

DWF Group

Step-by-step strategic progress

The interim results confirm a robust period for DWF Group. The growth strategy remains and the recent acquisition of Whitelaw Twining in Canada confirms management's intention to build a global brand. DWF is trading on a 7.0x P/E, which suggests c 45% upside to the lower end of its historical range. It also trades at a material discount to peers and offers a 7.6% dividend yield.

Interims highlight robust trading

Given the uncertain economic environment, DWF's interim results highlight resilient revenue performance with strong profit growth. Net revenue increased and costs were controlled, resulting in a welcome reduction in the cost to income ratio and a 17.9% increase in the operating profit. PBT rose 17.1% to £12.9m, reflecting a lower level of adjusted items in the period, while the adjusted figure was broadly flat on an unusually strong comparative period. Adjusted EPS increased by 8.5% to 5.1p and a dividend of 1.6p was declared, up 7% and in line with policy. Net debt rose from £77.2m to £86.5m, representing leverage of 1.27x annualised EBITDA.

Strategic progress evident in costs and M&A

The 3.4% net revenue growth was a combination of 4% growth within Legal Advisory, 16% in Connected Services and a 17% contraction in Mindcrest after a reorganisation and subsequent investment in sales resource that is expected to generate future income. Overall, net revenue per partner increased 1% to £492k. The gross margin of 49.9% reflected continued salary pressure in the sector, offset by strict overhead cost control. The 5% increase in lock-up days to 190 is much better than the sector average of 11% increase (source: 2022 PwC Law Firms' Survey). DWF won some significant new mandates and retenders through deepening relationships with key clients and extended its capabilities through strategic M&A including the acquisition of Whitelaw Twining for up to £28m. Within Legal Advisory, the largest division, it was appointed to 30 new panels, with the top 10 having a potential combined revenue of c £30m per year and a 3-year term.

Valuation: 7.0x forward P/E offers attractive upside

The outlook is encouraging as momentum generated in H1 is likely to extend into H2, traditionally the stronger period, and costs are kept under control. DWF expects to hit FY23 PBT estimates, adjusted for an additional £1m of interest costs driven by the unexpected base rate increases. DWF is trading on a forward consensus P/E of 7.0x, which compares to a fairly short-quoted range of c 10–12x. By comparison, Keystone Law and Gateley Group trade on P/Es of 19.6x and 10.7x respectively. The 7.6% yield should give comfort to investors in search of income.

Consensus estimates

Year end	Revenue (£m)	Normalised PBT (£m)	Normalised EPS (p)	DPS (p)	P/E (x)	Yield (%)
04/21	338.1	34.2	7.4	5.0	10.9	6.2
04/22	350.2	41.4	10.7	7.8	7.5	9.7
04/23e	381.1	46.5	11.5	6.1	7.0	7.6
04/24e	415.7	56.6	12.7	6.9	6.3	8.6

Source: Refinitiv

Business services

3 January 2023

Price 80.4p
Market cap £262m

Share price graph



Share details

Code DWF
Listing LSE
Shares in issue 325.4m

Business description

DWF is a leading global provider of integrated legal and business services across eight key sectors including the built environment, consumer and government and public sector.

Bull

- The global legal services market amounts to c \$750bn and is growing at c 5% a year (source: DWF).
- DWF has a fully integrated legal offering, capable of adapting to the needs of any client.
- DWF's client base is diverse and c 40% of revenues derive from work for insurers, which can be classified as recurring.

Bear

- Highly fragmented market, implying potentially strong competition.
- DWF's largest asset, its people, is attractive to competitors.
- Cost saving target of £12m may have an element of risk attached to completing.

Analysts

Andy Murphy +44 (0)20 3077 5700
Neil Shah +44 (0)20 3077 5700

industrials@edisongroup.com

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Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia