hardman&co

Leaders in Corporate Research

Murgitroyd Group PLC

Delivery according to plan

340p

01 September 2008

Share Price: 340p

Source – Reuters

12m High: 497.5p

12m Low: 250.0p

Market Cap: £28.6m

Shares in Issue: 8.4m diluted

Gearing: 60%

Interest Cover: 10X

EPIC Code: MUR.L

Sector: Support Services

Market: London AIM

Nominated Advisor & Broker: Noble Group

PR: Cardew Group

Website: www.murgitroyd.com

Description: European Trade Mark and Patent Attorney practice headquartered in Glasgow with offices in Aberdeen, Belfast, Dublin, Edinburgh, London, Milan, Muenster, Munich, Newcastle, Nice, York and a sales office in the US.

Analyst: Rae Ellingham

Tel: +44(0)20 7929 3399

Email: rae@hardmanandco.com

European Patent and Trade Mark Attorney, Murgitroyd Group, has released its full year results to 31 May 2008. As flagged in a trading update issued in July the company has delivered very much according to plan.

Key take-outs from the results are:

- Turnover of £25.7m 12% higher than 2007's turnover of £22.8m and marginally ahead of our own forecast of £25.5m.
- Normalised operating profit of £3.4m 7% higher than the £3.2m earned in 2007.
- Pre-tax profit of £2.9m on par with the previous year following a one off onerous lease provision relating to a lease acquired following Murgitroyd's acquisition of Glasgow based Fitzpatricks.
- Adjusted EPS of 25.3p per share 4.5% higher than in 2007.
- Interim dividend of 3p per share paid and final dividend of 6.5p per share proposed bringing the full year dividend to 9.5p per share.
- Cash flow generated from operating activities of £1.7m 6% higher than that generated in 2007.
- Following the acquisition of Kennedys in February 2008 gearing has increased. Gearing now stands at 60% compared to last year's more conservative 34%.

Despite an environment in which one might expect to see cost cutting measures hitting Research and Development expenditure there does not appear to have been any negative impact on Murgitroyd's business.

Applications for both Patents and Trade Marks continue to grow at a healthy pace and Murgitroyd's Chairman has announced that "the new financial year has started positively". We have made minor adjustments to our 2009 forecasts and forecast out to 2010. As ever Murgitroyd continues to deliver.

Y/E	Sales	Declared Profit	Adjusted Profit	Adjusted EPS	P/E ratio	Div	Yield
May	£m	£m	£m	p.	x	p.	%
2007A	22.8	2.9	2.9	24.2	14.0	9.0	2.6
2008A	25.7	2.9	3.1	25.3	13.4	9.5	2.8
2009E	29.8	3.6	3.6	29.9	11.4	11.3	3.3
2010E	31.3	3.8	3.8	31.9	10.6	12.0	3.5

The 2008 Full Year Results

Y/E May	2008	2007	Change
(£m)	Actual	Actual	%
Sales	25.7	22.8	12
Gross Profit	17.2	15.0	14
Gross Profit Margin	*67%*	*66%*	
EBIT*	3.4	3.2	7
EBIT Margin	*13%*	*14%*	
Pre-tax Profit	2.9	2.9	-2
Net Income	2.0	2.0	-
Diluted EPS	23.3p	23.4p	-
Dividend	9.5p	9.0p	

*Prior to onerous lease provision

"top line sales of £25.7m were fractionally ahead of our forecast …. while pre-tax profit of £2.9m was spot on"

European Patent and Trade Mark Attorney, Murgitroyd Group, announced in a trading update in July that the company's financial results for the year ending 31 May 2008 were expected to be in line with market expectations and the Group has delivered according to plan.

Top line sales of £25.7m were fractionally ahead of our forecast sales figure of £25.5m while pre-tax profit of £2.9m (after allowing for a one-off onerous lease provision) was spot on.

2008 sales include for the first time a contribution from Kennedys Patent Agency Limited, the Glasgow based Patent and Trade Mark Attorney practice that Murgitroyd acquired in late February of this year. This acquisition is expected to add circa £3.0m to Murgitroyd's top line.

At 67% the gross profit margin was slightly higher than in the previous year and more in line with the gross margins that Murgitroyd has earned historically – prior to the company's acquisition of Fitzpatricks in 2006. The higher margin over that earned in 2007 (65.8%) reflects the business mix during the year between Patents which are a higher margin business and Trade Marks which are lower margin. Depending on the particular business mix in a given year gross margins could range from anywhere between 64% to 70%.

Normalised operating profit of £3.4m was 7% higher than the £3.2m earned in 2007. The operating margin itself was down from 14.1% to 13.4% representing in the main higher payroll costs which increased from 38% of turnover in 2007 to 40% of turnover in 2008. The average number of professional staff employed by Murgitroyd increased from 68 to 77 over the financial year while the average number of office and support staff increased from 123 to 139. At the year end the number of professional staff was 87.

Declared operating profit of £3.2m after a £200,000 one-off onerous lease provision was in line with that earned in the 2007 year. The provision relates to Murgitroyd's lease of Fitzpatricks' former offices following the acquisition in 2006. With Fitzpatricks' staff relocated to Murgitroyd's own offices these offices were vacated and subsequently sub-let. Accounting rules require that future costs associated with a lease be brought forward where the expected future income generated by a sub-let does not offset the related lease costs. The provision is a non cash charge.

Net income of £2.9m and diluted EPS of 23.3p were on par with earnings in 2007. After adjusting for the onerous lease provision adjusted diluted EPS were 25.3p per share, 4.5% higher than in 2007 and 1.2% higher than our own forecast.

A maiden interim dividend of 3p per share was paid earlier in the year and a final dividend of 6.5p per share has been proposed bringing the full year dividend to 9.5p. We were forecasting a full year dividend of 10.0p per share.

Cash flow and Balance Sheet

Cash flow generated from operating activities in the year to end May 2008 was at £1.7m slightly higher than 2007's £1.6m. After allowing for the costs involved in completing the Kennedys acquisition - £3.0m net of cash acquired – and the proceeds from loans received net cash decreased by £668,000 during the year.

As at 31 May 2008 cash and cash equivalents were - £424,000 reflecting a cash balance of £467,000 offset by a bank overdraft of £891,000. Net debt stood at £8.2m versus £4.3m in 2007.

Trade receivables at £8.5m represented 120 days outstanding in 2008 versus 110 days in 2007. Trade payables at £3.0m represented 128 days versus 87 days in 2007.

Intangible assets primarily reflecting the goodwill element paid for acquisitions increased by £3.7m to £14.2m following the Kennedys acquisition. Gearing (including intangibles) stood at close to 60% compared to a considerably more conservative 34% at the previous year end. While Murgitroyd's management are very comfortable with this level of gearing the team does not envisage undertaking any acquisitions of size which would dramatically increase this current level. A debt-funded acquisition near term would more likely be of a similar size to the acquisition of Cabinet Bonneau which took place in 2005 and could even be funded out of cash flow.

"Gearing (including intangibles) stood at close to 60% compared to a considerably more conservative 34%"

Despite the higher level of gearing interest cover remains a healthy 10x.

Revenues by Geographical Market

Country	Year End	Year End	Change
	May 2008 (£000)	May 2007 (£000)	%
United Kingdom	16,222	13,958	16
USA	3,055	3,101	(1)
France	1,721	1,890	(9)
Japan	1,106	1,105	-
Republic of Ireland	847	467	81
Other	2,742	2,322	18

While the bulk of Murgitroyd's revenues are earned in the UK (63%) the US, France, Japan and Ireland are all key markets contributing 12%, 7%, 4% and 3% respectively. The remaining 11% of revenues are earned across a number of countries, including Germany, Italy, The Netherlands, Canada, Australia, Switzerland and South Africa. Business in Ireland has grown particularly strongly and this reflects a combination of increased clients, higher staff numbers in the country and the temporary secondment of practicing Attorneys.

Kennedys Acquisition

The acquisition of European and Patent Trade Mark Attorney practice, Kennedys, in late February 2008 added 21 to Murgitroyd's staff, fifteen of whom are fee earning and six of whom are qualified Attorneys.

Consideration paid for Kennedys was £3.4m with £2.4m paid in cash and the remainder due over three years. Kennedys' turnover in the year to 31 August 2007 was circa £3.3m. Following the acquisition Murgitroyd now has an office in Newcastle.

People

The post-acquisition contractual terms of employment of the senior personnel retained following Murgitroyd's acquisition of Castles have now ended and David Castle, Mark Hickey and Emma Hodson have all remained with the Group. David Castle has taken up the position of Executive Deputy Chairman and also chairs Murgitroyd's Business Development Group.

Total staff numbers 226, 65 of whom are qualified Attorneys. Including the 21 people who joined the Group following the acquisition of Kennedys, new staff have been recruited across various geographical locations. Including those joining from Kennedys, eleven new Attorneys have been brought on board during the financial year while an additional eight professional staff qualified during the period.

Outlook and Forecasts

Despite the current environment in which many businesses are cutting their cost bases the outlook for Murgitroyd and the sector in which it operates appears to be comparatively positive and Murgitroyd's Chairman is "confident of our ability to generate steady growth and value for shareholders".

In fact there is a possibility that the current environment may prove positive for Murgitroyd. When times are tough and businesses are cost-cutting (anecdotal evidence suggests that budgets are being cut across the board) thoughts often turn to out-sourcing and the out-sourcing of IP is not unknown. In 2006 Murgitroyd itself took over the function of Coats plc's Trade Mark department transferring three staff to Murgitroyd along with 7,000 Trade Mark files.

The number of applications for Patents and Trade Marks continues to grow. According to the Annual Report of the European Patent Office (June 2008) European Patent applications grew by 3.6% in 2007 while statistics from the European Community Trade Mark office show growth in Trade Mark applications of 13.9%.

"European Patent applications grew by 3.6% in 2007 while Trade Mark applications grew by 13.9%"

The year has started positively for Murgitroyd and without any information to the contrary we see no reason to adjust our assumptions for the 2009 year. We have, however, made marginal changes lifting our gross margin assumption to reflect Murgitroyd's performance in 2008. We have also adjusted our tax estimate to reflect the new standard UK tax rate of 28%.

While we acknowledge that there has been no impact on Murgitroyd's performance to date as a result of the deteriorating economic environment we have nevertheless taken a conservative view for the year to 31 May 2010 allowing for an underlying growth rate of circa 5% (cf a historic organic growth rate of circa 10%).

Our new estimated EPS forecast for 2009 is for 29.9p per share (previously 28.0p per share) and our estimated EPS forecast for 2010 is for 31.9p per share. Our DPS forecast for 2009 is for 11.25p per share and for 2010, 12.0p per share.

Consolidated Income Statement – Year End May 2008

Profit & Loss	Year End	Year End	Year End	Year End	Year End
Y/E May £000	2006A	2007A	2008A	2009E	2010E
Turnover	**18,837**	**22,843**	**25,693**	**29,776**	**31,265**
sales change	30.3%	21.3%	12.5%	15.9%	5.0%
cost of sales	(7,012)	(7,814)	(8,540)	(9,886)	(10,380)
Gross Profit	**11,825**	**15,029**	**17,153**	**19,891**	**20,885**
Gross profit margin	*62.8%*	*65.8%*	*66.8%*	*66.8%*	*66.8%*
administrative expenses	(9,752)	(11,815)	(13,719)	(15,841)	(16,602)
Operating Profit	**2,073**	**3,214**	**3,434**	**4,050**	**4,283**
operating margin	*11.0%*	*14.1%*	*13.4%*	*13.6%*	*13.7%*
onerous lease provision			(200)		
net interest payable	(201)	(273)	(358)	(472)	(472)
interest cover X	*10*	*12*	*10*	*9*	*9*
Net Profit Before Tax	**1,872**	**2,941**	**2,876**	**3,578**	**3,811**
Tax	(697)	(934)	(876)	(1,054)	(1,119)
Effective tax rate %	*37%*	*32%*	*30%*	*29%*	*29%*
Net Profit After Tax	**1,175**	**2,007**	**2,000**	**2,524**	**2,692**
Adjusted EPS	**14.2**	**23.8**	**25.3**	**29.9**	**31.9**
Dividend Per Share	**4.65**	**9.00**	**9.50**	**11.25**	**12.00**

Management	Major Shareholders	
Chairman: Ian Murgitroyd	Ian George Murgitroyd	29.5%
Deputy Chairman: David Castle	Chase Nominees Ltd	13.9%
CEO & Finance Director: Keith Young	State Street Nominees Ltd	8.5%
	Liontrust Asset Management PLC	8.3%
	Elizabeth-Anne Thomson	4.7%
	G Edward Murgitroyd	4.7%
	BNY (OCS) Nominees Ltd	3.8%

Key Dates	Key Milestones
AGM: 30 October 2008	**1975** Ian Murgitroyd & Co founded in Glasgow as a sole Proprietor
Next Interim Results: 11 February 2009	**1977** Murgitroyd & Company created as a partnership
Next Full Year Results: 1 September 2009	**1993** Murgitroyd & Company Limited incorporated
	2001 Murgitroyd Group PLC formed and listed on AIM Existing offices in Glasgow, Aberdeen, London, Munich, Belfast and Dublin
	2002 Offices opened in Nice
	2003 Expands Nice office with acquisition of Cabinet Bonneau Office opened in Muenster
	2005 Acquires London based Castles and opens office in York
	2006 Acquires Glasgow based Fitzpatricks
	2007 Offices opened in Edinburgh and in Milan US sales presence established
	2008 Acquisition of Kennedys, a European Patent and Trade Mark Attorney practice headquartered in Glasgow and with offices in Newcastle

Disclaimer

The conclusions and opinions expressed in the investment research accurately reflect the views of the first named analyst. Hardman & Co provides professional independent research services and the companies researched pay a set fee in order for this research to be made available. While the information in the research is believed to be correct, this cannot be guaranteed. There are no other conflicts of interest.

Neither Hardman & Co nor the analysts responsible for this research own shares in the companies analysed in this research note. Neither do they hold any other securities or derivatives (including options and warrants) in the companies concerned. Hardman & Co does not transact corporate finance and therefore does not earn corporate finance fees. It does not buy or sell shares, and does not undertake investment business either in the UK or elsewhere.

Hardman & Co does not make recommendations. Accordingly we do not publish records of our past recommendations. Where a Fair Value price is given in a research note this is the theoretical result of a study of a range of possible outcomes, and not a forecast of a likely share price.

Our research is issued in good faith but without legal responsibility and is subject to change or withdrawal without notice. Members of the professional investment community are encouraged to contact the analyst concerned.

This research is provided for the use of the professional investment community, market counterparties and sophisticated and high net worth investors as defined in the rules of the regulatory bodies. It is not intended to be made available to unsophisticated individuals. In the UK, any such individual who comes into possession of this research should consult their properly authorized professional adviser, or undertake one of the 'self certified' sophisticated investor tests that are available.

This research is not an offer to buy or sell any security.

Past performance is not necessarily a guide to the future and the price of shares, and the income derived from them, may fall as well as rise and the amount realised may be less than the original sum invested. For AIM and PLUS shares, it is the opinion of the regulator that risks are higher. Furthermore the marketability of these shares is often restricted.

This document must not be accessed or used in any way that would be illegal in any jurisdiction.

In some cases research is only issued electronically and in some cases printed research will be received by those on our distribution lists later than those receiving research electronically.

The report may be reproduced either whole or in part on condition that attribution is given to Hardman & Co, and on condition that Hardman & Co accepts no liability whatsoever for the actions of third parties in this respect.

Hardman & Co is not regulated by the Financial Services Authority (FSA).

Hardman & Co
4 - 5 Castle Court
London
EC3V 9DL
United Kingdom

Tel: 020 7929 3399
Fax: 020 7929 3377

www.hardmanandco.com

hardman&co