Diales Group plc

Activity levels improved in Q2

10 June 2025

Improving momentum from Q2, which has continued into Q3, helped to deliver a satisfactory outcome for the interim results. With the loss-making US business closed, encouraging activity in the EuAm region, a strong performance in the Middle East pipeline and rising utilisation levels, we remain increasingly confident the Group will hit FY25 expectations. The improved strategy, coupled with the healthy balance sheet, has enabled the Board to fund an attractive dividend as well as to return cash shareholders via share buybacks.

Rising utilisation levels crucial

Following a slow start to the year in the advisory/expert businesses and higher direct costs within Project Services (DPS), activity and utilisation levels improved markedly during Q2, with the trend continuing into H2. The hub-and-spoke strategy implemented some 18 months ago, along with the ERP software for improving efficiencies, materially contributed to the rise in utilisation.

New experts were added in the EuAm region with plans for further recruitment to boost top-line growth. A recent hire (June, H2) in Paris will utilise part of his time targeting projects in Brazil, with others in the Canadian and Madrid offices active in the remainder of South America, following the closure of the New York office. The Board intends to seek the acquisition of teams to broaden the scope of activity across complementary disciplines and regions.

Improved activity, rising utilisation and an increase in work secured internationally has resulted in a significant jump in profitability in the Middle East ("ME"). **A growing pipeline in the Kingdom of Saudi Arabia (KSA) has resulted in additional projects in the UAE, with Qatar also busier (both at home and overseas).** However, APAC remains difficult, notwithstanding a strong performance in South Korea.

The current uncertainty, which follows the increase in tariffs levied on bilateral trade by the US, has led to in an influx of additional enquiries. **New and existing clients require advice on current supply chains, with additional concerns on potential cost escalation claims.**

The valuation remains attractive relative to peers

Our valuation combines peer group comparison models and the level of net cash. The latter equates to 23.7% of the Group's market capitalisation, valuing the operating business at 7.5x FY25 EBIT, well below sector averages *(source: Koyfin)*. **We maintain our fair value/share at 35p to reflect unchanged estimates and note the high dividend yield as an added attraction for investors.**

Key financials & valuation metrics					
Yr. to September	**FY22A**	**FY23A**	**FY24A**	**FY25F**	**FY26F**
Revenue	45.1	42.6	43.0	43.5	45.1
Adj. PBT	-0.5	1.0	1.2	1.3	1.5
Adj. EPS (p)	-1.8	1.4	1.4	1.5	1.8
DPS (p)	1.5	1.5	1.5	1.5	1.5
PER (x)	n/a	17.9	17.9	16.7	13.9
EV/EBITDA (x)	11.3	4.3	4.8	4.9	4.2
Yield (%)	6.0	6.0	6.0	6.0	6.0

Source: ED estimates, Company historic data

Company data

EPIC	DIAL.L
Price (last close)	25p
52 weeks Hi/Lo	29p/17p
Market cap	£13.0m
ED Fair Value / share	35p
Net cash/(debt) March 2025	£2.4m
Avg. daily volume (3m)	47.0k

Share price, p

Source: Investing.com

Description

Diales Group plc ("Diales") is involved in the provision of specialist dispute avoidance and dispute resolution services to the global construction and engineering industries. Diales currently has 25 offices in 14 countries, including eight in the UK, six in Europe, two in the Americas, four in APAC, and five in the Middle East and Africa.

The business is split into the following reporting regions: Europe and Americas **(EuAm),** the Middle East **(ME)** and **APAC**, operating as a hub and spoke model, with work sourced in the smaller regions, serviced both locally and, in the UK and Europe.

Next event

FY trading update - October 2025

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Results broadly as expected, Group on track

The summary of the interim results may be seen in the following table.

FY25 Interims			
£m, unless otherwise stated	H1 '24A	H1 '25A	Change, yoy
EuAm	17.6	17.3	*-1.7%*
ME	2.2	2.8	*29.4%*
AP	1.8	1.5	*-18.2%*
Group revenues	21.6	21.6	*0.1%*
Cost of Sales	-15.4	-15.9	*3.4%*
Gross profit	6.2	5.7	*-8.0%*
GP %	*28.7%*	*26.4%*	*-8.1%*
OpEx	-5.4	-5.0	*-7.5%*
EuAm	2.6	2.3	*-11.9%*
ME	0.1	0.5	*239.9%*
AP	0.1	-0.1	*-154.5%*
Central costs	-2.1	-2.0	*-1.5%*
Group EBIT	0.8	0.7	*-12.9%*
EuAm %	*14.9%*	*13.3%*	
ME %	*6.3%*	*16.5%*	
AP %	*5.5%*	*-3.7%*	
Group EBIT%	*3.7%*	*3.2%*	
Interest	0.0	0.0	*n/a*
Adj. PBT	0.8	0.7	*-12.9%*
Non-recurring costs	0.0	-0.1	*44.9%*
Reported PBT	0.8	0.6	*-16.7%*
Taxation	-0.1	-0.2	*55.1%*
Tax %	*13.3%*	*23.7%*	*78.2%*
Adj. Earnings	0.6	0.5	*-28.5%*
Loss from discontinued ops.	-0.4	-0.1	
Adj. dil. EPS (p)	1.3	0.9	*-30.8%*
DPS (p)	0.75	0.75	*0.0%*
Net cash / (debt)	3.6	2.4	*-33.6%*
Net assets	15.4	13.5	*-12.3%*

Source: Company

Results summary

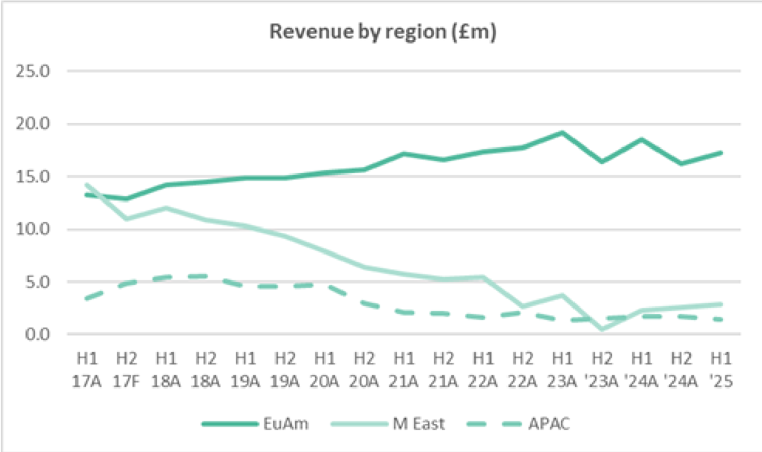
The key points of the results were as follows:

- Despite a continuation of the challenging conditions, continuing revenue was modestly higher yoy (+0.1% to £21.6m)
    - EuAm continuing revenue -1.7% yoy to £17.3m

  - ME revenue +29.4% yoy to £2.8m
  - APAC revenue -18.2% yoy to £1.5m
  - Discontinued US revenue -19.9% yoy to £0.7n
- Activity levels strengthened from Q2. This improvement was led by the UK and the Middle East
- The four-year strategy implemented in December 2023 continues to transform the business, as the central UK-EU hub drives collaboration between offices, with a focus on continued improvement in utilisation
- Gross margin pressure within Project Services resulted in the lion's share of the shortfall in returns yoy and largely reflecting rising direct costs. Gross margins recovered during Q2, corresponding with the improvement in utilisation levels
- Total costs were broadly static (+0.6% yoy to £20.9m) as OpEx declined 7.5% to £5m during the period
- Group EBIT decreased 12.8% to £0.7m, excluding the discontinued business. This indicates an overall EBIT margin of 3.2% (H124A: 3.7%)
  - Continuing EuAM EBIT -11.9% yoy to £2.3m, pre-central costs and a margin of 13.3% (H124A: 14.9%)
  - ME EBIT +240% yoy to £0.5m, pre-central costs and a margin of 16.5% (H124A: 6.1%)
  - APAC EBIT, a turnaround of £0.15m yoy to £0.05m, pre-central costs, representing a margin of -3.7% (H124A: +5.6%)
  - Discontinued loss -84.3% yoy to £0.06m, pre-central costs, equating to a margin of -8.6% (H124A: 43.6%)
- Excluding DPS utilisation levels fell to 71.4%, from 73.4% in H124A, with an improvement from 68.9% in Q125A to 74.2% in Q225A
- The US office recently closed and is classed as discontinued within the results
- Further evidence of recovery in the Middle East, with a significant improvement in profitability yoy
- APAC moved to a small loss, as Singapore underperformed and a shortfall in planning related projects hindered the business in Australia
- The real time management information platform is to be rolled out across the offices in the Middle East and APAC to further improve efficiency and utilisation levels
- Collaboration with Lupa Technology to rapidly analyse volumes of data and improve the Group's competitive advantage, and
- Net cash of £2.4m at the period end, following outflows relating to working capital, tax, dividends, share purchases and capex.

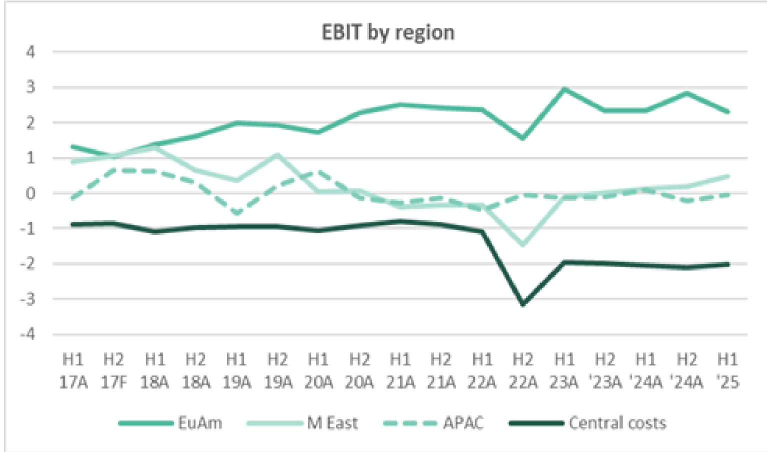
Splitting out results from EuAm, DPS delivered a £0.4m improvement in revenues yoy to £4.8m. As such, it represented 27% (H124A: 25%) of UK and EU revenues in H125A. EBIT declined £0.1m to £0.3m, reflecting a quieter Q1. Excluding DPS, EuAm revenues fell £0.7m to £12.5m, reflecting contract deferrals in Europe, with EBIT approximately 10% lower at £2.0m (H124A: £2.2m). The uptick in activity levels in Q2 was responsible for the solid outcome overall.

Regional split of revenues (£m)



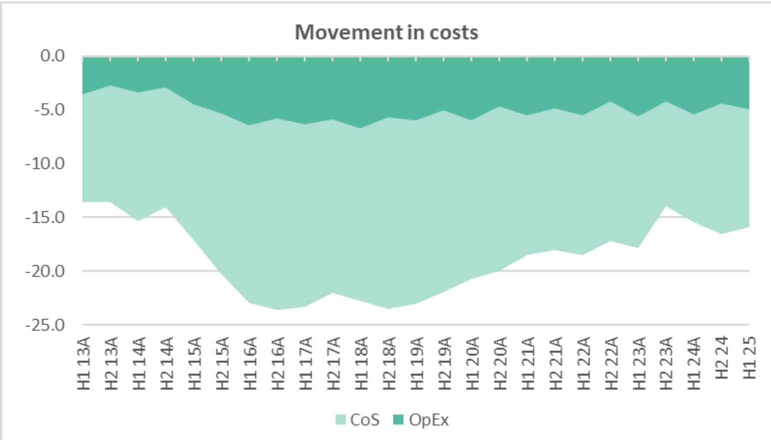
Source: Company data

EBIT by region (£m)



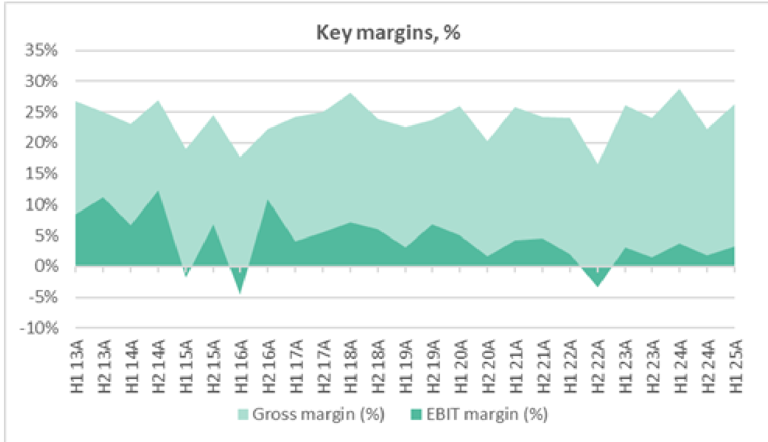
Source: Company data

Costs largely unchanged yoy (£m)



Source: Company data

Recovery in margins in the ME (%)



Source: Company data

Earnings

Adj. and diluted EPS declined to 0.9p (H124A: 1.3p) during the period. Factors contributing to the fall include:

- The shortfall in EBIT, reflecting weaker activity during Q1
- Lower interest receivable, reflecting a combination of lower cash balances and declining interest rates, and
- An increase in tax payable to £0.2m (H124A: £0.1m).

The H1 dividend was unchanged at 0.75p, equating to £0.4m and a yield of 3% in its own right.

Fee earners

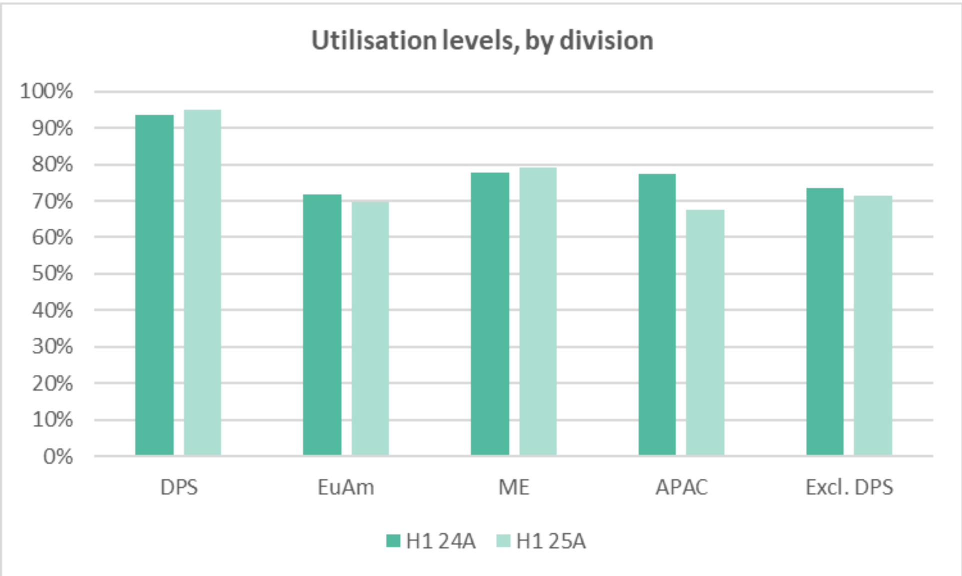
The number of employees remained constant at 279 yoy, with two additional testifying experts added during H125, taking the total of fee earners (excluding Directors) up to 192 excluding DPS (or 68% of total headcount). Headcount growth was focused on the EuAm and ME regions, aligned with activity levels, with DPS registering a 5.4% reduction yoy to 87.

Utilisation

Utilisation levels, excluding DPS, declined to 71.4% (H124A: 73.4%) attributed to a combination of a weak Q1 in the UK and the weakness in the APAC region. This is only part of the picture. Utilisation levels increased in DPS and the Middle East to 94.8% (H124A: 93.6%) and 79.1% (H124A: 77.9%), respectively. **As activity levels improved, utilisation rose to 74.2% in Q2 from 68.9% in Q1,** which was higher than Q224 and indicates a positive trend for H2.

Rolling out the real-time management information system to the smaller regions (ME and APAC) should further improve utilisation levels from FY26 onwards.

Utilisation (%) across the Group



Source: Company

Capital allocation

Investors have received over £1.1m through dividends (£0.8m) and share buybacks (£0.35m, with the second tranche nearly complete) in the past year. The Board has also focused on using cash for growth investment, emphasising:

- New hires, which comprised the addition of two expert witnesses during H125, with a further hire in Paris made during H2. New hires are actively sought across the regional footprint, and
- Potential talent acquisition opportunities, involving the purchase of teams to expand into complementary areas.

South America is currently serviced from the Canadian and Madrid offices, following the office closure in the US. A Portuguese-speaking testifying expert was hired in June (H225) into the Paris office and having the skillset to also service clients in Brazil.

The Group has agreed an overdraft facility with its main bankers of £1m, which to date remains unutilised.

Fair value analysis

Net cash is expected to recover to £3.2m by the end of the year, despite the payment of the final dividend in April, the completion of the share buyback programme in June, and the unwinding of working capital in the second half of 2025. We estimate the year-end net cash position at 5.9p per share, or 23.7% of current market capitalization. This values the operating business at £9.8m, with an FY25 EBIT multiple of 7.5x.

Net cash as a % of Mkt cap & NAV

	FY25E	FY26E
Net cash, £m	3.2	3.5
Net cash / share (p)	5.9	6.6
Cash as a % of market cap	23.7%	26.2%
NAV, £m	13.9	13.9
NAV / share (p)	25.8	25.8
Net cash as a % of NAV	23.0%	25.4%

Source: Company

Our analysis indicates that the Group's shares trade below the average ratings of its peers, despite having a higher yield and relatively high net cash levels. We have applied a 25% discount to the outcome to account for the size difference between Diales and its larger peers.

Peer group valuation suggests the value of DIAL

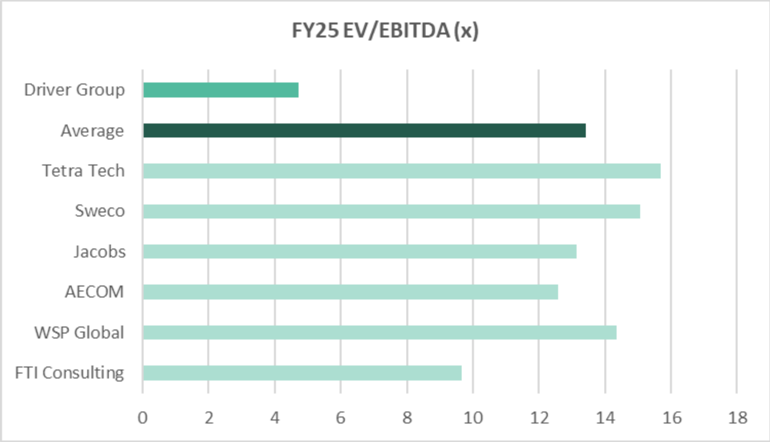
@ 25% discount to peers	FY1 value (p)
FY1 EV/EBITDA	48.0
FY1 PER	28.8
FY1 EV/Sales	121.9
Average	*66.2*
Potential upside	164.9%

Source: Koyfin

Fair value unchanged at 35p, to reflect no change in estimates

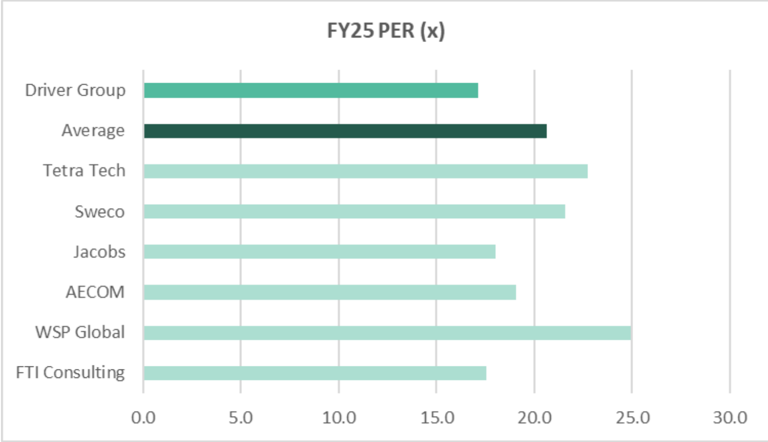
The peer group analysis indicates that an increase in fair value may be justified at this time. However, with no changes to estimates, we are maintaining it at 35p per share. At 35p, the fair value represents a 40% premium to the current share price.

Peer group comparison: FY25 EV/EBITDA (x)



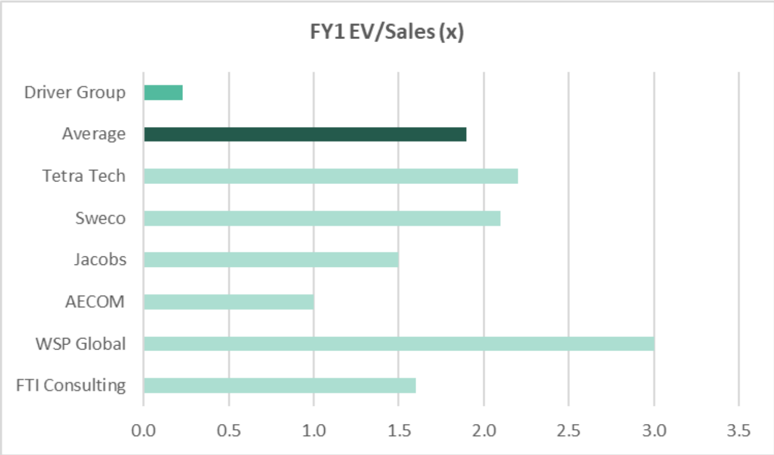
Source: Koyfin

Peer group comparison: FY25 PER (x)



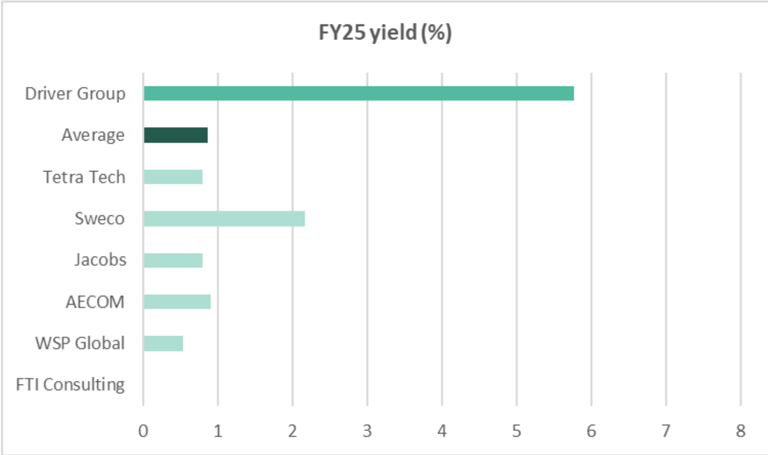
Source: Koyfin

Peer group comparison: FY25 EV/sales (x)



Source: Koyfin

Peer group comparison: FY25 Yield (%)



Source: Koyfin

Summary financials

On track

We remain confident that the Group will achieve our FY25 targets of £1.3 million adjusted PBT, 1.5p adjusted EPS, a dividend per share of 1.5p (representing cover of 1.0x), and net cash of £3.2 million. The positive trend in trading and utilisation levels observed in Q2 continued into Q3, which bodes well for the full-year outcome. However, visibility is generally limited to six to eight weeks. Despite this, we are encouraged by the following:

- Advisory represents the highest proportion of service activity at 44% of revenues. Due to increased US tariffs, clients are seeking more assistance with:
  - Cost escalation claims, and
  - Challenges within existing supply chains
- Activity in the EuAm and Middle East remains at encouraging levels, as:
  - Confidence improves in the UK, with two further experts added during H1
  - Germany and the Netherlands experienced a deferral of contracts into H2 in, leading to a belief that both remain on target to achieve budgeted targets for FY25
  - One new expert added in June in Paris to extend the reach to Brazil
  - A strong pipeline of opportunities in Saudi Arabia, the UAE and Qatar
- Expected stabilisation within APAC during H2, following reduced utilisation in Singapore and Australia in H125
- Utilisation continues at strong levels, commensurate with Q2 and historically correlated with changes in EBIT
- A competitive advantage attained following the collaboration with Lupa Technology (a market leading data analytics company within the construction sector)
- The cash is likely to be utilised in:
  - An increase in fee-earning professionals
  - The acquisition of teams to widen the scope by discipline and/or geography
- Efficiency and utilisation gains from the roll-out of the ERP software into the smaller regions
- Removal of US losses following the closure of the office in New York.

We observe a slight bias in revenue distribution between H1 and H2, aligning with our FY25 estimate. Profitability has been less predictable due to volatility in smaller regions. Nevertheless, strong Q3 trading in EuAm and the Middle East is expected to offset increased costs, meeting FY expectations.

Net cash movement

Net cash decreased in H1 due to outflows from working capital (£1.7m), dividend (£0.4m), tax (£0.3m), and share buybacks (£0.2m). Despite paying the FY24 final dividend (£0.4m in April), net cash rose to £2.5m by May's end. We expect working capital inflows in H2, predicting net cash of £3.2m by year-end.

The higher level equates to net cash / share of 5.9p, representing 23.6% of the current market capitalisation.

Key movements in the Balance sheet

We expect net assets will end the year modestly lower than FY24, at c. £13.9m. The reasons for this include:

- A reduction in the right of use assets, following the move to a new serviced office in London and the removal of duplicated office costs in Haslingden approximately 18 months ago
- Higher working capital, which will unwind during H2/FY26, and
- Lower levels of net cash, despite an expected improvement in H2.

Income statement

Yr. to 30 Sep, £m	2022A	2023A	2024A	2025F	2026F
Europe & Americas	35.1	35.6	34.6	35.1	36.2
Middle East	6.4	4.2	4.8	5.7	6.1
APAC	3.6	2.9	3.5	2.7	2.8
Revenue	45.1	42.6	43.0	43.5	45.1
CoGS	-35.8	-31.9	-32.0	-32.0	-32.9
Gross profit	9.3	10.8	11.0	11.5	12.1
Gross margin (%)	*20.7%*	*25.3%*	*25.5%*	*26.5%*	*26.9%*
Op costs	-9.8	-9.9	-9.8	-10.2	-10.6
Other Op. income	0.1	0.0	0.0	0.0	0.0
Operating profit	-0.4	1.0	1.2	1.3	1.5
Op margin (%)	*-0.9%*	*2.2%*	*2.8%*	*3.0%*	*3.3%*
Net Interest	-0.1	0.1	0.0	0.0	0.0
Associates	0.0	0.0	0.0	0.0	0.0
PBT (Adjusted)	-0.5	1.0	1.2	1.3	1.5
Exceptionals	-1.5	-0.6	-0.3	-0.2	-0.2
PBT (Reported)	-2.0	0.4	0.9	1.2	1.4
Tax	-0.5	-0.3	-0.5	-0.5	-0.6
PAT	-2.4	0.1	0.4	0.7	0.8
Minority interests	0.0	0.0	0.0	0.0	0.0
Earnings	-2.4	0.1	0.4	0.7	0.8
Ordinary Dividends	-0.8	-0.8	-0.8	-0.8	-0.8
Retained Profit	-3.2	-0.7	-0.4	-0.1	0.0
EPS (Adjusted) (p)	-1.8	1.4	1.4	1.5	1.8
DPS (p)	1.5	1.5	1.5	1.5	1.5
Ave no of shares (FD) (m)	54.9	54.0	54.0	54.0	54.0

Source: Company historics, Equity Development estimates

Cash flow statement

Yr. to 30 Sep (£m)	2022A	2023A	2024A	2025F	2026F
Operating profit	-2.9	1.0	1.2	1.3	1.5
Deprecn. & Amortn.	1.2	0.9	0.8	0.8	0.8
Working capital movement	2.7	1.5	-0.2	-1.4	-0.4
Other	0.0	-0.8	-1.1	-0.2	-0.2
Operating cash flow	1.0	2.5	0.7	0.5	1.8
Net Interest	-0.1	0.1	0.0	0.0	0.0
Taxation	-0.5	-0.2	-0.4	-0.5	-0.5
Net capex	-0.6	-0.1	-0.1	-0.1	-0.1
Operating FCF	-0.2	2.2	0.3	-0.1	1.1
Net (Acquisitions)/Disposals	0.0	0.0	0.0	0.0	0.0
Dividends	-0.8	-0.8	-0.8	-0.8	-0.8
Share Issues	-0.5	0.0	-0.1	-0.1	0.0
Minority payment	0.0	0.0	0.0	0.0	0.0
Other financial	0.0	-0.6	-0.9	0.0	0.0
Increase Cash/(Debt)	-1.5	0.9	-1.6	-1.0	0.3
Opening Net Cash/(Debt)	6.5	4.9	5.8	4.2	3.2
Closing Net Cash/(Debt)	4.9	5.8	4.2	3.2	3.5

Source: Company historics, Equity Development estimates

Balance sheet

Yr. to 30 Sep (£m)	2022A	2023A	2024A	2025F	2026F
Intangible Assets	3.8	3.7	3.6	3.5	3.5
Tangible Assets	0.4	0.4	0.3	0.3	0.3
Investments/other	1.6	1.4	0.9	0.0	0.0
Net Working Capital	6.5	5.5	5.7	7.1	7.5
Capital Employed	12.2	10.9	10.5	11.0	11.3
Other	-0.8	-0.8	-0.4	-0.3	-0.9
Net Cash/(Debt)	4.9	5.8	4.2	3.2	3.5
Provisions Liabilities/Charges	0.0	0.0	0.0	0.0	0.0
Net Assets	16.4	15.9	14.3	13.9	13.9

Source: Company historics, Equity Development estimates

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