

Hardman & Co

Leaders in Corporate Research

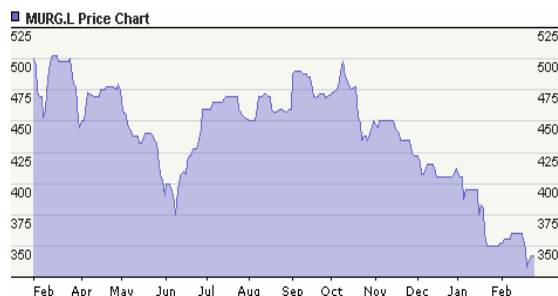
Tel: 020 7929 3399
Fax: 020 7929 3377

www.hardmanandco.com
email: research@hardmanandco.com

4 -5 Castle Court
London EC3V 9DL

Murgitroyd Group PLC Acquisition of Kennedys 342.5p

26 February 2008



We have been saying that an acquisition announcement from European Patent and Trade Mark Attorney, Murgitroyd, has been imminent and this has now been announced.

Murgitroyd has completed on the acquisition of Kennedys Patent Agency Limited for a consideration of approximately £3.4m. £2.4m has been paid in cash with the remainder deferred over three years.

Kennedys Patent Agency Limited is, like Murgitroyd, a European Patent and Trade Mark Attorney practice. Also like Murgitroyd, Kennedys is headquartered in Glasgow. For the year to 31 August 2007 Kennedys turned over circa £3.3m, while net profit before tax was £186,617. The company had total net assets of £41,000 as at the end of its last financial year.

Net liabilities as at completion are estimated at £200,000. The net liabilities have arisen primarily as the result of Kennedys' share in a heritable property which is excluded from the acquisition. This is reflected in the acquisition price paid of £3.4m.

Following the acquisition six qualified Attorneys, eight part-qualified Attorneys and five support staff will join Murgitroyd. The two Principals of Kennedys, Mr Kennedy and Mr McKechnie, along with several support staff, will leave the company on completion.

Share Price: 342.5p

12m High: 520p

12m Low: 332.5p

Market Cap: £28.4m

Shares in Issue: 8.3m

NAV/Share: 155p (incl. intangibles – as at 30 November 2007)

Gearing: 33% (incl. intangibles – as at 30 November 2007)

Interest Cover: 11.3x

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:
18 February 2007
“Growth by Acquisition?”

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	23.3	4.7	1.4
2007A	22.8	2.9	2.9	24.2	14.2	9.0	2.6
2008E*	25.5	2.9	3.1	25.0	13.7	10.0	2.9
2009E	29.6	3.5	3.5	28.0	12.2	12.0	3.5

*includes allowance for a one-off onerous lease provision

The enlarged Group's Glasgow operations will all be located in Murgitroyd's head office in Scotland Street, Glasgow. Kennedys' Aberdeen operations will transfer to Murgitroyd's Aberdeen office while Kennedys' Newcastle office will become Murgitroyd's twelfth European office location.

Following the acquisition of Kennedys Murgitroyd will have offices in 13 locations throughout eight countries – England, Scotland, Ireland, Northern Ireland, Germany, France, Italy and the US.

Murgitroyd has paid a multiple of circa 1.0x Kennedys' sales and a multiple of 17.7x Kennedys' net profit before tax. While this, on the face of it seems high, after adding back the two Principals' directors emoluments and other administrative savings, the multiple paid on net profit before tax falls to circa 3.8x. This compares to Murgitroyd itself trading on a net profit before tax multiple of 9.2x.

The acquisition is of a similar size to those completed by Murgitroyd in 2005 and 2006 when Murgitroyd acquired the business of Castles with turnover of approximately £3.4m and Fitzpatrick's with turnover of approximately £3.9m.

Murgitroyd reported its interim results for the six month period ended 30 November 2007 on 11 February. Following these results we upgraded our forecasts for the full year to 31 May 2008 lifting both turnover and gross margins slightly. Our forecasts prior to the acquisition of Kennedys were for full year 2008 sales of £24.9m and adjusted net profit before tax of £3.1m. Murgitroyd's accounts for the year to 31 May 2008 include a £200,000 one-off onerous lease provision. For the year to 31 May 2009 we were forecasting £26.7m in sales and £3.3m in net profit before tax.

After factoring in three months sales for Kennedys we are now looking for turnover in the year to 31 May 2008 of £25.5m and adjusted net profit before tax of £2.9m. Our new earnings per share forecast for the year is 25.0p, fractionally up from the 24.9p we were previously forecasting. For 2009 we are now forecasting sales of £29.6m and net profit before tax of £3.5m.

Our forecasts for Murgitroyd originally assumed a 66.4% gross margin was achievable for the 2008

year. The Kennedys business has in contrast been earning a slightly lower margin of 62.3%. We have pulled back our gross margin estimate to reflect the lower gross margins currently earned on the Kennedys business. Over time we would expect that Murgitroyd will work to bring the margins earned on the existing Kennedys business into line with the margins achieved on its own business. Murgitroyd's management has worked hard to improve its own margins, maintaining a continued focus on cost control and time based charging.

On the administration side we have normalised the cost base of Kennedys to reflect the absence of the two Principals who will have left Kennedys on completion. Directors' emoluments and pension contributions amounted to £332,000 in the year to 31 August 2007. With Murgitroyd retaining only one Director these costs will have significantly reduced on an ongoing basis. We have also added back the cost savings achieved through the departure of certain of Kennedys support staff and allowed for savings to be made from the relocation of certain Kennedys staff to Murgitroyd's existing office premises.

We are comfortable that Murgitroyd will have the capacity to maintain the earnings of Kennedys despite the absence of the Kennedys Principals given the recent hiring of five new Attorneys across the Murgitroyd Group. In addition, we understand that only one of the two departing Kennedys Principals had a client facing role.

On the financial side we have added in an additional interest charge to reflect the financing of the Kennedys acquisition. This transaction has been financed through facilities arranged with Clydesdale Bank PLC and will be funded by a term loan repayable at LIBOR + 1%.

It is pleasing to see Murgitroyd entering into another earnings enhancing deal and one that is expected to be immediately cash flow positive. This will be the company's fourth such acquisition in the space of three years. Completed through bank financing the deal will be non-dilutive.

In adding to its base of qualified Patent and Trade Mark Attorneys via acquisition Murgitroyd is building itself a strong brand name throughout the European Intellectual Property space.

The information in this document has been obtained from sources believed to be reliable, but cannot be guaranteed. Hardman & Co. can accept no liability for its contents. In the UK, this information is provided for the use of ordinary business investors, market counterparties and sophisticated investors, as defined in the rules of the Regulator, and is not intended to be made available to unsophisticated individuals. Hardman & Co. does not undertake investment business in the UK and therefore does not buy or sell shares, although it and individuals associated with it may own shares as long term investments. Hardman & Co. is commissioned by companies to produce research material, but estimates and content are, in all cases, those of Hardman & Co., not the companies concerned. Past performance cannot be relied upon as a guide to future performance.