

22 August 2022

First corner turned

Turning businesses around is never easy. Nonetheless common sense, capable management and lots of hard work can go a long way, especially where there is an established brand and many of the issues can be fixed internally.

Similarly, after a period of sub-optimal performance, **Gattaca** - the UK's largest specialist engineering/tech recruitment agency - appears to have **reached a major inflexion point**.

Rebuilding the brand

Indeed, the Board last Wednesday said that **FY'22 results would be in line with expectations**, with **adjusted PBT breaking-even** (£1.8m LY) on **NFI up 4% LFL to £44m** (£42.1m LY) and **net cash closing Jul'22 at £12m** (post IFRS16) after repaying £5.6m of deferred VAT. Or an **estimated £14m** vs £19.9m LY (pre capitalised operating leases), excluding around £9.5m of non-recourse debt.

Here, CEO Matthew Wragg & CFO Oliver Whittaker were appointed in Mar'22 and have grabbed the company by the scruff of the neck. Not only cutting GATC's cloth & remotivating staff, but also lifting productivity and delivering growth (re permanent placements) in double quick time - despite the headwind of losing 3 contract clients (2 in infrastructure & 1 energy) in H1 – ie before taking the helm.

Returning to profitable & cash generative growth

Sure this may not be rocket science, albeit **'self-help' is absolutely vital in restoring the group to profitable & cash generative growth** again in FY'23 on NFI up 12% to £49.1m (unchanged).

Matthew Wragg commenting: *"We are pleased with H2'22 performance and importantly the speed in which the business is embracing our four strategic pillars. **Increased external focus, improved culture, operational performance, and cost rebalancing.** We have established a solid foundation from which we can grow, leaving us well placed as we enter our new financial year, which has started well.*

*"We are mindful of the current macro-economic conditions as **we continue to see robust demand in our key markets.** There remains a **shortage of candidates which plays to our key strength of deep knowledge and understanding of our sectors and niche STEM skills.**"*

Increasing fair value to 160p/share vs 145p B4

So putting all this together, **I have nudged up the valuation from 145p to 160p/share**, reflecting the better than expected net funds position and lower debtor days.

However, this could prove to be conservative in the event the strategy ultimately delivers sustainable peer group returns (or higher). Where STEM rival Sthree reported UK LFL NFI growth of 28% in Q2'22 – thus highlighting the magnitude of the opportunity.

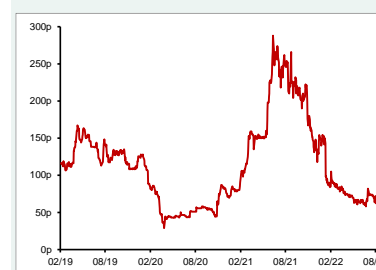
Admittedly, Gattaca has a slightly different business model with greater engineering exposure and less life sciences. Yet equally, GATC grew NFI 3.6% sequentially in H2 to £22.4m (see below) vs £21.6m H1, and still has **considerable upside potential compared to pre-pandemic levels** (re KPIs and multiples - see appendices).

Time to be patient.

Company Data

EPIC	AIM:GATC
Price (last close)	75p
52 week Hi / Lo	226p/55p
Market cap	£24.2m
Jul'22 net cash (ex est. £9.5m of off B/S non-recourse finance)	£12.0m
Share count	32.3m
ED valuation / share	160p

Share Price, p



Source: Yahoo

Description

Gattaca is the UK's #1 specialist engineering (69% H2'21 NFI) recruitment agency, providing contract, temporary and permanent staff (Source: Recruitment International). It derives 7% of NFI from overseas, with the remainder coming from UK Technology (24%) – overall split 74% contractors and 26% permanents.

The global engineering and technology recruitment markets are valued at circa \$26bn and \$57bn respectively.

Headcount ended July 2021 at 512 of which 73% were sales related.

Next news: Prelims 3rd Nov'22

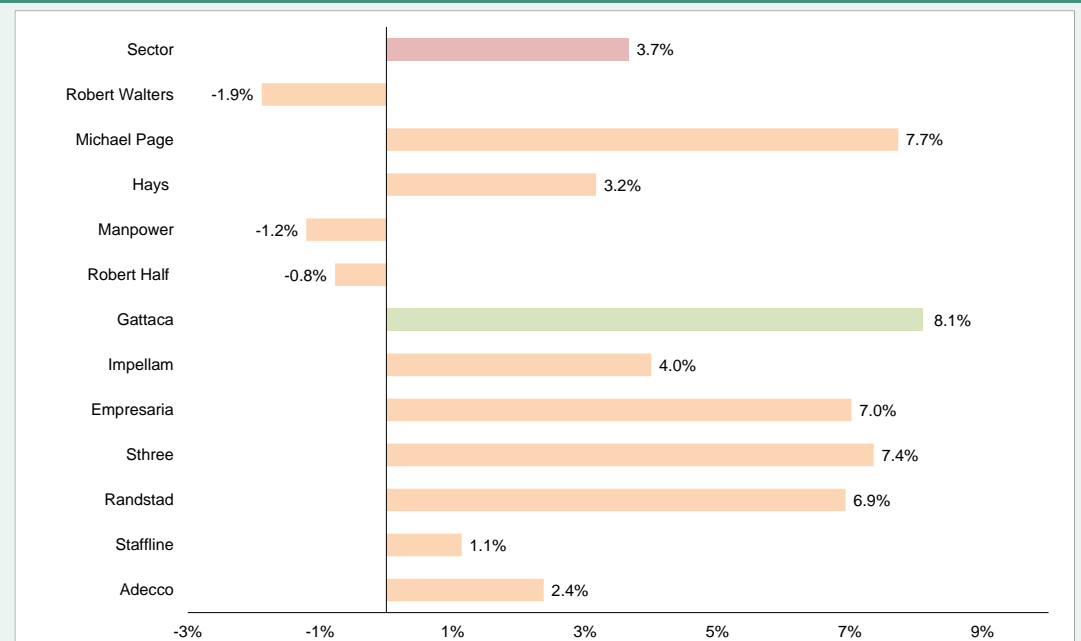
Paul Hill (Analyst)

0207 065 2690
paul.hill@equitydevelopment.co.uk

Gattaca H1 vs H2 results

£'000s (continuing) - July y/e	Act H1'21	Act H2'21	Act FY21	Act H1'22	Est H2'22	Est FY22
UK	-8.1%	43.2%	12.8%	8.9%	5.0%	6.9%
International	-30.8%	-27.1%	-29.1%	-29.8%	-9.9%	-20.6%
Total underlying NFI	-33.6%	-1.3%	-20.2%	5.3%	3.9%	4.6%
NFI	20,522	21,558	42,080	21,606	22,394	44,000
Adjusted EBITDA	1,384	3,048	4,432	887	1,489	2,376
Adjusted EBIT	295	1,952	2,247	-108	484	376
<i>EBIT/NFI margin</i>	1.4%	9.1%	5.3%	-0.5%	2.2%	0.9%
Underlying overheads	20,227	19,606	39,833	21,714	21,910	43,624
U/L admin as % NFI	98.6%	90.9%	94.7%	100.5%	97.8%	99.1%
Adjusted PBT	-40	1,875	1,835	-261	337	76
Tax	40	-172	-132	0	0	-17
Minorities	0	0	0	0	0	0
Underlying PAT	0	1,703	1,703	-261	337	59
Adjusted EPS (diluted)	0.0p	5.3p	5.3p	-0.8p	1.0p	0.2p
NFI (LTM) / head (£ks)			82.2			81.5
Overheads / head (£Ks)			77.8			80.8
Headcount	437		512	540		540
<i>Net debt : EBITDA</i>			1.28			1.89
<i>U/L tax rate</i>			-7.2%			
Non-recourse invoice discounting	-12,200	-14,200	-14,200	-10,400	-9,500	-9,500
Deferred VAT	-10,300	-5,600	-5,600	0	0	0
Cash/(recourse debt) - pre IFRS 16	22,744	19,890	19,890	4,841	14,000	14,000

Source: Equity Development.

Expected current year NFI growth across recruitment sector


Source: Equity Development. 2 years average (FY'22-FY'23) for Gattaca

Key risks

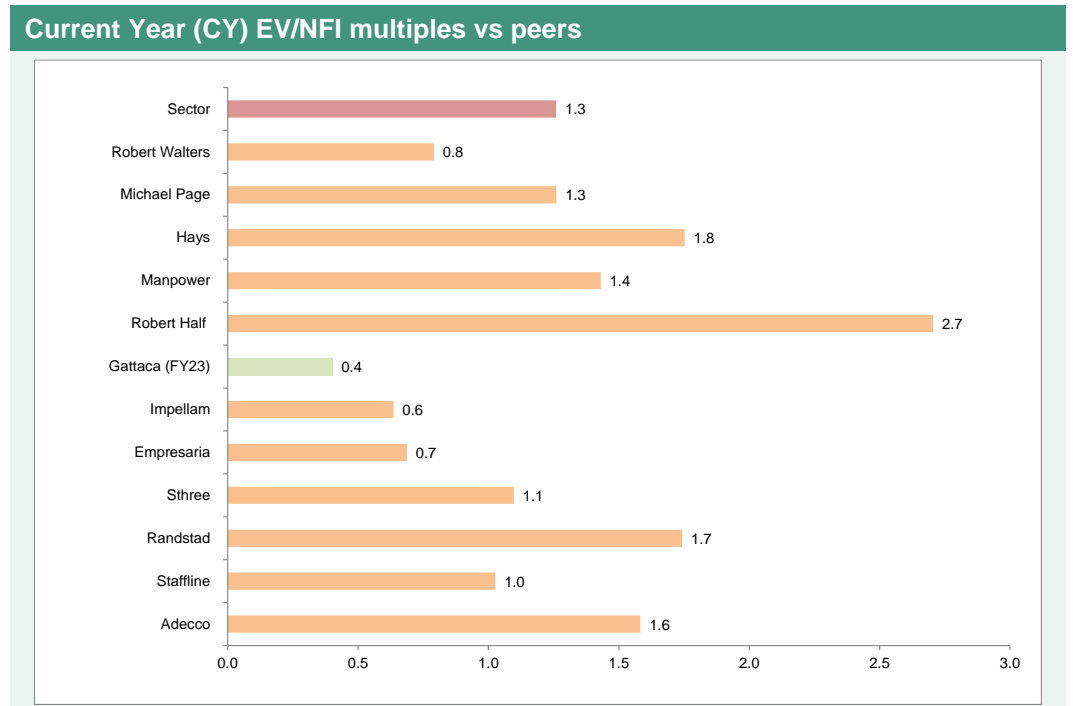
- General economic downturn affecting engineering and technology recruitment.
- Greater competition, especially from new technology platforms (eg LinkedIn, Monster).

Summary projections (£'000s)

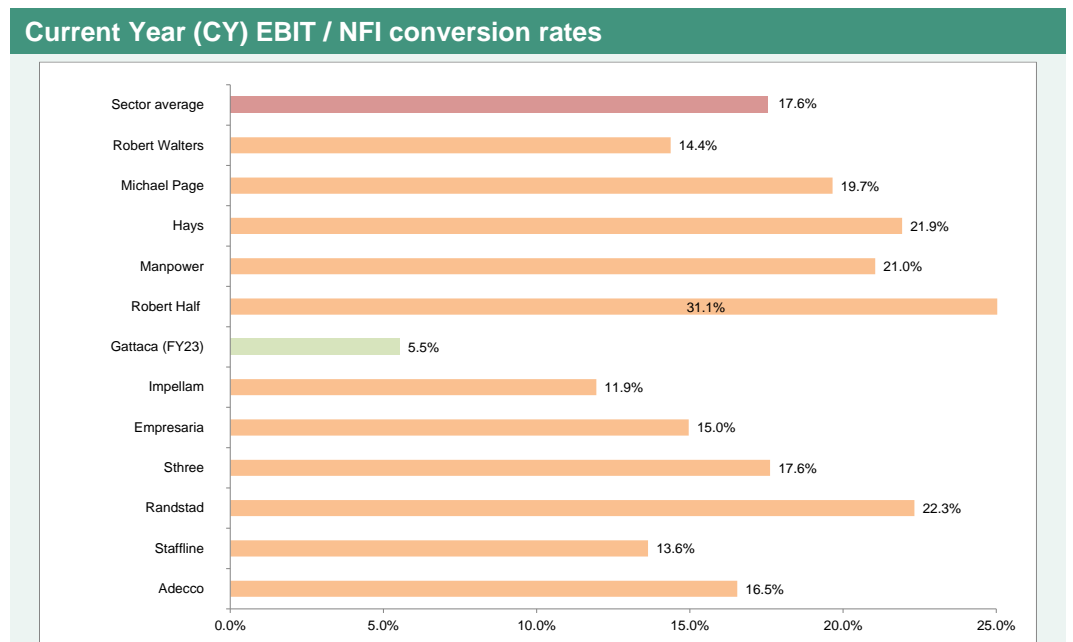
Gattaca (continuing operations) (July yearend)	2020 Act £'000s	2021 Act £'000s	2022 Est £'000s	2023 Est £'000s	2024 Est £'000s	2025 Est £'000s
Net Fee Income (NFI) : Gross profit						
UK Engineering & Technology	34,177	38,552	41,200	46,044	51,696	57,687
UK Technology	13,602					
International	4,977	3,528	2,800	3,080	3,485	3,940
Total	52,756	42,080	44,000	49,124	55,181	61,627
NFI growth rate						
<i>UK Engineering & Technology</i>	-21.0%	12.8%	6.9%	11.8%	12.3%	11.6%
<i>UK Technology</i>	-23.5%					
<i>International</i>	-15.9%	-29.1%	-20.6%	10.0%	13.1%	13.1%
Total NFI growth rate	-21.2%	-20.2%	4.6%	11.6%	12.3%	11.7%
EBITDA	9,413	4,432	2,376	4,734	8,043	11,047
UK Engineering & Technology	20,913	10,827	15,656	17,957	20,937	24,229
UK Technology	7,061					
International	1,319	-572	-280	0	697	788
Central overheads	-23,125	-12,502	-15,000	-15,235	-15,624	-16,023
Adjusted EBIT	6,168	2,247	376	2,722	6,010	8,993
<i>Total Opex as % NFI</i>	-88.3%	-94.7%	-99.1%	-94.5%	-89.1%	-85.4%
<i>EBIT / NFI margin</i>	11.7%	5.3%	0.9%	5.5%	10.9%	14.6%
Net interest	-1,389	-412	-300	-250	-200	-150
Adjusted PBT	4,779	1,835	76	2,472	5,810	8,843
Tax	-995	-132	-17	-618	-1,569	-2,388
Minorities	0	0	0	0	0	0
Adjusted PAT	3,784	1,703	59	1,854	4,241	6,456
Adjusted diluted EPS (p)	11.7	5.3	0.2	5.7	12.9	19.6
<i>Adjusted EPS growth rate</i>	-57.6%	-55.0%			127.6%	51.5%
Dividend (p)	0.0	1.5	0.0	3.0	5.0	7.0
<i>Dividend yield</i>	0.0%	2.0%	0.0%	4.0%	6.7%	9.3%
<i>Dividend cover</i>						
Valuation benchmarks						
<i>P/E ratio (diluted)</i>	6.4	14.3		13.2	5.8	3.8
<i>EV/NFI</i>	0.37	0.47	0.45	0.40	0.36	0.32
<i>EV/EBITDA</i>	2.1	4.4	8.3	4.2	2.5	1.8
<i>EV/EBITA (diluted)</i>	3.2	8.8		7.2	3.3	2.2
<i>PEG ratio</i>	-0.11	-0.26			0.05	0.07
<i>Adjusted corporate tax rate</i>	-20.8%	-7.2%		-25.0%	-27.0%	-27.0%
<i>Adj ROACE</i>	8.7%	3.3%	0.6%	4.4%	9.5%	13.4%
<i>EBITDA drop through rate as % NFI</i>				46.0%	54.6%	46.6%
Net recourse cash/(debt) pre IFRS 16	27,341	19,890	14,000	14,748	16,309	18,883
Non recourse invoice factoring (off Balance Sheet)	-13,800	-14,200	-9,500	-9,500	-9,500	-9,500
HMRC deferred VAT	-10,300	-5,600				
<i>Net debt : EBITDA (incl HMRC & factoring)</i>	-0.3	1.3	1.9	1.1	0.8	0.8
<i>Diluted sharecount (Adj for 2015)</i>	32,353	32,358	32,519	32,682	32,845	33,009
Shareprice (p)	75p					

Source: Equity Development

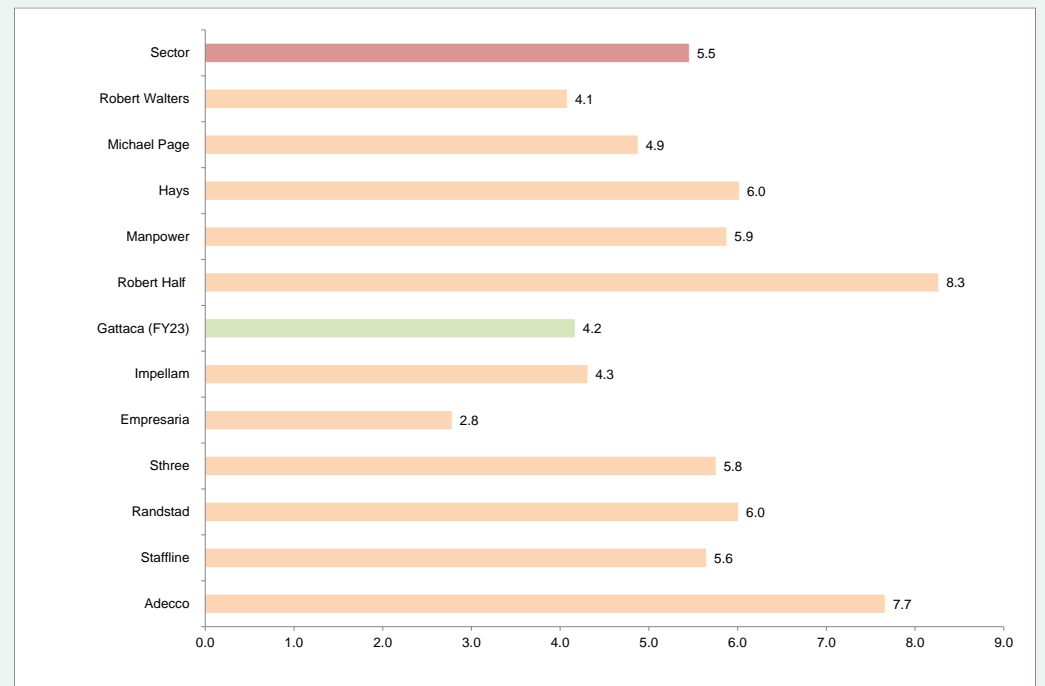
Appendices - sector valuation metrics and KPIs



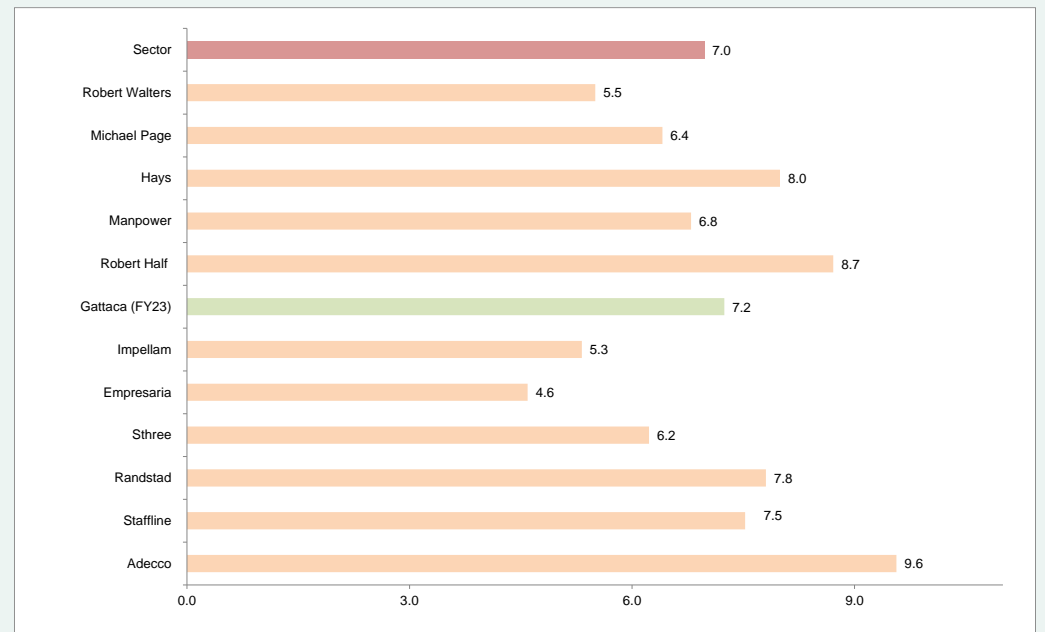
Source: Equity Development



Source: Equity Development

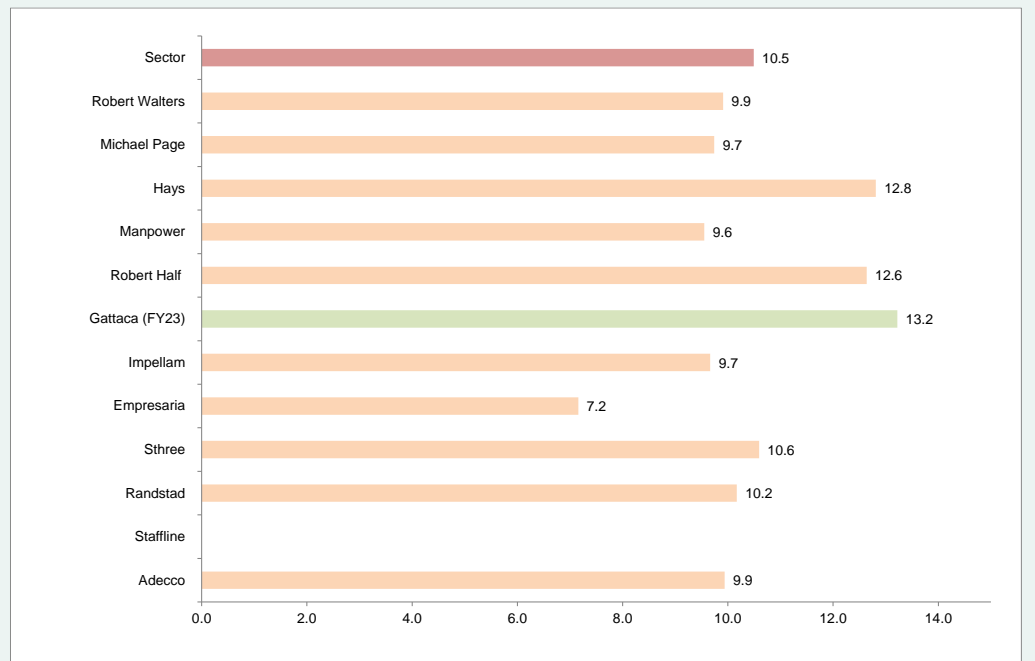
CY EV/EBITDA multiples vs peers


Source: Equity Development

CY EV/EBIT multiples vs peers


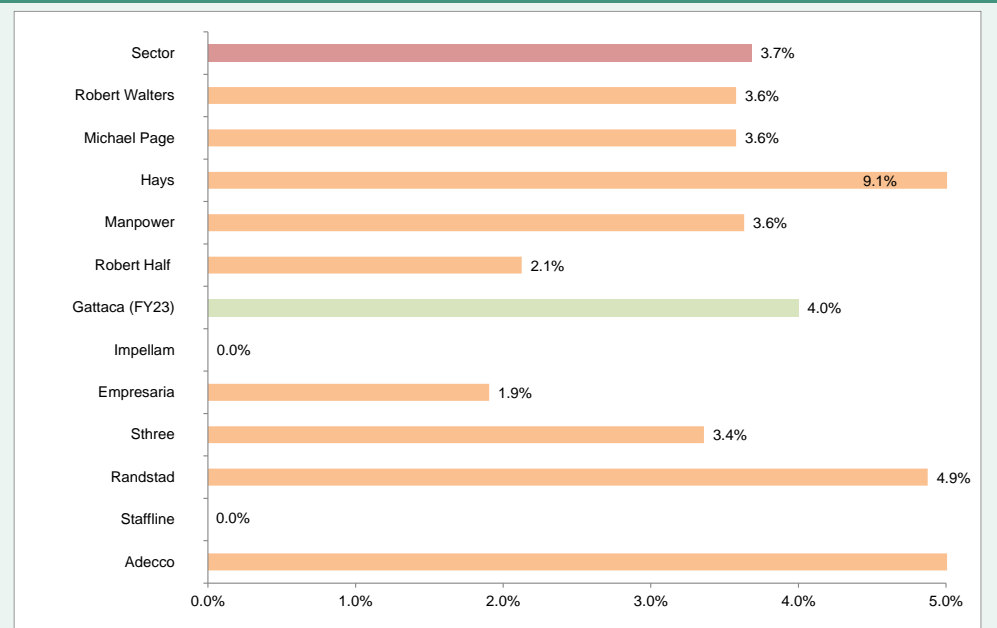
Source: Equity Development

CY PER multiples vs peers



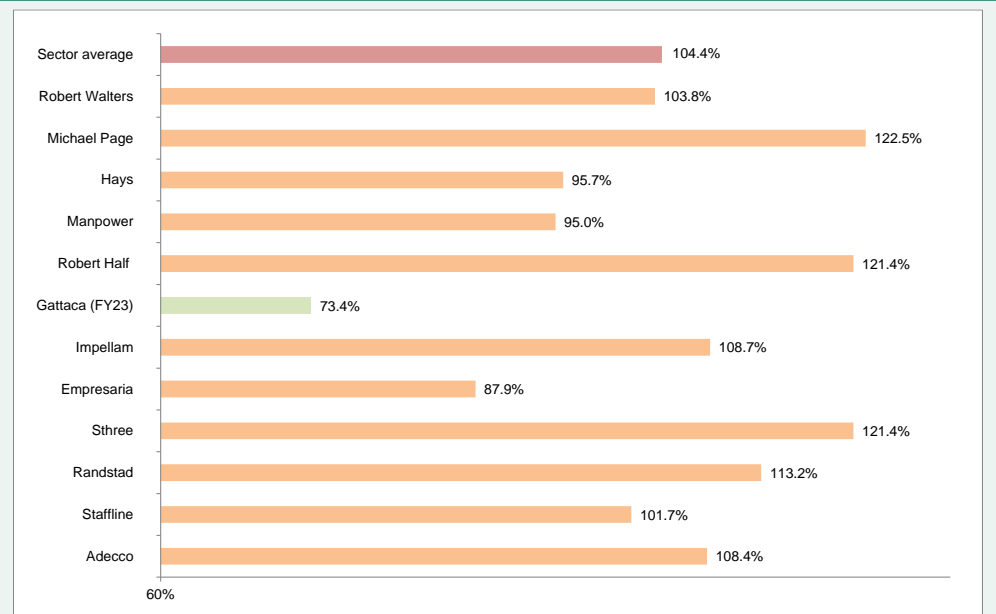
Source: Equity Development

CY dividend yield (%)



Source: Equity Development

Current year NFI as a % of pre Covid levels



Source: Equity Development.

Market capitalisation of peers

	Shareprice	Mrk Cap (Millions)	CY net cash / (debt) Millions	Enterprise Value (Millions)
Adecco	€ 31.11	€ 5,381	-€ 2,347	€ 7,728
Staffline	45p	£75.6	-£14.7	£90.3
Randstad	€ 48.00	€ 8,808	-€ 518	€ 9,326
Sthree	375p	£501.8	£51.4	£450.4
Empresaria	63p	£32.5	-£12.5	£45.0
Impellam	460p	£207.5	£18.0	£189.5
Gattaca (FY23)	75p	£24.2	£4.5	£19.7
Robert Half	\$80.00	\$9,040	\$746	\$8,294
Manpower	\$79.00	\$4,582	-\$5	\$4,587
Hays	123p	£2,189	£295	£1,894
Michael Page	450p	£1,445	£124	£1,321
Robert Walters	545p	£414.7	£81.8	£332.9

Source: Equity Development



Contacts

Andy Edmond

Direct: 020 7065 2691

Tel: 020 7065 2690

andy@equitydevelopment.co.uk

Hannah Crowe

Direct: 0207 065 2692

Tel: 0207 065 2690

hannah@equitydevelopment.co.uk

Equity Development Limited is regulated by the Financial Conduct Authority

Disclaimer

Equity Development Limited ('ED') is retained to act as financial adviser for its corporate clients, some or all of whom may now or in the future have an interest in the contents of this document. ED produces and distributes research for these corporate clients to persons who are not clients of ED. In the preparation of this report ED has taken professional efforts to ensure that the facts stated herein are clear, fair and not misleading, but makes no guarantee as to the accuracy or completeness of the information or opinions contained herein.

This document has not been approved for the purposes of Section 21(2) of the Financial Services & Markets Act 2000 of the United Kingdom ('FSMA'). Any reader of this research should not act or rely on this document or any of its contents. This report is being provided by ED to provide background information about the subject of the research to relevant persons, as defined by the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005. This document does not constitute, nor form part of, and should not be construed as, any offer for sale or purchase of (or solicitation of, or invitation to make any offer to buy or sell) any Securities (which may rise and fall in value). Nor shall it, or any part of it, form the basis of, or be relied on in connection with, any contract or commitment whatsoever.

Research produced and distributed by ED on its client companies is normally commissioned and paid for by those companies themselves ('issuer financed research') and as such is not deemed to be independent as defined by the FCA but is 'objective' in that the authors are stating their own opinions. This document is prepared for clients under UK law. In the UK, companies quoted on AIM are subject to lighter due diligence than shares quoted on the main market and are therefore more likely to carry a higher degree of risk than main market companies.

ED may in the future provide, or may have in the past provided, investment banking services to the subject of this report. ED, its Directors or persons connected may at some time in the future have, or have had in the past, a material investment in the Company. ED, its affiliates, officers, directors, and employees, will not be liable for any loss or damage arising from any use of this document to the maximum extent that the law permits.

More information is available on our website www.equitydevelopment.co.uk

Equity Development, Park House, 16-18 Finsbury Circus, London EC2M 7EB

Contact: info@equitydevelopment.co.uk | 020 7065 2690