

Tangent Communications

UK | Media | TNG | TNG LN

17 September 2009

Effective use of cash

Tangent acquires data insight agency Snowball

Yr to Feb £m	2006A	2007A	2008A	2009A	2010E
Sales	6.6	8.6	17.4	15.6	17.3
EBITDA	0.9	1.4	2.9	1.6	1.3
adj. EPS (p)	0.8	0.9	1.1	0.5	0.3
EV/EBITDA (x)	5.5	4.0	2.6	4.7	7.0
P/E (x)	7.8	7.0	5.4	12.5	19.6
Div. Yld (%)	0.0	0.0	3.3	3.3	3.3

Recommendation **BUY**

Price **6p**
Target **10p**

Market Cap: £10m
EV: £9m
Shares issued: 170m
Daily ave. volume: <1m

■ Acquisition of Snowball

Tangent has acquired customer insight agency Snowball for an initial cash consideration of £1.03m. Further consideration of £2.18m (cash: £1.68m, shares £0.5m) is payable in 3 equal instalments dependent on Snowball meeting EBIT targets rising to £1.5m (cumulative) over 3-yrs to August 2012.

■ Earnings enhancing in 2009/10

In 2008 Snowball achieved revenue of £2.27m and EBIT of £878k. Given the current economic environment and the impact on marketing spends (as well as the EBIT target of £1.5m over 3 years) we conservatively assume that Snowball will contribute £250k of EBIT to Tangent in 2009/10.

■ Long term cross-selling benefits

As well as offering Snowball's service to Tangent's existing client base, there are significant cross-selling opportunities. Previously Snowball outsourced digital print revenue, Tangent will now do this work at its Newcastle facility (complementing the strategy to diversify print revenue away from property). Furthermore, Snowball does not offer any online services to clients, Tangent is able to provide these from its existing operations. Snowball's key clients include Bang & Olufsen, Trailfinders and Dunhill.

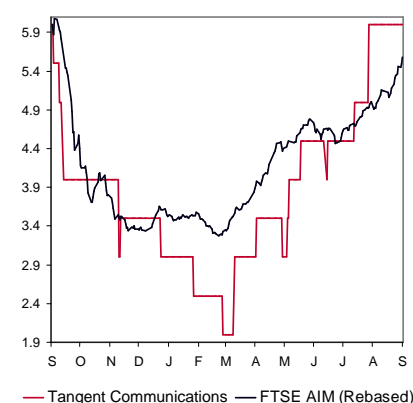
■ Strong financial position maintained

Post acquisition Tangent has net cash of £750k. The Group's acquisition strategy continues to be opportunistic and the remaining net cash is a useful asset in an environment where quality businesses may be up for grabs at attractive multiples.

■ Forecasts and price target raised

Following the acquisition we increase our adjusted EPS forecast for 2009/10 by 0.09p to 0.31p. We value Tangent on a SOTP basis, attributing £6m to Ravensworth (price paid by Tangent) and applying the sector P/S multiple (1.1x) to remaining turnover. Adding cash and applying a small cap discount of 20% gives our upgraded target price of 10p (previously 9p). With over 60% upside to the current price we reiterate our BUY recommendation.

Stock Performance



Performance	1m	3m	12m
Absolute %	0	33	0
Relative* %	-10	12	8

Source: Datastream

*Rel to FTSE AIM

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Recommendations	Buys	Sells	Hold/Neutral
Percentage of Total	50%	16%	34%
Percentage of which in Corporate Client stocks	15%	0%	7%

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