

Corporate

Current price **1.2p**

Sector **Support Services**

Code **REAT.L**

AIM **AIM**

Share Performance



Source: Thomson Reuters, Allenby Capital

Share Data

Market Cap (£m) **6.0**

Shares in issue (m) **498.5**

52 weeks High **1.8p** Low **0.375p**

Financial year end **September**

Source: Company Data, Allenby Capital

Key Shareholders

Octopus Investments 16.64%

Helium Rising Stars Fund 16.17%

Premier Miton 8.10%

Jonathan Whitmore 5.29%

George Stavrinidis 3.32%

Source: Company Data, Allenby Capital

Ian Jermin

0203 328 5664

i.jermin@allenbycapital.com

www.allenbycapital.com

REACT Group plc (REAT.L)

Continuing progress and upgrade to forecasts

REACT Group plc (REACT), the specialists in deep cleaning services for customers in the public and private sectors, has announced an encouragingly positive trading update for the financial year to September 2020 stating that the Group's maiden profit before tax will be ahead of market expectations. Consequently we are raising our PBT forecast from £152k to £182k. Cash balances at the year-end were also higher than forecast at £1.8m and we continue to remain very positive on the prospects for the Group.

- A year of mixed fortunes but positive overall** – Management reiterated previous messages that while the Group had experienced a level of disruption from the COVID-19 pandemic it has also seen an increase in demand for its deep cleaning services in its traditionally strong sectors. These include healthcare and rail but demand has also been growing in other sectors such as housing, education, residential care and the judiciary.
- Strong revenue growth and a maiden full year PBT** – The update revealed that the Group made strong progress in the year to September 2020 with revenue growth of 42% to c.£4.4m and a PBT expected to be ahead of market expectations due both to COVID-19 related decontamination work and several projects that were unrelated to COVID-19. Management notes a robust financial position for the Group with an underlying strong level of cash generation resulting in net cash at the financial year end of £1.8, again ahead of market expectations set at £1.7m.
- New management team reinvigorating the business and prospects** - We would reiterate that 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 increased as a result of the trading update** - We introduced forecasts for the first time in July and are pleased to be able to upgrade these following the trading update. Our previous forecasts called for revenue of £4.3m (FY2019: £3.1m), underlying EBITDA of £190k (FY2019: loss £126k) and underlying PBT of £152k (FY2019: loss £178k). Post the trading update we are raising these forecasts to revenue of £4.4m, underlying EBITDA of £220k and underlying PBT of £182k the latter, on zero tax, giving underlying EPS of 0.04p.
- Still an early stage company** - REACT is still an early stage company but is generating accelerating traction in sales which has been reflected in strong growth in FY2020 and an encouraging outlook. We therefore remain very enthusiastic regarding prospects for the Group.

Year End: September

(£'000)	2017A	2018A	2019A	2020E
REVENUE	2,645	3,295	3,103	4,400
UNDERLYING EBITDA	(222)	(601)	(126)	220
UNDERLYING (L)/P BT	(378)	(614)	(178)	182
NET CASH	529	423	440	1,800

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

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

Summary financials and forecasts

PROFIT & LOSS	£000	£000	£000	£000
Y/E September	FY 2017	FY 2018	FY 2019	FY 2020E
Revenue	2,645	3,295	3,103	4,400
Gross Profit	830	693	885	1,530
margin	31.4%	21.0%	28.5%	34.8%
Admin costs	-1,052	-1,294	-1,011	-1,310
EBITDA	-222	-601	-126	220
Underlying operating (loss)	-378	-614	-178	184
Statutory profit/(loss) before tax	-393	-1,951	-183	182
Underlying profit/(loss) before tax	-378	-614	-178	182
Underlying net profit/(loss)	-378	-614	-178	182
Weighted Average Shares (fully diluted)	275.41	287.30	415.41	443.11
Underlying EPS (p)	-0.14	-0.21	-0.04	0.04
CASH FLOW	£000	£000	£000	£000
Y/E September	FY 2017	FY 2018	FY 2019	FY 2020E
Net cash inflow/(outflow) from operating activities	-376	-625	34	217
Net cash inflow/(outflow) from investing activities	0	-18	-17	-16
Net cash inflow/(outflow) from financing activities	0	435	0	1,129
Net increase/(decrease) in cash and cash equivalents in the year	-376	-208	17	1,330
Cash and cash equivalents at end of period	529	423	440	1,770
BALANCE SHEET	£000	£000	£000	£000
Y/E September	FY 2017	FY 2018	FY 2019	FY 2020E
Total non-current assets	1,561	290	255	261
Current assets				
Other (excluding cash)	860	1,141	718	993
Cash and cash equivalents	529	423	440	1,770
Total current assets	1,389	1,564	1,158	2,763
Total Assets	2,950	1,854	1,413	3,024
Total current liabilities	-156	-793	-535	-791
Total non-current liabilities	0	0	0	-23
Total Liabilities	-156	-793	-535	-814
Net current assets	1,233	771	623	1,972
Net Assets	2,794	1,061	878	2,210

Source: REACT Group; Allenby

Disclaimer

Allenby Capital Limited (“Allenby”) is incorporated in England no. 6706681; is authorised and regulated by the Financial Conduct Authority (“FCA”) (FRN: 489795) and is a member of the London Stock Exchange. This communication is for information only it should not be regarded as an offer or solicitation to buy the securities or other instruments mentioned in it. It is a marketing communication and non-independent research, and has not been prepared in accordance with the legal requirements designed to promote the independence of investment research, and is not subject to any prohibition on dealing ahead of the dissemination of investment research. The cost of Allenby research product on independent companies is paid for by research clients.

This communication is for the use of intended recipients only and only for distribution to investment professionals as that term is defined in article 19(5) of The Financial Services and Markets Act 2000 (Financial Promotion) Order 2005. Its contents are not directed at, may not be suitable for and should not be relied upon by anyone who is not an investment professional including retail clients. Any such persons should seek professional advice before investing. For the purposes of this communication Allenby is not acting for you, will not treat you as a client, will not be responsible for providing you with the protections afforded to clients, and is not advising you on the relevant transaction or stock. This communication or any part of it do not form the basis of and should not be relied upon in connection with any contract.

Allenby uses reasonable efforts to obtain information from sources which it believes to be reliable. The communication has been prepared without any substantive analysis undertaken into the companies concerned or their securities, and it has not been independently verified. No representation or warranty, express or implied is made, or responsibility of any kind accepted by Allenby its directors or employees as to the accuracy or completeness of any information in this communication. Opinions expressed are our current opinions as of the date appearing on this material only and are subject to change without notice. There is no regular update series for research issued by Allenby.

No recommendation is being made to you; the securities referred to may not be suitable for you and this communication should not be relied upon in substitution for the exercise of independent judgement. Neither past performance or forecasts are a reliable indication of future performance and investors may realise losses on any investment. Allenby shall not be liable for any direct or indirect damages including lost profits arising from the information contained in this communication.

Allenby and any company or persons connected with it, including its officers, directors and employees may have a position or holding in any investment mentioned in this document or a related investment and may from time to time dispose of any such security or instrument. Allenby may have been a manager in the underwriting or placement of securities in this communication within the last 12 months, or have received compensation for investment services from such companies within the last 12 months, or expect to receive or may intend to seek compensation for investment services from such companies within the next 3 months. Accordingly, recipients should not rely on this communication as being impartial and information may be known to Allenby or persons connected with it which is not reflected in this communication. Allenby has a policy in relation to management of conflicts of interest which is available upon request.

This communication is supplied to you solely for your information and may not be reproduced or redistributed to any other person or published in whole or part for any purpose. It is not intended for distribution or use outside the European Economic Area except in circumstances mentioned below in relation to the United States. This communication is not directed to you if Allenby is prohibited or restricted by any legislation or registration in any jurisdiction from making it available to you and persons into whose possession this communication comes should inform themselves and observe any such restrictions.

Allenby may distribute research in reliance on Rule 15a-6(a)(2) of the Securities and Exchange Act 1934 to persons that are major US institutional investors, however, transactions in any securities must be effected through a US registered broker-dealer. Any failure to comply with this restriction may constitute a violation of the relevant country’s laws for which Allenby does not accept liability. By accepting this communication, you agree that you have read the above disclaimer and to be bound by the foregoing limitations and restrictions.

Research Recommendation Disclosure

Ian Jermin is the author of this research recommendation and is employed by Allenby Capital Limited as an Equity Analyst. Unless otherwise stated the share prices used in this publication are taken at the close of business for the day prior to the date of publication. Information on research methodologies, definitions of research recommendations, and disclosure in relation to interests or conflicts of interests can be found at www.allenbycapital.com. Allenby Capital acts as Nomad and broker to REACT Group plc.

Allenby Capital, 5 St Helen’s Place London EC3A 6AB, +44 (0)20 3328 5656, www.allenbycapital.com