



ITQ's quest is to be the go-to-provider of niche high-earning staff that clients need to create the platforms on which the new digital economy is being built.



A report by
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Jon has advised on a large number of public and private transactions as well as M&A advice.

Reporting
December 2015 Finals

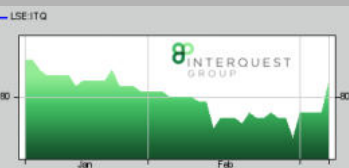
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Symbol: **LSE:ITQ**

Sector: Support Services

Price Performance

1st Jan - 7th March 2016



Source :ADVFN

Key Data

Price

81p (80p - 82p)

12m High – Low

104-77p

Market Cap

£29.4 (m)

Turnover

£158 (m)

Profit Before Tax

£5 (m)

EPS

10p*

PE Ratio

8x

Yield

3.75%

Website:

www.interquestgroup.com

* Adjusted Diluted

ITQ's quest is to be the go-to-provider of niche high-earning staff that clients need to create the platforms on which the new digital economy is being built.

The 12 months to December 2015 results are announced today. These results could be the fulcrum point, as this 'flexible' recruitment company, under its new management, matures into an appropriately structured and organised supplier of talent for the 'game changing' digital economy.

Less obvious competitors in this space are more highly rated, perhaps because they have not yet had to go through the corporate growing pains needed to become an agile contender. You can currently buy InterQuest at just a prospective P/E of 8.1x earnings with a 4.4% yield, **leaving potential for a significant re-rating in 2016.**

If the share price matched its peer group, **it would be 140p.** Our normalised profit forecast will show continuing robust organic earnings growth. The rating given to these earnings should, we argue, be at a premium to the peer group's P/E of 14x.

Today's results are evidence of a robust business, as there was the potential distraction of being put up for sale and a new top management team taking control. The adjusted figures show an 11% increase in Profit Before Tax (PBT) to £5m. The adjustments are for a number of non-recurring items: restructuring costs, tax, acquisitions and disposals. These muddy comparisons, but the actual PBT increased 41% to £4.1m from £2.9m.

Earnings Per Share (EPS) adjusted and diluted were 10p, up from 9p. Earnings Before Interest Tax and Amortisation (EBITA) increased 12% to £5.5m, which shows a firm operating performance.

Net Debt for the year decreased to £6m from £8.3m, while the net cash generated from operating activities increased to £6.1m from £5.4m. The dividend progressed to 3p from 2.5p, giving a yield of 3.75%.

Revenue improved 5% to £158m. However, of greater importance to a recruitment company; the **NFI (Net Fee Income)**, improved a more sedentary 3% to £23.8m. This lower figure belies what is beneath, as we will learn that the InterQuest strategy is to increase focus on higher margin business, leaving the more generic technology recruitment to its peers.

The measurement of success will be from the growth in earnings evidenced by improving margins as InterQuest ploughs through the sowing phase to **deliver stronger organic growth by strengthening the business mix and market position.** Interestingly, the un-used bank facility of £10m-plus could bankroll add-on acquisitions, which is a more likely strategy than the new team seeking corporate buyers to add shareholder value.

Time Travel



**Flexible
branded
structure
allows for
a rapid
response**

ITQ was founded in 2001 by **Gary Ashworth** (35% Shareholder), an experienced recruitment entrepreneur, and floated on AIM in 2005. It started as an acquisitive technology-focused recruitment business and has grown, organically and by making seven acquisitions, to a turnover of £158m. The further development into emerging technology recruitment has required some hard-learned operational skills.

InterQuest's IQ branded structure allows each business unit the flexibility to develop and be recognised as a specialist in a market sector or by a specific technology niche. These are currently: digital security, analytics, change management and ecommerce. **You will see that ITQ's structure and candidate communication can rapidly adopt to embrace any emerging new technology.**

The focus is on transformational and higher growth and margin technologies; including digital, information security, analytics, telecommunications, change management, ERP (Enterprise Resource Planning), IoT, M2M and other niche emerging technologies. These are specialisms where there are skill shortages for the technologies that help customers to maintain a competitive edge by transforming their operations to capitalise on the digital economy.

The number of clients increased by 6% to over 1,300 in 2015. Clients range from large Finance, Retail, Public Sector and Not-For-Profit businesses, through to fast-paced start-ups and include HSBC, Burberry, Dixons Carphone Group, WPP, Vodafone, NHS and Macmillan Cancer Support.

The logic of developing niche brands is sound, but the approach can leave brands high and dry when a specific technology's tide of favour goes out. The growth cycle of a particular sector and technology can quickly travel from 'streaming' leading edge to a DVD commodity. IQ Solutions is an efficient division set up to cost-effectively capture the revenue, as some of these skills become generic technology.

ITQ's 16-year timeline (below) shows brands being bought, built and restructured leading to relocation, closure and re-brandings as new rising tech stars replace cash cows. This inevitable dynamism has unsettled market perception, which has seen ITQ range from a premium rating back to a basic one. Since 2015, the new management's emphasis has been on delivering organic growth driven by the continued development of specialist niche markets.



Improving operational efficiencies

- 2001** Founded by the acquisition of InterQuest
- 2002** Acquisition of Insight Computer Resources
- 2003** Acquisition of SBS, JCC, Genesis Computer Resources
- 2005** Listed on AIM
- 2006** Acquisition of PeopleCo and Sand Resources
- 2007** Acquisition of ecrm People and Intellect Recruitment
- 2008/2009** Launch of InterQuest Solutions, InterQuest Executive and Fulcrum Telephone
- 2010** Launch of PayQuest, Peregrine, Goldgrest and Korus
- 2011** Restructure into specialist niche recruitment brands and sectors
- 2012** Brand evolution to **IQ allowing for change for the high value skills for the digital economy**
- 2013** Disposal of PayQuest. Acquisition of ECOM - the UK's leading digital technology recruitment company
- 2014** Launch of IQ Telecom
- 2014*** A formal sale process was initiated for three months and offers were considered to be too low
- 2015**** CEO, Chris Eldridge, and CFO, David Bygrave, appointed
- 2015** Emphasis on improving operational efficiencies and organic growth
- 2016** Launch of IQ Change

** In October 2014 with the share price at around 120p after reporting a 34% increase in NFI. The company initiated a formal sale process rumoured to be with a US company. The objective was to maximise value for shareholders. By December, when the talks terminated, the shares were over 135p as despite constructive discussions with interested parties this did not lead to a sale that would achieve maximum value for shareholders.*

*** The management leading the sale process moved on and the availability of the new team led to little disruption to trading, and in our opinion is worth backing to lead the inevitable re-rating.*

Chris Eldridge (CEO) has led recruitment businesses in Europe, US and Asia. Chris has a strong technology background with particular focus on digital, big data, analytics, security, strategy & architecture, and change & transformation markets. Chris has worked with some of the largest global technology brands and also early start-ups, both recruiting and advising on client change programmes.

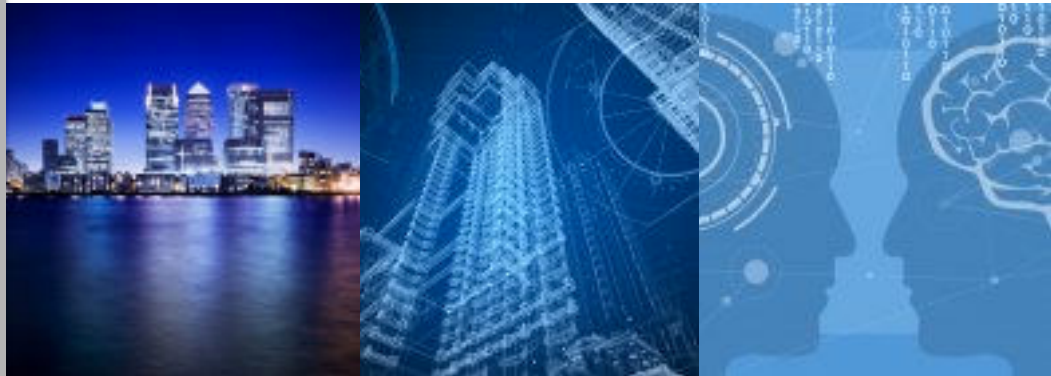
David Bygrave (CFO) Fellow of the Institute of Chartered Accountants in England & Wales - After spending 10 years with PwC, David was attracted to the technology industry. All his subsequent roles involved the eventual sale of the companies. He joined ITQ in December 2015 to help lead this exciting growth.

Well placed to provide solutions

Market Background

The trend is for companies to outsource infrastructure technology skills (increasing demand of contractors) and focus on technologies that will affect their operating model (increasing permanent staff). This has put upwards pressure on the rates of pay needed to attract ideal candidates to these transformational technologies.

- A recent Tech Nation survey showed the digital economy grew 32% faster than the rest of the economy
- By 2018, digital businesses will require 50% fewer business process workers and 500% more key digital jobs
- The average salary paid for digital roles is just under £50,000, which is 36% above the national average
- The demand for cyber security positions has risen by over 100% year-on-year



Recruitment Trends

We identify four trends facing the recruitment industry for which InterQuest is well placed to provide solutions:

- Recruitment Services has predicted that UK employers will have to radically change the way they hire talent in 2016 and will also have to invest more in specialist recruitment to ensure they remain fully staffed and able to grow
- UK businesses can expect less choice of candidates in 2016 and can expect to pay more to acquire the candidates they most desire
- The labour market is experiencing a disruptive shift from process-driven tasks to technical and creative specialisms
- The increasing importance of social media as a communication method used by those working in the new digital economy and when seeking jobs

Experts in Key Technologies

Differentiating Through Specialisation

InterQuest was conceived as a specialist contract and permanent recruiter in fast-growing, emerging and disruptive technologies. The company is organised so that each key sector that the group operates in has a distinct niche recruitment practice supported by research and integrated under the IQ brand.

ITQ's strategy is to provide an efficient and reliable source of talent to organisations in the digital economy. By using social media and networks, they engage with talented candidates in high demand, high growth sectors where there are skill shortages. Organisations looking to recruit their 'most difficult to fill' vacancies are willing to pay a premium rate and are increasingly trying InterQuest. As the number of clients has grown by 6% this also gives the opportunity of cross-selling other IQ branded services to a bigger pool.



IQ attracting customers



Brand IQ, InterQuest

The organisation and controls have been restructured to create branded sectors of expertise to deliver stronger account management and provide quality candidates quickly, which is what customers require and so should improve customer retention

IQ Analytics: data science, risk, customer insight, web analytics, statistical modelling and big data

IQ Ecom: UX, creative technology, project management, digital marketing, eCommerce, content and strategy. This was the most recent acquisition and a 10% fall in the NFI has led to a review which should now lead to improved performance

IQ Infosec: internal risk and audit, cyber security penetration testing, data protection, ethical hacking, forensics and IT security

IQ Technology: ERP, infrastructure, support, software development, project management, business analysis, architecture, business intelligence, sales assurances, testing and ESM

IQ Telcom: voice, data, unified comms, IoT, M2M, IP, 2G, 3G, 4G, OSS and BSS

IQ Change (Mint): change management

Increasing cross selling opportunities

Contract 67% / Permanent 33%

The new team is likely to move further away from commoditised generic markets. Although this may decrease the growth rate of the NFI, it should increase the focus and profit margins, which will **evidentially lead to an increased rating.**

Contract Recruitment NFI £15.9m, (2014, £16m)

InterQuest's strategy of focusing on infrastructure technology skills should lead to greater resilience and quality of earnings. The flexibility to change the mix of the contract business is helping to improve the margins while other generic service providers compete on price.

To retain an interest, however, in the more 'generic' markets, InterQuest has created an efficient and effective (lower cost) recruitment centre model. This centre is UK-based and manned by professional and skilled recruiters who are able to connect employers with candidates across a broader range of skills than can be covered by the specialist businesses. **This also helps improve the cross-selling between clients and sectors.**

Permanent Recruitment NFI £7.9m (2014, £7.3m)

The strategy is to target critical roles that are difficult to fill, which strengthens the value proposition in this market. Fees are paid directly as a result of successful placement. InterQuest's strategy of specialism and developing unique networks of passive candidates puts it in a strong competitive position.



Accelerating organic growth

IQ Solutions

This used to be called Managed Services and provides Recruitment Process Outsourcing to five UK customers. Its NFI improved 16% to £1.2m. IQ Solutions offer clients visibility and control over their non-permanent workforce so reducing costs and increasing effectiveness while also helping to increase InterQuest's own earnings visibility. Two new four-year contracts have been won with the European Banking Authority (EBA) and the European Insurance and Occupational Pensions Authority (EIOPA) following a formal tender process, while Carphone Warehouse renewed its contract. It seems likely that IQ Solutions's revenue growth will increase.



Digital Channel, Communities and Candidate Identification

ITQ invests in building long-standing relationships with prospective, specialist-qualified candidates who may be currently engaged on an assignment. By communicating with them via any social media channel by sharing relevant data on subjects of specialist interest, trust can be built over time and this becomes a form of 'soft' headhunting for when the candidate does become available.

InterQuest has successfully built its social and digital media presence. Expert reports are distributed on specialist IT-related subjects, market commentaries, white papers and trend surveys. The website works across all platforms. The **success is illustrated by the growth in traffic from** around 3,100 unique visitors per month in 2013 to currently around 17,000. ITQ's social media audience is over 60,000 and this is an important communication method as an increasing number of candidates do their job searches this way.

Financing

The Group has a £20m facility, which is renewable on a rolling basis with six months notice. Of this, only £6m is drawn down, which implies sufficient unused facility to react opportunistically to an add-on acquisition opportunity to accelerate the organic growth. The conversion of £5.3m EBITA to Net Operating Cash of £5.7m, while showing good financial controls also illustrates the attractive cash generation of recruitment businesses.

There is a progressive dividend policy - 3p, up 20% from 2.5p, which will be paid to shareholders on the registrar on Friday the 15th of April and will be paid on May 13th. The dividend yield, of over 4%, is covered over 3x by earnings and is both a higher yield and better covered than the support services sector average of 2.6% covered 1.5x **suggesting further room for growth.**

What is measured can be controlled

Selected Key Performance Indicators (KPIs)

ITQ is a dynamic business and has, over the years, made internal changes to be better placed to deliver results for clients. This has however caused financial 'fluctuations' to KPIs, which may have unsettled the rating but this is changing.

	2015	2014	(%)
PBT	4.1	2.9	41
EBITA	5,260	4,060	29.5
NFI £000	23,818	23,249	2.4
NFI per head £000	106,308	103,328	2.9
Net Operating Margin %	22.9	21.1	8.5
Net Cash from Op. £000	5,765	5,407	6.6
Net Debt	5,999	8,333	-44%

- Profits have increased and margins have improved faster than revenue growth, which confirms that the strategy is paying off
- EBITA growth shows the 'real' operating growth without non-operating variables of tax etc
- Top line NFI growth is less important given that the focus is on higher margin, more specialist contractor placements. That is quality rather than quantity
- NFI per head is growing faster than just NFI but assuming new staff are taken on this could dip before improving again
- Every 1% increase in net operating margin added £250,000 to operating profits for last year: the improvement was 1.9%
- The conversion of EBITA to cash shows the attractiveness of the recruitment sector and ITQ's CFO has done particularly well
- ITQ has no structured debt but contractors' wages are paid before ITQ are paid by the clients – this gap is financed by debt

Undervalued

Peer Group Comparisons

InterQuest's share price would be 140p if it matched its peer group. In our opinion this 60p discount is not justified by trading prospects. In theory, a liquidity discount can be applied as InterQuest is the smallest in the peer group, but this should not be a deterrent to non-institutional investors.

Company	Mkt Cap	P/Ex	Yield %
Harvey Nash	£55m	8.8	4.4
Empresaria	£42,2m	10.0	1.0
Robert Walters	£230m	22.0	1.8
Penna	£88m	15.9	2.3
Michael Page	£1,231m	18.7	3.2
Matchtech	£130m	12.6	3.9
InterQuest Est	£28m	8.1	4.4
Support Services	NA	29x	2.2
Peer Group	NA	14.6x	2.7



Improving quality of earnings

Profit & Loss Forecast

The forecast assumes growth of around 20% in fee earners staged over the year and no new IQ Solution clients or US or Asian expansion. This leaves plenty of space for future upgrades. We expect the rating given to the existing earnings will **improve as investors gain a better understanding of the exciting space of the recruitment sector that ITQ operates in.**

December Y/E	2014 A	2015 A	2016 E	2017 E
Revenue £000	150,647	158,613	165,000	175,000
Cost of Sales	-127,398	-134,800	-140,500	-149,000
Net Fee Income	23,249	23,813	24,500	26,000
Amort	-345	-345	-345	-345
Admin	-19,547	-18,891	-19,100	-20,000
Operating Profit	3,357	4,577	5,055	5,655
Finance Costs	-411	-444	-400	-400
EBITDA	3,457	4,922	5,400	6,000
PBT	2,538	4,112	4,655	5,255
Tax %	23	25	24	24
EPS pence	5.5	8.1	9.8	11.1
No Shares £'000s	36,534	36,125	36,125	36,125
Op Margin %	14	19	21	22
P/E X	14.5	9.9	8.1	7.2
Yield %	3.1	3.75	4.4	4.6



New highly experienced management team

Management Team



Gary Ashworth - Chairman

Gary founded the InterQuest Group in November 2001. Previously Gary was the founder of Abacus Recruitment plc, a group of recruitment agencies including two in the IT recruitment sector. Abacus was floated on AIM in September 1995 and was the best performing AIM share in both 1996 and 1997. It was subsequently sold to Carlisle Holdings in 1998; initial investors achieved a tenfold multiple on their investment. Gary is a Fellow and past President of the Institute of Employment Consultants and has worked in recruitment since 1980.



Chris Eldridge - Chief Executive Officer

As CEO of InterQuest, Chris oversees the Group's activities across its specialist brands and its Solutions business. Chris is, himself, an expert recruiter with a strong technology background. Following his time studying Industrial Design and Engineering at Loughborough University, Chris has gone on to earn invaluable experience recruiting in the global technology sector, with particular focus on digital, big data, analytics, security, strategy & architecture and change & transformation markets. Chris has worked with some of the largest global technology brands to early start-ups, both recruiting and advising on client change programmes.

Chris has been recruited directly at a senior level over the last 20 years, running businesses across a broad range of services including: MSP, RPO, executive search, permanent, interim and contract while leading businesses operating in Europe, USA and China. Chris's experience, knowledge and skill for growing recruitment businesses in highly specialist, niche global markets made him a perfect fit to lead InterQuest Group in its next era of evolution.



David Bygrave - Chief Financial Officer

Following his graduation with an honours degree in Economics from Durham University, David started his career at Price Waterhouse, where he qualified as a Chartered Accountant. After qualifying, David decided to specialise in Turnaround where he spent the next seven years. Over his time at Price Waterhouse, David gained high exposure to a wide variety of industries, from the largest multinationals to smaller fast-growth SMEs.

After spending 10 years with PwC, David decided to move on to new challenges in the technology industry in group financial controller or CFO roles at Dreamtime, IDIL, Octavian and Caplin. This put his fluent Spanish to good use. All roles involved the eventual sale of the companies or the underlying businesses culminating, after almost five years in the CFO role, with the sale of Caplin Group to ION Capital Management in April 2015.

David is a Fellow of the Institute of Chartered Accountants in England & Wales and joined InterQuest in December 2015 to help lead a further growth phase in the group.

5 reasons for a higher rating

2016 Milestones and Newsflow

International Markets are currently 2.8% of NFI having grown slightly (2%). It seems likely, given the new CEO's background, that a strategic alliance with a US or Asian company could be a target.

IQ Solutions: long-term, recurring revenue helps in financial planning and with the group's emphasis on deeper knowledge of the existing 1,300 clients it seems likely that IQ Solutions will increase growth by more than last year's 16%.

Cross Selling: the new management team is creating a central function to increase the opportunity to cross sell other specialist skills to the growing number of existing clients.

Improving Margins. Clients seem willing to pay higher wages for the specialist talent needed in order to 'maintain' a competitive edge. This increasing demand is not easing and ITQ's margins are increasing. This is likely to accelerate further in the medium term, given the new team's emphasis on operational efficiencies.

Growth of Fee-generating Staff: The number of fee earners is likely to increase by 20% from the current 224, which will accelerate the rate of organic growth. There is spare capacity in the existing offices so little incremental fixed cost would be required. The 'new' team will provide staff with an industry-leading training program to develop skills and knowledge. This should result in more effective client management and also improve productivity per head as well as increase staff tenure.

At a Glance

InterQuest Group plc (LSE:ITQ), the specialist recruiter in technology, analytics and digital markets	
GICS Sector	Support Services
Share Price	80p
52 week low-high range	104p-77p
Current Market Capitalisation	£28.36
Shares in issue	36,125,000
Percentage of shares not in public hands	32.90%

Fiscal Year End & AGM	31 December / July
Listing Date	2005
DRIP	ITQ
Head and Registered Office	6-7 St Cross Street London EC1N 8UA

Recent News	
20 th January 2016	Close Brother increase stake to 5.8%
4 th January 2016	Directors Dealing
16 th December 2015	New Directors appointed
6 th October 2015	Interims Reported
23 rd July 2016	Contract renewed with Dixons Carphone Group

Year End December	Rev/NFI £m	PBT £m	Tax %	EPS p	PER x	DPS p	Yield %
2014 A	150.6/23.3	2.9	23	5.5	14.5	2.5	3.1
2015 A	158.6/23.8	4.1	25	8.1	9.9	3.0	3.75
2016 E	168.0/27.5	4.6	25	9.8	8.2	3.5	4.4

There is no long term structured debt. There is a rolling £20m credit facility

Significant Shareholders (Register)	
GP Ashworth	35.0
Helium Special Situational	11.9
Living Bridge Equity Partners	6.3
Close Brothers	5.8
Jim Mellon	4.8
Securities Services	4.7
Lion Noms.	4.4

Directors	
Gary Ashworth	Chairman
Chris Eldridge	CEO
David Bygrave	CFO
Paul Frew	NED
David Higgins	NED