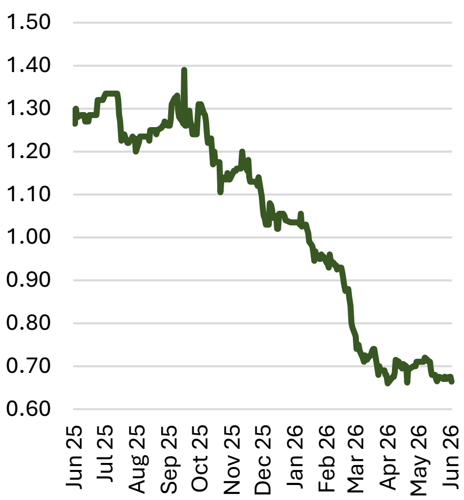
h2Radnor

Gateley Holdings PLC

GTLY | AIM | Professional Services | 60p | £82m

FY26 update – in line underlying operating profit

1 Year Chart



As usual, Gateley has issued its FY26 trading update (April year-end). Revenue in FY26 is expected to be c.£193m, up around 7%, which we note would be 2% above our previous forecast of £189.6m, "reflecting broader improvements in utilisation and the diversified nature of the business across all of our Platforms". We have increased our revenue estimates by 2% in FY26, FY27 and FY28.

The statement adds that it expects "underlying operating profit of between £21m - £22m, in-line with consensus expectations". We had forecast £22.5m. The margin is expected to be c.11.1% so lower than the 11.7% of FY25, which "reflects changing business mix and higher than anticipated transactional deferment as we progressed through Q4". We think that the mix will have been impacted by lower transactional work (which is typically higher margin) and higher contentious work (where Gateley often incurs cost before the profit has materialised) and that FY27 could benefit from the timing of delayed transactional work and contentious work being settled. We have decreased our underlying operating profit estimates by 2% in FY26, by 5% in FY27 and by 2% in FY28.

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Gateley Holdings PLC is a research client of H2 Radnor Ltd.

MiFID II – this research is deemed to be a minor, non-monetary benefit.

- **Net debt** is expected to be £25.3m, so higher than the £19.6m of H126 and our previous forecast of £19.1m. Net debt was higher mainly due to both; a higher cash payment due to the better performance from the Groom Wilkes & Wright (GWW) acquisition (which we assume results in a higher earn-out) and an increase in working capital which we think will be partly due to the investment required for contentious work. We calculate that net debt to EBITDA would peak in FY26 at only 0.9x, and then declines to 0.7x in FY27, which we think is comfortable.
- **Our underlying diluted EPS** is reduced by 6% in FY26, by 8% in FY27 and by 5% in FY28, a larger reduction than in underlying operating profit due to the impact of higher net debt on interest.
- **Our DCF** based illustrative fair value reduces by 5% from 190p to 180p.

Y/E April, £m	Revenue	Adj PBT	Adj EPS (p)	DPS (p)	Net debt	PE	Yield
FY 2024A	172.5	23.0	14.2	9.5	Net cash	4.2	15.8
FY 2025A	179.5	23.3	13.3	9.5	6.6	4.5	15.8
FY 2026E	*193.4*	*22.3*	*12.5*	*9.5*	*25.3*	*4.8*	*15.8*
FY 2027E	*201.4*	*23.1*	*12.8*	*9.7*	*20.3*	*4.7*	*16.2*
FY 2028E	*208.8*	*25.5*	*13.8*	*10.2*	*18.8*	*4.3*	*17.0*

Source: h2Radnor

Other points from the update

- **Activity;** the statement says that "after a strong start to FY 26 the Group experienced a slowing of certain transactional services activity through Q2 as uncertainty around the UK November Budget caused some client activity to be paused. Although we saw a degree of normalisation during H2, more recent developments in the Middle East, combined with a worsening medium term interest rate outlook, also impacted client sentiment, resulting in a mix of transactional timelines pausing and extending beyond FY 26 in both our Corporate and Property Platforms". Gateley last reported in December, with H126 results, and we note that since then the macro has become a lot more uncertain, especially since the start of the Iran conflict.

- The statement adds that "a further feature of the year has been the strong growth in targeted contentious workstreams, which has resulted in the Group building significant contingent unbilled time. These workstreams are highly attractive from a margin perspective albeit remain dependent on successful outcomes for revenue and profit recognition". We think that the mix of revenue, especially the build-up of unbilled time, explains why revenue was better than expected but underlying operating profit was in line.

- **Headcount**; the statement says that "as previously reported, the Group took cost actions during the year resulting in fee earner headcount marginally down against the start of the year and average team utilisation improving. Within this the Group has also selectively hired in FY 26, especially in high-value work areas, including contentious litigation where activity levels continue to be strong".

- **On the margin outlook**; the statement says that the "the Group remains focused on margin improvement including from its system investments, such as Jylo, the AI platform, and returns from selective hiring in key growth areas, whilst continuing to actively manage its cost base, with a clear focus on continuing to maximise utilisation across the business and gaining operational efficiencies in FY 27". We think there could be upside to our FY27 estimate if there is more profit realised than expected from contentious work. We believe that there is considerable long-term upside to the margin especially as investments of recent years begin to contribute to profit, having previously been a cost during their initial stage.

- **The CEO** comment we feel is relatively positive, saying that "I am pleased to be reporting our full year results update. Whilst our Q4 experienced longer than anticipated transactional cycles as a result of the macro backdrop, we enter FY 27 with good activity levels across transactional and contentious workstreams, and we continue to see attractive mandated and pipeline opportunities across the Group's Platforms. With the diversified nature of the Group's business, strong expertise across excellent teams and numerous growth opportunities, we are well positioned to deliver future, profitable growth."

- **In our view,** whilst it is negative that some activity has slipped from FY26 to FY27, we think this is largely a timing issue and that FY27 should benefit from profit generated from this work, and from the settlement of contentious cases, and that this will result in the net debt declining in FY27. We therefore see FY27 as an inflexion year when the margin and net debt improves and that this is not priced into a FY27 PER of just 4.7x.

- **FY results** are expected on mid-July.
- **Our initiation note** on Gateley is available on request, or can be accessed from this link.

Estimate revision

In Figure 2 below, we show our estimate revisions, with our underlying EPS reducing by 6% in FY26 and by 8% in FY27. We have maintained our dividend estimates.

Figure 2: h2Radnor estimate revisions

May year end		Previous		New		Revision	
£m	FY'25A	FY'26E	FY'27E	FY'26E	FY'27E	FY'26E	FY'27E
Revenue	179.5	189.6	197.4	193.4	201.4	2%	2%
Adjusted EBITA	20.9	22.5	24.3	22.0	23.2	(2%)	(5%)
Margin (%)	*11.7%*	*11.8%*	*12.3%*	*11.4%*	*11.5%*	(4%)	(6%)
Adj. PBT	23.3	23.7	25.0	22.3	23.1	(6%)	(8%)
Adj. EPS diluted (p)	13.3	13.3	13.8	12.5	12.8	(6%)	(8%)
DPS diluted (p)	9.5	9.5	9.7	9.5	9.7	0%	0%
Net debt	(6.6)	(19.1)	(17.5)	(25.3)	(20.3)	33%	16%

Source: h2Radnor

DCF Valuation

Given the defensive profile and cash generative nature of Gateley we believe that a DCF is the most appropriate valuation tool (Figure 3).

Figure 3: DCF Model

April year end	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	TV
Revenue	193	201	209	223	237	249	261	274	288	299	301
Growth	7.8%	4.1%	3.7%	7.0%	6.0%	5.0%	5.0%	5.0%	5.0%	4.0%	0.5%
EBITDA	28	29	32	35	37	40	42	45	48	51	50
Margin	14.5%	14.6%	15.3%	15.5%	15.8%	16.0%	16.2%	16.5%	16.7%	17.0%	16.5%
Margin change		1.0%	4.7%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	(3.0%)
Working capital	(9)	6	1	(4)	(5)	(5)	(5)	(5)	(6)	(6)	(5)
Working capital/revenue	(4.9%)	3.1%	0.7%	(2.0%)	(2.0%)	(2.0%)	(2.0%)	(2.0%)	(2.0%)	(2.0%)	(1.5%)
Maintenance capex	(6)	(6)	(6)	(6)	(6)	(6)	(7)	(7)	(7)	(7)	(6)
Maintenance capex/revenue	(3.1%)	(3.1%)	(3.1%)	(2.5%)	(2.5%)	(2.5%)	(2.5%)	(2.5%)	(2.5%)	(2.5%)	(2.0%)
Subtotal	**13**	**29**	**27**	**25**	**27**	**29**	**31**	**33**	**35**	**37**	**39**
Tax	(3)	(7)	(7)	(6)	(7)	(7)	(8)	(8)	(9)	(9)	(10)
Tax rate	23.5%	24.0%	24.5%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Free cash	**10**	**22**	**20**	**18**	**20**	**21**	**23**	**25**	**26**	**28**	**29**
Present value	9	19	16	13	13	13	13	13	12	12	12

Source: h2Radnor

Our illustrative fair value for the Group is 180p per share (Figure 4).

Figure 4: DCF Valuation

Metric	Value
Total present value of forecast period (£m)	132
Terminal value (£m)	138
Total (£m)	**270**
Net debt/(cash) (£m)	25
Equity (£m)	**245**
Number of shares (diluted) (m)	136
Share price (p)	**180**

Source: h2Radnor

Detailed h2Radnor Estimates

Figure 5: Key h2Radnor P&L estimates

April year end	FY24	FY25	FY26E	FY27E	FY28E
Revenue	172.5	179.5	193.4	201.4	208.8
Organic growth	2.8%	2.8%	6.0%	3.3%	3.7%
Acquisition growth	3.2%	1.3%	1.7%	0.8%	0.0%
Total growth	**6.0%**	**4.1%**	**7.8%**	**4.1%**	**3.7%**
Contribution	**60.5**	**61.9**	**66.5**	**69.8**	**73.7**
Margin	35.1%	34.5%	34.4%	34.7%	35.3%
Margin change	1.4%	(1.8%)	(0.3%)	0.9%	1.8%
Growth	7.5%	2.2%	7.4%	5.0%	5.6%
Other operating income	0.2	0.2	0.2	0.3	0.3
Personnel costs	(18.1)	(19.8)	(21.6)	(23.0)	(24.0)
Depreciation and amortisation	(5.5)	(5.8)	(6.0)	(6.2)	(6.4)
Other operating expenses	(16.8)	(15.6)	(17.1)	(17.6)	(18.0)
Underlying operating profit	**20.3**	**20.9**	**22.0**	**23.2**	**25.5**
Margin	11.7%	11.7%	11.4%	11.5%	12.2%
Margin change	(23.5%)	(0.8%)	(2.3%)	1.2%	6.0%
Growth	(18.9%)	3.3%	5.3%	5.4%	9.9%
Interest	2.8	2.4	0.3	(0.1)	0.0
Underlying PBT	**23.0**	**23.3**	**22.3**	**23.1**	**25.5**
Margin	13.4%	13.0%	11.5%	11.5%	12.2%
Margin change	(13.3%)	(2.8%)	(11.1%)	(0.6%)	6.5%
Growth	(8.1%)	1.2%	(4.2%)	3.5%	10.4%
Underlying tax	(4.3)	(5.5)	(5.2)	(5.5)	(6.2)
Underlying tax rate	18.5%	23.5%	23.5%	24.0%	24.5%
Underlying earnings	**18.8**	**17.8**	**17.1**	**17.6**	**19.3**
Growth	(10.4%)	(5.0%)	(4.2%)	2.8%	9.7%
Shares (m)	130.1	133.6	135.7	137.3	139.0
Growth	3.9%	2.6%	1.6%	1.2%	1.2%
Underlying EPS (p)	14.42	13.34	12.59	12.79	13.86
Growth	(13.7%)	(7.5%)	(5.7%)	1.6%	8.3%
Shares diluted (m)	132.1	133.9	136.1	137.7	139.4
Dilution	1.5%	0.2%	0.3%	0.3%	0.3%
Underlying diluted EPS (p)	**14.2**	**13.3**	**12.5**	**12.8**	**13.8**
Growth	(12.8%)	(6.3%)	(5.7%)	1.6%	8.3%
DPS (p)	**9.5**	**9.5**	**9.5**	**9.7**	**10.2**
Growth	0.0%	0.0%	0.0%	2.1%	5.2%
Payout	65.9%	71.2%	75.5%	75.8%	73.6%

Source: h2Radnor, Company

Figure 6: Key h2Radnor Cash Flow estimates

April year end	FY24	FY25	FY26E	FY27E	FY28E
Underlying operating profit	20.3	20.9	22.0	23.2	25.5
Depreciation and amortisation	5.5	5.8	6.0	6.2	6.4
Acquisition costs	(0.0)	(0.0)			
Reorganisation costs	(1.2)	(1.9)	(1.4)		
One-off remuneration charge	(0.4)				
Equity settled share-based payments		(0.7)	(0.6)		
Sub-total	**24.2**	**24.1**	**26.1**	**29.4**	**32.0**
Receivables	(10.7)	(2.3)	(5.6)	0.0	(4.6)
Payables	8.6	(7.0)	(3.9)	6.2	6.1
Provisions	2.5	(1.0)			
Tax	(4.9)	(5.4)	(5.0)	(5.3)	(5.9)
Interest	4.0	3.5	0.3	(0.1)	0.0
Lease payments	(5.1)	(5.4)	(5.5)	(5.7)	(5.9)
Sub-total	**18.8**	**6.4**	**6.4**	**24.6**	**21.6**
Net capex on property, plant and equipment	(1.0)	(1.5)	(2.5)	(2.0)	(2.1)
Acquisitions	(4.6)	(0.4)	(6.5)	(1.2)	(1.2)
Purchase/sale of shares	(3.3)	(2.8)	(3.2)	(3.3)	(3.4)
Exercise of share options	2.1	0.4			
Dividends	(12.3)	(12.5)	(12.8)	(13.0)	(13.5)
Sub-total	**(0.4)**	**(10.4)**	**(18.7)**	**5.0**	**1.5**
Borrowing	6.0	5.8	11.5		
Total	**5.6**	**(4.6)**	**(7.2)**	**5.0**	**1.5**
Cash at the beginning	11.1	16.7	12.1	4.9	10.0
Cash at the end	16.7	12.1	4.9	10.0	11.4

Source: h2Radnor, Company

Figure 7: Key h2Radnor Balance Sheet estimates

April year end	FY24	FY25	FY26E	FY27E	FY28E
Assets					
Non-current assets					
Property, plant and equipment	1.6	1.8	2.8	2.8	2.8
Right-of-use asset	23.6	21.1	22.4	23.1	24.0
Investment property	0.2				
Intangible assets & goodwill	13.8	11.1	14.3	14.9	15.4
Other intangible assets	0.6	0.2	0.1	0.1	0.1
Other investments	0.3	0.1	0.1	0.1	0.1
Deferred tax asset	0.4	0.6	0.6	0.6	0.6
Trade and other receivables	8.4	2.6	2.8	2.9	3.0
Sub-total	**48.8**	**37.5**	**40.3**	**41.6**	**43.0**
Current assets					
Contract assets	23.5	24.9	26.8	27.9	29.0
Trade receivables	58.1	57.9	62.3	64.9	67.3
Prepaid consideration subject to earn-out service conditions	6.7	2.3	2.5	2.6	2.7
Prepayments	7.2	8.9	9.6	10.0	10.4
Other receivables	2.1	1.5	1.6	1.7	1.7
Cash and cash equivalents	16.7	12.1	4.9	10.0	11.4
Sub-total	**114.3**	**107.5**	**107.8**	**117.1**	**122.5**
Total	**163.1**	**145.0**	**148.1**	**158.6**	**165.5**
Liabilities					
Non-current liabilities					
Other interest-bearing loans and borrowings		18.7	30.2	30.2	30.2
Lease liability	24.2	21.6	22.9	22.9	22.9
Deferred tax liability	3.0	2.4	3.3	3.3	3.3
Provisions	3.7	2.7	2.7	2.7	2.7
Sub-total	**30.9**	**45.4**	**59.2**	**59.2**	**59.2**
Current liabilities					
Other interest-bearing loans and borrowings	12.9				
Lease liability	4.3	4.2	4.2	4.2	4.2
Trade and other payables	33.1	25.9	27.9	29.1	30.2
Provisions	0.2	0.2	0.2	0.2	0.2
Current tax liabilties	1.4	1.8	1.8	1.8	1.8
Sub-total	**51.9**	**32.1**	**34.1**	**35.3**	**36.4**
Net assets					
Share capital	13.3	13.4	13.4	13.4	13.4
Share premium	0.0	0.4	0.4	0.4	0.4
Merger reserve	(10.0)	(10.0)	(10.0)	(10.0)	(10.0)
Other reserves	19.4	19.8	20.2	20.2	20.2
Treasury reserve	(4.0)	(2.6)	(1.7)	(1.7)	(1.7)
Translation reserve	(0.1)	(0.2)	(0.1)	(0.1)	(0.1)
Retained earnings	61.6	46.8	32.5	41.9	47.7
Sub-total	**80.3**	**67.5**	**54.7**	**64.2**	**69.9**
Total	**163.1**	**145.0**	**148.1**	**158.6**	**165.5**

Source: h2Radnor, Company

REGULATORY DISCLOSURES

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