



Buy

First Artist Corporation*

Reaching for the stars

Current price 6.12p
Target price 9.5p

Market cap: £6.9m
Shares in issue: 113.2m
NAV (FY1): £4.6m
Gearing (FY1): 84.4%
Interest cover (FY1): 3.5x

[Full valuation data on back page](#)

Performance

	Stock	All-Share
1 month:	-10.9%	2.1%
3 months:	-17.0%	5.6%
12 months:	-3.9%	11.0%

High/low:

12 months: 10.37p/5.62p

Last results: Interims, 11 Jul 06

Next results: Finals, Jan 07

Next event: Finals, Jan 07

Reuters/BBG FAN.L/FAN.LN

We have increased our EPS forecasts for 2007 and 2008 by 9% and 7%, respectively to reflect our confidence that recent astute acquisitions (NCI Management and Sponsorship Consulting) will result in significant new business opportunities. The group is now in a position to cross-sell and up-sell all of its offerings to all of its clients and capitalise on the ongoing strong trading at last year's acquisitions, offering scope for further upgrades. We therefore maintain our Buy recommendation and 9.5p target price.

Year to Oct	Sales £m	PBT £m	EPS p	EPS growth %	DPS p	Yield %	P/E x	EV/EBITDA x	VORR x
2005A	5.9	0.8	1.2	na	0.0	0.0	5.0	6.7	0.8
2006E	10.9	1.1	0.9	-27.4	0.0	0.0	6.8	6.7	0.7
2007E	14.4	1.8	1.2	36.8	0.0	0.0	5.0	4.3	0.5
2008E	16.2	2.5	1.5	23.1	0.0	0.0	4.1	2.8	0.3

Source: Arbuthnot estimates, company data

- Entertainment and sports representation divisions strengthened** First Artist Entertainment & Media (FAEM) has seen the number of clients it represents significantly increased with the acquisitions of NCI Management and Sponsorship Consulting. Similarly in the sports representation division, First Artist Management (FAM), the purchase of the Scandinavian operations of Formation Group has cemented FAM's position as the leading football agency in Europe by number of players. This will give added power to FAM to act as an "influencer" in an industry being run on an increasingly professional basis, despite recent adverse publicity.
- Trading at last year's acquisitions has remained strong** The announcements that the event management business, The Finishing Touch (TFT) and the wealth management business, ABG Financial Management (ABGFM) are on course to achieve the maximum payout in their earnouts are most encouraging implying that the acquisitions were both quality businesses and earning-enhancing. TFT remains hopeful that it will secure an ongoing contract for the important local education authority work in the public sector with the existing one being extended. ABGFM has had a bumper year, boosted by the Pension "A day" and winning new clients (some from cross-referral from other divisions of First Artist) and generally writing more business, which should mean the higher-quality trail income will continue to build.
- Outlook and valuation** We believe that there will be more cross-selling of services and offerings as the various divisions become increasingly aware of the capabilities of the recently acquired businesses. This should mean that our forecasts will prove conservative, notwithstanding the potential swing factor of FAM in future years as the timely acquisition in Scandinavia has helped to underpin FY2006. We are therefore happy to maintain our Buy recommendation and 9.5p target price, which is based on a FY2006E P/E of 10.5x, falling to 7.9x in FY2007E.

Analyst:

Robert Sanders

020 7012 2084

robertsanders@arbuthnot.co.uk

Priced at close 3 October 2006

Overview

Company activities

First Artist Management (FAM) and First Artist Entertainment & Media (FAEM) both focus on representing the commercial and sporting interests of leading personalities in the worldwide arena of sport and media. FAM is one of the largest football agencies in the world and has major offices in the UK, Italy and Denmark as well as the US and Middle East. It also has a network of associates across the globe. FAEM has been bolstered by the recent acquisitions of NCI Management and Sponsorship Consulting significantly increasing the total number of clients. ABG Financial Management's principal activity is to provide a range of taxation and financial consultancy services to a growing number of clients including corporate entities, sportsmen and media personalities. The Finishing Touch is among the market leaders in the organisation of conferences and other events for corporate and public sector clients in the UK and Europe.

Key issues on which investors must take a view

While the contribution of the football agency business had been reduced as a percentage of the group following the acquisitions last year, it is still likely to act as a swing factor in terms of profits in the shorter term especially following the purchase of what is now First Artist Scandinavia. Having seen the boom and bust, the Italian match-fixing scandal and with the forthcoming Stevens report, we would expect the professional football clubs in the UK and Europe to continue to move towards dealing with the more professional agents, which should be beneficial for industry leaders such as First Artist. Having bought companies in wealth management and event management last year and FAM and FAEM this year, we would expect to see further consolidation moves. Management must prove both that it can integrate these acquisitions and also that it can make further earnings-enhancing ones.

Likely direction of consensus revisions

We would hope that having introduced conservative forecasts (which we have now upgraded) that there will be scope for further upward revisions after the recent acquisitions. There are a number of drivers to this: in the shorter-term the purchase of First Artist Scandinavia leads to some larger deals, also, that there is the potential to cross-sell the wealth management services across the group especially as growth in the media division accelerates. In addition, there is scope for more earnings-enhancing acquisitions.

Valuation and reason behind target price

We initiated coverage with a Buy recommendation as we believe that following the acquisitions of 2005, First Artist has a much broader base to deliver increased earnings. While the recently upgraded share price target of 9.5p would represent a 2006 P/E of 10.5x and 2007 P/E of 7.9x (both a big discount to the market), the company also has relatively low EV/sales and EV/EBITDA multiples. Having had a successful first half, we would expect a strong performance in the seasonally-stronger second period to provide a base for future growth. This will be especially the case following the acquisitions of NCI Management and Sponsorship Consulting in the division now known as FAEM and the leading Danish football agency, now First Artist Scandinavia, which have led us to upgrade our EPS estimates.

Risks to our view

The main risk to our view relates to there being another downturn (or boom) in the football transfer market. We believe that the football industry is generally being run more sensibly, although a large proportion of revenues are still reliant on television rights. There is much conjecture as to the future direction of these across Europe, although the UK will have more money from next season. With an acquisition-led strategy there will be risks that any deal may turn out to be better or worse than anticipated.

First Artist Management

First Artist Management (FAM) has been considerably bolstered by the acquisition of the Scandinavian division from Formation Group for up to £2.25m. This has been renamed First Artist Scandinavia (FAS) and builds FAM's position as a leading player representative agency and a respected voice in the football industry. Denmark has been and will continue to be a good net exporter of talent, including 16 members of the Danish squad. It also makes FAM truly pan-European. While the revenues for this division have traditionally derived from a number of sources, including a small amount from retainers and the majority as a percentage of any transfers or any renegotiations of improved contracts, FAS has taken any fees over the life of the contract, thus reducing volatility. FAM is now adopting this model for the whole division. This will mean that there will be in excess of £1m of revenues contracted but not guaranteed for each of the next two years. Obviously the more players that are represented and the better the quality they are, then the more chance there is for FAM to receive larger fees. Table 1 below shows our forecasts for this division.

Table 1: First Artist Management

Year to October (£m)	2005	2006E	2007E	2008E
UK	2.42	1.85	2.20	2.40
FA Italy	1.74	1.20	1.60	1.80
FA Scandinavia	na	0.95	1.50	1.60
Other	0.01	0.00	0.00	0.00
Total sales	4.17	4.00	5.30	5.80
Operating profit (before central costs)	1.26	0.60	0.90	1.20
<i>Operating margin (%)</i>	<i>30.2</i>	<i>15.0</i>	<i>17.0</i>	<i>20.7</i>

Source: Company report & accounts, Arbutnot estimates

FAM has a very strong franchise in both the UK and Italy and is building up its presence in a number of newer markets. The Premiership (England) and Serie A (Italy) are two of the biggest leagues in the world, with a number of clubs in each having substantial transfer budgets, as evidenced by the significant activity in some of the top clubs that has taken place since the World Cup and the relegation of Juventus. Although this prompted several players to leave Juventus at considerable transfer prices, there was generally a lower level of activity in Italy due to the considerable uncertainty involving the five clubs implicated in the referee match-fixing scandal. With the appeals process taking up most of the transfer window and the implicated clubs being amongst the largest in the league, there was an impact on trading. FAS is increasing the group's presence in northern Europe and there are now approximately 350 players represented by the various FAM subsidiaries. FAM believes that it has gained market share over the last year and is well-placed to grow further.

FAM's key philosophy is to try to ensure its clients can perform to the best of their ability on the football field, thereby enhancing the possibility of multiple other revenue streams including product endorsements. The NCI Management and Sponsor Consulting acquisitions are therefore logical steps in realising this philosophy.

The ability to offer some of the related financial services into the wider European football base could prove a significant opportunity, given the generally less-sophisticated advice currently available outside of the UK.

First Artist Entertainment & Media

The acquisitions of NCI Management (NCI) for up to £1.75m and Sponsorship Consulting for £0.25m provide a major uplift for First Artist Entertainment & Media (FAEM). FAEM was formally launched in November 2005 in response to the increasing progression of First Artist's sports clients into more mainstream media. Following the recent deals, there are likely to be an increasing number of new areas of work for FAEM's clients, so we would expect further steady progress. Table 2 below shows our forecasts for this division.

Table 2: First Artist Entertainment & Media

Year to October (£m)	2005	2006E	2007E	2008E
FAE	0.24	0.27	0.35	0.45
NCI		0.25	0.80	1.05
SCL		0.15	0.80	0.90
Total sales	0.24	0.67	1.95	2.40
Operating profit	0.09	0.22	0.53	0.65
<i>Operating margin (%)</i>	<i>37.8</i>	<i>32.8</i>	<i>27.2</i>	<i>27.1</i>

Source: Company report & accounts, Arbuthnot estimates :

NCI was founded by Nicola Ibison in 1997. Her extensive contacts in the media (both press and TV) have enabled her to "discover" talent. The most prominent discovery is Dr Gillian McKeith, renowned nutritionist and presenter of Channel 4's hit series "You Are What You Eat". Her book of the same name has sold 1.5 million copies. Both that book and a second book of the series were No.1 in the UK bestsellers lists. The strategy for NCI has been to find experts in a particular field that are "telegenic" and then pitch to a broadcaster, ideally with a programme, a sponsor and following on from that, a book deal. As with most agencies, fees are received as a percentage - typically between 10-20% - and the more media exposure of clients the better. We have included Sponsorship Consulting in FAEM as we believe this is the area where there is likely to be most synergies. SCL is strong in arts and culture and sports, with bluechip clients such as Siemens' £3.2m sponsorship of the British Rowing team and Corus' sponsorship of the British Triathlon team. Strategically, SCL presents to very senior management and its strong boardroom relationships have opened up several potentially exciting opportunities for the group.

As well as the cross-selling potential to FAEM's clients of ABG Financial Management, there is also likely to be a number of synergies with the event management business of The Finishing Touch, given the increased number of after-dinner speakers on FAEM's roster.

ABG Financial Management

ABG Financial Management (ABGFM) was bought by First Artist in July 2005 as a means of providing wealth management advice to existing First Artist clients and the possibility of becoming the agent for some of ABG's clients. Table 3 below shows the recent financial history on a proforma basis to bring it in line with First Artist's October year end, and our forecasts for the division.

Table 3: ABG Financial Management

Year to October (£m)	2005 [†]	2006E	2007E	2008E
Pensions/life assurance	0.72	1.08	0.95	0.95
Mortgages	0.18	0.19	0.19	0.19
Investments	0.35	0.48	0.55	0.60
Renewals	0.35	0.41	0.48	0.55
Total sales	1.61	2.16	2.17	2.29
Operating profit	0.50	0.87	0.81	0.90
<i>Operating margin (%)</i>	<i>31.1</i>	<i>40.3</i>	<i>37.3</i>	<i>39.3</i>

Source: Company report & accounts, Arbutnot estimates

[†] adjusted to October year end

ABG Financial Management (ABGFM) was already well-established as it was founded in 1987 and has a client list of c.2,000. ABGFM specialises in wealth management and has benefited from the pension "A-day" as nearly half of its 19 employees are highly-qualified advisers in pensions as well as other disciplines. This is because it has good exposure to Self-invested Personal Pensions (SIPPs), which means clients have had much greater freedom with respect to their investments since April. As with most of its client products, there is likely to be a greater focus on capital preservation rather than on growth. Equity investment is generally through capital-protected tracker accounts vs. the FTSE100. It has strong property management credentials, both in direct property investment and property funds.

While revenues are mainly driven by commission income, the volumes of money involved and the long-term nature of its relationships with clients, means there is a strong base to build upon. This is especially true of the higher-quality renewals (trail income) and the investment income.

The Finishing Touch

The Finishing Touch (TFT), which was bought by First Artist in September 2005, provides event management services. While there are opportunities for TFT to build on its sports heritage, its public sector business is also growing. Table 4 below shows the recent financial history on a proforma basis to bring it in line with First Artist's October year end and our forecasts for this division.

Table 4: The Finishing Touch

Year to October (£m)	2005 [†]	2006E	2007E	2008E
Corporate	2.40	2.40	2.50	3.00
Public sector	1.68	1.90	2.50	2.75
Total sales	4.08	4.30	5.00	5.50
Operating profit	0.40	0.33	0.45	0.55
<i>Operating margin (%)</i>	<i>9.7</i>	<i>8.0</i>	<i>9.0</i>	<i>9.6</i>

Source: Company report & accounts, Arbutnot estimates

[†] adjusted to October year end

In addition to its 120 bluechip corporate clients, TFT moved into the public sector in 2003 with an initial three-month pilot for 30 events. The pilot was converted into a three-year contract that mushroomed from 70-80 events pa to 250-300. Although this contract was due to expire in September 2006, it has been extended until next spring when we expect it to be replaced with a substantially larger opportunity. We believe TFT is extremely well-positioned to win a substantial share of this new contract.

As with many jobs in this area, while the residential-type courses provide a stable income stream, the one-day events tend to be higher gross margin, thus the announcement of an expected bumper 2006 Christmas season bodes well for FY2007.

TFT's strong disciplines in events management is matched by its administrative capabilities. The company's investment in its database and information systems in our view puts it ahead of the competition.

As well as the cross-selling opportunities with FAEM (especially SCL with its strong bluechip corporate connections) and the upside potential with the new public sector contracts, there remain a number of other initiatives that if successful, could see substantial upside in profitability. Most notable of these is the 50/50 JV with Lord Coe's Complete Leisure Group in which TFT will be the exclusive supplier of event management services for a series of targeted major sporting events (corporate hospitality) and a preferred supplier for other events.

Competition and valuation

We have compared the valuation metrics of First Artist with two UK-quoted competitors - Formation Group and CSS Stellar. Although Essentially could also be considered a comparator, at present there is no real financial information available following the interims and the announced acquisition of Accelerate Sport and Music.

Table 5: Competitor valuation metrics (FY)

Financial Year End	Year to	Price (p)	Market Cap (m)	EV/Sales (x)			EV/EBITDA (x)			P/E (x)		
				FY05	FY06E	FY07E	FY05	FY06E	FY07E	FY05	FY06E	FY07E
As at 03.10.06												
CSS Stellar	Dec	31.5	9.1	0.2	0.1	0.0	8.2	1.3	0.1	11.1	17.5	9.7
Formation Group	Aug	14.3	17.9	1.2	0.5	0.5	9.4	2.9	2.7	15.0	5.9	5.5
First Artist	Oct	6.13	6.9	1.3	1.0	0.6	6.8	6.7	4.3	5.0	6.9	5.0

Source: Consensus estimates and Arbutnot estimates for First Artist

Table 6: Competitor valuation metrics (CY)

Calendar Year End	Year to	Price (p)	Market Cap (m)	EV/Sales (x)			EV/EBITDA (x)			P/E (x)		
				CY05	CY06E	CY07E	CY05	CY06E	CY07E	CY05	CY06E	CY07E
As at 03.10.06												
CSS Stellar	Dec	27.8	8.0	0.2	0.1	0.0	8.2	1.3	0.1	11.1	17.5	9.7
Formation Group	Dec	17.3	21.6	1.0	0.5	na	7.2	2.8	na	12.0	5.8	na
First Artist	Dec	6.6	7.1	1.2	0.9	0.6	6.7	6.3	4.0	5.3	6.5	4.9
Mean				0.8	0.5	0.3	7.4	3.5	2.1	9.5	9.9	7.3

Source: Consensus estimates and Arbutnot estimates for First Artist

As can be seen from Tables 5 and 6 above, the sport-related areas of the market remain largely out of favour. All three companies have sought to diversify away from pure player-representation (notwithstanding First Artist's purchase of Formation's Scandinavian operation) and we would argue that investors have yet to appreciate these moves, although there has been some stake-building in Formation Group and the CSS Stellar share price responded well following its recent results announcement. With First Artist, in our opinion, likely to produce results at least in line with our expectations, we believe there is also scope for its shares to enjoy a re-rating. If this were to occur, it would enable First Artist to seek further earnings-enhancing, bolt-on acquisitions. However, if a re-rating did not happen, we would expect any M&A activity to focus on consolidation.

With its offices located next door to Wembley Stadium, most of the First Artist's divisions should have additional revenue-generating opportunities when the stadium is eventually completed, which could provide incremental earnings to our forecasts.

In summary, we believe our 9.5p price target - based on an implied 10.5x FY2006E P/E falling to 7.9x in FY2007 - is achievable by what the company is likely to deliver in financial results, but there is potentially significantly more upside if the shares also enjoy a re-rating.

Financial assumptions

Table 7 below shows the collated data from the individual divisions. This is therefore a proforma representation of last year. The 2005 actual reported figures are shown in our financial summary on the back page of this report.

Table 7: Divisional financials

Year end October turnover (£m)	2005A	2006E	2007E	2008E
FAM				
UK	2.42	1.85	2.20	2.40
FA Italy	1.74	1.20	1.60	1.80
FA Scan		0.95	1.50	1.60
Other	0.01	0.00	0.00	0.00
Total	4.17	4.00	5.30	5.80
FAEM				
FAE	0.24	0.27	0.35	0.45
NCI		0.25	0.80	1.05
SCL		0.15	0.80	0.90
Total	0.24	0.67	1.95	2.40
TFT[†]				
Corporate	2.40	2.30	2.50	3.00
Public Sector	1.68	1.80	2.50	2.70
Total	4.08	4.10	5.00	5.70
ABGFM[†]				
Pensions/LA	0.73	1.08	0.95	0.95
Mortgages	0.18	0.19	0.19	0.19
Investments	0.35	0.48	0.55	0.60
Renewals	0.35	0.41	0.48	0.55
Total	1.61	2.16	2.17	2.29
Total revenue	10.10	10.93	14.42	16.19
Operating profit				
FAM	1.26	0.60	0.90	1.20
FAEM	0.09	0.22	0.53	0.65
TFT	0.40	0.33	0.45	0.55
ABGFM	0.50	0.87	0.81	0.90
Total	2.25	2.02	2.69	3.30
Operating margin (%)				
FAM	30.2	15.0	17.0	20.7
FAEM	37.8	32.8	27.2	27.1
TFT	9.7	8.0	9.0	9.6
ABGFM	31.1	40.3	37.3	39.3
Total	22.3	18.5	18.7	20.4

Source: Company data, Arbutnot estimates

[†] Pro-forma adjusted for October year end

As shown in Table 7 above, we have assumed very little uplift in sales in the recent acquisitions and have been conservative in the more difficult-to-forecast football agency business, given the upside potential from FAS. The operating profits are before central costs of £600,000 and £700,000 for each of the forecast years, hence the FY2006 £2.3m operating profit forecast equates to the £1.5m EBITA on the back page. As there is operational gearing in all areas, of what is very much a people business, any upward revision in revenues would have a material impact on profits.

Arbuthnot Securities

Contacts

Chief executive			Investment funds		
Mark Brown	020 7012 2150	markbrown@arbuthnot.co.uk	Tom Tuite-Dalton	020 7012 2012	tomtuite-dalton@arbuthnot.co.uk
			Chris Young	020 7012 2016	chrisyoung@arbuthnot.co.uk
Head of Research			Investment fund sales		
Shai Hill	020 7012 2086	shaihill@arbuthnot.co.uk	Rupert Stevenson (Head of investment funds)		020 7012 2014
			Matthew Kinkead		020 7012 2013
Engineering, electronics, tech hardware, aerospace & defence			Adam Gill		020 7012 2025
Michael Blogg	020 7012 2091	michaelblogg@arbuthnot.co.uk	Sales		
Real estate			Robert Taylor (Head of sales)		020 7012 2041
Nan Rogers	020 7012 2096	nanrogers@arbuthnot.co.uk	James Bishop (Head of small cap sales)		020 7012 2042
Mining			Andy Ritchie		020 7012 2036
John McGloin	020 7012 2090	johnmcgloin@arbuthnot.co.uk	David George		020 7012 2039
Tim Dudley	020 7012 2097	timdudley@arbuthnot.co.uk	Jamie Constable		020 7012 2037
			John Skinner		020 7012 2044
Transport & logistics			Sales trading		
Alastair Gunn	020 7012 2082	alastairgunn@arbuthnot.co.uk	Paul Kersey (Head of sales trading)		020 7012 2030
Travel & leisure			David Llewellyn		020 7012 2031
Paul Leyland	020 7012 2089	paulleyland@arbuthnot.co.uk	Lisa Letham		020 7012 2029
Melanie Sharp	020 7012 2092	melaniesharp@arbuthnot.co.uk	Edward Malone		020 7012 2027
			Tom McGinley		0131 718 5079
Software & computer services			Trading		
Paul Morland	020 7012 2081	paulmorland@arbuthnot.co.uk	Bobby Tipping (Head of trading)		020 7012 2017
Support services			Stephen Lott		020 7012 2019
Xavier Gunner	020 7012 2083	xaviergunner@arbuthnot.co.uk	Andy Lewis		020 7012 2028
David Brockton	020 7012 2093	davidbrockton@arbuthnot.co.uk	Emerging companies		
Robert Sanders	020 7012 2084	robertsanders@arbuthnot.co.uk			

Explanation of recommendations

Our analysts award a Strong Buy rating in those cases where they believe there will be total shareholder return - defined as the absolute rise in share prices plus dividend payment - in excess of 20% over a 12-month period. We assign a stock a Buy recommendation where our analysts believe there will be a total shareholder return of 10% or more over a 12-month period. We apply a Neutral recommendation where we anticipate a shareholder return of between plus 10% and minus 10%. We assign a Reduce recommendation where we anticipate a shareholder return of between minus 10% and minus 20%. Our Sell recommendation implies an expected shareholder loss over a 12-month period of 20% or more. Analysts have assigned a 'trading view' to stocks that they think might move materially within the following ten trading days; possibly in response to a move in currency, sentiment, or a specific event. The trading view is a short-term suggestion and does not contradict the recommendation.

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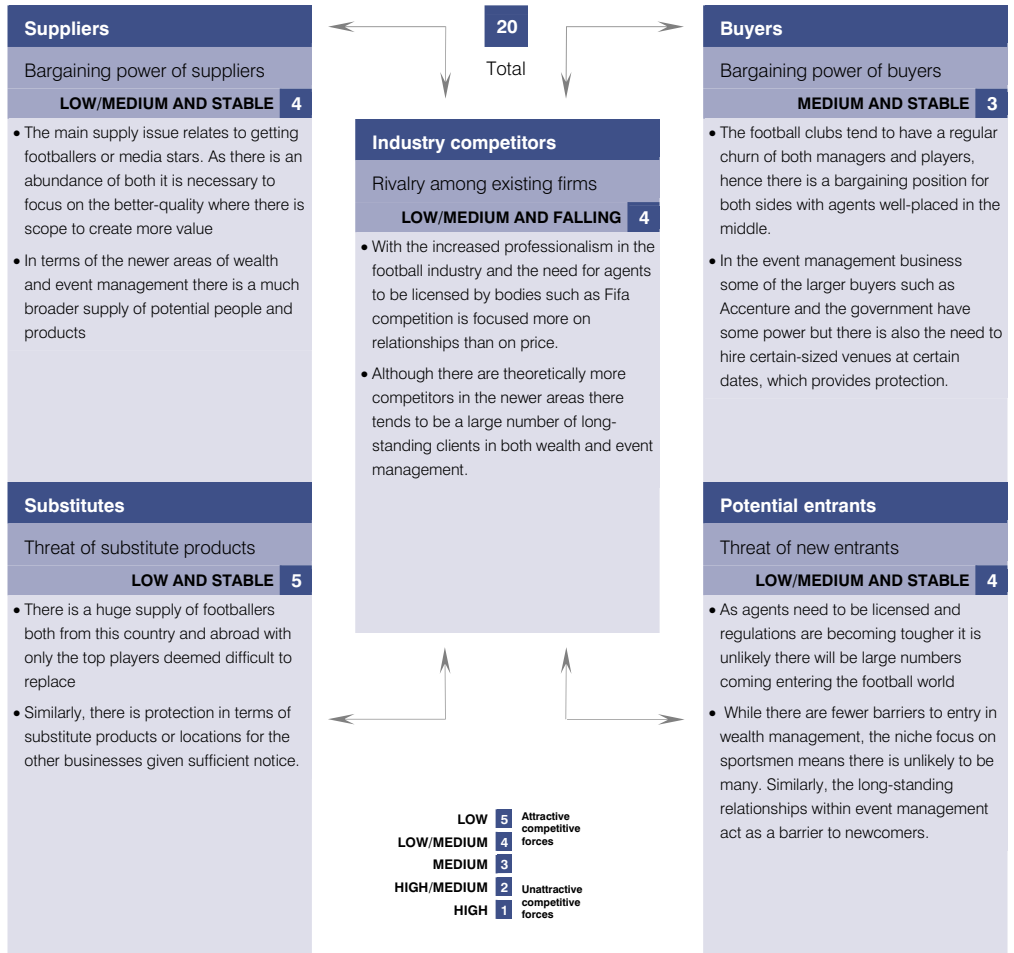
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Analysis of the strategic environment

Porter's five competitive forces model



Although the football industry has a chequered past it seems well placed to provide a base for growth

Source: Arbuthnot (adapted from Porter 1980 p.4); 'Total box' represents sum of five forces: 25 = attractive industry, 5 = competitive industry

SWOT analysis

<p>Strengths</p> <ul style="list-style-type: none"> One of the leading football agencies Broadened product offering Strong, experienced management Event management diversifies away from football 	<p>Weaknesses</p> <ul style="list-style-type: none"> Very much a small company in terms of market capitalisation Football industry perceived as low-quality Profits likely to be volatile given transfer windows Event management revenues dependent on a few clients
<p>Threats</p> <ul style="list-style-type: none"> Football agents suffer from media concerns Acquisitions are not as successful as anticipated Television revenues for football reduce substantially Unable to complete any further acquisitions because of rating 	<p>Opportunities</p> <ul style="list-style-type: none"> Cross-selling potential of products and/or services increased following acquisitions of NCI and First Artist Scandinavia Further consolidation via acquisition Football agency business has strong trading after World Cup/acquisition Scope for winning new clients in all areas

Company looking to increase earnings base from its strong football heritage

Source: Arbuthnot

Company valuation ratios (x)	2006E	2007E
EV/Sales	1.0	0.7
EV/EBITDA	6.7	4.3
EV/EBITDA REL	0.9	0.6
P/E	6.8	5.0
P/E rel	0.6	0.4
P/CEPS	14.7	5.4
P/NAV	1.5	1.2
EV/IC	1.6	1.3
ROIC (%)	15.5	20.7
ROIC/WACC	2.4	2.9
VORR	0.7	0.5
3-year PEG	0.7	
Trend PEG	0.2	
3-year CASH PEG	na	
Trend CASH PEG	-3.0	
EV/Sales/G	0.0	
Industry attractiveness /25	20	

Source: Arbutnot estimates; growth rates from last actual

Share price and recommendation tracker graph (two years)



Source: Thomson Financial, Arbutnot

Summary financial data, year to Oct (£m)	2005A	2006E	2007E	2008E
Sales	5.9	10.9	14.4	16.2
EBITDA	1.1	1.6	2.2	2.8
EBITA	1.1	1.5	2.1	2.7
EBIT	0.9	1.3	1.9	2.6
Interest charge	0.0	-0.2	-0.2	-0.1
PBT	0.8	1.1	1.8	2.5
Tax rate (%)	29.5	25.0	26.7	29.2
Underlying tax rate	30.0	30.0	30.0	30.0
NOPLAT	0.7	1.1	1.5	1.9
Profit after tax	0.5	1.0	1.4	1.8
Reported EPS (p)	0.9	1.1	1.3	1.7
Underlying EPS (p)	1.2	0.9	1.2	1.5
Underlying EPS YoY growth (%)	na	-27.4	36.8	23.1
DPS (p)	0.0	0.0	0.0	0.0
Basic no. of shares (m)	89.4	113.2	118.4	119.3
Fully diluted no. of shares (m)	58.0	115.0	117.0	121.0
Operating cashflow	0.0	1.1	2.1	2.7
Depreciation	0.1	0.1	0.1	0.1
Provision utilisation	0.0	0.0	0.0	0.0
Change in working capital	0.0	0.0	0.0	0.0
Cash tax paid	0.0	-0.3	-0.5	-0.8
Capex	0.0	-0.1	-0.1	-0.1
Asset disposals	0.0	0.0	0.0	0.0
Cash earnings	-0.1	0.5	1.3	1.7
CEPS (p)	-0.1	0.4	1.1	1.4
Fixed tangible assets	0.7	0.9	1.0	1.0
Goodwill	5.3	5.3	5.2	5.2
Other assets	6.3	5.3	5.9	6.8
Total assets	12.3	11.5	12.1	12.9
Current liabilities	6.2	4.6	4.9	5.1
Long-term liabilities	2.8	2.3	1.4	0.2
All liabilities	9.0	6.9	6.2	5.3
Net debt	0.6	3.9	2.6	0.9
Gearing (%)	19.6	84.4	45.3	12.0
Net asset value	3.3	4.6	5.8	7.6

Source: Company data, Arbutnot estimates