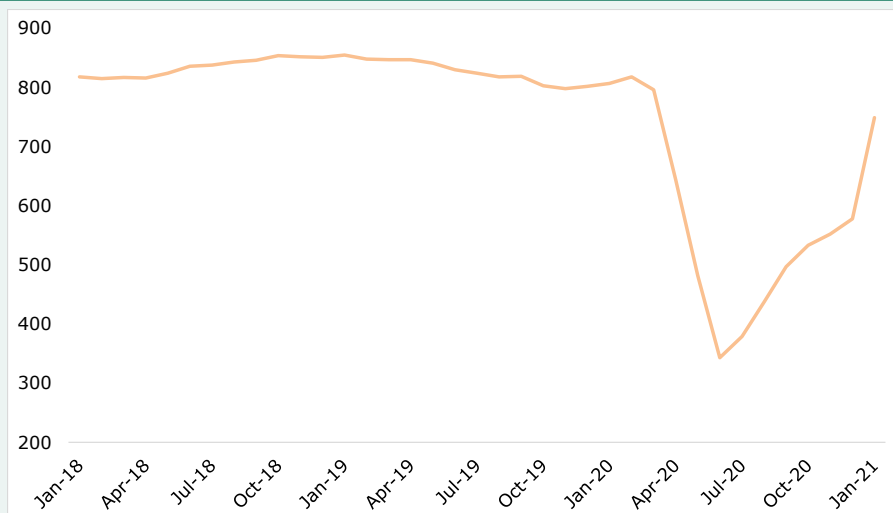


One of the best placed 'reopening' stocks

17 February 2021

Although it may not feel like it for the 1.7m people who are unemployed - but despite the lockdowns, UK employment prospects are steadily improving (see below) thanks to the country's successful vaccine rollout. Indeed cautious optimism seems to be the 'mood de jour', with Andy Haldane (Bank of England Chief Economist) predicting a "coiled-spring" type economic recovery in H2'21. Reflecting pent-up demand, the restarting of delayed projects, high consumer savings, coronavirus 'cabin fever' and continued fiscal/monetary stimulus.

UK job vacancies are increasing ('000s)

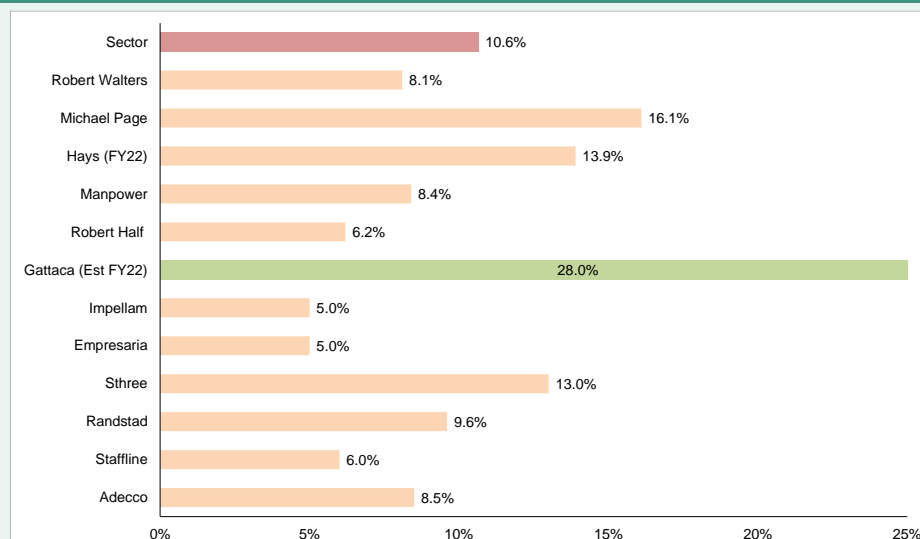


Source: ONS, Adzuna

Longer term, there are also several uber-sized infrastructure schemes coming down the track (HS2, Hinkley Point, Lower Thames Crossing, EVs, fibre-to-the-home, renewables, etc), which should further drive growth, augmented by ongoing investment in all things digital, data & AI.

The stars are aligning

Expected current year NFI growth for recruitment sector

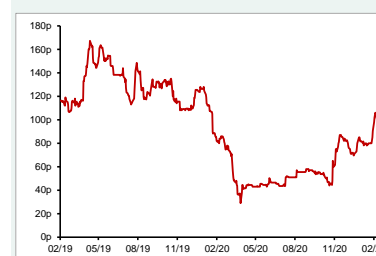


Source: Equity Development. Note: GATC FY22 NFI at 28% vs -20.8% in FY21.

Company Data

EPIC	AIM:GATC
Price (last close)	100p
52 week Hi / Lo	105p/29p
Market cap	£32.3m
Net cash Jan'21 (incl £12.2m benefit from off B/S non-recourse debt)	£22.8m
Share count	32.3m
ED valuation / share	140p

Share Price, p



Source: Yahoo

Description

Gattaca is the UK's #1 specialist engineering (70% NFI) recruitment agency, providing contract, temporary and permanent staff (Source: Recruitment International). It derives 13.6% of NFI from overseas, with the remainder coming from UK Technology (16.4%) – overall split 69.8% contractors and 30.2% permanents.

The global engineering and technology recruitment markets are valued at circa \$26bn and \$57bn respectively (Source: Staffing Industry Analysts) – offering substantial long term potential.

Next news: Interims 31st March 2021

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Set to benefit from the 3Rs - 'Recovery, Reflation & Rotation'

The only slight frustration is that this optimism hasn't yet translated into a surge in recruitment activity – perhaps partly due to temporary supply chain disruptions (eg Auto related microchips). Sure, Mr Haldene might be guilty of a little 'grand-standing', albeit we too suspect a rehiring boom is only a matter of time, especially for STEM recruitment specialist Gattaca.

Today the company said that **Q2'21 NFI had climbed 2% sequentially vs Q1**, which itself was **9% higher than Q4'20**. All told reporting **H1'21 NFI of £21.1m** (-34% vs £31.8m LY), and delivering **adjusted PBT consistent with FY21 expectations** (ED £750k) after benefitting from tight cost discipline & the faster realisation of 'Improvement Plan' savings. Elsewhere, **net cash** (pre IFRS15 & 17) **closed Jan'21 at a healthy £22.9m**, excluding £10.3m of deferred VAT (to be repaid equally over 10 months beginning Mar'21) and an estimated £12.2m of non-recourse debt (see below).

NFI growth is 'a matter of when, not if', albeit timing is uncertain

Inflexion point expected to arrive in FY22

£'000s (continuing) - July y/e	Act FY19	Act H1'20	Act H2	Act FY20	Est H1'21	Est H2'21	Est FY21
UK Engineering	3.9%	-8.3%	-31.0%	-19.5%			-20.1%
UK Technology	-19.9%	-25.0%	-38.7%	-31.1%			-22.2%
International	-14.3%	-20.9%	-16.1%	-19.2%			-23.0%
Total underlying NFI	-3.3%	-13.0%	-30.9%	-21.4%	-33.6%	-2.6%	-20.8%
NFI	69,055	31,800	22,476	54,276	21,100	21,900	43,000
Adjusted EBITDA	14,888	5,153	4,084	9,237	2,139	2,311	4,450
Adjusted EBIT	13,686	3,610	2,382	5,992	539	711	1,250
<i>EBIT/NFI margin</i>	<i>19.8%</i>	<i>11.4%</i>	<i>10.6%</i>	<i>11.0%</i>	<i>2.6%</i>	<i>3.2%</i>	<i>2.9%</i>
Underlying overheads	55,369	28,190	20,094	48,284	20,561	21,189	41,750
U/L admin as % NFI	80.2%	88.6%	89.4%	89.0%	97.4%	96.8%	97.1%
Adjusted PBT	11,654	2,747	1,841	4,588	289	461	750
Tax	-2,501	-899	-372	-1,271	-145	-230	-375
Minorities	0	0	0	0	0	0	0
Underlying PAT	9,153	1,848	1,469	3,317	145	230	375
Adjusted EPS (diluted)	27.6p	5.5p	4.5p	10.3p	0.4p	0.7p	1.1p
NFI (LTM) / head (£ks)	93.4	94.4	137.6	81.6			73.5
Overheads / head (£Ks)	74.9			72.6			71.4
Headcount	739	681	665	665			585
<i>Net debt : EBITDA</i>	<i>1.67</i>	<i>0.26</i>	<i>-1.44</i>	<i>-0.35</i>			<i>1.08</i>
<i>U/L tax rate</i>	<i>-21.5%</i>	<i>-32.7%</i>	<i>-20.2%</i>	<i>-27.7%</i>			<i>-50.0%</i>
Non-recourse invoice discounting		-16,000	-13,800	-13,800	-12,200	-12,200	-12,200
Deferred VAT				-10,300	-10,300	-5,150	-5,150
Cash/(recourse debt)	-24,822	-3,075	27,341	27,341	22,900	17,000	17,000

Source: Equity Development.

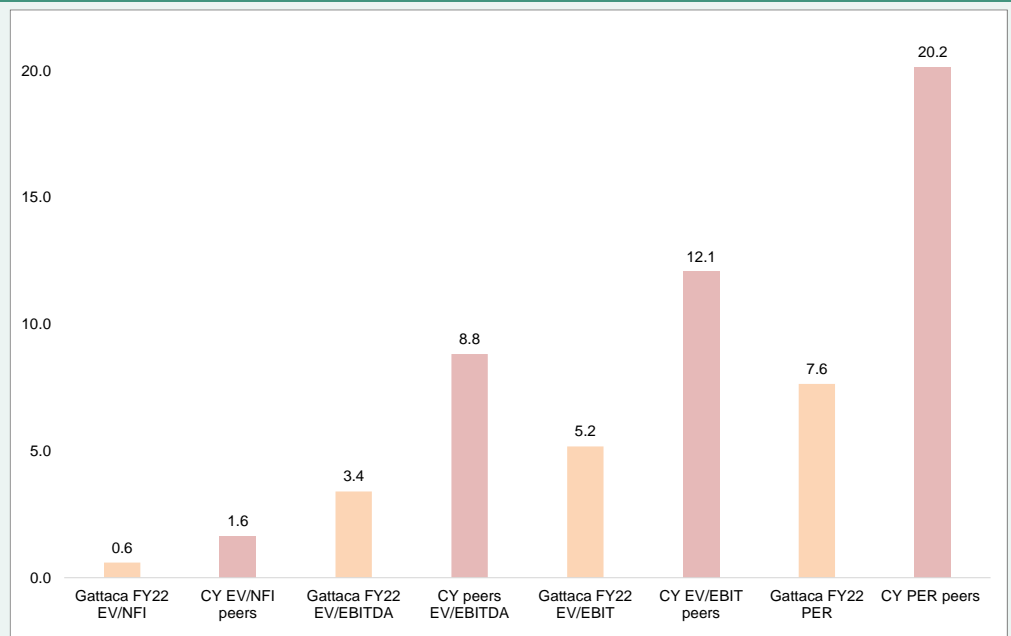
Higher NFI and lower costs could jet propel future profits

CEO Kevin Freeguard adding: "Given the ongoing pandemic and national lockdowns, NFI recovery for FY21 is likely to be at a slower rate than previously forecast. [However], **we have been encouraged by the resilience of the business...** and currently **expect underlying PBT to be in line with market expectations, which positions us well for growth when conditions inevitably improve.**"

Similarly, **our FY21 & FY22 adjusted PBT** forecasts have been left unchanged, with FY1 NFI anticipated to climb +28% vs -20.8% in FY21 – although the exact timing of this inflexion point remains uncertain. Nonetheless with a 2-3 year view, **we reckon there could be material upside**, particularly with regards to our **140p/share valuation** in the event of an upwards re-rating as favourable operating leverage kicks in.

In fact even after the recent price appreciation, the **stock at 100p still trades on modest FY22 multiples of 5.2x EV/EBIT and 7.6x PER** vs 12.1x & 20.2x for the peer group average (see below).

FY21 valuation benchmarks vs peers



Source: Equity Development.

Key risks

- Coronavirus induced problems at some of its largest customers, which either lead to late payments and/or doubtful debts.
- Similarly the pandemic could delay the anticipated economic recovery
- General economic downturn affecting engineering and technology recruitment. For example, the cessation of the Brexit transition period in Dec'20 could knock business confidence and UK GDP.
- In the Oct'18 budget, the Chancellor stated the Government's intention to extend the IR35 rules to the private sector (re self-employed persons) on 6th April 2020, following the 2017 implementation in the public sector. The introduction date has apparently now been delayed by 12 months to April 2021
- Greater competition, especially from new technology platforms (eg LinkedIn, Monster).
- Overseas expansion along with foreign exchange fluctuations.
- Consolidation of customer base.
- Gattaca is presently assisting the US Department of Justice in their enquiries about certain Networkers International activities prior to its 2015 acquisition.

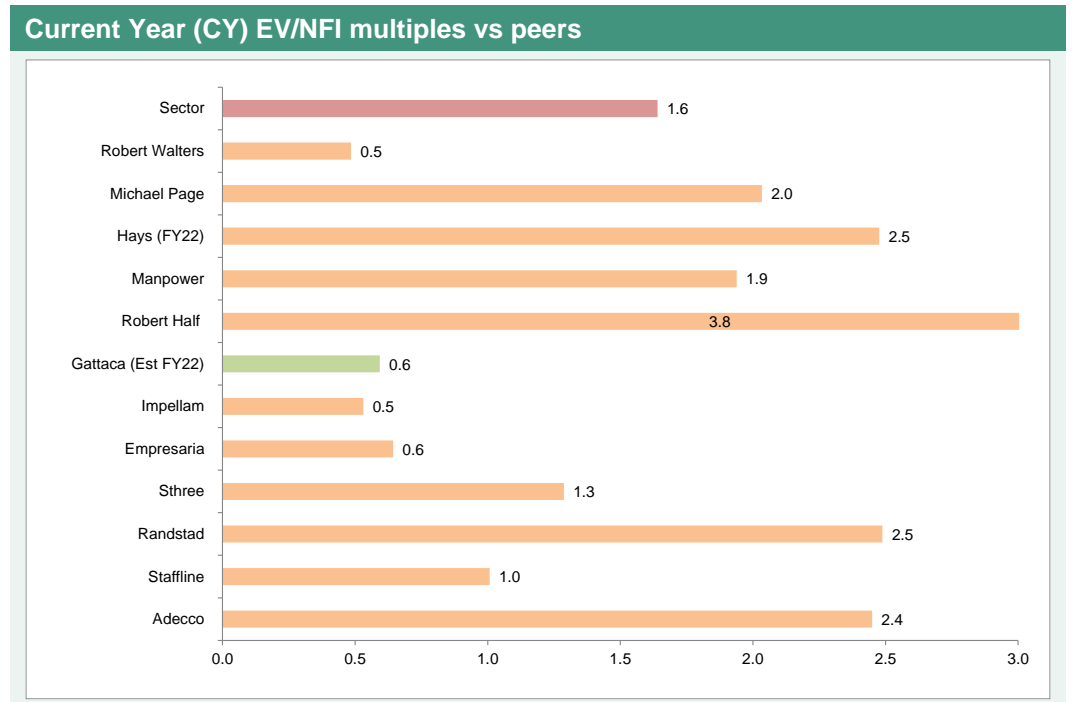
Summary projections (£'000s)

Gattaca (continuing operations) (July yearend)	2016 Act £'000s	2017 Act £'000s	2018 Act £'000s	2019 Act £'000s	2020 Act £'000s	2021 Est £'000s	2022 Est £'000s	2023 Est £'000s	2024 Est £'000s
Net Fee Income (NFI) : Gross profit			<i>Restated</i>	<i>Restated</i>					
UK Engineering	40,865	43,080	47,568	49,442	39,808	31,800	40,129	48,155	55,378
UK Technology	17,413	16,178	14,457	11,575	7,971	6,200	8,049	9,659	11,108
International	14,109	15,450	9,374	8,038	6,497	5,000	6,850	8,220	9,454
Total	72,387	74,708	71,399	69,055	54,276	43,000	55,029	66,035	75,940
NFI growth rate									
UK Engineering	8.0%	5.4%	10.4%	3.9%	-19.5%	-20.1%	26.2%	20.0%	15.0%
UK Technology	19.2%	-7.1%	-10.6%	-19.9%	-31.1%	-22.2%	29.8%	20.0%	15.0%
International		9.5%	-39.3%	-14.3%	-19.2%	-23.0%	37.0%	20.0%	15.0%
Total NFI growth rate	38.0%	3.2%	-4.4%	-3.3%	-21.4%	-20.8%	28.0%	20.0%	15.0%
EBITDA	22,617	18,284	13,395	14,888	9,237	4,450	9,589	14,395	18,540
UK Engineering	23,126	23,758	26,033	27,489	24,538	16,536	20,867	25,522	29,904
UK Technology	8,229	7,061	6,610	5,902	3,436	2,480	3,381	4,154	4,888
International	6,868	5,619	2,723	1,860	1,300	1,500	2,261	3,124	3,687
Central overheads	-16,726	-19,050	-22,964	-21,565	-23,282	-19,266	-20,209	-21,826	-23,463
Adjusted EBIT	21,497	17,388	12,402	13,686	5,992	1,250	6,300	10,974	15,016
Total Opex as % NFI	-70.3%	-76.7%	-82.6%	-80.2%	-89.0%	-97.1%	-88.6%	-83.4%	-80.2%
EBIT / NFI margin	29.7%	23.3%	17.4%	19.8%	11.0%	2.9%	11.4%	16.6%	19.8%
Net interest	-1,076	-1,232	-1,540	-2,032	-1,404	-500	-300	-250	-200
Adjusted PBT	20,421	16,156	10,862	11,654	4,588	750	6,000	10,724	14,816
Tax	-6,306	-5,076	-3,380	-2,501	-1,271	-375	-1,680	-3,003	-4,149
Minorities	0	-172	-275	0	0	0	0	0	0
Adjusted PAT	14,115	10,908	7,207	9,153	3,317	375	4,320	7,721	10,668
Adjusted diluted EPS (p)	44.1	33.7	22.5	27.6	10.3	1.1	13.1	23.3	32.0
Adjusted EPS growth rate	0.5%	-23.6%	-33.3%	22.9%	-62.9%	-88.9%	1046.3%	77.9%	37.5%
Dividend (p)	23.0	23.0	3.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend yield	23.0%	23.0%	3.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Dividend cover	1.9	1.5	7.5						
Valuation benchmarks									
P/E ratio (diluted)	2.3	3.0	4.5	3.6	9.8	87.7	7.6	4.3	3.1
EV/NFI	0.45	0.44	0.46	0.47	0.60	0.76	0.59	0.49	0.43
EV/EBITDA	1.4	1.8	2.4	2.2	3.5	7.3	3.4	2.3	1.8
EV/EBITA (diluted)	1.5	1.9	2.6	2.4	5.4	26.1	5.2	3.0	2.2
PEG ratio	4.36	-0.13	-0.13	0.16	-0.16	-0.99	0.01	0.06	0.08
Adjusted corporate tax rate	-30.9%	-31.4%	-31.1%	-21.5%	-27.7%	-50.0%	-28.0%	-28.0%	-28.0%
Adj ROACE	19.7%	15.6%	13.1%	18.5%	8.5%	1.8%	8.8%	14.1%	17.2%
EBITDA drop through rate as % NFI	21.3%	-186.7%	147.7%			42.5%	42.7%	43.7%	41.8%
Net recourse cash/(debt)	-25,013	-40,288	-40,874	-24,822	27,341	17,000	14,272	18,023	25,177
Non recourse invoice factoring (off Balance Sheet)					-13,800	-12,200	-12,200	-12,200	-12,200
HMRC deferred VAT					-10,300	-5,150			
Net debt : EBITDA (incl HMRC & factoring)	1.1	2.2	3.1	1.7	-0.4	1.1	0.2	0.4	0.7
Diluted sharecount (Adj for 2015)	32,040	32,392	32,079	33,144	32,353	32,876	33,038	33,201	33,364
Shareprice (p)	100p								

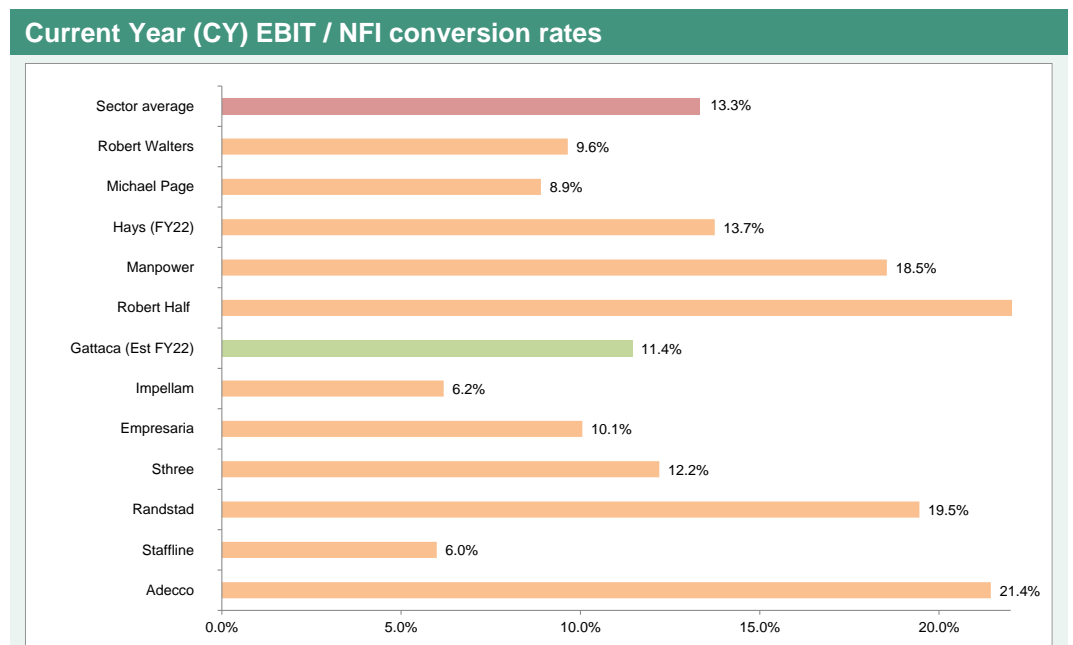
Source: Equity Development estimates, Company historic data

Note 1: Our financial projections and valuation do not factor in any possible future DOJ redress and/or fines.

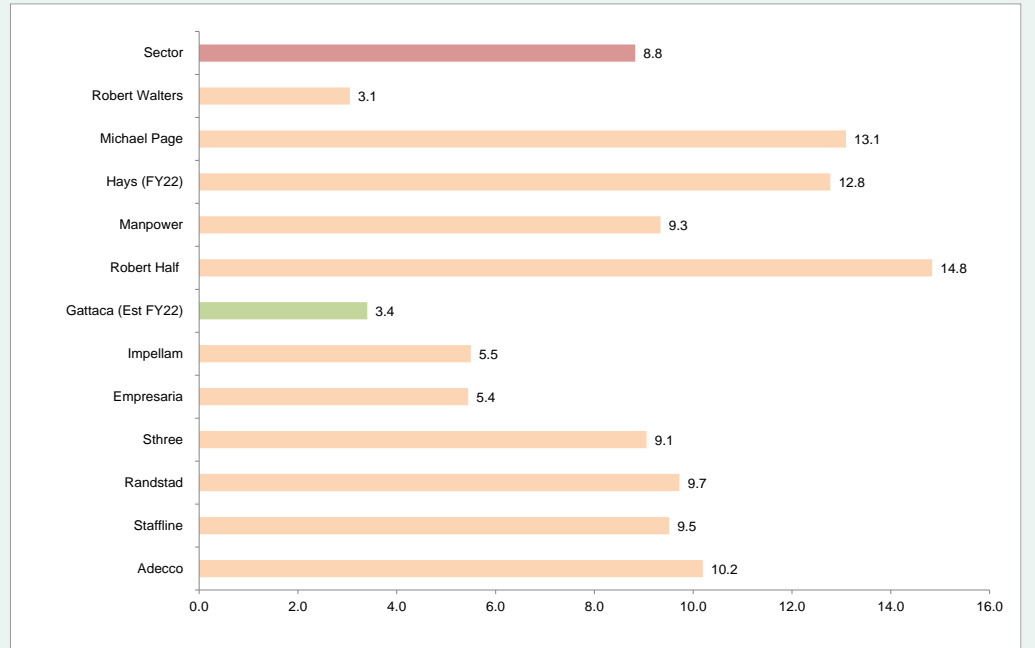
Appendices - sector valuation metrics and KPIs



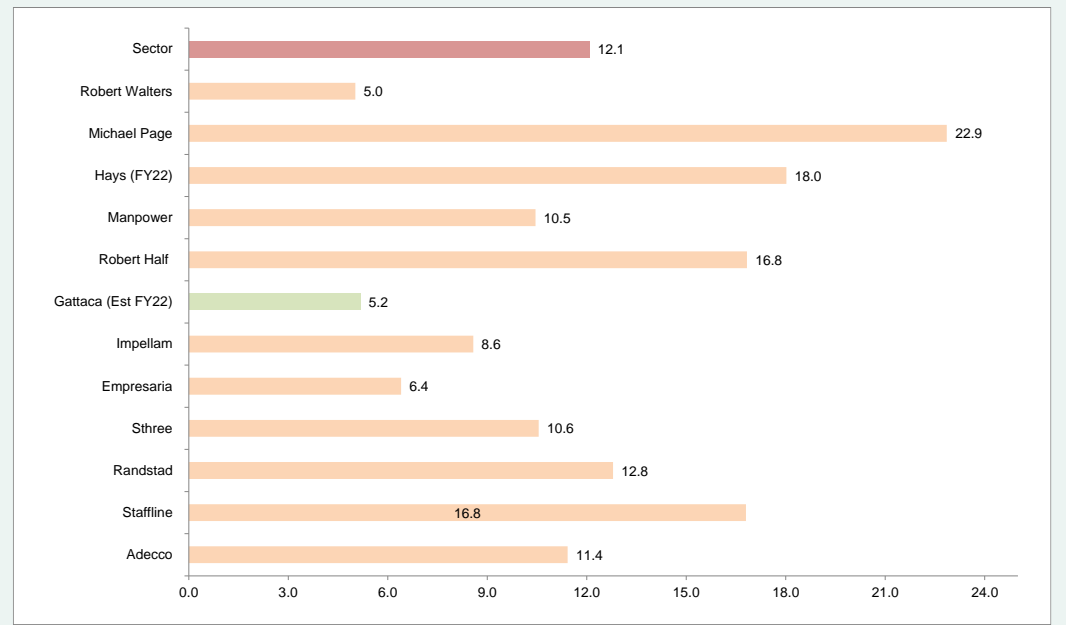
Source: Equity Development



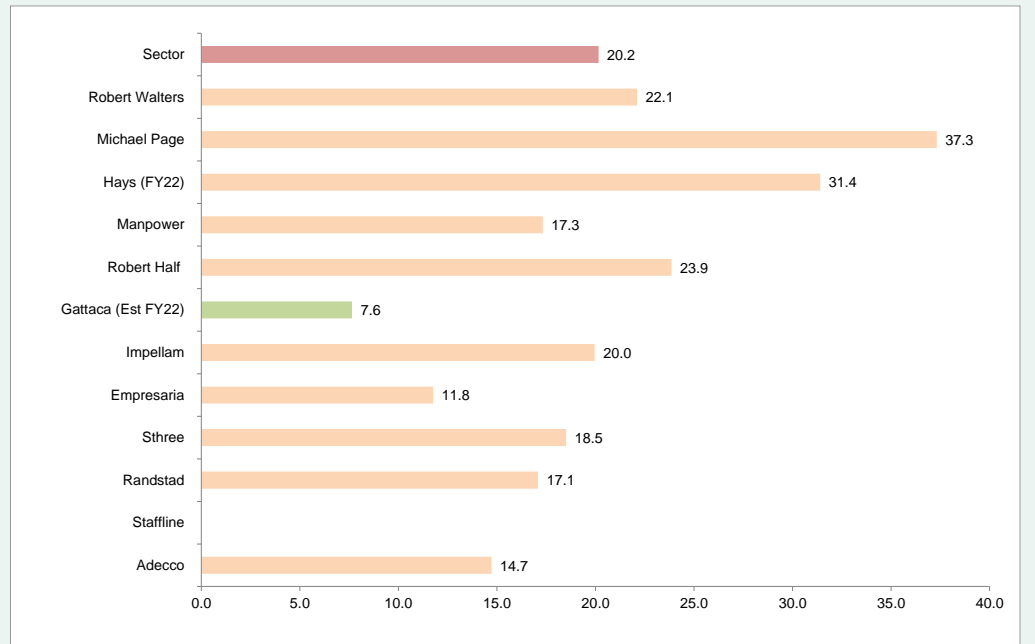
Source: Equity Development

CY EV/EBITDA multiples vs peers


Source: Equity Development

CY EV/EBIT multiples vs peers


Source: Equity Development

CY PERs multiples vs peers


Source: Equity Development

Market capitalisation of peers

	Shareprice	Mrk Cap (Millions)	CY net cash / (debt) Millions	Enterprise Value (Millions)
Adecco	€ 53.75	€ 9,299	-€ 364	€ 9,663
Staffline	53p	£36.5	-£64.3	£100.8
Randstad	€ 54.50	€ 10,028	-€ 705	€ 10,733
Sthree	335p	£445.6	£36.2	£409.4
Empresaria	47p	£22.9	-£13.6	£36.5
Impellam	246p	£113.2	-£15.5	£128.7
Gattaca (Est FY22)	100p	£32.3	-£0.4	£32.6
Robert Half	\$73.00	\$8,322	\$444	\$7,878
Manpower	\$92.00	\$5,428	\$96	\$5,332
Hays (FY22)	157p	£2,795	£380	£2,415
Michael Page	500p	£1,605	£165	£1,440
Robert Walters	420p	£319.6	£154.8	£164.8

Source: Equity Development



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