Gateley Holdings PLC

GTLY | AIM | Professional Services | 55p | £77m

FY26 results in line, DPS rebased and CEO retires

1 Year Chart

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Robert Plant

rplant@h2radnor.com

+44 (0) 203 897 1846

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Gateley's FY26 (April) results show underlying operating profit of £21.5m, so in line with the £21m - £22m mentioned in June's year-end update. We had forecast £22.0m.

The outlook is reassuring with the comment that "trading in the early weeks of FY27 is in line with our expectations, reflecting good activity levels as we entered the new year, resilience across all four of our Platforms, and the continuing progress of our historic growth investments. This gives us confidence as we move through FY27, however, the Board is conscious that macro indicators continue to point to uncertain market conditions, at least in the near term, which we will monitor and adjust for as appropriate".

Separately, Rod Waldie, CEO since 2020, has announced that he is retiring from 1 August for personal, health-related reasons. Mr Waldie will be replaced on an interim basis by Martin Pike, a current NED, whilst a search is conducted for a permanent replacement.

- **The dividend** has been rebased from 9.5p in FY25 to 5.3p in FY26, with the comment that "the Board has rebased the Group's dividend to distribute up to around 45 per cent of adjusted profits, retaining a strong payout ratio, while also placing the dividend on a more sustainable footing and providing greater flexibility to deliver both progressive dividend growth and other shareholder returns".
- **Estimates;** we have maintained our underlying PBT estimates for FY27 and FY28. However, we have reduced our diluted EPS by 5% for FY27 and by 3% for FY28 to account for a higher tax assumption. We have reduced our DPS by 44% for FY27 and by 41% for FY28.

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	3.9	17.3
FY 2025A	179.5	23.3	12.8	9.5	6.6	4.3	17.3
FY 2026A	*194.3*	*21.6*	*11.5*	*5.3*	*25.3*	*4.8*	*9.6*
FY 2027E	*201.4*	*23.1*	*12.1*	*5.4*	*20.3*	*4.6*	*9.9*
FY 2028E	*208.8*	*25.5*	*13.3*	*6.0*	*18.8*	*4.1*	*11.0*

Source: h2Radnor

Other points from the results

- **Revenue** rose by 8.2%, from £179.5m in FY25 to £194.3m in FY26, so slightly ahead of the c.£193m mentioned in the year-end update. We had forecast £193.4m. Organic revenue growth was 6.2%, which after 8.6% in H1 implies c.3.8% in H2. In FY25, organic revenue growth was 2.8% (3.2% H1/2.9% H2). We think it impressive that the Group has generated organic revenue growth every year since it listed in 2015. FY26 had started well but "the Middle East crisis further impacted client confidence. The overall effect has been what we believe will be a specific, short-term impact on our Dubai operations, and a broader dampening effect on transactional activity in the UK. These, coupled with concerns around the medium-term interest rate outlook, meant we have seen a range of transactional timelines either pausing or extending in Q4". We believe there could be upside in FY27 if some of the delayed activity of Q426 moves into H127.

- **Contribution** increased by 11.6%, from £60.7m in FY25 to £67.7m in FY26. We had forecast £66.5m. The margin rose from 33.8% in FY25 to 34.9% in FY26. The statement mentions that the margin benefitted from "increased fee levels, while maintaining good activity levels on relatively flat fee-earner headcount". The statement adds that "group fee-earner average activity levels were maintained, reflecting both the resilience of client demand across the Group's diversified service offering and the active management of fee-earner headcount in certain areas. This alongside Group-wide fee increases, have been key drivers in offsetting cost increases, alongside additional investments in our Dubai office and Austen Hays in the year".

- **The underlying operating profit** margin declined from 11.7% in FY25 to 11.1% in FY26. The statement mentions that the margin was impacted by "reflecting targeted investments in administrative support teams and systems, part offset by active management of variable costs". On costs, we note that closing fee earner headcount reduced by 4%, from 1,024 in FY25 to 983 in FY26, even after the strategic hire of 13 partners and the comment that "key cost actions are already in progress, including a recently internally announced redundancy programme with proposals to reduce headcount by approximately 40 roles, primarily in the business support teams. The consultation process is underway and the proposals for headcount reduction, alongside tighter discretionary spend level targets part offsetting inflationary pay and other cost base increases".

- Management have reiterated the margin target "of at least 13.5%" and point to "the specific levers available to us: pricing discipline driving higher fee levels; active cost management; and the maturing of our organic growth investments, to deliver positive returns in future periods". We think there could be upside to our FY27 estimate of an 11.5% margin especially if there is more profit realised than expected from the settling of contingent and contentious work. We also believe that there is considerable long-term upside to the margin as investments of recent years begin to contribute to profit, having previously been a cost during their initial stage.

- **Net debt** rose from £6.6m in FY25 to £25.3m in FY26, so in line with the £25.3m mentioned in the year-end update. The increase was "driven by increased working capital, alongside acquisition consideration payments, dividends paid and EBT share purchases". Total lock up days rose from 168 in FY25 to 170 in FY26, partly due to the increase in contentious work, which we think is usually higher margin but takes longer to settle. Encouragingly we note the comment that "renewed attention has been brought from Q4 FY26 across the wider business on outstanding receivables, with increased communications and more frequent review and follow-up. Improving cash collections remains a key focus area as we seek to drive greater working capital efficiency across the Group". We think that the net debt position will reduce in FY27 and FY28 as the dividend payout is lower, there is upside from a settlement of the contingent and contentious cases and there is potential to structurally reduce the level of total lock up days.

- **On the dividend,** we can see the logic of rebasing. On the negative side, some investors (especially IPO partners who remain with the business) may have wanted the income to be maintained but we think a 17% yield was not providing support to the share price, we note that the previous level of dividend was not cash covered and it may have been acting as a constraint on investment opportunities. If, as we expect, free cash generation improves in FY27, then there is scope to increase the rebased dividend and/or buy back shares which we believe is highly attractive at the current share price. We note that the rebased dividend yield for FY26 is still an attractive 10%.

- **Our view;** we believe that Gateley's share price is highly attractive on a FY27 PER of just 4.6x and that this year will be an inflexion point as the adjusted operating profit margin improves and net debt declines.

- **Our initiation note** on Gateley is available on request or can be accessed from this link.

Estimate revision

In Figure 2 below, we show how we have maintained our underlying PBT estimates for FY27 and FY28. However, we have reduced our diluted EPS by 5% for FY27 and by 3% for FY28 to account for a higher tax assumption, as the statement mentions that some foreign entity tax losses, such as in Dubai, are not allowable for Group relief. We have reduced our DPS by 44% for FY27 and by 41% for FY28 to account for a 45% payout.

Figure 2: h2Radnor estimate revisions

April year end		Previous		New		Revision	
£m	FY'26A	FY'27E	FY'28E	FY'27E	FY'28E	FY'27E	FY'28E
Revenue	194.3	201.4	208.8	201.4	208.8	0%	0%
Adjusted EBITA	21.5	23.2	25.5	23.2	25.5	0%	0%
Margin (%)	*11.1%*	*11.5%*	*12.2%*	*11.5%*	*12.2%*	0%	0%
Adj. PBT	21.6	23.1	25.5	23.1	25.5	0%	0%
Adj. EPS diluted (p)	11.5	12.8	13.8	12.1	13.3	(5%)	(3%)
DPS diluted (p)	5.3	9.7	10.2	5.4	6.0	(44%)	(41%)
Net debt	(25.3)	(20.3)	(18.8)	(20.3)	(18.8)	0%	0%

Source: h2Radnor

Detailed h2Radnor Estimates

Figure 5: Key h2Radnor P&L estimates

April year end	FY25	FY26	FY27E	FY28E
Revenue	179.5	194.3	201.4	208.8
Organic growth	2.8%	6.2%	3.4%	3.7%
Acquisition growth	1.3%	2.0%	0.3%	0.0%
Total growth	**4.1%**	**8.2%**	**3.7%**	**3.7%**
Contribution	**60.7**	**67.7**	**69.8**	**73.7**
Margin	33.8%	34.9%	34.7%	35.3%
Margin change	(3.6%)	3.1%	(0.6%)	1.8%
Growth	0.3%	11.6%	3.0%	5.6%
Other operating income	0.2	0.2	0.2	0.3
Personnel costs	(17.7)	(19.7)	(19.4)	(20.3)
Depreciation and amortisation	(5.8)	(5.9)	(6.1)	(6.3)
Other operating expenses	(16.5)	(20.9)	(21.4)	(21.9)
Underlying operating profit	**20.9**	**21.5**	**23.2**	**25.5**
Margin	11.7%	11.1%	11.5%	12.2%
Margin change	(0.8%)	(5.1%)	4.1%	6.0%
Growth	3.3%	2.7%	7.9%	9.9%
Interest	2.4	0.2	(0.1)	0.0
Underlying PBT	**23.3**	**21.6**	**23.1**	**25.5**
Margin	13.0%	11.1%	11.5%	12.2%
Margin change	(2.8%)	(14.2%)	2.9%	6.5%
Growth	1.2%	(7.1%)	6.6%	10.4%
Underlying tax	(6.5)	(6.2)	(6.5)	(6.9)
Underlying tax rate	27.9%	28.8%	28.0%	27.0%
Underlying earnings	**16.8**	**15.4**	**16.6**	**18.6**
Growth	(10.4%)	(8.3%)	7.9%	11.9%
Shares (m)	126.3	125.0	137.3	139.0
Growth	(2.9%)	(1.1%)	9.9%	1.2%
Underlying EPS (p)	12.8	11.5	12.1	13.4
Growth	(11.4%)	(10.1%)	5.5%	10.6%
Shares diluted (m)	128.1	127.9	137.7	139.4
Dilution	1.4%	2.3%	0.3%	0.3%
Underlying diluted EPS (p)	**12.8**	**11.5**	**12.1**	**13.3**
Growth	(10.1%)	(10.1%)	5.1%	10.6%
DPS (p)	**9.5**	**5.3**	**5.4**	**6.0**
Growth	0.0%	(44.2%)	2.8%	10.6%
Payout	74.4%	46.2%	45.0%	45.0%

Source: h2Radnor, Company

Figure 6: Key h2Radnor Cash Flow estimates

April year end	FY25	FY26	FY27E	FY28E
Underlying operating profit	**20.9**	**21.5**	**23.2**	**25.5**
Depreciation and amortisation	5.8	5.9	6.1	6.3
Acquisition costs	(0.0)	(0.2)		
Reorganisation costs	(1.9)	(2.6)		
Equity settled share-based payments	(0.7)	(1.2)		
Expected credit loss on significantly aged receivables		(0.8)		
Sub-total	**24.1**	**22.6**	**29.2**	**31.8**
Receivables	(2.3)	(8.8)	(4.0)	(7.4)
Payables	(7.0)	2.1	5.0	5.8
Provisions	(1.0)	(0.1)		
Tax	(5.4)	(6.7)	(6.1)	(6.5)
Interest	3.5	3.2	(0.1)	0.0
Lease payments	(5.4)	(7.2)	(7.4)	(7.7)
Sub-total	**6.4**	**5.1**	**16.6**	**16.0**
Net capex on property, plant and equipment	(1.5)	(2.8)	(2.0)	(2.1)
Acquisitions	(0.4)	(4.7)	(1.2)	(1.2)
Purchase/sale of shares	(2.8)	(3.4)	(3.3)	(3.4)
Exercise of share options	0.4			
Dividends	(12.5)	(12.9)	(5.1)	(7.8)
Sub-total	**(10.4)**	**(18.6)**	**5.0**	**1.5**
Borrowing	5.8	14.5		
Total	**(4.6)**	**(4.1)**	**5.0**	**1.5**
Cash at the beginning	16.7	12.1	8.0	13.0
Cash at the end	12.1	8.0	13.0	14.5

Source: h2Radnor, Company

Figure 7: Key h2Radnor Balance Sheet estimates

April year end	FY25	FY26	FY27E	FY28E
Assets				
Non-current assets				
Property, plant and equipment	1.8	3.2	3.2	3.2
Right-of-use asset	21.1	22.3	23.1	23.9
Intangible assets & goodwill	11.1	13.2	13.7	14.2
Other intangible assets	0.2	0.1	0.1	0.1
Other investments	0.1	0.0	0.0	0.0
Deferred tax asset	0.6	0.6	0.6	0.6
Trade and other receivables	2.6	0.9	1.0	1.0
Sub-total	**37.5**	**40.3**	**41.6**	**43.0**
Current assets				
Contract assets	24.9	27.5	28.5	29.5
Trade receivables	57.9	64.7	67.1	69.5
Prepaid consideration subject to earn-out service conditions	2.3	4.1	4.3	4.4
Prepayments	8.9	8.4	8.7	9.0
Other receivables	1.5	1.2	1.3	1.3
Cash and cash equivalents	12.1	8.0	13.0	14.5
Sub-total	**107.5**	**113.9**	**122.7**	**128.3**
Total	**145.0**	**154.2**	**164.4**	**171.3**
Liabilities				
Non-current liabilities				
Other interest-bearing loans and borrowings	18.7	33.3	33.3	33.3
Lease liability	21.6	22.8	22.8	22.8
Other payables		0.4	0.4	0.4
Deferred tax liability	2.4	3.0	3.0	3.0
Acquistion consideration		1.1	1.1	1.1
Provisions	2.7	2.6	2.6	2.6
Sub-total	**45.4**	**63.1**	**63.1**	**63.1**
Current liabilities				
Lease liability	4.2	4.3	4.3	4.3
Trade and other payables	25.9	28.0	29.0	30.1
Provisions	0.2	0.3	0.3	0.3
Current tax liabilties	1.8	1.0	1.0	1.0
Sub-total	**32.1**	**33.5**	**34.6**	**35.6**
Net assets				
Share capital	13.4	13.7	13.7	13.7
Share premium	0.4	1.7	1.7	1.7
Merger reserve	(10.0)	(10.0)	(10.0)	(10.0)
Other reserves	19.8	20.2	20.2	20.2
Treasury reserve	(2.6)	(1.2)	(1.2)	(1.2)
Translation reserve	(0.2)	(0.4)	(0.4)	(0.4)
Retained earnings	46.8	33.4	42.5	48.4
Sub-total	**67.5**	**57.6**	**66.7**	**72.6**
Total	**145.0**	**154.2**	**164.4**	**171.3**

Source: h2Radnor, Company

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H2 Radnor Ltd
68 King William Street
London
EC4N 7HR

[*www.h2radnor.com*](http://www.h2radnor.com)

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