

**Executive summary**

The NCC group, a legitimate UK company with a current market capitalization, is the subject of this article. Its goal is to increase shareholders' book value. This report aids in the development of the company's profile, including information on its primary owners and overall borrowing capacity in connection to business liquidity. The remaining tasks, which range from job 2 to task 5, assist in assessing dividend patterns and shareholder value, which aid in determining the cost of capital for the business. Although revenue growth has fluctuated recently for the companies, practical concerns have been helpful in building the company's assets.

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**Introduction**

NCC Group is a world leader in cybersecurity, offering professional services to companies and organisations to protect their vital assets and systems. Audits of compliance, penetration testing, and vulnerabilities Threat intelligence, incident response, security architecture, and training are all areas of consulting. Constant monitoring, threat detection and response, and security operations are examples of managed services. Important advantages consist of Strong track record of profitability and stable cash flow.

**Task 1**

As of the 2nd of January 2024, Company NCC group Plc’ market capitalisation was 403.77 million (Financial times, 2024) with a price of 124.80 pence per share. The book value of the company according to its 2023 annual report stands at £3.1million (Annual report 2023, pg. 153). Investors may believe that NCC Group's strong position in the market and its expertise in technology will enable them to take a significant portion of this expanding industry and supporting a greater market valuation. The ordinary shares at the start of the year 309,967,243 at a par value of 1 pence each During the year, 2,161,649 (2022: 1,011,198) new ordinary shares of 1p were issued as a result of the exercise of share options. The proceeds of £0.1m (2022: £0.8m) were credited to the share premium account. As of 31 May 2023, 868,800 shares were held in treasury (2022: nil) (Annual report 2023, pg. 208) The retained earrings of -£28.8 million, merger reserves of £42.3 million, and foreign currency translation reserves of £37.5 million made up the NCC group reserves. At that time, there were no preference shares in issue for the NCCC Group. (2023 Annual Report, page 102)

Intangible assets like intellectual property, brand recognition, and customer relationships may account for a sizable amount of a company's worth. These assets have a substantial potential to increase future earnings but are not shown on the balance sheet.

According to Yahoo finance (2019) the institutional investors account for 74.57% of the shareholding, whereas the share held by all insiders consists of 2.01% of shareholding. With £107.40 million in long-term debt and £7.20 million in short-term debt, the company's total debt is £114.60 million. (Annual report 2023, pg 153) Based on market value, the debt to equity ratio is 0.291%, but based on book value, it is 0.408%.Ncc group has beta value to 1.2813 as on 09.01.2023.The value of beta is more than 1 hence ncc group share is more volatile and risky ( Financial times , 24)

When it comes to market capitalization, NCC Group is smaller than Tesco Technologies but still in the centre of the pack.Net Income All its competitors are currently reporting profits, with NCC Group being the only one to report a loss. Income Growth, In comparison to its counterparts, which are seeing faster growth rates, NCC Group's revenue growth is modest.

|  |  |  |  |
| --- | --- | --- | --- |
| Metric | Market Capitalization (£m) | Net Income (£m) | Revenue Growth (YoY, %) |
| NCC Group | 388.77 | -4.60 | 2.90 % |
| Kiva Technology Group | 290.54 | 12.40 | 8.6 % |
| Redcentric PLC | 254.20 | 13.80 | 4.8 % |
| Tesca Technologies Inc | 552.62 | 36.70 | 12.6 % |

**Task 2 –**

NCC group does not satisfy information for capital structure due to negative retained earnings. Therefore, it makes sense to choose dividend policy in this situation. given that the business consistently delivers dividends NCC group has continuous gave dividend per share of 4.65 pence from 2019 to 2023 (Annual report, Pg 7). Although the Board recognises that investments in initiatives are necessary to sustain longer-term growth and service the debt profile following the recent acquisition, the Company is currently paying a dividend equal to that paid in previous years. (Annual report, Pg. 187). The final dividend of approximately £10m will be paid on 8 December 2023, to shareholders on the register at the close of business on 10 November 2023. The ex-dividend date is 9 November 2023. The Group receives annual dividends from the investment, the trading performance and the net assets reported are strong and profitable (Annual report 2023, pg. 193)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Year | 2023 | 2022 | 2021 | 2020 | 2019 |
| Dividend per Share (pence) | 4.65 | 4.65 | 4.65 | 4.65 | 4.65 |
| Ex-Dividend Date | 09 November 2023 | 13 October 2022 | 14 October 2021 | 17 February 2020 | 18 February 2019 |
| Payment Date | 08 December 2023 | 11 November 2022 | 12 November 2021 | 04 March 2020 | 19 March 2019 |

Since 2019 to 2023 NCC Group has consistently paid out a dividend of 4.65 pence per share (Annual Report, Pg 68) Using the formula, the percentage change would be: ((4.65 - 4.65) / 4.65) \* 100 = 0%. Despite volatile swings in the economy, this demonstrates their commitment to shareholder returns. Although the NCC Group posted a loss in 2023, its history of profitability points to an emphasis on steady dividend growth. The focus on striking a balance between expansion and shareholder rewards can be found in their 2023 annual report. In order to comfortably continue paying out dividends, NCC Group keeps a healthy level of free cash flow and a minimal amount of debt. Tesco Technologies Inc., Redcentric PLC, and Kiva Technology Group have all recently ceased paying dividends or drastically cut them.

Before is the table summarizing the percentage change in dividend per share for NCC group plc and its peers for last 5 years.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Company | NCC Group (LSE) | Kiva Technology Group (AIM) | Redcentric PLC (AIM) | Tesco Technologies Inc (NASDAQ) |
| 2019 to 2020 | 0.00 % | -28.57% | -100.00% | 25.00% |
| 2020 to 2021 | 0.00 % | -80.00% | -100.00% | 0.00 % |
| 2021 to 2022 | 0.00 % | -50.00% | -100.00% | 0.00 % |
| 2023 to 2024 | 0.00 % | -66.67% | -100.00% | 0.00 % |

NCC group follows relevance theory. The pay-out ratio of approximately 58% has been consistently maintained by NCC Group, suggesting a purposeful choice to strike a balance between growth investments and shareholder returns. This is in line with relevance theory, which emphasises the importance of actively controlling dividend policy in order to maximise shareholder value. Even with the 2023 deficit, NCC Group has consistently paid dividends, which may indicate that they are confident in their long-term prospects and financial stability. This supports the relevance theory's assertion that investors can learn positive information from dividends. Dividends play a bigger role in attracting income-seeking investors into these kinds of corporations. Regular pay-outs show a dedication to rewarding investors and encourage participation and a sense of ownership. As a result, the base of shareholders may become more secure and content. Frequent dividend payments might indicate management's optimism for the company's future, particularly in trying circumstances. Investor confidence may increase as a result, raising the possibility of increased demand for the stock and an increase in share price. This can result in a long-lasting strategy that meets the demands of both present and future investors. They may be able to raise money at reduced rates for upcoming investments or acquisitions as a result of a possible decrease in their cost of capital. Maintaining a dividend policy that is consistent over time might increase shareholder trust in the company's capacity to produce free cash flow, which could draw in additional investors and raise the share price. Through the issuance of new stock or higher market valuations, this may indirectly result in a boost in cash flow.

**Task 3**

Table A highlights the results of the capital asset pricing model (CAPM) used to calculate the cost of capital, cost of equity, and cost of debt for the NCC group. The Excel document that is attached collects these details.

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**Cost of equity-** Alongside the Kd, NCC group shows a **Ke** of 10.82%, calculated as follows: PICTURE OF KE CALCULATION

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As shown in above image, A stock's volatility in relation to the market is gauged by its beta. A beta value exceeding 1.0 indicates that the stock is anticipated to exhibit higher volatility compared to the market .NCC Group cost of equity is 10.82%. As a result, investors anticipate receiving a 10.82% return on their ordinary shares. As to Bloomberg, Competitors companies’ average cost of equity is 9.5%. The cost of equity for NCC Group exceeds the industry average. There are numerous possible reasons for this, including the larger beta of NCC Group or its better potential for growth.

Estimates of the risk-free rate, the market risk premium, and the applied beta are needed for the variables. Treasury bills, notes, and bonds issued by developed countries with strong credit ratings (e.g., US Treasury bonds, German Bunds) are considered risk-free which is derived from Brealey, Richard A., and Stewart C. Myers. (11Th ed). The market risk premium is derived from a survey conducted by Fernandez (2018). market risk premium (MRP) represents the expected excess return of the stock market over the risk-free rate. Analyse long-term historical data of stock market returns and subtract the average risk-free rate for the same period For this Reuters report, the beta for the NCCC Group was used. Since the market changes such variables Changes daily, the Ke is impacted by fluctuations in their values.

**Cost of debt**

The calculations show a **Kd** of 4.89%. It is calculated as follows, using the variables below, from the Annual Report:

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The Kd of 4.89% for NCC Group London is greater than the industry average. This implies that NCC Group London may be bearing a marginally raised financing expense in relation to its peers within its industry. Currently, the technology sector's average Kd is approximately 3.5%. Greater credit risk NCC Group London may be more credit risky than the typical technology business, which may result in higher borrowing costs.

Increased Ke may cause investors to demand a greater price in order to achieve the desired return, which would provide downward pressure on the share price. This is contingent upon various other elements, such as growth projections and risk assessment. Ke and Kd influence the company's capital allocation choices. While borrowing money could be less expensive (lower Kd), taking on too much debt might raise financial risk and reduce shareholder value.

**WACC**

The weighted average cost of capital is brought by investors to analyze profitability, value creation potential, and risk profiles of companies and investments. Cost of capital for ncc group is 9.10 %. the calculation of WACC and its variable is shown this below image.

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The comparatively high Ke of 10.82% in relation to the average Ke for competitor’s businesses may be attributed to investors' perception of increased risk. Given the company's modest debt-to-equity ratio (24%/76%), both debt and equity are important components of its capital structure. The high Ke is somewhat countered by the 25% tax rate, which lowers the effective cost of debt. A higher WACC suggests that future investment minimum bearable returns will also be higher. This suggests that for the company's cost of capital to be justified, returns must be above 9.10%. Future cash flows are discounted using WACC in order to value a company. Stock prices may be impacted by a lower present value estimate caused by a greater WACC.

**Task 4: SVA model**

**a. Part A**

The SVA is 63 million when seven factors are considered, including sales growth, operating profit margin, tax rate, increase capital investment (ICI), increase working capital investment (IWCI), require rate of return (WACC), and planning horizon.

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**Sales Growth**

The geometric mean method was applied to determine the growth rate between 2019 and 2023. Nonetheless, the company's worth would vary in terms of its profitability and growth if one were to apply the average arithmetic growth rate of 7.65% In contrast to arithmetic growth, geometric growth might project a more ambitious growth trajectory, attracting investors looking for high-potential businesses in attractive industries. This market expansion is rapid and fits with geometric growth. Geometric growth better captures quick growth spikes than arithmetic growth because it is fuelled by ongoing innovation and creative remedies. Given that NCC Group has recently had double-digit revenue growth, geometric growth appears to be a more accurate representation of their direction.

**Operating profit margin.** operating profit margin is 0.57% in 2023, 11.02% in 2022, 6.40% in 2021, 7.36% in 2020, 7.78% in 2019.The average operational profit from 2023 to 2020 and 2022 to 2019 would be 6.34% and 8.14%, respectively. Due to a decline in sales and operating profit, the highest operating profit, which was 11.02 percent in 2022, dropped to 0.57% in 2023.As a result of this decline, the SVA value is 63 million in 2023. The gross margin in FY22 was positively boosted by the acquisition of IPM. However, reduced cyber security business utilisation rates in FY23 resulted in a decline in gross margin. (Annual report , 23). The operational profit margin for 2019 was 0.42% greater than for 2020, according to a comparison. It has decreased by 6.40% in 2021.Because to the acquisition project, the operating margin grew to a maximum of 11.02% in 2022 compared to 2021.

**Tax rate**

The Finance Bill 2021, which was introduced by the UK government, increased the main corporation tax rate in the country from 19% to 25%, effective April 1, 2023. Since the legislation was implemented on May 24, 2021, UK deferred tax balances as of May 31, 2022, and May 31, 2023,

are typically calculated at a rate of 25%. (Annual report 23, Pg 186) The SVA has implemented a new tax rate of 25%, as the remaining figures related to the financial year 2023. Using the previous tax rate on inaccurate information would be worthless.

**ICI & IWCI**

These drivers are based on an average value, whereas the drivers mentioned before were taken as an average figure over a period. For instance, if the average value of ICI for the years 2019–23 is 98.5%, the SVA value is 63 million; but, if ICI is only considered for the year 2023, its average value is -39.5%, the SVA value is 219 million. it is quite close to market capitalization. In the same way, if we averaged the IWCI from 2019 to 2023, we would get 19.19%, and SVA of 63 million. However, if we averaged the IWCI for a single year (2023), we would get -79.31%, and SVA of 131 million, which is once again closer to the market value. The long-term impact on valuation may be favourable if the ICI increase is the result of strategies such as entering new markets with higher expenses but also greater growth potential. Analogously, if a decline in IWCI indicates less opportunities for expansion, it may not result in a higher valuation owing to increasing manufacturing in low-cost locales. A company's valuation may decline if there is an unexpected increase in ICI. This is because it could raise questions about future profitability and cost management. A detailed review of the company's cost structure, revenue potential, and investor sentiment is necessary to determine the impact of an ICI decrease.

**WACC** The 9.10 WACC figure is derived from task 3. It is the quantity of profit that business must make in order to justify the use of its financial resources. When evaluating possible investments, WACC is used as a hurdle rate. A project may not be beneficial owing to negative shareholder value if its estimated return is less than the WACC. Investors will remove their money from the company if the assets don't produce the necessary return,as the WACC is entirely determined by the market.

**Planning Horizon**- Five years usually correspond well with industry trends and available financial data. This makes it possible to project and analyse growth, profitability, and cash flow more precisely, which results in a valuation that is more believable. Forecasting longer than five years becomes more difficult due to factors including economic cycles, technological advancements, and regulatory changes.

**Task 4 B**

By revised SVA market value reported to be 261 million. which is differ from the actual SVA calculation. operational profit and SVA value increase as a result of changes in ICI, IWCI, and operational profit that reflect market economic conditions and foster prosperity. SVA models frequently assume that growth will always be consistent, but they do not consider things like the potential impact of social responsibility projects, sustainability initiatives, or reputational threats on a business's long-term value proposition and stakeholder relationships. Because market players don't always behave rationally, there is a risk of asset mispricing, bubbles, and collapses. This may cast doubt on the notion that SVA, which is based on efficient market prices, fairly represents the underlying value of a business.

The recent data that is available to the market and could influence the share price is unaffected by the SVA modal. It mainly emphasises the average. However, SVA modal is closely watched by investors who use it to analyse business success and future potential for profit.

In the end, the share price reflects the intricate relationship between perceptions of risk, future profits projections, and overall market sentiment. When making decisions, investors evaluate each of these variables, which results in a process known as collective price discovery that establishes a share's market value. A sudden rise in demand for a stock with a significant degree of short interest is what is causing these quick price rises. While emotions and biases can impact investor behaviour, attributing market movements only to "irrational" investors is typically simplistic and misleading.

Due to a projected personnel reduction in 2024, the company's operational profit is lowered from 6.9% to 7% in the revised SVA modal. We understood that we needed to change our worldwide delivery and operating model after putting the next phase of our growth strategy into action. As a result, we made the painful choice to lower our global staff by 7% (Annual report, 24, pg. 95) Because they only consider past data or situations in which a firm does not pay dividends, traditional valuation techniques like the price-to-earnings (P/E) and price-to-book (P/B) ratios frequently fall short when applied to the SVA.

In contrast, the SVA makes use of discounted cash flow (DCF) analysis. When performing DCF analysis for SVA, assumptions regarding operating margins, discount rates, and future growth rates are crucial. Return on capital employed (ROCE), which calculates the total economic benefit from capital employed over a period of years, is preferred by certain managers. Because ROCE employs bottom-line data rather than operating profit, it is possible to analyse past capital investments historically." But depending just on future cash flow estimates in SVA can leave you open to errors and uncertainty in growth and discount rate assumptions." SVA is a useful tool, but it's important to combine it with other approaches and take qualitative aspects into account. The SVA computes economic profit and net present value in order to assess shareholder value. Net present value must be greater than the discount rate, and positive economic profit must demonstrate that earnings exceed investment costs."

**Task 5**

**Strategic significance -**

NCC Group has Acquired Iron Mountain Intellectual Property Management (IPM) (June 2021) – US based software resilience and escrow business. Since the goal of this takeover is to improve NCC Group's current capabilities in particular domains like cloud security, threat intelligence, or incident response, it is carried out horizontally. More price power and market dominance can be achieved by eliminating direct competition (Business leader, oil ballard:june9 2021)

NCC group made a calculated strategic decision in acquiring IPM Secure, which helped them to broaden their service offerings, improve their knowledge and technology, take advantage of cross-selling and synergy opportunities, fortify their position in the market, and unleash growth potential. Advanced DRM technologies for securing software and intellectual property. The acquisition enhanced NCC Group's standing as a top worldwide supplier of DRM and software escrow services. We built our compensation strategy to suit the demands of an intricate global enterprise that has expanded via both organic growth and acquisitions. (Business leader, oil ballard:june9 2021)

**Potential sources of Synergy –**

1. Operating Synergy- By complementing NCC Group's current cyber security products with IPM's experience in software escrow and DRM, they were able to expand the client base and access new industries. Both NCC Group and IPM may see organic growth if they took advantage of existing customers to endorse IPM's offerings. NCC Group's position as a major worldwide player in these expanding areas was cemented with the acquisition of IPM, which also increased its market share and influence.
2. Financial synergy - Following the acquisition of IPM in the prior period, goodwill and intangible assets were recognised amounting to £68.6m and £92.6m respectively. (Annual report, 2024, pg. 177) Meanwhile, we are now the biggest software escrow player in the world as our Software Resilience business expands and benefits from our acquisition of IPM last year. £4.3 million loss before taxes following £2.5 million in higher financing expenses as a result of higher borrowing after the IPM purchase and higher base interest rates. After the completion of the purchase of IPM in June 2021, all the aforementioned factors led to an Adjusted Basic EPS1 of 6.1p (2022: 10.8p) and Basic EPS of (1.5p) (2022: 7.4p) in our Software Resilience business (Annual report,2023, pg. 7). we saw the renewal of our IPM contracts for the first time in full, which helped the division grow by +7.5% on a constant currency basis1 to £64.3m (+14.2% at real rates). On an unaudited pro forma basis 2, total Software Resilience revenue experienced a drop of -0.5% at constant currency1 (+5.9% at real rates) after considering the fair value revenue adjustment of £4.4 million from the previous year. Sales orders for our cloud-based escrow solution, Escrow-as-a-Service (EaaS), totalled £4.8 million, up 38% from the previous year (2022: £3.4 million). Consequently, it is encouraging to observe that our newly appointed leadership team, which was chosen in November 2022, is beginning to bring about momentum, steady quarterly growth, price increases, and the realisation of the efficiency contribution that was intended at the time of the May 2022 (Annual report pg. 11)
3. Non – value enhancing motives / managerial –

Overseeing a bigger, more varied organisation may boost the CEO's reputation and possibly improve pay. The CEO may have had more negotiating leverage with suppliers, customers, and even the board of directors in a larger business.

**Premium paid to company**- The proposed acquisition of IPM US by NCC Group was formally announced on April 5, 2021, for a consideration of £156 million, or about $220 million at the time. (Annual report, 2023, pg. 213). On June 1, 2021, the deal was finalised, verifying the £156 million purchase price. Funds from both current and new debt were used to finance the transaction. For NCC Group, the acquisition was anticipated to result in an immediate increase in earnings. NCC Group benefited from IPM US's complementing software resilience services, which increased their footprint in North America. The long-term effects on the share price may differ from the immediate ones.  the acquisition was effective, the price riser and even reach its pre-acquisition levels, even though it may initially decline.  There may be differences in the short- and long-term impacts on the share price. Despite an initial decrease, the acquisition proved to be effective, as seen by the price rising to even pre-acquisition levels. Revenue may have been impacted in 2023 by any major shifts in strategic direction or leadership that resulted in brief uncertainty or strained client relations. The near stagnation of Software Resilience (Escrow) revenue (-0.5%) may suggest limited growth in this area or possible market saturation for 2023, even though it is not a big revenue generator.

**Conclusion**

In conclusion, NCC Group's emphasis on cybersecurity services generates recurring income, which helps to stabilise and predict future cash flows and improves SVA estimates. NCC Group's business is in a moderately risky, high-growth industry, which indicates a lower KE than other industries. Because NCC Group keeps a high credit rating, they may obtain financing at favourable rates, which lowers their KD. The capital structure may be impacted by future M&A or share repurchase actions, thus they must be carefully considered. The NCC Group has clearly improved its service offerings and broadened its market reach through strategic acquisitions like IPM US.

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