

ANEXO GROUP

BUSINESS SUPPORT SERVICES

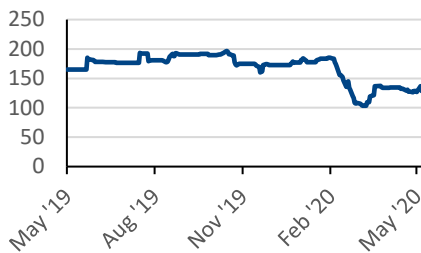
1 June 2020

ANX.L

128.5p

Market Cap: £141.4m

SHARE PRICE (p)



12m high/low

197p/104p

Source: LSE Data

KEY DATA

Net (Debt)/Cash	£(24.6)m
Enterprise value	£166m
Index/market	AIM
Next news	Prelims, by end June
Shares in Issue (m)	110.0
Executive Chairman	Alan Sellers
CFO	Mark Bringleoe
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
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Placing to support growth opportunities

Strong levels of cash collection continue

Anexo has placed 6 million new shares at a price of 125p to raise approximately £7.5 million before expenses. In addition, three senior members of the management team have sold 2.8 million shares at the same price. The placing and the team's sales represent 5.5% and 2.55% respectively of the Group's existing capital. The net proceeds from the primary placing will be used to expand the advocacy and specialist litigation team, headed by Executive Chairman, Alan Sellers, with specific emphasis on funding the acquisition and processing of VW emissions cases. It will also continue recruitment in the legal services business and increase the fleet size. The placing will also support small opportunistic acquisitions. A brief trading update reveals that, although new case numbers were impacted by fewer cars on the road in the early stages of lockdown (and have subsequently recovered steadily), this was mitigated by longer hire periods. Anexo continued to be cash generative in the first four months of 2020 and retains a positive outlook.

- Anexo will continue recruitment within Bond Turner, the Legal Services division, and will resume the previously postponed opening of a new office in Leeds. It will invest further in its fleet to return it to a level of available for hire vehicles similar to the level at the end of 2018. The placing will also provide added resources to consider possible acquisitions of small legal and credit hire firms or books of business
- Directors Alan Sellers and Samantha Moss and co-founder Valentina Slater have sold 2.8 million shares to raise around £3.5 million. The combined effect of the this and the primary placing should increase the Group's free float from 26% to 33% - something which investors have been keen to see.
- The VW emissions case clearly has significant potential and Anexo expects to add to its current 8,000 clients through a further targeted marketing campaign. The use of a specialist third party funder in tandem with some of the placing proceeds to support the acquisition and processing of new cases will limit the Group's commitment of its existing resources.

We see this fundraising as a well-timed move to enable the Group to accelerate its involvement in a number of opportunities that are available at the current time. It brings increased flexibility to commit capital to projects without diminishing its existing cash resources.

FYE DEC (£M)	2017	2018	2019E
Revenue	45.3	56.5	78.0
Adj EBITDA	15.8	18.7	26.9
Fully Adj PBT	14.6	16.1	23.2
Fully Adj EPS (p)	11.1	11.8	16.9
EV/Sales (x)	3.7x	2.9x	2.1x
EV/EBITDA (x)	10.5x	8.9x	6.2x
PER (x)	11.5x	10.9x	7.6x

Source: Company Information and Progressive Equity Research estimates

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Please refer to important disclosures at the end of the document.

Fundraising

Use of proceeds

In raising £7.5 million before expenses, Anexo has put itself in a position to accelerate its involvement in a number of opportunities. They include expanding the advocacy and specialist litigation team with a specific view to support the funding of the acquisition and processing of VW emissions cases. Anexo will also continue recruitment within the Legal Services business and will proceed with the opening of a new office in Leeds, which was previously postponed earlier in the year while the effects of COVID-19 were assessed.

Having previously prioritised tackling the outstanding backlog of cases over expanding its vehicle fleet in 2020, Anexo is now in a position where it can do both. It states that it will make further investment to reposition its fleet numbers towards the level that it had at the end of 2018 when it comprised 1,946 vehicles available for hire. By the interim stage of 2019, that had fallen to 1,904 and we believe that the number had declined further to around 1,730 by the end of April 2020.

On average, the fleet of vehicles has a utilisation rate of c.85%. Cars have a utilisation rate of 72%, vans (generally sourced from third party suppliers) 93% and motorcycles 89%. Consequently, given the new funding available, it makes sense to increase the number of vehicles available for new cases in conjunction with the increase in capacity within Bond Turner. At present, we would suppose that there are some attractive leasing opportunities available given the lack of car sales during lockdown.

The proceeds also enable the Group to look at a range of other near-term opportunities such as the acquisitions of Work in Progress books and small of legal and credit hire firms.

VW Emissions Case

As well as its credit hire and related legal practice businesses, Anexo also operates an advocacy practice, with in-house barristers, which is headed by the Group's Executive Chairman, Alan Sellers. That team has a significant role in the group litigation against Volkswagen (VW). Anexo currently has around 8,000 clients and expects to gain more (while mitigating its exposure to the cost of acquiring new claimants). Although no specific revenue or profit numbers are mooted, we note the very positive impact that a case settlement would bring.

In April, in the preliminary finding by Mr Justice Waksman, he wrote that he found that "the software function in the vehicles here did indeed amount to a prohibited 'defeat device'" and concluded that VW's "attempt to relitigate the issue here was an abuse of the process." VW maintains that the claimants did not suffer any loss and may appeal, emphasising that the case is not yet decided.

About 91,000 claimants are involved in the current Group Litigation Order (to which Anexo is not a party) against Volkswagen in the High Court. VW has previously agreed to pay \$4.3bn in civil and criminal penalties in the US. Compensation varied with the age and model of vehicles involved, with the sums ranging from \$5,100 (£4,150) to over \$40,000 (£32,520). Anexo has previously noted lower ranges of compensation in Germany and Australia. Given the wide range of possible outcomes, understandably there is no guidance on the quantum from management other than to refer to the potential for 'a significant positive impact'.

In the event of a settlement being agreed in the UK, Anexo would be entitled to claim a percentage of damages awarded to each of its clients, as well as legal costs. It is worth remembering that VW may yet appeal the High Court decision and that, in any event, any revenue from a settlement would be unlikely to accrue until FY-2021 at the earliest. So, at present, there is no certainty that a favourable settlement will be reached, nor that it would include financial compensation.

A number of Bond Turner's existing 8,000 clients were acquired through their status as past customers of the Group and others contacted Bond Turner following a limited marketing campaign which was predominantly conducted through social media channels. Following publicity around the ruling by the High Court, Anexo expects to add clients through a further targeted marketing campaign 'which would lead to a significantly larger return in the event of a successful settlement'. It will need additional staff to process new leads.

The placing announcement states that any further marketing and the processing of cases taken on by Bond Turner will be funded from a combination of the Primary Placing proceeds and specialist financing rather than existing resources. We have previously noted that case-related working capital funded by a third party at an agreed rate, while reducing Anexo's earnings, would insulate the Group from those further costs should the case eventually not succeed.

Current Trading and Prospects

Anexo expects to report its FY 2019E results by the end of June 2020. It has previously said that it anticipates reporting adjusted profit before tax for the year ended 31 December 2019 in line with market expectations of £23.0 million (our number is £23.2 million). Total debt was £27.5 million at the end of Q1 2020.

The update confirms that Anexo has continued to be cash generative in the first four months of the current financial year. Unsurprisingly, it experienced a significant fall in new cases in the early stages of the lockdown measures in the UK due to fewer cars on the road but notes that these numbers are returning towards historically normal levels. This has been offset by a trend towards longer hire periods due to delays in other parts of the credit hire and claims systems. Otherwise, most of Bond Turner's staff are working remotely with the progression and settlement of cases aided by the remote operation of courts through online and telephone hearings. We note that there is no mention of motorcycles in the announcement which comprise around two-thirds of Anexo's vehicle fleet. We assume that more motorcycles have remained on the road during lockdown – particularly given the requirement for couriers etc – and that case numbers may have been more robust.

Overall, the outlook is positive with strong levels of cash collection – although there is the reasonable caveat as to the uncertainty surrounding the longer term impact of the lockdown measures.

Financial Summary: Anexo Group

Year end: December (£m unless shown)

	2017	2018	2019E
PROFIT & LOSS			
Revenue	45.3	56.5	78.0
Adj EBITDA	15.8	18.7	26.9
Adj EBIT	15.1	17.2	24.9
Reported PBT	14.6	14.3	22.8
Fully Adj PBT	14.6	16.1	23.2
NOPAT	15.1	17.2	20.4
Reported EPS (p)	11.1	10.2	16.6
Fully Adj EPS (p)	11.1	11.8	16.9
Dividend per share (p)	0.0	1.5	2.2
CASH FLOW & BALANCE SHEET			
Operating cash flow	3.1	(2.1)	4.1
Free Cash flow	(4.0)	(13.5)	(7.3)
FCF per share (p)	(3.7)	(12.3)	(6.6)
Acquisitions	0.0	0.0	0.0
Disposals	0.0	0.0	0.0
Shares issued	0.0	9.2	0.0
Net cash flow	(3.8)	(2.2)	(7.3)
Overdrafts / borrowings	(15.2)	(22.8)	(25.8)
Cash & equivalents	0.2	5.5	1.2
Net (Debt)/Cash	(15.0)	(17.3)	(24.6)
NAV AND RETURNS			
Net asset value	55.6	75.8	91.7
NAV/share (p)	50.6	68.9	83.3
Net Tangible Asset Value	1.5	3.3	5.0
NTAV/share (p)	1.4	3.0	4.6
Average equity	27.8	65.7	83.8
Post-tax ROE (%)	57.8%	35.2%	31.2%
METRICS			
Revenue growth		24.7%	38.0%
Adj EBITDA growth		18.4%	43.7%
Adj EBIT growth		14.0%	44.8%
Adj PBT growth		10.3%	44.0%
Adj EPS growth		5.7%	43.9%
Dividend growth		N/A	46.7%
Adj EBIT margins		30.4%	31.9%
VALUATION			
EV/Sales (x)	3.7	2.9	2.1
EV/EBITDA (x)	10.5	8.9	6.2
EV/NOPAT (x)	11.0	9.7	8.1
PER (x)	11.5	10.9	7.6
Dividend yield	N/A	1.2%	1.7%
FCF yield	(2.8%)	(9.5%)	(5.2%)

Source: Company information and Progressive Equity Research estimates

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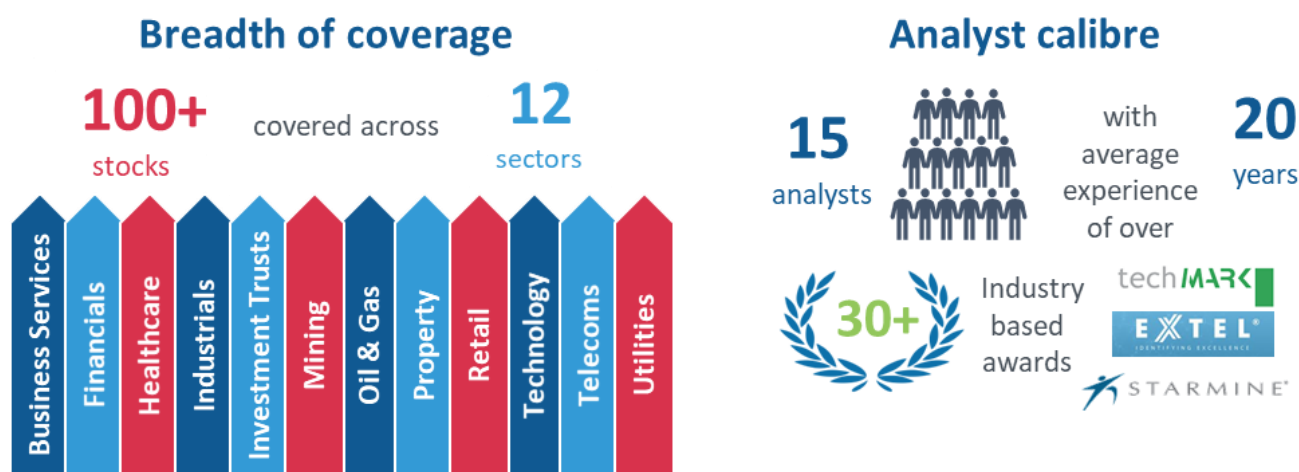
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