

INVESTORS CHRONICLE

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marketing agency



TANGENT COMMUNICATIONS (TBG)

DIRECT MARKETING, OR RATHER JUNK MAIL, IS THE bane of most people's lives. So the key for businesses is how to get their target customers to actually read what they receive, rather than just bin it. And this is where Tangent comes in.

By using new methods of delivery, including e-mail and text messaging, and by using ever more sophisticated methods of personalising marketing material, Tangent can achieve significant improvements for its clients in the strike rate of their marketing.

This is significant as the UK direct marketing industry is worth £2.5bn a year, but the old-school, mass-mailing marketeers are falling by the wayside – and new, more nimble operations like Tangent are filling the gaps. They have plenty of opportunity, too. For example, only 5 per cent of current UK direct marketing is personalised, so innovative companies have been able to demonstrate the value of personalisation to blue-chip clients.

Tangent was one of the first to do this through a personalised marketing deal with J Sainsbury. It obtained the supermarket group's Nectar Card database and began investigating its customers' spending habits. That enabled it to direct Sainsbury's mail-shots more wisely, which resulted in a significant improvement in voucher redemptions. It also allowed Tangent to cut its teeth with a major nationwide player – experience it has called upon with subsequent clients, such as Thresher, Nationwide, Diageo and Citroën.

In addition, the company has been developing its own web-based marketing software called Toolkit. This allows its clients to produce a standard format for advertising posters and point-of-sale products, but with the flexibility to personalise each one. So, for example, with Toolkit, Greene King can give its pub landlords landlords the leeway to personalise posters with individual offers. This material is produced entirely online, printed at the company's headquarters, and dispatched.

Then in July, Tangent further increased its technological capabilities with the acquisition of C360 – a business it had dealt with for two years. C360 brings with it the Taobase data-

management platform, which can interpret databases, such as customer lists, to create highly personalised marketing campaigns across a whole range of media – from print to e-mail, mobile content and even websites. Last year, C360 grew sales by 150 per cent, generated a profit and enjoyed a 28 per cent operating margin. So the acquisition brings data management in-house, boosts margins and allows Tangent to sell more products to its existing client base, as well as offering a wider service to potential new clients. It also brings existing blue-chip clients including Nike, SAP, Penguin Books and Ted Baker.

TANGENT'S FIRST MAJOR PERSONALISED MARKETING DEAL WAS WITH SAINSBURY

Importantly, it increases the proportion of cost-effective online work, too. At its full-year results in May, Tangent revealed that 40 per cent of revenues came from online activities, but this is set to increase rapidly following the acquisition of C360.

Those results also showed that Tangent moved into the black in its first year as a listed company. It was brought to the market last year through the reverse takeover of Documedia, and is run by joint chief executives Nick and Tim Green, backed by their uncle Michael Green, founder of Carlton Communications, who owns just over 50 per cent. Last year, they produced a profit of £100,000 before goodwill and exceptionals, against a loss of £600,000 the previous year. In fact, cash generation was such that Tangent ended the year with net cash of £800,000, making further acquisitions possible.

Now, Collins Stewart expects Tangent to produce turnover of £8.8m this year, with adjusted profits of £1.1m and adjusted EPS of 0.9p. That values the company at 15 times earnings, falling to 11.3 times adjusted EPS for 2008. But themutual.net, which is also involved in direct marketing, trades on 27 times earnings. That gap is too wide. **Buy.**

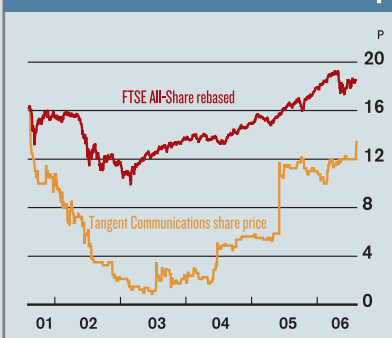
BULL POINTS

- Growing blue-chip client base
- Acquisition gives cross-selling opportunities
- Strongly cash-generative

BEAR POINTS

- Competition is growing
- Acquisition risk

SHARE PRICE 13.5p



Source: Perfect Information

TANGENT COMMS.

Aim

ORD PRICE: 13.5p **MARKET VALUE:** £15m
TOUCH: 13-14p **12-MONTH HIGH:** 13.5p **LOW:** 10p
DIVIDEND YIELD: nil* **PE RATIO:** 23*
NET ASSET VALUE: 6p** **NET CASH:** £800,000
 **Includes intangible assets of £5.1m, or 4.5p a share

YEAR TO 28 FEB	TURNOVER (£M)	PRE-TAX PROFIT (£M)	EARNINGS PER SHARE (P)	DIVIDEND PER SHARE (P)
2005	6.60	0.02	0.06	nil
2006	6.61	0.13	0.16	nil
2007*	8.80	0.80	0.60	nil

% change +33 +515 +275 -

*Collins Stewart estimates

Market makers: 3 Normal market size: 5,000 Beta: 0.01

Last IC view: None