

# Hercules Site Services



## Building for the Future

1st December 2023

Hercules has acquired 60% of Future Build Recruitment, a specialist white-collar recruitment company operating in the UK construction sector. This is the Group's first acquisition and looks highly complementary to the Group's core blue-chip construction recruitment offering, as well as confirming the Board's growth ambitions. Total consideration is £1.25m (£1m cash, £0.25m shares). The acquisition metrics look very sensible (effectively 5x P/E) and the deal is strongly earnings enhancing (EPS +11.5% in FY24 and +10.3% in FY25).

We remain of the view that Hercules shares are undervalued, given the Group's impressive track record of growth and we retain our 60p Fair Value estimate.

### First acquisition builds on organic progress

We upgraded our forecasts in October on the back of a positive year-end trading update, which highlighted good organic progress in all three divisions. Hercules continues to benefit from the strength of UK infrastructure activity, despite the more challenging economic backdrop, and we expect this to continue. Today's acquisition brings further, double digit EPS upgrades (details on page 2) and we expect targeted M&A to be a recurring element of Group strategy over the medium term.

### Acquisition rationale

The acquisition provides Hercules with immediate scale in white-collar recruitment for the UK construction sector. Management has previously highlighted this as an attractive and complementary growth area for the Group and had already begun testing the market through organic growth initiatives. Future Build provides permanent recruitment for main contractors and house building, high-end residential and social housing. It is a highly regarded business with an established presence in the South-East of England with minimal overlap with Hercules' existing clients, which should open up cross-selling opportunities. Future Build achieves strong profit margins (EBITA margin of c.33%).

### Key metrics

Total consideration is £1.25m for 60% of Future Build, comprising £1m in cash and the remainder in shares (994k shares at 25.14p per share). In the year to Dec' 2022, Future Build reported revenue of £1.5m and PBT of £0.5m. We estimate the implied valuation for Hercules' 60% share at a modest c.5x P/E and <1x Sales. The vendors can sell the 40% minority interest to Hercules in 5 to 10 years for terms set out under a Partnership Agreement (with valuation effectively based on 5.5x EBITDA).

Key Financials & Valuation metrics						
Year-end Sept, £m	2020A	2021A	2022A	2023E	2024E	2025E
Sales	23.0	32.8	49.5	80.5	83.7	90.2
EBITDA	1.4	2.4	2.3	3.7	4.7	5.9
Adjusted PBT	1.0	1.4	0.7	0.5	1.3	2.5
FD Adj. EPS (p)	N/A	N/A	1.5	1.7	1.9	2.7
DPS (p)	N/A	N/A	1.7	1.7	1.8	1.8
Net Cash/(Debt)*	-4.0	-9.2	-18.2	-25.4	-25.3	-23.1
Net Cash/(Debt)**	1.7	-1.7	-5.3	-6.4	-7.1	-6.1
Net Debt**/EBITDA	N/A	0.7x	2.4x	1.7x	1.5x	1.0x
P/E	N/A	N/A	16.9x	14.7x	13.6x	9.4x
EV/EBITDA	14.5x	10.5x	15.2x	11.2x	8.8x	6.7x
EV/Sales	0.9x	0.8x	0.7x	0.5x	0.5x	0.4x
Dividend yield	N/A	N/A	6.8%	6.8%	6.9%	7.1%

Source: ED analysis, all numbers IFRS 16 basis \* including leases \*\* excluding leases

### Company Data

EPIC	HERC.L
Price (last close)	25p
52 weeks Hi/Lo	72p/25p
Market cap	£16m
ED Fair Value / share	60p
Proforma net cash/ (net debt)	(£25.4m)
Avg. daily volume	32,000

### Share Price, p



Source: ADVFN

### Description

Hercules Site Services is a leading supplier of labour to the Construction industry in the UK. The business was founded in 2008 by CEO Brusk Korkmaz, and has achieved significant growth since then, reporting revenue of £49.5m in FY22.

The business floated on AIM in 2022 to provide access to capital to support the next stage in the Group's growth plans.

Next news: Full year results in mid-January 2024

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## Summary forecast changes

We expect the acquisition to be highly accretive from the current year.

Our revenue forecasts increase by 1.4% / 1.5% in FY24 / FY25 (see table below), and this translates into more significant growth in PBT and EPS, reflecting Future Build's high profit margins. PBT increases by >20% in both years and EPS is upgraded by 11.5% / 10.3% after factoring in the minority interest.

We have based our upgrades on Future Build's historic results for FY22 assuming no synergy gains or underlying growth over the forecast period, which we consider a conservative approach.

Forecast changes – acquisition triggers significant upgrades									
Year End	2023(E)			2024(E)			2025(E)		
September	Revised	Old	Change	Revised	Old	Change	Revised	Old	Change
Revenue £m	80.5	80.5	0.0%	83.7	82.5	1.4%	90.2	88.8	1.5%
EBITDA £m	3.7	3.7	0.0%	4.7	4.5	3.3%	5.9	5.5	5.7%
PBT (underlying) £m	0.5	0.5	0.0%	1.3	1.0	24.6%	2.5	2.0	21.9%
EPS fully diluted p	1.7	1.7	0.0%	1.9	1.7	11.5%	2.7	2.4	10.3%
Dividend	1.7	1.7	0.0%	1.8	1.8	0.0%	1.8	1.8	0.0%
Net cash/ (debt) £m	-25.4	-25.4	0.0%	-25.3	-24.5	3.0%	-23.1	-22.7	1.8%

Source: Equity Development estimates



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