



Interquest (ITQ), 55p

Towards the end of the last Millennium one of the most successful investments was Abacus, a fast-growing IT recruitment firm, whose shares increased from 20p to 186p when it was eventually taken over by Michael Ashcroft's Carlisle Holdings in late 1998. Founder, Gary Ashworth, walked away with a cool £8.5m, but rather than sitting on a beach he is now attempting to repeat the trick with his new IT recruitment vehicle, Interquest, which floated in May 2005 at 55p. At the time, Ashworth injected £2.5m for a 41% stake, while another big holder is non-executive Luke Johnson (also at Abacus) with nearly 12%. Second time around, Ashworth is ambitious as ever.

Ashworth has built Interquest from a business making a small loss on turnover of £12m seven years ago to one whose pretax profit peaked at £4.9m on sales of £105m in 2008 before collapsing in 2009. While its fortunes inevitably waned last year current trading has significantly improved and Ashworth is clearly miffed that the shares are stuck around its float price, even though the business should be debt free by the autumn.

Operating a "buy & build" strategy Interquest has acquired four businesses post the float, each for between £4m-£5.5m. The two largest comprise PeopleCo, an IT contracting business, specialising in placing candidates with skills in SAP, ERM and software testing and Sand

Resources, a public sector focused business on the Government's approved supplier list. The others brought in specialisms in manufacturing and infrastructure, security and data management respectively.

Today, Interquest has a network of six offices and operates in roughly three equal areas: financial markets, such as big banks and insurance companies; general IT (retail and utilities); and the public sector (FSA and Bank of England to NHS and the Home Office). Work includes SAP upgrades, systems integration, data warehousing and compliance / risk management with contracting comprising 80% of net fee income and permanent placements 20%, compared with a 71:29 split in 2008.

Although profits fell 40% last year it's important to remember that the market always looks 12-18 months ahead and there are two reasons why the future should be better. First, current trading is much improved with bigger margin permanent placements 40% higher in the last quarter than the average of the first three while contractor numbers have increased 11% to 1,031 in the first eight weeks of this year. Secondly, Interquest has launched nine new joint ventures to milk any upturn and is providing its own office space and funding for the salaries, training and back office in return for a majority stake and the great thing is that all set-up costs were expensed last year.

Broker Cenkos forecasts pretax profits to recover to £3.6m (eps: 8p) this year and £3.9m (8.8p) next. With a good chance of upgrades as the IT cycle recovers the prospective PE of 6.9 looks too low. *Buy.*

