

Corporate

 Current price **2.4p**

 Sector **Support Services**

 Code **REAT.L**

 AIM **AIM**

Share Performance



Share Data

 Market Cap (£m) **12.2**

 Shares in issue (m) **508.0**

 52 weeks High Low
2.45p 0.725p

 Financial year end **September**

Source: Company Data, Allenby Capital

Key Shareholders

Octopus Investments Noms 17.14%

Helium Rising Stars Fund 15.85%

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)

REACT achieves strong organic growth in H1

REACT Group plc (REACT), the leading specialist cleaning, decontamination and hygiene company, has provided the market with an update on trading for the six-months to end March 2021. This shows very encouraging progress in revenue, gross profit, gross profit margin and adjusted EBITDA against the comparative period, all of which was generated organically. The acquisition of Fidelis was concluded at the period end and will therefore be consolidated in REACT's second half period. As noted in our earlier research (29 March 2021) the acquisition of Fidelis is expected to be complementary and immediately earnings enhancing, raising our adjusted FY2021 EPS forecast by 41% from 0.10p to 0.14p and by c.70% on an annualised run rate basis. Our forecasts remain unchanged and we believe that there is further substantial upside in the share price.

- REACT makes strong progress in H1** – REACT continued to make strong progress in H1 with revenues increasing by c.19% to c.£2.5m (H1 2020: £2.1m), gross profit up c.43% to £1.0m (H1 2020: £0.7m) and the anticipation of adjusted EBITDA in excess of £350,000 (H1 2020 £85,000). The increase in gross margin of approximately 700 bps from 33.2% to 40% reflects the fact that REACT carried out a large proportion of high-margin work in the period.
- Growth generated wholly organically** – This encouraging rate of growth was the result of strong underlying performance in the core business as well as demand for COVID-related decontaminations. The Group's Healthcare, Rail and Facilities Management sectors also performed well and were supported by incremental business in other areas such as Education and Residential Care Homes.
- Balance sheet remains financially flexible** – Net cash at the end of March 2021 stood at a comfortable £0.77m (Sep 2020: £1.78m) and is stated after the payment of the initial cash consideration for Fidelis of £1.5m and some of the associated transaction costs. The balance of these costs (c.£170k) is payable in the second half. We anticipate year end net cash will be c.£0.9m.
- EPS forecasts unchanged** – It is worth reiterating the point made in our previous research, that while our 2021 forecast for the pre-acquisition REACT Group is unchanged, the addition of Fidelis for 6 months, increased our adjusted EBITDA forecast (excluding exceptional acquisition-related costs) for the enlarged Group by 53% from £555k to £850k and adjusted EPS by 41% from 0.10p to 0.14p.
- Fidelis acquisition implies adjusted EBITDA run rate of c.£1.15m** – In addition, while this increase in adjusted EPS is impressive, on a full year run rate basis, just doubling the Fidelis contribution delivers indicative Group revenues of c.£10m, adjusted EBITDA of c.£1.15m and adjusted EPS of c.0.17p, the latter a full 70% higher than our initial pre-acquisition EPS forecasts for REACT for FY 2021 bringing the run rate PER down to 13.8x.

Year End: September

(£000)	2018A	2019A	2020A	2021E
REVENUE	3,295	3,103	4,360	7,818
ADJUSTED EBITDA	(601)	(131)	261	850
ADJUSTED P/(L)BT	(614)	(178)	188	784
ADJUSTED EPS (p)	(0.21)	(0.04)	0.04	0.14
PER (x)	-	-	56.3	16.8
EV/EBITDA (x)	-	-	32.2	11.2
NET CASH	423	440	1,783	896

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.

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