

22 August 2022

## First corner turned

Turning businesses around is never easy. Nonetheless common sense, capable management and lots of hard work can go a long way, especially where there is an established brand and many of the issues can be fixed internally.

Similarly, after a period of sub-optimal performance, **Gattaca** - the UK's largest specialist engineering/tech recruitment agency - appears to have **reached a major inflexion point**.

## Rebuilding the brand

Indeed, the Board last Wednesday said that **FY'22 results would be in line with expectations**, with **adjusted PBT breaking-even** (£1.8m LY) on **NFI up 4% LFL to £44m** (£42.1m LY) and **net cash closing Jul'22 at £12m** (post IFRS16) after repaying £5.6m of deferred VAT. Or an **estimated £14m** vs £19.9m LY (pre capitalised operating leases), excluding around £9.5m of non-recourse debt.

Here, CEO Matthew Wragg & CFO Oliver Whittaker were appointed in Mar'22 and have grabbed the company by the scruff of the neck. Not only cutting GATC's cloth & remotivating staff, but also lifting productivity and delivering growth (re permanent placements) in double quick time - despite the headwind of losing 3 contract clients (2 in infrastructure & 1 energy) in H1 - ie before taking the helm.

## Returning to profitable & cash generative growth

Sure this may not be rocket science, albeit **'self-help' is absolutely vital in restoring the group to profitable & cash generative growth** again in FY'23 on NFI up 12% to £49.1m (unchanged).

Matthew Wragg commenting: *"We are pleased with H2'22 performance and importantly the speed in which the business is embracing our four strategic pillars. **Increased external focus, improved culture, operational performance, and cost rebalancing.** We have established a solid foundation from which we can grow, leaving us well placed as we enter our new financial year, which has started well.*

*"We are mindful of the current macro-economic conditions as **we continue to see robust demand in our key markets.** There remains a **shortage of candidates which plays to our key strength of deep knowledge and understanding of our sectors and niche STEM skills.**"*

## Increasing fair value to 160p/share vs 145p B4

So putting all this together, **I have nudged up the valuation from 145p to 160p/share**, reflecting the better than expected net funds position and lower debtor days.

However, this could prove to be conservative in the event the strategy ultimately delivers sustainable peer group returns (or higher). Where STEM rival Sthree reported UK LFL NFI growth of 28% in Q2'22 - thus highlighting the magnitude of the opportunity.

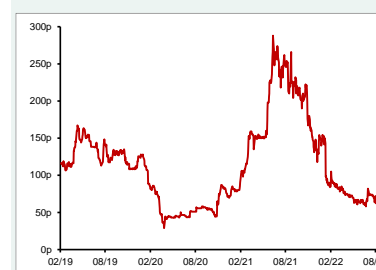
Admittedly, Gattaca has a slightly different business model with greater engineering exposure and less life sciences. Yet equally, GATC grew NFI 3.6% sequentially in H2 to £22.4m (see below) vs £21.6m H1, and still has **considerable upside potential compared to pre-pandemic levels** (re KPIs and multiples - see appendices).

Time to be patient.

### Company Data

EPIC	AIM:GATC
Price (last close)	75p
52 week Hi / Lo	226p/55p
Market cap	£24.2m
Jul'22 net cash (ex est. £9.5m of off B/S non-recourse finance)	£12.0m
Share count	32.3m
ED valuation / share	160p

### 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% were sales related.

**Next news:** Prelims 3<sup>rd</sup> Nov'22

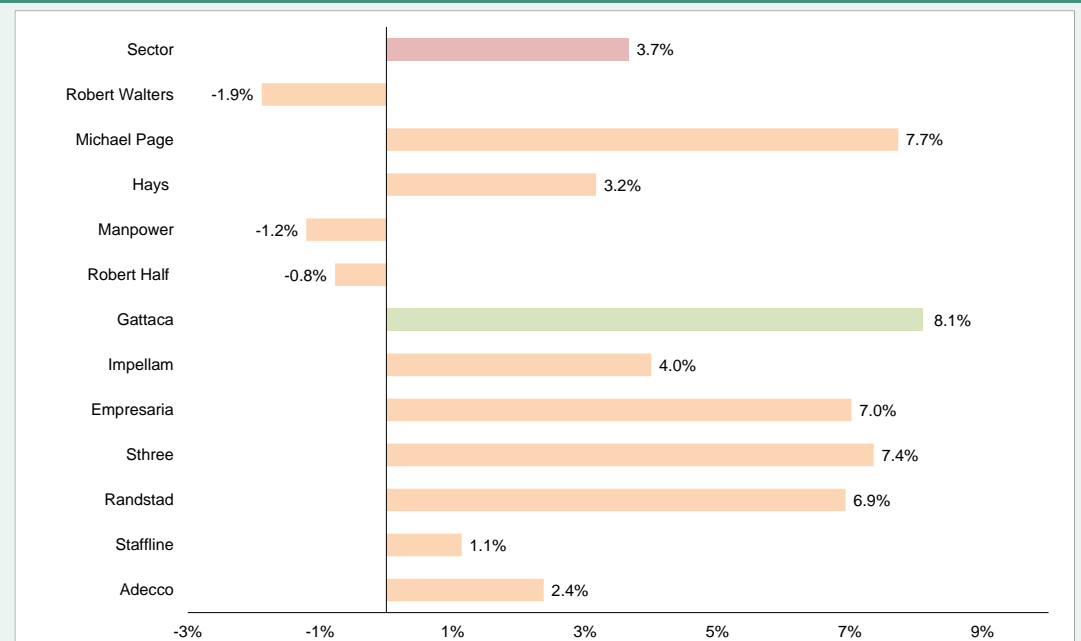
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**Gattaca H1 vs H2 results**

£'000s (continuing) - July y/e	Act H1'21	Act H2'21	Act FY21	Act H1'22	Est H2'22	Est FY22
UK	-8.1%	43.2%	12.8%	8.9%	5.0%	6.9%
International	-30.8%	-27.1%	-29.1%	-29.8%	-9.9%	-20.6%
<b>Total underlying NFI</b>	<b>-33.6%</b>	<b>-1.3%</b>	<b>-20.2%</b>	<b>5.3%</b>	<b>3.9%</b>	<b>4.6%</b>
<b>NFI</b>	<b>20,522</b>	<b>21,558</b>	<b>42,080</b>	<b>21,606</b>	<b>22,394</b>	<b>44,000</b>
<b>Adjusted EBITDA</b>	<b>1,384</b>	<b>3,048</b>	<b>4,432</b>	<b>887</b>	<b>1,489</b>	<b>2,376</b>
<b>Adjusted EBIT</b>	<b>295</b>	<b>1,952</b>	<b>2,247</b>	<b>-108</b>	<b>484</b>	<b>376</b>
<i>EBIT/NFI margin</i>	1.4%	9.1%	5.3%	-0.5%	2.2%	0.9%
Underlying overheads	20,227	19,606	39,833	21,714	21,910	43,624
U/L admin as % NFI	98.6%	90.9%	94.7%	100.5%	97.8%	99.1%
<b>Adjusted PBT</b>	<b>-40</b>	<b>1,875</b>	<b>1,835</b>	<b>-261</b>	<b>337</b>	<b>76</b>
Tax	40	-172	-132	0	0	-17
Minorities	0	0	0	0	0	0
<b>Underlying PAT</b>	<b>0</b>	<b>1,703</b>	<b>1,703</b>	<b>-261</b>	<b>337</b>	<b>59</b>
<b>Adjusted EPS (diluted)</b>	<b>0.0p</b>	<b>5.3p</b>	<b>5.3p</b>	<b>-0.8p</b>	<b>1.0p</b>	<b>0.2p</b>
NFI (LTM) / head (£ks)			82.2			81.5
Overheads / head (£Ks)			77.8			80.8
Headcount	437		512	540		540
<i>Net debt : EBITDA</i>			1.28			1.89
<i>U/L tax rate</i>			-7.2%			
Non-recourse invoice discounting	-12,200	-14,200	-14,200	-10,400	-9,500	-9,500
Deferred VAT	-10,300	-5,600	-5,600	0	0	0
<b>Cash/(recourse debt) - pre IFRS 16</b>	<b>22,744</b>	<b>19,890</b>	<b>19,890</b>	<b>4,841</b>	<b>14,000</b>	<b>14,000</b>

Source: Equity Development.

**Expected current year NFI growth across recruitment sector**


Source: Equity Development. 2 years average (FY'22-FY'23) for Gattaca

## Key risks

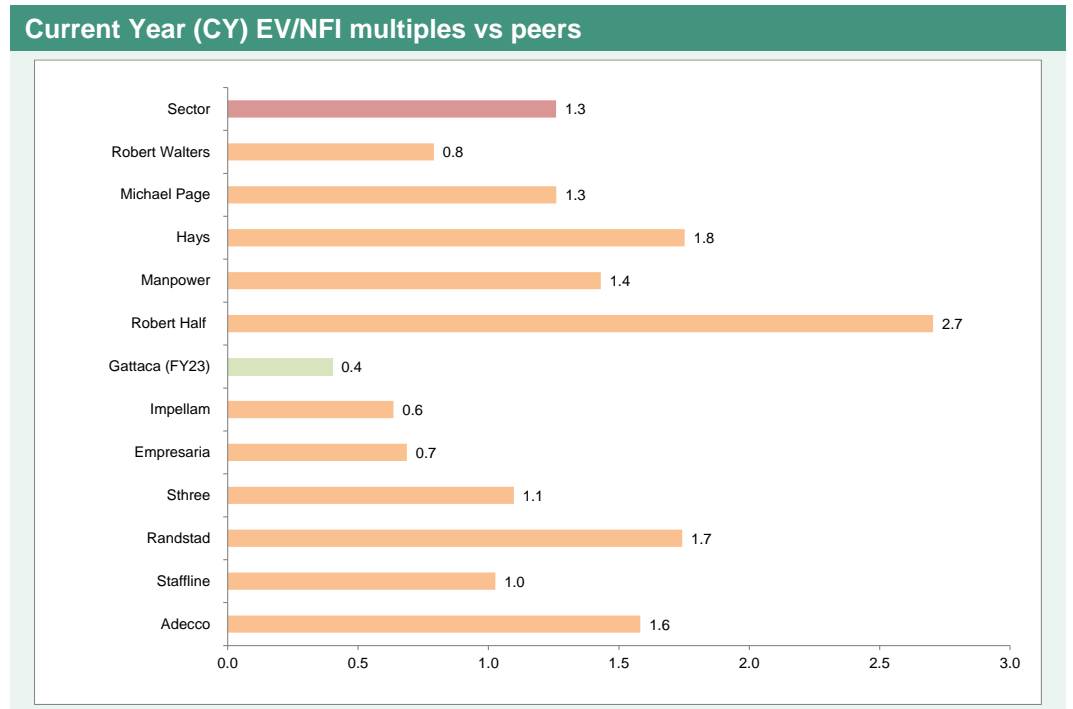
- General economic downturn affecting engineering and technology recruitment.
- Greater competition, especially from new technology platforms (eg LinkedIn, Monster).

### Summary projections (£'000s)

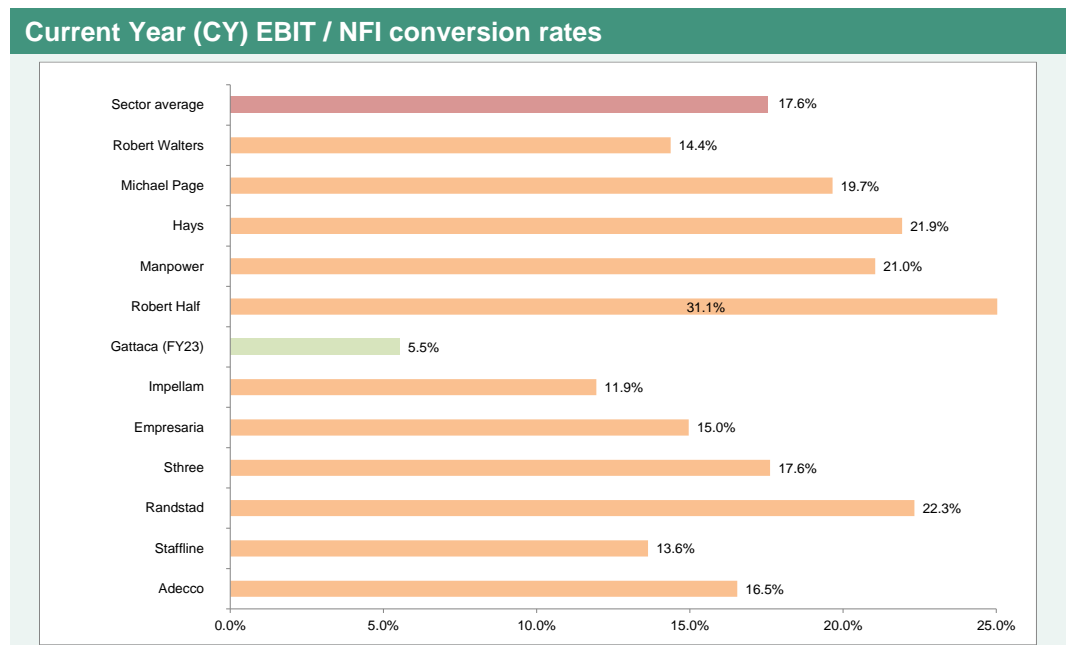
Gattaca (continuing operations) (July yearend)	2020 Act £'000s	2021 Act £'000s	2022 Est £'000s	2023 Est £'000s	2024 Est £'000s	2025 Est £'000s
<b>Net Fee Income (NFI) : Gross profit</b>						
UK Engineering & Technology	34,177	38,552	41,200	46,044	51,696	57,687
UK Technology	13,602					
International	4,977	3,528	2,800	3,080	3,485	3,940
<b>Total</b>	<b>52,756</b>	<b>42,080</b>	<b>44,000</b>	<b>49,124</b>	<b>55,181</b>	<b>61,627</b>
<b>NFI growth rate</b>						
<i>UK Engineering &amp; Technology</i>	-21.0%	12.8%	6.9%	11.8%	12.3%	11.6%
<i>UK Technology</i>	-23.5%					
<i>International</i>	-15.9%	-29.1%	-20.6%	10.0%	13.1%	13.1%
<b>Total NFI growth rate</b>	<b>-21.2%</b>	<b>-20.2%</b>	<b>4.6%</b>	<b>11.6%</b>	<b>12.3%</b>	<b>11.7%</b>
<b>EBITDA</b>	<b>9,413</b>	<b>4,432</b>	<b>2,376</b>	<b>4,734</b>	<b>8,043</b>	<b>11,047</b>
UK Engineering & Technology	20,913	10,827	15,656	17,957	20,937	24,229
UK Technology	7,061					
International	1,319	-572	-280	0	697	788
Central overheads	-23,125	-12,502	-15,000	-15,235	-15,624	-16,023
<b>Adjusted EBIT</b>	<b>6,168</b>	<b>2,247</b>	<b>376</b>	<b>2,722</b>	<b>6,010</b>	<b>8,993</b>
<i>Total Opex as % NFI</i>	-88.3%	-94.7%	-99.1%	-94.5%	-89.1%	-85.4%
<i>EBIT / NFI margin</i>	11.7%	5.3%	0.9%	5.5%	10.9%	14.6%
Net interest	-1,389	-412	-300	-250	-200	-150
<b>Adjusted PBT</b>	<b>4,779</b>	<b>1,835</b>	<b>76</b>	<b>2,472</b>	<b>5,810</b>	<b>8,843</b>
Tax	-995	-132	-17	-618	-1,569	-2,388
Minorities	0	0	0	0	0	0
<b>Adjusted PAT</b>	<b>3,784</b>	<b>1,703</b>	<b>59</b>	<b>1,854</b>	<b>4,241</b>	<b>6,456</b>
<b>Adjusted diluted EPS (p)</b>	<b>11.7</b>	<b>5.3</b>	<b>0.2</b>	<b>5.7</b>	<b>12.9</b>	<b>19.6</b>
<i>Adjusted EPS growth rate</i>	-57.6%	-55.0%			127.6%	51.5%
<b>Dividend (p)</b>	<b>0.0</b>	<b>1.5</b>	<b>0.0</b>	<b>3.0</b>	<b>5.0</b>	<b>7.0</b>
<i>Dividend yield</i>	0.0%	2.0%	0.0%	4.0%	6.7%	9.3%
<i>Dividend cover</i>						
<b>Valuation benchmarks</b>						
<i>P/E ratio (diluted)</i>	6.4	14.3		13.2	5.8	3.8
<i>EV/NFI</i>	0.37	0.47	0.45	0.40	0.36	0.32
<i>EV/EBITDA</i>	2.1	4.4	8.3	4.2	2.5	1.8
<i>EV/EBITA (diluted)</i>	3.2	8.8		7.2	3.3	2.2
<i>PEG ratio</i>	-0.11	-0.26			0.05	0.07
<i>Adjusted corporate tax rate</i>	-20.8%	-7.2%		-25.0%	-27.0%	-27.0%
<i>Adj ROACE</i>	8.7%	3.3%	0.6%	4.4%	9.5%	13.4%
<i>EBITDA drop through rate as % NFI</i>				46.0%	54.6%	46.6%
<b>Net recourse cash/(debt) pre IFRS 16</b>	<b>27,341</b>	<b>19,890</b>	<b>14,000</b>	<b>14,748</b>	<b>16,309</b>	<b>18,883</b>
Non recourse invoice factoring (off Balance Sheet)	-13,800	-14,200	-9,500	-9,500	-9,500	-9,500
HMRC deferred VAT	-10,300	-5,600				
<i>Net debt : EBITDA (incl HMRC &amp; factoring)</i>	-0.3	1.3	1.9	1.1	0.8	0.8
<i>Diluted sharecount (Adj for 2015)</i>	32,353	32,358	32,519	32,682	32,845	33,009
<b>Shareprice (p)</b>	<b>75p</b>					

Source: Equity Development

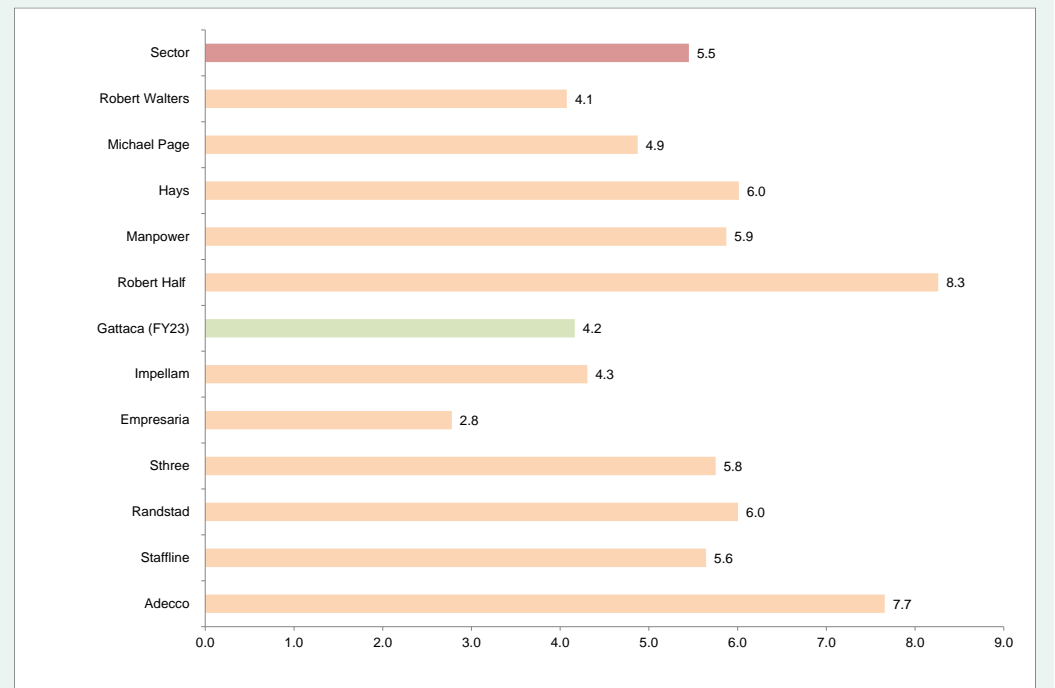
## Appendices - sector valuation metrics and KPIs



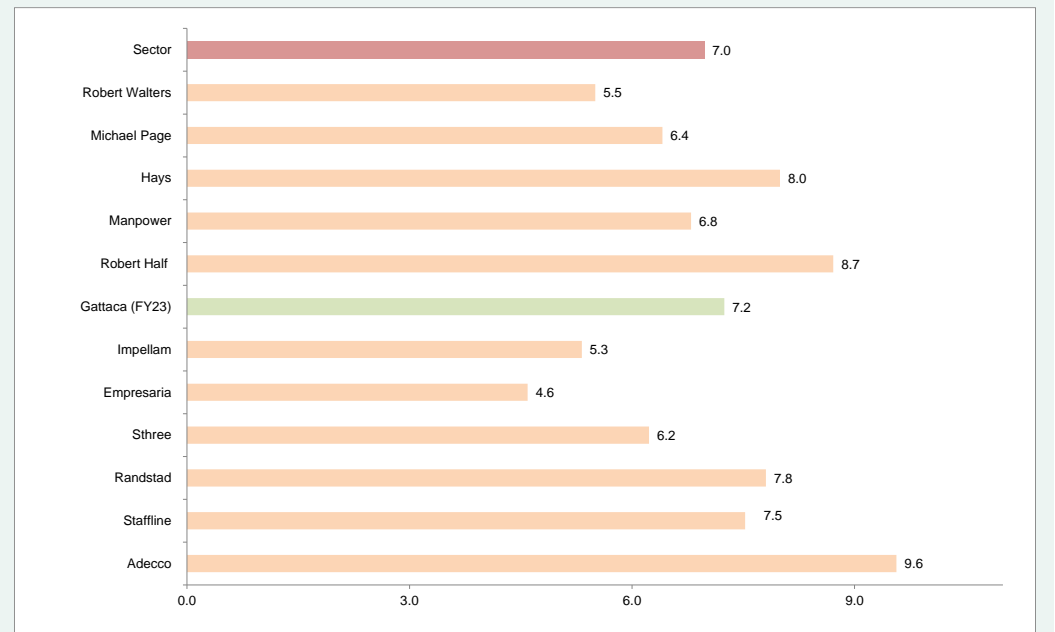
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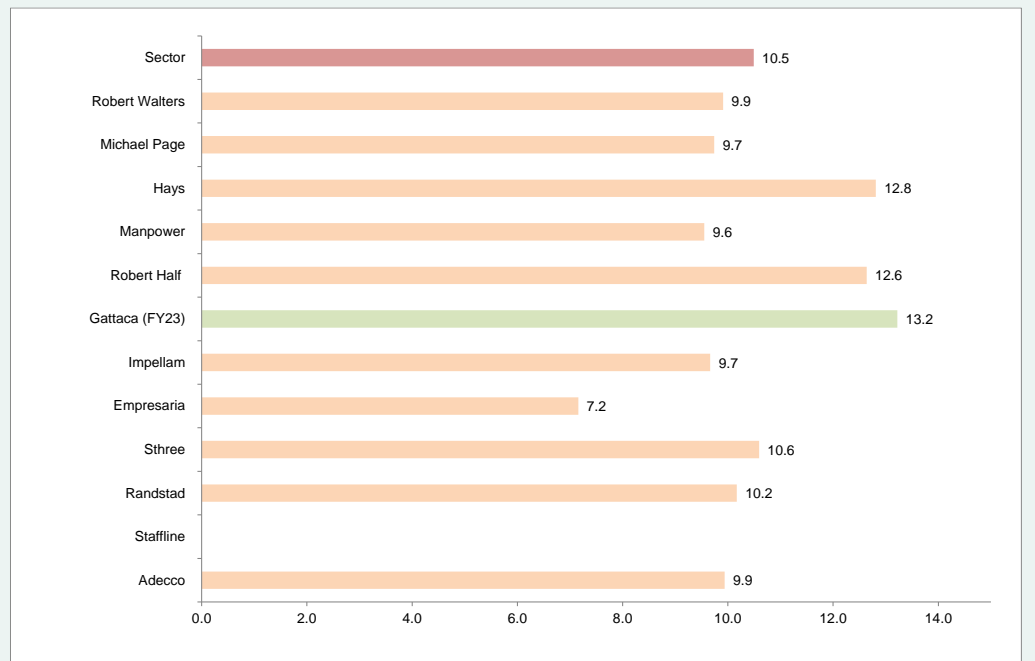
**CY EV/EBITDA multiples vs peers**


Source: Equity Development

**CY EV/EBIT multiples vs peers**


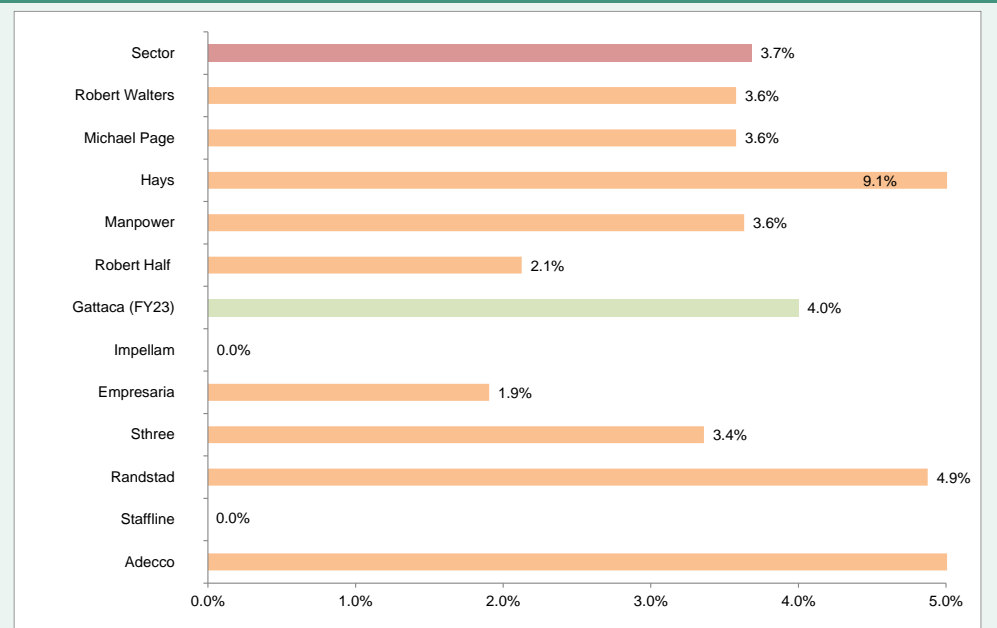
Source: Equity Development

### CY PER multiples vs peers



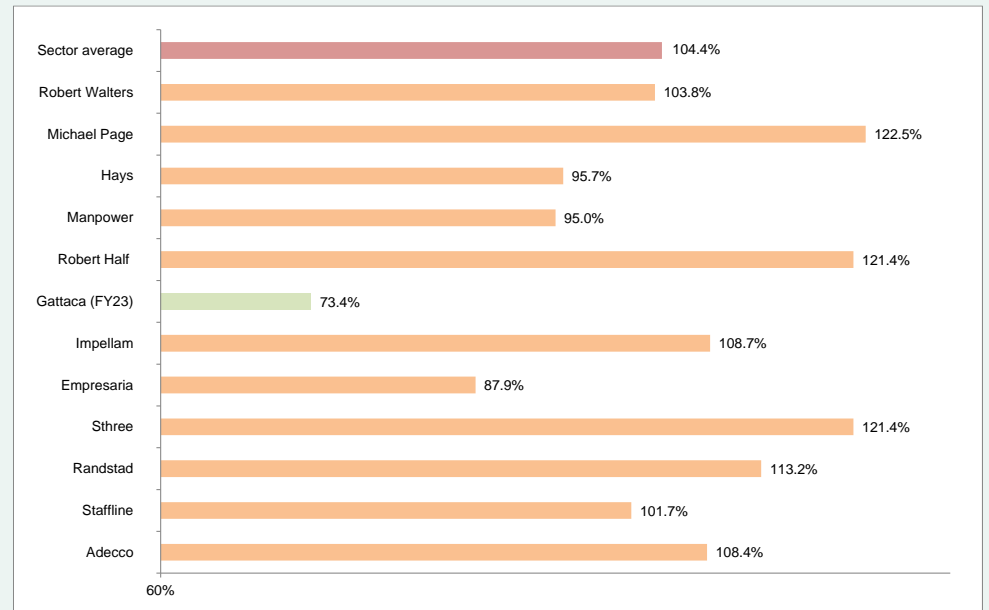
Source: Equity Development

### 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	€ 31.11	€ 5,381	-€ 2,347	€ 7,728
Staffline	45p	£75.6	-£14.7	£90.3
Randstad	€ 48.00	€ 8,808	-€ 518	€ 9,326
Sthree	375p	£501.8	£51.4	£450.4
Empresaria	63p	£32.5	-£12.5	£45.0
Impellam	460p	£207.5	£18.0	£189.5
Gattaca (FY23)	75p	£24.2	£4.5	£19.7
Robert Half	\$80.00	\$9,040	\$746	\$8,294
Manpower	\$79.00	\$4,582	-\$5	\$4,587
Hays	123p	£2,189	£295	£1,894
Michael Page	450p	£1,445	£124	£1,321
Robert Walters	545p	£414.7	£81.8	£332.9

Source: Equity Development



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