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TANGENT COMMUNICATIONS – BUY

COMPANIES: TNG

London-based marketing services provider Tangent Communications has acquired Newcastle-based direct marketing business Ravensworth and says the deal doubles its profits

Tangent, which reversed onto AIM in 2005, provides sophisticated data-based services that improve the marketing efforts of a diverse and impressive range of clients, including SAP, Greene King, Coca Cola and Sainsbury's. This is a fast-growing segment.

One third of the business is devoted to customised direct marketing, another third to local-level marketing (through Tangent's 'Toolkit' web system) and the final third to database building and management via the company's first acquisition last July of C360, now re-branded Tangent Labs. This was completed for £4.5m and added a sophisticated tool and an ex-Unilever management team that had previously worked closely with Tangent's.

The purchase of Ravensworth for £5.85m has largely been funded by a £6.06m fundraising at 13p. It made £1.1m of profit from £6.9m sales in 2006, which effectively doubles group profits as Tangent was forecast by house broker Collins Stewart to make exactly the same amount in the year to February. Joint chief executive Nick

green says Ravensworth is 'highly complementary' and points out that its Newcastle headquarters has a large amount of excess capacity, allowing lots of room to expand operations away from hi-cost London into the low-cost North East.

Tangent's own business is going great guns anyway. For example, a contract was recently extended with leading construction materials supplier Wolseley's UK arm to increase the supply of Tangent's Toolkit system to 550 more centres on top of the 200 that had already been agreed.

Even before the acquisition, Collins Stewart had a prospective p/e of less than 15 on the figures to February 2007, falling to 12 times for the following year. That was good value, given the quality of new contract signings not yet factored in and the potential for growth.

Results are due out in the summer and Green revealed that current trading is in line with expectations. As the acquisition effectively doubles profits, the shares look outrageously cheap. BUY.