# Gattaca Plc

13 February 2025

## A resilient update that stands out from the crowd

**The key takeaway from the trading update for H1 '25 was a solid trading performance, despite a challenging market environment. We remain encouraged by the static guidance at the adj. PBT level of £3m for FY25, highlighting an improvement in operational efficiency, combined with higher average fee rates. We have introduced new financial estimates for FY26 that infer strong growth in profitability yoy. And, with suggested conversion rates still broadly half the level of the previous peak in FY19, this suggests there is much further to go in the recovery.**

### Strong momentum likely over the medium term

Given that most of its peers delivering a double-digit yoy shortfall in net fees during H2 '24, the -3% reduction in NFI at Gattaca demonstrates the resilience of the Group's offering. Its strategy to target and invest in markets that have long-term growth characteristics, reducing headcount in others, coupled with an instilling greater ambition in its sales team to target higher value, even more niche requirements, is paying off.

Contract NFI declined 1% yoy, with increased summer holidays and a late return to work in January modestly offsetting the growth in contractor numbers and higher average timesheet values. Although permanent NFI declined 10% yoy during the period, this demonstrates outperformance relative to its professional service focused peers and GATC delivered growth of 3% on a sequential half-yearly basis. Delays in the awarding of contracts within the public sector modestly offset new client wins as fee income within Statement of Work declined by 3% yoy.

We have modestly reduced FY25 estimates for NFI (-5% to £39.2m) and, following the reduction in trade creditors (DSOs broadly static), lower our net cash estimate to £16m (previously £20.7m). **However, guidance for adj. PBT is unchanged at £3m and we have introduced estimates for FY26 indicating strong growth in profitability and dividends.**

Our expectation of an EBIT/NFI conversion rate of 6.5%, rising to 10.5% in FY26, suggests there remains significant scope for further uplift in FY27 and beyond. We note that the previous peak conversion rate amounted to **19.8% in FY19.**

### Fair value

**In view of unchanged estimates of adj. PBT and the high level of net cash on the balance sheet, we have chosen to retain our fair value / share at 140p. Net cash accounts for c. 73% of the market capitalisation. Stripping out the cash places the group on a FY25 PER of 4.1x. The Group's PE/G ratio of 0.1x highlights the degree to which the shares have been overlooked.**

**Forecasts / Key ratios**

| Y/e July, £m | FY22A | FY23A | FY24A | FY25E | FY25E |
|---|---|---|---|---|---|
| NFI | 44.2 | 42.2 | 40.1 | 39.2 | 43.6 |
| EBITDA | 2.8 | 4.8 | 3.7 | 3.7 | 5.8 |
| Adj. PBT | 0.3 | 3.7 | 2.9 | 3.0 | 5.0 |
| Adj. EPS (p) | 0.5 | 10.5 | 2.4 | 6.0 | 10.2 |
| DPS (p) | 0.0 | 5.0 | 2.5 | 3.0 | 5.1 |
| EV/EBITDA | 0.5 | 0.3 | 0.4 | 0.4 | 0.2 |
| PER | 154.1 | 7.0 | 30.4 | 12.2 | 7.1 |
| Yield | 0.0% | 6.8% | 3.4% | 4.1% | 7.0% |
| Net cash | 12.3 | 21.6 | 20.7 | 16.0 | 17.3 |

*Source: Company historics, ED estimates*

**Company Data**

| | |
|---|---|
| EPIC | GATC |
| Price (last close) | 73p |
| 52 weeks Hi/Lo | 125p/69p |
| Market cap | £23.0m |
| ED Fair Value / share | 140p |
| Net cash (at 31/01/25) | £16.7m |

**Share Price, p**


*Source: Investing.com*

**Description**

Gattaca is a specialist STEM (Science, technology, Engineering and Mathematics) staffing solutions business.

Approximately three-quarters of net fees are derived from temporary/contract placements, with the remainder comprising permanent placements. Sales headcount currently accounts for 71% of total employee numbers.

**Next event**

Interim results, due 2 April 2025


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## ‘Steady as she goes’

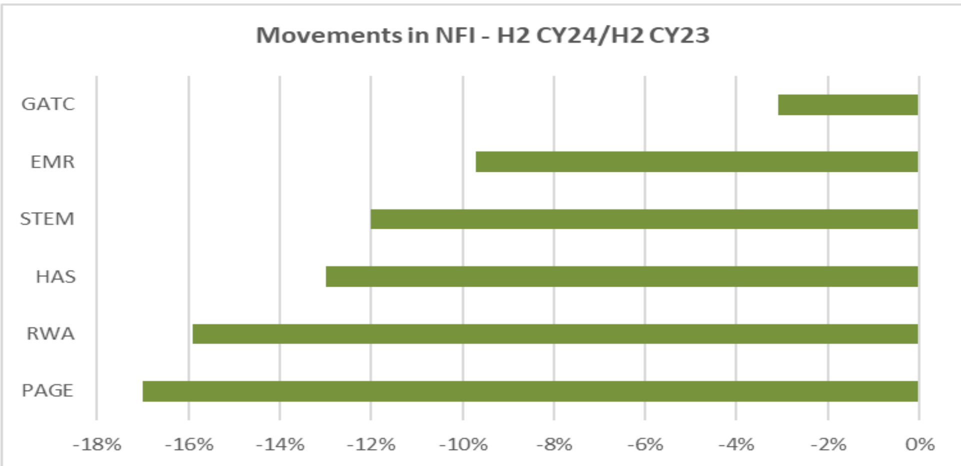
The resilient performance during H1, notwithstanding a continuation of the challenging environment, reflects a combination of the following positives:

- Continued focus on a select number of growth sectors, with accompanying investment in sales headcount
- Higher average fees, reflecting the filling of a higher proportion of senior hires in perm
- Improving productivity levels following a 12% reduction in headcount (outside of key growth areas) and investment in digital technology internally and,
- A shortfall in net fees of 3% yoy during H1, with contract income broadly flat (-1% yoy). While perm declined 10% yoy, net fees improved by 3% on a sequential half-yearly basis versus H2 ’24.

We highlight in the chart below the yoy change in overall net fees reported by the key players within the UK listed staffing sector. The period end for most of the companies included was December, with SThree (November) and Gattaca (January) minor aberrations. We note that Gattaca has proven significantly more resilient during the periods in question, reporting a 3% reduction in overall net fees, with PageGroup at the other extreme, reporting a shortfall of 17% during the same period. One cannot just blame Gattaca’s relatively low exposure to perm (c. 25%), as SThree has a much lower exposure at just 16% (as of Q4 ’24).

The recent trading update from Staffline failed to strip out the net fees derived from recruitment activities and its training operation (PeoplePlus), thereby obscuring the movement in staffing related NFI. Also, the Staffline recruitment activities in the UK are predominantly employing semi and unskilled workers, rather than the professionals predominantly hired by the remaining staffing companies listed within the comparison. As such, we excluded Staffline from this comparison but note that strong demand within the food production and retail sectors resulted in a strong end to CY24.

**Comparison of movements in NFI by UK PLC staffing companies**

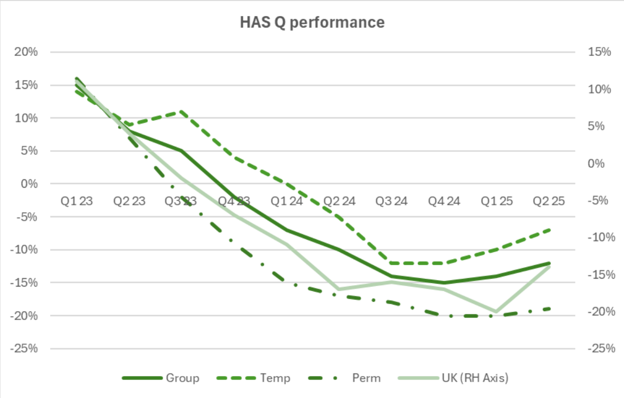



*Source: London Stock Exchange Regulatory News Service*

Our current sense of the staffing market is that it is beginning to stabilise. While the Group’s largest UK peers continued to deliver declines yoy in NFI, on a sequential quarterly basis there appears to a bottoming of contract fee income, with the rate of decline in perm ameliorating. We highlight this in the next four charts, noting that Hays does not provide quarterly sterling levels for NFI, rather the yoy change.

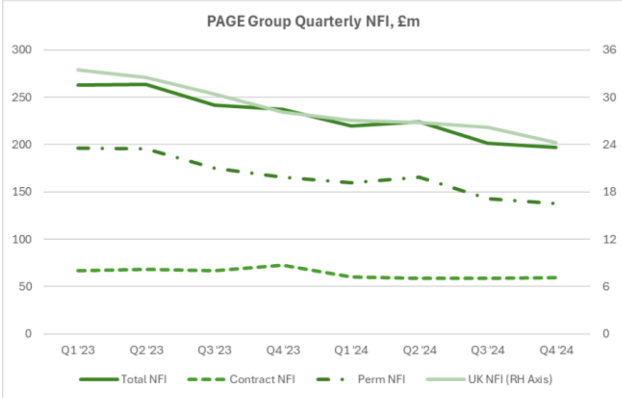
In reference to the one of the world’s largest staffing firms, Randstad (RAND:NV) issued a trading update on 12 February, stating that, “*In Q4 conditions continued to stabilise in some markets, though business confidence and client confidence remained muted*”.

## Hays quarterly NFI performance (% yoy)



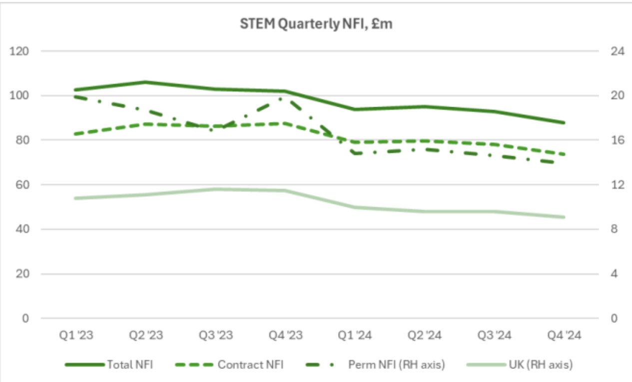

*Source: Hays*

## PageGroup quarterly NFI performance (£m)



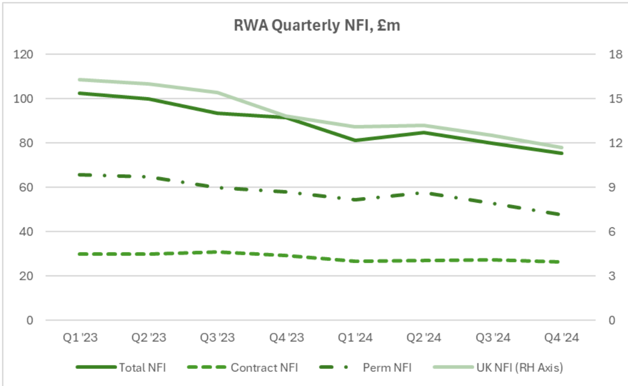

*Source: PageGroup*

## SThree quarterly NFI performance (£m)




*Source: SThree*

## Robert Walters quarterly NFI performance (£m)




*Source: Robert Walters*

Therefore, we are not factoring in any improvement in the Group's underlying markets during H2, other than the self-help derived from the ongoing cost rationalisation programme, investment in sales heads in selective sectors and improving productivity.

# Valuation

We utilise a discounted cash flow and peer group comparison models to determine the fair value of Gattaca.

Our belief is that the shares have been overlooked by investors, reflecting the reduced levels of activity, particularly of the sector peers who have a bias towards permanent placements.

### Net cash reduced during H1, albeit it continues at high levels

Net cash ended the period at £16.7m, which equates to 52p / share or 73% of the Group's market capitalisation. **This suggests that the operating business is valued at just £6.2m.**

Our FY25F EBIT and adj. PAT (excluding interest receivable) estimates of £2.5m and £1.5m, respectively, **suggest the Group is trading on a FY25F EBIT multiple of just 2.5x and an adjusted FY25F PER of a lowly 4.1x. We consider this to be an anomaly.**

## DCF

We have used conservative estimates for the discount rate of 9% (equating to the Group's long-term WACC) and terminal growth of 2.25% (broadly in-line with the underlying CPI). As investors begin to focus on FY26F and beyond, factoring in recovery in its markets (and particularly of the higher gross margin perm) and as financial estimates improve, we anticipate the share price will recover towards our fair value as suggested in the DCF and peer group comparison models.

**The DCF model suggests a fair value of 83p / share.**

| Gattaca: Discounted Cash Flow valuation | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **£m, unless otherwise stated** | **2025F** | **2026F** | **2027F** | **2028F** | **2029F** | **2030F** | **2031F** | **2032F** | **2033F** | **2034F** |
| **Free cash flow** | **-5.2** | **1.1** | **1.1** | **1.1** | **1.1** | **1.1** | **1.2** | **1.2** | **1.2** | **1.3** |
| **WACC (%)** | 9.0 | 9.0 | 9.0 | 9.0 | 9.0 | 9.0 | 9.0 | 9.0 | 9.0 | 9.0 |
| **Timing factor** | 0.3 | 1.3 | 2.3 | 3.3 | 4.3 | 5.3 | 6.3 | 7.3 | 8.3 | 9.3 |
| **Discount rate** | 1.0 | 0.9 | 0.8 | 0.8 | 0.7 | 0.6 | 0.6 | 0.5 | 0.5 | 0.5 |
| **Present value** | **-5.1** | **0.9** | **0.9** | **0.8** | **0.8** | **0.7** | **0.7** | **0.6** | **0.6** | **0.6** |
| **Sum of discounted cash flows** | **1.5** | | | | | | | | | |
| **Terminal growth rate (%)** | 2.25 | | | | | | | | | |
| **Terminal value** | 8.4 | | | | | | | | | |
| **Net debt/cash** | 16.0 | | | | | | | | | |
| **Equity value** | **26.0** | | | | | | | | | |
| **Number of shares** | 31.4m | | | | | | | | | |
| **Value per share (p)** | **82.66** | | | | | | | | | |

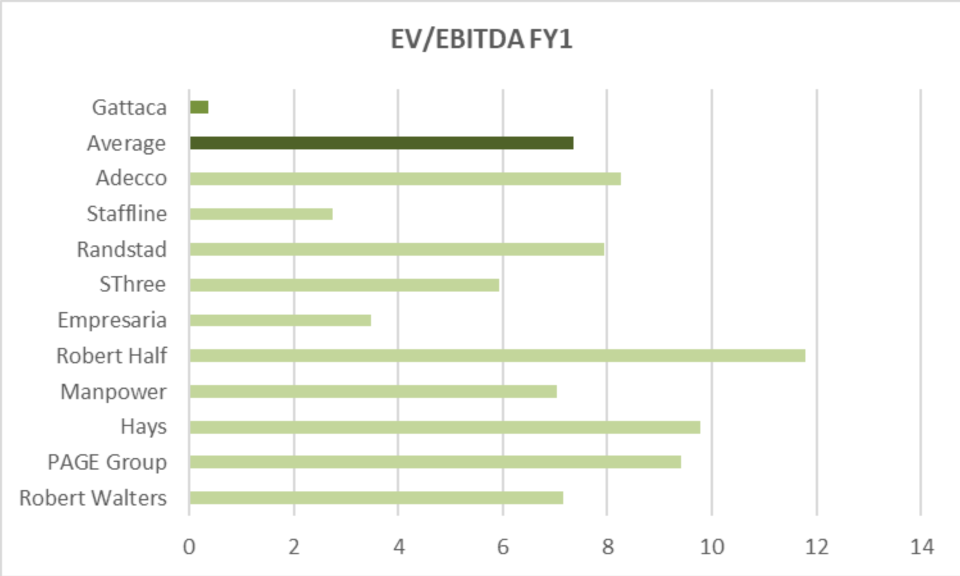
*Source: Equity Development*

## Peer group comparison models

Gattaca trades at a significant discount to its peer group average on a FY1 EV/EBITDA and FY1 PER basis. When one takes account of the cash the discount to its peers is even more marked. In our view, the differential in rating goes way beyond any size related discount applicable.

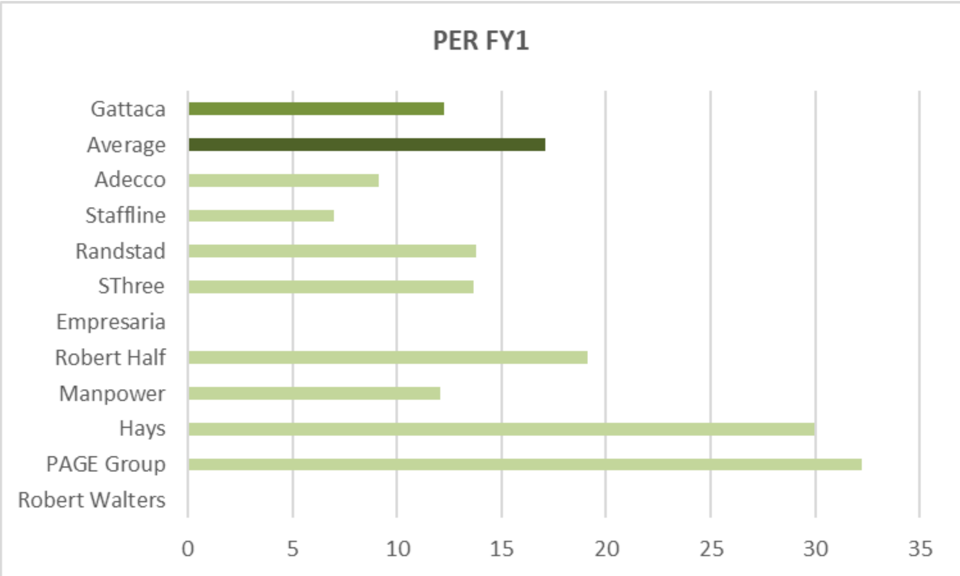
**We note that the Group is trading on a PE/G ratio of 0.1x across FY25 and FY26, underlining the scale of the anomaly in valuation relative to its peers.**

**Peer group comparison model: FY1 EV/EBITDA (x)**




*Source: Koyfin*

**Peer group comparison model: FY1 PER (x)**




*Source: Koyfin*

## Conclusion

**Other than the modest reduction in NFI expectations our estimated are unchanged, with adj. PBT guidance of £3m. We have introduced estimates for FY26 suggesting strong growth in profitability yoy. We therefore feel there is no clear reason to change our fair value / share estimation of 140p.**

## Group financials

Other than a modest reduction in the short-term outlook NFI for FY25 and lower net cash expectations, reflecting higher working capital, estimates of profitability are unchanged. We have also introduced financial estimates for FY26, demonstrating strong growth in the bottom line (which is also reflected in the dividend).

We anticipate Gattaca will benefit from the following in H2 ’25 and beyond:

- Improved productivity following the reduction in sales and back-office headcount, with the focus for expansion continuing in growth areas where the Group retains a strong market position
- Productivity gains, as higher fee rates are targeted and operational efficiencies feed through
- Recovery in the wider staffing market, reflecting an improving economic outlook from FY26 onwards

**We see the above represented in the growth in conversion rate (EBIT/NFI), from 0.2% in FY22 to an expected 10.5% in FY26. The previous peak in conversion rate was in FY19 at 19.8%, indicating that the recovery has significant scope beyond FY26, in our opinion.**

| Summary Income statement | | | | | |
|---|---|---|---|---|---|
| **Year to July, £m** | 2022A | 2023A | 2024A | 2025F | 2026F |
| **Revenue** | 403.9 | 382.1 | 389.5 | 365.1 | 381.6 |
| **CoGS** | -359.7 | -339.9 | -349.5 | -325.8 | -338.6 |
| **UK NFI** | 41.4 | 41.2 | 39.5 | 38.6 | 41.7 |
| **International NFI** | 2.8 | 1.0 | 0.6 | 0.6 | 1.2 |
| **Group NFI** | 44.2 | 42.2 | 40.1 | 39.2 | 42.9 |
| ***NFI margin (%)*** | *10.9%* | *11.0%* | *10.3%* | *10.8%* | *11.3%* |
| **Op costs** | -44.1 | -38.9 | -37.9 | -36.7 | -38.3 |
| **EBITDA** | 2.8 | 4.8 | 3.7 | 3.7 | 5.8 |
| ***EBITDA/NFI conversion (%)*** | *6.3%* | *11.3%* | *9.3%* | *9.5%* | *13.5%* |
| **Adj. EBIT** | 0.1 | 3.3 | 2.2 | 2.5 | 4.6 |
| ***Conversion rate (EBIT/NFI, %)*** | *0.2%* | *7.9%* | *5.5%* | *6.5%* | *10.7%* |
| **Net Interest** | 0.2 | 0.3 | 0.7 | 0.4 | 0.4 |
| **PBT (Adjusted)** | 0.3 | 3.7 | 2.9 | 3.0 | 5.0 |
| **Exceptionals** | -5.0 | 0.7 | -1.2 | -0.3 | 0.0 |
| **PBT (Reported)** | -4.7 | 4.4 | 1.7 | 2.7 | 5.0 |
| **Tax** | -0.2 | -1.1 | -1.0 | -1.0 | -1.6 |
| **PAT** | -4.9 | 3.3 | 0.7 | 1.7 | 3.3 |
| **Profit from discontinued items** | -0.4 | -2.2 | -0.6 | 0.0 | 0.0 |
| **Minority interests** | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Earnings** | -5.2 | 1.1 | 0.1 | 1.7 | 3.3 |
| **EPS (Adjusted) (p)** | 0.5 | 10.5 | 2.4 | 6.0 | 10.2 |
| **DPS (p)** | 0.0 | 5.0 | 2.5 | 3.0 | 5.1 |
| **Ave no of shares (FD) (m)** | 32.5 | 32.7 | 32.4 | 32.4 | 32.4 |

*Source: Company historics, Equity Development estimates*

| Summary Cash Flow | | | | | |
|---|---|---|---|---|---|
| **Year to July, £m** | 2022A | 2023A | 2024A | 2025F | 2026F |
| **Adj. EBIT** | 0.1 | 3.3 | 2.2 | 2.5 | 4.6 |
| **Depn. & Amortn.** | 3.1 | 1.6 | 0.6 | 1.2 | 1.2 |
| **Working capital movement** | -3.4 | 6.7 | 1.5 | -6.7 | -2.1 |
| **Other** | -4.9 | 1.0 | -1.3 | -0.1 | 0.0 |
| **Operating cash flow** | -5.1 | 12.7 | 3.0 | -3.0 | 3.7 |
| | | | | | |
| **Net Interest** | -0.2 | 0.2 | 0.7 | 0.4 | 0.4 |
| **Taxation** | 0.3 | -0.9 | -0.6 | -1.0 | -1.4 |
| **Net capex** | -0.4 | 0.0 | 0.0 | -0.3 | -0.3 |
| **Pref. dividends** | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Operating FCF** | -5.4 | 12.0 | 3.1 | -3.9 | 2.4 |
| | | | | | |
| **Net (Acquisitions)/Disposals** | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Dividends** | -0.5 | -0.5 | -1.6 | -0.8 | -1.2 |
| **Share Issues** | -0.1 | -0.7 | -0.8 | 0.0 | 0.0 |
| **Minority payment** | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Other financial** | -1.5 | -1.5 | -1.5 | 0.0 | 0.0 |
| **Increase Cash/(Debt)** | -7.5 | 9.2 | -0.8 | -4.7 | 1.2 |
| | | | | | |
| **Opening Net Cash/(Debt)** | 19.9 | 12.3 | 21.6 | 20.7 | 16.0 |
| **Closing Net Cash/(Debt)** | 12.3 | 21.6 | 20.7 | 16.0 | 17.3 |

*Source: Company historics, Equity Development estimates*

| Abbreviated Balance Sheet | | | | | |
|---|---|---|---|---|---|
| **Year to July, £m** | 2022A | 2023A | 2024A | 2025F | 2026F |
| **Intangible Assets** | 2.1 | 2.0 | 2.0 | 2.0 | 2.0 |
| **Tangible Assets** | 1.4 | 1.0 | 1.0 | 1.0 | 0.9 |
| **Right of use assets** | 3.1 | 1.9 | 1.7 | 1.5 | 1.3 |
| **Investments/other** | 0.6 | 0.4 | 0.4 | 0.4 | 0.4 |
| **Net Working Capital** | 11.6 | 4.4 | 6.3 | 13.0 | 15.0 |
| **Capital Employed** | 18.7 | 9.7 | 11.4 | 17.8 | 19.6 |
| **Deferred tax** | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 |
| **Net Cash/(Debt)** | 12.3 | 21.6 | 20.7 | 16.0 | 17.3 |
| **Provisions Liabilities/Charges** | 0.5 | 0.4 | 0.4 | 0.4 | 0.4 |
| **Net Assets** | 30.5 | 30.8 | 31.7 | 33.3 | 36.4 |

*Source: Company historics, Equity Development estimates*

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