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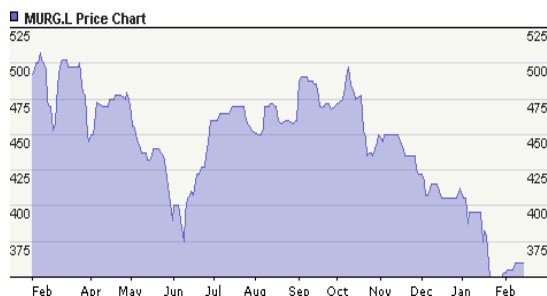
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Murgitroyd Group PLC Growth by Acquisition? 360p

18 February 2008



European Patent and Trade Mark Attorneys, Murgitroyd Group PLC, released its first set of financial results under IFRS for the interim period to 30 November 2007.

Turnover and gross profits in the six month period were up 9.1% and 9.6% respectively on the 6 months to 30 November 2006. Earnings at an operating level were essentially flat reflecting Murgitroyd's continuing investment in personnel. Profits before tax were down 14.7% on the prior period reflecting both a higher tax charge arising as a result of Murgitroyd's move to IFRS accounting, lower foreign currency gains and also the inclusion of a one-off "onerous" lease provision. Operating cash flow generated during the period was in excess of £1.0m.

European Patent grants increased 7% year on year in 2006 while Trade Marks grew by 14% in 2007. Expenditure on R&D is expected to continue to grow, despite what is now widely regarded as a recessionary environment. The US dominates world spending on R&D and Murgitroyd has a US based sales team positioned to capture a share of growth in US R&D spend.

Relatively speaking Murgitroyd is priced slightly cheaper than is the closest other UK listed play on R&D spend. The company's progressive dividend policy stance will likely increase its attractiveness, as will the announcement of an impending acquisition which will further increase Murgitroyd's capacity to handle new business.

We expect an announcement to be made in the very near future.

Share Price: 360p

12m High: 520p

12m Low: 350p

Market Cap: £29.9m

Shares in Issue: 8.3m

NAV/Share: 155p (incl. intangibles)

Gearing: 33% (incl. intangibles)

Interest Cover: 10.1x

EPIC Code: MUR

SEDOL No: 3106745

Sector: Support Services

Market: London AIM

Nominated Advisor & Broker:
Noble Group

PR: Cardew Group

Website: www.murgitroyd.com

Previous Research Note:

3 September 2007

"Ahead of Forecast Again – Another Good Year Likely"

Analyst: Rae Ellingham

	Sales	Declared	Adjusted	Adjusted	P/e ratio	Divi p.	Yield
May	£m	Profit £m	Profit £m	Eps p.	Adj		%
2006A	18.8	1.4	1.9	14.7	24.5	4.7	1.3
2007A	22.8	2.9	2.9	24.2	14.8	9.0	2.5
2008E*	24.9	2.9	3.1	24.9	14.4	10.0	2.8
2009E	26.7	3.3	3.3	26.8	13.4	12.0	3.3

*includes allowance for a one-off onerous lease provision

Half Year Results to 30 November 2007

£000	1H07A	1H08A	% Change
Sales	11,163	12,183	+9.1%
Gross Profit	7,347	8,053	+9.6%
<i>Gross Margin</i>	<i>65.8%</i>	<i>66.1%</i>	
EBIT	1,694	1,679	-0.9%
<i>EBIT Margin</i>	<i>15.2%</i>	<i>13.8%</i>	
PBT*	1,562	1,332	-14.7%
Net Income	1,068	873	-18.3%

*after allowance for onerous lease provision of £200,000

European Patent and Trade Mark Attorneys, Murgitroyd Group PLC, has released its first set of results under IFRS. Turnover for the 6 months to 30 November 2007 was £12.2m, an increase of 9% on the 6 months to 30 November 2006. This growth in the top line suggests to us that Murgitroyd has been winning an increasing amount of Trade Mark business - Trade Mark work tends to be high turnover low margin business.

Murgitroyd has also managed to increase its gross margin – something we would normally associate with an increase in Patent business – low turnover but high margin. The primary driver for the increase has, however, been a continued focus on cost control and time based charging.

Despite the higher gross profit margin achieved Murgitroyd has reported operating profit for the 6 month period virtually equivalent to that earned in the previous corresponding 6 months. This reflects an increase of £921,000 or some 16.3% in admin expenses. This increase in admin costs is hardly surprising given that the company has been hiring new talent as the opportunity has arisen. Five new Attorneys have been employed in the last six months, one in each of Milan, Nice, London, York and Edinburgh.

After allowing for an “onerous” lease provision of £200,000 – made where a company has a present legal or constructive obligation as a result of a past event – in this case Murgitroyd’s assumption of the lease on a Glasgow office building following the company’s June 2006 acquisition of the Fitzpatrick’s business - Murgitroyd has reported profit before tax for the period of £1.3m, close to 15% lower than in the 6 months to 30 November 2006.

Reported after tax net income for the half year was £873,000, reflecting an effective tax rate of 34%. The higher than standard taxation arises as a result of Murgitroyd’s adoption of IAS12 which requires deferred tax to be provided on temporary differences

rather than just timing differences (as required under UK GAAP). A deferred tax liability has been recognised in respect of an uplift in the revaluation of Murgitroyd’s property while a deferred tax asset has been recognised on the allowable tax deduction that Murgitroyd would receive if certain share options were exercised.

Other significant adjustments to Murgitroyd’s accounts following adoption of IFRS are the reversal of goodwill amortisation charges – Murgitroyd’s goodwill was tested as at 31 May 2007 and no impairments were identified – and the introduction of a liability in respect of compensated absences in accordance with the requirements of IAS19 Employee Benefits. In terms of the company balance sheet both trade receivables and trade payables have increased in line with turnover. Gearing (including intangibles) is at 33%. Cash generated from operating activities during the half year was \$1.1m.

Given its confidence in the outlook going forward Murgitroyd’s board has determined that a more progressive dividend strategy going forward will be appropriate – an interim dividend policy has been sanctioned and a maiden interim dividend of 3p per share has been declared.

Outlook and Forecasts

Prior to this set of interim results we were forecasting turnover for the full year to 31 May 2008 of £24.6m, operating profit of £3.4m and net profit before tax of £3.1m.

We have made some very minor adjustments to our forecasts lifting both turnover and gross margins marginally. This reflects additional expected earnings to be generated via the five new Attorneys employed by Murgitroyd in the first half of the year. In line with this we have also increased our estimated admin expenses for the full year. With the inclusion of the one-off onerous lease provision in the first half of the 2008 year our reported net profit before tax figure is now £2.9m. On a normalised basis it remains at £3.1m.

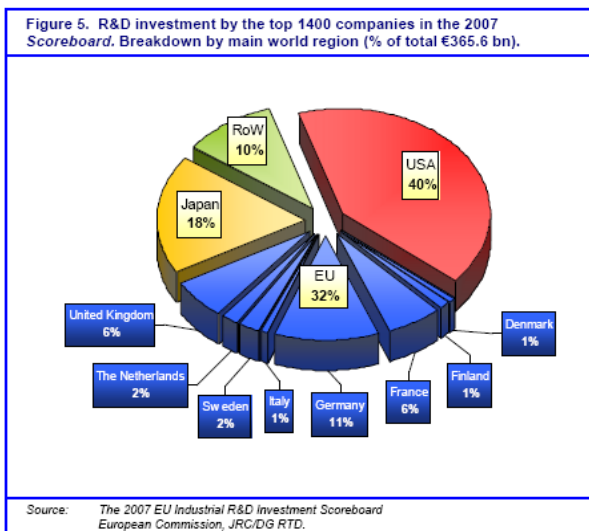
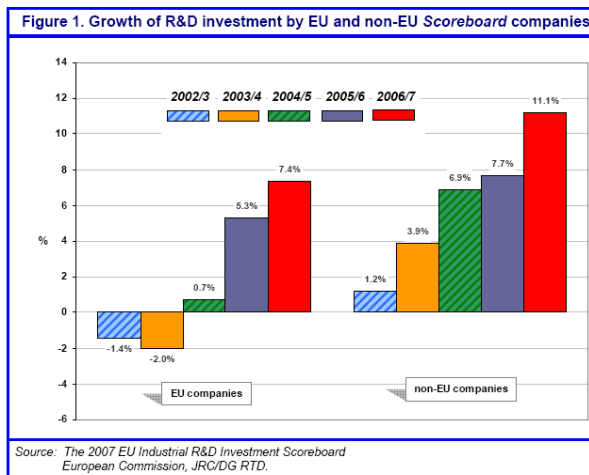
Forecast adjusted EPS are 24.9p per share, 2.5% higher than in the full year to 30 November 2007. Our forecast DPS for the year to 30 November 2008 is for 10p per share - this represents a 40% dividend pay-out ratio.

Longer term Murgitroyd’s board and management remain confident in the outlook ahead. According to the European Patent Office, Patent grants increased by 7% year on year in 2006. Trade Marks, in their turn, increased by 14% in the 2007 year (Community Trade Mark Office statistics, 2007). This growth is itself reflected in Murgitroyd’s own top line.

Murgitroyd and the IP Market Place

Murgitroyd now has twelve offices in eight countries – England, Scotland, Ireland, Spain, Germany, France, Italy and the US – in the US the company employs a sales team committed to growing Murgitroyd’s international reach.

According to a June 2007 European Commission paper on Science and Innovation in the EU, investment on R&D by EU countries increased by 7.4% in 2006 while investment in R&D by non-EU countries increased by 11.1%. Much of the increase in investment is thought to have come from the US where the top 4 R&D investors in the world are based - Pfizer, Ford Motor Company, Johnson & Johnson and Microsoft. The same study also revealed that the US as a single country dominates expenditure on R&D.



Imminent Acquisition

Acquisitions play an important part in Murgitroyd’s growth strategy and the Group has announced that a Heads of Terms has been entered into in respect of what, if it goes ahead, will be Murgitroyd’s fourth acquisition in the space of three years. A further announcement on this is expected imminently.

The ability to acquire good quality Patent and Trade Mark practices has been an important addition to Murgitroyd’s organic growth. The Intellectual Property industry is characterised by a lack of qualified Attorneys. According to a recent article in the Economist, The State of Intellectual Property Education Worldwide, “even in some of the world’s most advanced countries a severe shortage of staff exists”.

By both investing in the training of its own employees and by growth through acquisition Murgitroyd will be able to mitigate the negative impact inherent in this supply shortage. The pipeline of potential acquisition targets remains healthy.

London Agreement

On 30 January the French Government confirmed that it had deposited its instrument of ratification in respect of the London Agreement in Germany. The implication of this is that the Agreement will come into force on the 1st of May.

The main aim of the London Agreement is to reduce the costs associated with issuing Patents by introducing a new translation regime. For AIM listed RWS Holdings, a Patent translation and search company, the impact will certainly be large and the company has taken moves to mitigate this, through the acquisition earlier this month of Berlin based Document Service Center. For Murgitroyd, where translation charges account for a very low percentage of company turnover the impact is expected to be minimal.

Valuation Comment

Murgitroyd’s shares, as with many others, are far below the 520p high of this time last year. Both Murgitroyd and RWS Holdings are trading at higher multiples than the Support Services sector median of 12.6x prospective earnings, however the sector benchmark contains a number of companies with greater cyclical exposure. Relatively speaking, on a prospective earnings basis, Murgitroyd is priced slightly cheaper than is the nearest other available UK listed play on the Intellectual Property market.

Profit and loss, year to 31 May £000	2004A	2005A	2006A	2007A	2008E	2009E
Turnover	12,287	14,456	18,837	22,843	24,882	26,709
sales change %	16.3%	17.7%	30.3%	21.3%	8.9%	7.3%
cost of sales	(4,087)	(4,784)	(7,012)	(7,814)	(8,360)	(8,906)
Gross profit	8,200	9,672	11,825	15,029	16,522	17,802
Gross profit margin %	66.70%	67%	62.8%	65.8%	66.4%	66.7%
administrative expenses	(7,168)	(8,170)	(9,752)	(11,815)	(13,100)	(14,259)
Operating profit	1,032	1,502	2,073	3,214	3,421	3,543
operating margin	8.4%	10.4%	11.0%	14.1%	13.8%	13.8%
onerous lease provision					(200)	
net interest payable	(62)	(126)	(201)	(273)	(283)	(272)
interest cover X	17	12	10	12	12	13
Net profit before tax	970	1,376	1,872	2,941	2,938	3,271
tax	(313)	(434)	(697)	(931)	(999)	(1,047)
effective tax rate %	32%	32%	37%	32%	34%	32%
Net profit after tax	657	942	1,175	2,010	1,939	2,224
Goodwill amortisation	(360)	(430)	(527)			
Avg No. Shares in Issue m.	8.28	8.28	8.28	8.307	8.307	8.307
Adjusted Earnings Per Share	7.9	11.4	14.2	24.2	24.9	26.8
Dividend Per Share	2.0	3.32	4.65	9.00	10.00	12.00

*Accounts are IFRS based from 2007 on

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