House Stock
Current price 36.5p
Support Services
United Kingdom

AIM	
Reuters/Bloomberg	HYDG
Shares in Issue (m)	33.5
Market Cap (£m)	12.2
Net cash /(debt)	(0.4)
Enterprise Value (£m)	12.6
Website	www.hydrogengroup.com

Next update	
Interim Trading	August 2018

Performance	1M	3M	12M
Absolute (%)	37.7	35.2	1.4
Rel Index (%)	36.3	43.1	1.4

Relative to FTSE All Share

Hydrogen Group+

Back to growth and dividends

The specialist recruiter, undergoing a restructuring since the start of 2015, completed a significant acquisition in June 2017, with positive implications for future profitability and growth, in our view. With high exposure to the Energy sectors in 2014, the then collapse in the oil price took the business into recessionary conditions. Hydrogen Group acted quickly to reduce costs and to begin to reposition activities into growth sectors and geographic regions – maintaining its traditional niche focus. This action continued through FY2016A and FY2017A, positioning Hydrogen Group for positive development – funded organically. We believe that organic growth, on a sound balance sheet, is now resuming off solid results for FY2017A. The acquisition of Argyll Scott last June (for c£3.3m in shares) positions the group to leverage recruitment activity in the Far East. Our newly published forecasts now show positive earnings momentum; furthermore, the dividend is restored.

Argyll Scott accretion: The acquisition increased headcount by c40% adding staff in offices in London, Dubai, Hong Kong, Singapore, Bangkok, and Kuala Lumpur – a broad footprint across the APAC region. We believe that the acquisition builds on Hydrogen's international presence, particularly in the APAC region. In the year to end December 2016, Argyll Scott generated revenues of £18.1m with net fee income of £8.4m and operating profit of £0.8m. Consideration for the acquisition is in the form of 9.034m new shares (a valuation of c£3.3m and an operating profit multiple of c4.1x). Outstanding minority interests may be settled in a mix of cash and share consideration.

Valuation: Hydrogen Group is now well on course for a return to profitable growth post the challenges of end 2014 and FY2015 and a weak Energy sector. Restructuring is complete and costs appear under firm control to us. We believe that revenues are now growing organically as well as benefiting from the acquisition. Hydrogen Group trades off a current year PER of 8.1x (EV/EBITDA 5.7x), falling in FY2019F to 7.0x (EV/EBITDA 4.9x). Hydrogen's balance sheet retains a cash position of c£2.8m with net debt of c£0.4m, comfortable, in our view, in funding anticipated organic development. We also note a FY2017A NAV per share of 59.7p, against a current share price of 36.5p – a discount of c39%, which suggests an interesting value proposition to us, with earnings and cash flow growth resuming. Hydrogen's balance sheet is healthy, in our view, supporting a progressive dividend policy as cash flows continue to strengthen.

Results and Forecasts

Yr to Dec	NFI (£m)	EBITDA (£m)	Adj PBT (£m)	Adj EPS (p)	Net cash/ (debt) (£m)	PER (x)	EV/EBITDA (x)	FCF Yield (%)	DPS (p)	Div Yield (%)
2016A	17.7	0.8	1.0	3.7	2.0	9.8	14.5	(21.2)	0.0	0.0
2017A	22.8	0.8	0.9	3.2	(0.4)	11.5	14.9	(27.2)	0.8	2.2
2018F	28.2	2.1	1.8	4.5	(0.3)	8.1	5.7	3.7	1.0	2.7
2019F	29.9	2.5	2.2	5.2	0.1	7.0	4.9	6.3	1.1	3.0
2020F	31.1	2.8	2.3	5.4	1.4	6.8	4.4	13.2	1.2	3.3

Source: Company Data; Shore Capital Markets

Research analyst(s)

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Figure 1: Hydrogen Group – summary financials and forecasts

Yr to Dec	2016A	2017A	2018F	2019F	2020F
Summary Profit & Loss (£m)					
Sales	**116.2**	**125.9**	**136.8**	**143.2**	**148.2**
Cost of sales	(98.5)	(103.1)	(108.7)	(113.3)	(117.1)
Gross profit/net fee income (NFI)	**17.7**	**22.8**	**28.2**	**29.9**	**31.1**
Gross margin	*15.3%*	*18.1%*	*20.6%*	*20.9%*	*21.0%*
Operating costs	(16.9)	(22.0)	(26.0)	(27.4)	(28.4)
EBITDA	**0.8**	**0.8**	**2.1**	**2.5**	**2.8**
Depreciation & amortisation	(0.3)	(0.4)	(0.4)	(0.5)	(0.6)
EBITA	**0.5**	**0.4**	**1.7**	**2.0**	**2.2**
Other income	0.6	0.5	0.3	0.3	0.3
Net interest	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
PBT (adjusted)	**1.0**	**0.9**	**1.8**	**2.2**	**2.3**
Exceptional, SBPs	0.6	(2.3)	(0.4)	(0.4)	(0.4)
Amortisation of customer contracts	0.0	(0.1)	(0.1)	(0.1)	(0.1)
PBT (reported)	**1.7**	**(1.4)**	**1.4**	**1.7**	**1.9**
Tax	(0.1)	0.1	(0.2)	(0.3)	(0.4)
Tax rate	*8.1%*	*7.4%*	*14.0%*	*16.0%*	*20.0%*
PAT	**1.5**	**(1.3)**	**1.2**	**1.4**	**1.5**
Adjusted EPS (pence)	**3.72**	**3.17**	**4.52**	**5.18**	**5.39**
Growth	*219.9%*	*(14.9%)*	*42.7%*	*14.6%*	*4.0%*
Fully diluted number of shares (m)	23.7	30.8	36.5	36.5	36.5
Summary Cash Flow (£m)					
EBITA	**0.5**	**0.4**	**1.7**	**2.0**	**2.2**
Depreciation/amortisation	0.3	0.4	0.5	0.6	0.7
Working capital movement	(2.3)	(3.0)	(0.6)	(0.6)	(0.2)
Other	0.5	(0.1)	(0.2)	(0.2)	0.1
Interest paid	(0.1)	(0.0)	(0.1)	(0.1)	(0.1)
Taxation	(0.2)	(0.2)	(0.2)	(0.3)	(0.4)
Cash from operations	**(1.2)**	**(2.5)**	**1.0**	**1.4**	**2.2**
Net capex	(0.5)	(0.3)	(0.6)	(0.6)	(0.6)
Interest received	0.0	0.0	0.0	0.0	0.0
Free cash flow (FCF)	**(1.7)**	**(2.8)**	**0.5**	**0.8**	**1.6**
Net (acquisitions)/disposals	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	(0.4)	(0.3)	(0.4)
Shares issued (net)	0.0	0.0	0.0	0.0	0.0
Other financial (debt repaid)	1.8	2.6	(0.5)	(0.5)	0.0
Increase cash/(debt)	**0.1**	**(0.2)**	**(0.4)**	**(0.1)**	**1.2**
Closing cash	**3.1**	**2.9**	**2.5**	**2.4**	**3.6**
FCF per share (pence)	**(7.7)**	**(9.9)**	**1.4**	**2.3**	**4.8**
Summary Balance Sheet (£m)					
Intangible/tangible assets	1.7	1.7	1.8	1.8	1.7
Goodwill	10.1	12.2	12.2	12.2	12.2
Working capital	6.1	9.4	9.5	10.1	10.3
Capital employed	**17.9**	**23.4**	**23.4**	**24.1**	**24.3**
Investments/deferred tax/minority	(0.9)	(2.8)	(2.6)	(2.4)	(2.4)
Cash/(debt + contingent consideration)	**2.0**	**(0.4)**	**(0.3)**	**0.1**	**1.4**
Net assets	**19.0**	**20.2**	**20.5**	**21.9**	**23.3**
NAV per share (pence)	**84.4**	**59.7**	**61.3**	**65.4**	**69.5**

Source: Company Data; Shore Capital Markets

'Ultra-niche' business model

A focused operation

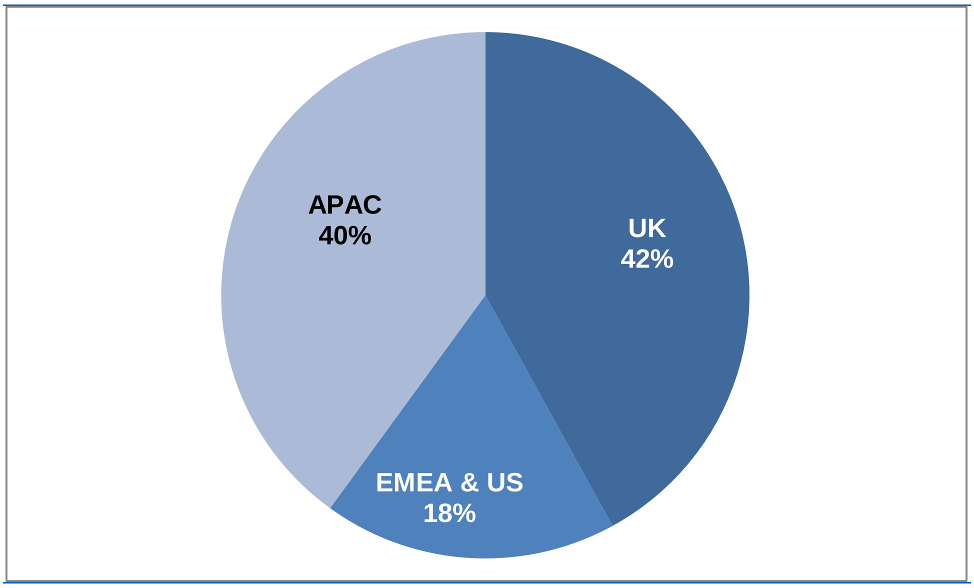
Hydrogen Group operates specialist recruitment services for clients in 'ultra-niche' markets where specialist knowledge, backed by specific services, are required to search out candidates – hard-to-find professionals.

Specific sectors served include: Business Transformation, Legal, Technology Transformation, Life Sciences, Energy, Finance and Sales & Marketing; the ultra-niche profile extends to the location of services, with a particular emphasis now apparent with Argyll Scott in the Far East region. The group focuses upon mid-to-senior management/technical roles (salaries in the £50k to £150k range).

49% of NFY from contract placements

The group offers recruitment services on both a 'Contract' and 'Permanent' basis in respect of the client solution required. Permanent contracts play very much to Hydrogen Group's specialist sector and geographic knowledge and represented c51% of net fee income (NFI) last year. Contract placements bring in regular income flow and this decreased from c66% of NFI in FY2016A to 49% in FY2017A – this being largely the impact of Argyll Scott coming into the group with Permanent business being more dominant in the APAC region.

Figure 2: Hydrogen Group– net fee income by region, FY2018F



Source: Shore Capital Markets

Strategy

Leverage and technology…

…emphasising digital innovation

Hydrogen Group defines its corporate strategy in terms of leveraging its resources and specialist sector and regional knowledge to drive growth: empowering candidates, 'powering' clients' businesses. Hydrogen Group seeks to leverage success through technology, promoting digital innovation to improve its consultants' productivity. Hydrogen Group continues to grow the number of market-leading niche businesses within the group through both acquisition (such as Argyll Scott) and through organically-led investment.

An incubator development model

Organic growth in particular is prioritised through establishing 'incubator' teams focused on an activity/vertical specialism and bringing these through a fast growth phase to mature market-leader status (as described in further detail overleaf).

FY2020 goals

A plan for profit growth

Hydrogen Group has set out three broad goals for the group's development through to end FY2020F, which we have conservatively encompassed in our forecast thoughts:

1) To grow NFI by over 10% p.a.

2) To grow adjusted PBT by at least 20% p.a.

3) Increase NFI to underlying PBT conversion from 4.0% in FY2017A to in excess of 10% (i.e. margin accretion).

Ambitious growth targets

With a substantial part of the group active in Contract placement, Hydrogen Group intends to build on this expertise as opportunities emerge internationally, particularly in Asia – aiming to more than triple activity over the next three years or so (from c150 contract staff at present, targeting 500+) .

Building teams – a focus on vertical markets and skills

Specialist teams to lead development…

…targeted incentives

A differentiator for Hydrogen Group in a market with what we consider to be fairly low barriers to entry is its capability in working for clients seeking to build and recruit teams for their businesses, often with a specific functionality/process/project in mind. Hydrogen Group works across vertical markets but retains specialist knowledge and teams to service particular clients in Business Transformation, Legal, Technology Transformation, Life Sciences, Energy, Finance and Sales & Marketing. Hydrogen Group aims to build teams up to NFI generation of c£1.0m, incentivising personnel through profit and equity participation.

Energy practice now <6% of NFI

The past few years, since the downturn in energy markets in particular from 2014, have presented challenges for Hydrogen. Energy was a major technical segment for the group and a mainstay of its growth strategy. Representing c30% of NFI in FY2015A, in our estimation, for FY2017A this had fallen to and stabilised at c6% of group NFI. Brexit in FY2016A also provided a headwind to UK professional recruitment, in Legal for example. We believe that this is also now in recovery.

Brexit weakness now fading

Overall, the UK does feel stronger to us, with Brexit plans now firming, but still with 'bumps' to come no doubt. As Figure 2 suggests, approaching 60% of Hydrogen's NFI is generated in overseas markets and we expect to see stronger growth in these territories in the future than in the UK. We believe the growth opportunity in Asia in particular to be buoyant. One of the major priorities for Hydrogen's management is likely to be staff retention therefore, with appropriate incentives for growth and profit generation.

Culture – targeting 'fast growth'

Collegiate, international

Hydrogen Group operates and manages its business within a 'collegiate' and international culture. The group operates out of offices in London and Edinburgh in the UK, Houston in the USA, Singapore, Kuala Lumpur in Malaysia and Sydney in Australia, while Argyll Scott has added offices in Bangkok in Thailand, Hong Kong and Dubai in the UAE.

The drive towards 'Fast Growth'

A leader in the use of IT

Teams are organised into 'Incubation', 'Fast Growth' and 'Market Leaders' in addressing verticals and resourced accordingly with staff incentivised according to the development phase reached – leadership and a feeling of ownership being a critical objective in the management of teams. Staff motivation also comes in clear career progression, with goals, objectives and training set. Hydrogen Group aims to be a leader in the use of its IT systems and resources, leveraging the 'cloud' and established and emerging digital technologies in recruitment.

Full-year results for FY2017

The dividend reflects confidence…

…a progressive policy to follow

Full-year results to end December 2017 demonstrated robust group development including the acquisition and integration of the Argyll Scott business in June. Management's confidence in the completed turnaround and restructuring of the business and the outlook for FY2018F was demonstrated by the return to the dividend list with a proposed final payment for FY2017A of 0.8p. A progressive dividend policy is now proposed, reflecting the expected positive financial development from this point.

Technology strong…

…weakness in Life Sciences addressed

Revenues for FY2017A grew by c8% to £125.9m, driven largely by the acquisition of Argyll Scott which further extends the group's activities into Asia and in Permanent recruitment (though with a strategy to accelerate growth in the more stable Contract business). Net fee income (NFI) grew by 29% to £22.8m, reflecting the acquisition and the restructure of existing operations. Looking at the performance of verticals within the group, Technology Transformation saw its NFI grow by c31% to £3.1m, leveraging a number of existing clients' technology project roll-outs in the year. Elsewhere, the Life Sciences practice struggled somewhat due to a number of staff issues and saw its NFI fall back by 31% to £2.7m, this prompting management action to address the performance issues.

Current trading materially exceeding that of a year ago

Growth was evident across both the EMEA & US and APAC regions, though the acquisition brought a particularly noticeable impact to the latter with NFI in APAC growing from £3.3m in FY2016A to £7.1m last year – setting the scene for expected further progress in FY2018F. We note management's comment that trading so far in FY2018F has materially exceeded that for the same period last year.

A robust balance sheet set to grow through improving cash generation

NAV of c59.7p per share

Underlying PBT was £0.8m, flat in FY2017A, but reflecting the restructuring priority of management for the business last year. On our measure, adjusted diluted EPS (reflecting a higher number of shares in issue due to the acquisition) fell back from 3.7p to 3.0p. At the reported level, exceptional items of £2.0m weighed, reflecting the acquisition, integration and restructuring costs incurred to reposition the group for growth. Net debt ended the year at £0.4m, with cash at £2.8m (we note that a number of large receivables were also received in early January, reducing this figure by a net c£1.0m). The group's balance sheet records net assets of c£20.2m, against a current market capitalisation of c£10.9m – an NAV of 59.7p as at end December 2017.

Cost focus continues…

…staff incentivisation and motivation

The return to profitability in FY2016A reflected stringent cost management across Hydrogen's office network – we expect this cost focus, also strongly evident in FY2017A with a further initiative to incentivise key staff through equity profit participation, to continue to underpin the meeting of the group's strategic targets over the next few years. We look forward to further organic profit and earnings recovery and growth across the group through the current year, leveraged by the Argyll Scott acquisition.

Acquiring growth: Argyll Scott

Acquisition leverage

In assessing the impact of the acquisition of Argyll Scott on Hydrogen, we agree with Hydrogen's management that this offers an opportunity to accelerate revenue growth for the group, generate economies of scale in key emerging markets and dilute central cost ratios, also offering potential operating synergies and with further client and market diversification (NFI is set to grow to approaching 60% originating from outside the UK post acquisition, as shown in Figure 2 for FY2018F). Furthermore, the acquisition potentially leverages Hydrogen's investment in digital marketing and infrastructure (as per group strategy objectives), accelerating the group's business and growth plan, and addresses greater scope to meet client needs – enhancing Hydrogen's competitive position in the wider market.

Argyll Scott to remain a separate brand, leading APAC development

Within Hydrogen Group, Argyll Scott will continue to trade under its own brand with its CEO John Hunter joining Hydrogen's Board as an Executive Director with responsibility for the group's internal finance and IT functions and further developing the group's business.

Highly complementary to the group

We believe Argyll Scott to be a highly complementary addition to the group, adding to 'specialist' credentials and critical mass in chosen territories in Asia. The business brings existing expertise in Financial, Technology and Consumer (FMCG) verticals in particular.

The integration of the businesses

Integration well underway…

…cost benefits to come

The integration process of Argyll Scott into the Hydrogen Group commenced on the completion of the acquisition in June 2017. Argyll Scott, with a focus on recruitment activity in Asia, predominantly services Permanent business, with Contract being an opportunity and now a target for future growth and development. Synergies have been identified and are being implanted in back office processing within the combined group, with benefits beginning to increase through the current year.

Move to unified IT systems and CRM underway

Through FY2018F the group intends to move onto a single group-wide IT platform; significant cost savings are anticipated from this. A common customer relationship management (CRM) system (based around Salesforce) is also being implemented. Alongside cost benefits being realised by the integration of the businesses, management believes that in key regions in Asia, the group's scale has now reached a 'critical mass' level with self-sustaining growth now taking hold.

Financials

Financial improvement expected to continue to strengthen

Figures 4 to 7 set out the recent financial performance of the Hydrogen Group through FY2015A to FY2017A with our forecast expectations for FY2018F to FY2020F. We expect the financial performance to continue to see a steady improvement.

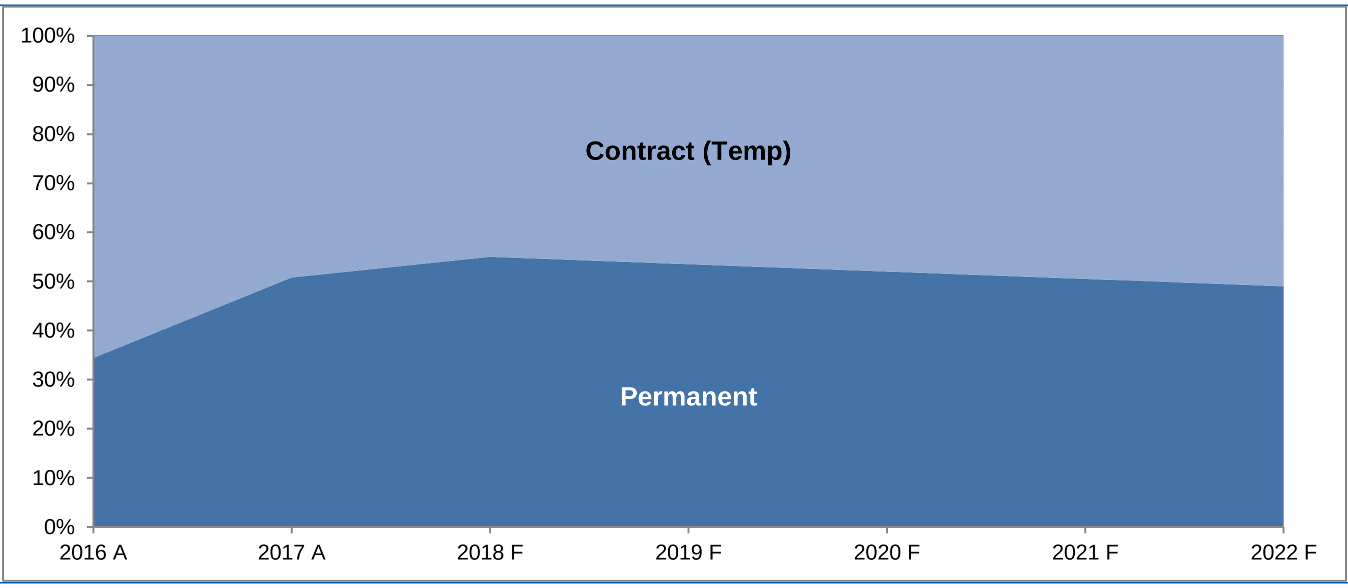
Financing resources in place

The faster organic growth we expect to emerge over the next few years is set to utilise more cash in working capital, but the group has adequate financing resources in place with the financing facility totalling £18m (the interest rate payable on this we understand to be at 1.8% over base in the UK, a measure of the perceived quality of the book).

A focus on the growth in Contract, driving future revenue and earnings quality

It should be noted that the pattern of organic growth we expect from FY2019F is for Contract business to grow faster than Perm. Perm, generating fees, sees cash receipts grow more or less in line with revenues – see Figure 3. Contract revenues, recurring fees from the employment of contract staff from the group, see higher-quality revenue flows, but for a slower working capital cycle as employees are paid by the group with cash collections from clients following this.

Figure 3: Hydrogen Group – revenue split development expectation between Contract and Permanent business



Source: Company Data; Shore Capital Markets

Balance sheet robust

Hydrogen Group sports a robust balance sheet, which has strengthened since the difficulties seen in Energy in FY2014A. Cash generation has been a priority and working capital has visibly been judiciously managed. The business, across its regional operations, is not cash constrained and only limited use is being made of the debt facilities available to the group in the form of invoice financing.

Nominal group financing costs

Finance costs for the group, reflecting the above, are expected to remain nominal, seeing the full impact of operating leverage recovery in EBITA flow through to the bottom line. The exceptional finance income of £980k in FY2016A is related to foreign exchange gains on inter-company cash balances.

Tax assets expected to be utilised

Looking to the calculation of adjusted profitability, we add back exceptional costs (reflecting any restructuring, acquisition, integration and non-recurring financial expenses) and acquisition-related amortisation. Looking to adjusted diluted EPS, we also add back share-based payments and adjust the exceptional and acquisition cost items for any dis-allowable tax. Hydrogen's tax computation is expected to continue to benefit from a number of tax assets, reflecting past losses and losses acquired through Argyll Scott' past activities. We forecast an underlying tax rate of c14% for FY2018F, rising to c16% in FY2019F.

Dividends

A progressive dividend policy to reflect anticipated growth

We believe that Hydrogen, as evidence of its continued recovery and return to growth, is now set to return to the dividend list through a progressive pay-out policy, as outlined by the company. Following the reinstatement of the final dividend for FY2017A at 0.8p, we expect a payment of 1.0p for FY2018F, rising by 10% to 1.1p for FY2019F. We note forecast dividend cover from adjusted EPS for FY2019F of c4.7x.

Figure 4: Hydrogen Group – revenue to NFI model (£m)

Yr to Dec	2016A	2017A	2018F	2019F	2020F
Revenue					
EMEAA	104.428	107.953	114.430	119.007	122.578
APAC	11.818	17.900	22.375	24.165	25.615
Group	**116.246**	**125.853**	**136.805**	**143.172**	**148.193**
Growth					
EMEAA	*(10.3%)*	*3.4%*	*6.0%*	*4.0%*	*3.0%*
APAC	*64.0%*	*51.5%*	*25.0%*	*8.0%*	*6.0%*
Group	***(6.0%)***	***8.3%***	***8.7%***	***4.7%***	***3.5%***
Net fee income (NFI)					
EMEAA	14.403	15.727	18.309	19.041	19.612
APAC	3.335	7.066	9.845	10.874	11.527
Group	**17.738**	**22.793**	**28.154**	**29.915**	**31.139**
NFI margin					
EMEAA	*13.8%*	*14.6%*	*16.0%*	*16.0%*	*16.0%*
APAC	*28.2%*	*39.5%*	*44.0%*	*45.0%*	*45.0%*
Group	***15.3%***	***18.1%***	***20.6%***	***20.9%***	***21.0%***
NFI growth					
EMEAA	*(8.3%)*	*9.2%*	*16.4%*	*4.0%*	*3.0%*
APAC	*(9.8%)*	*111.9%*	*39.3%*	*10.5%*	*6.0%*
Group	***(8.6%)***	***28.5%***	***23.5%***	***6.3%***	***4.1%***

Source: Company Data; Shore Capital Markets

Figure 5: Hydrogen Group – income statement model (£m)

Yr to Dec	2016A	2017A	2018F	2019F	2020F
Turnover	**116.246**	**125.853**	**136.805**	**143.172**	**148.193**
Turnover growth	*(6.0%)*	*8.3%*	*8.7%*	*4.7%*	*3.5%*
Cost of Sales	(98.508)	(103.060)	(108.651)	(113.257)	(117.053)
Cost growth	*(5.5%)*	*4.6%*	*5.4%*	*4.2%*	*3.4%*
Net fee income	**17.738**	**22.793**	**28.154**	**29.915**	**31.139**
Gross Margin	*15.3%*	*18.1%*	*20.6%*	*20.9%*	*21.0%*
Administrative Expenses	(16.892)	(21.975)	(26.028)	(27.444)	(28.378)
Expense growth	*-10.4%*	*30.1%*	*18.4%*	*5.4%*	*3.4%*
EBITDA	**0.846**	**0.818**	**2.126**	**2.471**	**2.761**
Depreciation	(0.318)	(0.379)	(0.437)	(0.467)	(0.581)
EBITA	**0.528**	**0.439**	**1.689**	**2.004**	**2.180**
EBITA margin over NFI	*3.0%*	*1.9%*	*6.0%*	*6.7%*	*7.0%*
Share based payments	(0.331)	(0.199)	(0.350)	(0.350)	(0.350)
Amortisation of intangibles	0.000	(0.052)	(0.100)	(0.100)	(0.100)
Exceptional items	0.000	(1.963)	0.000	0.000	0.000
Goodwill impairment	0.000	0.000	0.000	0.000	0.000
Other income	0.553	0.539	0.250	0.250	0.250
Operating Profit	**0.750**	**(1.236)**	**1.489**	**1.804**	**1.980**
Exceptional finance & FX	0.980	(0.100)	0.000	0.000	0.000
Finance income	0.000	0.012	0.005	0.010	0.015
Finance costs	(0.063)	(0.123)	(0.100)	(0.100)	(0.100)
Profit Before Tax	**1.667**	**(1.447)**	**1.394**	**1.714**	**1.895**
Tax	(0.135)	0.107	(0.195)	(0.274)	(0.379)
Tax rate	*6.8%*	*(15.0%)*	*14.0%*	*16.0%*	*20.0%*
Profit after tax	**1.532**	**(1.340)**	**1.199**	**1.440**	**1.516**
Other comprehensive income - FX	(0.192)	(0.250)	0.000	0.000	0.000
Minority interest	0.000	0.108	0.000	0.000	0.000
Discontinued	0.000	0.000	0.000	0.000	0.000
Net attributable earnings	**1.340**	**(1.482)**	**1.199**	**1.440**	**1.516**
Dividends	0.000	0.000	(0.380)	(0.346)	(0.381)
Retained	**1.340**	**(1.482)**	**0.819**	**1.094**	**1.135**
Adjusted PBT	**1.018**	**0.867**	**1.844**	**2.164**	**2.345**
Growth	252.2%	-14.8%	112.7%	17.4%	8.3%
Per share					
Basic EPS as stated (p)	6.80	(4.37)	3.58	4.30	4.52
Adjusted diluted EPS (p)	**3.72**	**3.17**	**4.52**	**5.18**	**5.39**
Growth	219.9%	-14.9%	42.7%	14.6%	4.0%
Total Dividend (p)	**0.00**	**0.80**	**1.00**	**1.10**	**1.21**
Dividend growth	#DIV/0!	#DIV/0!	25.0%	10.0%	10.0%
Weighted av.no. of shares (m)	22.529	28.176	33.500	33.500	33.500
Fully diluted no. of shares (m)	23.742	30.774	36.500	36.500	36.500

Source: Company Data; Shore Capital Markets

Figure 6: Hydrogen Group – cash flow model (£m)

Yr to Dec	2016 A	2017 A	2018 F	2019 F	2020 F
Cash flows from operating activities					
Profit for the year	**1.667**	**(1.447)**	**1.394**	**1.714**	**1.895**
Depreciation & amortisation	0.318	0.379	0.437	0.467	0.581
Amortisation	0.000	0.052	0.100	0.100	0.100
Impairment of Goodwill/assets	0.000	0.000	0.000	0.000	0.000
Sale of assets and equipment	0.000	0.000	0.000	0.000	0.000
Provisions & exceptionals	(0.074)	1.469	(0.400)	(0.300)	(0.050)
Share based payments	0.331	0.199	0.350	0.350	0.350
Net finance charge	(0.917)	0.111	0.095	0.090	0.085
Change in working capital	(2.267)	(2.972)	(0.635)	(0.643)	(0.204)
Operating cashflow	**(0.942)**	**(2.209)**	**1.341**	**1.779**	**2.757**
Interest paid	(0.063)	(0.045)	(0.100)	(0.100)	(0.100)
Income taxes paid	(0.239)	(0.247)	(0.224)	(0.315)	(0.436)
Cash from operations	**(1.244)**	**(2.501)**	**1.017**	**1.363**	**2.221**
Cash flows from investing activities					
Net interest received	0.000	0.000	0.010	0.015	0.020
Purchase of fixed assets	(0.501)	(0.301)	(0.575)	(0.608)	(0.630)
Sale of assets	0.000	0.000	0.000	0.000	0.000
Associate investment/Other	0.000	(0.150)	0.000	0.000	0.000
Net acquisition of businesses	0.000	0.000	0.000	0.000	0.000
Cashflow after investment flows	**(1.745)**	**(2.952)**	**0.452**	**0.770**	**1.611**
Financing activities					
Net dividends paid	0.000	0.000	(0.380)	(0.346)	(0.381)
Issue of ordinary shares (net)	0.000	0.000	0.000	0.000	0.000
Net loans	0.633	2.045	(0.500)	(0.500)	0.000
Exchange gain (loss)	1.184	0.571	0.000	0.000	0.000
Increase in cash	**0.072**	**(0.336)**	**(0.427)**	**(0.077)**	**1.230**
Cash equivalents at end of period	**3.106**	**2.770**	**2.342**	**2.266**	**3.496**
Net debt					
Cash	3.106	2.770	2.342	2.266	3.496
Debt	(1.087)	(3.132)	(2.632)	(2.132)	(2.132)
Provisions/Other	0.000	0.000	0.000	0.000	0.000
Total net debt	**2.019**	**(0.362)**	**(0.290)**	**0.134**	**1.364**
Free cash flow	**(1.745)**	**(2.802)**	**0.452**	**0.770**	**1.611**
FCF per share (p)	**(7.7)**	**(9.9)**	**1.4**	**2.3**	**4.8**
Free cash flow post dividends	**(1.745)**	**(2.802)**	**0.073**	**0.423**	**1.230**

Source: Company Data; Shore Capital Markets

Figure 7: Hydrogen - balance sheet model (£m)

	2016A	2017A	2018F	2019F	2020F
Assets					
Tangible & Intangible Fixed Assets	**1.650**	**1.148**	**1.286**	**1.427**	**1.476**
Acquisition intangibles	**0.000**	**0.573**	**0.473**	**0.373**	**0.273**
Cumulative Goodwill	**10.141**	**12.214**	**12.214**	**12.214**	**12.214**
trade debtors	9.545	13.868	12.118	12.266	12.265
Other receivables	0.214	0.776	0.457	0.463	0.463
Prepayments & accrued income	8.093	9.121	10.288	10.414	10.414
All Receivables	**17.852**	**23.765**	**22.863**	**23.143**	**23.142**
Other financial assets	0.099	0.312	0.250	0.250	0.250
Cash	3.106	2.770	2.342	2.266	3.496
Total assets	**32.848**	**40.782**	**39.428**	**39.673**	**40.851**
Liabilities					
Trade creditors	(1.505)	(2.490)	(1.072)	(1.043)	(1.026)
Other payables	(0.947)	(1.496)	(4.019)	(3.910)	(3.848)
Accruals & deferred income	(9.340)	(10.346)	(8.305)	(8.080)	(7.953)
All Payables	**(11.792)**	**(14.332)**	**(13.395)**	**(13.032)**	**(12.828)**
Debt	**(1.087)**	**(3.132)**	**(2.632)**	**(2.132)**	**(2.132)**
Tax/other	**(0.645)**	**(0.980)**	**(0.980)**	**(0.980)**	**(0.980)**
Redemption liability	**0.000**	**(1.020)**	**(1.173)**	**(1.228)**	**(1.271)**
Provisions	**(0.309)**	**(1.105)**	**(0.705)**	**(0.405)**	**(0.355)**
Total liabilities	**(13.833)**	**(20.569)**	**(18.885)**	**(17.777)**	**(17.565)**
Shareholders' funds	**19.015**	**20.213**	**20.543**	**21.896**	**23.286**
NAV (p)	**84.4**	**59.7**	**61.3**	**65.4**	**69.5**
Working capital movements					
Total receivables	17.852	23.165	22.863	23.143	23.142
Total payables	(11.792)	(14.332)	(13.395)	(13.032)	(12.828)
Total receivables + payables	**6.060**	**8.833**	**9.468**	**10.111**	**10.315**
B/S movement in working capital	**(2.488)**	**(2.773)**	**(0.635)**	**(0.643)**	**(0.204)**
Revenues	116.246	125.853	136.805	143.172	148.193
Cost of sales	(98.508)	(103.060)	(108.651)	(113.257)	(117.053)
Debtor days	***56***	***69***	***61***	***59***	***57***
Creditor days	***44***	***51***	***45***	***42***	***40***
Total Working Capital % Sales	***5.3%***	***7.7%***	***7.1%***	***7.2%***	***7.1%***

Source: Company Data; Shore Capital Markets

Directors

Over the past two years Hydrogen Group has invested in strengthening its key group leadership team with strength in depth at the executive level below the Board. The acquisition of Argyll Scott has greatly assisted this process, bringing additional senior talent. The Board is comprised as follows:

Stephen Puckett, Chairman

Member of the Board since 2012. Chartered Accountant.

Mr Puckett has significant knowledge of the global recruitment industry with over 11 years' experience as Group Finance Director of Michael Page International plc (now Page Group plc). He is also a NED of: ITE Group plc and Redcentric plc

Ian Temple, Chief Executive

Member of the Board since 2005. Chartered Accountant.

Mr Temple is the co-founder of Hydrogen Group and an experienced recruiter with over 20 years' experience across the sector.

Richard Green, Senior Independent Director

A member of the Board since March 2016. Chartered Accountant.

Chair of the Remuneration Committee and Audit Committee and a member of the Nomination Committee.

Mr Green is an experienced NED in both public and private companies. Previously Managing Partner and subsequently Chairman of August Equity LLP. Director of Northern Venture Trust PLC, Qannas Investments Ltd and the non-executive Chairman of Technology Venture Partners LLP.

John Hunter, Executive Director

Appointed to the Board on the acquisition of Argyll Scott. Chartered Accountant.

Mr Hunter joined the former AIM-listed recruitment group Imprint plc on its inception in 2001 as Chief Financial Officer. At Imprint plc he also served as Chief Operating Officer and Chief Executive Asia Pacific & Middle East and was instrumental in the development of the business to a market capitalisation, at its peak, of some £100m. In early 2010, Mr Hunter co-founded Argyll Scott's Asian business.

Given the wealth of Chartered Accountancy qualifications and experience on the Board of Hydrogen, it is not the intention to appoint a Finance Director to the Board at the current time. The group has an experienced full-time Director of Finance who reports to John Hunter.

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