

An elegant solution

24 May 2022

The decision to transfer the bulk of Driver Group's UAE office to a Counterparty solves an ongoing cash collection issue and saves on exceptional (and cash heavy) costs at the same time: a masterstroke in our opinion. The level of cost savings will be a multiple of previous expectations, with improved cash flow, profitability, and higher consultant utilisation levels in Europe another positive side effect. This elegant solution gives confidence in the strength of leadership now in situ within the Group. With the potential for a return of cash to investors, we expect the share's valuation to reflect such a positive outcome.

Management has provided an update on its operational review of the Middle Eastern region, which in this instance focuses predominantly on the UAE. The solution arrived at is simple and yet quite brilliant, exceeding prior expectations. We highlighted in our note following the update at the end of March that cost savings would amount to £1m+, result in marginal office closures and a thinning of headcount elsewhere. In addition, management would seek to focus on core clients, higher-margin segments, improved utilisation levels and improved recoverability of trade receivables. Instead:

- **25 employees will be transferred to an unnamed third-party** ("Counterparty"), from the Group's offices in the UAE and Malaysia (those restricted to operating in the Middle East only). The Counterparty will retain several live assignments, subject to restrictive covenants relating to core clients and outstanding employees of Driver Group. **Ordinarily, termination costs would be borne by Driver in reducing headcount, but the nature of the transfer precludes this.**
- **The scale of the anticipated savings is markedly ahead of initial expectations at an annualised £3m+**, suggesting £1m between the 1 June date of the transfer and the end of the year.
- The recovery of trade receivables has long been an issue in the region, most recently in Oman. **The deal agreed with the Counterparty reflects a payment of £2m** to be received at the time of transfer, coupled with assistance on collecting the other £1.5m owed to Driver Group. The £2m represents more than half of the existing regional debtor book. The bulk of the trade receivables relates to ongoing business and retained employees.
- **The transfer is likely to be beneficial on a cash and working capital basis moving forward**, not least due to headcount reducing from 34 to nine in the UAE, with the European offices helping on the higher margin contracts, in turn resulting in higher utilisation levels. Profitability will be enhanced, as much of the lower margin projects will be retained by the Counterparty. The transfer should enable Driver to relocate to an office of appropriate size, thereby reducing costs further. The two remaining manned offices in the region, Oman and Qatar, are unaffected by the transfer, other than providing help in debtor collection.

The combination of the transfer taking time to fully work through, the lumpy nature of contracts and ongoing economic uncertainty still restrict visibility, resulting in no guidance provided for the full year. However, guidance for the forthcoming interims of PBT of £0.3m to £0.5m has been maintained.

Not only has the transfer elegantly solved several problems, but it has also **de-risked the Middle Eastern region for Driver Group**. The receipt of £2m as of 1 June results in net cash of c.£5.3m, ahead of normal operational requirements. **On this basis, Management has considered a return of cash to investors – which we believe could come in the form of either a special dividend or a share buy-back programme.**

Company Data

EPIC	DRV
Price (last close)	28p
52 weeks Hi/Lo	71p/21p
Market cap	£14.8m
ED Fair Value / share	49p
Net cash	£5.3m

Share Price, p



Source: ADVFN

Description

Driver Group is a multi-disciplinary consultancy group, with specialist commercial management, planning, programming, and scheduling, and dispute resolution support services to the engineering and construction industries.

Driver has 31 offices in 18 countries, including eight in the UK, five in Europe, four in the Americas, seven in APAC, and seven in the Middle East and Africa.

The business is split into the following reporting divisions: Europe and Americas (EuAm), Middle East (ME), and APAC.

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