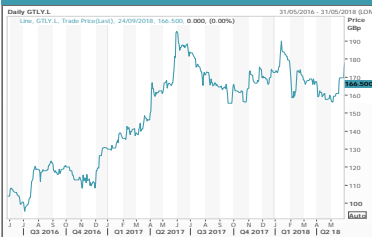


Business support services


Source: Eikon Thomson Reuters

Market data

EPIC/TKR	GTLY
Price (p)	169
12m High (p)	200
12m Low (p)	152
Shares (m)	108.0
Mkt Cap (£m)	182.5
EV (£m)	179.0
Free Float*	40.3%
Market	AIM

*As defined by AIM Rule 26

Description

Gateley provides legal services through 9 offices in the UK and one in Dubai. In 2015, it was the first full-service commercial law firm to float.

Company information

Non Exec Chairman	Nigel Payne
CEO	Michael Ward
FD, Secretary	Neil Smith
	+44 (0) 121 234 0000
	www.gateleyplc.com

Key shareholders

Directors (incl Mssrs Davies, COO and Ward, CEO)	5.5%
Liontrust	10.6%
Miton	7.2%
Premier	3.9%

Diary

17 July 2018	Finals
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Analysts

Stephen Clapham	020 7194 7640
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GATELEY (HOLDINGS) PLC

Fiscal 2018 Trading Update and Acquisition

Gateley is a broad-based commercial law and complementary professional services group. It is a leader in the UK mid market, and has seen double digit revenue and profit growth over more than 10 years. This trading update confirmed that full year FY18 results will meet market expectations, and was accompanied by its third acquisition since IPO, the first in the legal sector. The deal is highly complementary and was done with a mix of shares and cash, an option not available pre-IPO. We have fine-tuned our next year forecasts upwards for the acquisition, which is immediately earnings enhancing.

- ▶ **Current Trading:** The trading update confirmed that the group's strong organic growth continues and that full year profits will be in line with market expectations. Interims showed growth in revenue of 10% (mainly organic) and of 6.3% in EBITDA, and full year numbers will be somewhat better, while next year will be boosted by the latest and largest acquisition to date.
- ▶ **Forecasts:** We forecast organic revenue growth of 7% this year and next, leading to earnings per share growth of c. 8%. The latest acquisition fits well with Gateley's strength across many property and land related clients and further boosts revenue and profit growth.
- ▶ **Valuation:** the stock market will often ascribe a low/prudent valuation to a new sector, and as market participants become more familiar with the industry, the valuation has potential to grow. Increased activity in the sector may create further acquisition opportunities for Gateley.
- ▶ **Risks:** The company has broad exposure to the UK economy, primarily to SMEs. Earnings were resilient during the global financial crisis, and we would expect any economic slowdown to have limited impact, with some drift in working capital, and a lesser impact on earnings. Retention of key people remains good, and this acquisition includes 4 year lock-ins for key individuals in keeping with Gateley's IPO strategy, and management's objective of encouraging earlier and widespread equity ownership.
- ▶ **Investment summary:** Gateley is a high quality professional services company with significant growth potential as it has a small share of a growing and consolidating market. It has a good track record, a strong management team, and considerable growth potential. It offers a dividend yield of over 4%.

Financial summary and valuation

Year-end Apr (£m)	2015	2016	2017	2018E	2019E
Sales	60.9	67.1	77.6	83.0	96.0
EBITDA [1]	11.3	12.9	14.9	16.0	18.4
PBT Adjusted	10.5	12.0	13.8	13.9	16.0
EPS (Adj., p)	8.3	9.1	10.1	10.9	12.0
DPS (p)	5.1	5.6	6.6	7.0	7.4
Free cash flow	3.0	13.4	6.0	12.8	12.4
Net assets [2]	0.0	12.7	17.4	20.9	25.3
Net cash	-19.2	-4.2	-4.9	-0.1	3.2
PE	20.4	18.6	16.8	15.5	14.1
EV/EBITDA	16.7	14.1	12.4	11.3	9.7
Div yield	3.0%	3.3%	3.9%	4.1%	4.4%

1] excludes share based payments [2] LLP basis 2015

Source: Gateley accounts, Hardman & Co Research

Trading update

Making steady progress

The trading update confirmed that Gateley is on track to meet market expectations for the full year. The statement talks of the Board being “delighted” with revenue and profit growth in the year, which suggests we may receive a pleasant surprise with the full year numbers, although for the moment we are keeping our current year forecasts unchanged. We conceivably may have to revise up for fiscal 2018/19, given both the hint that current year “base” may be higher than we project and given more details on initial experience with the acquisition.

Importantly, the group has recorded growth across all segmental reporting lines, “reflecting Gateley’s strength in depth”, while property and corporate have achieved over 15% revenue growth, which continues an impressive performance. Staff numbers continue to grow as the company invests in additional capacity to meet increased demand.

CEO Michael Ward, commented “I am delighted with the strong performance of the business this year and the growth we have achieved in both fees and profitability.”

The final dividend will be in line with the stated dividend policy of distributing up to 70% of after-tax profits, and the finals will be on 17 July.

Acquisition

Concurrently with its trading statement, the group announced its third and largest acquisition since coming to the market, this time a legal business. GCL Solicitors LLP, a specialist in legal advice for land and property clients, is being acquired for a consideration of £4.15m in stock and cash on closing.

As with Gateley's conversion from LLP to Plc, LLP balance sheets typically have zero net assets, as their assets are largely WIP (work in progress) and debtors, financed by partners' capital. At GCL, these assets will be turned into cash in order to repay £1.32m of liabilities owed to the now former partners of GCL (the liabilities will be converted into loans). Future GCL working capital will of course have to be financed from operations and debt. Completion was announced on 23 May 2018.

GCL adds 79 staff to Gateley's Property Group, including 6 partners, significantly increasing the size of the Gateley Residential Development team which currently comprises 119 staff and sits within its Property Group. The partner base of GCL is well spread in age, from 38 to 55 years.

The addition of GCL will position Gateley's offering as one of the UK's largest specialist Residential Development teams. Gateley currently works with 18 out of the top 20 national housebuilders providing support on planning, land acquisition and sales of plots. GCL works largely with the next tier of smaller housebuilders across southern regions, with a client base complementary to that of Gateley.

Gateley are confident of revenue synergies across many existing Gateley legal disciplines including planning, taxation, corporate and employment. GCL should prove an ideal fit for its previous acquisitions, especially Hamer.

Although no headcount reduction is planned, there will be cost synergies, both immediately in service purchases (notably insurance, where Gateley enjoys greater scale) and going forward in that GCL can scale up using Gateley's existing back office support functions and infrastructure.

CEO Michael Ward commented, "I am delighted to welcome GCL to the Group. The acquisition will further strengthen our leading position in the Residential Development sector nationally and provide us with a substantial presence in the southern market, which we see as critical in developing a full service offering for our clients.

The outlay on closing will be financed by equity of £1.87m through the issue of 1.164m shares at 160.4p, and by £2.83m in cash, funded by the extension of existing bank facilities repayable over three years. This is a logical deal for Gateley, its largest since it came to the market as it strengthens the existing business offer in an area well-known to management and is immediately earnings enhancing.

Prior to IPO, legal acquisitions were common place for Gateley, but this one is the first made using the group's publicly traded equity as currency. Gateley can now use its stock in part to pay for businesses that previously would have been acquired for cash only. This is a consolidation move for Gateley within its industry and will not surprise investors. There is now an increase in activity in this opportunity rich sector, which will undoubtedly create further opportunities for established participants such as Gateley. This deal highlights Gateley's ability to create such deals using its Plc structure and is in line with the group's stated strategic objectives

Notes

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The full detail is on page 26 of the full directive, which can be accessed here: <http://ec.europa.eu/finance/docs/level-2-measures/mifid-delegated-regulation-2016-2031.pdf>

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