Gattaca Plc

On track for FY and quietly confident

2 April 2025

The results for the six months to January were encouraging on several levels: productivity improved, costs fell, and the conversion ratio rose. The investment in strategic growth sectors was rewarded, with improving NFI within energy and infrastructure. Elsewhere, headcount was reduced as the Group adapted to challenging markets. Nonetheless, NFI declined just 3%, outperforming much of the staffing sector as the Group benefitted from the change in strategy and a 71% exposure to contract fees. Unchanged guidance for FY25 is welcome, although a continuation of politically led reductions in economic confidence causes us to lower growth expectations for FY26.

There is much to be encouraged by within Gattaca's H1 outcome. The scale of the reduction in net fees was much lower than its peers, highlighting the success of the strategy implemented less than two years ago. A focus on growth sectors, such as energy and infrastructure has been rewarded with good growth in fee income. Defence, another key area, saw delays ahead of the forthcoming publication on the defence spending review. That said, recent announcements by the UK government suggest that the increase in defence spending as a proportion of GDP will underpin growth in this area over the medium term.

Growth in adj. EBIT and the conversion rate reflected a strong focus on costs, with headcount declining in low-double digits yoy and notwithstanding the investment in core growth areas. Sales now accounts for 71% of headcount, up from 69% a year ago. The medium-term target is a three-to-one ratio, favouring sales versus support staff. The lower cost base augurs well for the remainder of the year, with the guidance of adj. PBT of £3m unchanged for the full year.

Conservative estimates for FY26

In view of the continuation of the challenging staffing markets, with low candidate and client confidence, we have reduced growth expectations**.** Nevertheless, we still expect **profitability to improve by a third on NFI rising 5%**, emphasising the operationally geared model and a return of perm volumes at some point during FY26.

The lower FY26 estimates leads us to reduce our fair value / share estimation to 120p, still well above current levels. Gattaca continues to be backed by a robust balance sheet with cash equivalent to 52p / share, suggesting an unreasonably modest value and rating for the operating business.

FY estimates

Y/e July, £m	**FY22A**	**FY23A**	**FY24A**	**FY25F**	**FY26F**
NFI	44.2	42.2	40.1	39.0	41.0
EBITDA	2.8	4.8	3.7	3.8	4.8
Adj. PBT	0.3	3.7	2.9	3.0	4.0
Adj. EPS (p)	0.5	10.5	2.4	6.0	8.3
DPS (p)	0.0	5.0	2.5	3.0	4.0
EV/NFI	0.1	0.1	0.1	0.1	0.1
EV/EBITDA	1.7	1.0	1.3	1.2	1.0
PER	176.2	8.0	34.8	13.9	10.1
Yield	0.0%	6.0%	3.0%	3.6%	4.8%
Net cash	12.3	21.6	20.7	16.1	16.8

Source: Company historics, ED estimates

Company Data

EPIC	GATC
Price (last close)	84p
52 weeks Hi/Lo	110p/69p
Market cap	£26.3m
ED Fair Value / share	120p
Net cash (at 31/01/25)	£16.8m

Share Price, p

Source: Investing.com

Description

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

Approximately three-quarter 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, with a medium-term target of 75%

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Next event

Trading update, August 2025

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Progress on NFI per sales head & the conversion ratio

Interim results			
£m, unless otherwise stated	**H1 24**	**H1 25**	**Change yoy**
UK	185.8	192.4	*3.5%*
International	1.8	1.1	*-40.7%*
Total revenue	187.6	193.5	*3.1%*
CoGS	-168.2	-174.5	*3.8%*
NFI	19.4	18.9	*-2.6%*
NFI margin (%)	10.4%	9.8%	
NFI/Consultant	*64.1*	*69.3*	*8.1%*
NFI/Headcount	*43.6*	*49.0*	*12.5%*
OpEx	-18.6	-18.1	*-2.8%*
Adj. EBITDA	1.5	1.5	*-4.5%*
EBITDA (%)	8.0%	7.8%	
Adj. EBIT	0.8	0.8	*2.8%*
Conversion rate (%)	*4.0%*	*4.3%*	
Net i/r	0.4	0.2	*-46.3%*
Adj. PBT	1.2	1.0	*-14.9%*
Taxation	-0.3	-0.4	*13.4%*
Tax (%)	25.5%	34.0%	
Adj. PAT	0.9	0.7	*-24.6%*
Adj. EPS (p)	2.8	2.1	*-25.0%*
DPS (p)	0.0	1.0	
Net cash / (debt)	22.3	16.8	*-24.6%*
Net cash / share (p)	68.8	51.8	*-24.6%*

Source: Company

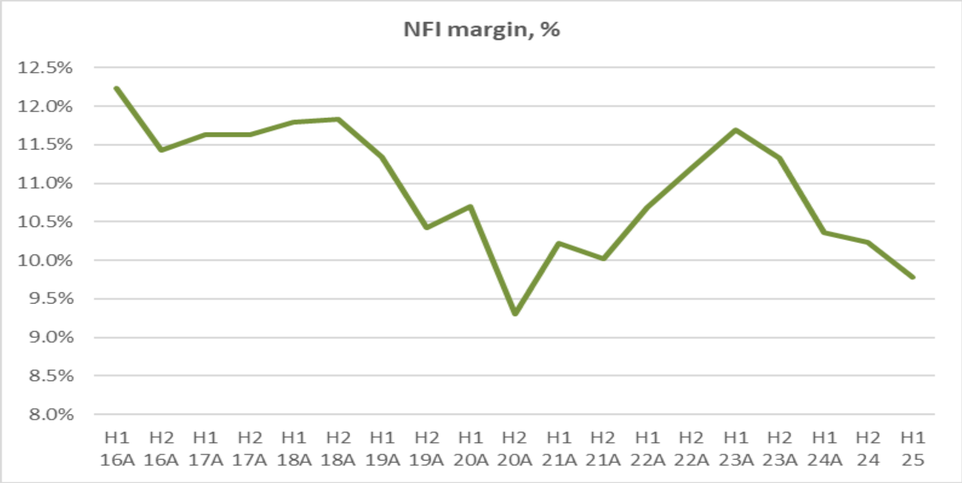
The reduction in revenues sourced internationally predominantly reflects the discontinued US business, with preferred sectors now serviced from the UK. Revenues sourced domestically modestly increased yoy during H1, rising 3.5% to £192.4m.

Notwithstanding the modest decline in net fees/margin, part reflected in the renewal of several new contracts and reduction in perm NFI, we are encouraged by the improvements in productivity. On a per consultant basis, NFI increased 8.1% yoy to an annualised equivalent of £139k and rising 12.5% yoy on a total headcount basis. Despite an 11% year-over-year reduction in total headcount, the emphasis was placed on strategic growth areas and enhancing the sales and back-office split. The NFI margin is close to its historical low point (9.3% in H1 ’20), suggesting any recovery in perm should result in a rise in FY26.

Contract NFI improved 1% to £14m, with Statement of Work broadly flat at £1.1m due a combination of new client wins offsetting delays as the public sector moved to shorter programmes ahead of the public sector spending review. Not surprisingly and broadly in line with the staffing sector generally, permanent NFI fell 14% to £3.8m. However, the average perm fee improved despite the lower volumes, reflecting the strategic growth sector focus.

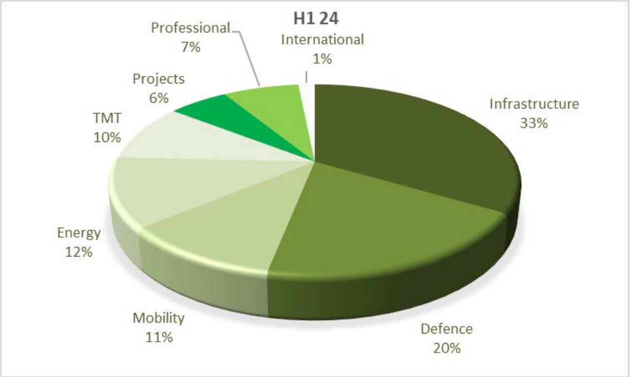
The strongest sectors reflect the Group's strategic focus for growth, including infrastructure (+8% yoy) and energy (+17% yoy), aided by targeted growth in sales headcount during the last 12 months and favourable trends within the areas of focus, such as water and renewables/transmission/distribution.

NFI margin close to historic low – any recovery in perm would be helpful



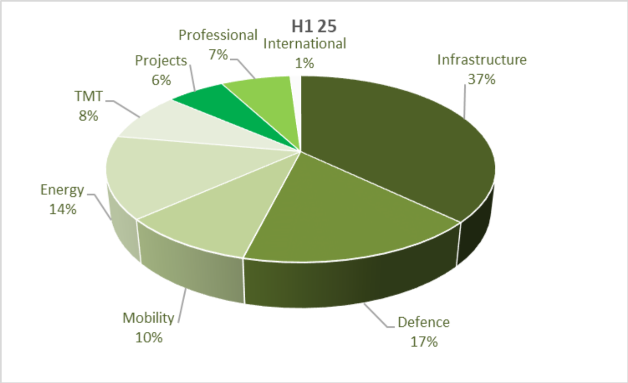
Source: Company

NFI by sector, H1 24



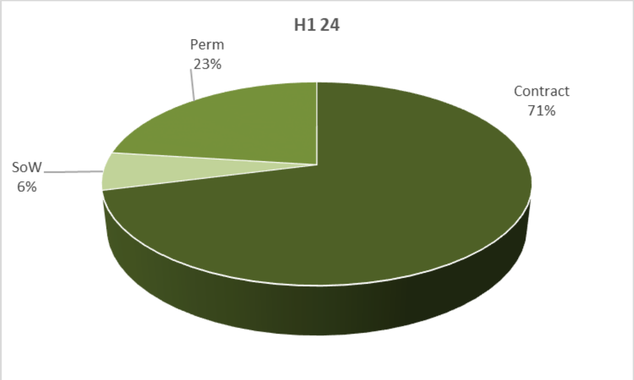
Source: Company

NFI by sector, H1 25



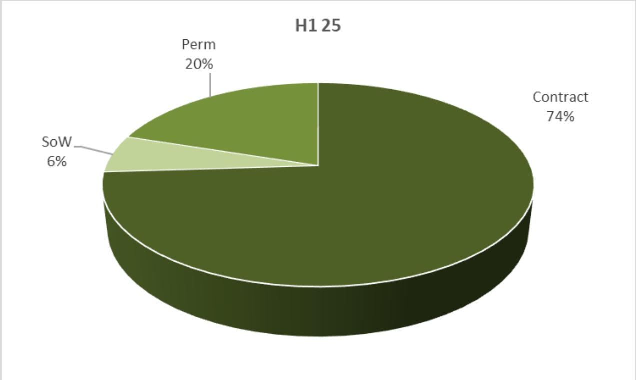
Source: Company

NFI by type, H1 24



Source: Company

NFI by type, H1 25

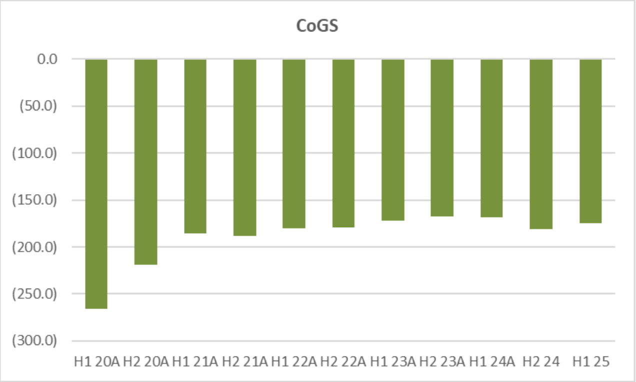


Source: Company

Overall costs increased 3.1% yoy to £192.7m, reflecting the 3.8% rise in CoGS, mostly attributable to a reduction in gross margin from lower perm activity and contract renewals.

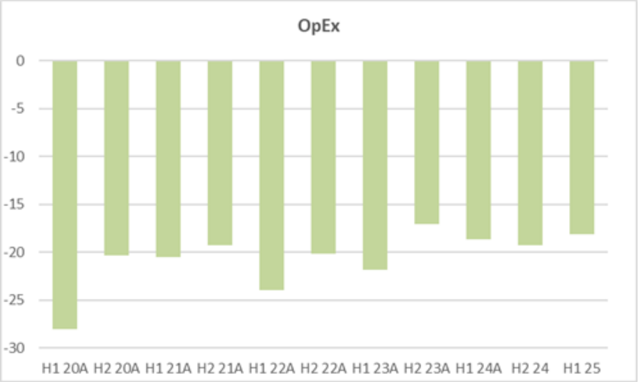
In stark contrast, administrative costs declined 2.8% to £18.1m. Staff reductions were due to decreased activity in non-strategic sectors, a better balance between sales and back-office headcount, and a smaller office footprint. This was partially offset by improved FY24 bonuses and salary inflation.

CoGS declines on a half-yearly sequential basis



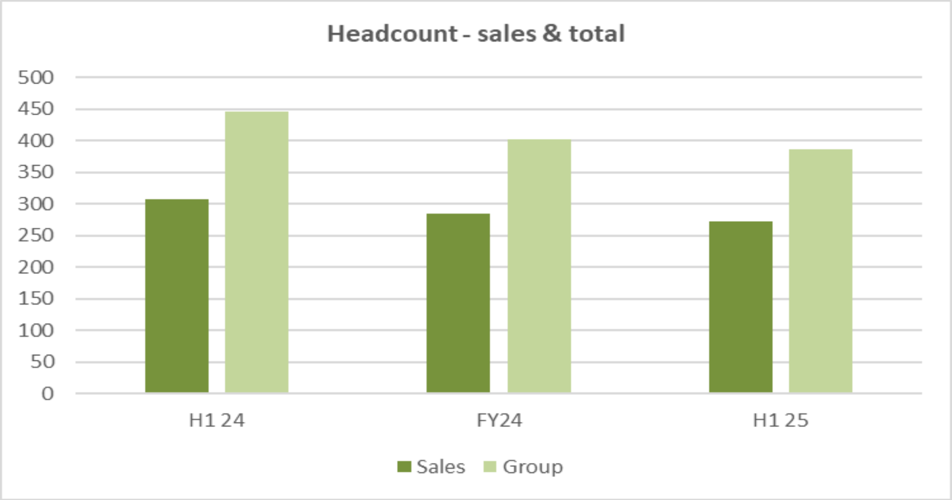
Source: Company

OpEx continues to decline



Source: Company

Reducing headcount, with split of sales/support Improving



Source: Company

EBIT improved modestly (+2.8%) to £0.8m, with the conversion rate correspondingly increasing to 4.3% (H1 24: 4.0%) and reflecting the action on costs. The reduction in net cash levels to £16.8m (FY24: £20.7m), interest receivable declined accordingly to £0.2m. As such, adj. PBT fell modestly to £1.0m. Adj. EPS amounted to 2.1p (H1 24: 2.8p), with the tax rise unhelpful. That said, management demonstrated confidence in the outlook with the restoration of the interim dividend, paying 1p.

The reduction in net cash was due to:

- The timing of the payment of the contractor payroll, falling at the period end and amounting to a net outflow associated with working capital of £4.3m
- The payment of the full-year dividend of £0.8m.

The DSO (days sales outstanding, money owed on invoices to clients) improved yoy to 50 days (H1 24: 53). We welcome the improvement, highlighting good internal controls. The DSO is consistently higher at the half-year, typically declining to the low to mid 40s by the year end. The Group cancelled the invoice discounting facility in February, saving on finance charges in future and better utilising the net cash pile.

Valuation

Net cash underpins the valuation, recovery from FY26 to build on this

We remain encouraged by the improvements in productivity and believe that any recovery in the Group's markets will result in further improvements in both net fees and in profitability, not least as permanent placements (at higher gross margins) recover from the current low levels.

However, with the political cycle having a strong bearing on wider confidence levels, the timing of any such recovery has, if anything, been pushed further down the line. As such, we have reduced our estimates for FY26 in line with a slower recovery.

The change in estimates causes us to reduce our fair value / share assumption to 120p (previously 140p). We nevertheless consider Gattaca undervalued, not least reflecting its sector leading NFI performance and net cash backing.

The high level of cash on the balance sheet, notwithstanding the increase in working capital and payment of the FY24 dividend during H1, provides the management team with several options in the short to medium term. Net cash amounts to £16.8m or 52p / share and significantly, 64% of the Group's market capitalisation.

This suggests that the operating business is valued at just £9.5m, which equates to a FY25e EBIT multiple of 3.7x and a FY25e PER of 5.0x (assuming a 25% corporate tax rate).

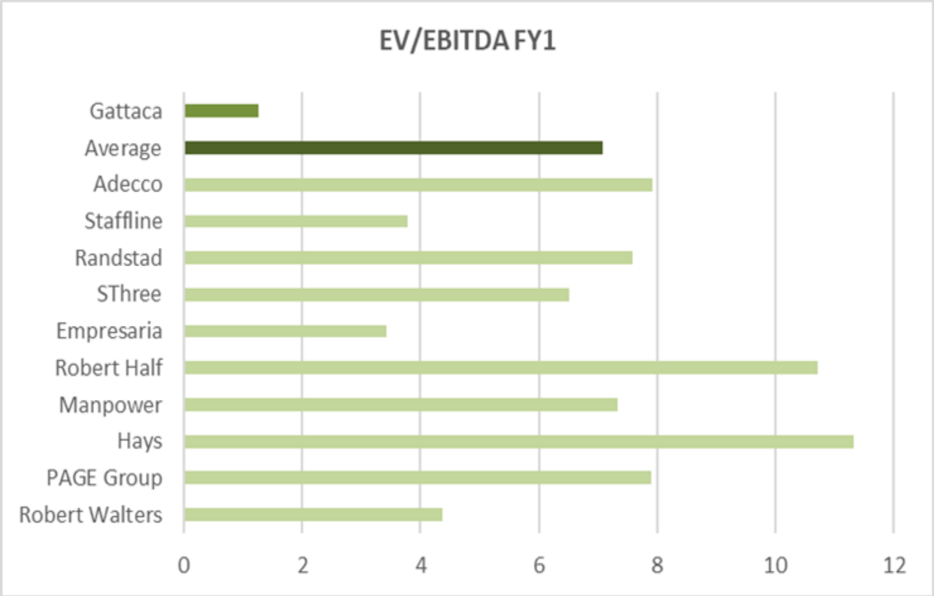
Peer group comparison models

Gattaca continues to trade on a significant discount to its peer group, notwithstanding the improvement in the share price following the trading update in February. We continue to believe this is unjustified. The strategy is working, as evidenced by the improvement in productivity and rise in the Group's conversion ratio (margin) in a very challenging staffing market.

Costs continue to decline, particularly at the administrative level, placing the group on a strong foundation. As such, when recovery does feed through, the operationally geared model is likely to result in a rapid recovery in profitability.

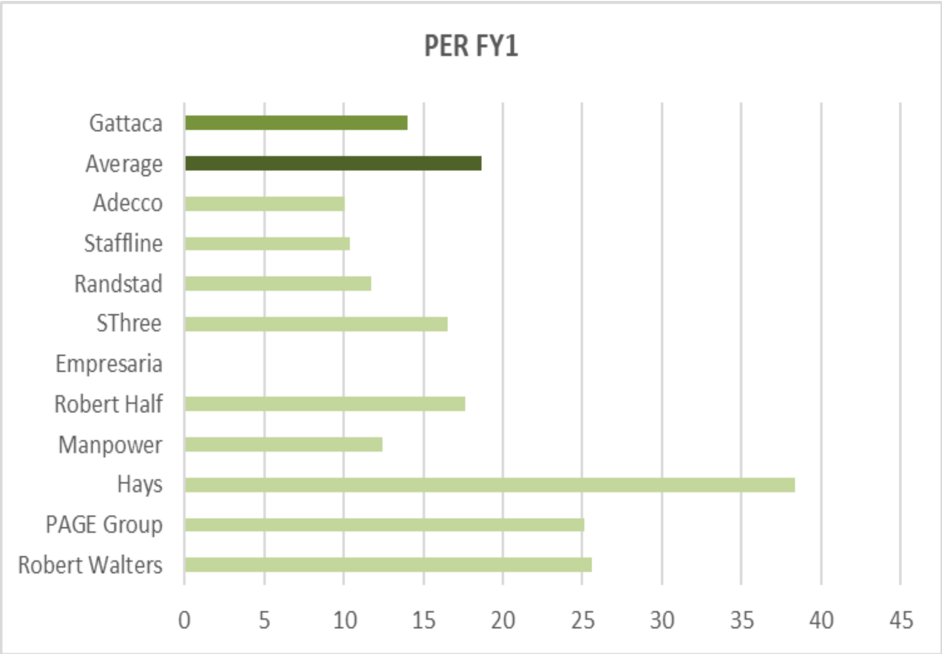
The Group's PEG ratio (FY26/FY25) of just 0.3x further underlines the anomaly in valuation relative to its peers:

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



Source: Koyfin

Peer group comparison model: FY1 PER (x)



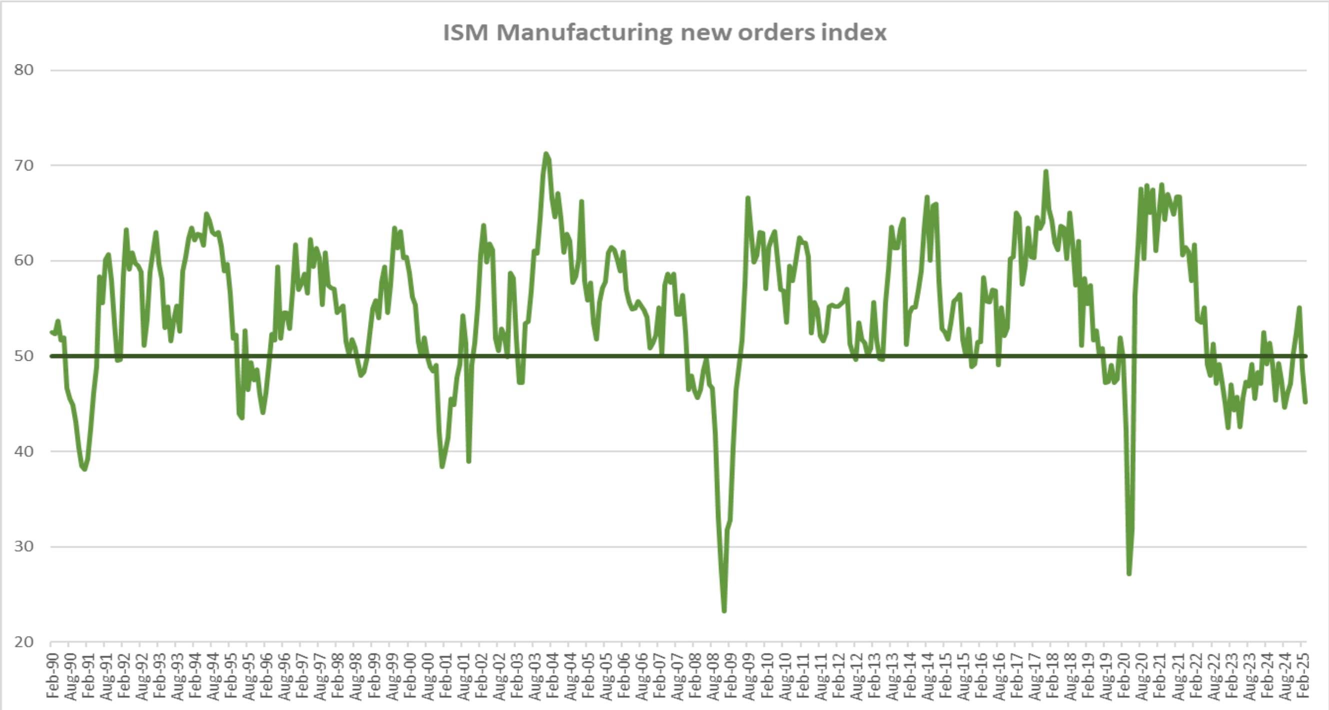
Source: Koyfin

Financials

We retain the opinion that the US manufacturing new orders PMI represents a good indicator of confidence in the economic outlook and in turn, of future hiring (new orders typically result in hiring once productivity begins to improve). Confidence was clearly shaken from February onwards with the focus on tariffs and their potential to disrupt trade flows to and from the US. We note that should the world economy avoid recession then we expect confidence to improve from levels close to where we are now, albeit we are unsure of the timing.

Both client and candidate confidence remain soft, albeit contract remains far more resilient (representing 71% of net fees). We expect the Group to continue to focus growth on headcount in strategic sectors, with other areas varying sales numbers based on underlying demand.

US PMI manufacturing new order index



Source: Investing.com

Estimate changes

Considering the further deterioration in confidence, largely a result of political interference of one way or another, we believe it is correct to be more circumspect in the outlook. As a result, we have trimmed our top-line estimates for FY25 but consider it appropriate to review our growth assumptions for FY26. Current thinking suggests that any meaningful recovery is likely to be pushed back into H2 26 at best.

That said, we continue to remain encouraged by:

- The action taken to date on costs
- Productivity growth to date, with significant scope for further uplift and,
- Several long-term extensions to contracts with the public sector and defence.

Once recovery in its markets finally emerges, especially in perm, this should lead to faster growth in both revenue and profit.

Changes to estimates						
Year-end July, £m	Old FY25	New FY25	Change	Old FY26	New FY26	Change
NFI	39.2	39.0	-0.5%	42.0	41.0	-2.4%
Adj. EBIT	2.5	2.5	1.9%	4.6	3.6	-21.9%
Conversion rate	*6.4%*	*6.5%*		*11.0%*	*8.8%*	
Adj. PBT	3.0	3.0	-0.4%	5.0	4.0	-20.2%
Adj EPS (p)	6.0	6.0	-0.1%	10.2	8.3	-19.0%
DPS (p)	3.0	3.0	-0.1%	5.1	4.0	-21.6%
Net cash	16.0	16.1	0.8%	17.3	16.8	-3.2%

Source: Equity Development

The previous peak conversion rate was in FY19, amounting to 19.8%. The conversion rate in FY24 was 5.5%, rising to 8.8% in FY26 based on our updates estimates. Any marked recovery in its markets is likely to result in a significant upside to profitability over the medium term and beyond.

Summary Income statement					
Year to July, £m	2022A	2023A	2024A	2025F	2026F
Revenue	403.9	382.1	389.5	391.8	396.9
CoGS	-359.7	-339.9	-349.5	-352.9	-355.9
UK NFI	41.4	41.2	39.5	38.4	39.8
International NFI	2.8	1.0	0.6	0.6	1.2
Group NFI	44.2	42.2	40.1	39.0	41.0
NFI margin (%)	*10.9%*	*11.0%*	*10.3%*	*10.0%*	*10.3%*
Op costs	-44.1	-38.9	-37.9	-36.4	-37.4
EBITDA	2.8	4.8	3.7	3.8	4.8
EBITDA/NFI conversion (%)	*6.3%*	*11.3%*	*9.3%*	*9.8%*	*11.8%*
Adj. EBIT	0.1	3.3	2.2	2.5	3.6
Conversion rate (EBIT/NFI, %)	*0.2%*	*7.9%*	*5.5%*	*6.5%*	*8.8%*
Net Interest	0.2	0.3	0.7	0.4	0.4
PBT (Adjusted)	0.3	3.7	2.9	3.0	4.0
Exceptionals	-5.0	0.7	-1.2	-0.2	0.0
PBT (Reported)	-4.7	4.4	1.7	2.8	4.0
Tax	-0.2	-1.1	-1.0	-1.0	-1.3
PAT	-4.9	3.3	0.7	1.7	2.7
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	2.7
EPS (Adjusted) (p)	0.5	10.5	2.4	6.0	8.3
DPS (p)	0.0	5.0	2.5	3.0	4.0
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	3.6
Depn. & Amortn.	3.1	1.6	0.6	1.3	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	-2.9	2.7
Net Interest	-0.2	0.2	0.7	0.4	0.4
Taxation	0.3	-0.9	-0.6	-1.0	-1.2
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	-3.8	1.7
Net (Acquisitions)/Disposals	0.0	0.0	0.0	0.0	0.0
Dividends	-0.5	-0.5	-1.6	-0.8	-1.0
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	-4.6	0.6
Opening Net Cash/(Debt)	19.9	12.3	21.6	20.7	16.1
Closing Net Cash/(Debt)	12.3	21.6	20.7	16.1	16.8

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	16.1	16.8
Provisions Liabilities/Charges	0.5	0.4	0.4	0.4	0.4
Net Assets	30.5	30.8	31.7	33.4	35.9

Source: Company historics, Equity Development estimates

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