Empresaria

Delivering as Promised

Empresaria has enjoyed a substantial rerating as the group has delivered against expectations and as profit forecasts have been upgraded. Yet the company continues to be valued at a significant discount to its mid-cap peers. We expect the discount to narrow assuming trading continues to improve, and as the share gains increased recognition. A virtuous circle of higher profits, higher rating, higher market cap, greater recognition would clearly continue to benefit investors, if management can continue to deliver.

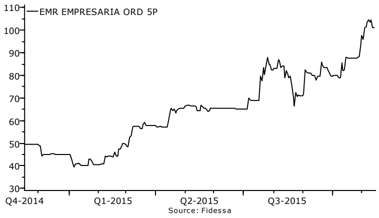
- **Business:** Empresaria is an international staffing group with a broad geographical spread, a range of brands servicing six key professional business sectors, and a focus on temporary as opposed to permanent staff. It was founded in 1996.
- **Strategy:** The vision of the Group up is to be a leading international, specialist staffing group delivering a quality service to customers and candidates that generates sustainable growth in earnings per share. The diversification of geographical and sectoral exposures is a key element of this strategy.
- **Valuation:** Empresaria continues to be valued at a discount to its mid-cap peer group, although it is rated in line with similar sized peer Harvey Nash. SThree Matchtech, and Staffline are mid-cap peers which enjoy a significantly higher rating, although some discount for liquidity is warranted.
- **Risks:** Main risk for staffers is an economic downturn. Economic growth remains stubbornly low, with Emerging Markets in the doldrums, but the US continues to grow and there are signs of an incipient recovery in Europe. Empresaria has some earn-out commitments, but these are manageable.
- **Investment summary:** The UK staffing sector is on a mid-teens prospective P/E, for mid-teens+ EPS growth. The UK sector has been trading on a premium to the global averages, partly reflecting the more developed economic picture here. Empresaria is currently trading on 10.4x 2016 EPS, and 6.6x EV/EBITDA. These are modest multiples, and lower than peers.

Financial summary and valuation

Year End December	2012	2013	2014	2015E	2016E
Sales (£m)	194.3	194.4	187.9	188.8	202.2
EBITDA (£m)	6.3	6.9	7.3	8.6	10.2
Operating profit (£m)	5.4	6.0	6.6	7.6	9.2
Underlying PBT (£m)	4.6	5.4	6.1	7.1	8.6
EPS (p)	5.0	6.2	8.0	8.7	10.0
DPS (p)	0.4	0.4	0.7	0.7	0.7
Net debt/EBITDA (x)	2.3	2.2	1.3	1.3	1.0
P/E (x)	20.7	16.8	13.0	11.9	10.4
EV/Sales (x)	0.4	0.4	0.3	0.4	0.3
EV/EBITDA (x)	11.4	10.5	8.5	8.1	6.6
Dividend Yield (%)	0.3%	0.3%	0.7%	0.7%	0.7%

Source: Hardman & Co Research

Support Services



Source: Fidessa

Market data

EPIC/TKR	EMR
Price (p)	103.7
12m High (p)	106
12m Low (p)	38
Shares (m)	49
Mkt Cap (£m)	50.7
EV (£m)	68
Market	AIM

Description

Multi-brand international recruitment agency, with 100 offices in 19 countries, with focus on specialist segments of the market.

Company information

CEO	Joost Kreulen
Group Finance Director	Spencer Wreford
Chairman	Anthony V Martin

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Next event

Trading Update	Jan-16
Finals	Mar-16

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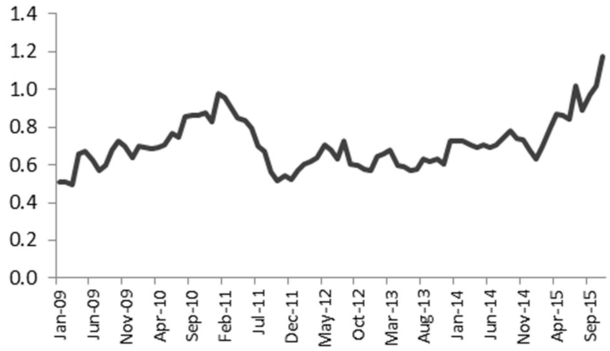
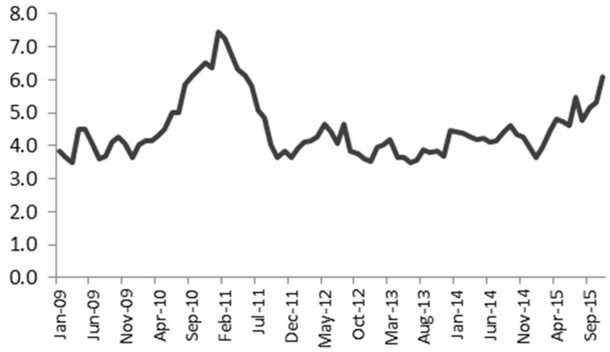
EV:NFI Prospective



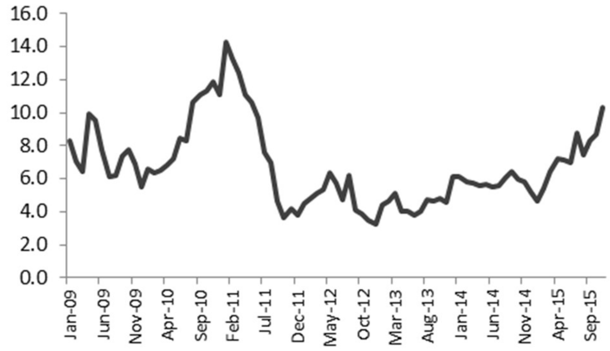
- EV:NFI has been rerated as the market cap has increased faster than sales and NFI growth, reflecting improved profitability.
- The rerating also reflects an improvement in forecast NFI growth and margins.
- An improved rating would be expected, given the improvement in trading.
- The valuation is now at a historical peak, but still lower than peers.

EV:EBITDA Prospective



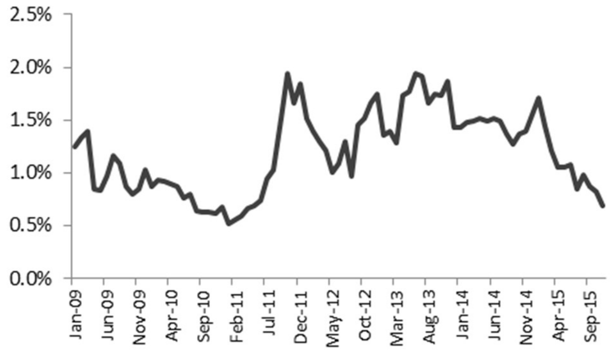
- The rerating has been less pronounced in EV:EBITDA terms, and reflects EBITDA improvements.
- In absolute terms, the rating on EV:EBITDA is extremely low, particularly given current borrowing rates.

Prospective P/E



- Similarly, the rating on prospective P/E is at a significant discount to the UK market and to peers.
- The rating has improved as investor confidence increases with the continued delivery against expectations and strategy.
- The rating is also low in absolute terms.

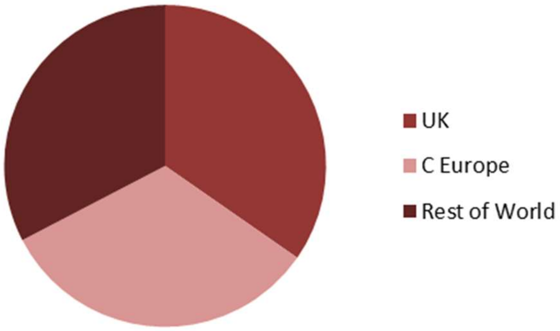
Dividend Yield



- Dividend yield is not significant, but the company has been deploying capital in acquisitions and in debt reduction.
- The dividend was increased by 100% this year in a sign of management confidence in the business and reducing debt levels.
- At this level of share price, it might make sense at some point to consider buying shares back in preference to paying a dividend, albeit there are clearly liquidity considerations. The company is also more focused on managing debt levels.

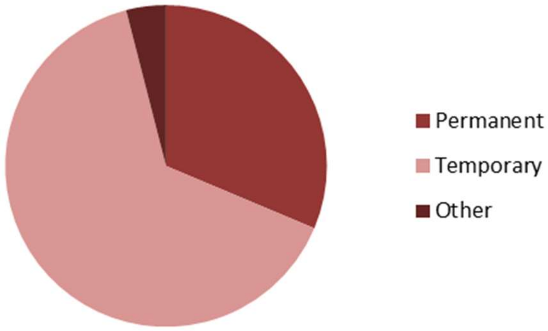
Source: Company data; Hardman & Co Research

Business Split by Geography



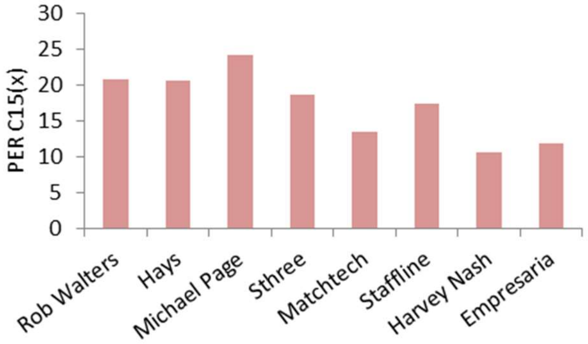
- Business is broadly based geographically.
- This is based on net fee income.
- These are our estimates of pro-forma numbers post the US acquisition.

Business Split by Activity



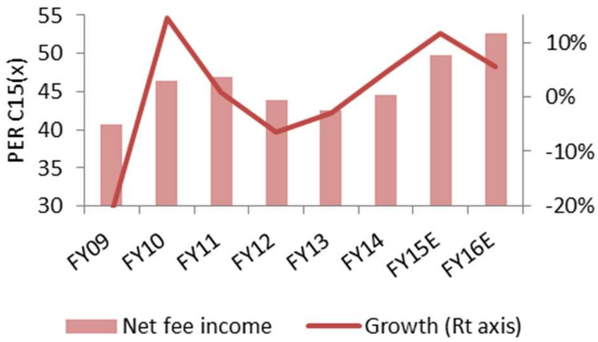
- Mix of permanent and temporary labour.
- Greater contribution from permanents in recent results, but strategy is to increase proportion of temps business.
- These are our estimates of pro-forma numbers post the US acquisition.

Comparable Valuations



- Empresaria is understandably lower rated than some of its larger and more liquid peers, but it's arguable that the rating gap should be this wide.
- Mid-cap peers Matchtech, Sthree and Staffline are on 13.5x, 18.7x and 17.4x, and there is room for EMR to grow into a mid-cap type rating, perhaps adjusted for its lower liquidity.
- EMR forecasts are ours, the rest are consensus numbers. Our forecasts for EMR are currently above reported consensus, likely because of time lags post the PS deal.

Net Fee Income



- The company has had a pretty consistent delivery of gross profit or net fee income, its preferred measure of underlying performance.
- Growth has been on an upward path in recent years, although the reported performance is currently being restrained by fx and the elimination of some lower margin activities.

Source: Company data; Hardman & Co Research

Executive summary

Empresaria is a relatively small staffing company, yet it has operations spanning 19 countries, covering a range of sectors with a multiple brand approach gives the company a breadth and diversification unusual in a £50m company. Management are growing the business organically, supplemented by selective acquisitions, leading to improved earnings and an increased market capitalisation.

The business has more solid foundations, following the restructuring done after the financial crisis and is now delivering growth with a diversification unusual in a company of this size. The business model of management equity allows the group to have such diversification with lower risks, as managers are shareholders and incentivised to grow the business and look at long term goals.

Management have a number of 5 year targets:

- NFI growth of 10% plus supplemented by acquisitions
- Conversion ratio of 20% (calculated as adjusted operating profit as a % of net fee income)
- Debt to equity ratio of 25%

The key investment characteristics of the business are a broad geographic exposure and diversified sectoral exposure. There is a clear strategy, and a business culture in place to achieve it, using a lower risk model. The business has achieved underlying organic growth, with reported EBITDA increasing steadily on flattish reported revenues. This demonstrates a consistency in delivery and a business which is improving.

The company recently completed an acquisition in the USA which was accompanied by a heavily over-subscribed placing at 75p. While US acquisitions can bring risks to UK companies, the deal has been structured to afford an element of protection through earn-out payments and the vendor taking a stake in the group.

Although investors could be forgiven for thinking that they have missed the boat given a share price which has doubled in the last 12 months, we would highlight that the rating remains modest and the stock remains at a discount to its peer group. The increased market cap should improve liquidity and thereby expand the potential investor base, which could assist investor perception and the rating.

The company has enjoyed a rerating, as it has continued to deliver against expectations. Not only has it met market expectations, but there have been upgrades over the last year.

No business is without risk and with Empresaria's broad footprint, it is unlikely that every business in the group will be growing at the same time. Today, there are relatively few areas of attention, although the Group flagged some market issues in Finland which is not material to the Group.

The main risks today are global economic conditions and recent organic and inorganic developments. New offices opened represent a drag on profitability in the initial period, while acquisitions always bring risks; but probably the more significant risk is the global economy. If consensus of slow but steady global growth is right, this could benefit the Group as businesses will require labour which will be in shorter supply, boosting the need for temps.

Empresaria's Business

Strategy

The company has a simple vision statement, noted in the sidebar and to achieve it, the company has the following strategies:

The vision of the Group up is to be a leading international, specialist staffing group delivering a quality service to customers and candidates that generates sustainable growth in earnings per share.

Develop leading specialist brands within its sector expertise.

Each brand should have sufficient scale to deliver significant profit to the Group. These sectors are international and have good long term growth prospects, affording the opportunity to increase the group footprint.

Maintain diversification and balance by geography and sector.

To reduce reliance on any particular country or industry and hence minimise volatility.

Retain operational mix: professional and specialist job roles.

By focusing on professionals and specialists, the company can earn higher margins, by offering the greatest value add to both clients and candidates.

Increase footprint in key economic centres.

The focus is on economic centres with the highest concentration of business and hence the greatest need for recruitment services, and usually the highest growth.

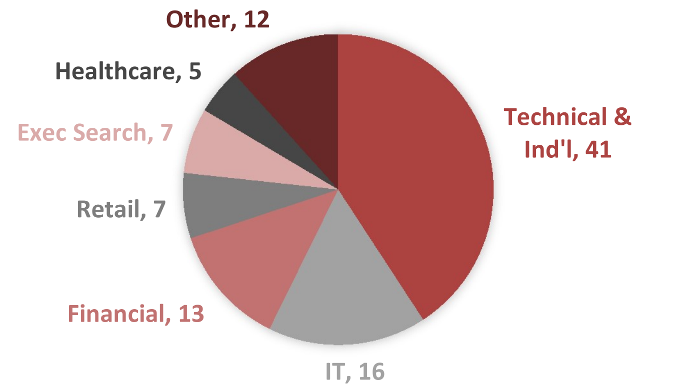
Continue financial performance.

Having a solid financial foundation is key to the long-term sustainability of the Group.

Delivering the Strategy

In order to deliver these strategies, the group employs a multi-branded business model, which sets it apart from some of its larger competitors. By using different brands to target different segments of the market, each segment is addressed vertically instead of horizontally. Each brand has specific expertise and knowledge of its market, and hence has a detailed understanding of the requirements of clients and candidates alike.

Pro Forma Estimated Sectoral Revenue Split



Source: Company, Hardman & Co

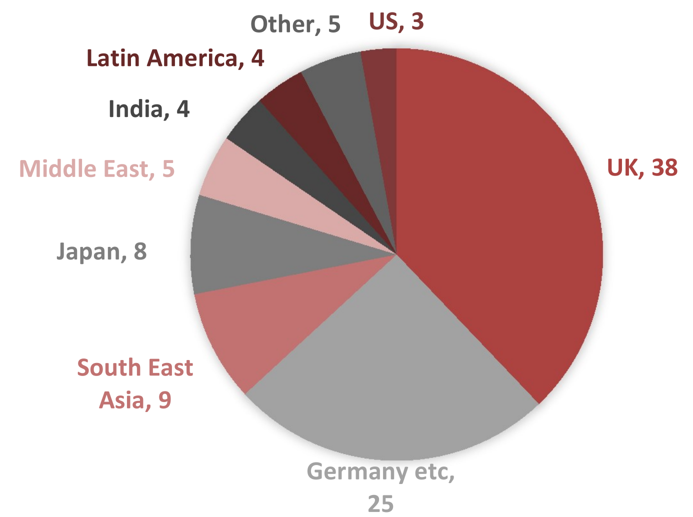
The segment expertise helps attract candidates which is increasingly important as many of the group's markets suffer from talent shortages. As a brand becomes successful in its domestic market, the group is able to internationalise it across various geographies, usually in regions where it will already have a presence with another brand.

The Group has stated it would like to see a more even spread of operations across its key sectors and has highlighted IT, Financial and Healthcare as three areas they feel they are under-represented in at present. The recent investment in the US healthcare sector will help to address this in 2016 and further investments over the next few years are likely as the Group looks to supplement organic growth with selective investments.

The Group is focused on growth markets, both by country and by sector, with a significant exposure to emerging staffing markets in Asia, Latin America and Continental Europe. Its operations in Continental Europe are primarily in Germany, which management consider has one of the best long term growth potentials of the established economies, given that its staffing sector was only deregulated about 10 years ago. Germany is already the 5th largest staffing market in the world.

There is a good mix between a presence in the emerging markets and the established markets of the UK, Japan and the recently added USA. The emerging markets are considered by management to have good long term growth potential, albeit the stock market is currently more positively disposed to DM, given uncertainties about EM in 2016.

Geographical Revenue Split



Source: Company, Hardman & Co

Operationally, there is a bias towards temporary recruitment, which is typically more stable over the economic cycle. There is also an increasing trend for clients to want flexible staffing solutions and use staff for specific project work.

In emerging staffing markets where there are typically low levels of staffing regulations, traditional temporary staffing is less developed and the group generally provides permanent recruitment services in these markets.

Culture

The company has a broad spread of exposures both geographically and by sector

The culture is one of managers responsible for running a business having a direct ownership in their business, making them highly incentivised to grow their profits into the long-term, aligning their interests with group shareholders. This de-risks acquisitions, as a new brand can be bolted on with a lower up-front payment and with the management locked in to deliver growth.

This culture also attracts entrepreneurial people with ambition, who recognise that to grow their existing business significantly, it would be helpful to piggy-back on the infrastructure of a larger group and share the gains. Subsidiary managers have the in-depth knowledge of their segments, have operational responsibility for their businesses and a degree of commercial autonomy, while they enjoy the financial backing of being part of a Group. The group structure is decentralised, with a small head office team focussed on strategy, financial reporting and corporate governance.

Generally when Empresaria buys a business, the subsidiary management will retain a minority stake and Empresaria will have the ability to buy out the minority over a period of years based on the trailing three year profitability, although there are no put and call arrangements. In this way, the management of an acquired business is incentivised to continue to grow it, the acquisition is de-risked, and selling managers have an exit strategy.

History

The Group is relatively young, but has been built into a broadly spread international, specialist staffing business.

The Group grew quickly after it was set up, with a large number of acquisitions and start-ups. When the financial crisis hit, investment activity was put on hold and some of the brands required restructuring. This was achieved by the current management team, who increased the focus on organic growth, with investment in new offices as they look to develop the Group's brands. Investment activity started again in 2014 and has continued with the recent purchase in the USA. Management's key focus remains on driving organic growth, but further acquisitions are likely in due course.

1996: Company founded with a philosophy to target entrepreneurial recruitment professionals working in the UK. First investments made in Greycoat (Other services sector) and Mansion House (Financial sector).

1999: Listed on OFEX. LMA established in London to focus on banking recruitment.

2004: Floated on AIM. Tony Martin joins the Group as Chairman with a vision to diversify away from the UK market. First investment made outside the UK, in Japan with Skillhouse. FastTrack joins the Group (Technical & industrial sector, Construction & engineering).

2005: Group turnover passes £50m. Investments made in the UK with Become (IT, digital & design sector, creative & design industry) and in Asia with Monroe (Executive search).

2006: Investment in Indian start-up providing outsourced solutions to the recruitment industry.

2007: Revenue of £148m, exceeding £100m for the first time. Investment in German staffing market through Headway (Technical & Industrial sector, Engineering & Logistics). Entry into the Latin American market through investment in Alternattiva in Chile (Retail sector) providing temporary and outsourced staffing services.

2008: Revenue exceeds £200m for the first time.

2011: Focus on organic investment with hub concept opened in Singapore and new office opened in Australia.

2012: Joost Kreulen takes over as CEO. Continued investment in brands with new office in Hong Kong.

2013: Net fee income diversified across Group with 37% UK, 33% Continental Europe and 30% Rest of the World.

2014: New offices opened in Hong Kong, Kuala Lumpur, Santiago, Manchester and Mexico City. Investment in the Middle East through BW&P, operating from Dubai (Technical & industrial sector). Investment in Ball and Hoolahan, a UK based marketing recruiter.

2015: First move in to the US with the acquisition of Pharmaceutical Strategies, a specialist in the pharmacy benefit manager recruitment space, and based in Boston. The deal should cost $12m (capped at $16m), depending on earnout levels and was funded partly with cash and partly by a share issue.

Having had a period of resolving problems in various operations, the company has therefore been in a significant investment phase in the last two years, although with strong free cash flow, the firepower is there for further deals if recent investments are settling down and managerial resources are available. Note also that expanding brands into new cities has certain front-end loading of costs and a ramp-up in revenues; given that the company has opened a number of offices in the last 18 months, there could be some margin upside if the pace of development were to slow, going forward.

Case Studies

These case studies are illustrative of the development of Empresaria's brands.

IMS (Offshore recruitment services), Ahmedabad, India

IMS joined the Group in 2006 as a start-up, it provides outsourced recruitment services to clients in the US (primarily IT sector) and UK (primarily Healthcare sector), offering both voice and non-voice based services.

The business has seen net fee income growth of +61% between 2010 and 2014, and staff numbers have grown from c.170in 2010 to just under 400 at June, 2015. The business is now opening a third centre in H2 2015 after strong demand filled the second centre, which was only opened in 2014.

Management perceive growth opportunities from developing further service offerings, growing presence in other sectors, developing end-to-end solutions, and potentially opening a centre in second geography.

Monroe Consulting (Executive search)

Monroe was acquired in 2005, and today has offices in Indonesia, Thailand, Philippines, Malaysia, China, Mexico & Chile, providing mid to senior level placements across Consumer Goods, Healthcare, Industrial, Professional & Technology sectors.

The business has grown net fee income by 95% between 2010 and 2014, increased the number of locations from 3 in 2010 to 6 in 2014. It now has c.100 staff vs 40 in 2010, and continues to explore opportunities in South East Asia and South America.

Management perceive growth opportunities from growing its presence in existing locations with increasing staff numbers and adding new locations.

Become Group (Digital & design)

Another acquisition from 2005, Become now has offices in London, Manchester, Sydney, Melbourne, and Hong Kong, providing permanent and temporary recruitment services to the Creative sector.

The subsidiary has a track record of organic growth into Australia (2007) and Hong Kong (2014), and acquired Ball & Hoolahan (Marketing services) in December 2014.

It has seen net fee income growth of +40% between 2010 and 2014, while the number of offices has grown from 3 in 2010 to 6 in 2014, and staff numbers have broadly doubled to over 40 today vs 2010.

Management perceive growth opportunities from increasing its presence in existing locations with higher staff numbers and by adding new locations (Asia and Continental Europe) as well as from rolling out the Ball & Hoolahan brand across the Become network.

Monroe Consulting, Mexico City

In this case, two former colleagues approached Joost Kreulen, the CEO, with a view to joining the Empresaria group. They were ex colleagues of Tony Martin and Joost Kreulen from the Vedior days, and had been responsible for running the Mexican operations for Vedior and then Randstad.

They showed Empresaria a business plan for a start up in executive search in Mexico City. Group management liked the plan and there was a good culture fit. Empresaria already had a brand in executive search in emerging markets (Monroe) which management showed to the Mexican managers, who liked the set up and could see the benefits of using Monroe's systems, marketing and sector knowledge, which combined well with the managers' local expertise. They now operate under a franchise model, helping to expand the Monroe reach into Latin America.

This start up fits with the group's strategy of diversification and balance, investing in leading brands and opening up new economic centres in growth markets. The background of the Group Board helps it to identify and attract these high quality people.

Clearly this is a low risk venture for the Group – it is working with experienced managers who are well-known to the executive team; it is investing very little in the new office; if the venture does well, further payments will be made to acquire the managers' minority share.

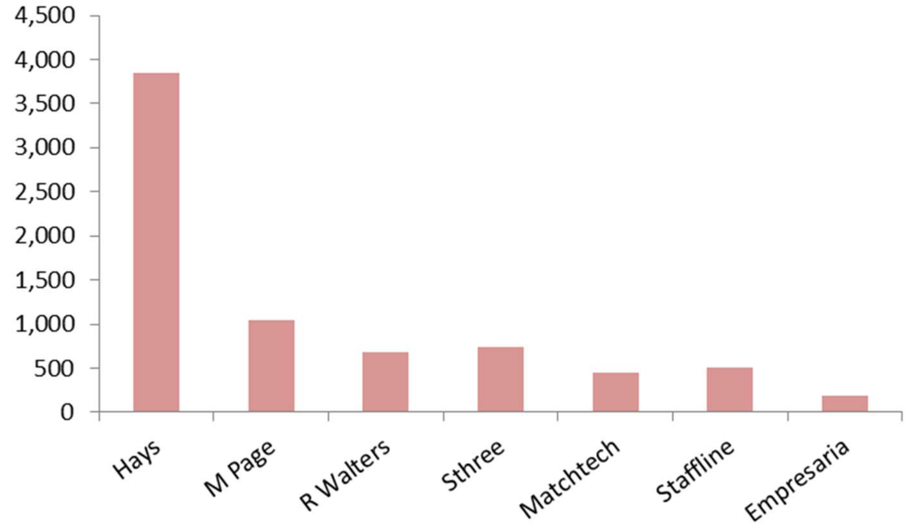
This is the type of deal which works well for both parties: the local managers get the advantage of an established brand and franchise, plus some seed capital; Empresaria effectively enjoys the benefit of "sweat equity"; and the capital is deployed with limited risk, as the local managers are highly incentivised to grow the business.

Such franchise models are generally exceptionally highly valued by the stock market – think Domino's Pizza or Burger King operator Restaurant Brands where multiples of 25-40x have typically been enjoyed, depending on growth rates. Clearly, Empresaria's business is rather more complex; it requires management skills which are not as widely available as in a fast food environment; and growth will naturally be somewhat lower; but the key characteristic of high returns on capital are common to both businesses, and it's this which we believe is an important driver of valuations in the longer term.

Empresaria vs Peers

Empresaria is one of a number of staffing companies in the UK, each with differing spreads of exposures both geographically and sectorally. The chart shows the size of Empresaria relative to some of its larger peers.

Revenue Comparison (Last Annual £m)

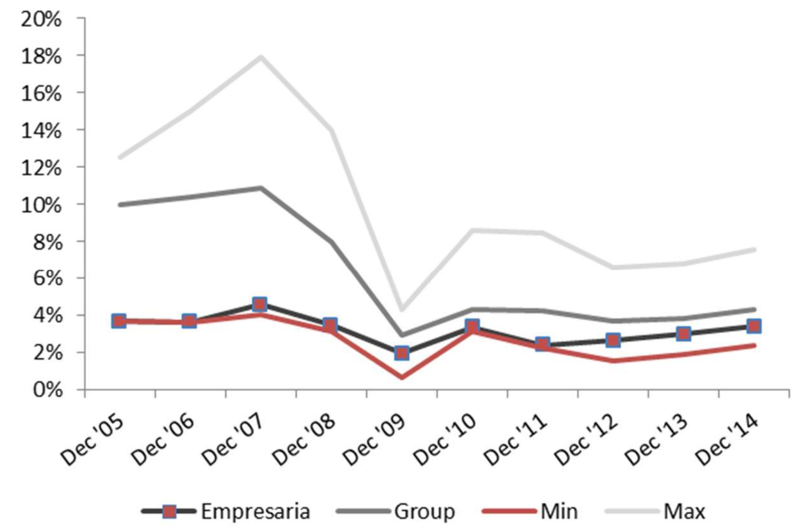


Source: Companies, Hardman & Co

Empresaria is one of the smaller companies in the sector and hence is not the best performing on certain metrics where scale counts, but it has delivered a better than average performance over the long term with lower volatility

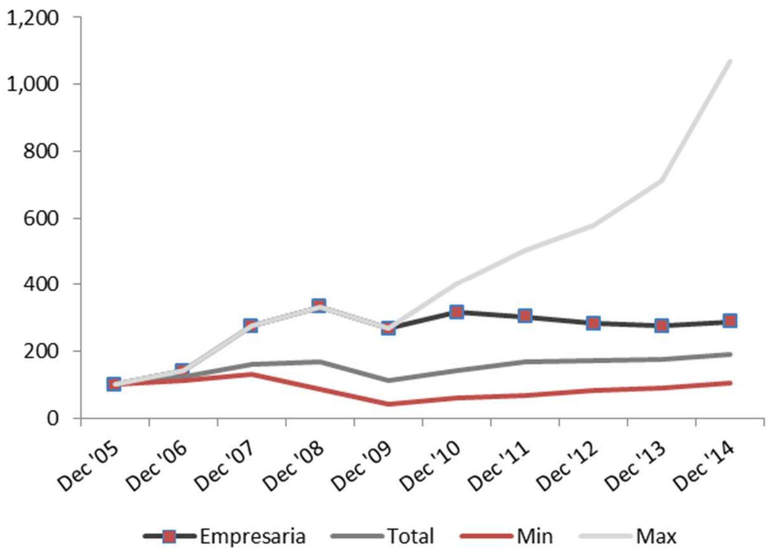
The operating margin comparison reflects the operational efficiency and is the closest comparable level to net income which is one of the key shareholder parameters. As would be expected from a smaller player, Empresaria has at times been one of the weaker performers in the group but two important positive trends are apparent: first, it recently has been on an improving trend under the new management team, and leaving one of its larger rivals behind; and second, it has been notably less volatile than the group and particularly the top players. It also has some useful upside to group average margins.

EBIT Margin Trends (To Latest Annual %)



Source: Companies, Hardman & Co

Net Fee Income Growth Trends (To Latest Annual)



Source: Companies, Hardman & Co

The Net Fee Income Growth chart shows the comparative data for Net Fee Income with 2005 levels indexed to 100. Empresaria has significantly outperformed the peer group and is the second fastest grower after Staffline. Acquisitions have helped the latter's growth and could continue to benefit Empresaria also.

The data suggest that Empresaria has exhibited a better long term financial performance than is suggested by its valuation relative to its peer group.

Financials & Investment case

Financials

The staffing business generates high returns on capital employed and excellent free cash flow, making it an attractive area of investment.

The staffing business is characterised by relatively light capital requirements, particularly in fixed assets, a potentially lumpy revenue stream from permanent placements vs a steady profile from temporary staff placement; a degree of dependence on economic conditions, highly attractive returns on capital employed and strong free cash flow generation. It is also a relatively immature industry in many emerging markets.

Balance Sheet

£m	30-Jun-15	30-Jun-14	31-Dec-14
ASSETS	Unaudited	Unaudited	
Non-current assets			
Property, plant and equipment	1.1	1.0	1.2
Goodwill	22.5	24.1	23.7
Other intangible assets	2.1	1.9	2.3
Deferred tax assets	0.7	0.7	0.9
	26.4	27.7	28.1
Current assets			
Trade and other receivables	36.5	37.0	34.5
Cash and cash equivalents	6.3	5.0	7.8
	42.8	42.0	42.3
Total assets	**69.2**	**69.7**	**70.4**
LIABILITIES: Current			
Trade and other payables	22.2	22.5	21.9
Current tax liabilities	2.6	1.6	2.7
Borrowings	12.4	12.6	11.2
	37.2	36.7	35.8
Non-current liabilities			
Borrowings	3.8	6.6	6.4
Deferred tax liabilities	1.1	1.2	1.1
Total non-current liabilities	4.9	7.8	7.5
Total liabilities	42.1	44.5	43.3
Net assets	27.1	25.2	27.1
EQUITY			
Share capital	2.2	2.2	2.2
Share premium account	19.4	19.4	19.4
Merger reserve	0.9	0.9	0.9
Retranslation reserve	0.4	2.0	1.8
Equity reserve	-7.2	-6.7	-7.1
Other reserves	-0.7	-1.1	-1.1
Retained earnings	9.0	5.3	7.8
Shareholders' funds	24.0	22.0	23.9
Non-controlling interest	3.1	3.2	3.2
Total equity	**27.1**	**25.2**	**27.1**

Source: Company, Hardman & Co Research

Permanent is quite different from temporary placement. When an agency places a permanent member of staff, it receives a one-off fee; with temps, there is a recurring revenue as the staff are rented out, albeit to different customers, on a continuing basis.

The permanent side of the business tends to have a greater fluctuation with the economy. When conditions turn down, businesses respond by quickly freezing capex and hiring. Empresaria's strategy therefore is to reduce its dependence on any one region, to have a broad spread of sectors, and to increase its temporary placement business which tends to be less cyclical. The downside of the temps business is that it requires a greater investment in working capital, as staff payments may need to be funded ahead of client payments.

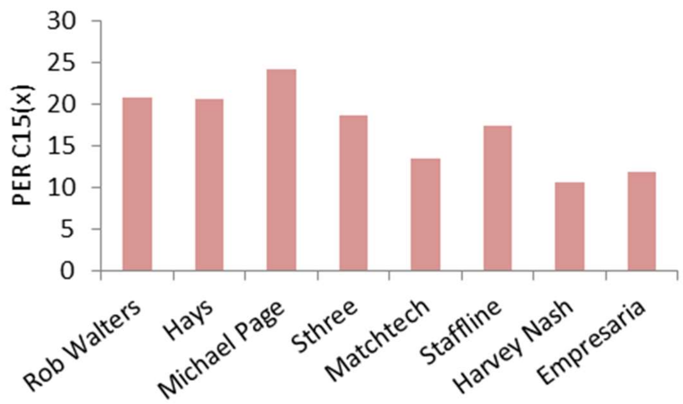
These characteristics of the business are apparent from the balance sheet; trade debtors and receivables is the single largest line, followed by goodwill on acquisitions, as the group has been acquisitive over the years. There are limited fixed assets – offices and computers – as the real assets are the employees in the business and the brands. Note that in the temporary placement business, banks are quite willing to lend against invoices, especially where the customer is a quality name.

The main "asset" of a staffing company is people and here Empresaria's equity incentive model should be helpful in both attracting and retaining people and the Group should be less exposed to senior managers leaving. It would be interesting to see some statistics from the staffers on their staff retention levels.

Valuation

In spite of a strong share price performance this year, even in a dull market backdrop, Empresaria continues to trade at a significant discount to most of its peers on whatever measure is chosen. We tend to favour P/E and EV/EBITDA as they are simple, and straightforward; balance sheet measures can be distorted by the very thin asset base in such companies, while sales based measures are affected by differing conversion ratios across the peer group.

Valuation comparison



Source: Company, Hardman & Co

The chart shows the simple comparison of the main staffers on calendar 2015 P/Es. It's clear from this simple comparison that Empresaria is at a significant discount to its peer group. We attribute this to the following factors:

- Liquidity: The market capitalisation is small and this limits liquidity and the sort of investor which the company can attract. This will likely start to be resolved as the firm hopefully grows, as it attracts a wider following, and as the shares are rerated. Now that the group has crossed the £50m market cap threshold, it clearly has wider appeal, although the free float is lower.
- Performance: The performance of the group has improved in the last several quarters, and hence it is likely to start attracting a greater following.
- Economic Cycle: The recovery from the Global Financial Crisis has been quite different from past recessions, and it has taken far longer for employment to pick up. Participation rates have fallen, which may partly reflect changing demographics in certain countries as well as the increased tendency to self-employment in a web-connected world.
- Visibility: Empresaria, by virtue principally of its size, is not that well-known a business. Unlike some of its peer group, the name on the fascia is not as instantly recognisable, so it may be harder for a potential investor to spot that it is a specialist staffing company vs say a Robert Walters whose name is much more recognisable with its continuous advertising of roles.

Acquisition of Pharma Strategies

Rationale

Empresaria is acquiring a US business in the healthcare sector which focuses on temporary staff

The acquisition of Pharmaceutical Strategies (PS) is the group's first acquisition in the US, affords it an additional presence in the growing healthcare sector, increases its exposure to temporary staff, and gives it a potential platform for other Group brands if they want to look at the US market.

PS is a specialist recruitment group in the US healthcare market which focuses primarily on pharmacy benefit managers. Its revenues derive 100% from temporary sales.

The US healthcare market is experiencing higher patient volumes. This is the result of a number of factors, mainly we understand the Affordable Care Act ("ACA"), but also increasing obesity levels, an ageing population and the improving economy. After a slow start, ACA has picked up and the US Department of Health and Human Services projects growth in health expenditures to average 5.8% per annum between 2014 and 2024.

The PS CEO has been tied in with a second generation equity incentive, in line with the Group's management equity philosophy. On closing, she invested in 7.5% second generation equity with the future value of these shares based on growth over the current year "threshold profits" level of PS.

Hence the existing value of PS is retained by the Company, and the PS CEO is incentivised to grow the PS business beyond the current year level. In line with the Group's other management equity arrangements, the 2G shares are not subject to any put or call options; rather they must be held for five years before they can be voluntarily offered for sale over a minimum of a further three years. The CEO is therefore effectively locked in for a period of 8 years, which is an important protection for the group.

The vendor is involved in business for only 1-2 days per month, and is incentivised through the earn-outs and a 2 year consultancy, while the CEO has become a shareholder by buying into second generation equity.

The Business/Financials

PS is based in Stoneham, Massachusetts, near Boston, and has approximately 20 employees. PS is profitable and cash generative. In its last financial year, to 31 December 2014, PS reported unaudited revenues of c. $7.6 million, unaudited net fee income ("NFI") of approximately c. $1.9 million and unaudited EBITDA of $0.6 million, but this EBITDA was after the owner took out management fees.

In the current year, PS has reported strong growth on the back of strong demand for temporary staffing in the US healthcare sector. It is currently on track to grow revenues to an estimated $11 million (up c.40%), NFI to $3 million (+c.50%) and EBITDA to $1.3m (+c.100%) during the current financial year to 31 December 2015.

Empresaria Directors have indicated that they believe that the Acquisition will be earnings enhancing on an adjusted basis in the first full year of ownership and will boost the Group's temporary net fee income relative to permanent NFI, which is a key strategic objective.

The Deal Terms

The consideration (expected to be $12.1m in total) is payable in cash as follows:

Initial Consideration of c. $7.3m payable on Closing, based on 100% of the estimated net assets of PS and 60% of the budgeted financial performance of PS for 2015.

Deferred Consideration will be payable (by 1 April 2016) based on 100% of the audited financial performance of PS for 2015 less the initial 60% performance payment.

Earn-out payments based on increase in the financial performance of PS in 2016 and 2017 over 2015, which management expect to amount to c.$1m in total.

The Consideration is subject to an aggregate minimum of approximately $9.6m and an aggregate maximum of approximately $16m.

For our model, we have assumed the following cash payments, and for conservativism, we have allowed $14m vs the $12.1m expectation in the announcement, although we will not model the higher profit implied by this.

Acquisition Payments

Rate £1=$	**1.5**		
		$	**£**
Minimum		9.6	6.4
Maximum		16	10.7
Expected		12.11	8.1
On completion	Oct-15	7.3	4.9
First deferred	Apr-16	2.5	1.7
First earnout	Apr-17	2.1	1.4
Second earnout	Apr-18	2.1	1.4
Total		14.0	

Source: Company, Hardman & Co

Based on the expected price of $12.1m, the group is paying an EV/EBITDA multiple of 9.3x for 2015, and likely a shade over 8x for 2016. Given the potential cash generative capacity, such a multiple is not demanding for a quality personnel business with good growth prospects

Financing

The group has financed the deal through a share placing and some additional debt finance. The placing is outlined below and the remainder of the acquisition costs will be funded by a new debt facility agreement of £4.5 million entered into with HSBC Bank plc on 9 October 2015 and from future cash flows of the Group.

The placing was oversubscribed. 4,456,285 Placing Shares were placed at a price of 75 pence, representing a discount of approximately 6 per cent. to the average closing price in the previous week. This was a discount of approximately 12 per cent. to the closing price on 12 October 2015, being the last practicable date before the announcement of the deal.

Based on the Placing Price, the gross proceeds of the Placing are £3.3 million. The Placing Shares will represent approximately 9 per cent. of the enlarged issued ordinary share capital of the Company.

Anthony Martin, Non-Executive Chairman, subscribed for Placing Shares at the Placing Price, by buying 1m shares to take his holding to 13.9m shares or 28% of the enlarged capital.

Evaluation of the Deal

The deal ticks a number of boxes in the group's strategy. It meets the criterion of developing leading specialist brands within its sector expertise; it increases geographical diversification, it strengthens the presence in the healthcare sector, it expands the footprint in key centres, and if the financial performance of PS is sustained, it will enhance the group's financial performance.

By placing shares, the group has been able to increase liquidity and probably will have brought some new shareholders on board. Our expectation on forecasts is to increase the 2015 eps from 9.7p to 10.1p per share. The net debt is slightly increased, but coverage ratios are barely affected given the placing and the increased operating profit. The group tax rate should tick down 1 point, as interest costs will reduce the reported US taxable profit.

We would not expect Empresaria to do any further deals in 2015, but they could do additional transactions in 2016. Business development activities are ongoing so it's impossible to know when the next opportunity will come through. There are no immediate plans to do further bolt-ons in the US, but given the group model, other group brands could potentially look at the US market in the future, using this investment as a base.

Bedding in the business should be quick. The group is buying shares, and the target will carry on their business as normal so it should not have a big impact on them, although obviously the usual harmonisation of accounting practices and budgeting will be required.

It therefore looks a good deal for Empresaria shareholders and for those selling the business.

Interim results 2015

Overview

Revenue increased by 3%, net fee income by 16%, adjusted operating profit by 35% and adjusted PBT by 44%, all at constant currency. In reported terms, revenue growth was -2%, net fee income was up 12%, adjusted operating profit was up 25% and adjusted eps was up 36%.

Permanent revenue grew by 29% (28% in constant currency), with new office openings and 2014 acquisitions contributing 16% of the growth. 12% of the 16% came from Financial, Executive search (especially in Thailand) and the Offshore Recruitment Services business in India.

Profit & Loss account

£m	1H 15	1H 14	FY 14
Revenue	92.4	94	187.9
Cost of sales	-68.3	-72.4	-143.3
Net fee income	24.1	21.6	44.6
Administrative costs	-21.1	-19.2	-38
Operating profit pre excep etc	3.0	2.4	6.6
Exceptional items	-	-	0.1
Loss on business disposal	-	-	-0.1
Intangible amortisation	-0.1	-0.1	-0.2
Operating profit	2.9	2.3	6.4
Finance income	-	-	0.1
Finance cost	-0.2	-0.3	-0.6
Profit before tax	2.7	2	5.9
Income tax	-0.9	-0.7	-2.1
Profit for the period from continued operations	1.8	1.3	3.8
Minorities	0.3	0.2	0.3
Earnings	1.5	1.1	3.5
Earnings per share Diluted (pence)	3.2	2.2	7.5
Earnings per share Adjusted Diluted (pence)	3.4	2.5	8.0

Source: Company, Hardman & Co Research

Temporary revenue declined by 5% (flat in constant currency), partly (1%) the result of the exit of a number of small unprofitable businesses in the Czech Republic, Slovakia and Malaysia at the beginning of the year, and a deliberate policy of stepping away from high volume but low value work in the Technical and Industrial sector in the UK – management's focus is on the quality of revenue, rather than quantity at any cost. Excluding these issues, growth from the rest of the Group was an 8% increase in constant currency. The Group temporary margin increased to 15.9% (2014: 15.3%).

Net fee income, the equivalent of gross profit which the company sees as its key performance indicator, grew by 12% (16% in constant currency), helped by the strong growth in permanent revenue. Permanent sales represented 47% of net fee income in 1H 2015 (2014: 40%), although the group's medium term strategy is to increase the proportion of temporary sales. The share of net fee income from professional and specialist levels increased from 81% last year to 86%.

The conversion ratio, or EBIT:NFI (operating profit as a percentage of net fee income/gross margin) in the tables, also increased to 12.4% (2014: 10.9%). The principal costs are staff and office accommodation and there was a 17% hike in staff numbers, and hence staff accounted for 80% of the increase in costs.

Regional Splits

1H 15 £m	UK	Cont Europe	Rest of the World	Total
Revenue	31.9	36.0	24.5	92.4
Net fee income	9.3	6.6	8.2	24.1
Adjusted operating profit*	1.0	1.1	0.9	3.0
Operating profit	1.0	1.0	0.9	2.9
1H 14 £m				
Revenue	33.6	37.4	23.0	94.0
Net fee income	7.8	6.8	7.0	21.6
Adjusted operating profit*	1.0	0.7	0.7	2.4
Operating profit	1.0	0.6	0.7	2.3

Source: Company, Hardman & Co Research

Adjusted operating profit was up 25% as reported and up 36% in constant currency, a good result given the 3% increase in constant currency revenues, and 16% increase in constant currency net fee income. The £2.9m EBIT reported was in line with our estimate.

UK

Overall UK revenue was down 5%, primarily down to two issues. £3.7m was due to the end of the London Heathrow T2 project which finished in 2014, and there was circa £2m impact from a planned reduction in low value work. Excluding the impact of these two factors, the year on year growth was 14%. We had forecast a 7% increase, but had under-estimated the one-off negatives.

Other sectors grew by 7% yoy while permanent revenue increased £1.5m (up 37% on prior year), half of which arose from the investment in Ball & Hoolahan made in December 2014, with growth across Financial, Technical & Industrial and Domestic services. Hence underlying organic growth looks to have been of the order of 18%, no doubt helped by a stronger UK economy. Margin in temporary increased 1.4 points to 14.5%, and with the benefit of last year's acquisition, temporary net fee income was only slightly down on prior year. Net fee income was up 19%, due to the growth in permanent revenue, which is now nearly 60% of net fee income.

UK Operations Highlights

£m	1H 15	1H 14	% Chg
Revenue	31.9	33.6	-5.1%
Net fee income	9.3	7.8	19.2%
Adjusted operating profit	1.0	1.0	0.0%
% of Group NFI	39%	36%	8.3%
EBIT:NFI	10.8%	12.8%	-2 pts

Source: Company, Hardman & Co Research

Adjusted operating profit was flat at £1.0m (2014: £1.0m), and slightly lower than our £1.1m, with higher staff costs (numbers up 19% yoy), and a higher allocation of central overhead on the back of higher net fee income. The company reported that underlying operating profit was up 7%.

The company reported that market conditions remain positive, in particular in the Financial sector, which is consistent with our on the ground intelligence - the head of a mid-tier accounting firm told us recently that the recruitment market in London right now is "red hot".

The company flagged that the efforts to focus on the higher value areas in Technical & Industrial has reduced productivity in the short term, and this is expected to continue in H2.

Continental Europe

Reported revenue decreased by 4% to £36.0m (we had forecast £37.1m) with the disposal of the business in the Czech Republic and a closure in Slovakia (impact of £0.7m) and currency movements (£4.0m). Growth excluding these impacts was 10%.

Cont Europe Operations Highlights

£m	1H 15	1H 14	% Chg
Revenue	36.0	37.4	-3.7%
Net fee income	6.6	6.8	-2.9%
Adjusted operating profit	1.1	0.7	57.1%
% of Group NFI	27%	31%	-12.9%
EBIT:NFI	16.7%	10.3%	+5.6 pts

Source: Company, Hardman & Co Research

Net fee income of £6.6m (2014: £6.8m) was also affected by currency, with sterling strengthening against the Euro by c. 12% yoy in the first half, suggesting that the underlying improvement was around 10%. The temporary margin increased from 17.8% to 18.4%. Cost savings and the exit from the loss making GiT business helped adjusted operating profit increase by 57% to £1.1m (2014: £0.7m); this was much better than our forecast of £0.85m.

Highlights included a strong Germany, with German Logistics revenues up 24%, offset by weakness in Finland where NFI was down yoy.

Rest of World

Revenue increased by 7% to £24.5m (2014: £23.0m and our forecast £23.7m), primarily from permanent sales which grew by 24%, and boosted by last year's new office openings and the acquisition in Dubai. Together these represented 15% of the growth, suggesting organic growth of c.9%, probably marginally helped by fx.

The company flagged a few standout performances:

- Australia (IT, digital & design)
- Thailand (Executive search)
- India (Offshore recruitment services - Other sector)

Against this, there were weaker contributions from China (Executive search) and from the training business in Indonesia. Both these businesses are reducing costs in line with lower sales, but have performed below prior year levels.

Temporary sales were up a reported 1%, and 4% constant currency. The main currency impact was in Japan and Australia, and it's likely that this will continue as a drag in H2 with the Yen being affected by QE there (Abe's position is weakening, but they may have little choice but to continue with QE), and Australia being a prime target of those trying to short China exposed commodity currencies.

Temporary sales were strongest in IT, digital & design, both in Japan and Australia. Interestingly the company cited candidate shortage issues in Japan which negatively impacted revenue and profit. Chile saw ups and downs.

Rest of World Operations Highlights

£m	1H 15	1H 14	% Chg
Revenue	24.5	23.0	6.5%
Net fee income	8.2	7.0	17.1%
Adjusted operating profit	0.9	0.7	28.6%
% of Group NFI	34%	33%	3.0%
EBIT:NFI	11.0%	10.0%	+1 pts

Source: Company, Hardman & Co Research

Costs increased with average staff numbers up 22% on prior year, albeit largely in India where pay rates are lower. In India a second centre was opened in 2014 to accommodate sales growth. This has been filled quicker than anticipated so management are looking to open a third centre in H2 15. The temporary margin in the division was flat at 13.5% (2014: 13.6%), and overall adjusted operating profit increased by 29% to £0.9m (2014: £0.7m) vs our forecast of £1.0m, so in-line.

The company commented that market conditions are generally favourable, but flagged that the economic situation in South East Asia could lead to a slowdown in that region. In their largest markets outside South East Asia, being Japan, UAE and India, they see continued growth prospects for their businesses. We think some of the fears about China have been overdone, but even so SE Asia will see slower growth, and we would be concerned about Japan and Australia for country specific reasons.

Acquisitions and Disposals

There were no major deals in H1, with acquisitions last year still settling in and there was one minority interest acquisition. The company's strategy is to derisk new acquisitions and entry into markets by having the seller or partner retain a minority interest; this can then be bought out later on an agreed multiple and at agreed stages, although there is usually no put and call arrangement. In this way, the management of an acquisition are incentivised to continue to grow the acquired business and the acquisition is derisked.

In H1, the company paid £0.3m to increase its 80% interest in PT Monroe Consulting Group (Executive search in Indonesia) to 90%. In 2014 the company exited three businesses, agreeing to sell GiT in the Czech Republic and Metis in Malaysia, and closing the GiT operations in Slovakia. Disposal costs were £0.1m, which were covered by a 2014 provision.

Balance Sheet and Cash Flow

Cash generated from operations in the period was £0.2m (£0.8m), as working capital increased by £2.8m (£2.0m) and a payment of £0.5m to clear a liability for German social security costs in Germany (now finalised). Acquisitions were £0.3m and dividends a further £0.3m. There will be a deferred consideration payment relating to Ball & Hoolahan of £0.5m in H2.

The company has changed its financing arrangements in Germany from a central facility to a local facility (a three year term loan of €5m and an €8m overdraft). All Group businesses with significant temporary sales (and hence working capital requirements) now have local bank facilities in place, while there is a £5m overdraft facility at HQ level.

Following the repayment of its revolving credit facility, the security and covenant requirements will be simplified, but the company is well within its covenants:

- Net debt:EBITDA: 0.6 actual vs < 2.5 times covenant
- Interest cover: 20.3 actual vs > 3.0 times covenant
- Debt service cover: 2.8 actual vs > 1.25 times covenant

Cash Flow/Balance Sheet

	2012	2013	2014	2015E	2016E
Operating cash flow	5.2	7.8	6.7	5.7	7.4
Interest & tax	(2.5)	(2.3)	(1.4)	(2.8)	(0.5)
Capex	(0.5)	(0.8)	(1.0)	(0.8)	(0.8)
Acquisitions	(3.0)	(1.1)	(1.1)	(5.4)	(3.1)
Dividends	(0.2)	(0.2)	(0.2)	(0.3)	(0.3)
Equity	-	-	-	3.3	-
Other items	2.2	(4.1)	2.4	(1.0)	(1.5)
Change in net debt	1.2	(0.7)	5.4	(1.3)	1.2
Closing net debt	(14.5)	(15.2)	(9.8)	(11.1)	(9.9)
Net assets	24.0	24.7	27.6	31.3	36.1

Source: Company, Hardman & Co Research

Outlook

The Group pays a final dividend and there was therefore again no interim, although the results showed a strong first half performance, with reduced net debt in the seasonally weaker first half for cash generation.

The company's strategy is to use multiple brands to build scalable leading businesses and a group balanced and diversified by sector and geography. Management cited that they were pleased with the performance of acquisitions made last year, and they continue to look for suitable investment opportunities to bolt on to existing brands, to fill gaps within the current sector coverage or to improve the geographic spread.

There are currency headwinds in some key markets, Continental Europe, Japan and Chile, which will impact negatively on the second half performance. Nevertheless, given the strong performance in H1, we edged up our full year forecasts for both this year and next, although clearly there is limited visibility into 2016 as yet, and both currency factors, and Asian growth are at this stage uncertain.

Forecasts	2012	2013	2014	2015E	2016E
Revenue (gross)					
UK	66.5	70.7	65.8	65.2	66.9
Europe	83.2	76.9	76.8	73.8	76.8
ROW	44.6	46.8	45.3	48.2	50.7
	194.3	**194.4**	**187.9**	**188.8**	**202.2**
Gross profit					
UK	16	15.8	15.9	18.9	19.3
Europe	15.7	13.9	15	14.5	14.9
ROW	12.2	12.9	13.7	16.0	16.4
	43.9	**42.6**	**44.6**	**49.8**	**52.6**
Gross margin					
UK	24.1%	22.3%	24.2%	29.0%	28.8%
Europe	18.9%	18.1%	19.5%	19.7%	19.5%
ROW	27.4%	27.6%	30.2%	33.2%	32.5%
	22.6%	**21.9%**	**23.7%**	**26.4%**	**26.0%**
Operating costs					
UK	-13.8	-13.7	-13.7	-16.7	-17.1
Europe	-14.0	-12.1	-11.8	-10.7	-10.9
ROW	-11.0	-10.8	-12.5	-14.4	-14.5
	-38.8	**-36.6**	**-38.0**	**-42.3**	**-43.4**
EBIT					
UK	2.2	2.1	2.2	2.2	2.2
Europe	1.7	1.8	3.2	3.8	4.1
ROW	1.5	2.1	1.2	1.6	1.9
	5.4	**6**	**6.6**	**7.6**	**9.2**
Finance costs	-0.8	-0.6	-0.5	-0.4	-0.7
PBT	**4.6**	**5.4**	**6.1**	**7.1**	**8.6**
Taxation					
Normal	(1.79)	(2.11)	(2.10)	(2.38)	(2.82)
Other	0.09	0.01	-	-	-
Reported	(1.70)	(2.10)	(2.10)	(2.38)	(2.82)
Underlying rate	39.0%	39.0%	34.4%	33.3%	33.0%
PAT					
Normalised	**2.81**	**3.29**	**4.00**	**4.76**	**5.73**
Reported	1.90	2.80	3.80	4.66	5.73
Discontinued	-	-	-	-	-
Minority Interest	(0.6)	(0.5)	(0.3)	(0.6)	(0.6)
Retained earnings	1.34	2.30	3.50	4.06	5.13
EPS Adj	5.0	6.2	8.0	8.7	10.0

Source: Hardman & Co Research

Company matters

Registration

Incorporated in the UK.

Board of Directors

Board of Directors				
Position	**Name**	**Nominations**	**Remuneration**	**Audit**
Chairman	A Martin	-	-	-
Chief Executive Officer	J Kreulen	-	-	-
Chief Financial Officer	S Wreford	-	-	-
Non-executive director	P Freer	C	C	M
Non-executive director	Z Miles	M	M	C

M = member; C = chair
Source: Company reports

The Board has extensive knowledge of the staffing industry with a combined experience of 100 years.

Anthony Martin – Non-executive Chairman

Anthony served as Chairman and CEO of Select Appointments and Vedior NV, building one of the world's largest recruitment companies, before it was acquired by Randstad. He currently owns 28% of Empresaria.

Joost Kreulen – Chief Executive Officer

Joost has 28 years of staffing industry experience, with roles in Select Appointments and Vedior NV as well as a short period at Randstad. He joined Empresaria in 2009, initially responsible for its Asian operations and then also for a number of its UK based businesses. He was appointed Chief Operating Officer and Chief Executive designate in September 2011, becoming Chief Executive at the beginning of 2012.

Spencer Wreford – Group Finance Director

Spencer has over 10 years' experience in senior finance roles, joining Empresaria from BPP Group. Prior to this he spent 8 years at ITE Group Plc, as Deputy Finance Director, including six months as Acting Group Finance Director. Spencer is a Chartered Accountant, qualifying with Arthur Andersen.

Penny Freer – Non-Executive Director

Penny has worked in investment banking for over 25 years. She is a partner of London Bridge Capital. She has been Head of Equity Capital Markets and Deputy Chairman of Robert W Baird Limited as well as Head of Small/Mid Cap Equities for Credit Lyonnais. Penny is also a non-executive director of Advanced Medical Solutions plc, where she is the senior independent director.

Zach Miles – Non-Executive Director

Before joining Empresaria Zach held the position of Chairman and CEO of Vedior N.V. Previously, Zach was CFO and a member of the Board of Directors of Select Appointments. His career in the recruitment industry began in 1988. He was formerly a partner at Arthur Andersen and is a qualified Chartered Accountant.

Risks

The main risk in this type of business is generally the economic cycle. Clearly, nearly 7 years after the Global Financial Crisis, we are fairly advanced in the cycle, particularly in the US, the world's largest economy.

This economic recovery has been characterised there by an extremely slow pace of growth and a particularly sluggish decline in unemployment; while unemployment has declined, participation rates remain low. It's arguable, therefore that the employment cycle is less advanced than might be extrapolated from the duration of the upturn.

With Empresaria's broad range of exposures, it is likely experiencing a range of economic conditions currently, and should continue to do so going forward. What is significant for Empresaria investors therefore is the group's:

- Geographical spread – 19 countries across the world
- Broad range of sectors served
- Focus on temporary staff which tends to be a less cyclical business

The risk presented by a broad range of operations, especially in a relatively small business, is that the central management team could lose sight of what is happening in remote offices, albeit Empresaria's management team travel extensively and have regular financial reporting from each office.

The recent US acquisition is another potential risk for investors. UK companies heading to the US always take a risk, but this is mitigated by management retention, management's investment in the group, and by the earnout payment structure. Pharmacy benefit managers have been in the investment news with the Valeant/Philidor short sellers attack, but we see no reason why this should have an impact on the acquired business.

The balance sheet has a modest amount of debt, which has reduced over the last few years, and the business has limited capital needs, with working capital required for growth but being released in a slowdown.

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