

## Corporate

Current price **1.175p**

Sector **Support Services**

Code **REAT.L**

AIM **AIM**

### Share Performance



Source: Thomson Reuters, Allenby Capital

### Share Data

Market Cap (£m) **5.9**

Shares in issue (m) **498.5**

52 weeks High **1.8p** Low **0.35p**

Financial year end **September**

Source: Company Data, Allenby Capital

### Key Shareholders

Octopus Investments **16.64%**

Helium Rising Stars Fund **15.77%**

Premier Miton **8.10%**

Jonathan Whitmore **5.29%**

George Stavrinidis **3.32%**

Source: Company Data, Allenby Capital

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## REACT Group plc (REAT.L)

### Contract award and introduction of 2020 forecasts

REACT Group plc (REACT), the specialists in deep cleaning services for customers in the public and private sectors, has announced a new contract win with an existing facilities management (FM) client. This contract is in addition to the work that REACT already carries out for this client and is unrelated to COVID-19. Given the underlying activities of the business, an increasing recurring revenue stream, contract awards announced in the year to date and the maiden profit generated in H1, we feel that it is now appropriate to introduce current year forecasts. As already noted, the Group announced a maiden profit of £50k in H1 and with a positive start to the second half, a strengthened balance sheet post the June fund raise and an encouraging contract pipeline we believe that the outlook for REACT is exceptionally positive.

- Contract award with existing FM client** – On 21 July 2020 REACT announced the award of a number of contracts from one of its large FM customers to provide specialist deep cleaning services to several sites across the UK. A total of 12 contracts are included in the overall award and are worth, in aggregate, just over £350,000 and will run for a period of five weeks through to the end of August 2020. In line with the strategy implemented by the new management team this business attracts a high margin and will be delivered by REACT's own operatives and the use of supervised sub-contractors where required.
- End customer in the rail sector** - More specifically, the end customer operates in the rail sector and the contract involves the specialist deep cleaning of stations, gantries and canopies. To provide this service REACT needs to gain possession of the track, isolation of the line and secure safe working practices at height and in potentially hazardous environments. Few companies are able to offer this specialist deep cleaning capability.
- Outlook and current year forecasts** – This new contract takes the total value of announced awards so far this year to £1.4m. Historically, REACT had been held back by poor management and an almost complete lack of investment in sales and marketing and has therefore only scratched the surface of potential demand for its specialist services. Under the new management team, the Group is reversing this legacy and investment has already taken place that will, in the short-term, add to costs but benefit revenue generation in 2021 and beyond. All the signs are pointing to the evolution of a new paradigm which will result in a revenue runway that has the potential to expand significantly both for non-COVID and COVID related work.
- Forecasts introduced for FY2020** – With around 50% of sales representing recurring revenues, new contract awards and the establishment of a maiden profit in H1, we feel able to offer forecasts for the current year with forecasts for FY2021 to be introduced at a later date. We are projecting a revenue increase of 39% to £4.3m, an improvement in gross margin from 28.5% to 34.9%, underlying EBITDA of £190k (2019: loss of £126k) and underlying PBT of £152k (2019: loss of £178k). REACT is still an early stage company but is generating accelerating traction in sales which should be reflected in strong growth in FY2020 and beyond. Thus, we remain very enthusiastic regarding prospects for the Group.

| Year End: September |       |       |       |       |
|---------------------|-------|-------|-------|-------|
| (£'000)             | 2017A | 2018A | 2019A | 2020E |
| REVENUE             | 2,645 | 3,295 | 3,103 | 4,300 |
| UNDERLYING EBITDA   | (222) | (601) | (126) | 190   |
| UNDERLYING (L)/P BT | (378) | (614) | (178) | 152   |
| NET CASH            | 529   | 423   | 440   | 1,673 |

Source: REACT Group plc; Allenby Capital. Allenby Capital acts as Broker to REACT Group plc (REAT.L).

Please refer to the last page of this communication for all required disclosures and risk warnings.

## Income Statement and forecasts

| Y/E September                              | £000<br>FY 2017A | £000<br>FY 2018A | £000<br>FY 2019A | £000<br>FY 2020E |
|--|------------------|------------------|------------------|------------------|
| <b>UNDERLYING</b>                          |                  |                  |                  |                  |
| <b>Revenue</b>                             | <b>2,645</b>     | <b>3,295</b>     | <b>3,103</b>     | <b>4,300</b>     |
| Cost of sales                              | -1,815           | -2,602           | -2,218           | -2,800           |
| <b>Gross profit</b>                        | <b>830</b>       | <b>693</b>       | <b>885</b>       | <b>1,500</b>     |
| <i>margin</i>                              | <i>31.4%</i>     | <i>21.0%</i>     | <i>28.5%</i>     | <i>34.9%</i>     |
| Admin costs                                | -1,052           | -1,294           | -1,011           | -1,310           |
| <i>as a % of revenue</i>                   | <i>39.8%</i>     | <i>39.3%</i>     | <i>32.6%</i>     | <i>30.5%</i>     |
| <b>EBITDA</b>                              | <b>-222</b>      | <b>-601</b>      | <b>-126</b>      | <b>190</b>       |
| <i>margin</i>                              | <i>-8.4%</i>     | <i>-18.2%</i>    | <i>-4.1%</i>     | <i>4.4%</i>      |
| Depreciation & Amortisation                | -156             | -13              | -52              | -36              |
| <b>Underlying operating profit/(loss)</b>  | <b>-378</b>      | <b>-614</b>      | <b>-178</b>      | <b>154</b>       |
| <i>margin</i>                              | <i>-14.3%</i>    | <i>-18.6%</i>    | <i>-5.7%</i>     | <i>3.4%</i>      |
| Interest                                   | 0                | 0                | 0                | -2               |
| <b>Underlying profit/(loss) before tax</b> | <b>-378</b>      | <b>-614</b>      | <b>-178</b>      | <b>152</b>       |
| Tax  | 0                | 0                | 0                | 0                |
| <b>Underlying post tax profit/(loss)</b>   | <b>-378</b>      | <b>-614</b>      | <b>-178</b>      | <b>152</b>       |
| <b>STATUTORY</b>                           |                  |                  |                  |                  |
| <b>Underlying operating profit/(loss)</b>  | <b>-378</b>      | <b>-614</b>      | <b>-178</b>      | <b>154</b>       |
| Exceptional items                          | -15              | -1,337           | -5               | 0                |
| Interest                                   | 0                | 0                | 0                | -2               |
| <b>Statutory profit/(loss) before tax</b>  | <b>-393</b>      | <b>-1,951</b>    | <b>-183</b>      | <b>152</b>       |
| Tax  | 0                | 0                | 0                | 0                |
| <b>Statutory post tax profit/(loss)</b>    | <b>-393</b>      | <b>-1,951</b>    | <b>-183</b>      | <b>152</b>       |
| Weighted Average Shares (m)                | 275.408          | 287.298          | 415.408          | 443.108          |
| Weighted Average Shares FD (m)             | 275.408          | 287.298          | 415.408          | 443.108          |
| Year-end shares (m)                        | 275.408          | 415.408          | 415.408          | 498.509          |
| Underlying EPS (p)                         | (0.14)           | (0.21)           | (0.04)           | 0.03             |
| Statutory EPS (p)                          | (0.14)           | (0.68)           | (0.04)           | 0.03             |

Source: React Group plc; Allenby Capital

## Balance Sheet and forecasts

|   | £000         | £000         | £000         | £000         |
|---|--------------|--------------|--------------|--------------|
| Y/E September   | FY 2017A     | FY 2018A     | FY 2019A     | FY 2020E     |
| <b>Non-current assets</b>                                       |              |              |              |              |
| Intangible assets   | 1,560        | 174          | 174          | 174          |
| PP&E  | 1            | 116          | 81           | 60           |
| Right of use assets   | 0            | 0            | 0            | 27           |
| <b>Total non-current assets</b>                                 | <b>1,561</b> | <b>290</b>   | <b>255</b>   | <b>261</b>   |
| <b>Current assets</b>   |              |              |              |              |
| Trade & other receivables                                       | 860          | 1,141        | 718          | 1,060        |
| Cash  | 529          | 423          | 440          | 1,673        |
| <b>Total current assets</b>                                     | <b>1,389</b> | <b>1,564</b> | <b>1,158</b> | <b>2,733</b> |
| <b>Total assets</b>   | <b>2,950</b> | <b>1,854</b> | <b>1,413</b> | <b>2,994</b> |
| <b>Current liabilities</b>                                      |              |              |              |              |
| Trade payables  | -156         | -793         | -535         | -780         |
| Lease liabilities   | 0            | 0            | 0            | -11          |
| <b>Total current liabilities</b>                                | <b>-156</b>  | <b>-793</b>  | <b>-535</b>  | <b>-791</b>  |
| <b>Non-current liabilities</b>                                  |              |              |              |              |
| Deferred tax  | 0            | 0            | 0            | 0            |
| Lease liabilities   | 0            | 0            | 0            | -23          |
| <b>Total non-current liabilities</b>                            | <b>0</b>     | <b>0</b>     | <b>0</b>     | <b>-23</b>   |
| <b>Total liabilities</b>  | <b>-156</b>  | <b>-793</b>  | <b>-535</b>  | <b>-814</b>  |
| <b>Net current assets</b>                                       | <b>1,233</b> | <b>771</b>   | <b>623</b>   | <b>1,942</b> |
| <b>Net assets</b>   | <b>2,794</b> | <b>1,061</b> | <b>878</b>   | <b>2,180</b> |
| <b>BALANCE SHEET RATIOS</b>                                     |              |              |              |              |
|   | £000         | £000         | £000         | £000         |
| Y/E September   | FY 2017A     | FY 2018A     | FY 2019A     | FY 2020E     |
| Long-term financial debts                                       | -            | -            | -            | -            |
| Short term financial debts                                      | -            | -            | -            | -            |
| Gross (debt)  | -            | -            | -            | -            |
| Cash and cash equivalents                                       | 529          | 423          | 440          | 1,673        |
| Net (debt) / cash   | 529          | 423          | 440          | 1,673        |
| Acid test (Current Assets less inventory / Current Liabilities) | 8.9          | 2.0          | 2.2          | 3.5          |

Source: React Group plc; Allenby Capital

## Cash Flow and forecasts

| Y/E September   | £000<br>FY 2017A | £000<br>FY 2018A | £000<br>FY 2019A | £000<br>FY 2020E |
|---|------------------|------------------|------------------|------------------|
| <b>Operating activities</b>                                 |                  |                  |                  |                  |
| Operating profit/(loss)                                     | -207             | -1,951           | -183             | 152              |
| Depreciation  | 0                | 1,350            | 52               | 42               |
| Share based payments  | 0                | 0                | 2                | 4                |
| Loss on disposal of fixed assets                            | 0                | 10               | -3               | 0                |
| <i>(Increase)/decrease in receivables</i>                   | -232             | -649             | 441              | -342             |
| <i>(Decrease)/increase in payables</i>                      | 63               | 615              | -275             | 238              |
| <b>Net change in WC</b>                                     | <b>-169</b>      | <b>-34</b>       | <b>166</b>       | <b>-104</b>      |
| Finance   | 0                | 0                | 0                | 26               |
| <b>Net cash inflow/ (outflow) from operating activities</b> | <b>-376</b>      | <b>-625</b>      | <b>34</b>        | <b>120</b>       |
| <b>Investing activities</b>                                 |                  |                  |                  |                  |
| Disposal of fixed assets                                    | 0                | 20               | 8                | 2                |
| Capital expenditure   | 0                | -38              | -25              | -18              |
| <b>Net cash outflow from investing activities</b>           | <b>0</b>         | <b>-18</b>       | <b>-17</b>       | <b>-16</b>       |
| <b>Financing activities</b>                                 |                  |                  |                  |                  |
| Proceeds from share issues                                  | 0                | 420              | 0                | 1,250            |
| Expense of share issues                                     | 0                | -33              | 0                | -91              |
| Other loans   | 0                | 69               | 0                | 0                |
| Other loan repayments                                       | 0                | -21              | 0                | 0                |
| Principal paid on lease liabilities                         | 0                | 0                | 0                | -30              |
| <b>Net cash inflow from financing activities</b>            | <b>0</b>         | <b>435</b>       | <b>0</b>         | <b>1,129</b>     |
| <b>Increase/(decrease) in cash</b>                          | <b>-376</b>      | <b>-208</b>      | <b>17</b>        | <b>1,233</b>     |
| Cash at start of year                                       | 905              | 631              | 423              | 440              |
| <b>Cash at end of year</b>                                  | <b>529</b>       | <b>423</b>       | <b>440</b>       | <b>1,673</b>     |

Source: React Group plc; Allenby Capital

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