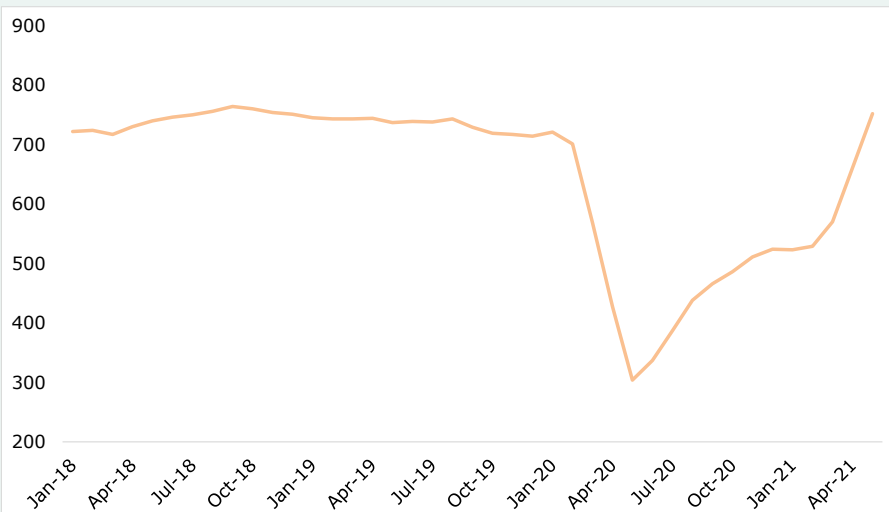


Continued strong execution & positive outlook

17 August 2021

Given the **tightening UK jobs market** with vacancies back to pre-covid levels (see below), it's no wonder businesses are struggling to find technical/skilled staff. Turning instead to specialist STEM recruiters like Gattaca, particularly within 'hot' areas such as software, digitisation, renewables, electrification, defence (cyber & marine), engineering and infrastructure (eg HS2, fibre-to-the-home, Lower Thames Crossing, etc).

UK 'service-related' job vacancies (k)



Source: ONS

Ship shape and ideally placed to deliver further growth

Indeed all told, we think **Gattaca is in fine fettle** and fully primed for the next stage in the economic recovery.

Not only emerging from the pandemic with a **much leaner cost base** after significant corporate 'pruning'. Alongside last month closing its loss-making Mexican/South African units (Est £0.5m one-off expense, FY21 NFI £1m & LBT -£0.2m), which were part of the 2015 Networkers acquisition. Leaving the group now entirely focused on its attractive UK, North American & European (served via Britain) interests.

But also well placed to benefit from investments in a new technology platform and sales/delivery resource.

FY21 cashflow exceeded expectations

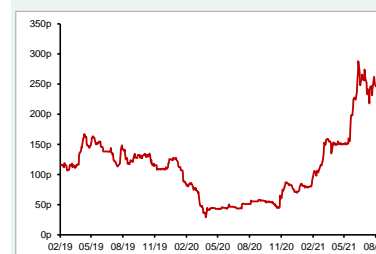
With regards to the numbers, continuing **H2'21 NFI (est. £22m) came in +7% higher than H1 (est. £20.5m)**. Delivering **FY21 adjusted PBT of at least £3m** (vs ED £2.9m) on NFI down 20% to £42.5m vs £53.1m LY & ED est £43.3m. Here H2 vs H1 growth was driven by permanent placements, greater RPO activity & tight overhead discipline, whilst still investing in fee-earners (+13% vs Jan'21) & system capability.

Equally cashflow was better than expected, with **net funds** (ie cash less non-recourse factoring less VAT deferrals) **ending July at c. £2.4m** vs ED est. £0.65m & Jan'21 £0.34m. Plus the total £20m reported net cash balance (excl. IFRS16) provides ample room to pay a "modest" dividend (est 0.5p, equivalent to a 0.2% yield, rising to 0.6% in FY22). Fine, but what happens next?

Company Data

EPIC	AIM:GATC
Price (last close)	245p
52 week Hi / Lo	288p/44p
Market cap	£79.1m
Jul'21 net cash (excl. £12m of off B/S non-recourse finance & £5.6m VAT deferrals)	£20m
Share count	32.3m
ED valuation / share	285p

Share Price, p



Source: Yahoo

Description

Gattaca is the UK's #1 specialist engineering (64% NFI) recruitment agency, providing contract, temporary and permanent staff (Source: Recruitment International). It derives 12% of NFI from overseas (10% Americas & 2% EMEA), with the remainder coming from UK Technology (24%) – overall split 75% contractors and 25% 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.

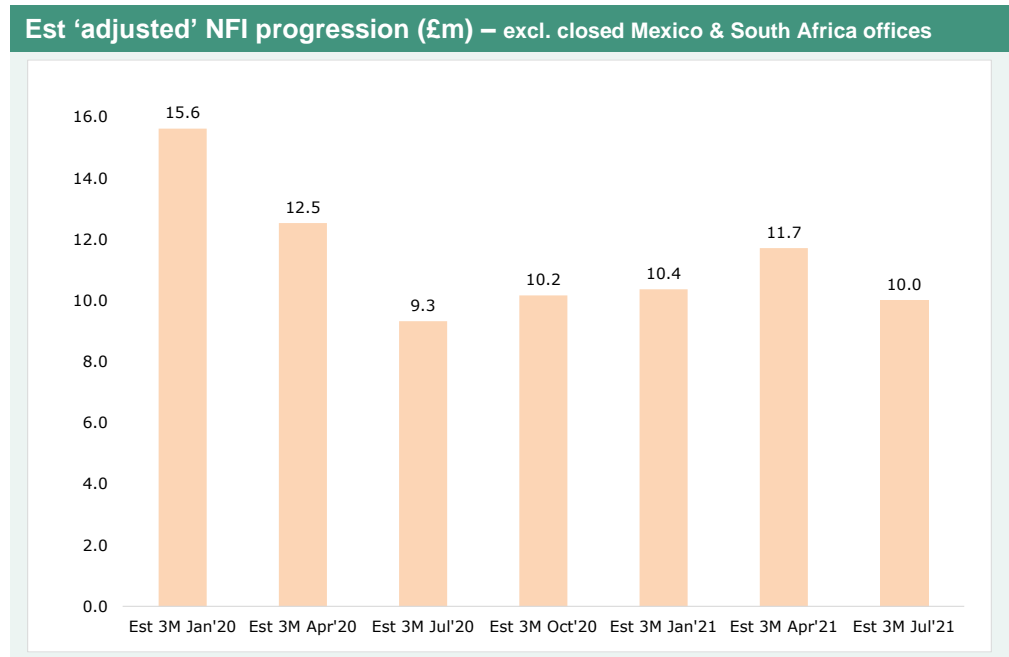
Next news: Prelims 4th November

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Plenty of upside potential

Well, despite there being a sense of hesitancy by candidates to move jobs, which was reflected in GATC's Q4 NFI vs Q3 (see below), we still believe this temporary supply issue will resolve itself in due course, as demand is strong, confidence returns, people get back to the office, salaries rise and importantly more negotiating power shifts from the employer to the employee.



Source: Equity Development estimates

That said, we've conservatively **held our FY22 forecasts**, but nudged up the **valuation from 280p to 285p/share** thanks to the favourable outlook & July cash out-turn.

Ultimately though, if GATC can consistently deliver NFI growth above GDP, on top of mid-high teen EBIT/NFI conversion across the economic cycle. Then the stock would rightly deserve a sector 12x EV/EBIT multiple. Lifting it to possibly >430p by 2024 (see appendices)

CEO Kevin Freeguard adding: *"We have seen increased activity from our "RPO" (Permanent Recruitment Process Outsourcing) clients as the market recovery has been led by permanent recruitment both in contingent and solutions products. **There is further improvement to come on the contract front** including in our core infrastructure unit, which will benefit from strong demand driven by major initiatives such as UK Fibre investment, HS2 and Offshore 2025, which we are seeing already positively impacting hiring."*

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).
- Gattaca is presently assisting the US Department of Justice in their enquiries about certain Networkers International activities prior to its 2015 acquisition.

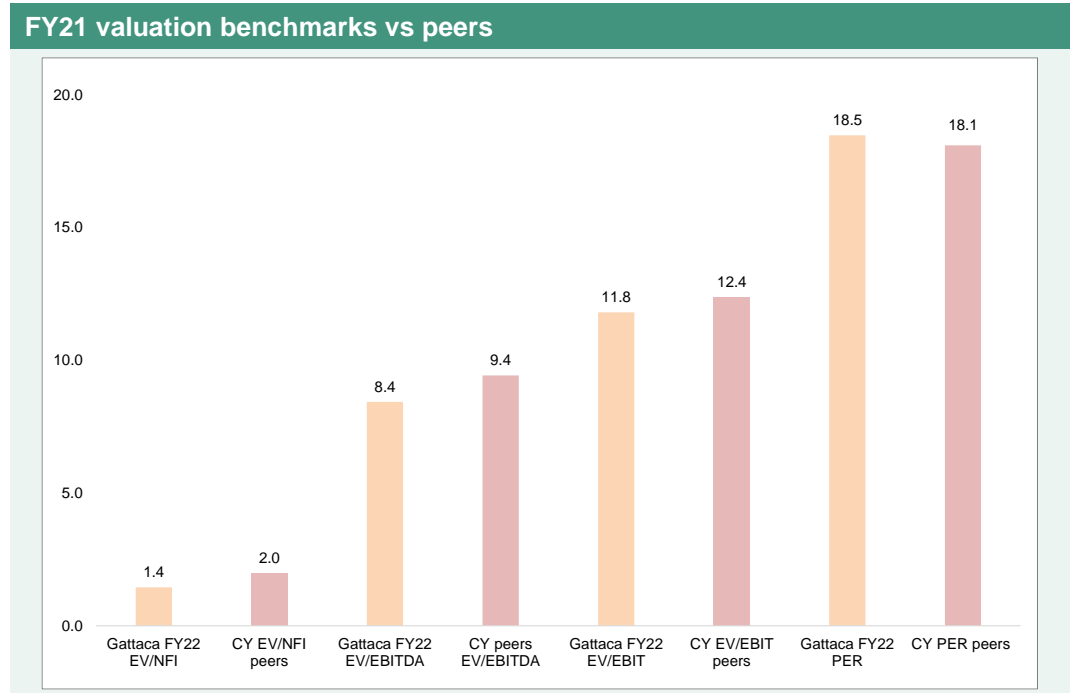
Summary projections

Gattaca (continuing operations) (July yearend)	2020 Act £'000s	2021 Est £'000s	2022 Est £'000s	2023 Est £'000s	2024 Est £'000s
Net Fee Income (NFI) : Gross profit					
UK Engineering	34,177	28,000	31,311	37,473	41,331
UK Technology	13,602	10,500	16,830	20,196	22,216
International	5,321	4,000	4,859	5,831	6,414
Total	53,100	42,500	53,000	63,500	69,961
NFI growth rate					
UK Engineering	-30.9%	-18.1%	11.8%	19.7%	10.3%
UK Technology	17.5%	-22.8%	60.3%	20.0%	10.0%
International	-33.8%	-24.8%	21.5%	20.0%	10.0%
Total NFI growth rate	-23.1%	-20.0%	24.7%	19.8%	10.2%
EBITDA					
UK Engineering	20,913	15,120	16,595	19,861	21,905
UK Technology	7,061	4,515	7,237	8,684	9,553
International	1,300	1,800	2,090	2,507	2,758
Central overheads	-23,282	-17,785	-19,421	-21,363	-22,431
Adjusted EBIT	5,992	3,650	6,500	9,690	11,785
Total Opex as % NFI	-88.7%	-91.4%	-87.7%	-84.7%	-83.2%
EBIT / NFI margin	11.3%	8.6%	12.3%	15.3%	16.8%
Net interest	-1,404	-650	-500	-450	-400
Adjusted PBT	4,588	3,000	6,000	9,240	11,385
Tax	-1,271	-840	-1,680	-2,587	-3,188
Minorities	0	0	0	0	0
Adjusted PAT	3,317	2,160	4,320	6,653	8,197
Adjusted diluted EPS (p)					
Adjusted EPS growth rate	-62.9%	-35.0%	99.0%	53.2%	22.6%
Dividend (p)					
Dividend yield	0.0%	0.2%	0.6%	1.2%	1.8%
Dividend cover					
Valuation benchmarks					
P/E ratio (diluted)	23.9	36.8	18.5	12.1	9.8
EV/NFI	1.44	1.80	1.45	1.21	1.10
EV/EBITDA	8.3	12.5	8.4	6.2	5.3
EV/EBITA (diluted)	12.8	21.0	11.8	7.9	6.5
PEG ratio	-0.38	-1.05	0.19	0.23	0.44
Adjusted corporate tax rate	-27.7%	-28.0%	-28.0%	-28.0%	-28.0%
Adj ROACE	8.5%	5.2%	8.9%	12.4%	14.0%
EBITDA drop through rate as % NFI		29.1%	28.1%	31.4%	33.3%
Net recourse cash/(debt)					
Non recourse invoice factoring (off Balance Sheet)	-13,800	-12,000	-12,000	-12,000	-12,000
HMRC deferred VAT	-10,300	-5,600			
Net debt : EBITDA (incl HMRC & factoring)	-0.4	1.3	0.5	0.6	0.9
Diluted sharecount (Adj for 2015)	32,353	32,416	32,578	32,740	32,904
Shareprice (p)	245p				

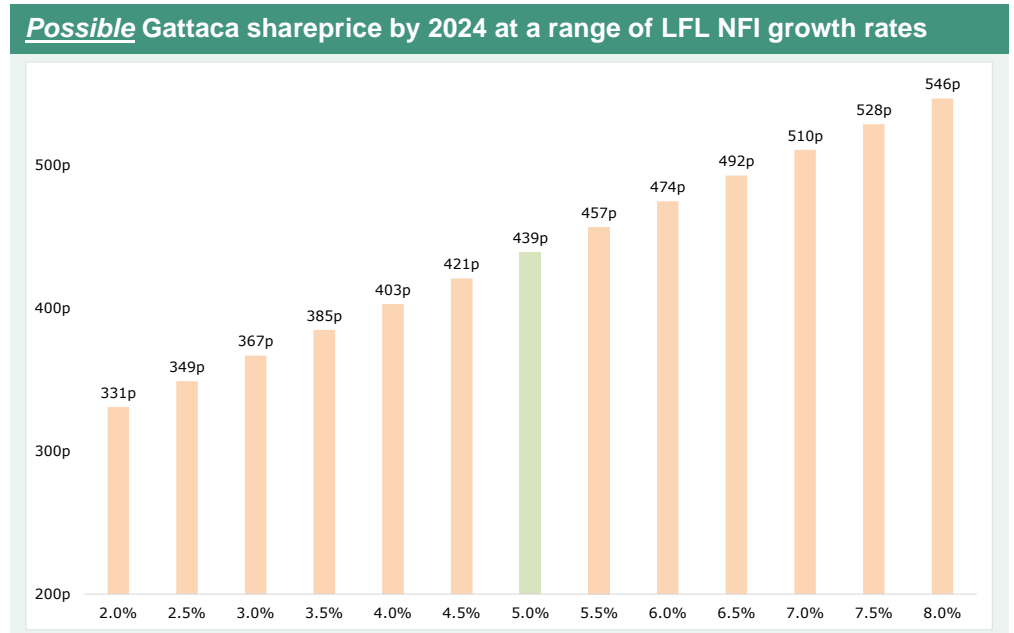
Source: Equity Development

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

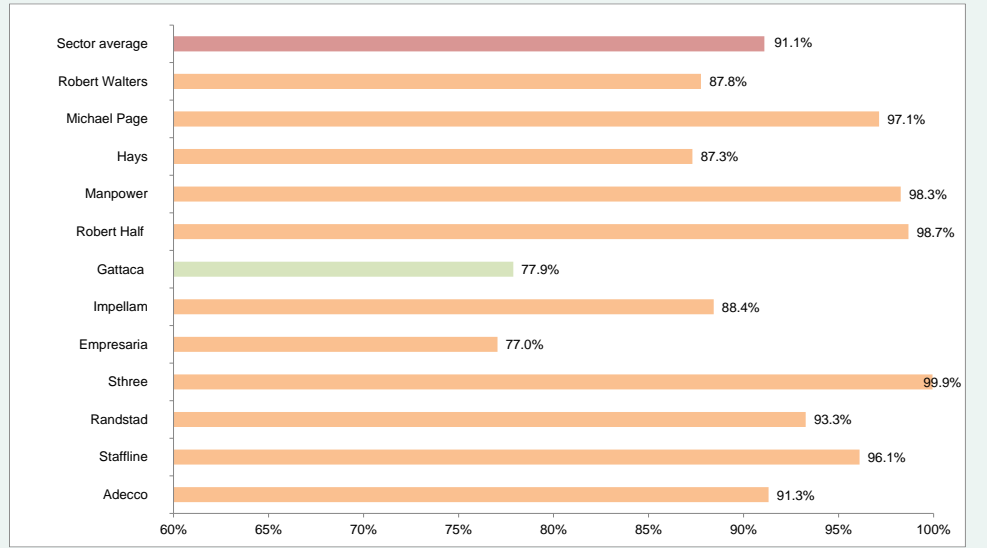


Source: Equity Development.



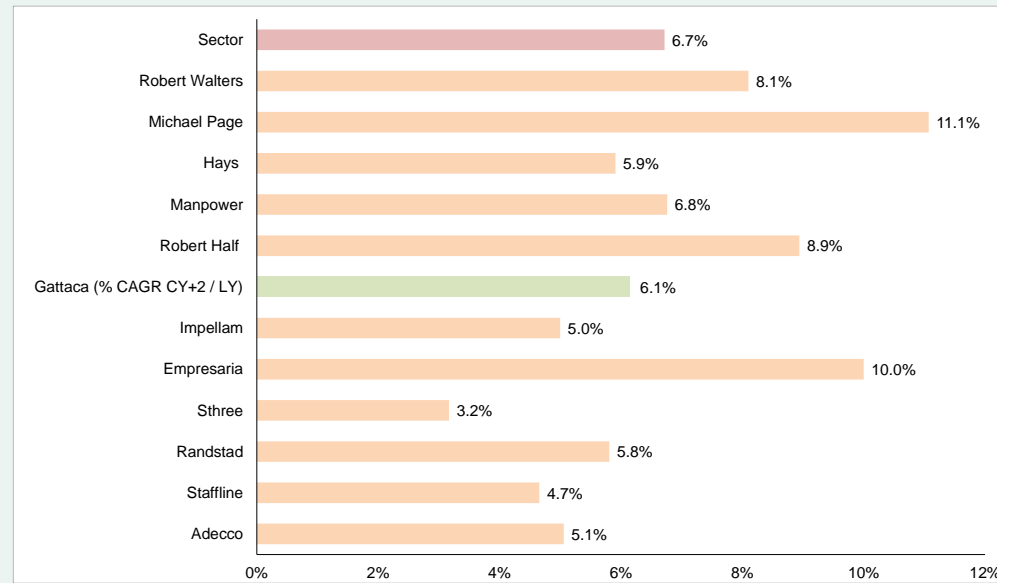
Source: Equity Development hypothetical price estimates

Current year NFI as a % of pre Covid levels



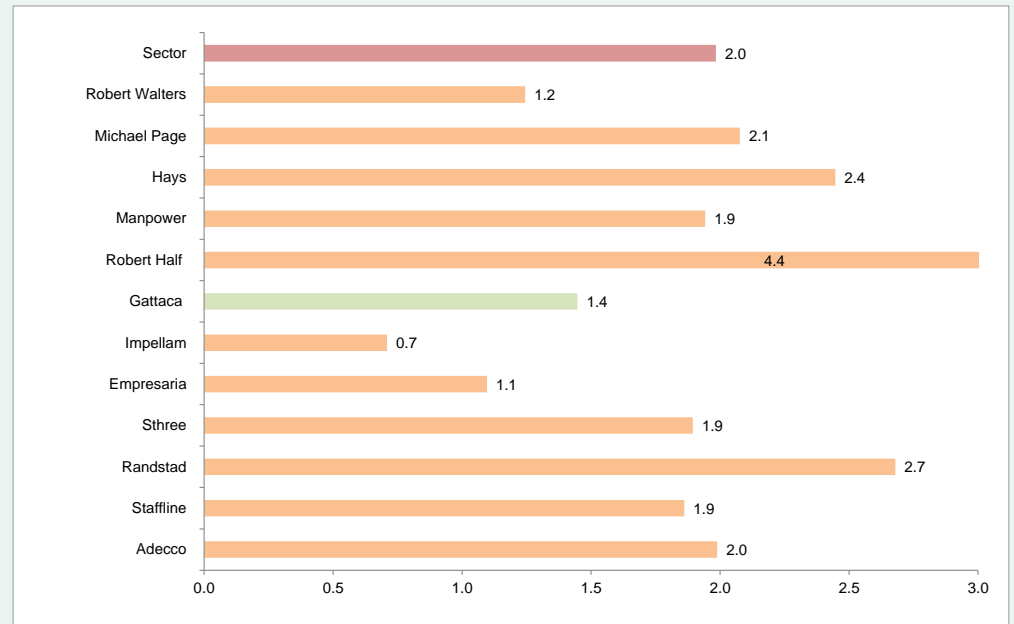
Source: Equity Development.

Expected current year NFI growth across recruitment sector



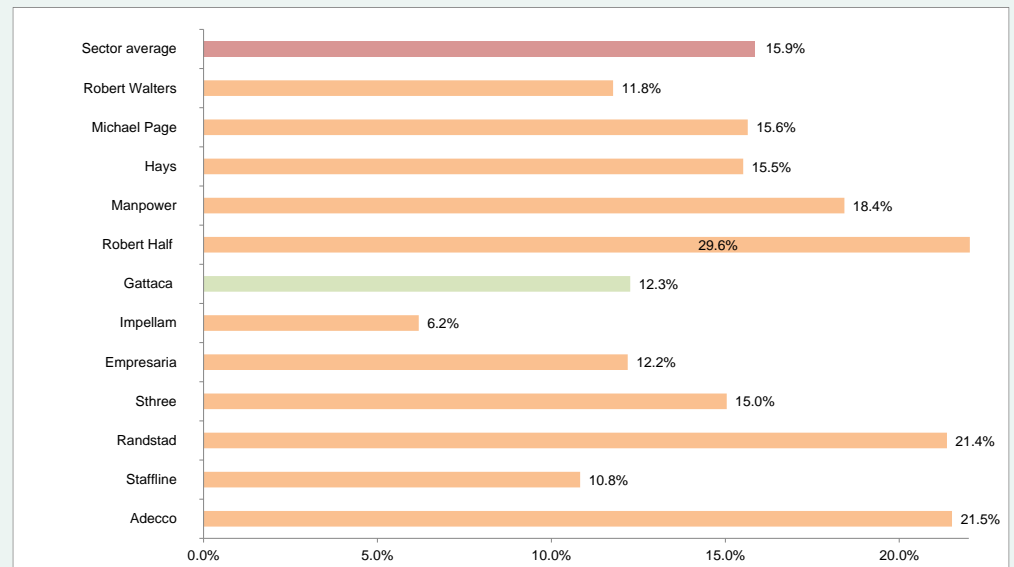
Source: Equity Development.

Current Year (CY) EV/NFI multiples vs peers

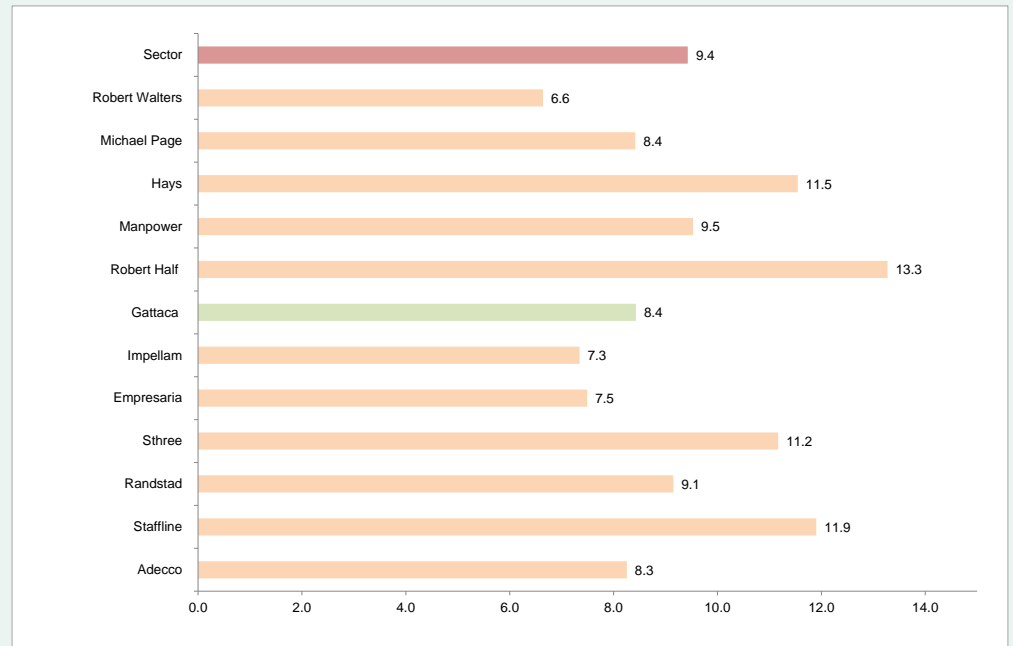


Source: Equity Development

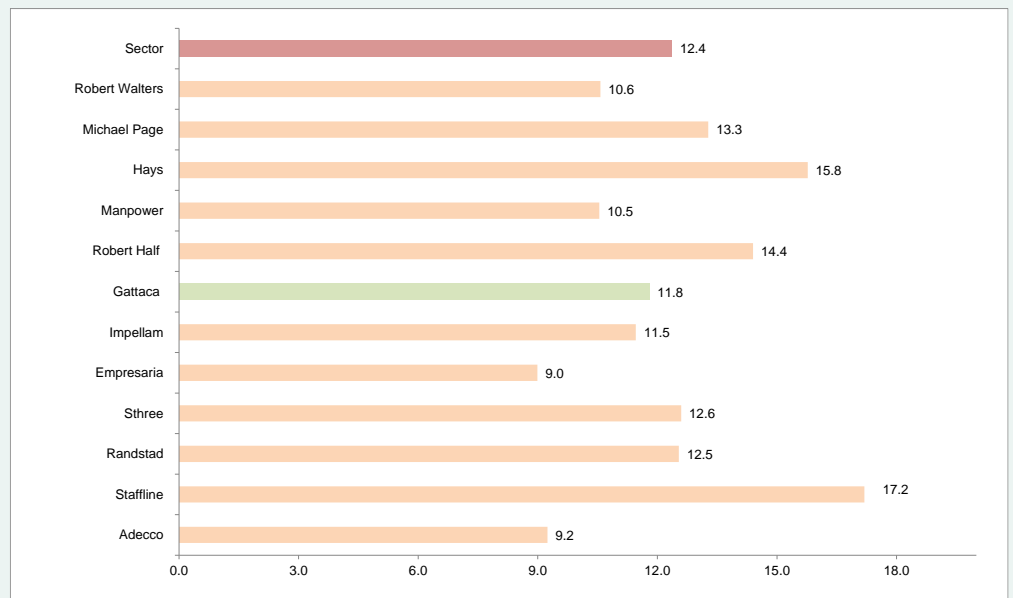
Current Year (CY) EBIT / NFI conversion rates



Source: Equity Development

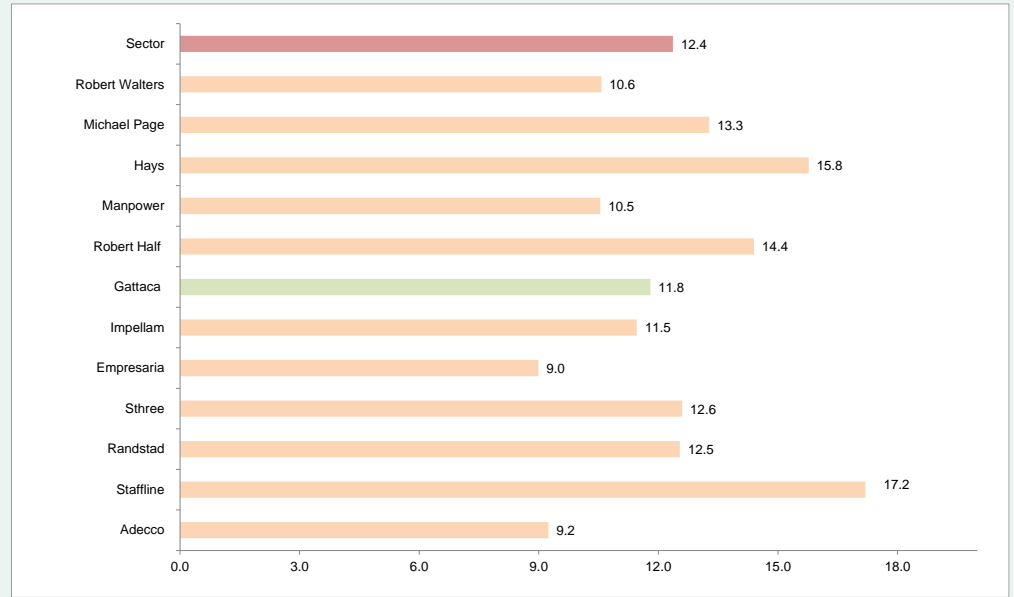
CY EV/EBITDA multiples vs peers


Source: Equity Development

CY EV/EBIT multiples vs peers


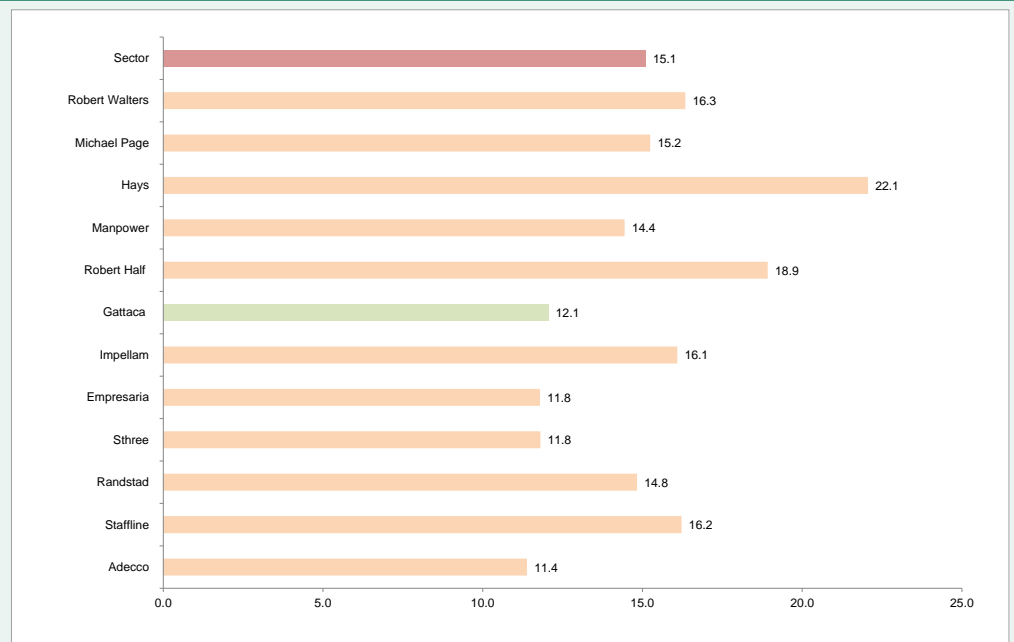
Source: Equity Development

CY PERs multiples vs peers



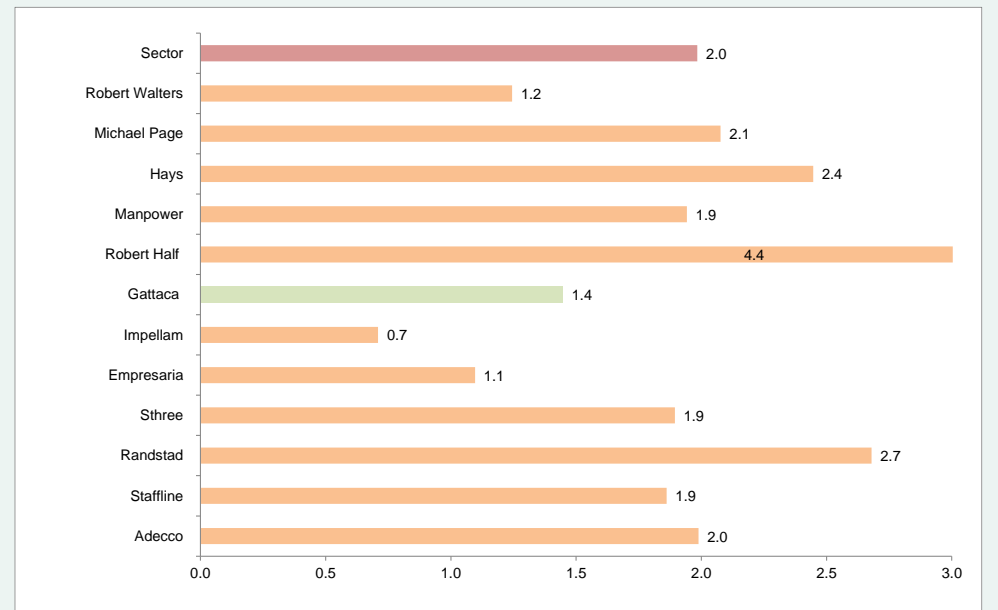
Source: Equity Development

CY+1 PERs multiples 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	€ 49.07	€ 8,490	€ 310	€ 8,180
Staffline	73p	£122.6	-£32.1	£154.7
Randstad	€ 62.00	€ 11,470	-€ 342	€ 11,812
Sthree	510p	£678.3	£38.4	£639.9
Empresaria	92p	£45.6	-£17.3	£62.9
Impellam	340p	£156.4	-£15.5	£171.9
Gattaca	245p	£79.1	£2.4	£76.7
Robert Half	\$102.00	\$11,526	\$509	\$11,017
Manpower	\$120.00	\$6,960	\$517	\$6,443
Hays	150p	£2,793	£380	£2,413
Michael Page	590p	£1,894	£168	£1,726
Robert Walters	670p	£509.9	£67.0	£442.9

Source: Equity Development



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