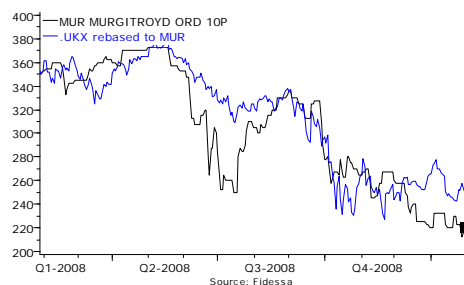


Murgitroyd Group PLC 220p Interims and an Acquisition

2 February 2009

Share Price: 220p



Source – Fidessa

12m High: 395p

12m Low: 217.5p

Market Cap: £18.6m

Shares in Issue: 8.4m diluted

Gearing: 51%

Interest Cover: 7.6x

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.

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European Patent and Trade Mark Attorney, Murgitroyd Group PLC (“Murgitroyd”), has this morning released its interim results for the period ended 30 November 2008. Key points are:

- 1H top line growth of 16.7% over the 1H ended 30 November 2007. After stripping out any contribution from Kennedys Patent Agency Limited organic growth of circa 2.5%.
- Gross profit up 13% - gross margins down from 66% to 64% reflecting sales mix and pricing pressure - gross margins have over the past several years typically ranged between 62% and 68%.
- Administration expenses down from 52% of turnover to 50% and normalised operating profit up 16.8%.
- Earnings per share of 13.9p up 37.0% on the prior half year.
- Cash flow from operating activities a healthy £1.8m while net debt improved to £7.3m resulting in lower gearing.
- Interest cover a healthy 7.6x and comfortably within banking covenants.
- An interim dividend of 3p has been proposed.

Subsequent to the end of the reporting period Murgitroyd has acquired London based Patent and Trade Mark Attorney practice, Raworth Moss & Cook, for total consideration of £700,000 (including net assets). The acquisition has been completed with debt financing and immediate administrative savings should be achieved.

While there have been a number of lay-offs in the legal sector over recent months, predominantly in the City, the Intellectual Property space does not appear to have been particularly affected to date.

There were no great surprises in this set of results and we regard Murgitroyd as a company that investors can rely on to consistently perform. Despite a difficult macroeconomic backdrop Murgitroyd’s management continue to grow earnings per share.

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	23.8	9.1	9.0	4.1
2008A	25.7	2.9	3.1	25.3	8.7	9.5	4.3
2009E	29.6	3.6	3.6	29.9	7.4	9.5	4.3
2010E	31.3	3.9	3.9	32.3	6.8	10.0	4.5

Interim Results – Year End May 2009

HY/E Nov	2008	2007	Change
(£m)	Actual	Actual	%
Sales	14.2	12.2	+17
Gross Profit	9.1	8.0	+13
<i>Gross Profit Margin</i>	<i>64%</i>	<i>66%</i>	
EBIT*	1.9	1.7	+17
EBIT	1.9	1.5	+33
<i>EBIT Margin</i>	<i>14%</i>	<i>12%</i>	
Pre-tax Profit	1.7	1.3	+28
Net Income	1.2	0.9	+36
Diluted EPS	13.9p	10.1p	+37
Dividend	3.0p	3.0p	-

“Sales and normalised EBIT both up by 17%”

*Normalised for an onerous lease provision

Murgitroyd’s 1H09 sales were at £14.2m 16.7% higher than the £12.2m earned in 1H08. However, the 1H09 included a contribution from Kennedys Patent Agency Limited (“Kennedys”) a business that Murgitroyd acquired in late February 2008. Kennedys turned over circa £3.3m in the year to 31 August 2007. If we strip the contribution of Kennedys from Murgitroyd’s results underlying organic growth was circa 2.5%.

Gross margin earned deteriorated slightly from 66% to 64% reflecting the mix of work undertaken at Murgitroyd. Margins will vary depending on whether it is Patent or Trade Mark work that is completed, who the client is, and depending on the amount of work undertaken in-house (which can be charged out at an hourly rate) versus work that is outsourced (typically in countries where Murgitroyd does not have a physical presence). Historical accounts for the company show that margins typically lie in a range of between 62% and 68%.

“Margins typically lie in a range of between 62% and 68%”

Administration expenses at £7.1m were 8.8% higher than the previous half year’s £6.6m. However expenses in 1H08 included a one-off onerous lease provision of circa £200,000. After normalising for this one-off event administration expenses were 12.2% higher. As a percentage of turnover normalised expenses decreased from 52% to 50% and normalised operating profit rose by 16.8%. This increased efficiency in admin costs has largely been achieved through synergies arising as a result of Murgitroyd’s acquisition of Kennedys combined with a focus on overhead control, including payroll costs.

Net profit before tax increased by 36.4% while earnings per share at 13.9p were 37.0% higher than the prior 1H’s earnings per share. On a normalised basis net profit before tax was up 11.0%.

Balance Sheet and Cash Flow Statement

Cash flow from operating activities was a healthy £1.8m buoyed by a positive £223,000 movement in working capital. After allowing for acquisition costs, dividend payments and financing charges the company’s net debt position has improved to £7.3m. As at 30 November 2008 Murgitroyd’s cash in bank was £938,000.

Debt/equity at the end of the period was 51%, slightly lower than at the May full year end. However, it should be noted that Murgitroyd’s balance sheet contains a significant goodwill element (£14.2m) arising from previous acquisitions.

Murgitroyd Group

2 February 2009

As at the end of November 2008 Murgitroyd's Term Loan debt was priced at 1% above LIBOR. In addition deferred acquisition payments incur notional interest; around 10% of this debt incurs charges at 4.75% while a further 13% of this debt incurs notional interest at 5.25%. Term loan repayments are based on fixed schedules with close to 60% of debt not due for over 5 years.

Interest cover remains a healthy 7.6x and the company traded well within its banking covenants. Murgitroyd has two covenants; one relating to earnings and one relating to cash flow. Both covenants were re-set by Murgitroyd's bankers, Clydesdale Bank PLC (a subsidiary of the National Australia Bank) in January 2008 at the time that the company sought funding for the Kennedys acquisition. Murgitroyd's position in relation to its banking covenants is reviewed by management on an ongoing basis and is formally measured on a quarterly basis.

“Interest cover remains a healthy 7.6x and the company traded well within its banking covenants”

Debtors at £9.8m has grown by 28.3% in contrast to growth in sales of 17%. The number of days outstanding appears to be higher than in the past and is likely reflective of the current economic environment where many customers are conserving their cash and taking longer to pay their accounts. Historically Murgitroyd's exposure to bad debts has been less than 1% of sales and the company appears to be managing its working capital position, with as noted above, working capital contributing positively to the 1H cash flow position.

2H Acquisition of Raworth Moss & Cook

Murgitroyd announced in December of last year that the company had entered into Non-binding Heads of Terms to acquire a party and this acquisition was completed on in mid January. Consideration of £700,000 has been paid for the business of Raworth Moss & Cook (“Raworth”), an Attorney practice based in Croydon, South London. £500,000 was paid up-front on completion with a further £200,000 due for the acquisition of the practice's net assets on the first anniversary of the completion date. The initial £500,000 was financed through an additional loan provided by Clydesdale Bank PLC. This loan is priced at LIBOR plus 2%.

Stephen Wise and Graham Feakins, the equity partners of Raworth, are to stay with Murgitroyd along with two other professional fee earning staff and five support staff. A further four support staff and three self-employed contractors have left the firm. The acquisition is expected to result in immediate administrative savings with the remaining Raworth staff moving into Murgitroyd's existing London premises. Thirty-six of Murgitroyd's total 240 staff will now be based in London. With 13 fee earners now employed in the capital and new corporates added to Murgitroyd's client base additional revenue should be forthcoming.

Raworth's turnover in the year to 30 April 2008 was £1.4m implying a price to sales multiple (inclusive of net assets) of 0.5. As the event occurred post balance date there was no financial impact in the 1H of 2009. Murgitroyd's management will continue to look at potential acquisition opportunities where they are earnings enhancing and will add to long term fee earning capacity.

Shares Pledged as Security

On 17 December Murgitroyd released a statement informing the market that Ian Murgitroyd, Executive Chairman, has pledged 48% of his shares (1,188,274 shares) in Murgitroyd as security against lending obligations. The agreement referred to dates back to 2002 and the value of the shares is well above any lending obligations under the agreement.

The issue of executives pledging shares as securities has been in the media of late with “Carphone Warehouse founder, David Ross, revealing that he has pledged shares in companies where he holds directorships to banks in returns for personal loans”, and Michael Spencer, Conservative party treasurer, disclosing that he has “used shares in Numis, the City stockbroker that he chairs, as security against a loan”.

While disclosure of such pledges is not required under AIM rules disclosure is required to the company concerned and, it seems, wider disclosure may be deemed to be prudent.

Outlook and Forecasts

The Market -

The legal profession itself is not immune to the current economic downturn. Research undertaken by "The Lawyer" has shown that there has been a raft of redundancies across the profession primarily in the South East and London. Unsurprisingly the majority of redundancies/expected redundancies are in real estate and conveyancing closely followed by capital markets, structured finance and general banking. Most recently Clifford Chance, a leading world-wide law firm, has announced that between 70 to 80 lawyers are to leave the firm's London offices with redundancies to be made across all sectors.

A recent survey by Legal Week indicated that Employment, Intellectual Property and Litigation are areas not generally regarded as particularly vulnerable. According to a recent article in IAM Magazine "a quick trawl of stats relating to previous sessions showed that in the early 1980s, early 90s and when the dotcom boom went south, there were spikes in the amount of US Patent litigation, while Patent filings grew at a normal rate".

"when the dot com boom went south there were spikes in the amount of US Patent litigation"

The European Patent Office ("EPO") has reported a 4% year on year increase in the filing of European Patents in 2007 while the Community Trade Mark ("CTM") Office has reported a small decrease in filings in 2008. Trade Mark applications are more likely to be down in a recession than are Patents because they are typically related to branding and marketing, areas which will be under cost pressure. Patent filings under the World Intellectual Property Organisation's ("WIPO") Patent Cooperation Treaty grew by 2.4% in 2008. This compares to an average growth rate of 9.3% over the past three years. Patent filings "tend to dip during periods of economic difficulty simply because fewer resources are available for investment in the innovation cycle". According to French statistics Patent filings in 2008 were up 1.6% over filings in 2007 compared to an increase of 3.3% in 2007 over the 2006 year while 2008 Trade Mark filings were down 0.6% year on year.

Forecasts -

In the current market many companies are finding their customers less eager to spend, and this reluctance to spend is likely to impact spending on Intellectual Property as much as anywhere else. With this in mind we are taking a more cautious view going forward and given Murgitroyd's 1H result numbers we have lowered our base full year 2009 turnover target from £29.9m to £29.2m. To this lower full year turnover we have, however, added a revenue contribution from the recent acquisition of Raworth of £470,000 bringing our new full year turnover target to a slightly less reduced £29.6m. After incorporating the contribution from Raworth, but taking into account the usual early months' costs of integration, our net profit before tax forecast for 2009 is unchanged at £3.6m as is our earnings per share forecast of 29.9p. Our new targets for 2010 are turnover of £31.3m, net profit before tax of £3.9m and earnings per share of 32.3p. The Raworth acquisition could be a solid earner providing an added uplift to Murgitroyd's earnings per share.

Given the extent to which economic conditions have deteriorated since our last note, we are now taking a more conservative stance on Murgitroyd's dividend pay-out. Whereas before we were predicting an increase in line with earnings we are now holding the dividend constant for this financial year taking the view that in a highly uncertain environment it is prudent to hold on to cash. We note that as at the end of May 2008 Murgitroyd had circa £980,000 in vendor loan notes and deferred consideration due in the current year. £300,000 in loan notes has since been repaid and free cash flow generated during the year to May 2009 should easily cover these obligations.

Murgitroyd now operates thirteen offices in eight countries. Growth is ongoing and during the half year new staff have been employed in Murgitroyd's London, Milan and Dublin offices. The company's US sales team has also been added to. Our view on Murgitroyd and its prospects has not changed – we continue to regard the company as a stable, well managed one which should continue to be a consistent performer.

Consolidated Income Statement – Year End May

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	29,645	31,304
sales change %	30.3%	21.3%	12.5%	15.4%	5.6%
cost of sales	(7,012)	(7,814)	(8,540)	(10,655)	(11,252)
Gross profit	11,825	15,029	17,153	18,990	20,052
<i>Gross profit margin %</i>	<i>62.8%</i>	<i>65.8%</i>	<i>66.8%</i>	<i>64.1%</i>	<i>64.1%</i>
administrative expenses	(9,752)	(11,815)	(13,719)	(14,948)	(15,800)
Operating profit	2,073	3,214	3,434	4,043	4,252
<i>operating margin</i>	<i>11.0%</i>	<i>14.1%</i>	<i>13.4%</i>	<i>13.6%</i>	<i>13.6%</i>
onerous lease provision			(200)		
Net interest payable	(201)	(273)	(358)	(472)	(402)
<i>interest cover X</i>	<i>10</i>	<i>12</i>	<i>10</i>	<i>9</i>	<i>11</i>
Net profit before tax	1,872	2,941	2,876	3,571	3,850
Tax	(697)	(934)	(876)	(1,052)	(1,130)
<i>effective tax rate %</i>	<i>37%</i>	<i>32%</i>	<i>30%</i>	<i>29%</i>	<i>29%</i>
Net profit after tax	1,175	2,007	2,000	2,519	2,720
Adjusted earnings per share	14.2	23.8	25.3	29.9	32.3
Dividend per share	4.65	9.00	9.50	9.50	10.00

Murgitroyd Group

2 February 2009

Management	Major Shareholders										
<p>Chairman: Ian Murgitroyd</p> <p>Deputy Chairman: David Castle</p> <p>CEO & Finance Director: Keith Young</p>	<table> <tr> <td>Ian George Murgitroyd</td> <td>29.1%</td> </tr> <tr> <td>Chase Nominees Ltd</td> <td>15.8%</td> </tr> <tr> <td>State Street Nominees Ltd</td> <td>7.8%</td> </tr> <tr> <td>Elizabeth-Anne Thomson</td> <td>4.7%</td> </tr> <tr> <td>G Edward Murgitroyd</td> <td>4.7%</td> </tr> </table>	Ian George Murgitroyd	29.1%	Chase Nominees Ltd	15.8%	State Street Nominees Ltd	7.8%	Elizabeth-Anne Thomson	4.7%	G Edward Murgitroyd	4.7%
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G Edward Murgitroyd	4.7%										
Key Dates	Key Milestones										
<p>Next Full Year Results: August 2009</p> <p>AGM: October 2009</p> <p>Next Interim Results: February 2010</p>	<p>1975 Ian Murgitroyd & Co founded in Glasgow as a sole Proprietor</p> <p>1977 Murgitroyd & Company created as a partnership</p> <p>1993 Murgitroyd & Company Limited incorporated</p> <p>2001 Murgitroyd Group PLC formed and listed on AIM Existing offices in Glasgow, Aberdeen, London, Munich, Belfast and Dublin</p> <p>2002 Offices opened in Nice</p> <p>2003 Expands Nice office with acquisition of Cabinet Bonneau Office opened in Muenster</p> <p>2005 Acquires London based Castles and opens office in York</p> <p>2006 Acquires Glasgow based Fitzpatricks</p> <p>2007 Offices opened in Edinburgh and in Milan US sales presence established</p> <p>2008 Acquires Kennedys, a European Patent and Trade Mark Attorney practice headquartered in Glasgow and with offices in Aberdeen and Newcastle</p> <p>2009 Acquires Raworth Moss & Cook, London based European Patent and Trade Mark Attorney practice</p>										

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