Hercules Site Services

Strong FY24 results, earnings momentum building

13 January 2025

Hercules' FY24 results confirm another record year, with revenue now over £100m as the impressive growth trajectory continues. The results are ahead of expectations, particularly at the PBT and earnings level. The planned divestment of the Suction Excavators business will allow the Group to focus on its core, capital light businesses, which have significant organic growth potential, demonstrated by our upgraded forecasts for FY25 and FY26.

With earnings momentum building, Hercules' valuation looks highly attractive on a P/E rating of 12x for FY25 (based on our forecast for the continuing operations). We retain our conviction in the investment case and our 70p Fair Value estimate.

Another record year, revenue now >£100m

Hercules has reported another record year, delivering ahead of expectations with revenue now over £100m, a key milestone for this ambitious, high growth business. The Group has delivered a revenue CAGR of 48% in the three years since listing, which is highly impressive against an uncertain economic backdrop.

Divestment of Suction Excavators triggers material earnings uplift

As previously announced, the Board has decided to focus on the core labour supply and civils projects businesses and therefore to seek a buyer for the suction excavator subsidiary. This removes a significant interest burden from the Group and enhances earnings, given that the Suction Excavators business is currently loss making (although profitable at the EBITDA level). In our view, this earnings enhancement justifies the decision to divest the business.

Positive start to FY25, strong growth momentum

Hercules enters FY25 with an excellent foundation for continued growth. The first quarter of the new year has again been successful, with a strong pipeline of new business across the divisions and organic opportunities presented by the Construction Academy and the rail and white-collar service offerings. The ambitious management team also sees further opportunities for targeted M&A, with increased capacity following the £8m fundraise towards the end of the last financial year. In our view, prospects look bright, and the valuation is undemanding for a company with a strong growth profile.

Key Financials (Continuing operations) & Valuation metrics

Year-end Sept, £m	2021A	2022A	2023A	2024A	2025E	2026E
Sales	30.6	45.9	79.8	101.9	112.0	117.6
Adjusted EBITDA	1.5	1.2	3.2	4.7	6.0	6.4
Adjusted PBT	0.5	-0.4	1.6	2.6	3.4	3.7
FD Adj. EPS (p)	N/A	-0.4	2.9	3.5	3.7	4.0
DPS (p)	N/A	1.7	1.7	1.7	1.7	1.7
Net Cash/(Debt)*	-9.2	-18.2	-22.8	-6.3	-2.5	-0.2
Net Cash/(Debt)**	-1.7	-5.3	-5.8	-0.9	2.5	4.8
Net Debt**/EBITDA	1.2x	4.4x	1.8x	0.2x	-0.4x	-0.7x
P/E	N/A	-115.8x	15.4x	12.7x	12.0x	10.9x
EV/EBITDA	30.5x	44.1x	17.9x	8.9x	6.3x	5.5x
EV/Sales	1.4x	1.2x	0.7x	0.4x	0.3x	0.3x
Dividend yield	N/A	3.9%	3.9%	3.9%	4.0%	4.0%

*Source: Company historic data, ED forecasts, priced at 10/01/2025 * including leases ** excluding leases*

Company Data

EPIC	HERC.L
Price (last close)	44p
52 weeks Hi/Lo	51p/24p
Market cap	£35m
ED Fair Value	70p
Proforma net cash/ (debt)	(£2.5m)
Avg. daily volume	39,600

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 £84.7m in FY23. The business floated on AIM in 2022 to provide access to capital to support the next stage in the Group's growth plans.

Next event

Half year end 31st March 2025

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FY24: a year of outperformance and strategic progress

Hercules has reported another record year, delivering ahead of expectations with revenue now over £100m, a key milestone for this ambitious, high growth business. The Group has delivered a revenue CAGR of 48% in the three years since listing, which is highly impressive against an uncertain economic backdrop.

Before we cover the impact of the important strategic decision to divest the suction excavators business, we show below the results on the previous reporting basis (including the suction excavators business). This clearly demonstrates that the Labour Supply business has been the key revenue growth driver for the Group, support by double digit growth in Civil Projects. The Suction Excavators business accounted for c.5% of Group revenue in FY24.

Revenue growth summary (including discontinued operations)

Year End Sep	**2021(A)**	**2022(A)**	**2023(A)**	**2024(A)**
	£'m	**£'m**	**£'m**	**£'m**
Segmental Revenue				
Labour supply	**22.9**	**33.3**	**63.8**	**84.1**
% growth	*34%*	*45%*	*92%*	*32%*
Civils	7.7	12.4	15.7	17.5
% growth	*30%*	*61%*	*27%*	*12%*
Equipment hire (suction excavators)	2.2	3.6	4.9	5.1
% growth	*16045%*	*68%*	*34%*	*4%*
Construction Services Total	**9.9**	**16.0**	**20.6**	**22.6**
% growth	*67%*	*62%*	*28%*	*10%*
Other	**-**	**0.3**	**0.3**	**0.3**
Group	**32.8**	**49.5**	**84.7**	**107.0**
% growth	*43%*	*51%*	*71%*	*26%*
% of Group				
Labour supply	*70%*	*67%*	*75%*	*79%*
Civils	*23%*	*25%*	*18%*	*16%*
Equipment hire (suction excavators)	*7%*	*7%*	*6%*	*5%*
Other	*0%*	*1%*	*0%*	*0%*

Source: Company historic data, ED analysis

Financial highlights (continuing operations)

- Revenue +28%
- Adjusted EBITDA +34%
- Adjusted PBT + 43%
- Cash generated in year of £7.5m (2023: £3.3m)
- Final dividend of 1.12p proposed, taking total dividend to 1.72p (2023: 1.72p)

The year was also notable for the Group's first acquisition, of Future Build, which broadened Hercules' activities by establishing the Company's white collar and permanent recruitment offering. Just before the year end, Hercules announced a placing, subscription and secondary share sale. An aggregate of 12.2m new ordinary shares were placed at 49.5p per share alongside a subscription for a further 4.0m new ordinary shares to raise gross proceeds of approximately £8m.

Divisional summary

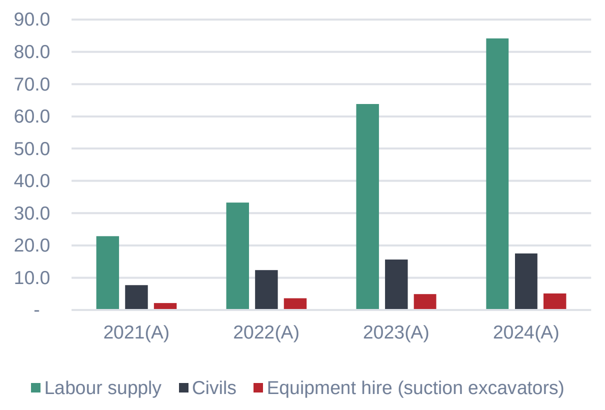
Labour Supply delivered another record year, supplying to over 40 clients across some 300 project locations during the year. The 32% revenue growth was driven by a 35% increase in the average number of operatives deployed, increasing from 850 in the prior year to 1,150. HS2 (Birmingham section) was again a major contributor to growth, with the number of operatives increasing from 425 at 30th September 2023 to 630 at 30th September 2024. Hercules is the leading labour supplier on the six-supplier labour desk. This growth is expected to continue for the next 5-7 years with FY25 requirements expected to be greater than those in FY24.

The recently established rail department enjoyed a much-improved H2'24. Having invested in this area, the Group expects FY25 to show steady growth, underpinned by regulatory spending under the £46bn control period programme (CP7).

Construction Services progress reflected another positive year for the Civils business, which continued to win significant levels of repeat work from the water sector for key delivery partners for AMP7. The Anglian Water Civils framework saw some sizeable projects being allocated to Hercules and the framework was extended for another two years, extending well into AMP8. Other notable projects included a £5m scheme for Thames Water.

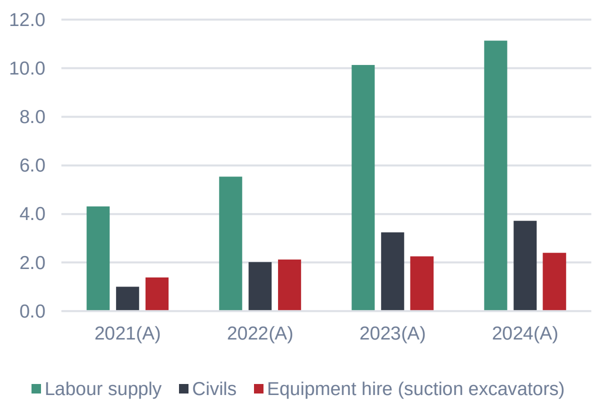
Also within this division, the Construction Academy opened in January 2024 and has started to deliver a diverse range of accredited courses. Suction Excavators, now discontinued, reported modest growth in the period.

Revenue (inc. suction excavators)



Source: Company historic data, ED analysis

Gross profit (inc suction excavators)



Source: Company historic data, ED analysis

Positive market drivers

Alongside its own growth initiatives, Hercules is benefiting from a positive market backdrop in terms of significant infrastructure investment in the UK, which looks set to continue under the new government. Hercules reports a strong pipeline of new business across the divisions and expects organic growth to be bolstered by the new Construction Academy, as well as the further development of the rail and white-collar labour supply offerings. The Group also continues to monitor M&A opportunities and investment capacity has been enhanced by the recent £8m fundraising.

Whilst the broader economic backdrop is uncertain, the headwinds, in our view, look manageable. The increase in employer National Insurance contributions announced in the Autumn Budget will only have a minor impact. The majority of these cost increases can be passed onto Hercules' clients, with only a small element relating to management and administrative functions that needs to be absorbed by the business.

Divestment of specialist plant business (suction excavators)

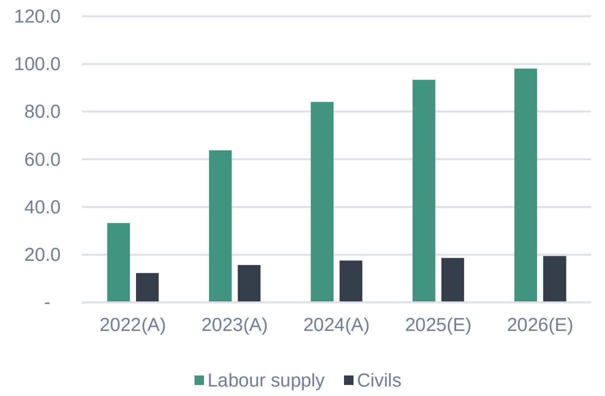
As previously announced, the Board has decided to focus on the core labour supply and civils projects businesses and therefore to seek a buyer for the suction excavator subsidiary. This business has progressed well but is very capital intensive in contrast to the Group's core activities. This business has been reported within discontinued operations in these results and we treat it the same way in the presentation of our forecasts.

The likely terms for the disposal have yet to be disclosed. As part of the proposed divestment, an impairment charge of £2m has been taken within the discontinued operations loss of £3.3m (FY23 loss £0.9m) anticipating the likely book loss on completion of the transaction. This moved the "All operations" profit for the year into a loss of £1.7m (FY23: £0.8m profit).

The disposal removes a significant interest burden from the Group and enhances earnings, given that the Suction Excavators business is currently loss making (although profitable at the EBITDA level).

The charts below show the new shape of the Group going forward and our expectation that the recent impressive growth trajectory will continue.

Revenue (continuing operations)



Source: Company historic data, ED forecasts and analysis

Gross profit (continuing operations)

Source: Company historic data, ED forecasts and analysis

FY24 outperformance, new shape to Group from FY25

The table below summarises the FY24 performance compared to our forecasts, as well as our upgraded assumptions for FY25 and initial forecasts for FY26. This is shown on a like for like basis including the results from the suction excavators business. Revenue, adjusted EBITDA and PBT are all ahead of forecast, reflecting continuing trading momentum. EPS is materially ahead of forecast, benefiting from a lower-than-expected effective tax rate.

Given the strength of revenue growth for several years, and a confident outlook statement, we have the confidence to increase our FY25 revenue growth forecast to assume another year of double-digit growth. This has a significant positive impact on our FY25 forecasts, as shown below.

Forecasts changes (including suction excavators business)

Year End Sep	2024(A) Actual	2024(E) Forecast	Change	2025(E) Revised	2025(E) Old	Change	2026(E) New
Revenue £m	107.0	105.0	1.9%	117.9	111.0	6.2%	123.6
Adjusted EBITDA £m	5.1	4.9	3.8%	6.6	5.1	31.0%	7.0
Adjusted PBT (underlying) £m	1.3	1.1	25.4%	2.6	1.3	109.0%	3.0
EPS fully diluted p	1.5	0.9	79.3%	2.6	1.1	144.0%	3.0
Dividend	1.7	1.7	0.0%	1.7	1.7	1.2%	1.7
Net cash/ (debt) £m	-15.2	-15.3	-0.4%	-11.4	-12.5	-8.8%	-9.2

Source: Company historic data, ED forecasts and analysis

With the suction excavators business now discontinued and in a sales process, we present our forecasts below on a continuing bases (excluding suction excavators).

This reduces our revenue and EBITDA forecasts for the coming years (compared to the table above) but materially increases our PBT and EPS forecasts because the suction excavator business was loss making, given the high depreciation and interest charge relating to that business.

In our view, this clearly justifies the decision to divest of the suction excavators business and highlights the underlying profitability of the Labour Supply and Civil Projects businesses.

Forecasts changes (continuing operations only)

Year End Sep	2024(A) Actual	2024(E) Forecast	Change	2025(E) Revised	2025(E) Old	Change	2026(E) New
Revenue £m	101.9	105.0	-2.9%	112.0	111.0	0.9%	117.6
Adjusted EBITDA £m	4.7	4.9	-4.3%	6.0	5.1	18.1%	6.4
Adjusted PBT (underlying) £m	2.6	1.1	142.7%	3.4	1.3	168.9%	3.7
EPS fully diluted p	3.5	0.9	301.9%	3.7	1.1	244.0%	4.0
Dividend	1.7	1.7	0.0%	1.7	1.7	1.2%	1.7
Net cash/ (debt) £m	-6.3	-15.3	-58.9%	-2.5	-12.5	-80.3%	-0.2

Source: Company historic data, ED forecasts and analysis

Income statement (Continuing operations)

Year End Sep	2022(A)	2023(A)	2024(A)	2025(E)	2026(E)
	£'m	£'m	£'m	£'m	£'m
Group revenue	**45.9**	**79.8**	**101.9**	**112.0**	**117.6**
% growth	50%	74%	28%	10%	5%
COGS	-38.3	-65.7	-87.0	-94.5	-99.2
% growth	51%	72%	32%	9%	5%
% of revenue	83%	82%	85%	84%	84%
Gross profit	**7.7**	**14.1**	**15.0**	**17.4**	**18.3**
% growth	44%	84%	6%	16%	5%
% margin	17%	18%	15%	16%	16%
Segmental admin expenses	-2.1	-3.6	-4.1	-4.7	-5.1
% of revenue	5%	5%	4%	4%	4%
Central admin expenses	-5.4	-7.9	-7.2	-8.2	-8.3
% of revenue	12%	10%	7%	7%	7%
Add back D&A	1.0	0.7	0.9	1.4	1.5
% of revenue	2%	1%	1%	1%	1%
Adj. EBITDA	**1.2**	**3.2**	**4.7**	**6.0**	**6.4**
% growth	-17%	168%	44%	28%	7%
% margin	3%	4.1%	4.6%	5%	5%
Depreciation owned assets	-0.1	-0.1	-0.1	-0.1	-0.1
Depreciation right of use assets	-0.9	-0.6	-0.8	-0.9	-0.9
Amortisation	0.0	0.0	0.0	-0.4	-0.5
Adj. EBITA	**0.2**	**2.5**	**3.7**	**4.6**	**4.9**
% growth	-76%	1350%	48%	23%	8%
% margin	0%	3%	4%	4%	4%
Other	0.0	0.0	0.0	0.0	0.0
Net interest	-0.5	-0.9	-1.1	-1.2	-1.2
Adj. PBT	**-0.4**	**1.6**	**2.6**	**3.4**	**3.7**
% growth	-182%	-524%	65%	30%	10%
% margin	-1%	2%	3%	3%	3%
Adjusting items	-0.5	0.0	-0.3	0.0	0.0
Reported PBT	**-0.9**	**1.5**	**2.2**	**3.4**	**3.7**
% growth	99%	-273%	47%	50%	10%
Underlying tax	0.2	0.2	-0.3	-0.4	-0.5
Exceptional tax	0.0	0.0	-0.3	0.0	0.0
Underlying tax rate (%)	43%	-10%	13%	13%	13%
Adj. PAT	**-0.2**	**1.7**	**2.2**	**2.9**	**3.2**
Reported PAT	**-0.7**	**1.7**	**1.6**	**2.9**	**3.2**
Discontinued operations	0.0	-0.9	-3.3	0.0	0.0
Total (loss)/ profit for the year	**-0.7**	**0.8**	**-1.7**	**2.9**	**3.2**
Minorities	0.0	0.0	0.0	0.0	0.0
Total (loss)/ profit to equity	**-0.7**	**0.8**	**-1.7**	**2.9**	**3.2**

Source: Company historic data, ED forecasts and analysis

Balance sheet

Year End Sep	2022(A)	2023(A)	2024(A)	2025(E)	2026(E)
	£'m	£'m	£'m	£'m	£'m
Non-Current assets					
PPE	14.6	20.8	7.4	6.8	6.2
Goodwill/ Other intangibles	0.0	0.0	2.3	2.2	2.2
Sub-total NCAs	14.6	20.8	9.8	9.0	8.4
Current Assets					
Inventories	0.1	0.1	0.0	0.0	0.0
Trade and other receivables	17.9	20.9	19.5	21.5	23.5
Current tax receivable	0.1	0.1	0.0	0.0	0.0
Assets at fair value through profit or loss	0.0	0.0	0.0	0.0	0.0
Cash and cash equivalents	1.2	4.2	6.4	9.5	11.8
Sub-total CAs	19.3	25.2	25.9	31.0	35.3
Net working capital	11.0	10.7	7.7	8.2	8.7
Disposal group assets held for resale	0.0	0.0	11.8	11.8	11.8
Total Assets	**33.9**	**46.0**	**47.5**	**51.9**	**55.5**
Current Liabilities					
Trade and other payables	-7.0	-10.2	-11.8	-13.3	-14.8
Provisions	-0.3	0.0	0.0	0.0	0.0
Loans and borrowings	-6.5	-10.0	-7.3	-7.0	-7.0
Lease liabilities	-2.1	-3.5	-4.1	-4.0	-4.0
Other	0.0	0.0	0.0	0.0	0.0
Sub-total CLs	-15.9	-23.7	-23.1	-24.3	-25.8
Non-current liabilities					
Deferred tax liabilities	-0.3	-0.2	-0.8	-0.8	-0.8
Lease liabilities	-10.9	-13.5	-1.3	-1.0	-1.0
Deferred contingent consideration	0.0	0.0	-1.0	-1.0	-1.0
Sub-total NCLs	-11.2	-13.7	-3.1	-2.8	-2.8
Disposal group liabilities held for resale	0.0	0.0	-9.6	-9.6	-9.6
Total Liabilities	**-27.1**	**-37.3**	**-35.8**	**-36.7**	**-38.2**
NET ASSETS	**6.8**	**8.7**	**11.7**	**15.3**	**17.4**
Minorities	0.0	0.0	0.0	0.0	0.0
SHAREHOLDERS FUNDS	**6.8**	**8.7**	**11.7**	**15.3**	**17.4**

Source: Company historic data, ED forecasts and analysis

Note for simplicity we have assumed that the disposal group assets and liabilities remain throughout the forecast period. In practice, we would expect the disposal to conclude in the current financial year.

We make no assumption as to valuation achieved on disposal, but note that the net asset position of the disposal group is currently £2.2m (£11.8m assets less £9.6m liabilities).

Cashflow statement

Year End Sep	2022(A)	2023(A)	2024(A)	2025(E)	2026(E)
	£'m	£'m	£'m	£'m	£'m
Adj. EBITA	**1.2**	**2.3**	**3.7**	**4.6**	**4.9**
Depreciation owned assets	0.1	0.1	0.1	0.1	0.1
Depreciation right of use assets	0.9	0.6	0.8	0.9	0.9
Gain on disposal of PPE	0.0	0.0	0.0	0.0	0.0
Exceptionals (inc IPO costs)	-0.5	0.0	-0.3	0.0	0.0
Other non-cash	0.1	0.1	0.1	0.0	0.0
Working Capital Movement	-7.1	-0.1	2.9	-0.5	-0.5
Operating Cash Flow	**-5.3**	**3.0**	**7.3**	**5.1**	**5.4**
Net Interest	-0.2	-0.7	-0.9	-1.2	-1.2
Tax	0.0	0.0	0.0	-0.4	-0.5
Net op. cashflows discontinued operations	0.0	0.6	-1.4	0.0	0.0
Net Operating Cash Flow	**-5.6**	**2.8**	**5.0**	**3.4**	**3.7**
Purchase of PPE	-0.2	-0.4	-0.3	-0.4	-0.4
Proceeds from sale of PPE	0.5	0.2	0.1	0.0	0.0
Total Net Capex	0.3	-0.2	-0.2	-0.4	-0.4
Net investing cashflows discontinued ops	0.0	-0.3	-0.1	0.0	0.0
Equity Free Cash Flow	**-5.3**	**2.3**	**4.7**	**3.0**	**3.3**
M&A	0.0	0.0	-1.2	0.0	0.0
Dividend	-0.4	-0.6	-1.1	-1.1	-1.1
Share Issue	3.4	1.6	5.8	1.9	0.0
Leases	-6.5	-8.5	0.0	0.0	0.0
Net financing cashflows discontinued ops	0.0	0.0	-1.4	0.0	0.0
FX/Other (inc. adjustment for discontinued operations)	-0.3	0.6	9.6	0.0	0.0
Net Change in Net Debt	**-9.0**	**-4.5**	**16.5**	**3.8**	**2.2**
Net Debt - BOP	**-9.2**	**-18.2**	**-22.8**	**-6.3**	**-2.5**
Net Debt - EOP	**-18.2**	**-22.8**	**-6.3**	**-2.5**	**-0.2**

Source: Company historic data, ED forecasts and analysis

Note that the cashflow statement above includes an adjustment of £9.4m in 2024 to adjust for net debt relating to the discontinued operations. This is consistent with the presentation in the company report and accounts.

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