

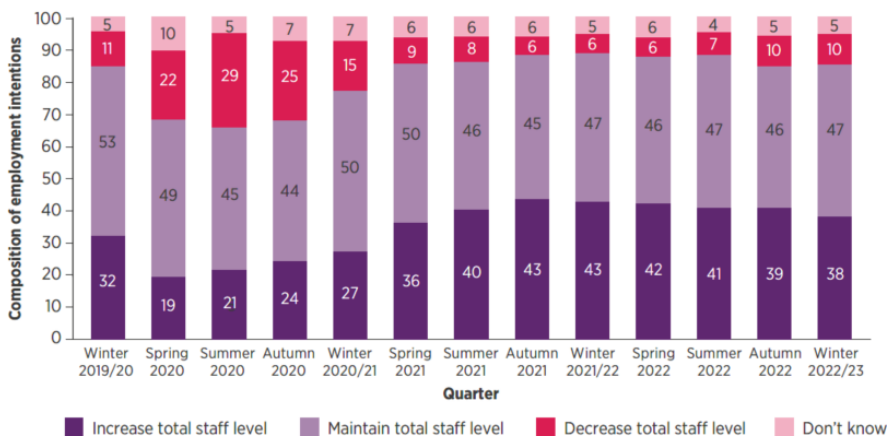
Strong cashflow coupled with solid top line growth

15th February 2023

In lockstep with the broader economy, the UK recruitment industry is being buffeted by a number of crosswinds. On the one hand, unemployment remains at near 50 year lows (3.7%), jobs are plentiful (1.1m) and wages are climbing at a 5.9% clip. On the other, corporates have become more cautious and even recently begun scaling back their hiring plans for permanent placements.

UK permanent recruitment has been softening

Figure 2: Composition of employment intentions (%)



Base: winter 2022/23, all employers (n=2,012).

Source: CIPD

Nonetheless **for the right skills**, there is still **robust demand**. Particularly across Gattaca's core verticals (65% of NFI) of Infrastructure (eg Lower Thames Barrier, HS2, etc), Defence, Energy (off shore wind & nuclear) and Mobility (aero, auto & marine). Albeit partly offset by rising Tech layoffs, a temporary rail slowdown (eg maintenance) & US IT job losses.

Fortress balance sheet & improving margins

Indeed, the company reiterated today that it was **well on track to achieve its medium & long term goals** after posting **solid H1'23 LFL NFI growth of 5.1% to £22.7m** (£21.6m LY). Plus anecdotally, fee earner productivity is moving in the right direction, which has already started to feed through into **margin expansion**.

Elsewhere, **cashflow was strong too with statutory net funds climbing £8.7m to £21.0m** (65p/share) as at the end of Jan'23 vs £12.3m in Jul'22 - reflecting **lower debtor days** and tight working capital management.

Consequently, **we think the turn-around plan is making real headway**, despite being slightly slower out the blocks than we'd previously modelled due to the tougher macro environment. The recent preference of clients to use more temporary staff should also fit nicely with Gattaca's skillset.

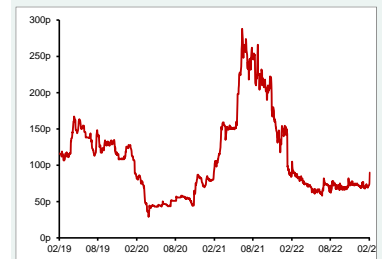
Profit reset due to macro uncertainty

So what does this all mean? Well, given the 'blustery' economic conditions, we've prudently **trimmed our FY'23 and FY'24 PBT forecasts to £1.8m** (£256k LY) **and £4.25m** respectively on NFI up 5.3% & 8.9%, alongside **cutting the valuation to 130p/share** vs 160p before.

Company Data

EPIC	AIM:GATC
Price (last close)	90p
52 week Hi / Lo	95p/55p
Market cap	£29.1m
Jan'23 statutory net cash (post IFRS16 & £9.6m of non-recourse debt)	£20m
Share count	32.3m
ED valuation / share	130p
TNAV/share (July 2022)	86.5p

Share Price, p



Source: Yahoo

Description

Gattaca is a specialist STEM (re Science, Technology, Engineering & Mathematics) staffing solutions business. In FY'22, it delivered NFI up 5% to £44.1m (94% UK vs 6% overseas). 68% of NFI comes from contract/temp assignments with the rest from permanent placements.

July'22 headcount was 539, of which 385 (or 71%) were sales related.

Next news: Interims 30th March 2023

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Similarly, **FY'23 EBIT conversion is now expected to come in at 4.3%** vs 1.1% LY. Although we believe this will ultimately migrate towards sector norms of 15%+ (re Sthree 18%). In fact, there should be little reason either why Gattaca can't generate mid-high single digit NFI growth rates (or 2x-3x GDP) across the cycle - thanks to its **STEM expertise and improving productivity**.

Turnaround plan remains firmly on track

CEO Matthew Wragg, commenting: ***"I am happy to see NFI growth across H1 2023 as we focus on improving performance. Progress continues on our four strategic priorities and building the business for the medium to long term. We are now benefitting from our early work around culture and engagement, which has lowered our attrition rate, and is enabling us to increase productivity.***

*As we enter the second half, we are conscious of softening in some external sectors, and perm is likely to be impacted by a level of restraint around hiring, shifting candidate sentiment and, as such, slightly longer hiring cycles. Despite this **we continue to see demand for STEM skills in our core sectors** and the shortage of candidates plays to our key strength of deep knowledge and understanding of our sectors and niche skills."*

Key risks

- General economic downturn affecting engineering and technology recruitment.
- Greater competition, especially from new technology platforms (eg LinkedIn, Monster).
- Remote risk of US Department of Justice action relating to certain Networkers International activities prior to its 2015 acquisition.

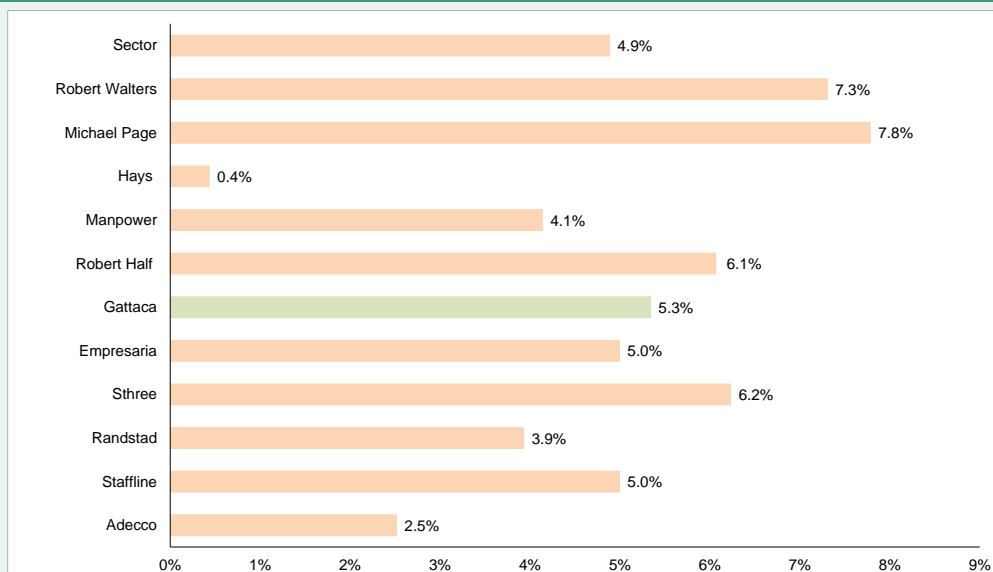
Summary projections (£'000s)

Gattaca (continuing operations) (July yearend)	2020 Act £'000s	2021 Act £'000s	2022 Act £'000s	2023 Est £'000s	2024 Est £'000s	2025 Est £'000s
Net Fee Income (NFI) : Gross profit						
UK Engineering & Technology	47,779	38,552	41,361	43,700	47,398	50,869
International	4,977	3,528	2,779	2,800	3,240	3,494
Total	52,756	42,080	44,140	46,500	50,638	54,363
NFI growth rate						
UK Engineering & Technology	10.5%	-19.3%	7.3%	5.7%	8.5%	7.3%
UK Technology	-23.5%					
International	-15.9%	-29.1%	-21.2%	0.8%	15.7%	7.8%
Total NFI growth rate	-21.2%	-20.2%	4.9%	5.3%	8.9%	7.4%
EBITDA	9,413	4,432	2,715	4,224	6,637	8,576
EBITDA/NFI conversion %	17.8%	10.5%	6.2%	9.1%	13.1%	15.8%
UK Engineering & Technology	20,913	12,178	17,696	17,354	19,521	21,615
UK Technology	7,061					
International	1,319	-1,923	-2,234	0	486	699
Central overheads	-23,125	-12,502	-14,957	-15,354	-15,607	-15,997
Adjusted EBIT	6,168	2,247	505	2,000	4,400	6,316
Total Opex as % NFI	-88.3%	-94.7%	-98.9%	-95.7%	-91.3%	-88.4%
EBIT / NFI margin	11.7%	5.3%	1.1%	4.3%	8.7%	11.6%
Net interest	-1,389	-412	-249	-200	-150	-100
Adjusted PBT	4,779	1,835	256	1,800	4,250	6,216
Tax	-995	-132	-154	-396	-1,063	-1,554
Minorities	0	0	0	0	0	0
Adjusted PAT	3,784	1,703	102	1,404	3,188	4,662
Adjusted diluted EPS	11.7p	5.3p	0.3p	4.3p	9.7p	14.1p
Adjusted EPS growth rate	-57.6%	-55.0%			125.9%	45.5%
Dividend (p)	0.0	1.5	0.0	1.4	3.3	4.7
Dividend yield	0.0%	1.7%	0.0%	1.6%	3.6%	5.3%
Valuation benchmarks						
P/E ratio (diluted)	7.7	17.1		20.9	9.3	6.4
EV/NFI	0.38	0.48	0.46	0.43	0.40	0.37
EV/EBITDA	2.1	4.5	7.4	4.8	3.0	2.4
EV/EBITA (diluted)	3.3	9.0		10.1	4.6	3.2
PEG ratio	-0.13	-0.31			0.07	0.14
Adjusted corporate tax rate	-20.8%	-7.2%		-22.0%	-25.0%	-25.0%
Adj ROACE	8.7%	3.3%	0.8%	3.2%	6.9%	9.6%
EBITDA drop through rate as % NFI				63.9%	58.3%	52.0%
Statutory net cash/(debt) post IFRS 16	19,605	14,129	12,342	16,514	19,744	23,041
Net recourse cash/(debt) pre IFRS 16	27,341	19,890	15,967	18,514	21,744	25,041
Non recourse invoice factoring (off Balance Sheet)	-13,800	-14,200	-9,600	-9,600	-9,600	-9,600
IFRS leases	-7,736	-5,761	-3,625	-2,000	-2,000	-2,000
Diluted sharecount	32,353	32,358	32,500	32,675	32,837	33,001
Shareprice (p)	90p					

Source: Equity Development

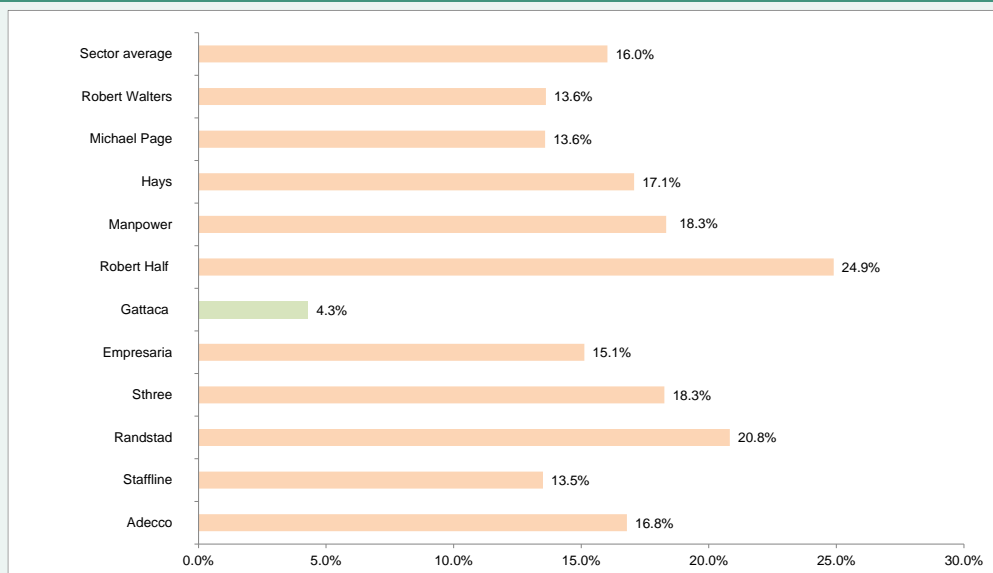
Appendices - sector valuation metrics and KPIs

Current year NFI growth (%) vs peers



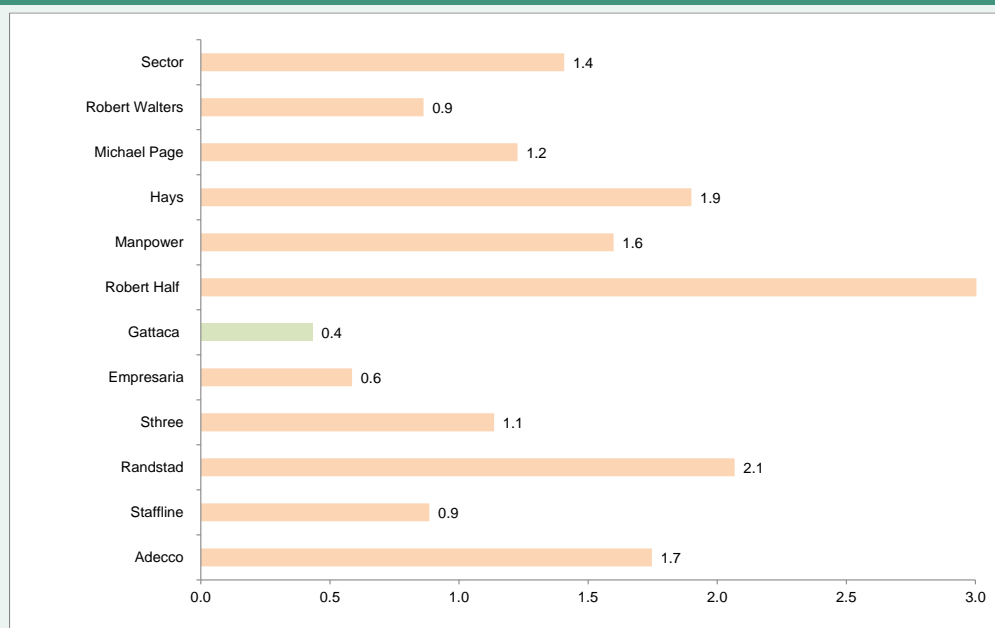
Source: Equity Development

Current Year (CY) EBIT / NFI conversion rates



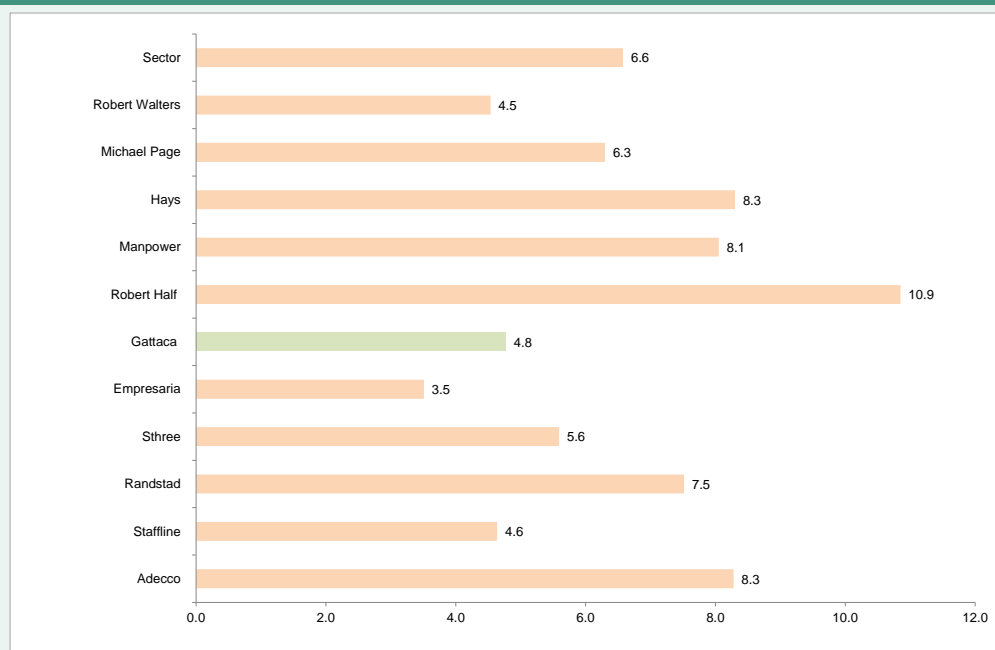
Source: Equity Development

Current Year (CY) EV/NFI multiples vs peers



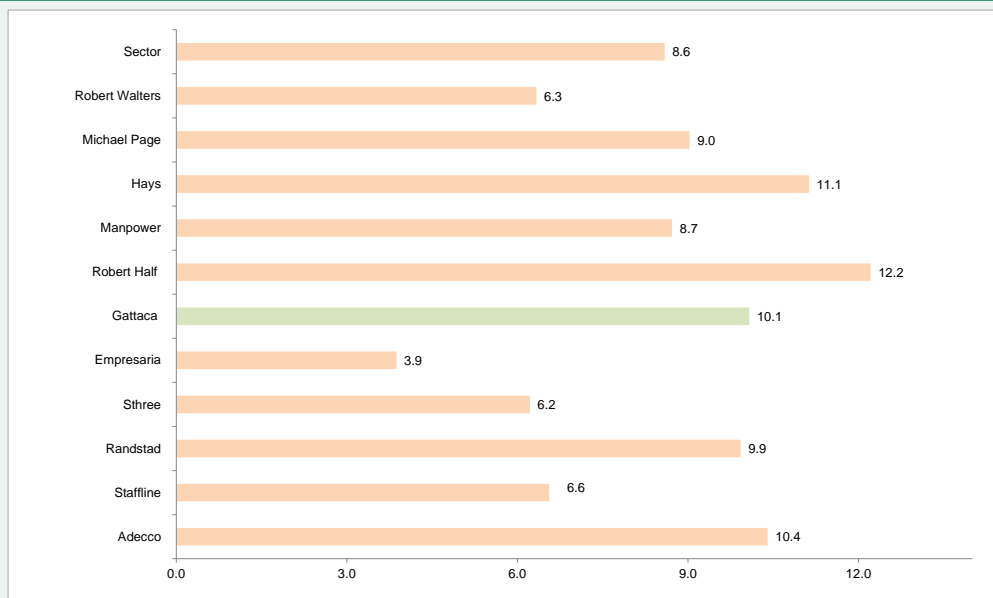
Source: Equity Development

CY EV/EBITDA multiples vs peers



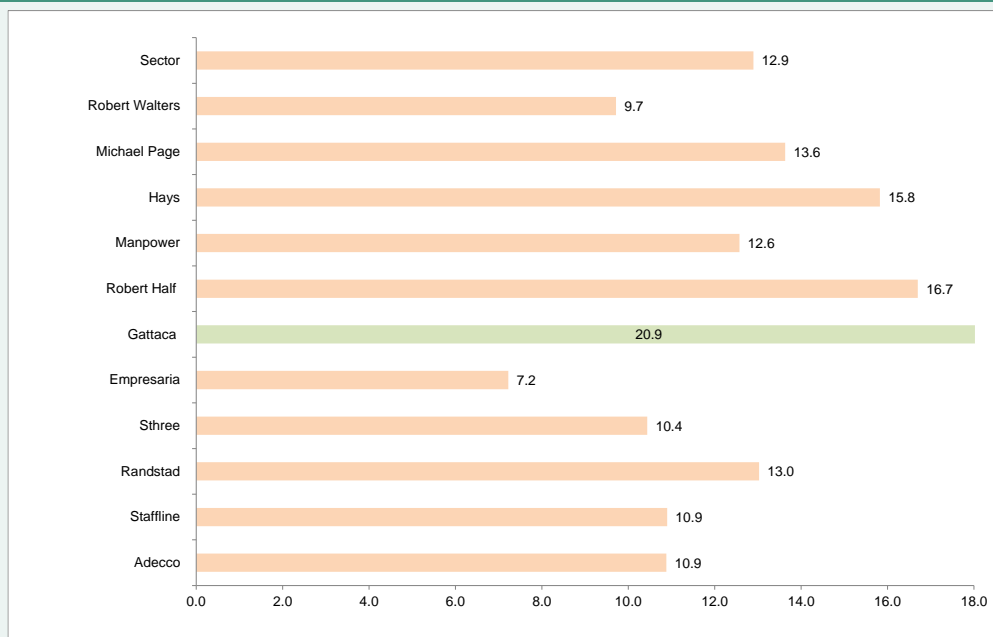
Source: Equity Development

CY EV/EBIT multiples vs peers



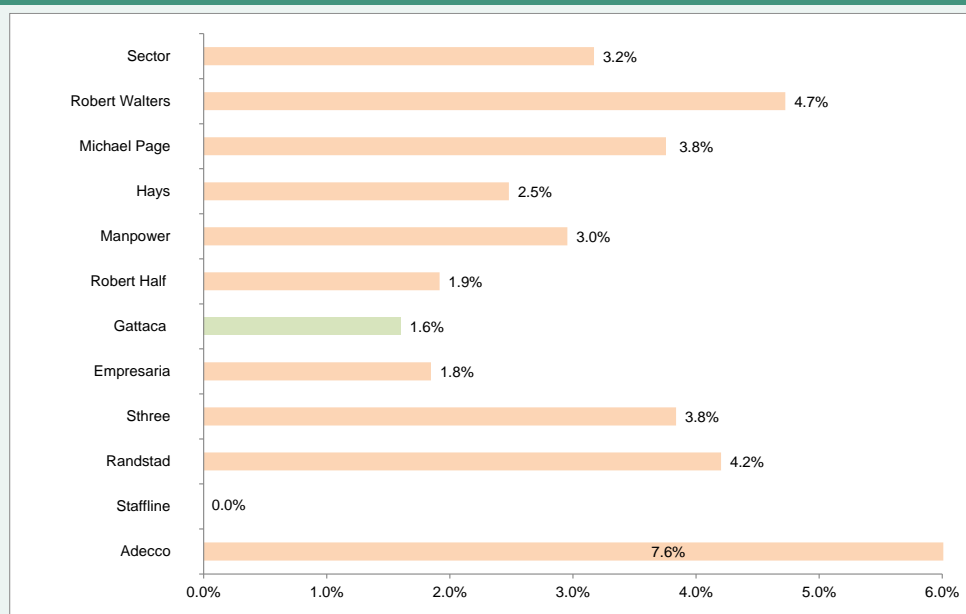
Source: Equity Development

CY PERs multiples vs peers



Source: Equity Development

CY dividend yield (%)



Source: Equity Development

Market capitalisation of peers

	Shareprice	Mrk Cap (Millions)	CY net cash / (debt) Millions	Enterprise Value (Millions)
Adecco	€ 34.2	€ 5,909	-€ 2,611	€ 8,520
Staffline	34p	£57.1	-£7.8	£64.9
Randstad	€ 59.0	€ 10,815	-€ 482	€ 11,297
Sthree	430p	£575	£65	£510
Empresaria	65p	£33.2	-£7.9	£41.1
Gattaca	90p	£29.1	£8.9	£20.2
Robert Half	\$83.5	\$9,185	\$624	\$8,561
Manpower	\$88.0	\$4,488	-\$335	\$4,823
Hays	125p	£2,225	£55	£2,170
Michael Page	458p	£1,470	£116	£1,354
Robert Walters	508p	£387	£30	£357

Source: Equity Development



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