

# Healthperm Resourcing

Large opportunity in healthcare recruitment

Initiation of coverage

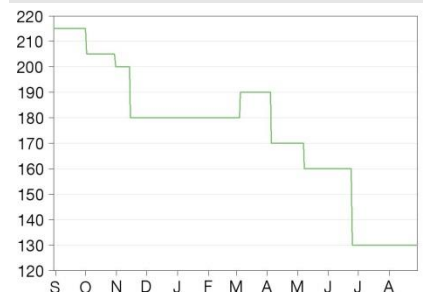
Industrial support services

29 August 2018

**Price** 130p  
**Market cap** £11m

Net debt (£m) at 31 December 2017 2.6  
Shares in issue (m) 8.7  
Free float 15.3%  
Code HPR  
Primary exchange NEX (Growth)  
Secondary exchange N/A

## Share price performance



52-week high/low 215p 130p

## Business description

Healthperm Resourcing is a healthcare recruitment business, established to address the significant shortfalls in healthcare professionals in the UK and Ireland and the Middle East (61/39% of 2017 revenues). It supplies permanent employees, sourced mainly from the Philippines.

## Next events

H1 results End-September (TBC)

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**Healthperm Resourcing is a research client of Edison Investment Research Limited**

Healthperm is a provider of healthcare specialists, predominately nurses from the Philippines, for which there is strong demand in its main markets of the UK and Ireland, and the Middle East. It only supplies fully qualified permanent nurses and thus helps bridge the gap in the shortage of nurses in these markets. The company was established in 2015 and is currently loss making, but a ramp-up in nurses deployed, coupled with operational gearing, should lead Healthperm to break even during 2019.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/16	0.0	(1.8)	(20.8)	0.0	N/A	N/A
12/17	0.2	(1.9)	(23.9)	0.0	N/A	N/A
12/18e	0.9	(2.3)	(26.3)	0.0	N/A	N/A
12/19e	2.8	(0.6)	(7.3)	0.0	N/A	N/A

Note: \*PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

## Strong demand for international permanent nurses

In Healthperm's markets of the UK and Ireland and the Middle East, a growing shortage of permanent domestic nurses has created an opportunity for overseas recruitment. UK nurse levels have been affected by a decline in people choosing to train as nurses, increased numbers of nurses retiring and a sharp fall in EU applicants due to Brexit. The Middle East has a relatively low level of nurses compared to its population and healthcare demand is rising. Healthperm is also looking at new countries to place nurses.

## Healthperm's client base grows significantly in 2018

Healthperm has already doubled its UK client base from four to eight clients this year, thereby increasing the UK hospitals it serves from five to 16. Included in these new client wins is the company's largest ever order with the Medway NHS Foundation Trust, under which it is initially required to source and deploy up to 400 international nurses. Healthperm's ability to secure new, large clients in a short period of time illustrates the increasing confidence the healthcare industry places in its ability to deliver high volumes of quality, permanent, internationally sourced clinical staff within agreed budgets and time frames.

## Healthperm should swing to profit as it scales up

Healthperm is at an early stage and currently loss making, but we forecast that it will reach break-even during 2019, with profits rising sharply thereafter, led by a ramp-up in the number of nurses being placed. We forecast a 159% CAGR in revenues (2017-20). It was only established in 2015, so has been building its infrastructure and there should be a clear benefit from operational leverage as nurse placements increase.

## Valuation gives 121% upside to current share price

Our preferred measure for valuing companies is a DCF. We think this is particularly useful in the case of Healthperm, given it is likely to be loss making until 2019, but thereafter profits should rise sharply. Our base case DCF ascribes a value of 288p per share for Healthperm, which values the company at £24.9m, and represents 121% upside to the current share price.

## Investment summary

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### Large opportunity in cross-border healthcare recruitment

Healthperm is an international healthcare professional recruitment company serving the UK, Ireland and Middle Eastern markets (primarily the United Arab Emirates (UAE) and Saudi Arabia, Kuwait, Qatar and Oman). The company deploys permanent, experienced nurses mainly from the Philippines, which is an attractive market for the recruitment of nurses to work overseas and is a country where Healthperm has a well-established presence. Healthperm is well placed to benefit from a shortage of permanent nurses in its core markets of the UK and the Middle East. The UK should be a high growth market for the company, with an increasing shortage of nurses caused by a decline in trainees, higher levels of retirement and lower levels of recruitment from the EU due to Brexit. The Middle East, where the UAE is Healthperm's main market, is an active region, especially as nurse numbers are low compared to the population and healthcare demands are rising.

### Valuation: Fair value of 288p per share offers 121% upside

Our base case valuation for Healthperm is 288p per share, which values the company at £24.9m and provides 121% upside to the current 130p share price. Our valuation is DCF based, which we feel is appropriate for people-heavy/asset-light business services companies that should also be strongly cash generative. Still early stage, we expect Healthperm to make losses until 2019 and for profits to increase substantially thereafter, and we believe a DCF better reflects this phasing.

### Financials: Profits will ramp up substantially as revenues grow

- **Earnings:** although currently loss making, we expect profits to ramp up substantially from 2020 as the number of nurses placed increases and the company benefits from operational gearing.
- **Cash flow:** capex is low, reflecting Healthperm's status as a people- rather than asset-based business. Working capital is currently the main use of cash, although we model this requirement declining as payment terms are improved.
- **Balance sheet:** Healthperm's current sole funding source is loan notes subscribed to by David Sumner, the non-executive co-chairman. These expire at the end of 2019 and we think it possible that Healthperm will look to alternative funding sources, either debt or equity, to refinance them.

### Sensitivities

- **Government policy (including Brexit),** in the UK and/or the Middle East, towards the international recruitment of nurses could change and foreign recruitment could be restricted. Both regions could also choose to boost the domestic recruitment of nurses, especially through salary increases. The UK could reduce, or even cancel, its recent policy of increasing the number of visas for nurses from outside the EU, especially as Brexit has focused attention on the theme of immigration. However, we would think a reversal of policy unlikely given the growing shortage of nurses.
- **An NHS framework** for the international recruitment of nurses in three regions (the North East, East England and London) starts in 2018. This will be the first time that Healthperm has an opportunity to gain inclusion on an NHS framework. Failure to achieve framework endorsement is a risk. However, it is worth noting that companies do not have to be on the framework to win business, for example Healthperm currently operates without one, although some potential clients may require it. Scotland and Wales do not operate frameworks.

- **Healthperm is currently loss making**, and we do not expect it to generate a profit, on a full-year basis, until 2020. Thereafter, profits should ramp up quickly through economies of scale.

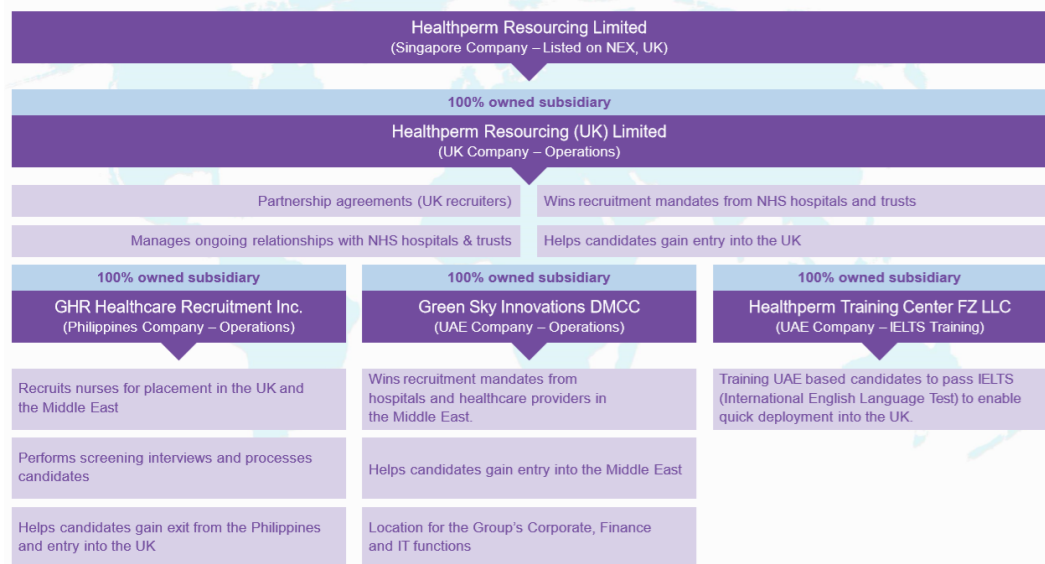
## Company description

### Overview

Healthperm is a healthcare recruitment business, established in 2015 to address the shortfall in healthcare professionals in the UK and the Middle East through the provision of qualified Filipino staff. Healthperm listed on the NEX Growth Market of the London Stock Exchange in 2016. It has a fully licensed recruitment operation in the Philippines, and sales operations in the UK and the Middle East. The company has more than 60 full-time employees. In 2017 it placed a total of 48 appointments in the UK and over 200 in the Middle East.

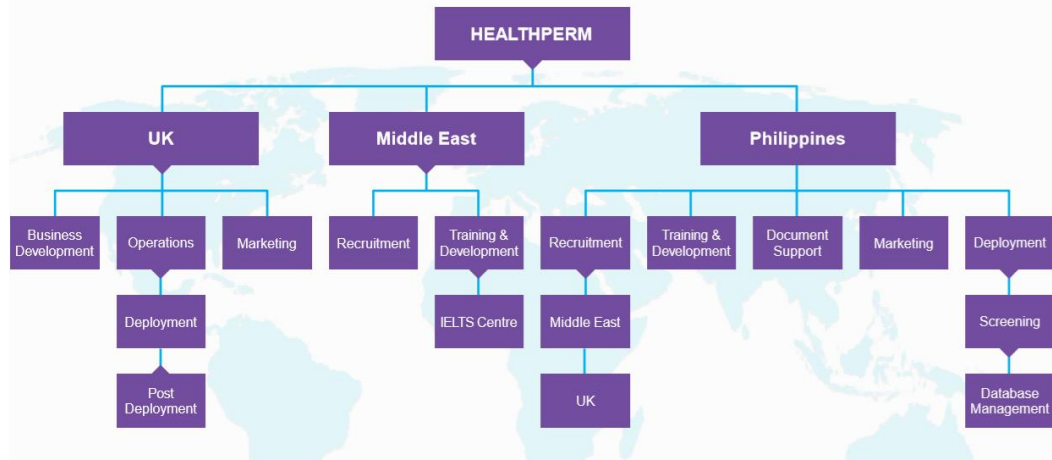
The four main businesses of Healthperm are a Philippines-based recruitment company; a UK-based resourcing company; a UAE-based resourcing company; and a UAE-based language training company (see Exhibits 1 and 2).

#### Exhibit 1: Group structure



Source: Healthperm

**Exhibit 2: Organisation**



Source: Healthperm

Healthperm manages the complete recruitment process for candidates and employers, with local-based recruitment in the Philippines, India and the Caribbean (Exhibit 3). It only supplies permanent employees, rather than temporary ones. In permanent recruitment, a company is paid a one-off fee, usually a percentage of an employee’s salary. The fee may be spread across the different stages of recruitment, for example, in Healthperm’s case, a proportion when a nurse accepts a role and a proportion when they are deployed. Nurses will pay their own language-training costs.

**Exhibit 3: Healthperm’s role in the recruitment process**

- Present a short list of suitable CVs.
- Hospitals select who they want to interview.
- Run the interviews either via Skype or face to face in the Philippines or Dubai.
- Healthperm staff attend on the day and support the interviews, making sure the process runs smoothly.
- Hospitals interview the candidates and accept or reject.
- Healthperm manages the candidate on-boarding.
- Healthperm provides weekly progress updates.
- Fees are a one-off payment for successfully placed permanent staff.
- Healthperm promotes risk-sharing agreements with the NHS.

Source: Healthperm

The international market for nurse recruitment is fragmented. In both the UK and the Middle East, Healthperm’s main competitors are Drake International (ASC in the Philippines), a UK-based, international recruitment company; OMANFIL, a Philippines-based recruitment company active in a range of sectors, founded in 1978; and IPAMS, a Philippines-based recruitment company active in a range of sectors, founded in 1972.

**Strategy: Focus on core markets and then expand**

Healthperm’s goal is to become the largest provider of permanent experienced nurses and other healthcare professionals, initially from the Philippines into the UK and the Middle East.

Healthperm’s management has said that the focus for growth will be organic, although it may consider acquisitions in the medium to long term. In the medium term, it is also interested in developing new country opportunities, both to source healthcare professionals and to find new customers. The company may also seek to move into related markets, eg beyond recruitment for nurses into recruitment for doctors and other allied health professionals, eg radiographers.

## The Philippines: Supply of permanent nurses

### Strong supply of nurses from the Philippines

The Philippines represents a good base for Healthperm due to its tradition of sending nurses overseas. Around 85% of Filipino nurses work abroad, where salaries can be up to 20 times higher than locally. Nursing is seen as a respected profession in the Philippines, but this has led to oversupply with 200,000 unemployed nurses, which provides a pool of potential candidates for Healthperm. There is a range of financial and social factors that encourage nurses to leave the Philippines (Exhibit 4). Healthperm has a local presence, with offices in Manila and Cebu.

**Exhibit 4: Factors that encourage nurses to migrate from the Philippines**

Push	Pull
Employment opportunities ease unemployment	Higher personal income
Generator of foreign exchange for government (\$4bn in 2016)	Better benefits
Stabilises country's balance of payments	Lower nurse to patient ratio
Lower salary at home	Opportunity to upgrade nursing skills
No overtime pay	Peer influence
Poor health insurance	Opportunity for family to migrate
Slow promotion	Opportunity to work with advanced medical technology
Work stress due to patient ratio	
Instability within the Philippines	
Source: Healthperm	

## Market opportunity: The UK and Ireland

### A shortage of nurses

Healthperm is benefiting from a growing shortage of nurses in the UK & Ireland. In 2016, a report into the topic by the Migration Advisory Committee (MAC), commissioned by the UK government, led the government to place nursing on the UK's 'shortage occupation list'. In the NHS's financial year 2017/18 Q3 there were 35,835 vacancies for nurses in the UK, representing 10.3% of total roles (source: NHS Quarterly Provider update).

A key reason for the UK nurse shortage is an ageing nurse workforce, with one-third of nurses aged over 50 and therefore approaching retirement. Also, NHS budget cuts have reduced the number of new joiners, with a 17% cut in nursing training places from 2009 to 2013, while the switch from student bursaries to loans for nurses discouraged applicants. Brexit has also had an impact, with a 96% reduction in recruitment from the EU in the year after the referendum. Last year, the EU comprised 6% of NHS staff (Exhibit 5).

**Exhibit 5: NHS staff in England by nationality (June 2017)**

Nationality	Proportion
British	88%
EU	6%
Asian	4%
African	2%
Other	1%
<b>Total</b>	<b>100%</b>
Source: NHS Digital	

Albeit from a low base, nurses from outside the UK and EU/EEA are becoming increasingly important, comprising 9% of new joiners in 2016/17, up from 7% in 2014/15 (Exhibit 6).

### Exhibit 6: NHS nurses – joiners vs leavers by nationality

#### Nurses joining the NHS by nationality



#### Nurses leaving the NHS by nationality



Source: Healthperm

To try to fill the staffing gap, the NHS has increasingly relied on temporary or locum staff. However, this is expensive, leads to workforce instability and does not address the issue of a lack of permanent staff. A 2017 report, published by the Open University, highlighted that the 146 hospital trusts surveyed spent £1.5bn per year on temporary nursing staff, enough to pay for the recruitment costs of 66,000 nurses and equivalent to an annual cost of £2.4bn if extrapolated to all UK trusts. As the NHS seeks to cut the cost of employing temporary agency staff, this offers an opportunity for Healthperm, which only provides permanent employees so helps to address the staffing gap. In our view, permanent nurses offer a more cost-effective outcome than temporary nurses.

In our view, Healthperm should find a ready market in the NHS for employees from the Philippines given that they are already the third largest nationality in the NHS (Exhibit 7).

### Exhibit 7: Number of NHS staff in England by nationality – top 75 nationalities\* (June 2017)

Nationality	Numbers	Nationality	Numbers	Nationality	Numbers	Nationality	Numbers
British	968,908	Dutch	1,540	Sierra Leonean	511	Somali	250
Indian	18,252	French	1,526	Ugandan	480	Mauritian	243
Philippine	15,037	Nepalese	1,521	Sudanese	469	Japanese	227
Irish	13,013	Sri Lankan	1,259	Zambian	469	Norwegian	226
Polish	8,339	Mauritian	1,234	Latvian	439	Gambian	207
Spanish	6,979	Hungarian	1,181	Cypriot	415	Malawian	205
Portuguese	6,771	American	1,164	Finnish	374	Russian	183
Italian	6,061	Lithuanian	1,115	Danish	368	Turkish	172
Nigerian	5,314	Egyptian	1,026	Belgian	354	Swiss	162
Zimbabwean	3,909	Bulgarian	982	Brazilian	348	Ukrainian	160
Romanian	3,716	Canadian	810	Iranian	342	Estonian	159
Pakistani	3,370	Slovak	801	Austrian	335	Libyan	150
Greek	2,959	Chinese	768	Singaporean	321	Eritrean	147
German	2,374	Kenyan	705	Maltese	308	Congolese	147
Ghanaian	2,342	Czech	692	Iraqi	288	Syrian	146
Malaysian	2,122	Swedish	682	Thai	280	Tanzanian	144
Australian	2,014	New Zealand	608	Croatian	268	Guyanese	143
Jamaican	1,704	Trinidadian	595	Burmese	261	Jordanian	141
South African	1,614	Bangladeshi	587	Cameroonian	252		

Source: NHS Digital. Note: \*Response by nationality rather than by country of origin.

## Healthperm's presence in the UK & Ireland

Healthperm currently has contracts with eight NHS trusts, which service 16 hospitals (Exhibit 8), and is in final discussions with a number of other hospitals. In 2017, Healthperm deployed 48

candidates from the Philippines into the UK. In August, Healthperm won its largest ever contract in the UK, with the Medway NHS Foundation Trust. Healthperm also recently won its first contract in Ireland.

**Exhibit 8: Healthperm’s existing UK hospital contracts**

Amersham Hospital
City Hospital, Nottingham
Frimley Park Hospital
Hatfield Hospital
High Wycombe Hospital
King's Mill Hospital, Mansfield
Lister Hospital, Stevenage
Medway NHS Foundation Trust
Mount Vernon Hospital (Oncology)
Newark Hospital
Queen Elizabeth II Hospital, Welwyn
Queen's Medical Centre, Nottingham
Stoke Mandeville Hospital
Walsall Hospital Trust
Watford Hospital Trust
Wexham Park Hospital

Source: Healthperm

Healthperm only offers candidates who have passed either the International English Language Testing System (IELTS) or Occupational English Test (OET) qualifications in their home country before they apply. Although these tests are not required by the NHS at point of interview, they are required on commencing employment. This policy is a differentiator to competitors and has resulted in 85% of the candidates put forward for interview being offered a position.

Candidates have not usually been to the UK before and Healthperm focuses on providing good pastoral care, for example meeting candidates at the airport and arranging the first month’s accommodation. After arriving in the UK, nurses need to pass a test of competency called the Objective Structured Clinical Examination (OSCE). The national OSCE pass rate is 58%, whereas Healthperm’s pass rate for deployed nurses is 96%. For the first time, Healthperm is applying for inclusion on an NHS framework for the international recruitment of nurses. The framework is for the North East, East England and London. This will be the first time that Healthperm has an opportunity to gain inclusion on an NHS framework. Failure to achieve framework endorsement is a risk, although it is worth noting that companies do not have to be on the framework to win business. We consider the framework an endorsement that helps companies to win more business. Scotland and Wales do not operate frameworks.

Healthperm does not currently provide employees for the private sector in the UK, which comprises 15% of nurses and midwives. We think the private sector could be an opportunity for Healthperm, especially as, according to the company, 40% of nurses in the sector were born outside the UK.

## Market opportunity: The Middle East

### Rising demand for nurses

Like the UK, the Middle East should be an active market for the recruitment of permanent nurses from the Philippines. Nurse penetration levels are generally lower in the Middle East compared to developed countries. The UAE, Healthperm’s main country in the region, has a particularly low level of nurse penetration at 31 per 100,000 people (Exhibit 9).



**Exhibit 9: Nurses per 100,000 of population**

Country	Nurses per 100,000 of population
Switzerland	173
Qatar	118
Germany	114
UK	88
Oman	53
Saudi Arabia	48
Kuwait	45
UAE	31

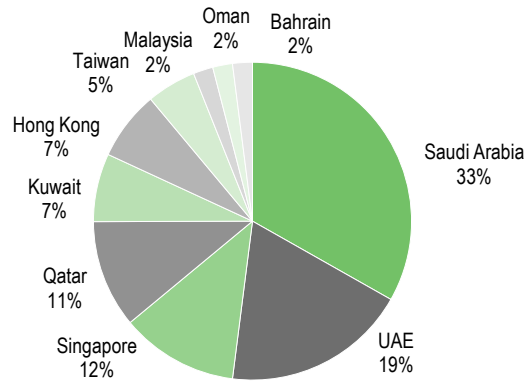
Source: World Health Organization

In the UAE, demand for more nurses is likely to be led by a number of factors:

- **An expanding medical industry**, with the opening of several new hospitals.
- **The introduction** of mandatory medical insurance anticipating more patients, with more medical needs.
- **A rise in chronic** diseases including diabetes.
- **An ageing population.**
- **Increased UAE population and economic growth**, especially following Expo 2020.

The Middle East is the main destination for Filipino overseas workers, with the UAE the second most popular country, although we note that this included all workers, not just those in healthcare (Exhibit 10).

**Exhibit 10: Top destinations of Filipino overseas workers (2015)**



Source: Philippine Overseas Employment Administration

**Healthperm’s presence in the Middle East**

In the Middle East, Healthperm has private healthcare clients in the UAE, Qatar, Oman, Kuwait and Saudi Arabia (Exhibit 11).



### Exhibit 11: Healthperm's existing Middle East contracts

#### Customer

Aamer Home Health Care Center
Al Dana Nursing Services
Al Hadaf Al Wadih Health Services
Al Hanan Homecare
Al Freej Medical Home Care
Al Khor Derma Clinic
Al Mustakbal Home Care
Al Nama Al Mutamiza Ent. Association
Black Pearl Healthcare LLC
Emirates Hospital Rehabilitation and Homecare Services LLC
Family Emirates Home Nursing
Florida Homecare
Gulf International Medical Services LLC
Lebanese Qatari Dental Complex
London Home Health Care
Manchester Home Health Care
Olives Home Healthcare
Raed Dental Care
Royal Medical Care
Selection Medical Services
Sublime Home Healthcare Centre
Taafi Homecare
Tahya Home Health Care
Welcare Hospital

Source: Healthperm

In 2017, Healthperm deployed over 200 candidates into the Middle East. In 2018, Healthperm won a new contract for a major hospital in Kuwait and commenced a pilot project for a large hospital group in Saudi Arabia, the first time it has operated in the country. We think Saudi Arabia, in particular, should offer a significant opportunity for Healthperm given that the country is the top destination for Filipino workers. Also, Saudi Arabian contracts tend to be larger than in the UAE.

In 2017, Healthperm opened its own dedicated IELTS and OET training centre in the UAE. The centre only provides training for GCC-based international nurses seeking to move to the UK or Ireland, through a fixed 10-week programme for all the qualifications they need. Healthperm is the only recruitment company that operates a language training centre, and we think this will provide it with a further source of candidates to work in the UK and a better chance of placing those nurses. Since opening the training centre in Q417, Healthperm has enrolled 176 students.

## Market opportunity: New markets

### Potential new countries

Healthperm is examining new regions, to both create new supply and demand and reduce its dependence on the Philippines, the UK & Ireland and the Middle East.

- **Candidates:** Healthperm has started deploying nurses from India and the Caribbean and is looking at other countries in South Asia and also East Africa.
- **Customers:** the US, Canada, Australia, New Zealand, Japan and Singapore are the main customer opportunities. Healthperm has already held discussions with potential partners in some of these countries.

### Potential new sectors

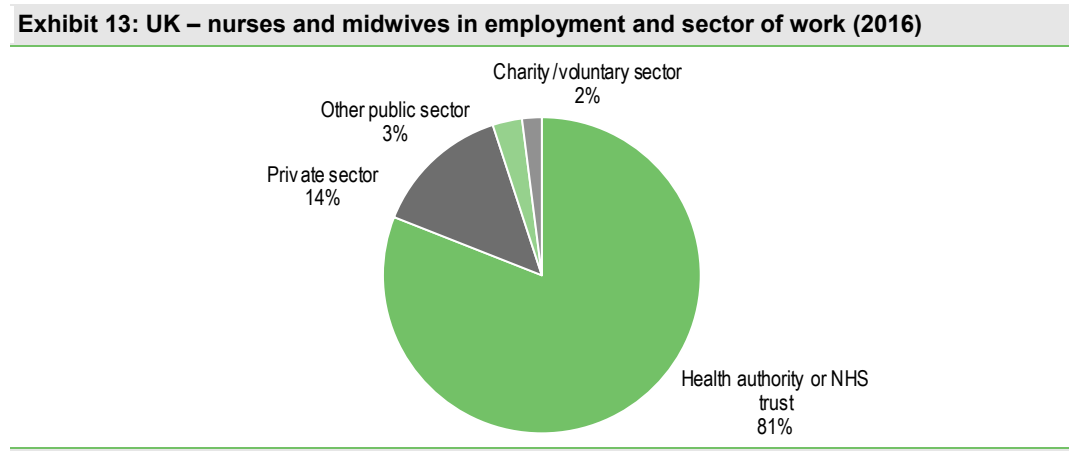
In recruitment, Healthperm specialises in nurses but is looking at entering the doctor market. We think the doctor market should be appealing as doctors are paid higher salaries and in the UK are

almost twice as likely as nurses to come from outside the EU (Exhibit 12). We do not foresee any barriers to Healthperm moving into the doctor market.

Role	Asia	Africa	Other	Total
Doctors	12.0%	2.7%	1.4%	16.1%
Nurses	5.6%	2.4%	0.7%	8.7%
Clinical support	2.7%	1.9%	0.7%	5.3%
Infrastructure support	1.9%	1.3%	0.7%	3.9%

Source: Healthperm

The UK private healthcare sector could also be a new market for Healthperm. The UK's private sector is smaller than the NHS, at 14% of nurses vs 81% respectively (Exhibit 13), but we note that 40% of nurses in the private sector were born outside the UK. However, Healthperm has said that it is currently prioritising the NHS market over the private market, which we think is logical given the NHS market is still very underpenetrated for Healthperm.



Source: Healthperm

In the UK, outside the hospital market, we believe that Healthperm could look at supplying nurses to the 'care home', for 'care at home' and to dental surgeries, markets which it currently supplies in the Middle East.

## Sensitivities

- Government policy** in the UK and/or the Middle East towards the international recruitment of nurses could change with restrictions placed on entrants. The UK could reduce, or even cancel, its recent policy of increasing the number of visas for nurses from outside the EU, especially given that Brexit has made immigration a focus of policy discussion. Both regions may choose to encourage the domestic recruitment of nurses, through salary increases or boosts to training. However, we would think a reversal of policy unlikely given the growing global shortage of nurses.
- Failure to achieve NHS framework endorsement in Healthperm's current application** is a risk, although it is worth noting that companies do not have to be on the framework to win business, as is the case with Healthperm's historic bids. We think of the framework as an endorsement that helps companies to win more business. We also note that Scotland and Wales do not operate frameworks.
- Influence of the principal shareholder:** David Sumner, the non-executive co-chairman, holds 84.7% of the shares.
- Reliance on the chairman's continued financial support:** Healthperm is reliant on Mr Sumner to continue to fund the group's working capital requirements. He has entered into a

loan note agreement, pursuant to which he has irrevocably committed to subscribe for up to £5m in maximum tranches of £200,000 per month to fund the group's ongoing working capital requirements. The loan notes are repayable on 31 December 2019. If Mr Sumner fails to meet his commitment, the company may have working capital constraints.

- **Requirement for further funds:** it may be that Healthperm decides to seek new funding, whether through debt or equity, to finance its growth, especially as the company is only likely to break even during 2019 and its loan notes are repayable on 31 December 2019.

## Valuation

Healthperm is a young company with only three years of accounts and is likely to see fast growth. In reaching our valuation, therefore, we have made a number of assumptions. Variations around these will provide upside/downside to our valuation. Our key assumptions are:

- Revenue growth of 35% CAGR across the DCF forecast period of 2019 to 2029.
- The key years for our model are the next three (2018-20e), when we forecast a 241% CAGR in nurses deployed in the UK (boosted by the recent win with the Medway NHS Foundation Trust) and 73% in the Middle East, as Healthperm ramps up. This is based on our assumption that nurse/health personnel deployment numbers will have reached a base level of around 2,044 by 2020 (from 158 in H118). The fast growth reflects both Healthperm's status as a young company and the benefits of market growth, eg the UK allowing extra visas for nurses over the next three years.
- The EBITDA margin reaches 28% by 2029, as the company benefits from operational gearing. This may be conservative as management believes the margin could reach a considerably higher level.
- Capex/revenue of 1%, which should be low as Healthperm is a people-based business.
- Working capital/revenue of 1%, as Healthperm has no inventory requirement, so the working capital need is the difference between paying nurses and being paid by customers.
- Corporate tax ratio of 16%, a blend of 19% in the UK, 0% in the UAE and 30% in the Philippines.

## DCF

Our preferred measure for valuing companies is a DCF. We think this is particularly useful for valuing Healthperm as the company is likely to be loss making until during the course of 2019, but we then expect a substantial increase in profits as revenues ramp up. DCFs also lend themselves to valuing business services companies, which are people- rather than asset-based and are usually highly cash generative. Applying the assumptions outlined above, our base case valuation of Healthperm is 288p per share, which values the company at £24.9m, and represents 121% upside to the current share price of 130p (Exhibit 14). Our DCF uses a WACC of 8.9% and a terminal growth rate of 1.0%.

<b>Exhibit 14: DCF valuation</b>	
<b>£000s</b>	
Total discounted cash flows (FY19e to FY29e)	12,254
Discounted terminal value	17,742
<b>Total EV</b>	<b>29,997</b>
Net debt (FY18)	5,068
<b>Equity value</b>	<b>24,928</b>
Number of shares	8,658,181
<b>Value per share (£)</b>	<b>2.88</b>
Source: Edison Investment Research	

There is clearly scope for valuation upside beyond our base case should, for example, deployment numbers grow at a faster rate, which could in turn enhance operational leverage and consequently margins. Management is confident of achieving margins above those assumed in our base case.

In the tables below we set out a range of sensitivities for our DCF. The main sensitivity lies in the revenue growth that we assume, noting that the company was only formed in 2015 and current revenues are at a low base (Exhibit 15).

<b>Exhibit 15: DCF sensitivity to WACC and revenue CAGR (2019-29e)</b>						
(£)		WACC				
		7.9%	8.4%	8.9%	9.4%	9.9%
	15%	1.18	1.08	1.00	0.89	0.82
	20%	1.50	1.35	1.26	1.12	1.03
	25%	1.93	1.75	1.60	1.45	1.32
	30%	2.56	2.31	2.09	1.90	1.71
<b>Revenue CAGR (2019-29e)</b>	<b>35%</b>	<b>3.70</b>	<b>3.32</b>	<b>2.88</b>	<b>2.71</b>	<b>2.34</b>
	40%	4.97	4.56	4.03	3.60	3.26
	45%	6.99	6.24	5.65	5.04	4.72
	50%	10.27	9.16	7.88	7.38	6.33
	55%	14.06	12.53	11.32	10.07	8.92

Source: Edison Investment Research

One of the main sensitivities in our model is the EBITDA margin reached in our last forecast year of 2029 (Exhibit 16). Healthperm is currently loss-making but as nurse volumes placed ramp up, the business should benefit from good operational gearing, especially as much of the infrastructure needed has been built.

<b>Exhibit 16: DCF sensitivity to WACC and 2029e EBITDA margin</b>						
(£)		WACC				
		7.9%	8.4%	8.9%	9.4%	9.9%
	8%	0.65	0.56	0.38	0.32	0.27
	13%	1.35	1.20	1.06	0.95	0.84
	18%	2.09	1.86	1.67	1.50	1.35
	23%	2.89	2.59	2.33	2.10	1.90
<b>2029e EBITDA margin</b>	<b>28%</b>	<b>3.52</b>	<b>3.16</b>	<b>2.88</b>	<b>2.58</b>	<b>2.34</b>
	33%	4.26	3.83	3.46	3.13	2.84
	38%	4.91	4.47	4.00	3.66	3.30
	43%	5.73	5.11	4.65	4.18	3.81
	48%	6.35	5.71	5.16	4.68	4.26

Source: Edison Investment Research

## Comparable companies

We forecast that Healthperm will be loss making until during the course of 2019, which makes comparable company analysis difficult. However, for illustration, we show below the trading multiples for the recruitment companies that we see as Healthperm's natural listed peers (Exhibit 17). While current peer multiple comparisons are clearly not immediately relevant at this stage, they provide a point of reference for Healthperm's potential value once it matures into profitability.

<b>Exhibit 17: Recruitment companies trading multiples for 2018*</b>						
Company	Market cap (£m)	EV/Revenue (x)	EV/EBITDA (x)	EV/EBIT (x)	P/E (x)	Dividend yield (%)
Adecco	7,940	0.42	8.51	9.41	11.10	4.43
Harvey Nash	95	0.11	6.56	7.27	9.37	3.50
Hays	2,946	0.50	10.51	11.38	17.18	4.31
PageGroup	2,028	1.31	12.50	14.24	19.70	2.52
Randstad	9,168	0.45	9.79	11.36	12.04	4.61
Robert Walters	592	0.45	10.96	12.03	17.31	1.79
Staffline	341	0.35	8.62	9.62	10.82	2.27
SThree	465	0.38	8.16	9.22	12.76	3.94

Source: Bloomberg. Note: \*Calendarised to December. Priced on 28 August 2018.

## Management

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Healthperm was founded by David Sumner, who was initially the CEO and is currently the non-executive co-chairman. He has a record of more than 15 years of developing businesses focused on the healthcare and clean technology sectors. Steve Howson, who succeeded Mr Sumner as CEO in June 2017, worked with him at Shire and Medicsight. Prior to becoming CEO, Mr Howson had been a non-executive of Healthperm. He has a strong track record in strategic planning, and both domestic and international expansion in the pharmaceutical and healthcare sectors. We think that both Mr Sumner's and Mr Howson's backgrounds in the healthcare market are especially applicable to Healthperm.

## Financials

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### Historic structure

Healthperm was founded in 2015 and listed on NEX in 2016 through a reverse listing by which it was acquired by Yujin International, with the latter subsequently renamed Healthperm. The 2015 and 2016 accounts were restated with the reverse listing.

### Earnings

Healthperm is currently loss making, but we expect the company to reach break-even during 2019. The move to profitability will be led by the 159% CAGR (2017-20) we model in revenues based on our estimates of the increase in the number of nurses that Healthperm will place, and also on an increase in the fees charged, for example as Healthperm speeds up the process of a nurse joining. As mentioned above, our forecasts envisage 35% CAGR revenue growth from 2019 to 2029.

Our forecasts are mainly based on three variables of an assumption of nurses deployed (we assume a base figure of around 2,044 deployments by 2020), a fee per nurse and a gross margin, separately for both the UK and the Middle East. In the initial forecast period (2018-20) we estimate a 241% CAGR in nurses deployed in the UK and 73% in the Middle East, as Healthperm ramps up.

Healthperm's gross margin was 73.4% in 2017, which we slightly increase to 75.9% by 2020, mainly as we think the company can improve its pricing as it speeds up the process of placing nurses through better selection and training.

We forecast a sharp increase in operational gearing, mainly as Healthperm invested heavily in setting up its infrastructure in the last two years and should now see the benefits from the number of nurses placed increasing.

### Cash flow

Recruitment is a people- rather than asset-intensive business, so capex is likely to remain relatively low at 1% of revenues. Working capital is the main use of cash, although we model an improvement in the position as we believe that as Healthperm becomes larger it will be able to negotiate better payment terms with its customers, eg being paid earlier in the recruitment process for nurses. We model working capital/revenue of 1%. The growth in working capital is currently financed by loan notes, as discussed above. We do not expect Healthperm to pay a dividend while it is in its initial growth phase.

### Balance sheet

At end 2017, group net debt was £2.6m, up from £0.3m at end 2016. We forecast net debt to rise to £5.1m by end 2018, mainly due to the costs associated with Healthperm's start-up phase. We

would expect the company's net debt level to decline after 2020 as it moves into profit. Its current sole funding source is the loan notes that expire at the end of 2019. We think it likely that Healthperm may look to alternative funding sources to the loan notes, either debt or equity, to finance the group's growth plans. As Healthperm is currently loss making, our usual preferred leverage metric of EV/EBITDA does not apply.

### **Current trading**

On 7 August, Healthperm issued an upbeat H1 pre-close statement. The statement said that there had been "184% growth in revenue to approximately £293,000 in the six months ended 30 June 2018 (2017: £103,000)".

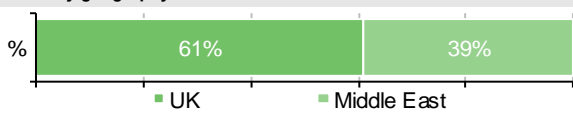
At the end of the statement, Mr Howson commented that "The first half of 2018 has seen us make further progress by winning a number of new accounts across our key geographies. The extension of our recruitment licence in the Philippines combined with the partnership agreements in new territories will serve to ensure we are well positioned to meet the increasing demand for our services. We look forward to updating shareholders further with the release of our 2018 interim results in September."

**Exhibit 18: Financial summary**

December year end	2016	2017	2018e	2019e	2020e
£'000s	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>					
	<b>Restated</b>				
Revenue	2	244	918	2,813	4,225
Cost of Sales	(1)	(65)	(239)	(660)	(1,017)
Gross Profit	1	179	679	2,152	3,208
EBITDA	(1,683)	(1,712)	(1,837)	(142)	825
Operating Profit (before amort. and except.)	(1,753)	(1,781)	(1,906)	(226)	710
Intangible Amortisation	0	0	0	0	0
Exceptionals	(1,394)	0	0	0	0
Other	(1,754)	(1,960)	(2,585)	(2,378)	(2,497)
Operating Profit	(3,147)	(1,781)	(1,906)	(226)	710
Net Interest	(36)	(141)	(370)	(410)	(501)
Profit Before Tax (norm)	(1,789)	(1,922)	(2,276)	(636)	209
Profit Before Tax (FRS 3)	(3,183)	(1,922)	(2,276)	(636)	209
Deferred tax	72	(147)	0	0	0
Profit After Tax (norm)	(1,717)	(2,069)	(2,276)	(636)	209
Profit After Tax (FRS 3)	(3,111)	(2,069)	(2,276)	(636)	209
Average Number of Shares Outstanding (m)	8.3	8.7	8.7	8.7	8.7
EPS - normalised (p)	(20.8)	(23.9)	(26.3)	(7.3)	2.4
EPS - normalised and fully diluted (p)	(20.8)	(23.9)	(26.3)	(7.3)	2.4
EPS - (IFRS) (p)	(37.6)	(23.9)	(26.3)	(7.3)	2.4
Dividend per share (p)	0.0	0.0	0.0	0.0	0.0
Gross Margin (%)	50.0	73.4	73.9	76.5	75.9
EBITDA Margin (%)	N/A	N/A	N/A	N/A	19.5
Operating Margin (before GW and except.) (%)	N/A	N/A	N/A	N/A	16.8
<b>BALANCE SHEET</b>					
Fixed Assets	431	211	220	248	291
Intangible Assets	270	201	201	201	201
Tangible Assets	1	10	19	47	90
Investments	160	0	0	0	0
Current Assets	106	301	979	2,881	4,299
Stocks	0	0	0	0	0
Debtors	84	245	922	2,824	4,242
Cash	22	56	57	57	57
Other	0	0	0	0	0
Current Liabilities	(727)	(463)	(1,742)	(5,337)	(8,017)
Creditors	(727)	(463)	(1,742)	(5,337)	(8,017)
Short term borrowings	0	0	0	0	0
Long Term Liabilities	(412)	(2,711)	(5,156)	(6,017)	(6,116)
Long term borrowings	(371)	(2,680)	(5,125)	(5,986)	(6,085)
Other long term liabilities	(41)	(31)	(31)	(31)	(31)
Net Assets	(602)	(2,662)	(5,699)	(8,225)	(9,543)
<b>CASH FLOW</b>					
Operating Cash Flow	(1,517)	(2,123)	(2,066)	(423)	444
Net Interest	0	0	(370)	(410)	(501)
Tax	0	0	0	0	0
Capex	0	(9)	(9)	(28)	(42)
Acquisitions/disposals	0	0	0	0	0
Financing	0	0	0	0	0
Dividends	0	0	0	0	0
Net Cash Flow	(1,517)	(2,132)	(2,445)	(861)	(99)
Opening net debt/(cash)	804	349	2,624	5,068	5,929
HP finance leases initiated	0	0	0	0	0
Other	1,972	(143)	1	0	0
Closing net debt/(cash)	349	2,624	5,068	5,929	6,028

Source: Company accounts, Edison Investment Research



<b>Contact details</b>	<b>Revenue by geography</b>
1 London Road Churchill House Slough, Berkshire SL3 7FJ United Kingdom 01753 378185 www.healthperm.com	
<b>Management team</b>	<b>CFO: Jonathan Sumner</b>
<b>CEO: Steven Howson</b>	<b>CFO: Jonathan Sumner</b>
Mr Howson is an accomplished commercial executive with an impressive track record of delivering organisational growth, change management policy and governance in the pharmaceutical and healthcare sector, with a specific focus on the NHS. He has held a number of commercial roles during his career, both domestically and internationally and was, until recently, a country general manager (UK) at Ferring, a company with a 5,000-strong workforce. Mr Howson has a strong track record in strategic planning and both domestic and international expansion.	Mr Sumner brings international experience in financial reporting and forecasting, tax, audit and M&A project management. He has held positions at PricewaterhouseCoopers, Ernst & Young and Deloitte and will be a key part of the company's management team leading the development of the Healthperm business.
<b>Non-Executive Co-Chairman: David Sumner</b>	<b>Non-Executive Co-Chairman: Alan Kitchin</b>
Mr Sumner is a seasoned international entrepreneur with experience in sectors ranging from mining to healthcare and clean technology. He has served on numerous private and public company boards in both an executive and non-executive capacity and has a track record of raising capital through debt, pre-IPO and IPO. He is the founding shareholder of Healthperm Resourcing.	Mr Kitchin is a law graduate of Cambridge University where he was a Squire Law Scholar. He is an English solicitor and was a senior corporate partner in Ashurst in London before being appointed managing partner of its Asia practice. He was subsequently headhunted to become a senior corporate partner at Clifford Chance and has extensive experience of advising companies and their boards, both in Asia and Europe. Mr Kitchin has advised a number of medical and pharmaceutical companies on both corporate and regulatory issues and successful stock market listings. He holds a number of non-executive positions including as a NED of the medical research company ReOx, which was spun out of Oxford University in 2003.
<b>Principal shareholders</b>	<b>(%)</b>
David Sumner	84.7
Kavita Capital Limited	3.9
<b>Companies named in this report;</b>	
Adecco (ADEN), Harvey Nash (HVN), Hays (HAS), PageGroup (PAGE), Randstad (RAND), Robert Walters (RWA), SThree (STHR) and Staffline (STAF)	

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