

# Healthperm Resourcing

H1 results

## Positive H118 results

Healthperm's H118 results showed strong revenue growth of 188% and a 281% rise in gross profit. Revenue was boosted by a 188% rise in the number of candidates deployed and gross profit has benefited from an improved mix. The company remains loss making as its ramp-up phase continues but the outlook is positive, supported by a good run of contract wins and entry into new markets. We have maintained our estimates and valuation.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/16	0.0	(1.8)	(20.8)	0.0	N/A	N/A
12/17	0.2	(1.9)	(23.9)	0.0	N/A	N/A
12/18e	0.9	(2.3)	(26.3)	0.0	N/A	N/A
12/19e	2.8	(0.6)	(7.3)	0.0	N/A	N/A

Note: \*PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

## H118 saw strong revenue and gross profit growth

Healthperm saw a 188% rise in candidates deployed in H118, which led to an equivalent rise in revenue to £297k. Gross profit rose even faster, by 281%, which reflects a more profitable mix. The company is still in a ramp-up phase so made a loss before taxation of £1,364k compared to a loss of £840k last year. Cash conversion improved, due mainly to better working capital, and we think as Healthperm grows, its position with customers and suppliers will strengthen, and its working capital will probably improve further.

## Positive outlook supported by contract wins

Healthperm had a good level of new contracts wins covering nine hospitals in H118, including with Medway, its largest ever contract. The company has also entered Ireland, Saudi Arabia and Kuwait for the first time. The tone of the outlook was encouraging, saying 'the board anticipates the group will agree additional mandates with NHS hospitals in the UK and healthcare organisations in the Middle East for the recruitment of nurses, doctors and other allied healthcare professionals'.

## A growing shortage of healthcare professionals

We think the structural outlook for Healthperm is good as its main markets of the UK and the Middle East have a growing shortage of healthcare professionals. We note that the UK's Migration Advisory Committee last month recommended that after Brexit the UK no longer should give favourable treatment to EU immigrants and we think this could favour Healthperm, which recruits from outside the EU.

## Valuation: DCF gives 121% upside

Our preferred measure for valuing companies is a DCF. We think this is particularly useful in the case of Healthperm, given it is likely to be loss making until 2019, but thereafter profits should rise sharply. Our base case DCF ascribes a value of 288p for Healthperm, which represents 121% upside to the current share price. Our DCF uses a WACC of 8.9% and a terminal growth rate of 1.0%.

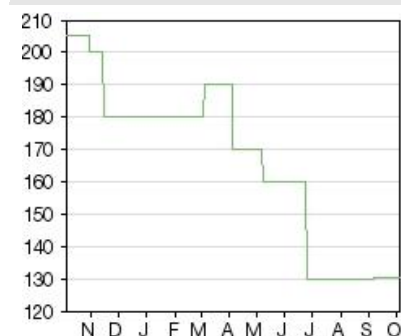
## Industrial support services

4 October 2018

**Price** **130.5p**  
**Market cap** **£11m**

Net debt (£m) at 30 June 2018	3.6
Shares in issue	8.7m
Free float	15.3%
Code	HPR
Primary exchange	NEX (Growth)
Secondary exchange	N/A

## Share price performance



%	1m	3m	12m
Abs	0.4	0.4	(36.3)
Rel (local)	0.7	1.6	(37.0)
52-week high/low	205p	130p	

## Business description

Healthperm Resourcing is a healthcare recruitment business, established to address the significant shortfalls in healthcare professionals in the UK and Ireland and the Middle East (61/39% of 2017 revenues). It supplies permanent employees, sourced mainly from the Philippines.

## Next events

FY18 pre-close	February 2019 (tbc)
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## H118 results show strong revenue growth

In H118 revenue grew by 188% due to an equivalent rise in the number of candidates deployed, from 50 to 144 (Exhibit 1). Gross profit increased by 281%, and we think the company can continue to improve its pricing as it speeds up the process of placing nurses through better selection and training. The operating loss widened by 54% we think as Healthperm continues to invest for growth.

**Exhibit 1: Healthperm's P&L results**

£000s	H117	H118	% change
Revenue	103	297	188%
Gross profit	62	236	281%
Operating loss	(792)	(1,217)	54%
Loss before taxation	(840)	(1,364)	62%
EPS (p)	(9.12)	(15.75)	73%

Source: Healthperm

## Expansion in all Healthperm's markets

All three of Healthperm's markets showed strong growth (Exhibit 2). The UK reported the fastest expansion where we think it has benefited from a good level of new contract wins.

**Exhibit 2: Healthperm's revenue by geography**

£000s	H117	H118	% change
UK	57	204	258%
UAE	15	30	100%
Philippines	31	63	103%
<b>Total</b>	<b>103</b>	<b>297</b>	<b>188%</b>

Source: Healthperm

### UK (69% of H118 revenue)

In August Healthperm won its largest UK contract, with Medway NHS Foundation Trust, and the statement said that in the remainder of 2018, the company will start recruitment for an initial 400 nurses. New recruitment contracts were also signed with East & North Hertfordshire NHS Trust, Sherwood Forest Foundation Trust and Buckinghamshire Healthcare NHS Trust, covering nine hospitals.

The Objective Structured Clinical Examination pass rate for Healthperm candidates was 96% vs the UK national average of 56%, which we think is an important competitive advantage. Healthperm also signed its first recruitment contract in Ireland.

### Middle East (10% of H118 revenue)

Healthperm's language training centre saw students increase from eight to 158, which we think should support future growth in the UK, where some of these students will want to redeploy. First time recruitment contracts were signed in Saudi Arabia and Kuwait. We think Saudi Arabia, in particular, could be a large opportunity for Healthperm given that its population is 33m, whereas the UAE, which is Healthperm's current base in the Middle East, has a population of nine million.

### Philippines (21% of H118 revenue)

The Philippines is Healthperm's main country for the recruitment of healthcare professionals and we think it reassuring the company was awarded an upgraded recruitment licence with the

Philippine Overseas Employment Administration. Healthperm has signed partnership agreements in India and the Caribbean which will diversify its currently reliance on the Philippines.

## Cash flow and balance sheet

Healthperm's cash outflow improved slightly in H118 (Exhibit 3). Although the loss before taxation increased, working capital was better. We believe that as Healthperm becomes larger it can negotiate better terms with customers and suppliers.

<b>Exhibit 3: Healthperm's cash flow before financing</b>			
£000s	H117	H118	% change
Loss before taxation	(840)	(1,364)	62%
Depreciation and amortisation	36	39	8%
Share-based payments		118	n/a
Interest	48	147	206%
<b>Sub-total</b>	<b>(756)</b>	<b>(1,060)</b>	<b>40%</b>
Receivables	(192)	(111)	(42%)
Payables	88	401	356%
<b>Sub-total</b>	<b>(860)</b>	<b>(770)</b>	<b>(10%)</b>
Capex	(3)	(29)	867%
<b>Total</b>	<b>(863)</b>	<b>(799)</b>	<b>(7%)</b>
Source: Healthperm			

To fund the cash outflow net debt increased from £2.6m at the end of FY17 to £3.6m, largely financed by the loan note facility. A total of £3.3m out of the £5.0m loan note facility has been drawn. The loan notes are provided by Gulf Healthcare Holdings and are repayable at the end of 2019.

## Valuation

Our preferred measure for valuing companies is a DCF. We think this is particularly useful for valuing Healthperm as the company is likely to be loss making during 2019, but we then expect a substantial increase in profits as revenues ramp up. DCFs also lend themselves to valuing business services companies, which are people rather than asset based and are usually highly cash generative. Our base case valuation of Healthperm is 288p, which represents 121% upside to the current share price of 130.5p (Exhibit 4). Our DCF uses a WACC of 8.9% and a terminal growth rate of 1.0%.

<b>Exhibit 4: DCF valuation</b>	
£000s	
Total discounted cash flows (FY19e to FY29e)	12,254
Discounted terminal value	17,742
<b>Total EV</b>	<b>29,997</b>
Net debt (FY18)	5,068
<b>Equity value</b>	<b>24,928</b>
Number of shares	8,658,181
<b>Value per share (£)</b>	<b>2.88</b>
Source: Edison Investment Research	

**Exhibit 5: Financial summary**

December year end	£'000s	2016	2017	2018e	2019e	2020e
		IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>	<b>Restated</b>					
Revenue	2	244	918	2,813	4,225	
Cost of Sales	(1)	(65)	(239)	(660)	(1,017)	
Gross Profit	1	179	679	2,152	3,208	
EBITDA	(1,683)	(1,712)	(1,837)	(142)	825	
Operating Profit (before amort. and except.)	(1,753)	(1,781)	(1,906)	(226)	710	
Intangible Amortisation	0	0	0	0	0	
Exceptionals	(1,394)	0	0	0	0	
Other	(1,754)	(1,960)	(2,585)	(2,378)	(2,497)	
Operating Profit	(3,147)	(1,781)	(1,906)	(226)	710	
Net Interest	(36)	(141)	(370)	(410)	(501)	
Profit Before Tax (norm)	(1,789)	(1,922)	(2,276)	(636)	209	
Profit Before Tax (FRS 3)	(3,183)	(1,922)	(2,276)	(636)	209	
Deferred tax	72	(147)	0	0	0	
Profit After Tax (norm)	(1,717)	(2,069)	(2,276)	(636)	209	
Profit After Tax (FRS 3)	(3,111)	(2,069)	(2,276)	(636)	209	
Average Number of Shares Outstanding (m)	8.3	8.7	8.7	8.7	8.7	
EPS - normalised (p)	(20.8)	(23.9)	(26.3)	(7.3)	2.4	
EPS - normalised and fully diluted (p)	(20.8)	(23.9)	(26.3)	(7.3)	2.4	
EPS - (IFRS) (p)	(37.6)	(23.9)	(26.3)	(7.3)	2.4	
Dividend per share (p)	0.0	0.0	0.0	0.0	0.0	
Gross Margin (%)	50.0	73.4	73.9	76.5	75.9	
EBITDA Margin (%)	N/A	N/A	N/A	N/A	19.5	
Operating Margin (before GW and except.) (%)	N/A	N/A	N/A	N/A	16.8	
<b>BALANCE SHEET</b>						
Fixed Assets	431	211	220	248	291	
Intangible Assets	270	201	201	201	201	
Tangible Assets	1	10	19	47	90	
Investments	160	0	0	0	0	
Current Assets	106	301	979	2,881	4,299	
Stocks	0	0	0	0	0	
Debtors	84	245	922	2,824	4,242	
Cash	22	56	57	57	57	
Other	0	0	0	0	0	
Current Liabilities	(727)	(463)	(1,742)	(5,337)	(8,017)	
Creditors	(727)	(463)	(1,742)	(5,337)	(8,017)	
Short term borrowings	0	0	0	0	0	
Long Term Liabilities	(412)	(2,711)	(5,156)	(6,017)	(6,116)	
Long term borrowings	(371)	(2,680)	(5,125)	(5,986)	(6,085)	
Other long term liabilities	(41)	(31)	(31)	(31)	(31)	
Net Assets	(602)	(2,662)	(5,699)	(8,225)	(9,543)	
<b>CASH FLOW</b>						
Operating Cash Flow	(1,517)	(2,123)	(2,066)	(423)	444	
Net Interest	0	0	(370)	(410)	(501)	
Tax	0	0	0	0	0	
Capex	0	(9)	(9)	(28)	(42)	
Acquisitions/disposals	0	0	0	0	0	
Financing	0	0	0	0	0	
Dividends	0	0	0	0	0	
Net Cash Flow	(1,517)	(2,132)	(2,445)	(861)	(99)	
Opening net debt/(cash)	804	349	2,624	5,068	5,929	
HP finance leases initiated	0	0	0	0	0	
Other	1,972	(143)	1	0	0	
Closing net debt/(cash)	349	2,624	5,068	5,929	6,028	

Source: Healthperm (historics), Edison Investment Research (forecasts)

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