

## FY'22 NFI set to climb 7% as investment kicks in

18 January 2022

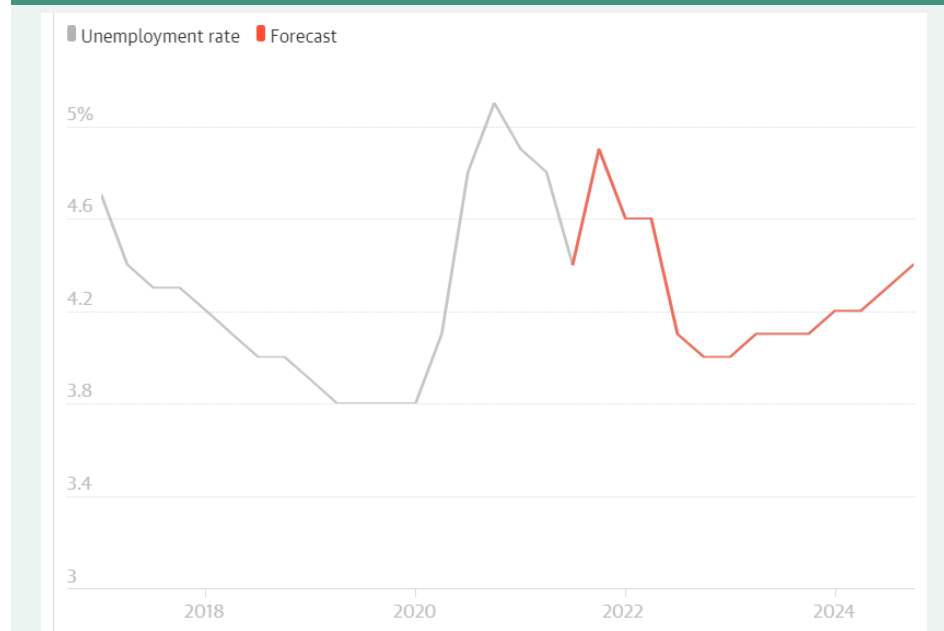
Like many things, the economy rarely moves in straight lines. Prior to the latest lockdowns, experts were forecasting a powerful rebound in UK GDP, as workers fully returned to the office.

However, although 'Britain might rule the waves', it has little control over the direction of the wind. In fact due to the latest Omicron outbreak, **the pace of recovery has temporarily hit a soft patch.**

### UK GDP has temporary hit 'lighter winds'

Nonetheless growth should pickup soon, particularly as Omicron burns itself out and unemployment (see below) further declines amid record numbers of vacancies & acute job shortages.

#### Unemployment is predicted to remain low despite the end of furlough



Source: Bank of England, Guardian

So what does this all mean for Gattaca - the UK's #1 engineering recruitment specialist?

### Nonetheless the longer term fundamentals remain intact

Well, given this uncertainty alongside **demand at some larger customers not bouncing back as quickly as planned** & it proving **tougher to win new 'contractor' based clients**, the company said today that it was seeing a **"delayed recovery in its contract business (c. 75% NFI), where demand has been slower than expected."**

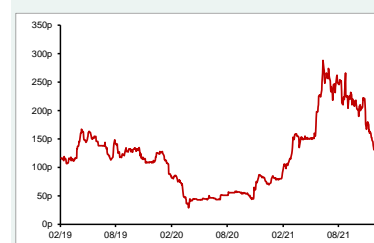
Plus as flagged at the prelims on 4<sup>th</sup> Nov - **greater resource has been invested in UK sales headcount** (+24% vs Jan'21) in anticipation of a faster rebound.

Meaning despite the 46% jump in Permanent placements (re RPO activity), overall group **NFI is now predicted climb +7.2% to £22m in H1** (£20.5m LY), **+6.7% for H2 (£23m vs £21.6m)** and **+6.9% in FY22 (£45m vs £42.1m LY & ED est £50.5m B4)**. **With adjusted PBT falling to "breakeven"** compared to £3.2m LY & ED est. of £6.1m - reflecting adverse operating leverage. **No guidance was provided wrt FY'23.**

#### Company Data

EPIC	AIM:GATC
Price	93p
52 week Hi / Lo	285p/75p
Market cap	£30m
Est Jul'22 net cash (excl £14.2m of off B/S non-recourse finance)	£5.0m
Share count	32.3m
ED valuation / share	165p

#### 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% are sales related.

**Next news:** Interims 31 March 2022

#### Paul Hill (Analyst)

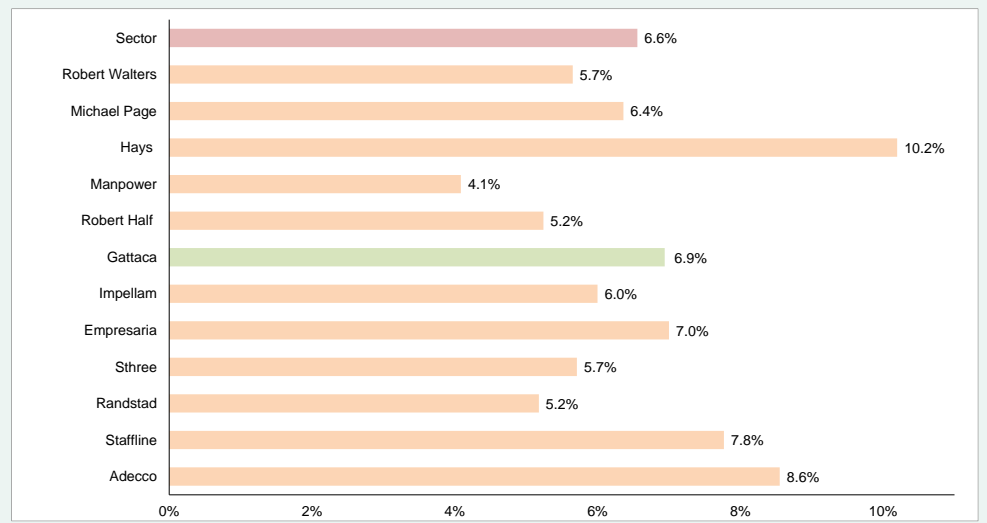
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Big picture though, we think **the longer term fundamentals are positive**, especially in Gattaca's sweetspots of software, digitisation, renewables (eg Off-shore wind & hydrogen), electrification, defence (cyber & marine), engineering and infrastructure (eg HS2, fibre-to-the-home, Lower Thames Crossing, etc).

## Confident of driving future growth

CEO Kevin Freeguard adding "**we remain confident [of our] long-term growth prospects**. Investments in technology and sales headcount have ensured Gattaca is well equipped to meet future requirements as the contract market recovers."

### Expected current year NFI growth across recruitment sector



Source: Equity Development.

## Forecasts cut with valuation dropping to 165p/share

Under this lens, **we have also adopted a more cautious view**. Cutting our forecasts for this year & next (Est FY23 NFI £49.0m & PBT £5.0m) **on top of reducing the valuation from 285p to 165p/share**. Similarly **we assume the FY22 dividend will be briefly suspended**, leaving net funds (pre IFRS16) of £5.0m as at Jul'22 (excluding £14.2m of non-recourse finance).

Interims are scheduled for Thursday 31 March 2022, where we hope to hear a little more about Q3'22 trading & FY'23 guidance.

## Key risks

- Coronavirus induced problems which could delay the anticipated economic recovery.
- General economic downturn affecting engineering and technology recruitment.
- Greater competition, especially from new technology platforms (eg LinkedIn, Monster).

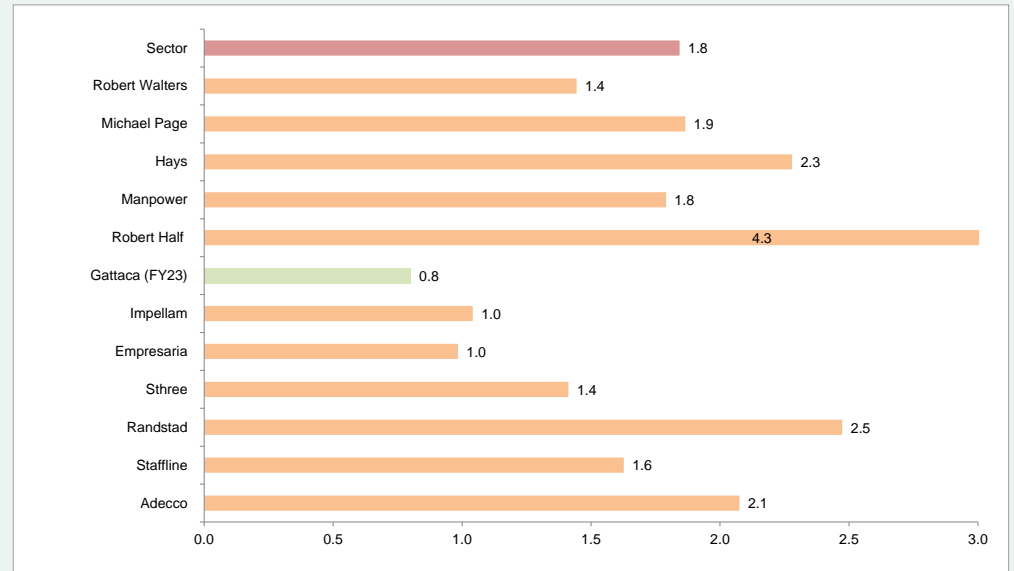
**Summary projections (£'000s)**

<b>Gattaca (continuing operations) (July yearend)</b>	<b>2020 Act £'000s</b>	<b>2021 Act £'000s</b>	<b>2022 Est £'000s</b>	<b>2023 Est £'000s</b>	<b>2024 Est £'000s</b>
<b>Net Fee Income (NFI) : Gross profit</b>					
UK Engineering	34,177	28,398	29,220	31,982	35,157
UK Technology	13,602	10,212	12,201	13,212	14,713
International	4,977	3,470	3,579	3,796	4,044
<b>Total</b>	<b>52,756</b>	<b>42,080</b>	<b>45,000</b>	<b>48,990</b>	<b>53,914</b>
<b>NFI growth rate</b>					
UK Engineering	-21.0%	-16.9%	2.9%	9.5%	9.9%
UK Technology	-23.5%	-24.9%	19.5%	8.3%	11.4%
International	-15.9%	-30.3%	3.1%	6.1%	6.5%
<b>Total NFI growth rate</b>	<b>-21.2%</b>	<b>-20.2%</b>	<b>6.9%</b>	<b>8.9%</b>	<b>10.1%</b>
<b>EBITDA</b>	<b>9,413</b>	<b>6,106</b>	<b>2,884</b>	<b>7,858</b>	<b>11,259</b>
UK Engineering	20,913	17,324	16,071	19,669	22,149
UK Technology	7,061	5,163	5,491	6,936	8,092
International	1,319	1,247	1,324	1,708	2,022
Central overheads	-23,125	-20,095	-22,486	-22,964	-23,538
<b>Adjusted EBIT</b>	<b>6,168</b>	<b>3,639</b>	<b>400</b>	<b>5,350</b>	<b>8,725</b>
Total Opex as % NFI	-88.3%	-91.4%	-99.1%	-89.1%	-83.8%
EBIT / NFI margin	11.7%	8.6%	0.9%	10.9%	16.2%
Net interest	-1,389	-412	-400	-350	-300
<b>Adjusted PBT</b>	<b>4,779</b>	<b>3,227</b>	<b>0</b>	<b>5,000</b>	<b>8,425</b>
Tax	-995	-506	0	-1,250	-2,275
Minorities	0	0	0	0	0
<b>Adjusted PAT</b>	<b>3,784</b>	<b>2,721</b>	<b>0</b>	<b>3,750</b>	<b>6,150</b>
<b>Adjusted diluted EPS (p)</b>	<b>11.7</b>	<b>8.4</b>	<b>0.0</b>	<b>11.5</b>	<b>18.7</b>
Adjusted EPS growth rate	-57.6%	-28.1%	-100.0%		63.2%
<b>Dividend (p)</b>	<b>0.0</b>	<b>1.5</b>	<b>0.0</b>	<b>3.0</b>	<b>5.0</b>
Dividend yield	0.0%	1.6%	0.0%	3.2%	5.4%
Dividend cover					
<b>Valuation benchmarks</b>					
P/E ratio (diluted)	8.0	11.1		8.1	5.0
EV/NFI	0.74	0.93	0.87	0.80	0.73
EV/EBITDA	4.2	6.4	13.6	5.0	3.5
EV/EBITA (diluted)	6.4	10.8		7.3	4.5
PEG ratio	-0.14	-0.39			0.08
Adjusted corporate tax rate	-20.8%	-15.7%	-23.0%	-25.0%	-27.0%
Adj ROACE	8.7%	5.2%	0.6%	7.4%	11.5%
EBITDA drop through rate as % NFI				124.7%	69.1%
<b>Net recourse cash/(debt)</b>	<b>27,341</b>	<b>19,890</b>	<b>5,000</b>	<b>7,705</b>	<b>11,622</b>
Non recourse invoice factoring (off Balance Sheet)	-13,800	-14,200	-14,200	-14,200	-14,200
HMRC deferred VAT	-10,300	-5,600			
Net debt : EBITDA (incl HMRC & factoring)	-0.3	0.9	-3.2	-0.8	-0.2
Diluted sharecount (Adj for 2015)	32,353	32,358	32,519	32,682	32,845
Shareprice (p)	<b>93p</b>				

Source: Equity Development

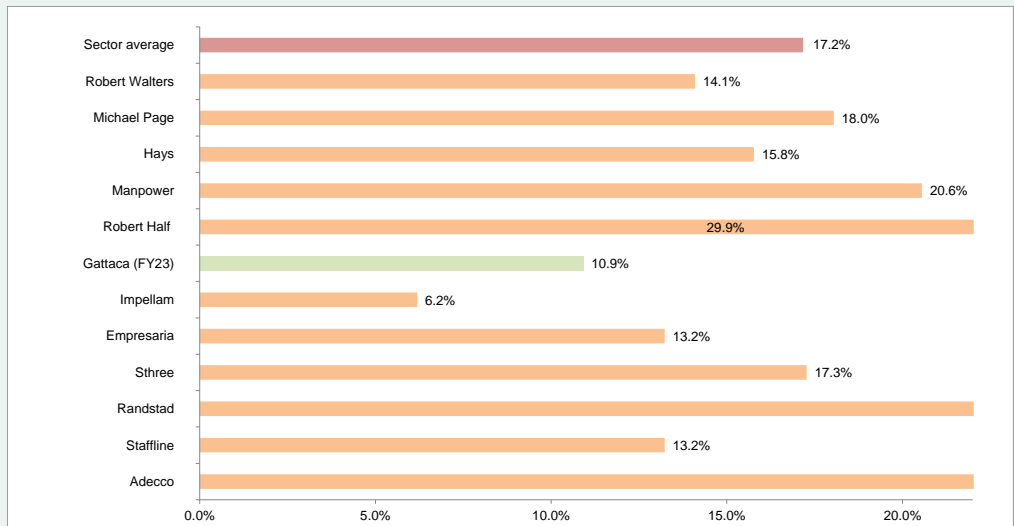
## Appendices - sector valuation metrics and KPIs

### Current Year (CY) EV/NFI multiples vs peers

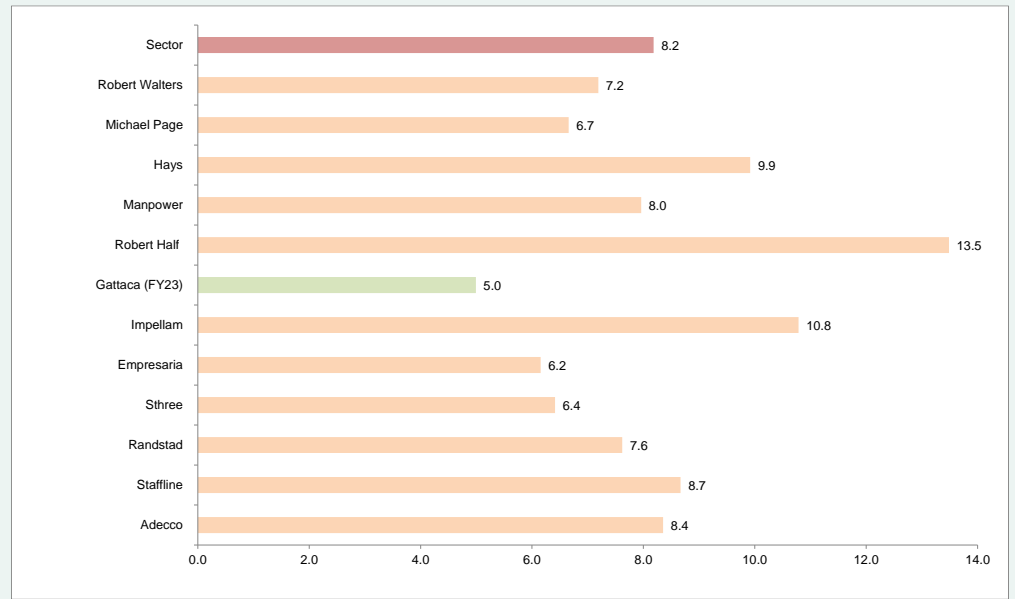


Source: Equity Development

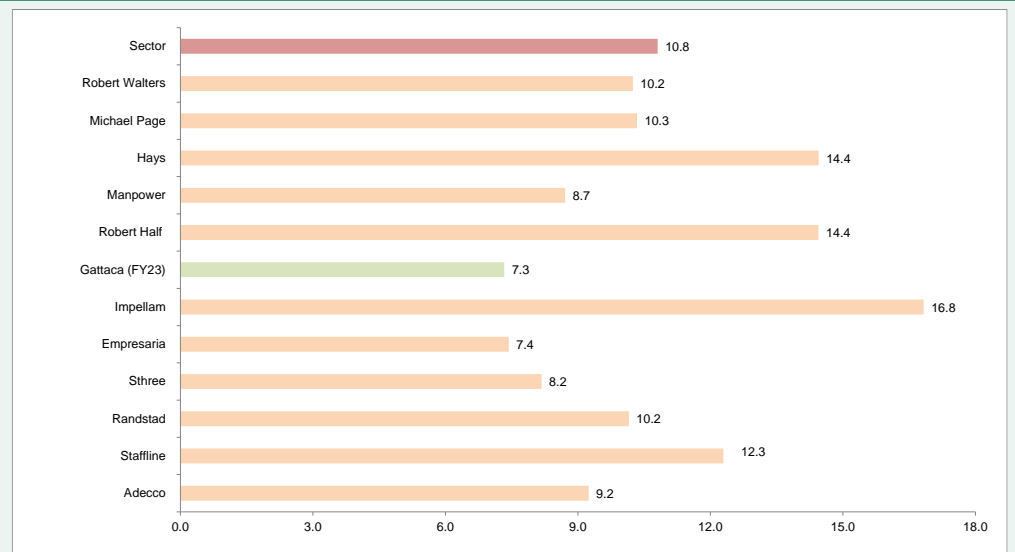
### Current Year (CY) EBIT / NFI conversion rates



Source: Equity Development

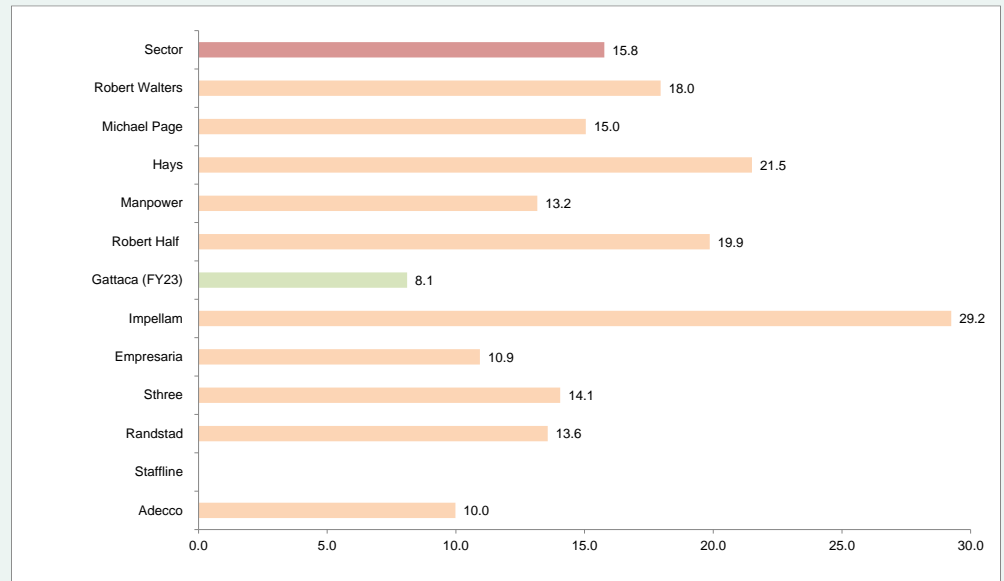
**CY EV/EBITDA multiples vs peers**


Source: Equity Development

**CY EV/EBIT multiples vs peers**


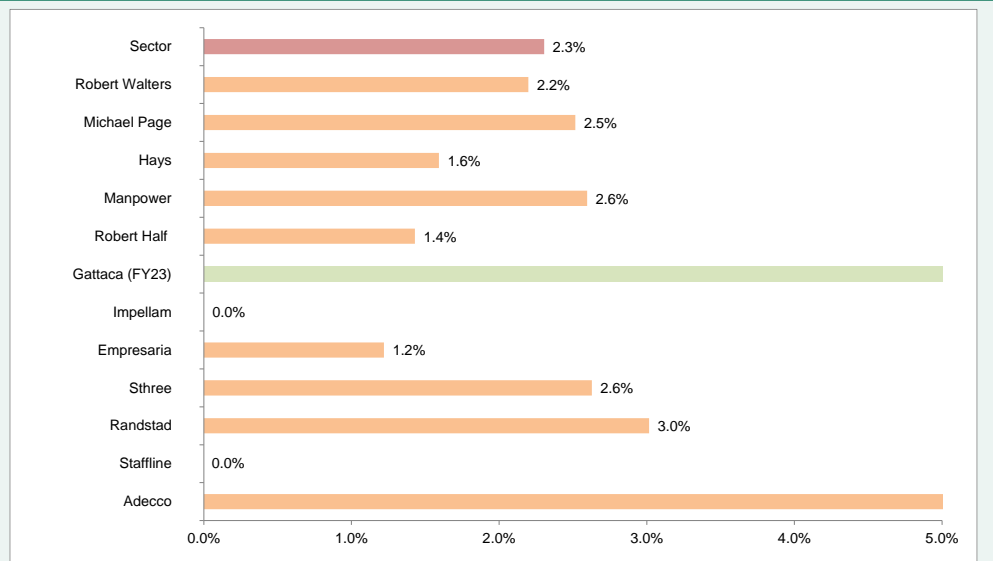
Source: Equity Development

### CY PERs multiples vs peers



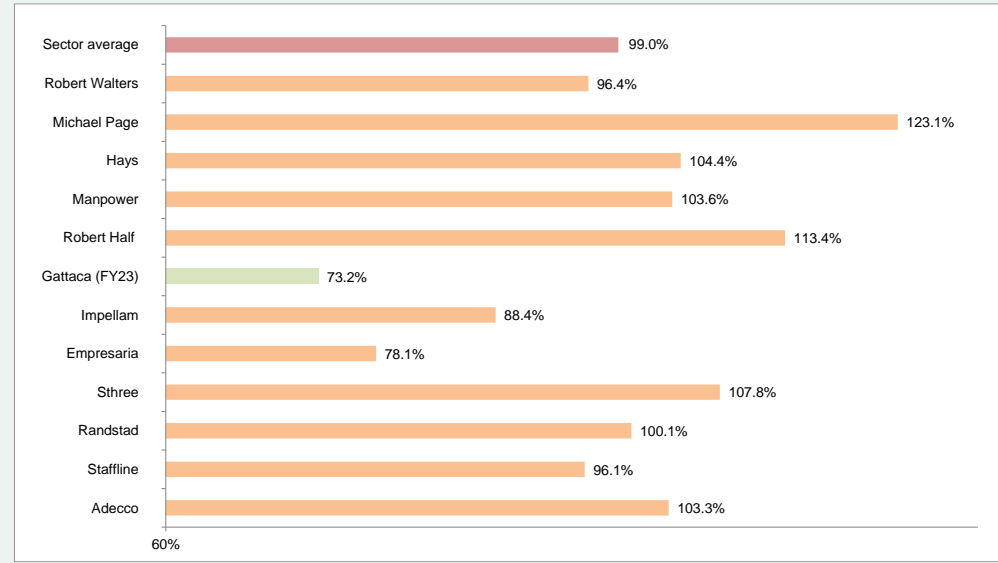
Source: Equity Development

### CY dividend yield (%)



Source: Equity Development

### 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	€ 46.01	€ 7,960	-€ 1,698	€ 9,658
Staffline	62p	£102.9	-£32.3	£135.2
Randstad	€ 62.00	€ 11,377	-€ 329	€ 11,706
Sthree	430p	£574.1	£59.7	£514.4
Empresaria	82p	£40.8	-£16.5	£57.3
Impellam	515p	£236.9	-£15.5	£252.4
Gattaca (FY23)	93p	£30.0	-£9.2	£39.2
Robert Half	\$114.00	\$12,882	\$501	\$12,381
Manpower	\$109.00	\$6,322	\$58	\$6,264
Hays	157p	£2,795	£107	£2,688
Michael Page	620p	£1,990	£26	£1,964
Robert Walters	860p	£654.5	£90.0	£564.5

Source: Equity Development



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