21st October 2015

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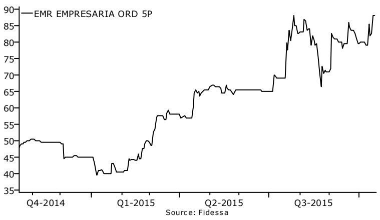
Support Services



Source: Fidessa

Market data	
EPIC/TKR	EMR
Price (p)	87.0
12m High (p)	92p
12m Low (p)	38p
Shares (m)	49.0m
Mkt Cap (£m)	£42.6m
Market	AIM

**As defined by AIM Rule 26*

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
CFO	Spencer James Wreford
Chairman	Anthony V Martin
	+44(0)1342 711 430
	www.empresaria.com

Next event	
Trading Update	Jan-16
Finals	Mar-16

Empresaria

Acquisition of Pharmaceutical Strategies

Empresaria has announced the acquisition of Pharmaceutical Strategies a provider of temporary workers to the US healthcare sector. The business is currently growing strongly and sector growth is expected to continue. The deal has been financed by a share placing which was oversubscribed and by small additional debt facility. The deal should be earnings enhancing in its first full year and the balance sheet remains in a comfortable position. The vendor's CEO has been locked in and the deal meets a number of the group's strategic objectives. It looks a great deal and should boost the company's growth.

- **Business:** 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.
- **Cost:** The deal is expected to cost approximately $12m overall with an initial payment of c. $7m, a 2016 payment based on 2015 profits, and subsequent performance based earnout payments. The deal should be earnings enhancing in the first full year in the group and the balance sheet remains strong.
- **Outlook:** The US healthcare market is experiencing higher patient volumes, following the Affordable Care Act. The US Department of Health and Human Services projects growth in health expenditures to average 5.8% per annum between 2014 and 2024.
- **Risks:** The profitability of the target has increased significantly this year, but there are structural factors supporting the market. UK companies entering the US market always take a risk, but the incumbent management will remain and are highly incentivised to perform.
- **Valuation:** Empresaria continues to be valued at a significant discount to its larger quoted peers. The placing has improved the liquidity of the group and should have broadened the shareholder base, which gives an opportunity for the gap to narrow.

Financial summary and valuation

December Year End	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)	17.4	14.2	11.0	10.0	8.7
EV/Sales (x)	0.3	0.3	0.3	0.3	0.3
EV/EBITDA (x)	9.3	8.6	6.5	6.4	5.2
Dividend Yield (%)	0.4%	0.4%	0.8%	0.8%	0.8%

Source: Hardman & Co Research

Analyst

Steve Clapham 020 7929 3399
sc@hardmanandco.com
Nigel Parson 020 7929 3399
np@hardmanandco.com

US Acquisition

Rationale

This is the group's first acquisition in the US, which gives it a platform there, affords it an additional presence in the healthcare sector and increases its exposure to temporary staff.

Pharmaceutical Strategies (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.

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

The US healthcare market is experiencing higher patient volumes. This is the result of a number of factors, including the Affordable Care Act ("ACA"), 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 will invest by acquiring 7.5% second generation equity ("2G Shares"). The valuation of the 2G Shares excludes the current year "threshold profits" of the underlying PS business. 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 "threshold profits" 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 Business/Financials

PS is based in Stoneham, Massachusetts, nine miles north of downtown 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.

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 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 (subject to adjustment to reflect the actual net assets of PS at Closing) 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.

First earn-out Consideration, will be payable (by 1 April 2017) based on any increase in the audited financial performance of PS in 2016 over 2015.

Second earn-out Consideration, will be payable (by 1 April 2018) based on any increase in the audited financial performance of PS in 2017 over 2015.

The Consideration is subject to an aggregate minimum of approximately $9.6m and an aggregate maximum of approximately $16m (each subject to the Net Assets Adjustment).

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.

Acquisition Payments

		$	£
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	3.9	2.6
First earnout	Apr-17	1.2	0.8
Second earnout	Apr-18	1.6	1.1
Total		14.0	9.3

Note: Rate £1=$1.50
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 and 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.

The Group also announced that 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, and 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.

In line with the group's strategy, the selling CEO is locked in and highly incentivised to improve the performance of the business, and from what we understand of the US sector, there should be something of a tailwind.

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.

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Hardman & Co Research Limited (trading as Hardman & Co)
11/12 Tokenhouse Yard
London
EC2R 7AS
T +44 (0) 207 929 3399

Follow us on Twitter @HardmanandCo

Hardman Team

Marketing / Investor Engagement

+44 (0)20 7929 3399

Richard Angus	ra@hardmanandco.com	+44 (0)207 148 0548
Max Davey	md@hardmanandco.com	+44 (0)207 148 0540
Keith Hiscock	kh@hardmanandco.com	+44 (0)207 148 0544
Felicity Reid	fr@hardmanandco.com	+44 (0)207 148 0546

Analysts +44 (0)20 7929 3399

Agriculture

Doug Hawkins	dh@hardmanandco.com
Yingheng Chen	yc@hardmanandco.com
Meghan Sapp	ms@hardmanandco.com

Bonds

Brian Moretta	bm@hardmanandco.com

Building & Construction

Tony Williams	tw@hardmanandco.com
Mike Foster	mf@hardmanandco.com

Consumer & Leisure

Mike Foster	mf@hardmanandco.com
Steve Clapham	sc@hardmanandco.com

Financials

Brian Moretta	bm@hardmanandco.com

Life Sciences

Mark Brewer	mb@hardmanandco.com
Martin Hall	mh@hardmanandco.com

Media

Derek Terrington	dt@hardmanandco.com

Mining

Ian Falconer	if@hardmanandco.com
Stephen Thomas	st@hardmanandco.com

Oil & Gas

Stephen Thomas	st@hardmanandco.com
Mark Parfitt	mp@hardmanandco.com

Property

Mike Foster	mf@hardmanandco.com

Services

Mike Foster	mf@hardmanandco.com

Social Impact

Mike Foster	mf@hardmanandco.com

Special Situations

Steve Clapham	sc@hardmanandco.com

Technology

Michael Kovacocy	mk@hardmanandco.com
Mike Foster	mf@hardmanandco.com

Hardman & Co

11/12 Tokenhouse Yard
London
EC2R 7AS
United Kingdom

Tel: +44(0)20 7929 3399
Fax: +44(0)20 7929 3377

www.hardmanandco.com

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