focus.

The pace of turnaround for the group is dependent upon the improvements in utilisation and this is difficult to predict.

Customers

The business is project driven so revenues cannot be described as 'recurring' however they have never 'lost' a client and around 80% of their ongoing business comes from customers they have previously worked with, so it is a very repeatable business. A very significant majority, maybe as much as 90%, of the 'Dispute' business is from in-coming calls, and Dispute work represents around 65% of the overall business. The 'Expert witness' business usually needs pitching for, and Driver typically wins around 2/3rds of the pitches. That represents around 20% overall. The 15% remainder is Project Management which contracts are won in pitched tenders.

Key Management

Steven Norris, Non-Executive Chair: Steve was a Member of Parliament from 1983 – 97. He served as Parliamentary Private Secretary in the Departments of Environment, Trade and Industry and the Home Office before becoming Minister for Transport in 1992. He is Chairman of BNP Paribas Real Estate, of Soho Estates, London Resort Company Holdings and Virtus Data Centres. He is Deputy Chairman of Optare plc and a member of the Board of Cubic Corporation. Steve is Chairman of the National Infrastructure Planning Association. He is an Honorary Fellow of the Association for Project Management and a Companion of the Institution of Civil Engineers.

David Webster, Chief Executive Officer: David trained as a Quantity Surveyor with a tunnelling, pipeline and civil engineering contractor and has over 32 years' experience in the construction industry, the last 15 years being in private practice. He has a Masters Degree in Construction Law and Dispute Resolution and is a Fellow of the Chartered Institution of Civil Engineering Surveyors. David is responsible for all aspects of the group business and strategy.

Damien McDonald, Group Finance Director: A Chartered Accountant with over 17 years' experience. Damien originally joined Driver in April 2008 as Group Financial Controller and successfully implemented financial procedures to the business' UK and overseas operations. Damien previously worked for nine years with United Utilities PLC, the UK's largest listed water company, where he held finance management positions in the Group head office before becoming Financial Controller of the £330m turnover Contract Solutions Division. Latterly at United Utilities, Damien successfully managed the financial disposal of their industrial waste management business. Between 1995 and 1999, Damien qualified as a Chartered Accountant as an auditor with KPMG.

Valuation

As described above, this has been a year of transition, and the estimated PE of 25x to 09/15 is reflective of that. However, given the bullish October update, and assuming the Company is comfortable with its brokers' forecasts, the PE drops to 8.5x next year (09/2016) and with a yield of 2.6% and double digit sales growth that seems very reasonable.

Conclusion

The valuation above is based on some pretty conservative estimates, assuming something like 10% growth in sales and net margins around 6%. The Trading Update (RNS 6 Oct 2015) – implied much higher growth rates (as detailed above) from which we can perhaps guess at a blended 25% sales growth, and 10% net margins over the next few years (which is not a stretch if the gross margins grow to 30% and taking into account the improvement in operational margins from the scale up from the additional personnel). In that sort of scenario the PE would be mid-single digit. Given the yield and the solidity of the customer base this seems well underpinned, and has plenty of scope for a significant multiple re-rating on top of the organic growth to super-charge the share price.

Condensed Consolidated Income Statement for the six months ended 31 March 2015

	6 months ended 31-Mar-15 £000	6 months ended 31-Mar-14 £000 *Restated	Year ended 30-Sep-14 £000
REVENUE	21,112	19,637	39,078
Cost of sales	-17,118	-14,925	-29,336
GROSS PROFIT	3,994	4,712	9,742
Administrative expenses	-6,114	-3,490	-6,773
Other operating income	88	76	160
Operating (loss)/profit before share-based payment costs, amortisation of intangible assets and exceptional items	-457	1,437	3,521
Share-based payment charge and associated costs	-264	-106	-293
Exceptional items	-1,221	-	-
Amortisation of intangible assets	-90	-33	-99
OPERATING (LOSS)/PROFIT	-2,032	1,298	3,129
Finance income	5	-	8
Finance costs	-41	-29	-78
(LOSS)/PROFIT BEFORE TAXATION	-2,068	1,269	3,059
Tax credit/(expense)	80	-177	-443
(LOSS)/PROFIT FROM CONTINUING OPERATIONS	-1,988	1,092	2,616
Loss on discontinued operation, net of tax	-	-203	-314
(LOSS)/PROFIT FOR THE PERIOD	-1,988	889	2,302
(Loss)/Profit attributable to non-controlling interests from continuing operations	-2	4	9
(Loss)/Profit attributable to non-controlling interests from discontinued operations	-	-	-
(Loss)/Profit attributable to equity shareholders of the parent from continuing operations	-1,986	1,088	2,607
(Loss)/Profit attributable to equity shareholders of the parent from discontinued operations	-	-203	-314
	-1,988	889	2,302
Basic (loss)/earnings per share attributable to equity shareholders of the parent (pence)	(6.8)p	3.3p	8.6p
Diluted (loss)/earnings per share attributable to equity shareholders of the parent (pence)	(6.3)p	3.0p	7.8p
Basic (loss)/earnings per share attributable to equity shareholders of the parent (pence) from continuing operations	(6.8)p	4.0p	9.7p
Diluted (loss)/earnings per share attributable to equity shareholders of the parent (pence) from continuing operations	(6.3)p	3.7p	8.9p

Sources: Driver Group Plc Half Yearly Report

Condensed Consolidated Statement of Financial Position as at 31 March 2015

	31 March 2015	31 March 2015	30 September 2015
	£000	£000	£000
NON-CURRENT ASSETS			
Goodwill	4,650	3,407	3,407
Intangible assets	816	122	96
Property, plant and equipment	2,531	2,554	2,527
Deferred tax asset	22	27	22
	8,019	6,110	6,052
CURRENT ASSETS			
Trade and other receivables	13,931	12,634	12,768
Cash and cash equivalents	1,750	1,060	1,430
Current tax receivable	187	95	77
	15,868	13,789	14,275
TOTAL ASSETS	23,887	19,899	20,327
CURRENT LIABILITIES			
Borrowings	-6	-1,016	-338
Trade and other payables	-8,394	-6,349	-6,003
Current tax payable	-294	-304	-444
	-8,694	-7,669	-6,785
NON-CURRENT LIABILITIES			
Borrowings	-3,002	-1,250	-1,259
Deferred tax liabilities	-194	-304	-194
	-3,196	-1,554	-1,453
TOTAL LIABILITIES	-11,890	-9,223	-8,238
NET ASSETS	11,997	10,676	12,089
SHAREHOLDERS' EQUITY			
Share capital	125	109	111
Share premium	4,704	2,649	2,702
Merger reserve	1,493	1,493	1,493
Translation reserve	-367	-199	-313
Capital redemption reserve	18	18	18
Retained earnings	6,131	6,733	8,173
Own shares	-107	-134	-107
TOTAL SHAREHOLDERS' EQUITY	11,997	10,669	12,077
NON-CONTROLLING INTEREST	-	7	12
TOTAL EQUITY	11,997	10,676	12,089

Sources: Driver Group Plc Half Yearly Report

Condensed Consolidated Interim Statement of Cash Flow for six months ended 31 March 2015

	6 months ended 31 March 2015 £000	6 months ended 31 March 2015 £000	Year ended 30 September 2015 £000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/Profit after taxation	-1,988	889	2,302
Adjustments for:			
Depreciation	155	84	215
Amortisation	90	33	99
Exchange adjustments	-5	59	-34
Finance income	-5	-2	-11
Finance expense	41	29	78
Tax Expense	-80	177	330
Equity settled share-based payment cost	264	106	293
OPERATING CASH FLOW BEFORE CHANGES IN WORKING CAPITAL AND PROVISIONS	-1,528	1,375	3,272
Increase in trade and other receivables	-346	-1,938	-2,069
Increase/(decrease) in trade and other payables	1,241	-1,016	-1,141
CASH GENERATED BY OPERATIONS	-633	-1,579	62
Tax paid	-363	-146	-243
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	-996	-1,725	-181
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	5	2	11
Acquisition of property, plant and equipment	-192	-365	-432
Acquisition of intangible assets	-	-	-155
Acquisition of non-controlling interest	-	-206	-206
Acquisition of subsidiary net of cash acquired	-344	-	-
Proceeds from the disposal of property, plant and equipment	80	-	2
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	-451	-569	-780
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid	-41	-29	-78
Repayment of borrowings	-4	672	-563
Proceeds of borrowings	1,743	-	238
Proceeds from sale of own shares	-	108	135
Proceeds from sale of shares	401	3	58
Dividends paid to equity shareholders of the parent	-	-	-420
Payment of dividends to non controlling interests	-10	-8	-8
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	2,089	746	-638
Net increase / (decrease) in cash and cash equivalents	642	-1,548	-1,599
Effect of foreign exchange on cash and cash equivalents	6	-59	34
Cash and cash equivalents at start of period	1,102	2,667	2,667
CASH AND CASH EQUIVALENTS AT END OF PERIOD	1,750	1,060	1,102

Sources: Driver Group Plc Half Yearly Report

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