

3 March 2020

## Corp

<b>Ticker</b>	<b>BARK:AIM</b>
<b>Support Services</b>	
Shares in issue (m)	138.4
Next results	H1 Mar
<b>Price</b>	
Target price	30.8p
Upside	40.0p
Upside	30%
<b>Market cap</b>	
Net debt/(cash)	£42.6m
Other EV adjustments	£4.9m
Enterprise value	£0.0m
	£47.5m

<b>What's changed?</b>	<b>From</b>	<b>To</b>
Adjusted EPS	2.2	n/c
Target price	40.0	n/c

### Share price performance



<b>%</b>	<b>1M</b>	<b>3M</b>	<b>12M</b>
Actual	-22.0	101.0	142.2

### Company description

Commercial property development, hospitality and early stage investments in the UK.

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\* denotes corporate client of finncap

## Barkby Group\*

### Proposed sleep acquisition

Barkby has signed an exclusive, non-binding heads of terms to acquire the intellectual property of Cambridge Sound Technologies, a privately owned developer of advanced sleep technology products. Barkby will own 75%, with the remaining shares held by the two founders who will remain involved in the business. An initial cash consideration of £0.75m will be paid plus a deferred consideration of up to £5.25m over 5 years subject to certain performance criteria. Management expects the deal to be earnings accretive in FY 2021. We reiterate our view that there is solid valuation support from the property development and hospitality businesses, with the new investments offering significant upside.

Key estimates		2018A	2019A	2020E	2021E	2022E
Year end:		Jun	Jun	Jun	Jun	Jun
Revenue	£m			37.0	58.1	67.9
Adj EBITDA	£m			4.5	6.0	6.6
Adj EBIT	£m			4.2	5.5	6.2
Adj PBT	£m			3.7	4.3	4.9
Adj EPS	p			2.2	2.5	2.9
DPS	p			0.6	0.6	0.6

Key valuation metrics		2018A	2019A	2020E	2021E	2022E
EV/EBIT (adj)	x			11.4	8.6	7.7
P/E (adj)	x			14.1	12.1	10.5
Dividend yield	%			1.8%	1.9%	2.0%
Free cash yield	%			8.0%	4.9%	7.8%
Pre-tax ROCE	%			11.3%	14.1%	15.3%

## Proposed sleep acquisition

Income statement		2019A	2020E	2021E	2022E
Year end:		Jun	Jun	Jun	Jun
Sales	£m		37.0	58.1	67.9
Gross profit	£m		11.9	17.1	18.1
EBITDA (adjusted)	£m		4.5	6.0	6.6
<b>EBIT (adjusted)</b>	<b>£m</b>		<b>4.2</b>	<b>5.5</b>	<b>6.2</b>
Associates/other	£m		0.0	0.0	0.0
Net interest	£m		-0.5	-1.3	-1.3
<b>PBT (adjusted)</b>	<b>£m</b>		<b>3.7</b>	<b>4.3</b>	<b>4.9</b>
Total adjustments	£m		-0.6	0.0	0.0
PBT (stated)	£m		3.1	4.3	4.9
Tax charge	£m		-0.7	-0.8	-0.8
Minorities	£m		0.0	0.0	0.0
Reported earnings	£m		2.4	3.5	4.1
<b>Adjusted earnings</b>	<b>£m</b>		<b>3.0</b>	<b>3.5</b>	<b>4.1</b>
Shares in issue (year end)	m		138.4	138.4	138.4
EPS (stated)	p		1.8	2.5	2.9
<b>EPS (adjusted, fully diluted)</b>	<b>p</b>		<b>2.2</b>	<b>2.5</b>	<b>2.9</b>
<b>DPS</b>	<b>p</b>		<b>0.6</b>	<b>0.6</b>	<b>0.6</b>

Cash flow		2019A	2020E	2021E	2022E
Year end:		Jun	Jun	Jun	Jun
EBITDA	£m		4.5	6.0	6.6
Net change in working capital	£m		1.6	-1.1	-0.5
Other operating items	£m		0.0	0.0	0.0
<b>Cash flow from op. activities</b>	<b>£m</b>		<b>6.1</b>	<b>4.9</b>	<b>6.1</b>
Cash interest	£m		-0.5	-1.3	-1.3
Cash tax	£m		0.0	-0.7	-0.7
Capex	£m		-2.2	-0.8	-0.8
<b>Free cash flow</b>	<b>£m</b>		<b>3.4</b>	<b>2.1</b>	<b>3.3</b>
Acquisitions / disposals	£m		-1.4	-1.4	0.0
Dividends	£m		0.0	-0.8	-0.8
Shares issued	£m		4.4	0.3	0.0
Other	£m		-5.5	0.0	0.0
<b>Net change in cash flow</b>	<b>£m</b>		<b>0.9</b>	<b>0.2</b>	<b>2.5</b>
Opening net cash (debt)	£m		-5.8	-4.9	-4.6
<b>Closing net cash (debt)</b>	<b>£m</b>		<b>-4.9</b>	<b>-4.6</b>	<b>-2.1</b>

Balance sheet		2019A	2020E	2021E	2022E
Year end:		Jun	Jun	Jun	Jun
Tangible fixed assets	£m		1.5	1.5	1.5
Goodwill & other intangibles	£m		36.8	37.1	37.4
Other non current assets	£m		0.0	0.0	0.0
Net working capital	£m		-2.1	-1.0	-0.4
Other assets	£m		0.0	0.0	0.0
Other liabilities	£m		0.0	0.0	0.0
Gross cash & cash equivs	£m		0.9	1.8	1.8
<b>Capital employed</b>	<b>£m</b>		<b>37.1</b>	<b>39.4</b>	<b>40.3</b>
Gross debt	£m		5.7	6.4	3.9
Net pension liability	£m		0.0	0.0	0.0
Shareholders equity	£m		31.3	33.0	36.4
Minorities	£m		0.0	0.0	0.0
<b>Capital employed</b>	<b>£m</b>		<b>37.1</b>	<b>39.4</b>	<b>40.3</b>

Growth analysis		2019A	2020E	2021E	2022E
Year end:		Jun	Jun	Jun	Jun
Sales growth	%			57.1%	16.8%
EBITDA growth	%			32.9%	10.4%
EBIT growth	%			32.7%	11.3%
PBT growth	%			16.4%	14.6%
EPS growth	%			16.1%	16.0%
DPS growth	%			5.0%	5.0%

Profitability analysis		2019A	2020E	2021E	2022E
Year end:		Jun	Jun	Jun	Jun
Gross margin	%		32.1%	29.4%	26.7%
EBITDA margin	%		12.3%	10.4%	9.8%
EBIT margin	%		11.3%	9.6%	9.1%
PBT margin	%		9.9%	7.4%	7.2%
Net margin	%		8.2%	6.0%	6.0%

Cash flow analysis		2019A	2020E	2021E	2022E
Year end:		Jun	Jun	Jun	Jun
Cash conv'n (op cash / EBITDA)	%		135.7%	81.0%	91.8%
Cash conv'n (FCF / EBITDA)	%		75.0%	34.6%	49.7%
U/lying FCF (capex = depn)	£m		5.3	2.4	3.6
Cash quality (u/l FCF / adj earn)	%		175.2%	68.5%	89.1%
Investment rate (capex / depn)	x		6.4	1.7	1.7
Interest cash cover	x		12.3	3.8	4.8
Dividend cash cover	x		n/m	2.7	4.1

Working capital analysis		2019A	2020E	2021E	2022E
Year end:		Jun	Jun	Jun	Jun
Net working capital / sales	%		-5.7%	-1.7%	-0.6%
Net working capital / sales	days		-21	-6	-2
Inventory (days)	days		183	163	140
Receivables (days)	days		18	14	15
Payables (days)	days		222	184	157

Leverage analysis		2019A	2020E	2021E	2022E
Year end:		Jun	Jun	Jun	Jun
Net debt / equity	%		15.6%	14.1%	5.9%
Net debt / EBITDA	x		1.1	0.8	0.3
Liabilities / capital employed	%		15.5%	16.2%	9.7%

Capital efficiency & intrinsic value		2019A	2020E	2021E	2022E
Year end:		Jun	Jun	Jun	Jun
Adjusted return on equity	%		9.7%	10.6%	11.2%
RoCE (EBIT basis, pre-tax)	%		11.3%	14.1%	15.3%
RoCE (u/lying FCF basis)	%		14.3%	6.1%	9.0%
NAV per share	p		22.7	23.8	26.3
NTA per share	p		-4.0	-3.0	-0.8

## Proposed sleep acquisition

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The recommendation system used for this research is as follows. We expect the indicated target price to be achieved within 12 months of the date of this publication. A 'Hold' indicates expected share price performance of +/-10%, a 'Buy' indicates an expected increase in share price of more than 10% and a 'Sell' indicates an expected decrease in share price of more than 10%.



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