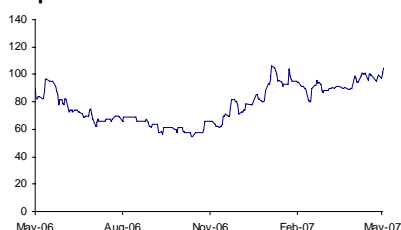


**Initiating Coverage**
**First Artist**
**BUY**
**Share Price**

Price	99p
Target Price	174p
Upside	76%



Source: ProQuote

**A star is born**

First Artist is a sports and entertainment marketing group. It recently completed the transformational acquisition of Dewynters, the leading London theatre marketing agency. This business, with strong revenue visibility and an estimated >75% market share, is complemented by high growth but more seasonal businesses, principally relating to sports and entertainment corporate and individual representation, consultancy and event management. We see significant scope for the group to drive cross-fertilisation of its broad client base across its five business divisions, delivering attractive organic growth. We also view further acquisitive growth as likely in the medium-term. The market has failed to recognise the quality of its recent acquisitions and growth prospects. Our base-case initiation target price of 174p (76% upside) drives our Buy recommendation.

**Market Data**

Stock code	FAN.L
Listing	AIM
Sector	Media
Market Cap	£12.9m
Enterprise Value	£23.2m
12-month high/low	107p / 55p
Next results	Nov 07

**Dewynters acquisition has transformed the group's operations**

First Artist's reputation has historically suffered from being perceived as solely a football agency. However, the attractive and transformational Dewynters acquisition, the ongoing performance of its non-football divisions and the company's untarnished reputation as a highly regarded football agency should address these issues.

**Experienced and professional management team**

First Artist has an experienced and professional management team with many years of experience in sports marketing and event management across the Board of Directors and senior management. Furthermore, the future development and returns of the group are not dependent upon one or just a few key personnel.

**Company Statistics**

Shares in Issue	13.1
Net debt/(cash)	£10.3m
Gearing	143%
Interest cover	4.6x
NAV per share	48p

**Group benefits from revenue diversity, visibility and potential organic upside**

We forecast group revenue and profitability to improve in the coming years as the group benefits from increasing demand for its services, an expanded range of products, as well as scale economies and international developments.

**Base-case valuation points to 76% upside from current share price**

Our earnings-based analysis drives a target price of 174p (target multiple of 13.1x forecast FY07 earnings, in line with the sub-sector). Our bull-case scenario points to a share price of 228p. We initiate with a Buy recommendation and 174p price target.

**Company Description**

First Artist is an integrated marketing, sport and entertainment management group, grown through a series of strategic complementary acquisitions.

[www.firstartist.com](http://www.firstartist.com)
**Analyst**

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Figures	08/06A	08/07E	08/08E	08/09E
Turnover (£m)	9.5	47.4	58.1	60.5
EBITDA (£m)	1.8	3.9	5.2	5.8
DS&C PBT (£m)*	1.3	2.6	3.6	4.0
Tax (%)	37.5	22.0	30.0	30.0
DS&C EPS (p) **	7.21	13.26	15.66	16.80
FCFPS (p)	-6.2	18.6	16.4	17.2
Ratios	08/06A	08/07E	08/08E	08/09E
P/E (x)	13.7	7.5	6.3	5.9
EPS Growth (%)	-41.4%	84.0%	18.1%	7.3%
EV/EBITDA (x)	9.3	6.0	4.4	3.8
FCF yield (%)	-6.2%	18.8%	16.6%	17.4%

\* pre-exceptional items and goodwill      \*\* diluted, pre-exceptional items and goodwill

Source: DS&C

## Summary Financials

Income (£m)	08/06A	08/07E	08/08E	08/09E	Valuation	08/06A	08/07E	08/08E	08/09E
Sales	9.5	47.4	58.1	60.5	P/E	13.7	7.5	6.3	5.9
Gross profit	6.3	18.8	23.2	24.3	Div. Yield (%)	0.0	0.0	0.0	0.0
EBITDA	1.8	3.9	5.2	5.8	EV/Gross profit	2.6	1.2	1.0	0.9
EBIT	1.6	2.6	3.9	4.4	EV/EBITDA	9.3	6.0	4.4	3.8
PBT (DSC)	1.3	2.6	3.6	4.0	EV/EBIT	10.3	9.0	5.9	5.0
PAT	0.7	0.9	1.7	2.1	P / FCF	-16.1	5.3	6.0	5.8
EPS (FRS-3)	7.18	7.28	12.63	14.77	FCF Yield (%)	-6.2%	18.8%	16.6%	17.4%
EPS (DSC)	7.21	13.26	15.66	16.80	P/NAV	2.3	2.1	1.8	1.5
DPS (p)	0.0	0.0	0.0	0.0	NAV (p)	43.9	47.6	55.7	66.1

Cash Flows (£m)	08/06A	08/07E	08/08E	08/09E	Ratios	08/06A	08/07E	08/08E	08/09E
Op. cash flow	0.1	4.9	4.7	5.6	Gross margin (%)	66.7%	39.7%	39.9%	40.1%
Gross cash flow	-0.5	3.6	3.1	3.4	EBITDA margin (%)	18.9%	8.1%	9.0%	9.5%
FCF	-0.7	2.8	2.6	2.9	EBIT margin (%)	17.0%	5.5%	6.6%	7.3%
FCFPS (p)	-6.2	18.6	16.4	17.2	EBITDA/GP (%)	28.3%	20.5%	22.5%	23.7%

Balance Sheet (£m)	08/06A	08/07E	08/08E	08/09E	Operating costs/GP (%)	08/06A	08/07E	08/08E	08/09E
Fixed Assets	10.5	23.9	23.0	22.2	Tax charge (%)	37.5%	22.0%	30.0%	30.0%
Current assets	8.0	15.3	16.9	16.8	Cash interest cover	17.6	4.6	4.8	5.1
Current liabilities	-9.6	-16.3	-19.2	-19.8	Dividend cover	N/A	N/A	N/A	N/A
Capital Employed	8.9	22.8	20.7	19.2	ROCE	18.3%	11.3%	18.6%	23.1%
Long-term liabilities	-3.8	-15.6	-11.8	-8.0	Net debt/EBITDA	2.1	2.7	1.9	1.6
Net assets	5.1	7.2	9.0	11.1					
Net cash/debt	-3.8	-10.3	-10.0	-9.2					

Capex Analysis (£m)	08/06A	08/07E	08/08E	08/09E	Capex Ratios	08/06A	08/07E	08/08E	08/09E
Depreciation	-0.1	-0.4	-0.5	-0.5	Depn / Sales	0.8%	0.8%	0.8%	0.8%
Amortisation	0.0	-0.8	-0.8	-0.7	Capex / Sales	2.5%	1.6%	0.8%	0.8%
Capex (TA)	-0.2	-0.7	-0.4	-0.5	Capex / Depreciation	330.1%	189.3%	91.6%	91.6%
Capex (IA)	0.0	0.0	0.0	0.0	Gearing	74.7%	142.9%	111.3%	82.8%
Acqn's & disposals	-2.7	-9.1	0.0	0.0					

Growth Rates (%)	CAGR	08/07E	08/08E	08/09E	Share Analysis	Number (m)	%		
Sales	13.0%	+398	+23	+4	J Smith	1.2	9.1		
Gross profit	13.5%	+197	+23	+5	P Smith	0.8	6.3		
EBITDA	22.2%	+115	+36	+10	Singer & Friedlander	0.6	4.6		
EBIT	31.0%	+60	+49	+15	Herald Investment	0.4	3.1		
PBT	25.5%	+92	+40	+12					
EPS (FRS-3)	42.5%	+101	+174	+117	Av. shs in issue	9.3	12.5	13.5	14.2
EPS (DSC)	12.6%	+84	+18	+7	Av. fully diluted shs	11.6	15.1	16.1	16.8
DPS	N/A	N/A	N/A	N/A	Y/E shs in issue	0.0	13.1	13.8	14.6

Source: Daniel Stewart Securities

## **BULL POINTS**

### **Strong Management Team**

First Artist has an experienced and professional management team with many years of experience in sports marketing and event management across the Board of Directors and senior management. The future development and returns of the group are not dependent upon one or just a few key personnel.

### **Diverse earnings stream**

First Artist has a broad base of businesses, offering a diverse stream of revenues across a number of markets. This reduces cyclicity (prevalent in the Sports division) and the group has increased revenue visibility following the acquisition of Dewynters.

### **TV rights increasing within football**

The group's Sport division (principally football agents) is forecast to benefit from the substantial increase in TV rights revenue assigned to UK football clubs in the coming season (three-year rights deal from 2007/08 season).

### **Low risk acquisitive model**

First Artist has completed a number of deals recently and we expect more acquisitive growth. The deals are earn-out based in order to drive strong performance-related returns within the acquired businesses and, ordinarily, to retain the existing management.

### **Impressive record of client retention**

First Artist has a strong record of client retention and is now in a position to offer its clients a broad range of services from within the group, ranging from sponsorship consultancy, event management and financial advice to corporate and individual clients.

### **Recent revamp of financial and management controls**

First Artist has recently completed an investment in its internal financial and management controls, as well as the complete integration of its major recent acquisition, Dewynters. This should drive operational efficiencies and cross-sale opportunities.

## **BEAR POINTS**

### **High current gearing levels**

Following the acquisition of Dewynters, First Artist has estimated FY07E gearing of 143% (forecast net debt of £10.3m), falling to 111% in FY08E. We are comfortable with the estimated FY07E net debt/EBITDA ratio of 2.7x (1.9x FY08E) and cash interest cover of 4.6x (4.8x FY08E).

### **Exposure to earn-outs on acquisitions**

Although we welcome the back-loaded outflows from the group's earn-out based acquisitions, locking in management and reduced risk/return model, the group is exposed to the vagaries of performance-related future funding of the deals. We estimate total potential further consideration of <£9m (mix of cash and shares).

### **Perceived as a football agency**

First Artist, and its subsequent rating, has suffered from being perceived solely as a football agency. The Dewynters acquisition, the ongoing performance of its non-football divisions and the company's untarnished reputation as a highly regarded football agency should address these issues.

### **Seasonality of earnings**

The group has a diverse revenue stream, although the traditional football agency business continues to suffer from seasonality in its turnover based on restricted trading windows. Seasonality should be diminished further with ongoing revenues now ordinarily paid over the period of a represented player's contract.

### **Number of acquisitions completed in past 12 months**

Although the acquisitions completed recently, aside from Dewynters, have been bolt-on deals, investors may take a cautious view on the number of deals undertaken in just 12 months.

## VALUATION

On our current estimates, First Artist is trading at a considerable discount to its sector peers.

The table in Exhibit 1 highlights a sector average multiple (FY1) of 17.7x, representing a 136% premium to First Artist (the premium falls to 108% for FY2).

The sector multiple includes all sub-sectors and a number of FTSE companies. However, the scale of the discount serves as an indicator of the value inherent within First Artist stock at the current time.

The marketing services sub-sector (Source: Daniel Stewart Research) has a relatively low rating against the wider market, principally due, in our opinion, to a higher proportion of smaller/higher risk companies, as well as a lack of international or online-focused businesses that are currently commanding the highest ratings (online marketing research sub-sector >23x FY1).

Regardless, the marketing services sub-sector is trading at a premium to First Artist. The sub-sector currently stands at a 75% premium to First Artist to FY1 (76% FY2).

Given our view that First Artist deserves to stand at least on par with its sub-sector, we believe that the shares offer investors upside of >75% from current levels.

However, we see scope for outperformance against our numbers and highlight the following potential catalysts for driving the share multiple above the current sub-sector;

- Sub-sector multiple not weighted by market cap and is held back by a number of underperforming micro-cap stocks.
- Creation and/or acquisition of the company's own rights (event ownership etc) should draw closer comparisons with the more highly-rated event rights sub-sector (>19x FY1).
- Market perception of First Artist solely as a football agency may be temporarily weighing upon its given rating.
- Our prudent forecasts assume limited cross-sell opportunities within the group. Delivery of successful cross-sales could improve earnings and market perception of potential for further monetisation of contractual relationships.
- Our forecasts exclude any significant uplift from the potential public service contract win within the Events division. A long-term contract win with a Government agency could improve revenue visibility, security and rating.

*First Artist's sub-sector, Marketing Services, suffers from a relatively low rating...*

*... although we see scope for First Artist to trade at a premium to its peers*

## Price target

Based on the detail above, our base-case scenario points to a target earnings multiple in line with the marketing services sub-sector.

Applying a FY1 multiple of 13.1x to our earnings forecast (FY to 31 December 2007, 13.26p), we drive a target price of 174p.

Applying a FY2 multiple of 11.1x to our earnings forecast (FY to 31 December 2008, 15.66p), we also drive a target price of 174p.

**Our base-case scenario target price is therefore 174p.**

## DCF analysis

Our DCF-based analysis supports our bullish stance on First Artist, driving a target price of 189p.

Using a beta value of 1.5x, risk-free rate of 5.25%, equity premium of 4.0% and a pre-tax debt cost of 8.5%, we have assumed a weighted average cost of capital (WACC) of 9.0%.

Our DCF model also applies a 1% perpetual growth rate. This drives an equity valuation of £29.6m.

**Our DCF-based target price is therefore 189p.**

## Bull-case scenario

As mentioned above, we believe that there is scope for a price target multiple appreciation. Furthermore, our forecasts should be considered conservative and we map-out a bull-case valuation based on;

- Training & Development Agency (TDA) contract expansion (assume £800k additional Events EBIT from FY08)
- UK TV football rights increase drives 20% growth in Sports EBIT in FY08 (vs 8% existing forecast), delivering incremental EBIT of £130k)
- Higher than expected penetration of the US theatre marketing industry leads to additional group EBIT of £100k
- Increased operating efficiencies from recently completed investment in financial and operating systems controls (assume additional £100k EBIT FY08)

Underpinned by the unaccounted-for potential from enhanced cross-selling of products and services within the group, our bull case scenario above points to an EPS estimate of 20.58p.

We also assume an unchanged tax rate of 30% and a FY2 target multiple of just 11.1x (marketing services sub-sector).

**Our bull-case scenario target price is therefore 228p.**

*We apply a 13.1x target earnings multiple (FY07E) to drive our base-case valuation of 174p*

*Our DCF-based valuation drives a premium to the base-case scenario, equating to a target of 189p*

*Our bull-case scenario points to a target price of 228p, more than double the current share price*

## Exhibit 1: Media sector valuation table

Company	Y/E	Shares (p)	Mkt. Cap.	EPS FY1	EPS FY2	P/E FY1	P/E FY2	Yield	Div	Shares	
Adventis	Dec	62	22	4.2	5.1	14.8	12.2	1.3%	0.8	34.7	
Ad Pepper*	Dec	6.2	69	0.2	0.3	32.6	20.0	0.0%	0.0	11.2	
Apace Media*	Dec	16	11	1.4	1.6	11.4	10.0	0.0%	0.0	69.0	
Bloomsbury Publishing	Dec	183	134	15.0	10.2	12.2	17.9	2.1%	3.9	73.4	
Burst Media*	Dec	24.5	20	1.1	1.6	22.2	15.0	0.0%	0.0	82.9	
Cello	Dec	147	51	11.8	13.0	12.5	11.3	0.8%	1.2	34.5	
Chime Communications	Dec	56	142	3.8	4.3	14.7	13.0	1.3%	0.7	253.7	
ContentFilm	March	21	36	1.6	2.0	13.1	10.5	0.0%	0.0	173.8	
Creston	March	178	99	14.8	17.2	12.0	10.3	0.8%	1.5	55.7	
CSS Stellar	Dec	38	11	3.4	3.6	11.2	10.6	0.0%	0.0	29.0	
Daily Mail & General Trust	Sept	856	3171	47.8	55.8	17.9	15.3	1.7%	14.2	370.4	
Deal Group Media	Dec	3.5	13	0.2	0.4	15.9	8.3	0.0%	0.0	381.5	
Dori Media	Dec	167	25	19.5	27.1	8.6	6.2	0.0%	0.0	15.1	
Emap	March	869	1876	60.0	64.9	14.5	13.4	3.7%	32.0	215.8	
Entertainment Rights	Dec	33	137	1.9	2.26	17.5	14.6	0.0%	0.0	415.0	
Essentially Group	Dec	16	11	1.7	1.9	9.4	8.4	0.0%	0.0	66.9	
First Artist	Oct	99	13	13.3	15.7	7.5	6.3	0.0%	0.0	13.1	
Future	Sep	44	144	2.4	3.0	18.3	14.7	2.5%	1.1	326.5	
Huntsworth	Dec	106	207	7.4	7.9	14.3	13.4	1.9%	2.0	195.5	
Huveaux	Dec	52	79	3.5	4.0	14.9	13.0	2.5%	1.3	152.0	
Informa	Dec	587	2485	35.3	39.8	16.6	14.7	2.4%	13.8	423.3	
Interactive Prospect Targeting	Dec	118	52	11.0	15.1	10.7	7.8	0.0%	0.0	44.2	
Internet Business Group	Oct	29	22	1.9	2.9	15.3	10.0	0.0%	0.0	77.2	
ITE	Sep	165	429	8.1	8.3	20.4	19.9	2.4%	3.9	259.7	
Johnston Press	Dec	469	1350	34.0	36.4	13.8	12.9	2.1%	10.0	287.9	
Medal Entertainment	March	44	7	2.6	14.0	16.9	3.1	0.0%	0.0	15.1	
Media Square	Feb	12.3	40	1.6	1.9	7.7	6.5	2.0%	0.3	325.6	
Next Fifteen	Jul	98	51	6.2	7.1	15.8	13.8	1.4%	1.4	51.9	
Pearson	Dec	896	7226	43.9	49.4	20.4	18.1	3.5%	31.3	806.5	
Pixel Interactive	Dec	39	14	1.28	2.02	30.5	19.3	0.0%	0.0	34.8	
RDF	Jan	236	90	17.3	20.21	13.7	11.7	1.7%	4.0	38.1	
Reed Elsevier	Dec	614	7782	35.9	39.3	17.1	15.6	2.8%	17.4	1267.5	
Research Now	Oct	445	58	17.8	23.6	25.0	18.9	0.0%	0.0	13.0	
Shed	Aug	95	62	8.2	10.9	11.6	8.7	1.5%	1.4	65.0	
Tarsus	Dec	253	149	13.6	15.4	18.6	16.4	1.9%	4.7	58.9	
Ten Alps	March	62	36	4.9	6.6	12.7	9.4	0.0%	0.0	58.7	
Thomson Intermedia	July	122.5	38	6.5		18.8		0.0%	0.0	31.3	
Tinopolis	Nov	37	37	2.1	3.4	17.6	10.9	0.0%	0.0	98.8	
TMN	Apr	81	41	5.3	6.8	15.3	11.9	0.0%	0.0	50.9	
Tradedoubler	Dec	155	4237	6.7	8.9	23.1	17.4	0.0%	0.0	27.3	
Trinity Mirror	Dec	561	1645	42.1	42.1	13.3	13.3	3.9%	22.0	293.1	
United Business Media	Dec	843	2204	48.4	53.8	17.4	15.7	2.4%	19.9	261.5	
YouGov	July	205	138	5.4	6.3	38.0	32.5	0.0%	0.0	67.4	
<b>Event Rights</b>					<b>Average</b>	<b>19.5</b>	<b>18.2</b>				
<b>Marketing services</b>					<b>Average</b>	<b>13.1</b>	<b>11.1</b>				
<b>TV rights &amp; production</b>					<b>Average</b>	<b>13.3</b>	<b>10.2</b>				
<b>Online marketing &amp; research</b>					<b>Average</b>	<b>23.6</b>	<b>17.0</b>				
<b>Publishing</b>					<b>Average</b>	<b>15.9</b>	<b>14.9</b>				
						<b>Average</b>	<b>17.7</b>	<b>13.1</b>	<i>Excluding loss-making/exceptional</i>		

Source: Consensus, Daniel Stewart Securities

## GROWTH DRIVERS

### Organic growth

First Artist benefits from potentially significant organic growth opportunities, both individually and via cross-selling across its five divisions.

We detail later the multitude of growth avenues across each of its operating divisions. In brief;

*All five divisions within First Artist offer attractive organic growth prospects...*

- **Marketing division;** limited market share growth potential given current dominance, although scope for international expansion of merchandising and marketing operations.
- **Sport division;** material uplift in UK and European TV football rights expected to drive an increase in player transfer values and wages.
- **Entertainment division;** actively looking to expand its number of agents and further build its roster of celebrities, with the plan to use its broad base of clients to develop its own programming and content.
- **Events division;** secure material additional event management work from the TDA, as well as creating its own events, retaining ownership of the IP and driving a higher risk/reward profile.
- **Wealth division;** monetise existing joint ventures and develop new relationships with financial organisations to expand its base of High Net Worth (HNW) advisory clients.

### Cross-selling

On top of these divisional growth avenues, we view the cross-fertilisation of relationships, contracts and operating efficiencies across the divisions as core to driving incremental sales and margin upside for First Artist.

*... with further group prospects forecast to be augmented by an efficient and proactive cross-fertilisation of the group's extensive corporate and individual client roster*

Although steps have been taken internally to enhance the level of cross-selling within the company, there is considerable scope for the group to implement further initiatives to ensure the proactive promotion of each subsidiary's services and strengths to corporate and individual clients within every division.

Not one of the company's five businesses stands completely separate from the others and, to this extent, every division should actively benefit from business referrals and client contacts from every other division. Clearly, this situation represents an unquantifiable but highly attractive proposition for the company and should deliver higher organic growth and margins.

## **Acquisitive growth**

First Artist has expanded into its current format, with five key divisions, principally via acquisitive growth.

Following the recent successful acquisition of Dewynters, we expect First Artist to complete further earnings accretive deals to expand its product and geographic base.

As with its other deals, we expect First Artist to focus on tying-in existing management teams, as well as utilising earn-out structures to incentivise management and back-load cash outflows.

Although the organic growth story within First Artist precludes the need for deals, we see scope for attractive bolt-on acquisitions that can instantly establish the group as an international operator via existing relationships or products within the acquired entity.

Furthermore, as discussed below, several of First Artist's markets are highly fragmented and ripe for consolidation. Acquisitions would therefore drive scale economies and, in turn, further monetise relationships within separate operating businesses.

*Further acquisitions are likely to continue to utilise earn-outs with a view to locking-in management and back-loading cash/share payments*

## COMPANY HISTORY

- **1986;** Company founded by present CEO, Jon Smith
  - Management of England Football Team commercial interests
  - Commercial agents for England cricket and Wales rugby teams
  - Hosting and promotion of sports and entertainment events
  - Promotion of US sports into the UK
- **2001;** OFEX listing
- **2002;** AIM listing
- **2002;** Acquisition of European football agency (Promosport)
- **July 2005;** Acquisition of ABG Financial (£3.0m max. consideration), latterly renamed Optimal Wealth Management
- **September 2005;** Acquisition of The Finishing Touch (£3.36m max. consideration)
- **November 2005;** Launch of First Artist Entertainment
- **June 2006;** Established joint venture, Sports Events LLP, with Lord Coe's Complete Leisure Group
- **July 2006;** Acquisition of Scandinavian football agency (£2.0m max. consideration)
- **July 2006;** Acquisition of NCI Management entertainment representation business (£1.75m max. consideration)
- **August 2006;** Acquisition of Sponsorship Consulting (£0.75m max. consideration)
- **October 2006;** Joint venture signed between Optimal and H.W. Fisher
- **December 2006;** Acquisition of Dewynters (£15.5m max. consideration)
- **April 2007;** Acquisition of Yell Communications (£1.0m max. consideration)

## OPERATING MODEL

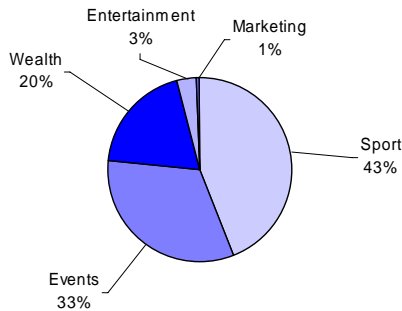
First Artist has established itself, predominantly via acquisitions, as a multi-dimensional, diversified media company. We expect the group to drive synergies and sales across its divisions.

The group has five divisions, principally focused on sport and entertainment marketing and management.

First Artist's largest division by sales and EBIT is Marketing. This encompasses the recently acquired Dewynters business, as well as sponsorship consulting.

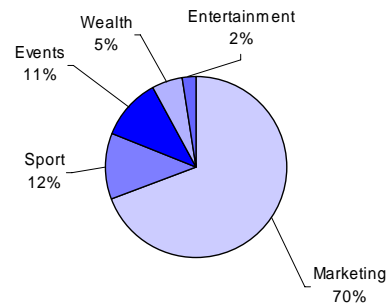
As shown in the exhibits below, the group's revenues were transformed by the Dewynters acquisition, with the Marketing division increasing its proportion of group revenues from 1% to 70% from FY06A to FY07E (inclusive of ten months of Dewynters).

Exhibit 2: Divisional revenue analysis, 2006A



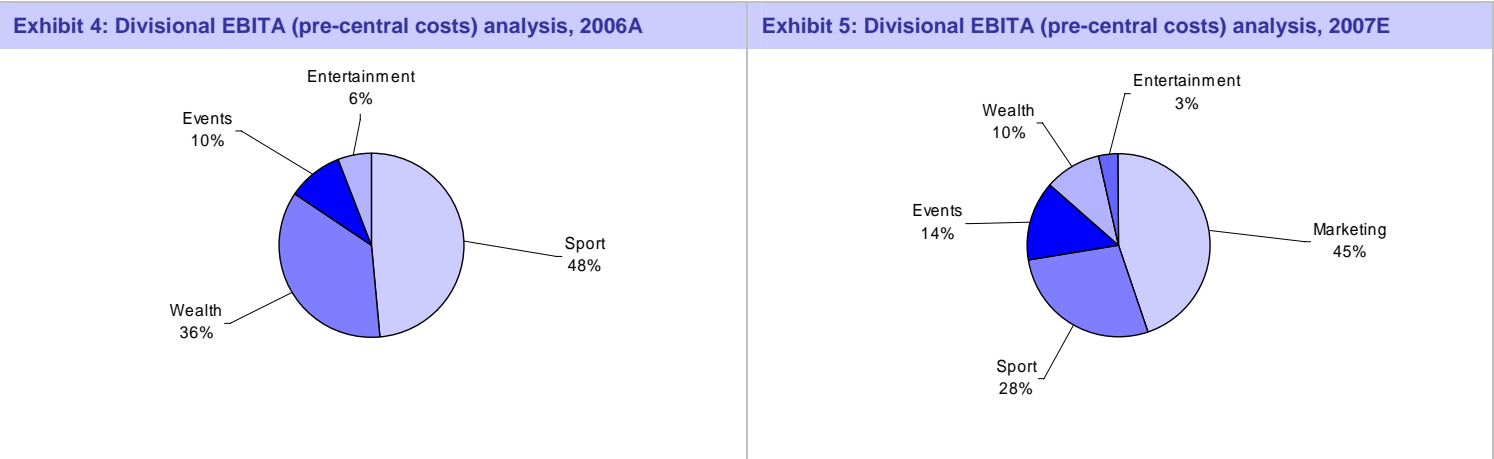
Source: Company Data, Daniel Stewart Research

Exhibit 3: Divisional revenue analysis, 2007E



Source: Company Data, Daniel Stewart Research

Dewynters is a relatively high volume/low margin business (we estimate an EBITA margin in FY07E of 6.6%) and the EBITA contribution from the Marketing division is therefore estimated at just 45% (vs 70% at the top line).



Source: Company Data, Daniel Stewart Research

Source: Company Data, Daniel Stewart Research

## MARKETING DIVISION

The vast majority of the group's Marketing division revenue and profits derive from Dewynters.

First Artist acquired Dewynters (reverse acquisition given its size) in December 2006 for a total potential consideration of £15.5m (£9.0m initial, £6.5m deferred).

The deal fundamentally transformed First Artist in terms of its operations, scale, cashflow and revenue visibility. We believe that the acquisition has created an operating model with attractive underlying earnings, offsetting the more volatile and seasonal revenues generated by its incumbent operations.

The strength of the deal, both financially and strategically, has yet to be recognised or valued by the market.

*Dewynters is the largest marketing services company operating in London's West End theatre district*

### Dewynters

Dewynters is the largest marketing services company operating in London's West End theatre district. It accounts for an estimated >75% of the market with a massive and defensible market leading position.

Dewynters has been in operation for more than 80 years (founded in 1924) and now encompasses three divisions;

- UK – advertising and marketing agency for West End shows
- US – merchandising operations for several key Broadway/Las Vegas shows
- Newman Displays – theatre and cinema front-of-house displays and fascias

Dewynters UK essentially carries out all of the operations associated with staging a West End show, aside from the production or financing of the show itself. The group therefore undertakes the branding, design, advertising, website production, merchandising, marketing, tourism and brochure production. With >75% of the market it is easier to mention the shows for which it does not undertake marketing. These include the shows contracted to its only real competitor in the market, AKA, such as Dirty Dancing, Billy Elliott and Fame.

The US operations are less expansive and consist primarily of merchandising for several key Broadway and Las Vegas shows, including Les Miserables, Jersey Boys and The Phantom of the Opera. We expect the US business to grow as the company increasingly undertakes marketing for UK shows transferred into the US market.

Exhibit 6: Examples of Dewynters marketing services



Source: First Artist

*Newman Displays has a virtual monopoly on West End theatre and cinema fascia displays*

Newman Displays has an estimated 100% market share of front-of-house signage and fascia displays for West End theatres and cinemas. Aside from the natural cross-sale between Dewynters and Newman, all non-Dewynters represented shows also utilise Newman as the only real option in the market.

Exhibit 7: Examples of Newman Displays services



Source: First Artist

## Sponsorship Consulting

Sponsorship Consulting represents the historic operations in First Artist's Marketing division.

The entity was acquired in August 2006 and represents a pivotal area from which we expect the wider group to drive cross-sales and monetisation of an attractive customer database.

The division advises companies/brand owners on sponsorship strategy and implementation, including where to place advertising budgets and corporate responsibility statements/PR.

This is a relatively simple business to understand as it operates as a standard marketing consultancy business, predominantly offering advice on sports event advertising to major brands such as BP.

Revenues are generated on a contractual basis with limited visibility but high levels of repeat business from existing clients

The company has also established First Rights, an operation that works on the alternate side of a potential sponsorship transaction, advising rights owners (event managers, exhibition holders, venue owners) on where to secure sponsorship revenues.

Sponsorship Consulting has an enviable database, including multinationals such as;

- Unilever
- Corus Tata
- BP
- Shell
- Siemens

*Sponsorship Consulting has an enviable client list that should drive cross-sales into other First Artist divisions*

## **Marketing division; Growth drivers**

### ***Dewynters;***

With such high market shares in Dewynters and Newman, we do not expect these businesses to demonstrate exceptional levels of organic growth in the near future.

However, while Dewynters is largely restricted to operating in key theatre markets (i.e. London and Broadway), Newman has broader scope to drive organic growth from expansion across the major cities of Europe, the US and Asia.

Furthermore, the Dewynters and Newman operations offer solid cashflows and significant barriers to entry, with growth likely to come from international expansion and, ultimately, acquisition of a material market position in the US market.

### ***Sponsorship Consulting;***

Sponsorship Consulting operates in a more fragmented market and we expect the division to generate recurring revenues from existing clients, generate new leads and, most importantly, provide access to major corporations for the remaining divisions within First Artist.

We expect Sponsorship Consulting to show attractive growth for our forecast period as micro industry conditions (wider range of sponsorship opportunities on which to advise clients) and macro economic conditions support growth of the sector.

Sponsorship revenues are directly linked to the cyclical macro market (simple to increase/decrease group marketing budgets) and we forecast benign to positive UK macro conditions over the next 12 months. While high profile television and print advertising have suffered in the past year, sponsorship has shown healthy growth.

As the number of sponsorship options increase, consultancies such as First Artist have benefited from attractive market conditions. We forecast this to increase further as clients look for guidance and advice on their sponsorship opportunities.

Despite a positive market outlook, it should be noted that the industry is highly competitive with few barriers to entry. Nonetheless, the industry is dominated by several major players;

- Karen Earl Sponsorship (KES) – focused on working directly for sponsors across Europe, as opposed to rights owners or individuals. Clients include British Airways, 888.com, Coca-Cola, Royal Bank of Scotland.
- IMG Consulting – part of IMG, the global leader in sports marketing and management, most notable for its string of sports star representations. The consultancy division has a worldwide presence.
- Fast Track – UK sports marketing agency and event manager, established in 1998 and merged with Lighthouse Communications in 2006. Sponsorship consultancy clients include Lucozade, MMC and Heineken.
- Brand Rapport – provides clients with marketing solutions across sporting and other sponsorship arenas. UK, Europe and Asia-Pacific focused, clients include AXA, Vodafone, UBS and Reuters.
- Essentially Group (ESN.L, NR) – sports marketing and management services company. Recently acquired (19 June 2007) Frontiers Group, an international sports and entertainment marketing agency with annual sales of £4.0m and PBT of £0.4m (Source; Essentially Group). It acquired Frontiers for an initial sum of £7.73m and a further potential £1.39m of deferred consideration. Initial and total consideration equate to 19.3x and 22.8x historic PBT respectively. Essentially also simultaneously acquired the smaller 'Athletes 1', a cricket-focused sports management company, for a potential sum of £3.0m.

*Essentially Group has recently completed the acquisition of Frontiers, a sports and entertainment marketing agency, for an initial sum of £7.7m (representing an entry multiple of c. 19x historic earnings)*

We expect First Artist to significantly expand its First Rights operations due to the wider group's strong position and relationships within the theatre, entertainment and sports industries. From here, the cross sale into the group's Finishing Touch business (sourcing and/or hosting events that often drive from sponsorship roll-outs) should deliver incremental group revenue and profits.

The company's desire to create its own events with owned or joint venture rights should further retain revenues within the group that are currently passed to third parties.

## SPORT DIVISION

The Sport division represents First Artist's founding business, focused on football agency operations.

While First Artist has significantly diversified away from solely being a football agency, the division is very successful, has solid market share and offers attractive growth prospects.

First Artist Sport has never been associated with the relatively underhand and high profile dealings of various sector peers in the football agency industry. However, it has been tarred with the same brush and the group's reputation and rating has suffered accordingly.

This represents a major disservice to the First Artist Sport agency operations that have always maintained impeccable operating standards and, ultimately, built the largest football agency in Europe. It has also been influential in establishing an industry governing body to assist in enhancing the reputation of reputable football agencies.

First Artist Sport is divided into three business units, split geographically across the UK, Scandinavia (based in Copenhagen and acquired from Formation Group, FRM.L/NR in July 2006) and Southern Europe (Promosport, based in Milan). It also has local offices in Portugal and the US.

The UK accounts for the largest proportion of divisional revenues (c.44% in FY07E), although the international business is forecast to drive group revenue of c.£3.2m in FY07.

As per other sport agency businesses, the group drives revenue as a share of represented players' wages (typically c.3% of salary). Less typically, First Artist may also act on behalf of clubs, broking deals to buy/sell players, securing a percentage of the transfer fees (c.3-5%).

On this basis, the group can, in ideal circumstances, act on two sides of a deal, representing a player and taking fees from a club for their transfer.

First Artist Sport represents c.300 players across Europe (contracted), as well as working with numerous football clubs (on an ad hoc basis, but driven by ongoing relationships).

*First Artist has suffered from the tarnished reputation of the UK football agency market, although the group itself has a strong and highly regarded position in the industry*

The group has some top tier players on its books and has brokered major deals, but the group principally benefits from a broad spectrum of players across the world rather than the 'headline makers'. Examples of players/deals include;

- Alexander Hleb (Arsenal)
- Marco Materazzi (Inter Milan, recipient of an infamous World Cup head but)
- Thomas Gravesen (Celtic)
- Ashley Young (£9m transfer from Watford to Aston Villa, January 2007)
- Jonathan Woodgate (acting for Real Madrid on transfer to Middlesbrough)
- Alan Curbishley (West Ham manager)

### **Football agency market**

The football agency market in the UK is highly fragmented and typified by a number of one-man-bands making up a large proportion of the estimated c.400 football agents in the UK.

However, First Artist has a number of key competitors, including;

- Stellar Management (largest in the UK, led by Jonathan Barrett)
- Proactive Sports Management (part of Formation Group, FRM.L, NR)
- SEM (Sport Entertainment & Media Group)
- WMG Management (Wasserman Media Group, acquired SFX in Nov. 2006).

## Sport division; Growth drivers

A key catalyst for growth in the division is the massive increase in the value of UK Premier League TV rights, coming to fruition in the coming season (2007/08).

In a recent industry publication, Deloitte noted that;

***“Looking forward, the significant increase in broadcasting rights revenue to Premier League clubs will fuel significant increases in wage costs over the short/medium term”***

Source: Deloitte Annual Review of Football Finance 2007, May 2007

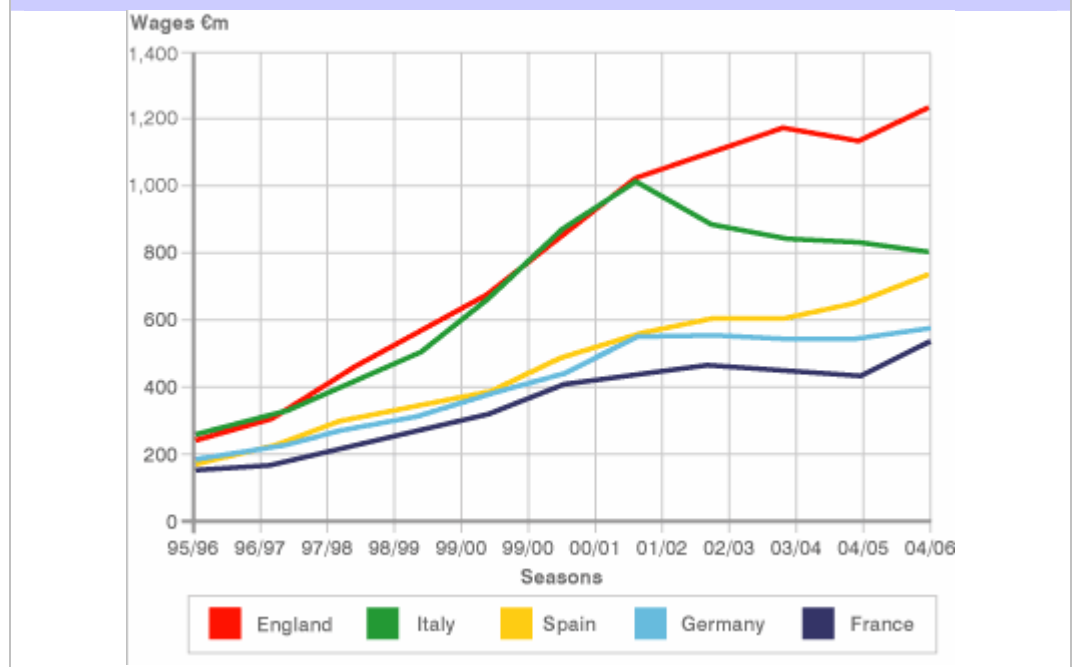
*Deloitte estimates that TV rights revenue in the English Premier League should surpass £1.7bn over the next three years*

Deloitte estimates that the TV rights income to the UK Premier league is scheduled to equate to £1.7bn over the next three years following the auction of rights, acquired by Sky and Setanta Sports.

The £1.7bn three-year rights income represents an estimated incremental growth in revenue to the Premier league clubs of c.£300m p.a. (previous deal c.£800m over three years).

Overall, Premier League clubs' revenue (including matchday receipts and sponsorship) is forecast to rise to €2.5bn / £1.7bn in the 2007/08 season (vs €2.0bn / £1.4bn in 2005/06), representing the largest market in Europe, followed by Italy, Spain, Germany and France.

Exhibit 8: Wage costs across European leagues (1995-2006)



Source: Deloitte

The rise in UK and European league revenues is expected to have a positive knock-on effect to wages in the leagues (beneficial for the players and agents). UK Premier League wages rose by 9% to £854m in 2005/06 and are forecast to increase to >£1bn in 2007/08. The current 62% wages/turnover ratio is expected to remain flat (Source: Deloitte).

The substantial TV rights revenue increase, compounded by the activities and deep pockets of various new club owners with a desire to enter into and win the lucrative Champions League (estimated c.€437m / £300m additional TV and sponsorship revenues distributed in the 2005/06 season to the 32 qualifying teams in the Champions League), should generate a healthy transfers pipeline (Deloitte estimates total transaction values of >£300m this summer) and augmented relative value of key players.

*Annual gross wages per player in the Premier League are forecast to exceed £1m from 2007/08*

Given the recent reorganisation of the industry, with up-front payments to players' representatives replaced by ongoing revenue shares, the increased average wages of players (Premier League average annual gross wages per player are forecast to exceed £1m from 2007/08) should translate directly into improved income for agency businesses such as First Artist.

The new structure also provides enhanced visibility on revenues and First Artist estimates that it should have c.30% visibility on revenues (i.e. percentage revenue share on represented players' wages) at the start of a season.

First Artist should also benefit from its pan-European operating model, specifically given the likely pick up in business within Italy following a downturn associated with last season's match-fixing affair.

Elsewhere, we expect Scandinavia to continue to be a net exporter of players, while First Artist retains strong relationships with the two major Spanish clubs, Barcelona and Real Madrid.

## **ENTERTAINMENT DIVISION**

First Artist Entertainment shares operating similarities with its Sport division, essentially representing individuals and securing a share of wages/fees generated.

The division was established following the acquisition of NCI Management (created by Nicola Ibison who remains as head of the division within First Artist) in July 2006. The group represents a mix of ex-football stars and media personalities, with an estimated 90 clients including;

- Gillian McKeith
- Ruud Gullit
- Peter Schmeichel
- Andy Townsend
- Harry Redknapp
- Amanda Lamb

Revenues are sourced as a percentage (typically 10-20%) of fees derived from book deals, TV deals (potentially long-term), voice-overs, public speaking and corporate work.

### **Entertainment agency market**

The industry is fragmented, with no major market leaders. The only competing agencies with scale are PFD (literary and talent agency, part of CSS Stellar, CSS.L, NR, with annual sales of £14.1m and EBIT of £1.0m in FY06) and Curtis Brown (long-established literary and media agency, estimated annual sales of c.£6m).

## **Entertainment division; Growth drivers**

We expect the Entertainment division to be a key focus for growth. The company is actively looking to hire more agents (to take total to >10 from current 6) that will bring new clients and assist in building its talent portfolio.

The additional scale should allow the group to focus on attracting major actors and actresses, building on the existing strong portfolio of mainly sports and presenting personalities.

A wider book of represented talent should also allow the group to eventually develop its own programming, driving content from its roster of stars and building relations with production and commissioning houses, retaining revenue and margin in-house, albeit with additional risk of higher costs.

Whether production is in-house or outsourced, we view the demand for content from media and broadcasting houses (TV and online) as increasing in the coming years, with celebrity presenting and reality TV offering revenue upside to First Artist Entertainment.

Organic growth may also be complemented by acquisitions in a fragmented sector.

*The ultimate goal for the Entertainment Division is to create and market its own content from its roster of clients*

## EVENTS DIVISION

First Artist acquired The Finishing Touch in September 2005, a group that initially focused on the provision of corporate events (staff parties, Christmas parties etc), but now includes a broad range of events such as conferences, company activity days, venue finding, delegate management and client events, ranging from just a handful to >5,000 people.

*A key element of the existing Events Division is a contract with the Training & Development Agency*

The division also includes a public sector business, providing event management, venue location and delegate management for the Training & Development Agency (TDA). The group currently completes an estimated 200 events each year and we look for the TDA to radically increase its level of business given to First Artist over the coming years.

Finishing Touch also has an established joint venture, Sports Events LLP, with Lord Coe's Complete Leisure Group. The venture was set up in June 2006 to combine expertise in targeting revenues from staging specific sports events.

First Artist recently increased its exposure to the event management industry with the acquisition of Yell Communications (April 2007). The acquisition did not include any staff, but secured the contracts for the provision of event management for Prudential (estimated annual sales of c.£1m) and Eventworks, an intermediary for Axa Insurance.

The event management financial model results in all revenues from an event passing to First Artist, along with all costs associated with hosting an event (costs therefore include venue hire, event management and logistics). The group looks to retain an operating margin of 20-30% per event, with the public sector events at the lower end of this scale.

Exhibit 9: Examples of The Finishing Touch services



Source: First Artist

## Events market

The event management market is fragmented due to the number of different levels at which competitors can provide services, from marquee, dalo and trailer providers (GL Events Owen Brown, De Boer, Specialist Structures) to exhibition and event management companies, such as TRO Group, Imagination Ltd and a plethora of brand communication agencies.

*The event management market is highly fragmented in the UK with multiple operators offering a broad range of services*

- TRO Group (events, conferences and other marketing/brand services and communications; focused on key auto brands such as BMW and Volvo).
- Imagination Ltd (events, conferences and other marketing/brand services; providing services for clients such as Ericsson and Orange).
- Marketing & Design Matters (MDM) (event management focused on product launches, training and exhibitions; including Citroen and Porsche launches).
- Indeprod (event, conference and roadshow management; examples include car launches for Audi and hosting a live show for Audi at Le Mans).
- De Boer (premium temporary structures and event/exhibition hall provider; events such as the Farnborough Air Show and Chelsea Flower Show).
- GL Events Owen Brown (temporary structures and marquee hire; working at events such as the Goodwood Festival of Speed and the British Grand Prix).
- Specialist Structures (exhibitions and roadshow stands, hospitality pavilions; providing structures for clients such as TRO and Imagination).

## Events division; Growth drivers

As mentioned above, we look for First Artist to secure material additional event management work from the TDA. This has yet to be finalised and we therefore exclude any significant upside from our forecasts.

We also look for the group to enhance its risk/reward profile within event management, taking on additional costs in the hope of enhancing its scale in the UK, driving contracts with larger and new clients.

This could therefore include a shift into the ownership of event rights (via acquisition or creation of events), thereby acquiring or creating valuable IP that can be exploited at potentially higher margins, with scope for licensing of the IP.

The ownership and control of its events would allow First Artist to benefit from both contracted sales and a high level of repeat revenues.

## **WEALTH DIVISION**

First Artist acquired its position in the wealth management market prior to A-Day in April 2006 with the purchase of the financial management arm of an audit firm, ABG, in July 2005.

The division has since been renamed Optimal Wealth Management and provides a range of services to its individual clients, such as pensions, tax, divorce and IHT advice. Optimal is FSA regulated.

It remains a relatively small division, but is growing quickly and we expect the group to continue to pick up additional HNW clients from within its roster of wealthy clients (across sports, music, media and entertainment) as well as monetising its relationships with auditing firms. Optimal recently entered into a joint venture with a sizeable auditing firm, H.W. Fisher.

The division also benefits from a solid base of annual renewable income (estimated c.£600k p.a.).

### **Wealth market**

*HNW wealth management is an established and substantial market in the UK, with an estimated 400k HNWs receiving advice from IFAs*

The wealth management market is served by numerous operators, including a broad base of small outfits and the leading UK players in the HNW advisory market, such as Skandia and Standard Life (ranked one and two in the 2006 Datamonitor survey of HNW IFAs).

According to Datamonitor (Source: Datamonitor High Net Worth Financial Advisors 2006), the HNW advisory market consists of 400k HNWs with a combined liquid asset base of £232bn.

Clearly, this is a substantial market and Optimal faces competition from all the major advisers in the market, as well as investment fund providers such as Fidelity, New Star etc.

However, Optimal benefits from unrivalled and direct access to a broad group of sporting and celebrity individuals from among First Artist's group of businesses.

### **Wealth division; Growth drivers**

The bulk of ongoing growth is likely to derive from the existing and new potential joint ventures with financial institutions, as well as from the untapped roster of wealthy sports and entertainment personalities.

The group may also consider acquisitions (within a fragmented market), driving additional scale, an enhanced advisor base and geographic expansion across the UK or possibly Europe.

## **KEY MANAGEMENT**

### **Jarvis Astaire – Non-Executive Chairman**

Jarvis has had an extensive career in the international sport, entertainment and film industries over the past forty years. As Deputy Chairman of Wembley Stadium Limited from 1984-1999, Jarvis was responsible for dealing with The Football League, The Football Association, the Euro 96 competition and the many clubs involved in playing matches at the stadium. Prior to Wembley, Jarvis was a leading boxing promoter for the likes of Mohammed Ali, and then through his company ViewSport, a pioneer in using closed circuit TV to broadcast major sporting events. As Chairman of GRA Limited (1997-2005), he was responsible for introducing greyhound racing to the Sky platform. In 2004, he received an OBE for services to young people in London.

### **Tim Chadwick – Non-Executive Vice Chairman**

Tim was a founder of the successful publishing company, Aurum Press Ltd, which he sold to The Really Useful Company in 1992. He bought back the children's publishing arm the same year, which traded as All Books for Children ('ABC') Ltd, and which he sold to HIT Entertainment plc in 1995. Tim also floated Benicia Ports plc, later renamed American Port Services plc, on the London Stock Exchange in 1994. Associated British Ports plc acquired the company in 1999. Tim has served recently as the chairman of Simon Group plc.

### **Jon Smith – Chief Executive**

Jon founded the First Artist business in 1986 and has overseen the transformation of the Group since its flotation in 2001. Jon was Chief Executive of The London Monarchs during club's inaugural World Bowl-winning season at Wembley. He is a frequent spokesperson for the UK sports industry and has raised over £15 million for sport in the UK. Jon is also one of a handful of football agents licensed to stage global events under the auspices of FIFA worldwide. He is a patron of the British Stammering Association and trustee of the Lee Smith Foundation.

**Phil Smith – Chief Operating Officer**

Phil joined First Artist in 1992 as head of its UK football management operation and has since expanded the Group's operations through the founding of First Artist Entertainment. His extended role includes working with the company's marketing and wealth management teams to exploit the commercial activities and maximise the earnings of clients. Phil personally oversees the sports division's roster of UK and European players.

**Richard Hughes – Group Managing Director**

Richard joined First Artist in the spring of 2004. He began his career in the corporate event management and hospitality sector and subsequently spent 16 years in marketing communications, gaining extensive commercial and financial management experience with both major multinational groups and niche brand strategic development businesses. He has previously filled the role of finance director for both fully listed and private groups with a strong focus on acquisitions.

**Simon Bent – Group Finance Director**

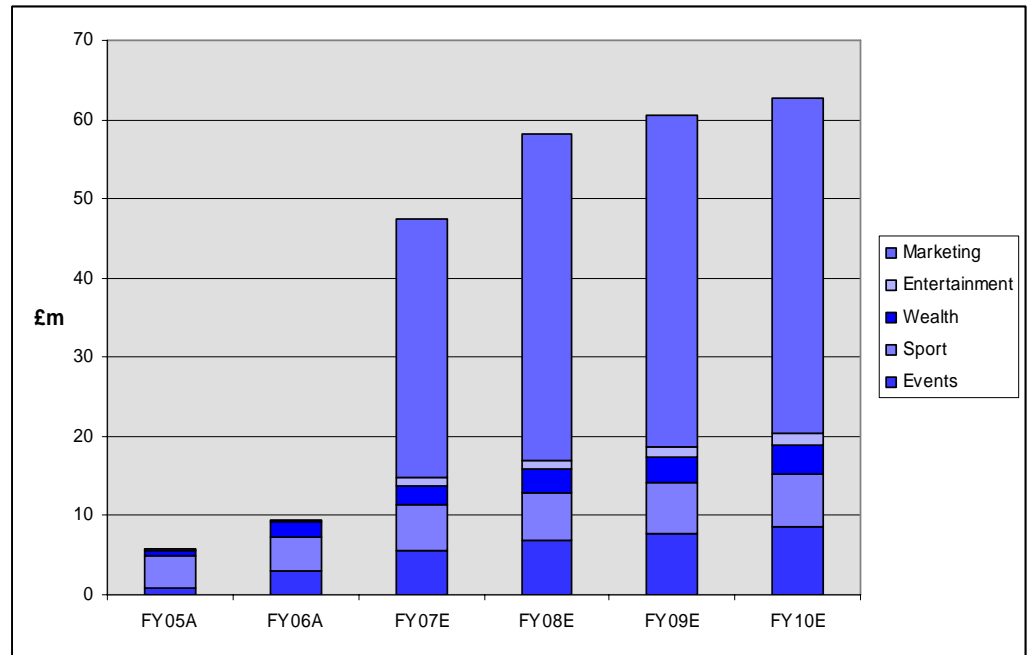
Simon qualified as a chartered accountant in 2001. After a successful time working in internal audit for Armani and Mulberry he progressed to the post of Financial Controller for The Metropolitan Hotel and Nobu Restaurants. Simon moved to First Artist in September 2005 as the Group Financial Controller. In January 2007 he became Group Finance Director Designate with a particular focus on risk management, systems, internal audit and policies and procedures.

## OVERVIEW OF FINANCIAL FORECASTS

### Divisional sales and EBIT radically transformed following Dewynters deal

We are forecasting a major uplift in group sales and EBIT during for FY07E against FY06A, predominantly driven by the acquisition of Dewynters. The table below highlights the impact of the deal at the top-line.

Exhibit 10: First Artist revenue (actual and forecast) – FY05A-FY10E



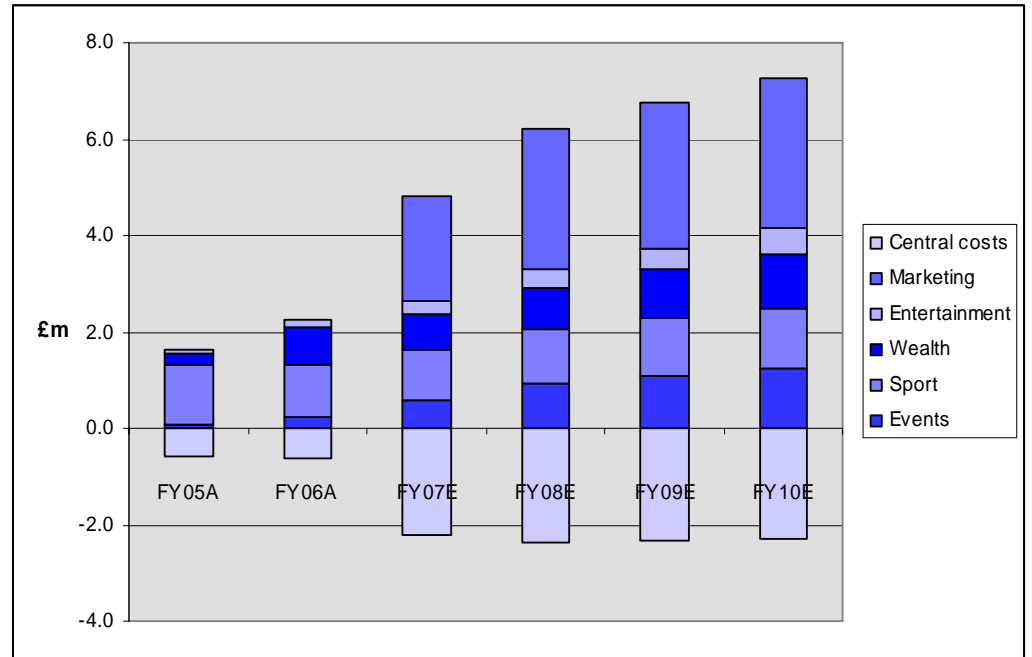
Source: First Artist, Daniel Stewart Securities.

*We are forecasting group revenue growth in FY08E of 23%, driven by Dewynters, Events and Entertainment*

We are forecasting a top-line increase for the group in FY08 of 22.7%, principally driven by a full-year contribution from Dewynters, but compounded by estimated growth of 25.0% in both the Events and Entertainment divisions. We forecast more muted growth within the Sports division, despite a potentially strong transfer market following the increase in TV rights revenue within the UK and European football clubs. However, the ultimate outcome is hard to predict and we retain a prudent forecast for the business.

The impact of Dewynters is less pronounced at the EBIT line (high revenue, lower margin business than incumbent divisions).

Exhibit 11: First Artist EBIT (actual and forecast) – FY05A-FY10E



Source: First Artist, Daniel Stewart Securities

We are forecasting a flat H2 EBIT margin for Dewynters (6.6% vs 6.7% in H1), with a small increase from FY08E as the group benefits from enhanced efficiencies as part of a larger group that has superior cost controls.

Elsewhere in the group, we are forecasting a reduction in FY07E EBIT for both the Sport (unknown nature or size of off-season transfers) and Wealth (general prudence) divisions against FY06A, rising back to FY06A levels in FY08E. We look for an improvement in both the Event and Entertainment divisions with full-year contributions from NCI and First Artist Entertainment.

**Goodwill**

Although we exclude goodwill from our reported earnings and PBT, it should be noted that we forecast group annual goodwill amortisation of £820k.

**Interest**

Following the acquisition of Dewynters, we are forecasting period-end bank loans in FY07E of £13.5m. We apply a blended interest rate of 8.2% to drive our interest payable forecast in FY08E of £1.1m.

**Tax**

We forecast a full corporate tax rate of 30.0% from FY08E, although estimate the group tax rate to be 22.0% in FY07E due to a tax inflow in H1 of £120k.

**Shares in issue**

Given the potential for earn-outs within the group, we have made several assumptions relating to the group's future number of shares in issue.

- 13.1m shares in issue at FY07E period-end (12.5m average shares in issue)
- 2.6m dilutive shares in issue throughout the forecast period
- Issue of 140k shares to Sponsorship Consulting (at 100p), plus issue of 130k shares to NCI (at 100p), in FY08E, FY09E and FY10E.
- Issue of 500k shares to Finishing Touch (at 100p) as deferred payment in FY08E and FY09E.

**Dividends**

We assume that no dividend payments are made throughout the period of our forecasts.

**Cashflows**

We assume annual capex of £740k in FY07E, falling to a normalised annual rate of c.£450k pa beyond FY07E.

The FY07E cashflows are skewed by the inflow of £13.5m of bank loans, offset by the cash payment for acquisitions of £9.1m and the £4.5m repayment of loans. We assume further annual loan repayments of £1.6m throughout our forecast period.

We also assume the payment of cash deferred consideration (Dewynters and Yell) of £2.3m in FY08E (£2.1m FY09E and £1.5m FY10E).

We assume broadly neutral annual working capital movements for our forecast period.

## First Artist: Income Statement, 2005A-2010E

Y/E December	2005	2006	H1 2007	H2 2007	2007	2008	2009	2010
<b>Sales</b>								
Marketing	0.00	0.05	12.56	20.09	32.65	41.13	41.75	42.38
Sport	4.17	4.16	1.47	4.25	5.72	6.01	6.31	6.62
Wealth	0.59	1.87	1.16	1.36	2.53	2.91	3.27	3.60
Events	0.86	3.09	2.90	2.67	5.57	6.96	7.83	8.61
Entertainment	0.24	0.33	0.39	0.52	0.91	1.14	1.31	1.50
<b>Total sales</b>	<b>5.86</b>	<b>9.51</b>	<b>18.48</b>	<b>28.89</b>	<b>47.37</b>	<b>58.15</b>	<b>60.47</b>	<b>62.72</b>
<b>Gross profit</b>								
Cost of sales	-1.33	-3.17	-11.35	-17.20	-28.55	-34.93	-36.20	-37.55
<b>Total gross profit</b>	<b>4.54</b>	<b>6.34</b>	<b>7.13</b>	<b>11.69</b>	<b>18.82</b>	<b>23.22</b>	<b>24.26</b>	<b>25.17</b>
<i>Gross profit margin (%)</i>	<i>77.4%</i>	<i>66.7%</i>	<i>38.6%</i>	<i>40.5%</i>	<i>39.7%</i>	<i>39.9%</i>	<i>40.1%</i>	<i>40.1%</i>
<b>EBIT</b>								
Marketing	0.00	0.00	0.84	1.32	2.15	2.92	3.02	3.11
Sport	1.26	1.09	-0.42	1.47	1.05	1.13	1.20	1.27
Wealth	0.21	0.80	0.29	0.47	0.76	0.87	1.00	1.11
Events	0.08	0.22	0.34	0.23	0.57	0.92	1.09	1.23
Entertainment	0.09	0.13	0.07	0.20	0.27	0.37	0.45	0.53
Central costs	-0.59	-0.62	-0.44	-1.78	-2.22	-2.36	-2.33	-2.29
<b>Total EBIT</b>	<b>1.05</b>	<b>1.62</b>	<b>0.69</b>	<b>1.90</b>	<b>2.58</b>	<b>3.86</b>	<b>4.44</b>	<b>4.97</b>
<b>EBITA (pre-g'will/options)</b>	<b>1.05</b>	<b>1.72</b>	<b>0.71</b>	<b>2.75</b>	<b>3.46</b>	<b>4.74</b>	<b>5.25</b>	<b>5.71</b>
Goodwill amortisation	0.00	0.00	0.00	-0.82	-0.82	-0.82	-0.73	-0.65
Share option charges	0.00	-0.10	-0.03	-0.03	-0.06	-0.07	-0.08	-0.10
<b>Total operating profit</b>	<b>1.05</b>	<b>1.62</b>	<b>0.69</b>	<b>1.90</b>	<b>2.58</b>	<b>3.86</b>	<b>4.44</b>	<b>4.97</b>
<i>Operating margin (%)</i>	<i>18.0%</i>	<i>17.0%</i>	<i>3.7%</i>	<i>6.6%</i>	<i>5.5%</i>	<i>6.6%</i>	<i>7.3%</i>	<i>7.9%</i>
<i>Operating profit growth</i>		<i>53.7%</i>	<i>854.2%</i>	<i>22.6%</i>	<i>59.5%</i>	<i>461.4%</i>	<i>133.8%</i>	<i>92.1%</i>
Depreciation	-0.07	-0.07	-0.17	-0.23	-0.39	-0.49	-0.51	-0.54
<b>EBITDA (pre-options)</b>	<b>1.12</b>	<b>1.79</b>	<b>0.88</b>	<b>2.97</b>	<b>3.85</b>	<b>5.23</b>	<b>5.76</b>	<b>6.25</b>
<b>Financials</b>								
Interest receivable	0.01	0.02	0.07	0.01	0.07	0.04	0.03	0.03
Interest payable	-0.05	-0.30	-0.49	-0.42	-0.91	-1.12	-1.15	-1.07
<b>Net interest</b>	<b>-0.04</b>	<b>-0.28</b>	<b>-0.42</b>	<b>-0.41</b>	<b>-0.84</b>	<b>-1.08</b>	<b>-1.12</b>	<b>-1.03</b>
<b>Total exceptionals</b>	<b>-0.20</b>	<b>-0.17</b>	<b>-0.31</b>	<b>-0.04</b>	<b>-0.35</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Profit before tax</b>	<b>0.81</b>	<b>1.17</b>	<b>-0.05</b>	<b>1.45</b>	<b>1.40</b>	<b>2.78</b>	<b>3.31</b>	<b>3.93</b>
<b>Profit before tax (pre-goodwill)</b>	<b>1.01</b>	<b>1.34</b>	<b>0.27</b>	<b>2.30</b>	<b>2.57</b>	<b>3.60</b>	<b>4.04</b>	<b>4.58</b>
<i>% growth</i>		<i>32.0%</i>		<i>74.6%</i>	<i>11.5%</i>	<i>40.1%</i>	<i>12.4%</i>	<i>13.3%</i>
<b>Tax</b>	<b>-0.30</b>	<b>-0.50</b>	<b>0.12</b>	<b>-0.61</b>	<b>-0.49</b>	<b>-1.08</b>	<b>-1.21</b>	<b>-1.37</b>
<i>Rate (%)</i>	<i>29.5%</i>	<i>37.5%</i>	<i>-46.4%</i>	<i>26.6%</i>	<i>22.0%</i>	<i>30.0%</i>	<i>30.0%</i>	<i>30.0%</i>
<b>Profit after tax</b>	<b>0.51</b>	<b>0.67</b>	<b>0.08</b>	<b>0.83</b>	<b>0.91</b>	<b>1.70</b>	<b>2.10</b>	<b>2.56</b>
<b>Total dividends</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Retained profit</b>	<b>0.51</b>	<b>0.67</b>	<b>0.08</b>	<b>0.83</b>	<b>0.91</b>	<b>1.70</b>	<b>2.10</b>	<b>2.56</b>
Y/E shares			13.1	13.1	13.1	13.8	14.6	14.9
Average shares	5.7	9.3	11.9	13.1	12.5	13.5	14.2	14.7
Fully diluted shares	5.8	11.6	14.5	15.7	15.1	16.1	16.8	17.4
EPS	8.94	7.18	0.64	6.64	7.28	12.63	14.77	17.35
EPS (pre-goodwill & exceptionals)	12.52	9.01	3.26	12.79	16.05	18.72	19.90	21.75
<b>Fully diluted EPS</b>	<b>12.30</b>	<b>7.21</b>	<b>2.67</b>	<b>10.59</b>	<b>13.26</b>	<b>15.66</b>	<b>16.80</b>	<b>18.47</b>
<i>% growth</i>		<i>-41.4%</i>			<i>84.0%</i>	<i>18.1%</i>	<i>7.3%</i>	<i>9.9%</i>
<b>DPS</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Source: Daniel Stewart Securities

## First Artist: Cashflow Statement, 2005A-2010E

Y/E December	2005	2006	H1 2007	H2 2007	2007	2008	2009	2010
EBIT	0.85	1.45	0.38	2.21	2.58	3.86	4.44	4.97
Depreciation & amortisation	0.07	0.07	0.17	0.70	0.86	1.31	1.24	1.19
EBITDA	0.92	1.52	0.54	2.91	3.45	5.16	5.68	6.15
Change in stocks	0.00	0.00	-0.23	-1.10	-1.33	-0.30	-0.07	-0.06
Change in debtors	-1.61	-1.39	2.42	-6.54	-4.12	-2.50	-0.54	-0.52
Change in creditors	0.69	-0.15	-2.57	9.40	6.84	2.29	0.49	0.48
Discontinued operations	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other items	-0.01	0.10	0.05	0.00	0.05	0.00	0.00	0.00
<b>Operating cash flow</b>	<b>-0.01</b>	<b>0.08</b>	<b>0.22</b>	<b>4.67</b>	<b>4.89</b>	<b>4.65</b>	<b>5.57</b>	<b>6.04</b>
<b>Free cash flow</b>								
Cash from operations	-0.01	0.08	0.22	4.67	4.89	4.65	5.57	6.04
Cash interest	-0.04	-0.10	-0.20	-0.64	-0.84	-1.08	-1.12	-1.03
Cash tax	0.00	-0.45	-0.25	-0.26	-0.50	-0.49	-1.08	-1.21
Capex	0.00	-0.24	-0.44	-0.31	-0.74	-0.45	-0.47	-0.45
<b>FCF</b>	<b>-0.05</b>	<b>-0.71</b>	<b>-0.66</b>	<b>3.47</b>	<b>2.81</b>	<b>2.64</b>	<b>2.90</b>	<b>3.35</b>
% growth			-5.2%		-19%	-6%	10%	16%
<b>FCF/share</b>	<b>-0.93</b>	<b>-6.15</b>	<b>-4.55</b>	<b>22.10</b>	<b>18.58</b>	<b>16.39</b>	<b>17.19</b>	<b>19.30</b>
<b>Investment returns &amp; finance</b>								
Additional pension payment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest received	0.01	0.00	0.00	0.07	0.07	0.04	0.03	0.03
Interest paid	-0.05	-0.10	-0.20	-0.71	-0.91	-1.12	-1.15	-1.07
Net interest	-0.04	-0.10	-0.20	-0.64	-0.84	-1.08	-1.12	-1.03
Dividends received	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Dividends paid	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Outflow</b>	<b>-0.04</b>	<b>-0.10</b>	<b>-0.20</b>	<b>-0.64</b>	<b>-0.84</b>	<b>-1.08</b>	<b>-1.12</b>	<b>-1.03</b>
Tax	0.00	-0.45	-0.25	-0.26	-0.50	-0.49	-1.08	-1.21
Rate (%)	0.4%	33.7%	93.2%	11.1%	19.5%	13.6%	26.7%	26.5%
<b>Investing activities</b>								
Purchase of TFA	-0.10	-0.24	-0.44	-0.31	-0.74	-0.45	-0.47	-0.45
Acquisitions	-2.13	-2.75	-8.30	-0.82	-9.12	0.00	0.00	0.00
Deferred acquisition payments	0.00	0.00	0.00	-0.90	-0.90	-2.34	-2.14	-1.50
Purchase of intangibles	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Sale of TFA	0.09	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Sale of business operation	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Capital distributed from investment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Discontinued operations	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Purchase of subsidiary	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Cash acquired with subsidiary	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Net flow from investing activities</b>	<b>-2.13</b>	<b>-2.99</b>	<b>-8.74</b>	<b>-2.03</b>	<b>-10.76</b>	<b>-2.78</b>	<b>-2.60</b>	<b>-1.95</b>
<b>Financing</b>								
Share issue	2.00	1.01	1.00	0.00	1.00	0.00	0.00	0.00
Cost of financing	-0.36	-0.12	-0.26	0.00	-0.26	0.00	0.00	0.00
Bank loans	1.55	2.50	13.54	0.00	13.54	0.00	0.00	0.00
Management of liquid resources	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Repayment of loans	-0.14	-0.26	-3.63	-0.88	-4.51	-1.57	-1.57	-1.57
Capital element of finance lease	-0.05	-0.01	-0.01	0.00	-0.01	-0.01	-0.01	-0.01
Other loans	0.09	-0.05	-0.09	0.00	-0.09	0.00	0.00	0.00
Share repurchase	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Net flow from financing</b>	<b>3.10</b>	<b>3.07</b>	<b>10.55</b>	<b>-0.88</b>	<b>9.67</b>	<b>-1.58</b>	<b>-1.58</b>	<b>-1.58</b>
<b>Change in cash</b>	<b>0.92</b>	<b>-0.39</b>	<b>1.59</b>	<b>0.87</b>	<b>2.46</b>	<b>-1.28</b>	<b>-0.82</b>	<b>0.27</b>
Non-cashflow items	-1.41	-2.76	-8.93	0.00	-8.93	1.57	1.57	1.57
<b>Net debt</b>	<b>-0.65</b>	<b>-3.80</b>	<b>-11.14</b>	<b>-10.27</b>	<b>-10.27</b>	<b>-9.98</b>	<b>-9.22</b>	<b>-7.38</b>
<b>Net debt/EBITDA</b>					<b>2.7</b>	<b>1.9</b>	<b>1.6</b>	<b>1.2</b>

Source: Daniel Stewart Securities

## First Artist: Balance Sheet, 2005A-2010E

Y/E December	2005	2006	H1 2007	H2 2007	2007	2008	2009	2010
<b>Fixed assets</b>								
Intangibles	5.30	9.52	22.14	21.64	21.64	20.82	20.09	19.44
Tangibles	0.72	0.84	2.01	2.09	2.09	2.05	2.01	1.92
Investments & other	0.00	0.12	0.12	0.12	0.12	0.12	0.12	0.12
<b>Total</b>	<b>6.01</b>	<b>10.47</b>	<b>24.28</b>	<b>23.86</b>	<b>23.86</b>	<b>23.00</b>	<b>22.22</b>	<b>21.48</b>
<b>Current assets</b>								
Stocks	0.00	0.00	1.13	1.33	1.33	1.64	1.70	1.76
Assets held for sale	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Debtors	4.75	6.90	9.66	11.01	11.01	13.52	14.05	14.58
Cash	1.53	1.11	2.47	2.91	2.91	1.75	1.02	1.33
<b>Total</b>	<b>6.27</b>	<b>8.00</b>	<b>13.26</b>	<b>15.25</b>	<b>15.25</b>	<b>16.90</b>	<b>16.77</b>	<b>17.67</b>
<b>Creditors &lt; 1 year</b>								
Bank loans & overdrafts	-0.62	-2.45	-1.60	-2.15	-2.15	-2.15	-2.15	-2.15
Trade creditors	-2.52	-3.25	-9.09	-10.09	-10.09	-12.38	-12.88	-13.35
Corporation tax	-0.75	-0.99	-0.58	-1.00	-1.00	-1.59	-1.72	-1.88
Other creditors	-0.45	-0.31	0.00	0.00	0.00	0.00	0.00	0.00
Finance lease obligations	-0.01	-0.02	-0.03	-0.01	-0.01	-0.01	-0.01	-0.01
Liabilities held for sale	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Accruals & deferred income	-0.72	-0.69	0.00	0.00	0.00	0.00	0.00	0.00
Provisions (deferred consideration)	-1.12	-1.90	-3.04	-3.04	-3.04	-3.04	-3.04	-1.54
<b>Total creditors &lt; 1 year</b>	<b>-6.17</b>	<b>-9.61</b>	<b>-14.33</b>	<b>-16.29</b>	<b>-16.29</b>	<b>-19.17</b>	<b>-19.80</b>	<b>-18.94</b>
<b>Net current liabilities</b>	<b>0.10</b>	<b>-1.61</b>	<b>-1.07</b>	<b>-1.04</b>	<b>-1.04</b>	<b>-2.27</b>	<b>-3.03</b>	<b>-1.27</b>
Total assets - current liabilities	6.11	8.86	23.21	22.82	22.82	20.72	19.20	20.21
<b>Creditors &gt; 1 year</b>								
Bank loans	-1.30	-2.25	-11.98	-11.20	-11.20	-9.63	-8.06	-6.49
Provisions (deferred consideration)	-1.51	-1.52	-4.84	-4.43	-4.43	-2.13	0.00	0.00
Pension liabilities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other creditors	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Total creditors &gt; 1 year</b>	<b>-2.81</b>	<b>-3.77</b>	<b>-16.83</b>	<b>-15.63</b>	<b>-15.63</b>	<b>-11.76</b>	<b>-8.06</b>	<b>-6.49</b>
<b>Net assets</b>	<b>3.31</b>	<b>5.09</b>	<b>6.38</b>	<b>7.19</b>	<b>7.19</b>	<b>8.96</b>	<b>11.14</b>	<b>13.72</b>
<b>Capital &amp; reserves</b>								
Called up share capital	0.22	0.27	0.33	0.33	0.33	0.33	0.33	0.33
Shares to be issued	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Own shares held	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Share premium account	7.89	8.85	9.95	9.95	9.95	10.02	10.10	10.12
Reserves	0.02	0.15	0.19	0.19	0.19	0.19	0.19	0.19
Minorities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
P&L	-4.82	-4.18	-4.08	-3.27	-3.27	-1.58	0.52	3.08
<b>Shareholders funds</b>	<b>3.31</b>	<b>5.09</b>	<b>6.38</b>	<b>7.19</b>	<b>7.19</b>	<b>8.96</b>	<b>11.14</b>	<b>13.72</b>

Source: Daniel Stewart Securities

**Disclosure checklist**

COMPANY	CODE	DISCLOSURE
First Artist	FAN.L	2, 3, 6
Essentially Group	ESN.L	3
Formation Group	FRM.L	3

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