

EPS & cashflow beats, plus dividend reinstatement

Two of the most important qualities of any corporate are resilience & adaptability. Being able to rapidly respond to tougher macro-economic conditions in real time without damaging long term objectives.

Gattaca, a specialist STEM recruiter fits the bill. Saying yesterday that despite experiencing a -1.2% (H1 +5.2% vs H2 -7.4%) fall in FY'23 NFI to £43.6m (£44.1m LY) due to the industry's well publicised slowdown & the conscious unwind from low margin business. **Adjusted PBT nonetheless came in 38% above our £1.8m target at £2.5m** (H2 £1.6m & H1 £0.9m), reflecting tight cost control, interest income and a rephasing of planned headcount additions.

Here contract NFI was flat, whilst permanent declined 4% on the back of "client & candidate challenges". That said 'Temp' now represents 72% of group NFI, providing robust visibility for FY'24 & beyond.

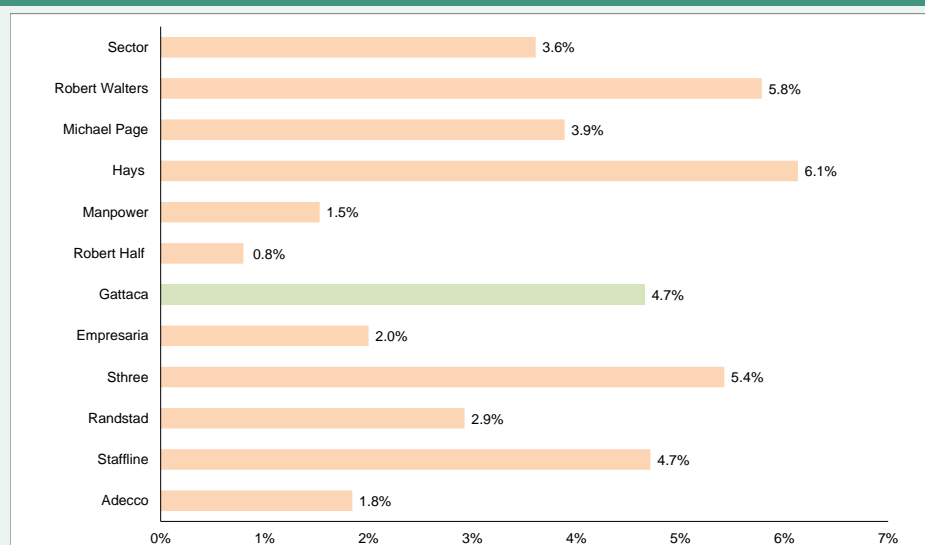
Rock solid balance sheet & margin recovery

Likewise, the exit from lower margin work alongside improved debt collection, **reduced working capital** and helped push July yearend statutory **net cash** (ex IFRS16 leases) **to £23m (or 72p/share)** vs £12m LY. Not only **improving ROCE**, but also enabling management to **reinstate the dividend** (2.5p), announce a further £0.5m of buybacks and pay a special 2.5p/share distribution.

Together this earnings beat combined with the handsome payout was rewarded with a 6% bump up in the stockprice yesterday to 103p. Sure going forward Gattaca is unlikely to escape the headwinds facing the sector. Yet equally, **the Board believe "marginal" progress can be made this year.**

Indeed, we have recalibrated our forecasts, and now anticipate adjusted PBT to climb to £2.8m and £4.7m respectively between FY24-25, on LFL NFI up to £45.6m (+4.7%) and £49.1m (+7.6%), as new sales staff (+30) are added & become increasingly more productive.

Current year NFI growth (%) vs peers



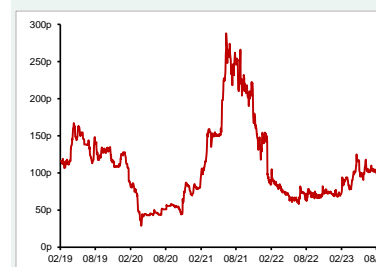
Source: Equity Development

Elsewhere, **profit margins are improving too**, with EBIT conversion set to climb from 5.0% in FY'23 (vs 1.1% LY) to 5.6% this year. Likewise boosting FY'24 adjusted EPS to 6.6p and putting the shares on an **attractive forward EV/EBIT multiple of 5.4x**, whilst paying a 3.2% yield (re 2x cover). Our **conservative valuation is 125p/share** vs 130p B4.

Company Data

Company Data	Value
EPIC	AIM:GATC
Price (last close)	103p
52 week Hi / Lo	125p/55p
Market cap	£32.8m
July'23 statutory net cash (ex Est £2m IFRS16 leases & £47.0m of non-recourse debt)	£23.2m
Share count	31.9m
ED valuation / share	125p
TNAV/share (Jan'23)	86p

Share Price, p



Source: Yahoo

Description

Gattaca is a specialist STEM (re Science, Technology, Engineering & Mathematics) staffing solutions business. In FY'23, it delivered NFI of £43.6m – of which 72% of NFI came from temporary assignments and the rest from permanent placements.

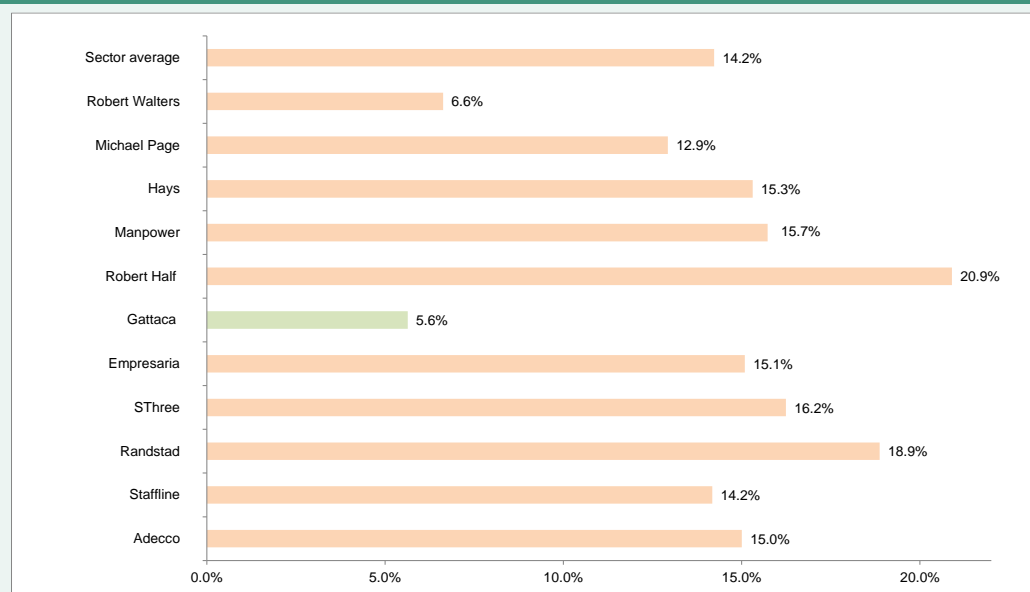
Jan'23 headcount was 497, of which 69% were sales related.

Next news: FY'23 results scheduled for 24th Oct'23

Paul Hill (Analyst)

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

Current Year (CY) EBIT / NFI conversion rates



Source: Equity Development

Substantial downside resilience

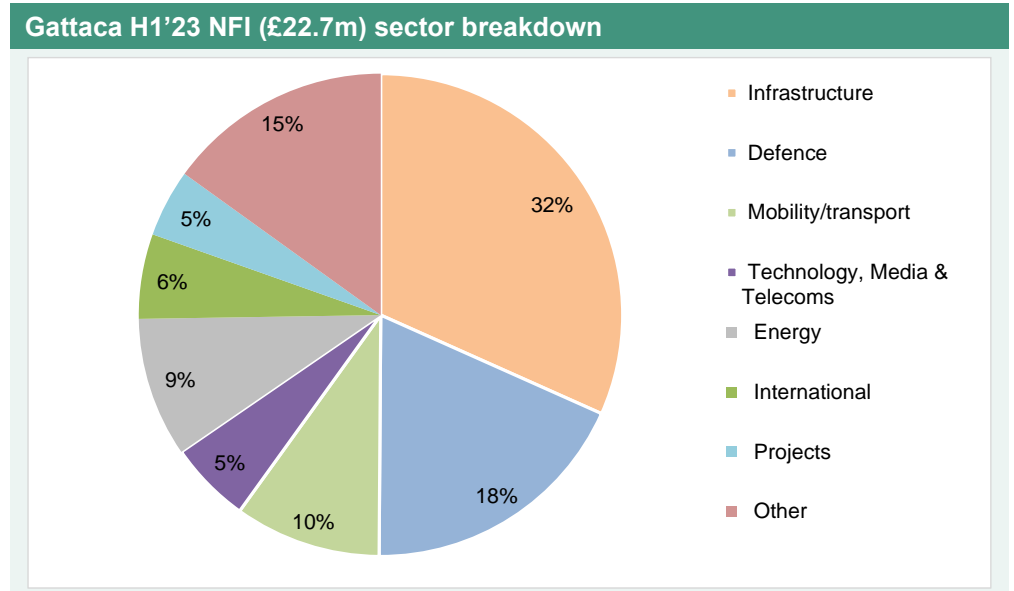
What's more, insulated by the significant cash pile, we think **Gattaca is well positioned to weather even the harshest of storms** - say if interest rates were to stay elevated for a prolonged period.

Gattaca H1 vs H2 results

£'000s (continuing) - July y/e	Act H1'22	Act H2'22	Act FY22	Act H1'23	Est H2'23	Est FY23
UK	8.9%	5.8%	7.3%	5.8%	-5.8%	-0.1%
International	-29.8%	-11.2%	-21.2%	-3.4%	-30.1%	-17.2%
Total underlying NFI	5.3%	4.5%	4.9%	5.2%	-7.4%	-1.2%
NFI	21,606	22,534	44,140	22,733	20,867	43,600
Adjusted EBITDA	887	1,828	2,715	1,680	2,320	4,000
Adjusted EBIT	-108	613	505	946	1,254	2,200
<i>EBIT/NFI margin</i>	<i>-0.5%</i>	<i>2.7%</i>	<i>1.1%</i>	<i>4.2%</i>	<i>6.0%</i>	<i>5.0%</i>
Underlying overheads	21,714	21,921	43,635	21,787	19,613	41,400
U/L admin as % NFI	100.5%	97.3%	98.9%	95.8%	94.0%	95.0%
Adjusted PBT	-261	517	256	936	1,564	2,500
Tax	0	-154	-154	-271	-479	-750
Underlying PAT	-261	363	102	665	1,085	1,750
Adjusted EPS (diluted)	-0.8p	1.1p	0.3p	2.0p	3.4p	5.5p
NFI (LTM) / head (£ks)			81.9			87.7
Overheads / head (£Ks)			81.0			83.3
Headcount	540		539	497		497
<i>U/L tax rate</i>			<i>-60.2%</i>			<i>-30.0%</i>
Non-recourse invoice discounting	-10,400	-9,600	-9,600	-7,000	-4,000	-4,000
Deferred VAT	0	0	0	0	0	0
Cash /(recourse debt) - pre IFRS 16	4,841	15,967	15,967	23,962	23,000	23,000

Source: Equity Development.

That said, more positively the UK recruitment market (4.2% unemployment) – especially across STEM – isn't exactly falling off a cliff either. Underpinned by robust demand for specialist engineering talent across the infrastructure (HS2, Water, Utilities, Rail, Highways, etc), defence (land, air & sea), renewables, mobility, and transmission & distribution sectors, more than compensating for some tech softness.



Source: Equity Development

Turnaround remains firmly on track

CEO Matthew Wragg commenting: *"The continued improvements in culture, staff retention and productivity are good signs that we are becoming a stronger business. **Our progress has been impacted by the decline in the wider market, and although that is frustrating, I am pleased that we were able to continue to simplify and improve the business throughout the year and manage our cost base so as to report an improvement in profitability in H2'23.**"*

"We continue to remain mindful of the macro-economic headwinds, which have impacted demand and candidate sentiment across the recruitment sector and slowed our speed of recovery. We expect permanent recruitment to remain subdued in the short term and are increasing our focus on contractor growth, which takes longer to reflect in NFI. The markets that we operate in and STEM skillsets that we provide have the right long-term fundamentals and we enter FY24 as a leaner, more efficient and productive business, well positioned to take advantage of expected recovery in the market."

Lastly, we believe **the group remains on track** to achieve both its **ongoing turnaround** and **longer-term strategic ambitions**.

Summary projections (£'000s)

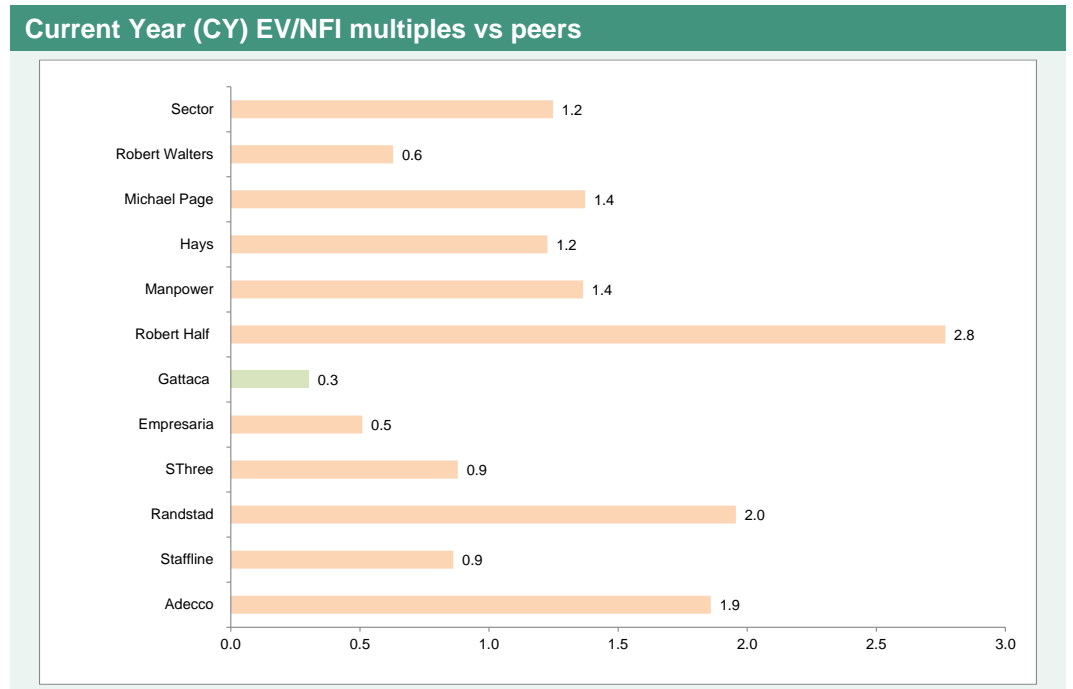
Gattaca (continuing operations) (July yearend)	2020 Act £'000s	2021 Act £'000s	2022 Act £'000s	2023 Est £'000s	2024 Est £'000s	2025 Est £'000s
Net Fee Income (NFI) : Gross profit						
UK Engineering & Technology	47,779	38,552	41,361	41,300	42,539	45,767
International	4,977	3,528	2,779	2,300	3,092	3,337
Total	52,756	42,080	44,140	43,600	45,631	49,104
NFI growth rate						
UK Engineering & Technology	10.5%	-19.3%	7.3%	-0.1%	3.0%	7.6%
UK Technology	-23.5%					
International	-15.9%	-29.1%	-21.2%	-17.2%	34.4%	7.9%
Total NFI growth rate	-21.2%	-20.2%	4.9%	-1.2%	4.7%	7.6%
EBITDA						
EBITDA/NFI conversion %	17.8%	10.5%	6.2%	9.2%	9.6%	12.8%
UK Engineering & Technology	20,913	12,178	15,463	17,047	16,834	18,775
UK Technology	7,061					
International	1,319	-1,923	-625	-1,000	0	667
Central overheads	-23,125	-12,502	-14,333	-13,847	-14,262	-14,976
Adjusted EBIT	6,168	2,247	505	2,200	2,572	4,467
Total Opex as % NFI	-88.3%	-94.7%	-98.9%	-95.0%	-94.4%	-90.9%
EBIT / NFI margin	11.7%	5.3%	1.1%	5.0%	5.6%	9.1%
Net interest	-1,389	-412	-249	300	250	200
Adjusted PBT	4,779	1,835	256	2,500	2,822	4,667
Tax	-995	-132	-154	-750	-705	-1,167
Minorities	0	0	0	0	0	0
Adjusted PAT	3,784	1,703	102	1,750	2,116	3,500
Adjusted diluted EPS						
Adjusted EPS growth rate	-57.6%	-55.0%			20.3%	64.6%
Dividend (p)	0.0	1.5	0.0	5.0	3.3	5.4
Dividend yield	0.0%	1.5%	0.0%	4.9%	3.2%	5.2%
Valuation benchmarks						
P/E ratio (diluted)	8.8	19.6		18.9	15.7	9.5
EV/NFI	0.26	0.33	0.31	0.32	0.30	0.28
EV/EBITDA	1.5	3.1	5.1	3.5	3.2	2.2
EV/EBITA (diluted)	2.2	6.1		6.3	5.4	3.1
PEG ratio	-0.15	-0.36			0.77	0.15
Adjusted corporate tax rate	-20.8%	-7.2%		-30.0%	-25.0%	-25.0%
Adj ROACE	8.7%	3.3%	0.8%	3.6%	4.1%	7.0%
EBITDA drop through rate as % NFI				-238.0%	18.8%	55.1%
Statutory net cash/(debt) post IFRS 16						
Net recourse cash/(debt) pre IFRS 16	27,341	19,890	15,967	23,000	20,252	21,773
Non recourse invoice factoring (off Balance Sheet)	-13,800	-14,200	-9,600	-4,000	-4,000	-4,000
IFRS leases	-7,736	-5,761	-3,625	-2,000	-2,000	-2,000
Diluted sharecount	32,353	32,358	32,500	32,067	32,226	32,386
Shareprice (p)	103p					

Source: Equity Development

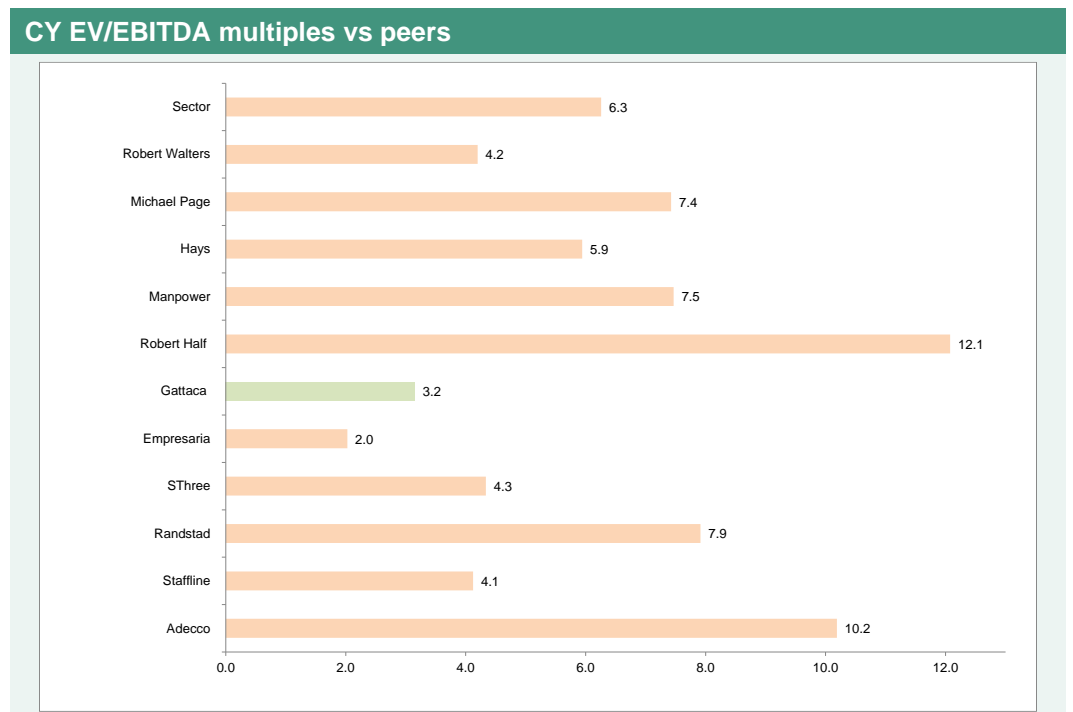
Key risks

- 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.

Appendices - sector valuation metrics and KPIs

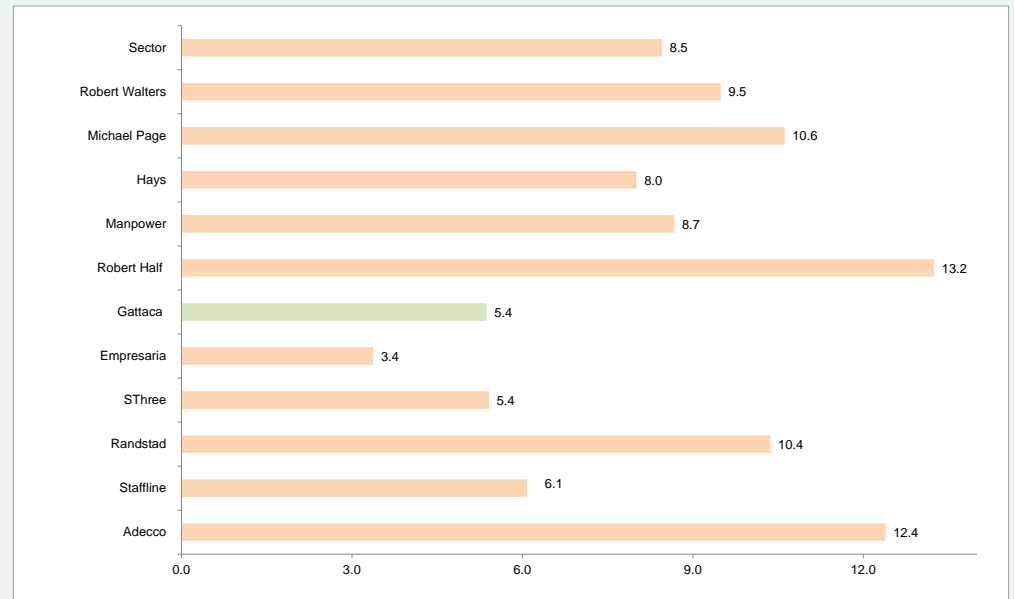


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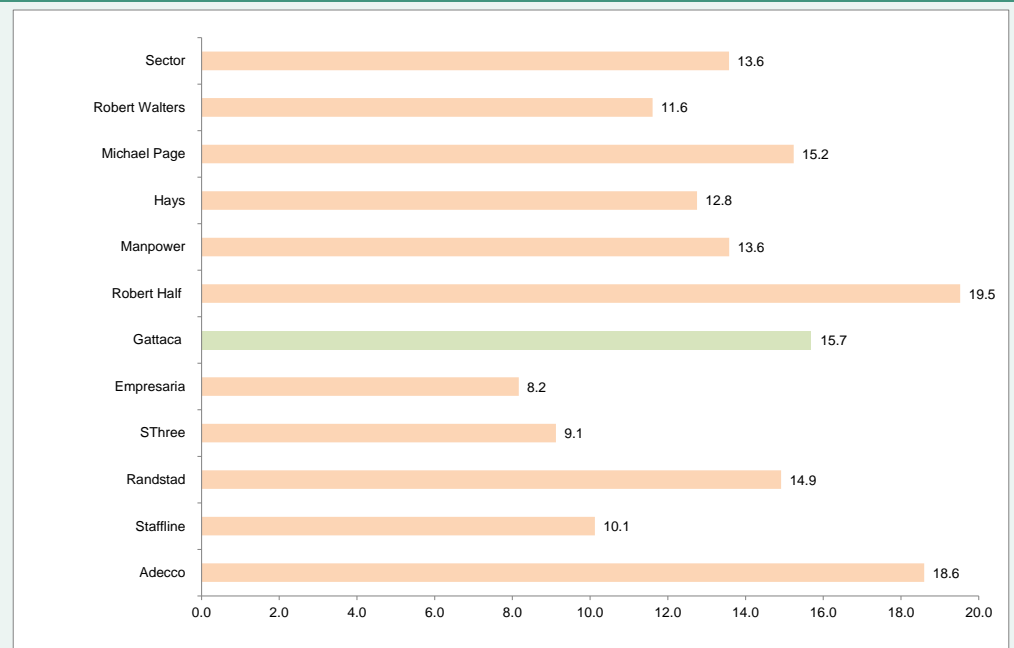
Source: Equity Development

CY EV/EBIT multiples vs peers



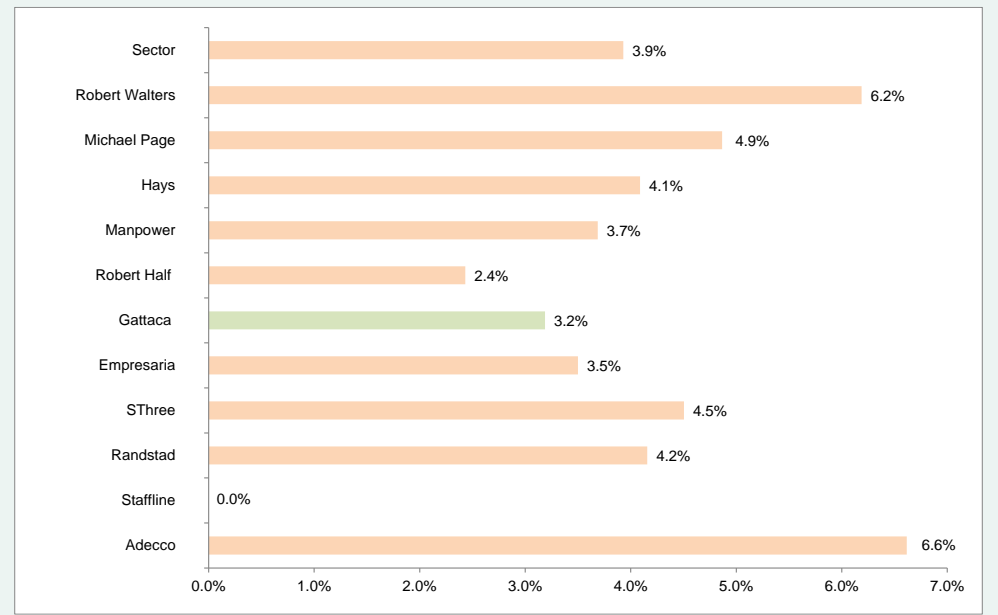
Source: Equity Development

CY PERs multiple 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	€ 37.9	€ 6,340	-€ 2,656	€ 8,996
Staffline	33p	£53.6	-£7.8	£61.4
Randstad	€ 53.4	€ 9,772	-€ 832	€ 10,604
SThree	353p	£469	£72	£397
Empresaria	40p	£19.4	-£15.0	£34.4
Gattaca	103p	£32.8	£19.0	£13.8
Robert Half	\$74.0	\$7,851	\$581	\$7,270
Manpower	\$77.0	\$3,881	-\$248	\$4,129
Hays	102p	£1,622	£172	£1,450
Michael Page	448p	£1,417	-£16	£1,433
Robert Walters	383p	£254	£10	£244

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

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

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