

## Welcome to Objective's Small & Mid-Cap Review



I am pleased to bring you this report, the first of our regular Small & Mid-Cap Reviews.

In the last few years we have all witnessed the decline in research coverage. No where has this been more noticeable than for small- and mid-cap stocks.

While some may like to believe that this will change with the recovery in the market, the economics of commission funded research tell another story.

Objective was founded so that issuers can ensure that the market and their investors always have access to quality research through sponsoring their own coverage. Considerable evidence points to the benefit this brings to an issuer through enhanced transparency, greater liquidity and valuation.

A winning situation for investors, companies and the market!

For investors, we offer a much-needed alternative to commission driven small cap research. While our research is sponsored by the companies we cover, it is always written on behalf of our readers.

Each review we will bring you a sector of special interest and our survey of small and mid-cap stocks and those that stand out for further attention.

As always, I welcome your comments and feedback as we strive to improve the service we offer our readers.

Gabriel Didham, CFA  
Objective Capital

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## Month in Review

### Market Commentary

The past month has been a good one for investors in medium sized and small capitalisation companies, if you happened to pick the right ones. While the FTSE100 has risen by around 1.8%, the FTSE Fledgling Index excluding investment trusts was up by 3.49% and the FTSE Small Cap Index excluding investment trusts was just over 3% higher. By contrast the AIM Index turned in a slightly inferior performance to the main benchmark, rising by only 1.35%.

Despite its lacklustre performance this past month, AIM is already heading for some sort of record. So far this year companies joining the junior market (which is now bidding to outshine the USM, its illustrious predecessor), have raised over £1bn, more than in the previous 12 months. The market's figures show some 54 companies joining up in the last quarter versus 42 in the first quarter and just 11 in the second quarter of 2003.

The largest issue in the past month was Star Energy, a natural gas storage business that raised just short of £80m. Institutions and private investors alike are, however, baulking at the rate at which new companies are coming to the market. This is one of the periodic quality control phases the market goes through, and cannot be construed as anything other than a healthy check on the sometimes overblown ambitions of small cap entrepreneurs and their City advisers.

The target in view now is for the market to have 1,000 companies listed by the end of the year. Most observers believe this to be a bit of stretch, but you never know. A main market with firmer upward direction and a few small cap funds with cash to invest and we might just see it happening before Christmas. If not, and barring catastrophes, there is every likelihood that the champagne will be cracked open in January or February.

AIM does need to be careful before celebrating too lavishly. There has, perhaps deliberately, been little overt publicity about the favourable tax treatment of AIM companies, which include exemption of inheritance tax and capital gains tax. Make too much of it, and the tinkering Chancellor may meddle with the concessions.

#### About Objective Capital:

Objective is a leading UK provider of objective corporate research.

We offer investors two levels of insight – a regular survey of the complete small and mid-cap segment, highlighting those stocks where attention should be focused, and our detailed institutional-quality, sponsored research coverage. As always, our research doesn't offer trading recommendations or advice but an objective up-to-date assessment of the prospects, and risks, of the companies we cover.

While the companies we cover sponsor our research, it is always written on behalf of our readers. It is of the essence of our research that it be **independent** — that is opinions, estimates and valuations be solely those of Objective's analyst; **objective** — that is based upon verifiable data; and **transparent** — that is based upon explicit assumptions.

Our research complies with all FSA recommendations as may arise out of CP172 and CP176, i.e., that it be independent of any broking or trading interests; and CP205, i.e., that it comply with standards for objectivity.

Economic data affecting mid and small cap companies this month is much the same as for the rest of the market. Home buyers appear still to be ardently enthusiastic, keen to pay higher prices despite increases in interest rates intended to act as a cold shower.

Further rises in the US, to follow the recent and well-anticipated 25 basis point rise, now look all but inevitable. It also seems likely that the Bank of England, grimly determined to cool the housing market, has further upward moves in mind. The Council of Mortgage Lenders predicts base rates of 5.25% by the end of the year. Some economists expect rates to be somewhere between 6% and 7% before the present tightening phase comes to a halt. All this appears to be grist to the mill to the housebuilding sector (see feature later in this issue).

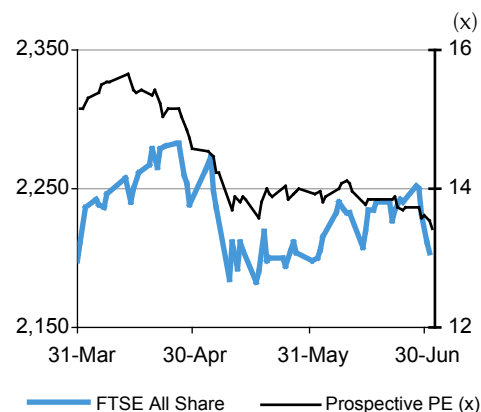
At this stage in the market cycle, investors have few obvious homes for their uninvested cash. Property is held to be at the top of the cycle, conventional bonds look vulnerable to further rate rises, rising inflation has been priced into index linked government bond yields, leaving tangible assets and shares as the only potentially inflation proof assets.

While many investors like tangible assets (stamps, art, antiques and the like), few want to commit a major proportion of their portfolios to them. Liquidity issues loom large. This leaves stocks as the only realistic home for most investors' money in an environment where inflation is rising.

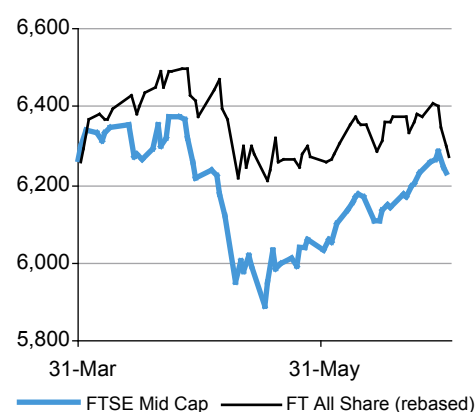
A recent report from CSFB suggests that the disparity between quality growth stocks and the 'deadbeats' of the market – needless to say they didn't quite put it in those terms – has narrowed dramatically in P/E multiple terms to a factor of 2.5 versus a figure of six times at the market's peak. The current disparity is also the lowest since the last major phase of interest rate tightening in the mid-1990s.

What this suggests to us is that quality mid and small cap companies look set for several years of strong performance. It is the mission of this publication to endeavour to unearth and comment on the best ones.

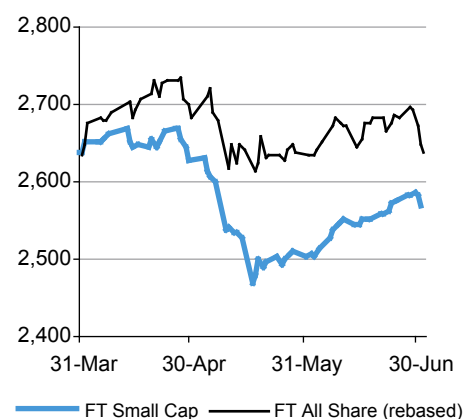
### FTSE last 3 months



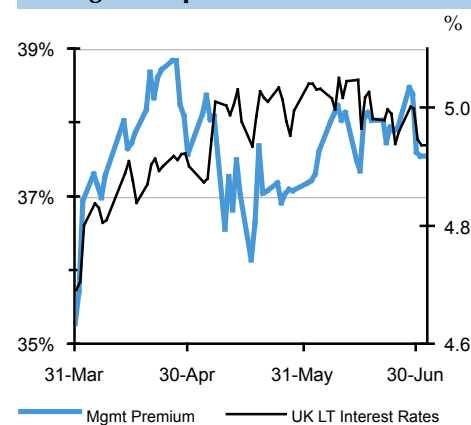
### FT Mid Cap last 3 months



### FT Small Cap last 3 months

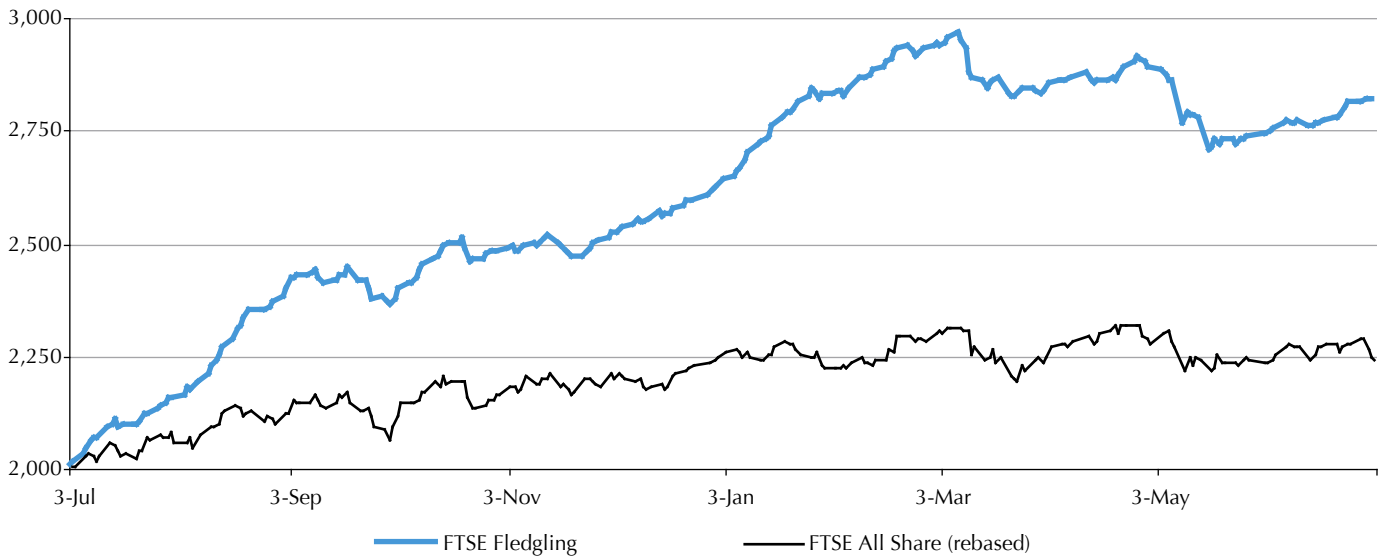


### Management premium in the FTSE<sup>1</sup>

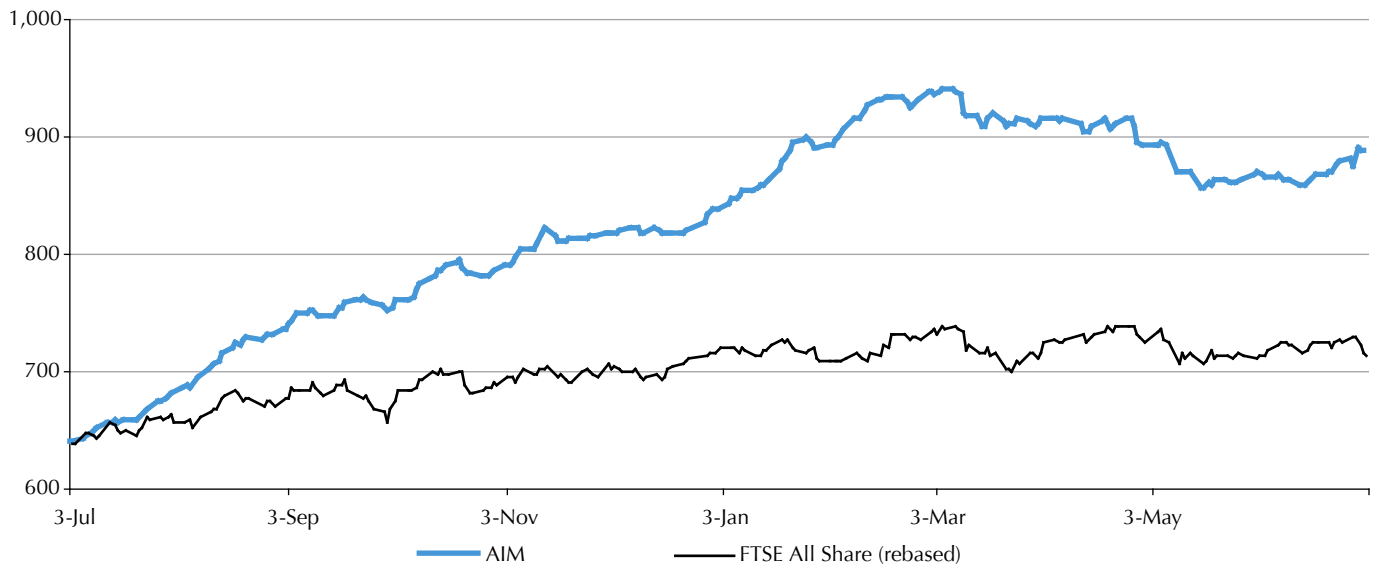


<sup>1</sup> management premium is the % of the FTSE that the market is paying for the "value" management is expected to generate. See page 11 for details.

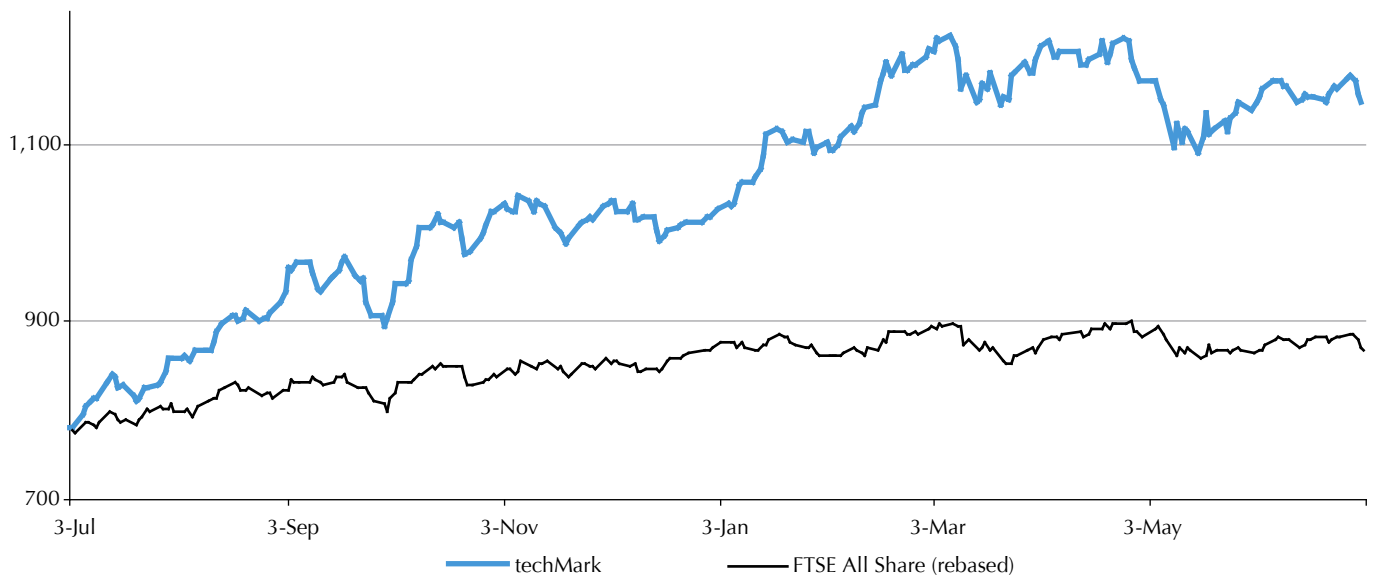
### FTSE Fledgling Index v. FTSE All Shares (rebased), 12-mth



### AIM Index v. FTSE All Shares (rebased), 12-mth



### techMark Index v. FTSE All Shares (rebased), 12-mth



## Recently announced flotations

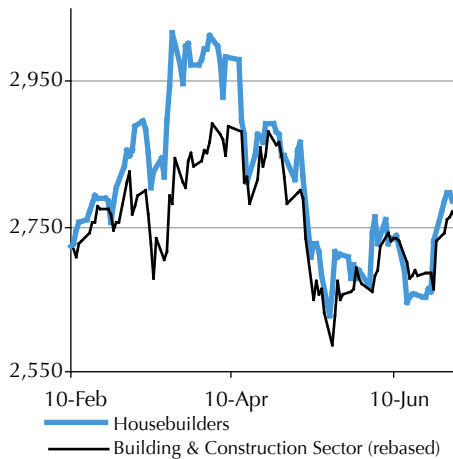
Company	Market	Type	Mkt Cap/ Amnt Raise	Issue Date	Description
Microscience	Aim	Placing	£100m / £35m	7 Jul 04	Biotechnology company
Gold Oil	Aim	Placing	TBC / TBC	8 Jul 04	Acquiring oil and gas projects
Monkleigh	Aim	Placing	£3m / £2m	8 Jul 04	Corporate hospitality investments
Avanti Screenmedia	Aim	Placing	£13m / £3m	9 Jul 04	In-store TV services supplier
Pinnacle Regeneration	Aim	Placing	£30m / £15m	9 Jul 04	UK social housing investment and management
NCI Vehicle Rescue	Ofex	Public offer	£1m / TBC	12 Jul 04	Vehicle breakdown and roadside recovery
PD Ports	Aim	Placing	TBC / £225m	12 Jul 04	Port and port services business
Strategic Global Investments	Aim	Introduction	TBC / n/a	12 Jul 04	Investment in Asian companies
The Niche Group	Aim	Introduction	TBC / n/a	12 Jul 04	Specialist business investment
BetonSports	Aim	Placing	£100m / £54m	13 Jul 04	Online bookmaker
TMT Group	Aim	Placing	£2m / £1m	13 Jul 04	Investment in TMT sector
Playgolf Holdings	Aim	Placing	£10m / £2m	14 Jul 04	Urban golfing facilities operator
PlusNet	Aim	Placing	£35m / TBC	14 Jul 04	Internet Service Provider
Ragusa Capital	Aim	Placing	£6m / £5m	15 Jul 04	Natural resource sector investments
Silvermines Media	Aim	Public offer	£2m / £1m	15 Jul 04	Media investment company
XL TechGroup	Aim		£71m / £25m	15 Jul 04	Commercialisation of industrial & academic research
Hamworthy	Aim	Placing	£40m / £30m	20 Jul 04	Marine engineering
Meridian Petroleum	Aim	Placing	£17m / £2m	20 Jul 04	Oil and gas exploration
Greystar Resources	Aim		£27m / £5m	22 Jul 04	Gold and silver exploration in Colombia
Zambezi Resources	Aim	Placing	£18m / £4m	23 Jul 04	Discovery& exploration of gold & copper resources
Disperse Technologies	Aim	Placing/Offer	£12m / £5m	26 Jul 04	Research & Development
Euro Capital Projects	Aim	Placing	£0m / TBC	28 Jul 04	Cash shell
Phosphagenics Limited	Aim	Placing	£10m / TBC	29 Jul 04	Pharmaceutical investment company
Azure Dynamics Corp.	Aim	Placing	£45m / £15m	TBC	Hybrid electric vehicle systems
Blueheath Holdings	Aim	Placing	£40m / £15m	TBC	Internet-based grocery wholesaler
Carlton Clubs	Aim		£40m / TBC	TBC	Bingo club owner
Cubus Lux	Aim	Placing	£8m / £1m	TBC	Croatian gaming group
Cyclacel	Main	Placing	£84m / £26m	TBC	Cancer research firm
Digital Cybermasters Group	Ofex	Introduction	TBC / n/a	TBC	Digital Security and Surveillance Technology
Dyno Group	Aim	Placing	£60m / £45m	TBC	Drain services
e2v Holdings	Main	Placing	£100m / TBC	TBC	High-tech electronics
Eurogold Limited	Aim	Placing	£12m / £2m	TBC	Gold exploration and production
Everfor Diamonds	Ofex	Introduction	TBC / n/a	TBC	Diamond exploration in Russia
Evolutec	Aim	Placing	£20m / £7m	TBC	Oxford-based biotechnology company
Eyebright	Aim	Placing	£12m / £5m	TBC	Elective day surgery
Hard Assets Inc	Aim	Placing	£2m / TBC	TBC	Resource sector investments
IPT	Aim	Placing	£25m / £5m	TBC	Internet marketing
Isle of Man Int. Broadcasting	Aim	Placing	£75m / £13m	TBC	Radio broadcaster
M&C Saatchi	Aim	Placing	£75m / £10m	TBC	UK Advertising
Monkton	Ofex	Public offer	£7m / £2m	TBC	Generation of clean energy
Music Copyright Solutions	Aim		TBC / TBC	TBC	Music copyright administration and exploitation
NCC Group	Aim	Placing	£65m / £23m	TBC	IT management services
Nelson Resources	Aim	Placing	£425m / £80m	TBC	Oil exploration and development
Premier Foods	Main	Placing	£607m / £300m	TBC	UK food manufacturer
Radiancy	Main	Placing	£65m / £30m	TBC	Cosmetic treatment company
Red Squared	Aim	Introduction	TBC / n/a	TBC	Managed service solutions
Smallbone	Aim	Placing	TBC / TBC	TBC	Leading maker of bespoke kitchens,etc
Smart Link	Aim	Placing	£50m / £10m	TBC	Software-modem technology
TEG Environmental	Aim	Placing	£12m / TBC	TBC	Development of composting plant and equipment
Telephone Maintenance Group	Aim	Placing	TBC / £1m	TBC	telephone maintenance and support
The Hotel Corporation	Aim	Placing	£40m / £40m	TBC	UK hotel business investment
Transvision Resources	Aim	Placing	£0m / TBC	TBC	Investment in energy and natural resources sector
TRL Electronics	Aim	Placing	£30m / £13m	TBC	Specialist defence electronics
Van Dieman Mines	Aim	Placing	£18m / £2m	TBC	Tin and sapphire mining in Tasmania
Virgin Mobile	Main	Placing	£1,000m / £250m	TBC	Mobile phone operator

## Sector in Focus

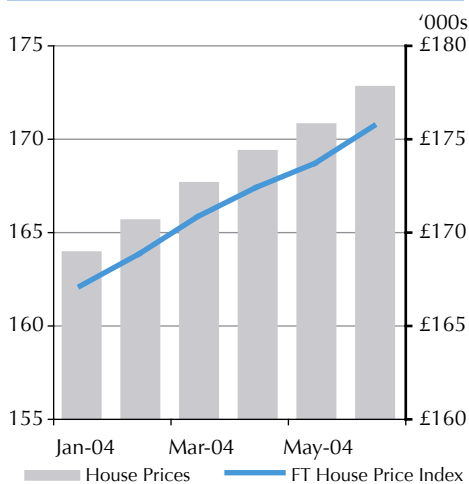
### UK Housebuilding

Is there any merit in investing in elements of this sector, demand for whose product is acknowledged possibly to be on the wane? Objectively you might think not, but the UK housebuilders have been there before.

#### Housebuilders v. Bldg. & Cnst.



#### House prices v. FT House Price Index



The sector always looks to be discounting a setback, with low multiples of earnings that investors fondly suppose are peak year earnings, but the cycle somehow never asserts itself with the strength that the market has assumed.

Recently there have been some cautionary statements, but mainly from builders involved in the higher priced end of the market. Tony Pidgley's Berkeley Group, for example, recently decided to exit from the conventional housing market to focus on higher margin regeneration projects, and to return substantial amounts of cash to shareholders in the process over a period of years.

It emphasises the fact that housebuilding is an area where assets can be made to sweat, and also one of those sectors where City analysts tend to draw a line from conditions in London and the SE, where houses are arguably overpriced by any rational yardstick, and the rest of the country, where they may not be. Finally, housebuilding is one sector where data allows us to perform detailed and objective analysis.

Underlying the housebuilders' possible merits as investments also is the supply of that most precious of commodities, building land. It's possible to look at housebuilders on the basis of their land banks – the supply of land they own that is earmarked for future developments. In turn we can look at the number of housing plots this represents, the average selling price of their properties and to compare this with their stock market values.

This throws up interesting comparisons that, in conjunction with conventional stock market data, can identify stocks, which combine solid asset backing and conventional value criteria.

Finally, underneath all this is a government commitment to increase the national housing stock as a way of combating the rising values that are pricing the more vulnerable sections of the community, notably public sector workers, out of the market in certain regions.

As a whole, none of this can really be bad for the housebuilders. Cooling the market through rate rises and increased supply looks good. Only if the property market crashed would there be a problem. The balance of opinion is that this is unlikely.

Property may prove a less attractive investment in the future than it has been in the past, but that is not necessarily a bad thing for housebuilders, who rely on supply-

## UK Housebuilders: Valuation v. landbank

	Price (p)	Mkt Cap (£m)	PER	PEG	Plots <sup>1</sup>	Completions <sup>2</sup>	Yrs supply	Avg. SP (£000's)	Value of plots <sup>3</sup> (£m)	MC/VP (%)
Persimmon	630	1,811	6.1	0.9	57,222	12,163	4.7	155	8,869	20.4
Berkeley	1,240	1,240	9.1	1.4	13,327	3,805	3.5	283	3,772	32.9
Barratt	586	1,403	5.5	0.8	18,600	13,303	1.4	162	3,013	46.6
Wilson Bowden	1,053	990	5.6	0.8	17,474	5,037	3.5	200	3,495	28.3
Bellway	757	843	6.2	0.7	19,600	6,278	3.1	157	3,077	27.4
Bovis	529	625	6.3	0.5	10,878	2,364	4.6	191	2,078	30.1
McCarthy & Stone	590	612	6.9	0.7	9,675	780	12.4	142	1,374	44.5
Redrow	372	590	7.0	0.6	16,100	4,031	4.0	153	2,463	24.0
Westbury	434	497	5.5	0.7	16,100	4,400	3.7	192	3,091	16.1
Crest Nicholson	352	391	7.2	0.8	11,899	1,996	6.0	253	3,010	13.0
Countryside	218	173	6.6	0.5	5,800	812	7.1	243	1,409	12.3
Ravenmount	77	48	n/a	n/a	868	193	4.5	268	233	20.6
Ben Bailey	412	48	4.8	0.3	1,458	450	3.2	140	204	23.5
Country & Metropolitan	182	44	5.0	0.9	2,275	900	2.5	180	410	10.7
Telford Homes	150	44	8.3	0.3	401	271	1.5	209	84	52.5
Average			6.4	0.7			4.4	195.2		26.9

<sup>1</sup> with planning permission, some estimated

<sup>2</sup> annual rate

<sup>3</sup> at average selling price

ing consumers, especially first time buyers, with affordable housing. Anything that encourages that has to be good for them.

Having said that, margins may be squeezed and there have been signs that some builders wish to move away from the upper end of the margin to counteract any downtrading by buyers.

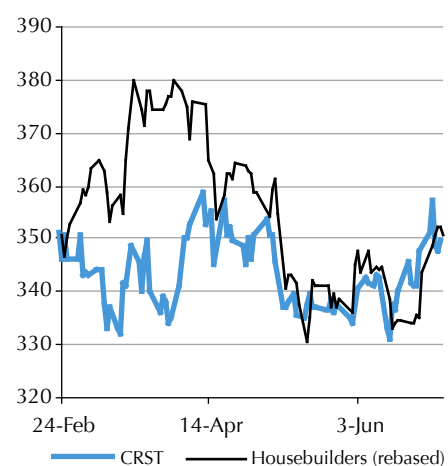
The figures above are self-explanatory to some degree. All housebuilders give periodic updates about the size of their land banks, number of house sales completed annually, and average selling prices. Comparing the value of the land bank plots with planning permission at the current average selling price with the market capitalisation highlights relative over and under valuations within the sector. It is perhaps significant that those companies with a particularly low ratio of market value to land bank value have been those that have attracted the attentions of possible predators.

Examples include Crest Nicholson, where Gerald Ronson's Heron Corporation has a significant stake, and others like Countryside Properties.

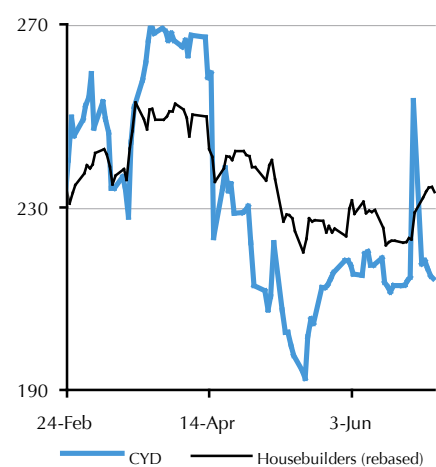
Using this method of analysis does tend to highlight the more interesting situations, if only because all of the stocks appear to be good value on conventional investment criteria with low P/E ratios and PEGs.

The moral of the story at present seems to be to pick those with good asset backing, a longish land bank in terms of number of years supply, and a below average selling price. There may be some volatility along the way, but it is rare for land to go out of fashion in a big way.

### CRST v. Housebuilders



### CYD v. Housebuilders



# Company Survey

In each report we survey the small- and mid-cap segments highlighting those stocks where market perceptions have changed. Investors need to review their own assumptions about these companies and whether they agree with the new market view. Four businesses leapt out at us from our survey this month:

**LogicaCMG; MITIE; Cookson; and Findel.**

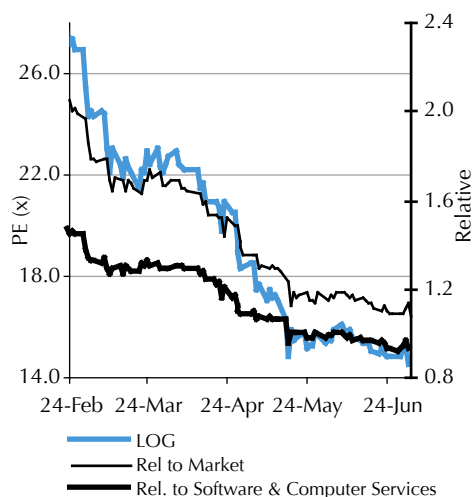
## LogicaCMG (LOG)

Logica appears to be going back to what it does best – large scale low margin contracts. That’s no bad thing. It allows much greater control than is possible in the CMG-style people orientated consultancy business.

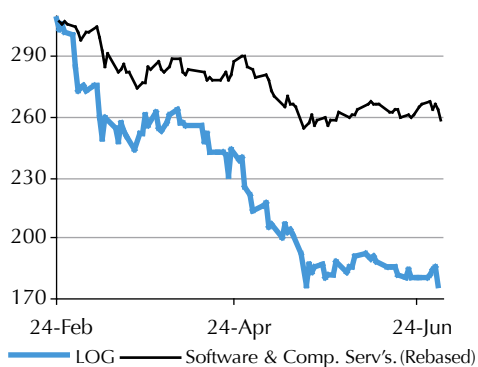
What has changed in the past month to account for a modest share price setback? Rumours only that the company might be forced to issue a negative trading statement as it entered the close period. It hasn’t happened as yet. And as far as we can see it got most of the bad news out of the way at its AGM on 18th May.

Current forecasts suggest Logica will get back to its 1992 profit level of £116m this year, although the spread of forecasts is disconcertingly large. Bulls of the stock are looking for an average of £150m in 2005. That might be a stretch but there remains considerable comfort with Logica’s underlying metrics – chiefly a price to sales ratio of less than one, and a return on capital of close to 28%. Any sustained recovery in the price would see the stock resuming its place in the FTSE100.

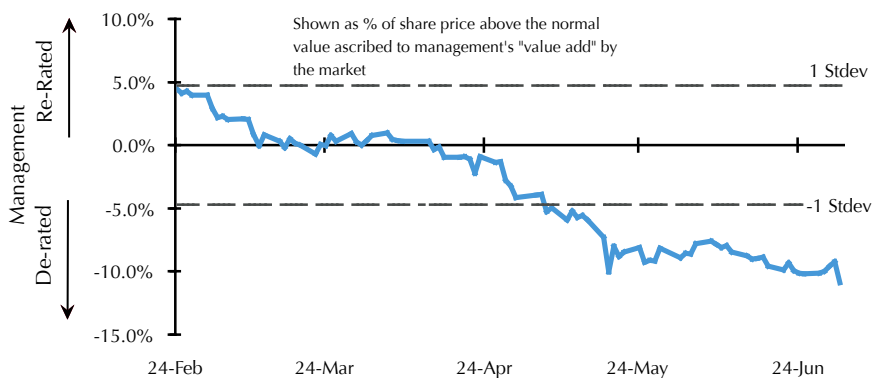
### LOG PE & PE relative



### LOG v. Software & Computer Services



### Portion of LOG share price attributed to "management value add"



## Featured company statistics

Company	Price (p)	Mkt Cap (£m)	Beta	EPS Growth		Rolling	Rolling	Price/Sales (x)	PCF (x)	ROCE (%)
				Hist (%)	Fore (%)	PER (x)	PEG (x)			
LogicaCMG	175	1,315	1.22	18.8	18.1	18.0	0.8	0.77	nm	27.7
Cookson	40	749	0.83	nm	164.2	20.4	0.2	0.45	13.0	10.8
MITIE	136	420	0.22	7.0	24.4	16.8	0.8	0.59	10.3	36.8
Findel	408	342	0.14	26.9	15.0	11.1	0.8	0.83	13.8	27.6

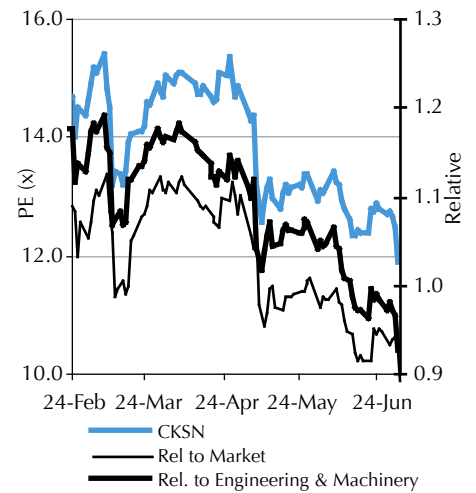
### Cookson (CKSN)

Cookson, which has spent decades trying to throw off the old Lead Industries tag, is in the throes of a cyclical revival which looks as though it is now running out of steam. After last year's 10-fold eps growth this year looks set to see EPS grow by 'only' 165% with analysts pencilling in a positively pedestrian 30% for next year.

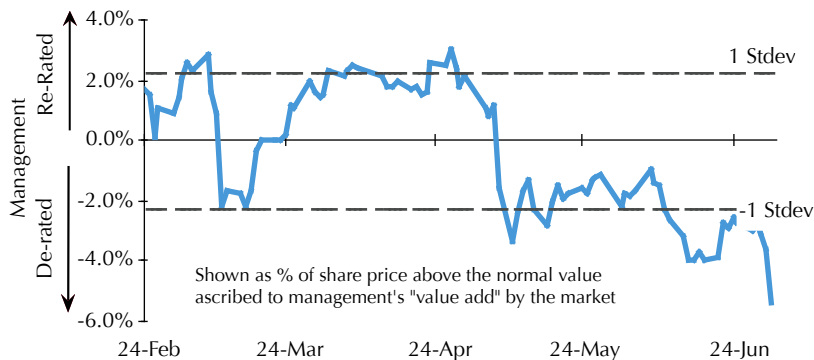
The company, however, soothed the market by confirming at its AGM in May that second quarter trading was in line with the relatively buoyant conditions seen in the first three months of the year. In what appears to be an announcement unconnected with trading, Stephen Howard is relinquishing his post as chief executive and handing over to Nick Salmon from 19th July. He will remain with the company until the end of the year to facilitate an orderly handover of responsibilities. Mr Salmon is an experienced executive who has spent much of his career at Alstom.

Cookson sells on a price-sales ratio of around 0.5x, a cash flow multiple of 13x and has a historic return on capital of 10.8%, although this looks set to rise sharply again this year. The share price has been unsettled recently because Cazenove, the company's broker appears to have downgraded the stock because of a cautious trading statement from Cookson's leading US competitor Park Electrochemical.

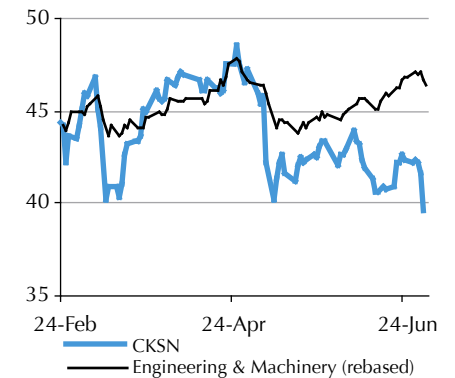
### CKSN PE & PE relative



### Portion of CKSN share price attributed to "management value add"



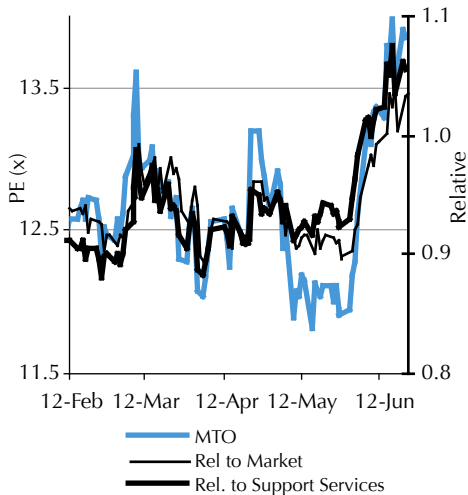
### CKSN v. Engineering & Machinery



## MITIE (MTO)

MITIE, founded by the late David Telling, has long been a favourite of many investors with its numbers a byword for consistent growth. But what happened last month to spark a gain of 23% in the share price? The main thing has been good results. These pointed to increased visibility of future earnings, always popular with risk-averse investors. MITIE beat most market forecasts with turnover up 23% and earnings up by 17%. The dividend increased 32%.

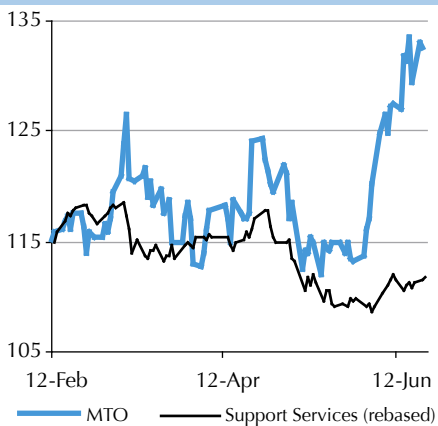
### MTO PE & PE relative



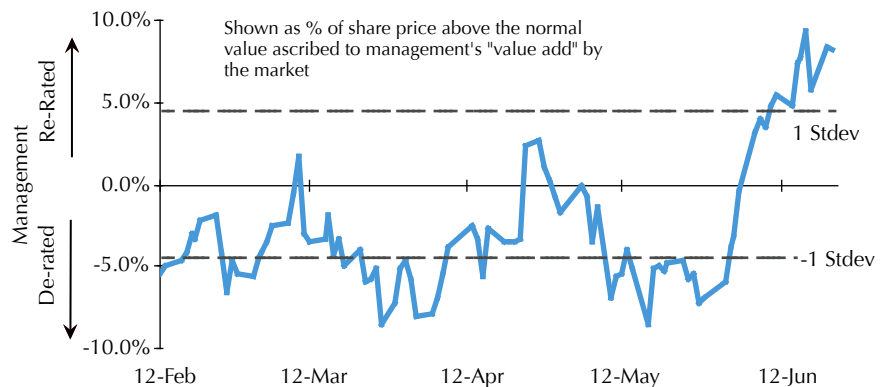
Icing on the cake for shareholders, and another reason for firmness in the price was share buybacks undertaken at prices in the 130s, with over a million shares tendered to the company.

Consensus forecasts upgraded after the results suggest pre-tax in excess of £45m this year, providing earnings growth in the region of 18%. Simplistically that looks like analysts simply drawing a line through last year's growth and predicting more of the same. Even so, on historical numbers the stock is still on an historic cash flow multiple of around ten times with a return on capital of 37%. The move in the share price this past month looks more than justified and arguably overdue.

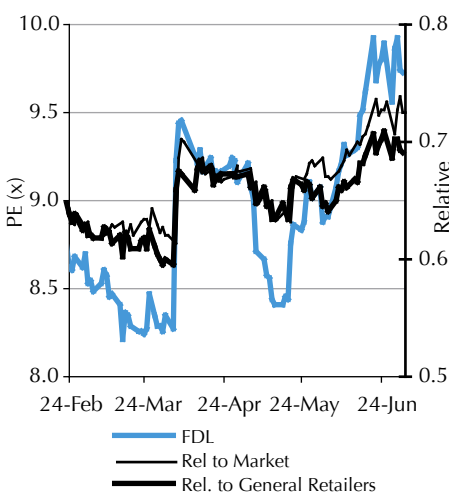
### MTO v. Support Services



### Portion of MTO share price attributed to "management value add"



### FDL PE & PE relative

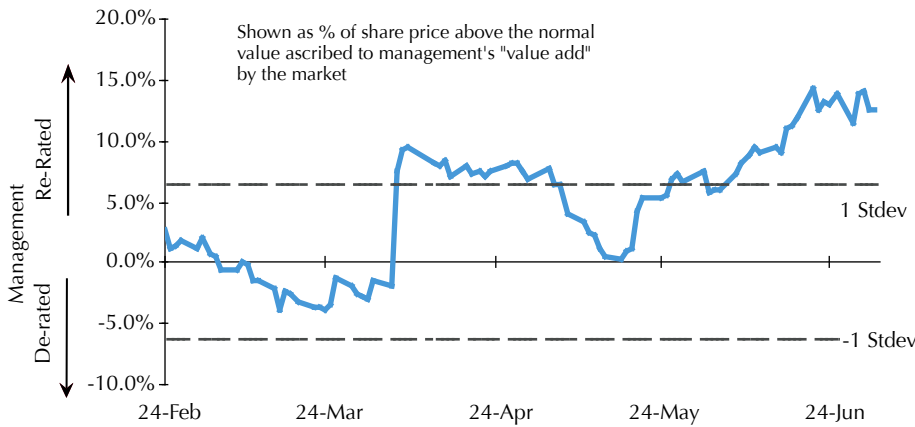


## Findel (FDL)

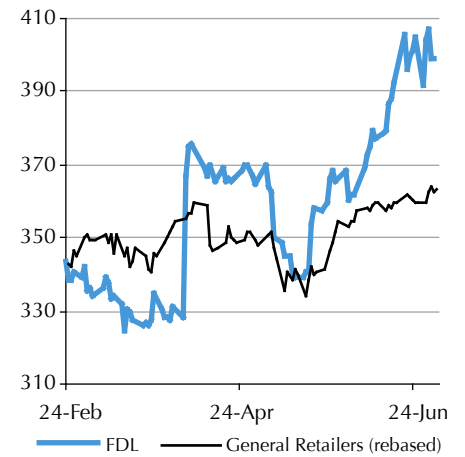
Ilkley-based Findel, which is involved in home shopping and educational supplies sales through mail order, has just been promoted to the FTSE 250. Results released in May, a couple of weeks after this event, demonstrated why. Turnover was up from £368m to £421m and PBT up from £25.9m to £38.8m. Excluding exceptionals, eps was 33.4p versus 25.3p in the prior year.

Findel's price has rightly continued to draw strength from these two events this past month. The company's price to sales ratio is 0.8 and the stock sells at 14 times cash flow, with a return on capital of 28%. Consensus forecasts suggest that recent growth may slow somewhat over the next two years. House brokers Numis, for example, revised their forecasts down a touch in early June, as did Williams de Broe, but none dissent from the view that earnings per share should be around 40p this year and perhaps 44p in 2006. Numis has a price target of a reported 490p on the stock.

## Portion of FDL share price attributed to “management value add”



## FDL v. General Retailers



## How do we “watch” the whole market?

In such a large and diverse group of stocks as the small and mid-cap segment, every investor needs a way of directing their research effort. Because the key to any company is the quality of its management, we focus on an objective assessment of what the market currently pays for the management’s ability and scope to improve the value of their company.

Using consensus estimates we can approximate what investors believe they are paying for management’s “value add”. Changes in this level tell us when the market’s view on the management or its situation has changed – and on which company’s our attention needs to be focused.

Our detailed company research answers the question of whether the change is justified or if what the market currently pays misses the real value management can add.

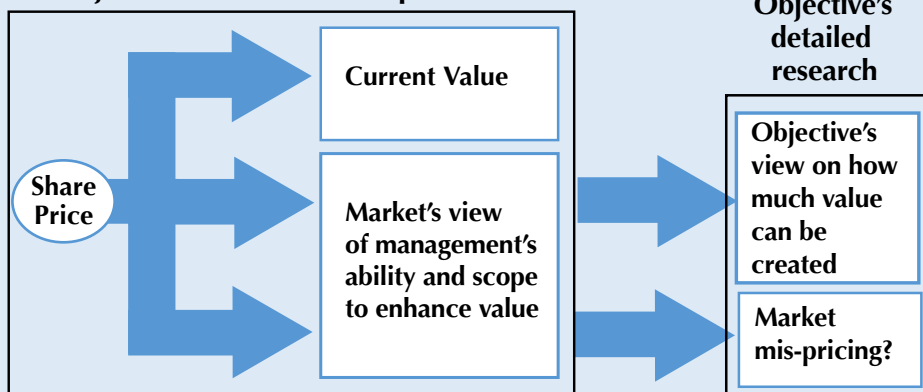
### Not a recommendation – but a relative pricing tool

We aim to help our readers navigate the mid- and small-cap segment. Our screening tool is based on the same rigorous framework of risk and return that our detailed objective research uses.

When tracked over time, this model allows us to derive the market’s expectation of the increase in value of business on a risk and interest rate adjusted basis. At a glance analysts or investors can see which stocks or sectors are relatively cheap or expensive. We provide the results of our screening tool as a service to our readers.

For more information on the detailed methodology of our screening tool or the interpretation of its results please contact us at +44-(0)870 080 2965.

### Objective’s mid- & small-cap review



### Objective’s detailed research

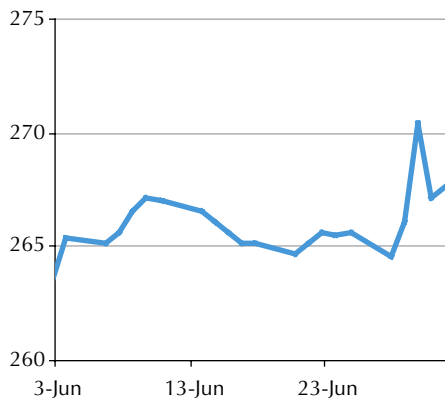
#### What we are measuring ...

Management’s Ability and Scope:

- to extract lasting improvements in asset and operating efficiency
- to enhance value through synergies from acquisitions, etc
- to enhance value through barriers to entry
- changes in the environment (e.g., de-regulation)
- the value of timing differences between capex and depreciation, tax and other mis-matches

## Newcomer of the Month

### Halfords Group - price since listing



Price (p) **267**

Quote	Main market
Ticker	HFD
Hi-Lo last 12 mos.	n/a
Shares issued (m)	227.96
Market Cap'n (£m)	608.65
Net Debt (£m)	214.50
Enterprise value (£m)	823.15

Website [www.halfordscompany.com](http://www.halfordscompany.com)

### Investment Statistics

Year to	Turnover (£000's)	PBT (£000's)	EPS (p)	PER (x)
Mar-04	578,600	66,200	19.2	13.9
Mar-05	n/a	75,700	21.9	12.2
Mar-06	n/a	85,500	24.7	10.8

Forecasts are those of Seymour Pierce Research

## Halfords Group (HFD)

The company is a retail group with acknowledged market leadership in the four areas in which it operates: car maintenance; car enhancement (in-car entertainment, accessories and the like); travel solutions (car seats, roof boxes and so on); and cycling.

The total size of this combined market is estimated at around £3bn in the UK with underlying growth running at around 3%. Halfords is understood to have market share in the region of 20%. Car enhancement is the fastest growing area. Market growth from 2000 to 2003 here averaged 7.3% a year; Halfords turnover in this area has risen by 14.3% a year over the 2001 to 2004 period.

For the most part competition in the areas in which the group operates is fragmented. This allows Halfords to benefit from its national presence and superior buying power, which in turn means it can source products cheaply. It also benefits from its position as a recognised specialist in these particular areas. In cycles, for example, while ASDA sells bikes, Halfords has a superior range and knowledgeable staff to help consumers choose the right product.

The company currently has 387 stores with around 2.9m sq ft of selling space. Of these 90% by number are out of town or edge of town superstores. It expects to add a further 70 large stores and 80 smaller ones over a period of several years and expects 10 new superstores and six smaller ones to open in the current year.

There is also scope for the company to upgrade its existing store portfolio through the installation of large mezzanine floors in appropriate locations and in converting the stores to so-called 'Arcade' format. This format differentiates its separate product streams more sharply and makes it easier for consumers to locate what they require. Introducing large mezzanine floors is said to produce around 25-30% uplift in sales.

The company, formerly part of Boots, was purchased by venture capital group CVC in August 2002. CVC is retaining a significant shareholding. Although CVC has made a decent profit on its investment, market conditions prevented the group's backers from seeking an overambitious price. The result is that group has been floated on reasonable valuation criteria.

In balance sheet terms the proceeds of the flotation will reduce net borrowings to roughly £210m, versus net assets of about £140m, disregarding the role that surplus cash generation may play in further reducing debt in the course of the current year. The saving of about a third in interest charges, should alone add approaching £15m to pre-tax profits. After tax and maintenance capex, free cash flow last year was in the region of £80m, putting the company on little more than 8 times his-

toric cash flow at the listing price, and prospectively somewhat less than this after account is taken of deploying the listing proceeds to reduce borrowings.

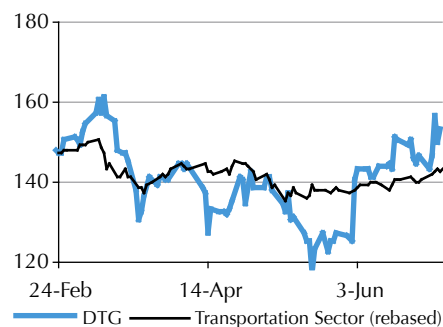
Research from brokers Seymour Pierce suggest that profits in the current year could reach £75.7m before tax, versus a comparable £66.2m. They could go up to £85.5m in the year to March 2006. The March 2005 figure produces earnings per share in the region of 22p and an earnings multiple of 12 times based on the current price of 265p.

### Press speculation on future flotations

Company	Market	Type	Mkt Cap/Amnt Raised	Description
New Star Asset Management	Main		£400m / TBC	Fund Manager
A1 Stretch	Aim	Placing	£15m / TBC	Limousine Business
Admiral Group	Main		£600m / TBC	British car insurance company
Amtico	TBA	Placing	£150m / £20m	Floor tiles specialist
Arakis	TBA	Placing	TBC / £25m	Drug development company
Begbies Traynor	Aim	Placing	TBC / £8m	Corporate rescue and recovery
British Mediterranean Airways	TBA		£50m / TBC	British Airline
Cazenove	Main	Placing	£800m / TBC	Stockbroker
Comet	Main	Placing/Offer	£1,400m / TBC	Electronics retailer
Coral Eurobet	TBA		£1,300m / TBC	UK's third largest betting group
CST Medical	Aim		TBC / TBC	Medical Devices
Efes Breweries International	TBA		£290m / TBC	Beer producer
Euclidian	TBA		£125m / TBC	Fully integrated insurance group
Fertility Medical Equipment	Aim	Placing	TBC / £10m	Producer of medical devices
Gulf Keystone Petroleum	Aim	Placing	£200m / TBC	Exploration & Production Company
Immuno Diagnostic Systems	Aim	Placing	TBC / £3m	Healthcare devices
Jaegar	TBA		TBC / TBC	Clothing retailer
Kazakhmys Corporation	Main	Placing	£1,000m / TBC	Mineral Extraction and Processing
Moneysupermarket.com	TBA		£500m / TBC	Financial services website
Motor World	TBA	Placing	£80m / TBC	Car accessories retailer
Nipson	Aim	Placing	TBC / £15m	Printing equipment maker
Pacific 1899	TBA		TBC / £2m	TBC
Pendragon Medical Technology	Aim		£68m / TBC	Glucose monitoring device maker
Phoenix	TBA	Placing	TBC / TBC	Outsourced IT Services
QinetiQ	Main		£1,000m / TBC	Defence research company
RHM	Main		£1,000m / TBC	Food group
Spice Holdings	Aim	Placing	TBC / £10m	Electricity Supplier
SSA Global	Main		£1,650m / TBC	Business Software Company
Sual	Main		£2,000m / TBC	Russian aluminium producer
GoldQuest Mining Corp.	TBA	Placing	TBC / £1m	Gold exploration in the Dominican Republic
Links	TBA		£40m / TBC	Jewellery chain

## Companies in the News

### DTG v. Transportation Sector



### Dart Group (DTG)

This company has two main streams of activity: the Fowler Welch-Coolchain chilled distribution operation serving supermarkets and other customers, and an aviation services business including Jet2, a low cost airline operating from Leeds Bradford airport, as well as an aircraft parts business and other activities.

Jet2 is gearing up to fly passengers to 11 European destinations this year and will also be able to convert its aircraft in the space of 40 minutes to handle freight, including mail. The company has contracts with Royal Mail, express parcel companies and newspaper delivery services.

The distribution side, meanwhile, continues to struggle, although profits appear to be recovering. Results for the year just reported were better than market expectations, and some brokers expect 2005 profits to rise to £11m pre-tax, giving earnings per share in the region of 21.8p and putting the stock on a multiple of just seven times.

Company web site: [www.dartgroup.co.uk](http://www.dartgroup.co.uk)

### Majestic Wine (MJW)

In the year to March 2004 profits from the wine retailer increased by around 27% to £10.6m before goodwill amortisation.

Majestic is a classic example of how an innovative retail format can produce a strong growth story as it is replicated across a wider and wider geographical area. A strong balance sheet with no borrowings and some £4.4m of net cash means that the company has few constraints on expansion at a measured rate and, according to management, plenty of opportunity to develop new sites within existing markets.

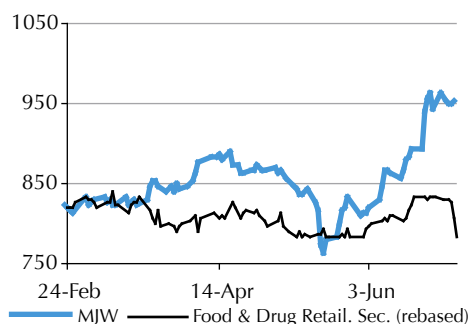
Like-for-like sales in the first ten weeks of the current year are up by 8% although this comparison is expected to moderate come July and August when the comparison will be with a very strong period in 2003.

A four-for-one share split is planned. More importantly perhaps, the group has signalled that it has now reached the point where growth can be self-sustaining by proposing a sharp upward move in the dividend, which increased 50% last year and is expected to grow by a further 25% this year.

The company's broker expects profits to rise from £10.6m to £12.0m this year, and perhaps £13.4m in 2005/06. The stock's multiple is in the mid-teens, although the free cash flow multiple is much higher.

Company web site: [www.majestic.co.uk](http://www.majestic.co.uk)

### MJW v. Food & Drug Retailers



## Alkane Energy (ALK)

Alkane Energy's annual report for 2003 contains details of management changes and the group's change of direction. The group specialises in technology involved in extracting methane from defunct coal mines. Prior focus on the UK has been abandoned because of the UK government's ambivalent approach to this form of renewable energy. Alkane is now trying its luck in Germany, having acquired a business there that specialises in technology related to methane extraction.

Company web site: [www.alkane.co.uk](http://www.alkane.co.uk)

## Sectorguard (SGD)

This Essex based company operates in manned guarding and other security areas and has long featured on value-based screening methods. Interim results showed turnover up from £4.53m to £7.07m and pre-tax profits around 50% higher at £307,000. The company acquired the Abbey Security Services manned guarding and keyholding business shortly after the start of the current year. The company says that the second half has started well.

Company web site: [www.sectorguard.plc.uk](http://www.sectorguard.plc.uk)

## Jennings Brothers (JBC)

The Lake District brewer reported satisfactory current trading at its recent AGM. The chairman noted that further growth had been achieved compared to the prior year, with turnover for the total business ahead by 10% year-on-year and drink sales to the pub business up by 5.9%. The company has acquired a further three pubs since the year-end and completed refurbishments at a further four. Several more pub acquisitions are currently being negotiated.

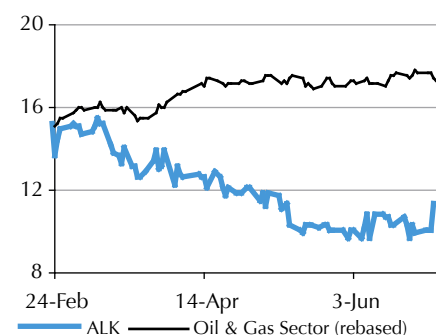
Company web site: [www.jenningsbrewery.co.uk](http://www.jenningsbrewery.co.uk)

## WS Atkins (ATK)

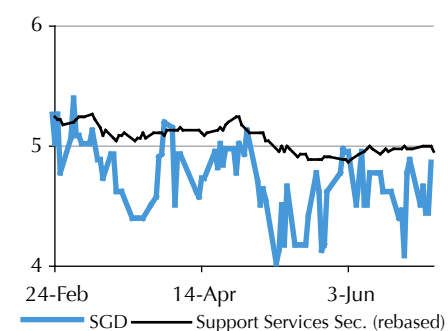
The support services business produced strong results for the year to 31st March 2004, beating many broker forecasts with pre-tax of £56.2m. Cash generation was also strong, with year-end net cash emerging at £68m, versus an expected £40m or so. The company has commented that the outlook for most of its core markets is robust. Broker forecasts have been raised. Pre-tax of £65m this year would produce earnings up from 40p to 46p, putting the share on a multiple of around 12 times.

Company web site: [www.atkinglobal.com](http://www.atkinglobal.com)

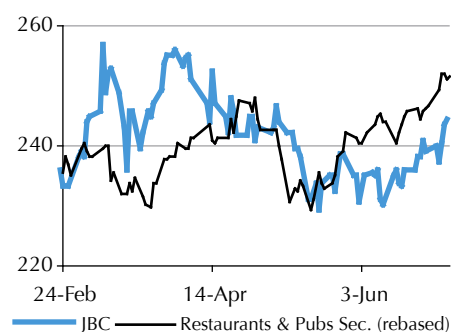
### ALK v. Oil & Gas Sector



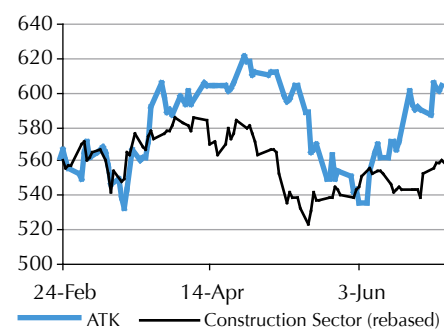
### SGD v. Support Services Sector



### JBC v. Restaurants & Pubs Sector



### ATK v. Construction Sector



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## Recent flotation data

Company	Market	Type	Mkt Cap/Amnt Raised	Issue Date
Vectura	Aim	Placing	£60m / £20m	2 Jul 04
Fitzwilliam Capital	Aim	Placing	£4m / TBC	2 Jul 04
EXC	Aim	Placing	£17m / TBC	1 Jul 04
Adventis	Aim	Placing	£9m / £3m	1 Jul 04
Norwood Immunology	Aim	Placing	£46m / £6m	30 Jun 04
XN Checkout	Aim	Placing	£21m / £6m	29 Jun 04
Palandri Limited	Aim	Introduction	£25m / n/a	29 Jun 04
office2office	Main	Placing	£65m / £5m	29 Jun 04
Nutrinnovator	Aim	Placing	£9m / £1m	28 Jun 04
Brady	Aim	Placing	£21m / £2m	28 Jun 04
Ashcourt Holdings	Aim	Introduction	£5m / n/a	25 Jun 04
IP Live	Aim	Placing	£3m / £1m	24 Jun 04
Independent Media	Aim	Placing	£15m / £6m	24 Jun 04
Eurocastle Investment	Main	Placing	€222m / €79m	24 Jun 04
Pavilion Insurance Network	Aim	Placing	£2m / TBC	17 Jun 04
Biofuels Corporation	Aim	Placing	£22m / £15m	17 Jun 04
MultiMedia Television	Aim	Placing	£12m / £2m	11 Jun 04
ITM Power	Aim	Placing	£46m / £10m	11 Jun 04
ATH Resources	Aim	Placing	£40m / £12m	11 Jun 04
Real Estate Investors	Aim	Placing	£3m / £2m	10 Jun 04
Hambledon Mining	Aim	Placing	£10m / £2m	10 Jun 04
Projects Distribution Group	Ofex	Public offer	£2m / TBC	9 Jun 04
Amino Technologies	Aim	Placing	£61m / £7m	9 Jun 04
MKM Group	Aim	Placing	£6m / £1m	7 Jun 04
Halfords Group	Main	Placing	£593m / £267m	3 Jun 04
Vane Holdings	Aim	Placing	£16m / £3m	2 Jun 04
Hightower Construction	Aim	Placing	£1m / TBC	1 Jun 04
Umbro	Main	Placing	£144m / £50m	28 May 04
Michelmersh Brick Holdings	Aim	Placing	£21m / £5m	26 May 04
Wynnstay Group	Aim	Placing	£16m / £1m	24 May 04
The Local Radio Company	Aim	Placing	£53m / £47m	21 May 04
Oakdene Homes	Aim	Placing	£18m / £5m	20 May 04
Metrocapital	Aim	Placing	£1m / TBC	20 May 04

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