

TANGENT /PLC

Tangent Communications plc

Half-yearly report 2009

Intelligent marketing and technology



Who we are

Tangent is a leading integrator of technology, data and marketing strategy.

What we do

We combine world-class technical and creative skills with data-driven marketing expertise to deliver highly personalised and bespoke digital and direct communications strategies for leading brands.

Our businesses provide services that integrate seamlessly with each other and allow us to offer end-to-end marketing solutions. We call this our 'Network of Experts'.

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Our business

TANGENT
/ **ONE**

Tangent One creates, executes and manages end-to-end digital communications across e-commerce, websites, email and mobile marketing.

TANGENT
/ **LABS**

Tangent Labs is a technology development powerhouse at the leading edge of intelligent marketing technology.

TANGENT
/ **DIRECT**

Tangent Direct provides highly targeted and personalised communications built around the integration of customer data and variable creative.

Highlights

Financial

- Total revenue £8.51m (2008: £8.84m)
- Revenue outside property sector up 11%
- Underlying operating profit down 57% to £0.35m (2008: £0.81m)
- Underlying operating margin 4.1% (2008: 9.1%)
- Underlying basic earnings per share down 59% to 0.14p (2008: 0.34p)
- Cash used in operations £0.30m (2008: cash generated £0.74m)
- Net funds of £1.63m (2008: £2.33m)
- Dividend of £0.34m paid in period

Operational

- Integration of Lateral into Tangent One to create 40 strong e-commerce unit
- ZUI confirmed first major contract win
- Digital Print Partnership adding 15-20 customers a week (total 364)
- Active accounts in property sector increased every month in the period (1,843 to 2,124)

£8.51m

total revenue

4.1%

underlying operating margin

T/OD

TOD (including the Digital Print Partnership) is a specialist and premium digital print solutions provider, delivering fast turnaround, short run, on demand print without compromising either quality or accuracy.



Ravensworth delivers class leading marketing services to the property industry, providing highly bespoke and localised marketing collateral to over 3,000 estate agents in the UK.



ZUI utilises a unique and proprietary framework to provide increased productivity for SAP software through the development of highly customised and user-friendly interfaces.



Snowball is a customer management agency that delivers targeted, personalised communications across multiple mediums.

Joint chief executives' statement



Nicholas Green



Timothy Green

Performance

The company managed to maintain revenues broadly in line with the previous year through tough market conditions. The increased cost base from our recent acquisitions had a negative impact on the overall profitability, although we expect this investment in skills to deliver future growth in higher margin parts of the business. We have adopted International Financial Reporting Standard 8: Operating Segments ("IFRS 8") for the first time which has resulted in the disclosure of the financial performance of our Online and Direct business segments and further clarified our exposure to the property market, which now only accounts for 31% of revenues, reduced from 40% in 2008.

The Online business revenues, particularly in design and build services, were up 47% to £2.08m from £1.36m, which reflects £365,000 of additional sales brought across from the Lateral transaction but also an increase in the core business of 21%.

The underlying operating profit has marginally declined over this period as growth has required more than historic levels of resource. The increased overhead has allowed us to provide a better and broader service to our customers; in the long term this will assist in the drive for growth in a complex and expanding marketplace.

The Direct business revenues were lower by £982,000; of which 95% reflect the reduction in sales to the property sector. This had a heavy impact on our operating margin during the period although we appear to have seen this part of the business stabilising in recent months. The degree of retention of our estate agent client base has been strong. Whilst activity has been low, recent months have seen a return in activity from a high number of customers and a slow, increase in average spend. The number of active accounts in October 2009 hit 2,853 compared with 2,173 in October 2008. Whilst this is encouraging, the number of items that are being ordered

per day remains significantly down on prior periods and with property stock levels still low we await the recovery of the property market to drive growth in this business.

The stability in revenues across our non-property Direct Marketing service has seen this become the largest revenue line in the company. With the integration of Snowball we expect further increases in the contribution from this segment before the year end.

Tangent has three key core business streams: Tangent One (Online), Tangent Direct/Snowball (Data and Direct Marketing) and Ravensworth (Property).

Tangent One – our Online business was subject to significant transformation in the first half of 2009. The acquisition of the award winning agency Lateral in March 2009 combined an industry-leading creative team with Tangent One's already ground breaking technology platforms. Sales increased within the division from £1.36m to £2.01m, an increase of 47%. Whilst profits remain at a similar level, there are a number of projects in progress that will be completed in the second half of the year. A factor already bringing incremental billings is our expanded service offering, which now includes strategy, creative and social network development, all of which have attracted a great deal of interest from existing clients and new business prospects in our pipeline. Recent blue chip account wins include Boots.

Our Australian office continues to outperform expectations. With continued support from our UK base, the team is growing; with new business wins now coming through in addition to the continued project with major retailer Angus and Robertson.

Tangent Direct/Snowball – our Data and Direct Marketing businesses will take on the newly acquired Snowball brand in the coming weeks. Over the first half, sales from our key accounts all continued with high levels of activity and we have seen budgets come through in the second half for the response-driven services that now underpin the offering. Whilst direct mail continues to perform well for key audience segments, we have begun to offer a more integrated approach, inviting our clients to embrace all channels and methods as part of customer/supporter-led contact strategy. We anticipate growth from our database management services which in turn through Snowball's insight is expected to increase activity to our digital print facility in Newcastle.

Ravensworth – our division for services to the property sector has responded well to tough market conditions. We have retained our service levels when many of our competitors have had to reduce or leave the market entirely. Whilst the first half of the year has shown a revenue reduction of 25% year on year, our retention of customer branches has been very high and monthly turnover has started to recover from trough levels

“ Tangent has now started to win and deliver high value enterprise level engagements ”

Joint chief executives' statement continued
£1.63m

net funds


£0.34m

dividend paid

Performance continued**Ravensworth continued**

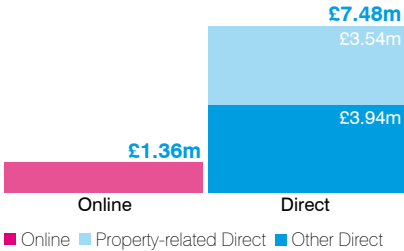
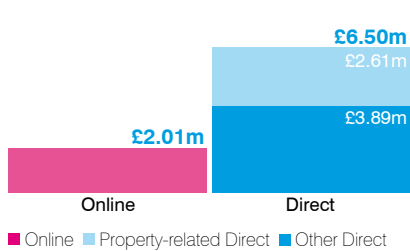
experienced earlier in the year. We are now starting to see an improvement in trading over prior year comparatives, with revenues in August 2009 and each subsequent month exceeding those generated in the same month in the prior year. The retention of agents in the market has been particularly robust and this provides a platform to support a sustained recovery in the market. The facility in Newcastle has adapted to the change in conditions and we have applied the skills and services of the staff to direct marketing, providing industry-leading creative planning and project management skills for many of the UK's leading property and non-property brands.

New growth units

As mentioned in our previous announcements, we continue to develop new business streams from the highly skilled staff within the business. We channel their entrepreneurial ethos and encourage them to lead the business units in maturing our services into commercial enterprises.

The Digital Print Partnership ("DPP") – "Wholesale print online" – our trade only business has seen customer numbers increase from a standing start to 364 in the first six months. Sales have risen steadily since launch with October's sales reaching approximately £45,000. New customers are being consistently added at a rate of more than 30 per month through an efficient sales effort driven by cost-effective direct mail and



Revenue
1H 2008/09**Revenue**
1H 2009/10

email campaigns. We believe the partnership has the ability to be a stand-alone enterprise in 2010/11 and we are looking to expand the franchise outside of the UK. The service offers small print companies and design agencies access to cost-effective print services online. Customers have an average order value of £40-£50 and all orders are produced and dispatched from our state of the art printing facilities.

ZUI – “Revolutionary Business Software” – our joint venture with De Villiers Walton. In May 2009 we won our first major contract with Scottish & Newcastle for a project led by De Villiers Walton. The project is currently in a test phase but has been received very well. We expect each project secured by ZUI to be of material impact to the Tangent business as our engagements are at enterprise level. With the Scottish & Newcastle case study we now have an active market application as a reference and will be aggressively pursuing further inroads into the software services market.

In line with last year, the directors have not declared the payment of an interim dividend.

Note on cash flow

Our cash flow from operations was negative by £0.30m during the period despite a profit before tax of £0.19m. This was principally because there was a £0.67m increase in operating debtors caused by the sales in the months immediately preceding the half-year end at 31 August 2009 (July and August sales were £2.69m) being significantly greater than the sales in the months immediately preceding the last year end at 28 February 2009 (January and February sales were £2.05m).

Outlook

The second half of the year has continued to see budgets return to all key areas of the business. We are optimistic that the future is positive for a technology-led marketing services company that has now started to win and deliver high value enterprise level engagements and the outlook for the rest of the year is in line with management's expectations.

Nicholas Green and Timothy Green
Joint chief executives
26 November 2009

Consolidated income statement

for the half-year ended 31 August 2009

	Notes	Half-year ended 31 August 2009 (unaudited) £000	Half-year ended 31 August 2008 (unaudited) £000	Year ended 28 February 2009 (audited) £000
Revenue		8,509	8,843	15,607
Cost of sales		(4,442)	(4,806)	(8,576)
Gross profit		4,067	4,037	7,031
Operating expenses		(3,722)	(3,232)	(6,183)
Underlying operating profit		345	805	848
Group restructuring expenses	4	(161)	(345)	(397)
Operating profit		184	460	451
Finance income		5	47	72
Profit before tax		189	507	523
Tax		(70)	(206)	(219)
Profit for the period		119	301	304
Earnings per share (pence)	5			
Basic		0.07	0.18	0.18
Diluted		0.07	0.17	0.17
Underlying basic		0.14	0.34	0.37
Underlying diluted		0.13	0.32	0.35

The results shown above relate to continuing operations and are attributable to equity shareholders of the company.

Consolidated statement of changes in equity

for the half-year ended 31 August 2009

	Share capital £000	Share premium £000	Merger reserve £000	Other reserves £000	Retained earnings/ (losses) £000	Total equity £000
Half-year ended 31 August 2009						
At 1 March 2009	1,702	—	917	2,837	14,132	19,588
Equity dividend	—	—	—	—	(338)	(338)
Share-based payment charge	—	—	—	11	—	11
Issue of shares	3	9	—	—	—	12
Profit for the period	—	—	—	—	119	119
At 31 August 2009	1,705	9	917	2,848	13,913	19,392
Half-year ended 31 August 2008						
At 1 March 2008	1,660	—	459	3,108	14,157	19,384
Equity dividend	—	—	—	—	(329)	(329)
Share-based payment charge	—	—	—	206	—	206
Issue of shares	42	—	458	(500)	—	—
Profit for the period	—	—	—	—	301	301
At 31 August 2008	1,702	—	917	2,814	14,129	19,562
Year ended 28 February 2009						
At 1 March 2008	1,660	—	459	3,108	14,157	19,384
Equity dividend	—	—	—	—	(329)	(329)
Share-based payment charge	—	—	—	229	—	229
Issue of shares	42	—	458	(500)	—	—
Profit for the period	—	—	—	—	304	304
At 28 February 2009	1,702	—	917	2,837	14,132	19,588

Consolidated statement of financial position

at 31 August 2009

	31 August 2009 (unaudited) £000	31 August 2008 (unaudited) £000	28 February 2009 (audited) £000
Assets			
Non-current assets			
Intangible assets - goodwill	14,961	14,961	14,961
Other intangible assets	64	—	—
Property, plant and equipment	1,643	1,600	1,685
	16,668	16,561	16,646
Current assets			
Inventories	107	170	106
Trade and other receivables	3,827	4,190	3,191
Cash and cash equivalents	1,751	2,526	2,801
	5,685	6,886	6,098
Total assets	22,353	23,447	22,744
Liabilities			
Current liabilities			
Borrowings	(62)	(74)	(63)
Trade and other payables	(2,523)	(3,135)	(2,664)
Current tax liabilities	(309)	(353)	(148)
Provisions	—	(166)	(166)
	(2,894)	(3,728)	(3,041)
Non-current liabilities			
Borrowings	(56)	(118)	(87)
Deferred tax	(11)	(39)	(28)
	(67)	(157)	(115)
Total liabilities	(2,961)	(3,885)	(3,156)
Net assets	19,392	19,562	19,588
Equity			
Share capital	1,705	1,702	1,702
Share premium	9	—	—
Merger reserve	917	917	917
Other reserves	2,848	2,814	2,837
Retained earnings	13,913	14,129	14,132
Total equity – attributable to equity shareholders of the company	19,392	19,562	19,588

Consolidated cash flow statement

for the half-year ended 31 August 2009

	Notes	Half-year ended 31 August 2009 (unaudited) £000	Half-year ended 31 August 2008 (unaudited) £000	Year ended 28 February 2009 (audited) £000
Operating activities				
Cash flow from operations	7	(296)	743	1,600
Interest paid		(3)	(8)	(13)
Tax received/(paid)		73	(160)	(378)
Net cash flow from operating activities		(226)	575	1,209
Investing activities				
Payment of contingent consideration		(166)	(167)	(167)
Purchase of property, plant and equipment		(244)	(251)	(618)
Purchase of intangible assets		(75)	—	—
Sale of property, plant and equipment		11	25	48
Interest received		8	55	83
Net cash used in investing activities		(466)	(338)	(654)
Financing activities				
Dividends paid	6	(338)	(329)	(329)
Repayment of borrowings		(32)	(46)	(89)
Proceeds from issue of shares, net of costs		12	—	—
Net cash used in financing activities		(358)	(375)	(418)
Net (decrease)/increase in cash and cash equivalents		(1,050)	(138)	137
Cash and cash equivalents at beginning of period		2,801	2,664	2,664
Cash and cash equivalents at end of period		1,751	2,526	2,801

Notes to the financial information for the half-year ended 31 August 2009

1. Basis of preparation

This consolidated half-yearly financial information, which is condensed and unaudited for the half-year ended 31 August 2009, has been prepared in accordance with the accounting policies which the group expects to adopt in its next annual report and is consistent with those adopted in the consolidated financial statements for the year ended 28 February 2009, except for the adoption of IFRS 8: Operating Segments and IAS 1: Presentation of Financial Statements (Revised 2007). IFRS 8 requires disclosure of information about the group's operating segments. Adoption of this standard did not have any effect on the financial position or performance of the group. IAS 1 makes certain changes to the format and titles of the primary financial statements and the presentation of some items within these statements and gives rise to additional disclosures. These accounting policies are based on the EU-adopted International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations that the group expects to be applicable at that time. This consolidated half-yearly information for the half-year ended 31 August 2009 has been prepared in accordance with IAS 34: Interim Financial Reporting, as adopted by the EU and under the historical cost convention.

The information relating to the half-years ended 31 August 2009 and 31 August 2008 is unaudited and does not constitute statutory financial statements as defined in section 434 of the Companies Act 2006. It has, however, been reviewed by the auditors and their report is set out at the end of this document. The comparative figures for the year ended 28 February 2009 have been extracted from the consolidated financial statements, on which the auditors gave an unqualified opinion and did not include a statement under section 237 (2) or (3) of the Companies Act 1985. The annual report and accounts for the year ended 28 February 2009 has been filed with the Registrar of Companies.

The group's financial risk management objectives and policies are consistent with those disclosed in the annual report and accounts 2009.

The half-yearly report was approved by the board of directors on 26 November 2009.

The half-yearly report is available on Tangent's website, www.tangentplc.com, and is being sent to shareholders. Further copies are available at the Tangent's registered office, 84-86 Great Portland Street, London W1W 7NR.

2. Business segments

In adopting IFRS 8: Operating Segments for the first time, the group has disclosed two reportable segments: Online and Direct. This disclosure correlates with the information that is presented to the group's chief decision maker, the board of directors, which reviews revenue and operating profits by segment but assets at a consolidated level.

Online comprises the Tangent One and Tangent Labs businesses and Direct comprises Tangent Direct, Ravensworth and Tangent On Demand. The Direct segment has a significant property-related sales element, which is separately disclosed. Central costs are not allocated to specific segments but are included below to reconcile the segmental information to the consolidated information. Central costs include the share-based payment charge as set out in note 3.

	Online £000	Direct £000	Central £000	Total £000
Half-year ended 31 August 2009				
Property-related revenue	—	2,614	—	2,614
Other revenue	2,008	3,887	—	5,895
Total revenue	2,008	6,501	—	8,509
Underlying operating profit	419	382	(456)	345
Half-year ended 31 August 2008				
Property-related revenue	—	3,538	—	3,538
Other revenue	1,360	3,945	—	5,305
Total revenue	1,360	7,483	—	8,843
Underlying operating profit	494	1,014	(703)	805
Year ended 28 February 2009				
Property-related revenue	—	5,195	—	5,195
Other revenue	2,877	7,535	—	10,412
Total revenue	2,877	12,730	—	15,607
Underlying operating profit	1,013	1,038	(1,203)	848

Notes to the financial information continued

for the half-year ended 31 August 2009

3. Share options and share-based payment charge

The total share-based payment charge for the period was £11,000 (half-year ended 31 August 2008: £206,000 and year ended 28 February 2009: £229,000). This charge is not material and so has been included within operating expenses as was stated in the previous annual report and accounts as the future treatment. In previous periods, when the share-based payment charge was significantly larger, it was excluded from underlying operating profit. Comparative amounts for operating expenses and underlying operating profit have been amended for this change.

The movements in share options and the corresponding weighted average exercise prices ("WAEP") are summarised below:

	Number 000	WAEP Pence
At 1 March 2009	15,310	4.58
Share options granted	3,155	1.00
Share options lapsed	(300)	4.00
At 31 August 2009	18,165	3.96

For the share options outstanding at 31 August 2009 exercise prices ranged between 1p and 13.25p per share and the weighted average remaining contractual life was 4.73 years. The company's share price varied between 2.38p and 6.25p during the period.

The fair value of share options granted in the period was calculated using a Black-Scholes option pricing model. The volatility, measured as the standard deviation of expected share price return, is based on statistical analysis of the Tangent share price since July 2005 which resulted in an assumed volatility of 40%. The other key inputs were a risk free interest rate of 0.5%, a dividend yield of 6% and an expected life of 5 years. The options granted during the period are subject to vesting conditions and it was assumed that 15% of the options granted during the period will vest.

There were 300,000 employee share options exercised during the period at an exercise price of 4p per share.

4. Group restructuring

The board restructured and relocated accounting and administrative support from Cheltenham to the Newcastle site during the period which resulted in employee redundancies. The redundancy costs of restructuring are not part of the normal operating expenses of Tangent and they have therefore been separately identified in the income statement and excluded the costs of £161,000 from underlying operating profit.

5. Earnings per share

The calculation of the basic and diluted earnings per share is based on the following:

	Half-year ended 31 August 2009 £000	Half-year ended 31 August 2008 £000	Year ended 28 February 2009 £000
Profit attributable to shareholders	119	301	304
Group restructuring expenses net of tax	116	259	306
Underlying profit attributable to shareholders	235	560	610
	Number 000	Number 000	Number 000

Weighted average number of shares:

For basic earnings per share	168,761	165,127	166,902
Adjustment for options outstanding	5,739	6,850	5,078
Adjustment for contingent shares	4,158	4,158	4,158
For diluted earnings per share	178,658	176,135	176,138
	Pence per share	Pence per share	Pence per share

Earnings per share:

Basic	0.07	0.18	0.18
Underlying basic	0.14	0.34	0.37
Diluted	0.07	0.17	0.17
Underlying diluted	0.13	0.32	0.35

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Tangent has two categories of dilutive potential ordinary shares: share options and shares contingently issuable as consideration for an acquisition.

A calculation is performed for the share options to determine the number of shares that could have been acquired at fair value based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares from this calculation is compared with the number of shares that would have been issued assuming the exercise of the options and the difference is deemed to be the number of dilutive shares attributable to share options.

The estimated number of shares that will be issued in the future as purchase consideration for current subsidiaries is deemed to be the number of dilutive shares issuable as consideration for acquisitions.

Notes to the financial information continued

for the half-year ended 31 August 2009

6. Dividends

Equity dividends on ordinary shares were paid as follows:

	Half-year ended 31 August 2009 £000	Half-year ended 31 August 2008 £000	Year ended 28 February 2009 £000
Dividend for the year ended 28 February 2008 of 0.2p per share	—	329	329
Dividend for the year ended 28 February 2009 of 0.2p per share	338	—	—

The Tangent employee share ownership trust holds 1,428,340 shares and it has waived its right to receive dividends.

The dividend for the year ended 28 February 2009 was approved by shareholders at the annual general meeting on 28 July 2009 and was paid on 26 August 2009.

7. Cash flow from operations

	Half-year ended 31 August 2009 £000	Half-year ended 31 August 2008 £000	Year ended 28 February 2009 £000
Profit before tax for the period	189	507	523
Depreciation	278	270	519
Amortisation	11	—	—
(Profit)/loss on sale of plant and equipment	(3)	(7)	5
Net interest income	(5)	(47)	(72)
Share-based payment charge	11	206	229
Increase in inventories	(1)	(75)	(11)
(Increase)/decrease in trade and other receivables	(666)	134	1,133
Decrease in trade and other payables	(110)	(245)	(726)
Cash (used in)/generated from operations	(296)	743	1,600

8. Analysis of net funds

	1 March 2009 £000	Cash flows £000	31 August 2009 £000
Cash	2,801	(1,050)	1,751
Finance leases	(150)	32	(118)
Net funds	2,651	(1,018)	1,633

Independent review report by the auditors to Tangent Communications plc

Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the half-year ended 31 August 2009 which comprises the consolidated income statement, consolidated statement of changes in equity, consolidated statement of financial position, consolidated cash flow statement and related notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the AIM Rules for Companies.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34: Interim Financial Reporting, as adopted by the European Union.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410: Review of Interim Financial Information Performed by the Independent Auditor of the Entity, issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the half-year ended 31 August 2009 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the AIM Rules for Companies.

UHY Hacker Young LLP
Chartered Accountants
London
26 November 2009

Notes

1. The maintenance and integrity of the Tangent Communications plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the half-yearly report or the auditors' review report since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

Company information

Directors

Piers Caldecote	Non-executive chairman
Nicholas Green	Joint chief executive officer
Timothy Green	Joint chief executive officer
Graeme Harris	Finance director
Greg Jackson	Executive director
Paul Murray	Non-executive director

Company secretary

Graeme Harris

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