

Welcome to Objective's Small & Mid-Cap Review

Caution remains our watchword as the autumnal mists swirl around the northern hemisphere. Rate hikes are back on the agenda outside the USA and, although we remain sceptical, we do not expect any significantly renewed optimism for equities while the uncertainty persists. Defensive strategies, including sector rotation, remain our preference while yield curves flirt with inversion. But we identify one glimmer of light in the advertising sector where we see possibly explosive potential from technological and demographic change within the UK.

Key Points

The USA is getting a new Fed chairman. But the world is stuck with the same old dilemma as between inflation fears and those for growth. Interest rates are back in focus and latest data and official comments have been interpreted as making more likely rate increases in the UK and Eurozone. We remain sceptical but cautious for as long as the uncertainty persists.

If fears of rate hikes prove founded, then inflation hawks will have won the upper hand. But that would lead to an awkward policy mix to say the least. Yield curves flattening, possibly inverting, to engineer a slowdown would not sit well with large budget deficits. 2006 looks like an awkward year for government finances and taxation.

Against that background it is little wonder that, as we feared, equities have started weakly in the final quarter. The falls have not been precipitative, more like the falling leaves of autumn. But they have come nonetheless despite a flurry of M&A activity and lower oil prices. We are keeping our powder dry for better opportunities that may arise in 2006.

Our sector focus on advertising this month, peers through the autumnal mists of uncertainty to develop further a theme we began to explore in our last edition. The changing face of broadcast entertainment also has implications for the advertising sector. Although typically regarded as a cyclical, we see defensive qualities, as demonstrated in Unilever's latest results. We see also the explosive potential for increasingly targeted, more cost effective, advertising that would result from the convergence of mobile wireless, pico-cell technology and demographic trends to higher household spend on communications.

Andy Hartwill
Research Director

Contents

In our review of the month

- » We see little reason to change our cautious stance with the fears of rate increases looming
Read more on pages 2-3

Upcoming flotations

- » Recently announced flotations
See our table on page 5

In our sector comment

- » We explore **UK Advertising** continuing a theme from last month
Read more on pages 6-10

Newcomer of the month

- » This month we welcome **Driver Group** (DRV)
Read more on pages 11

Companies to watch

- » **Northern Recruitment** (NRG) 13
- » **Capital Investment and Management** (CMIP) 14
- » **Manganese Bronze** (MNES) 15

Companies in the news

- » **Carter & Carter** (CART) 16
- » **Lennox** (LNX) 16
- » **The Television Group** (TCP) 17
- » **Findel** (FCP) 17
- » **Trafficmaster** (TFC) 17

Recent flotation data

- » The numbers from recent flotations on the markets
See our table on page 18

Objective Capital Limited

2nd floor, 145 St. John St.
London EC1V 4PY

Tel: +44-(0)870-080-2965

Fax: +44-(0)870-116-0839

editor@objectivecapital.com

Corporate: www.ObjectiveCapital.com
Research: www.ObjectiveCapital.co.uk

Month in Review

Changes in major equity indices

	Latest Nov 4	Changes over 1m YTD	
Major equity indices			
Dow	10,510	2.0%	-1.8%
FTSE100	5,420	1.0%	12.4%
FTSE AIM	1,000	-8.9%	-4.8%
CAC 40	4,500	-0.7%	16.9%
DAX	5,000	-2.2%	16.3%
Hang Seng	14,600	-5.1%	2.5%
Nikkei 225	14,000	1.8%	21.7%

Commodities (US\$)

Brent crude	58	-3.3%	45.0%
Gold	460	-2.5%	4.5%

FTSE All World Indices (US\$)

All World	188.92	-2.7%	3.2%
Latin America	413.45	-4.9%	32.5%
Greater China	173.44	-7.6%	-3.7%
Eastern Europe	438.1	-8.3%	32.3%
Nordic	153.94	-4.4%	4.1%
Middle East & Africa	474.3	-6.6%	9.1%
Multinationals	956.85	-2.8%	2.2%
Global 100	894.94	-2.6%	2.3%

World sectors (US\$)

Resources	345.29	-9.1%	25.3%
Basic Industries	314.8	-3.3%	2.7%
Non-Cyc. Cons.	213.8	-1.7%	4.6%
Non-Cycl. Serv.	126.21	-2.6%	-4.4%
Utilities	226.4	-5.1%	8.0%
Financials	230.04	-0.2%	2.1%

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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.

Vantage Point

Equity markets have started the fourth quarter weakly, falling like the leaves in the Northern hemisphere autumn. The drops are not precipitative but, for some, surprising with oil trading more than 15% below its summer highs. We see little reason to change our cautious stance especially with rate increase fears.

As we have been suggesting for some time, the story for equities so far this year has been one of a lot of noise but little overall progress. The FTSE All World Index (US\$) of global equities has registered a modest 3% gain so far in 2005, albeit with significant divergence. Local headline indices have fared better but that in part is a reflection of the weak US dollar for the most part of the year.

Over the last month the story is little different although the negative bias of which we warned has come to pass. World equities have fallen by almost 3% with emerging markets suffering more greatly as investors became more risk averse. Significantly however, the Dow has managed a modest gain over the month, perhaps as investors returned to the traditional safe haven and as the season approaches for the repatriation of dividends from the overseas subsidiaries of US companies.

Investors seem to be taking profits where they can and keeping their powder dry for a possible upturn in growth in 2006. At the sector level, measured through the FTSE All-World (US\$) series, the biggest loser globally over the last month has been the Resources sector (down some 9%): hardly a surprise given the lower oil price and the opportunity to take profits after the gains of 2005 (the sector remains some 25% up on the year). The best of a bad bunch was the Financials group, effectively flat over the month.

Overall, the pattern of equity market behaviour suggests to us continuing uncertainty as to the dilemma between inflation and growth. The latest economic data and consequent comments from policy makers, suggest that inflation hawks may be getting the upper hand, at the expense of consumers. If so, Christmas may be dull.

In the USA, outgoing Fed Chairman Alan Greenspan recently gave an upbeat assessment of the outlook for growth in the US economy but warned of an "uncertain" outlook for inflation. He warned also that the country could face "serious economic disruptions" if bloated budget deficits are not curbed. The US government produced a US\$319 billion budget deficit this year – an improvement from the 2004 record but still the third-highest deficit on record.

Those comments came at a time when the Institute for Supply Management reported strong service sector activity in September, following its upbeat assessment of the manufacturing sector. Elsewhere the Labor Department reported that productivity grew at a 4.1 per cent rate in the third quarter, the biggest quarterly increase in more than a year. Unit labour costs declined 0.5 per cent, though some economists pointed to distortions in the data because of the hurricanes.

The price for growth is rate hikes. At its latest meeting, the US Federal Reserve increased its target rate to 4 per cent in the 12th consecutive quarter point rise since June 2004. At a time when the Fed is focused on inflation risks, our expectation is for further rate increases to slow the economy's growth to its trend rate or below next year. Overall the economy grew at a 3.8 per cent rate in the third quarter, the 10th consecutive quarter of growth above 3 per cent. The long-run potential growth rate is considered by many to be in the region of 3.25-3.5 per cent.

However, Mr. Greenspan also warned that "There are no easy choices. Easy choices are long gone". Those words will ring long and hard in the ears of his replacement, Dr. Ben Bernanke. Mr Greenspan may sweeten the handover by making some of the further moves during his tenure. Markets appear to expect that the Fed will increase rates at its Dec. 13 session, as well as on Jan. 31. Mr Bernanke's first FOMC meeting as governor, if confirmed, would be on March 28th 2006.

Europe and the UK appear also to have upped the ante on rate increases. The ECB has re-iterated its concerns for inflation and the UK service sector has recorded a surge in activity. Although the ECB left rates unchanged at its latest meeting, Jean-Claude Trichet, its president, insisted several times that rates "could move at any time". The ECB's fear is that higher oil prices will feed through into other costs.

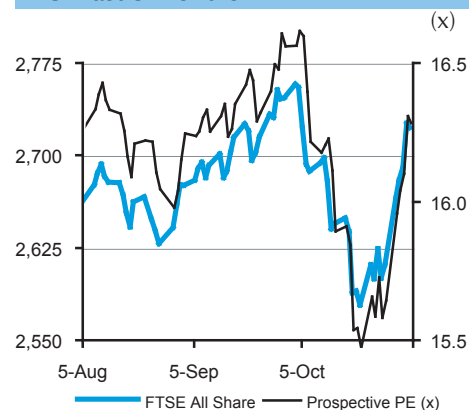
Following the sharply stronger German IFO data released at the end of October, there are renewed hopes that the worst may be over for eurozone growth. We suspect the persistent structural problems afflicting Europe will dampen any irrational exuberance. Nonetheless the eurozone annual inflation rate stood at 2.5% last month. The ECB defines "price stability" as a rate "below but close" to 2%.

UK activity levels raise rate fears, we remain sceptical. One of the most surprising developments of the last month was the reported surge in the service sector, representing over 60% of the UK economy. The Chartered Institute of Purchasing and Supply (CIPS) business activity index jumped to 56.1 in October, its highest level for three months. The September reading of 55 was a 9-month low. At the same time the Nationwide building society reported house price growth rates hitting a 15-month high in October.

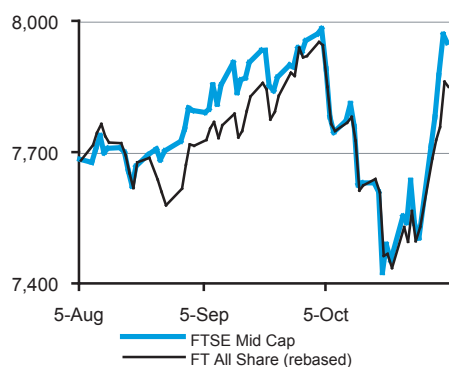
The immediate conclusion of financial markets is that the data spell the end for any lingering hopes of a further rate cut and that the next move will be upwards, even if not for some time. We agree that the data are robust and come after equally buoyant survey data for the manufacturing and construction sectors. But the detail shows also that the index of business expectations fell from almost 75 to 72. And the CIPS data contrasts also with the evidence from the high street and from the lower than expected GDP growth numbers reported for the third quarter.

On balance we remain sceptical over the possibility of any imminent rate hikes in the UK. Restoring GDP growth to trend rates (somewhere above 2.5%) is going to be hard enough given the levels of household debt without turning the screw yet further with rate increases.

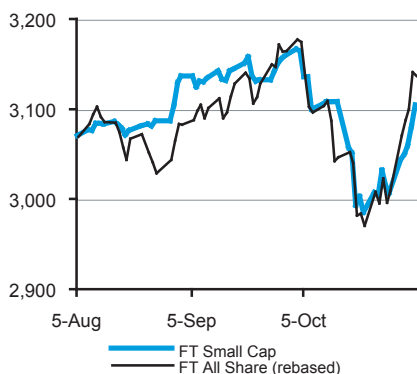
FTSE last 3 months



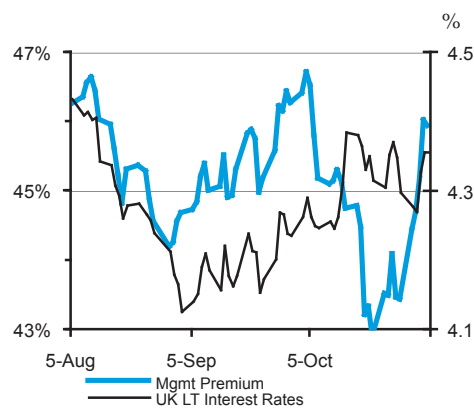
FT Mid Cap last 3 months



FT Small Cap last 3 months

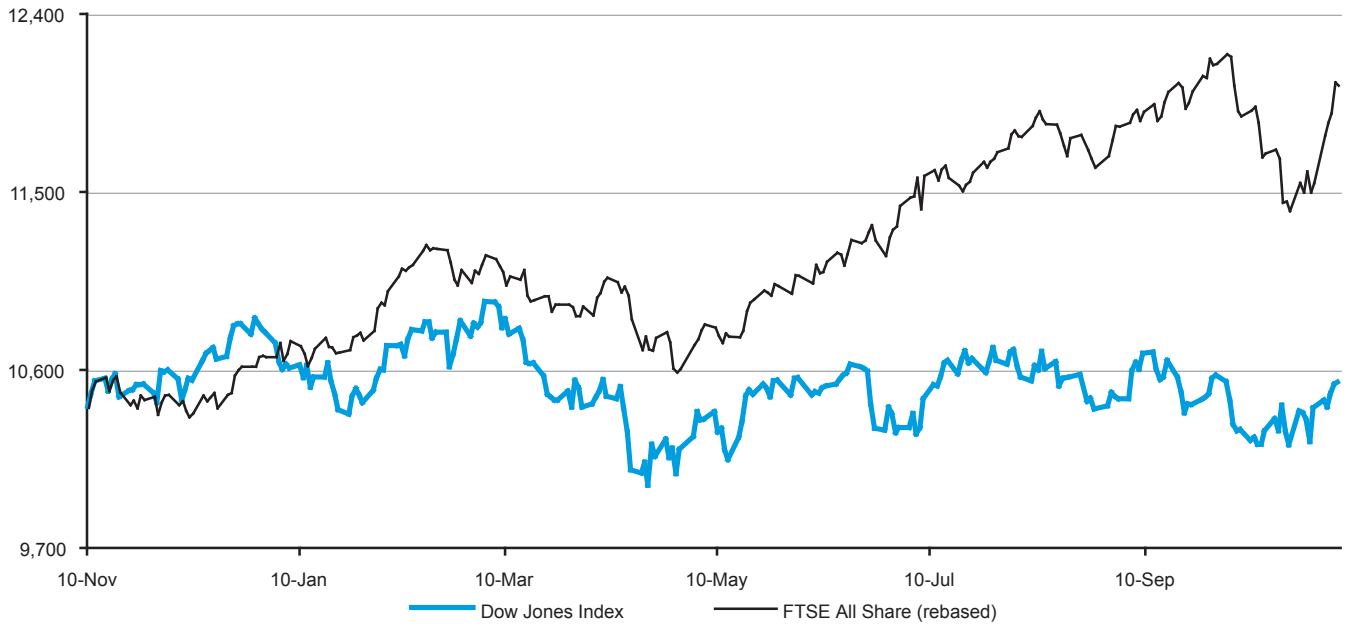


Management premium in the FTSE¹

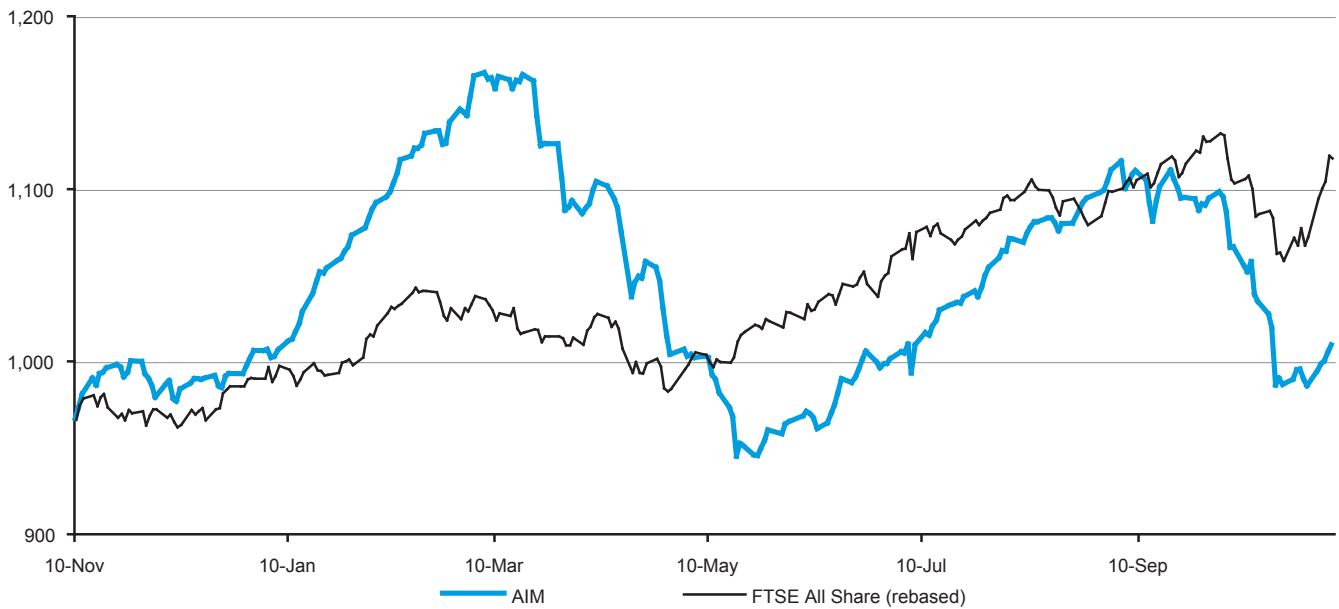


¹ management premium is the % of the FTSE that the market is paying for the "value" management is expected to generate. See page 12 for details.

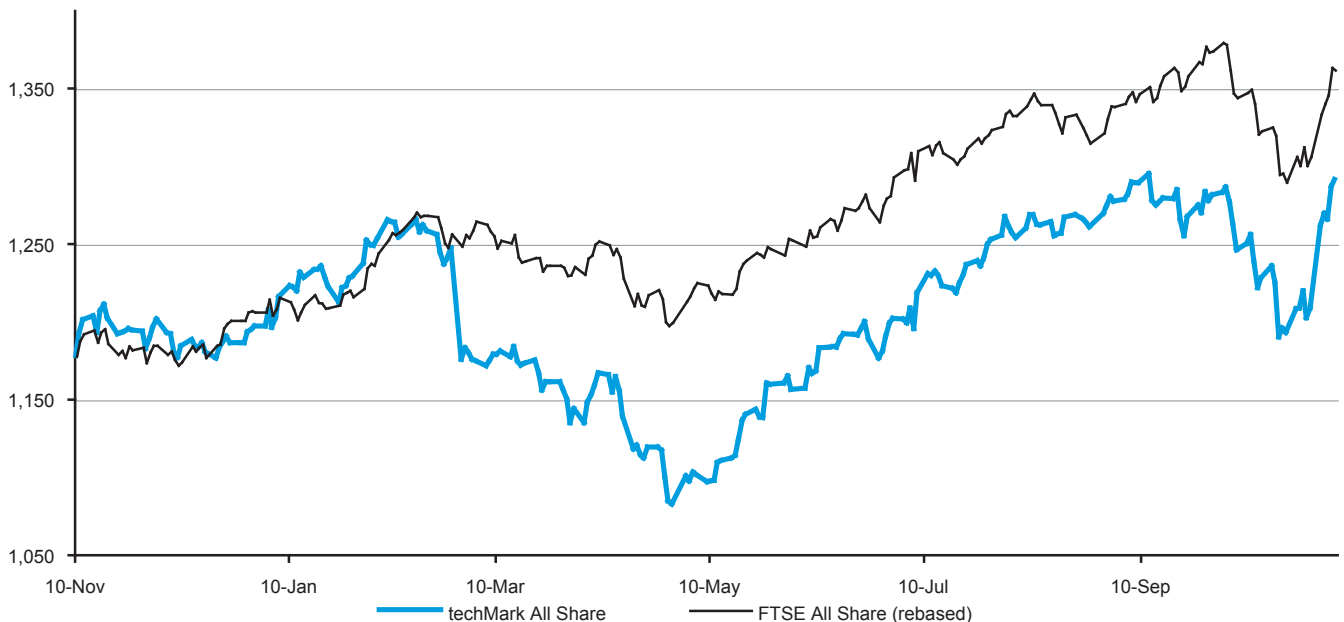
Dow Jones v. FTSE All Shares (rebased), 12-mth



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



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



Recently announced flotations

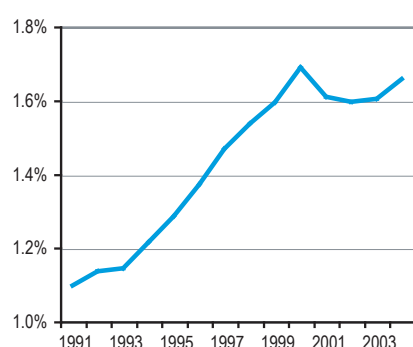
Company	Market	Type	Mkt Cap/ Amnt Raise	Issue Date	Description
Windsave	Aim	Placing	£50.0m / TBC	2006	Wind turbines
Euphony	TBA	Introduction	TBC / n/a	2006	Telecom services
Trident	Aim	Placing	£100.0m / £30.0m	2006	Internet gambling
Betcorp	Aim	Placing	£20.0m / TBC	2005/06	Internet gambling
Eyebright	Aim	Placing	£11.5m / £5.0m	2005	Elective day surgery
Radiancy	Main	Placing	£65.0m / £30.0m	2005	Cosmetic treatment company
Isle of Man Int. Brdcstng.	Aim	Placing	£75.0m / £13.0m	2005	Radio broadcaster
IVT Wireless Technology	Aim	Placing	TBC / £2.0m	2005	Bluetooth products
Plasma Warehouse Group	Aim	Public Offer	£2.0m / TBC	2005	Specialist audio visual systems
SThree	Main	Placing	£400.0m / TBC	2005	Specialist recruitment company
Amiad Filtration Systems	Aim	Placing	£35.0m / £10.0m	2005	Water filtration
Gameaccount	Aim	Placing	£100.0m / £10.0m	2005	Internet gaming
Gemfields Resources	Aim	Placing	£65.0m / £15.0m	November	Zambian gems
Amtel Vredestein	Main	Placing	£676.0m / £113.0m	November	Tyre maker
Independent Resources	Aim	Placing	£70.0m / TBC	November	Gas storage and production
Cosentino Signature Wines	Aim	Placing	£34.0m / £17.0m	November	California winemaker
Deep Blue Holdings	Aim	Placing	TBC / TBC	November	Property development
Mattioli Woods	Aim	Placing	£20.0m / £6.0m	November	Specialist pensions consultancy
KazakhGold	Main	Placing	£400.0m / £100.0m	November	Gold mining
Ekay	Aim	Placing	£12.0m / £3.0m	November	Advertising agency
Indago Petroleum	Aim	Placing	£228.0m / £57.0m	29-Nov-2005	Oil and gas exploration and production
Davenham	Aim	Placing	£90.0m / £27.5m	22-Nov-2005	Asset based lender
Platinum Australia	Aim	Introduction	£6.5m / n/a	21-Nov-2005	PGM explorer
Elephant Loans & Mortgages	Aim	Placing	£6.3m / £0.7m	18-Nov-2005	Secured loans and mortgages
Healthcare Locums	Aim	Placing	£50.0m / TBC	17-Nov-2005	Medical staff
Anzon Energy	Aim	Introduction	TBC / n/a	16-Nov-2005	Oil and gas
Premier Bionics	Aim	Introduction	TBC / n/a	16-Nov-2005	R&D project investment
Angel Biotechnology	Aim	Placing	TBC / TBC	14-Nov-2005	Drug development services
New Star Asset Management	Aim	Introduction	£600.0m / n/a	11-Nov-2005	Fund manager
Mediterranean Oil & Gas	Aim	Introduction	£33.3m / n/a	11-Nov-2005	Oil and gas business
Newcourt Group	Aim	Placing	£23.8m / £10.0m	10-Nov-2005	Security and recruitment
China Shoto	Aim	Placing	£35.0m / £10.0m	08-Nov-2005	Industrial batteries
Advent Air	Aim	Placing	TBC / £1.7m	07-Nov-2005	Airline operator
Synexus Clinical Research	Aim	Placing	£15.0m / £3.5m	07-Nov-2005	Clinical trial services
Dowlis Corporate Solutions	Aim	Placing	£13.5m / £4.5m	07-Nov-2005	Promotions and marketing
Ashingo	Aim	Placing / Offer	TBC / TBC	TBC	Digital media advertising
Carlton Clubs	Aim	Placing	£40.0m / TBC	TBC	Bingo club owner
Planet Conservatories	Aim	Placing	£70.0m / £10.0m	TBC	Bespoke conservatories
Miras Imaging	Aim	Public Offer	£6.4m / £1.0m	TBC	Medical devices specialist
TNX Television	Aim	Placing	£50.0m / £15.0m	TBC	Commuter train television
BCM Capital	Aim	Introduction	TBC / n/a	TBC	Construction
Barracuda	Aim		£300.0m / TBC	TBC	Pubs and bars
Petrosearch International	Aim	Introduction	TBC / n/a	TBC	Resource sector investments
Nyati Resources	Aim	Placing	£1.7m / £1.1m	TBC	Oil and gas exploration
AM2	Aim	Placing	£15.0m / £15.0m	TBC	Investment company
Medco Energi	Main	Placing	£800.0m / £214.0m	TBC	Indonesian oil and gas company
Talia Technology	Aim	Placing	£30.0m / £10.0m	TBC	Eye screening equipment
Afcan Mining Corporation	Aim	Placing	TBC / £10.0m	TBC	China-focused miner
Greenkote	Aim	Placing	£6.2m / £2.0m	TBC	Coatings company
First Croatia Properties	Aim	Placing	£46.5m / £46.5m	TBC	Commercial property
Lamont Property	Aim	Placing	TBC / TBC	TBC	Commercial property
Concept Group	Aim	Placing	TBC / £6.0m	TBC	Manufacturing consultancy
D-Pharm	Aim	Placing	£15.0m / TBC	TBC	Israeli biotech
Templin Airport Corporation	Aim	Placing	TBC / £13.9m	TBC	Airport development
Glennstars Investments	Aim	Placing	TBC / TBC	TBC	Investment company
Zone 4 Play	Aim	Placing	TBC / £7.0m	TBC	Online casino software

Sector in Focus

Annualised growth rates for UK advertising spend

Medium	Annualised Growth Rates (%) over the past:			
	1 year	3 years	5 years	10 years
Internet	60.0%	57.9%	66.5%	0.0%
Outdoor & Transport	7.9%	7.8%	8.7%	10.9%
Cinema	6.7%	5.4%	9.3%	13.7%
Television	5.4%	4.6%	1.9%	5.1%
Directories	4.5%	3.9%	5.3%	6.2%
Radio	3.4%	3.7%	3.2%	9.5%
Direct Mail	0.1%	3.5%	5.6%	8.9%
Regional Newspapers	5.7%	3.4%	4.8%	5.3%
UK GDP	3.2%	2.6%	2.8%	2.9%
Consumer Mag	4.5%	1.7%	2.4%	5.1%
Prod Costs	4.1%	-0.5%	0.3%	3.4%
National Newspapers	3.7%	-1.5%	-0.2%	4.0%
Business & Professional	3%	-3%	-2%	3%

UK Ad spend as % of GDP



Source: Advertising Association/WARC

Top 25 UK advertisers

Ranking	Advertiser	Annual Spend 2004 (£m)
1	Procter & Gamble	200
2	COI Communications	160
3	L'Oreal Golden	95
4	BT	82
5	Lever Faberge Personal Care	73
6	Reckitt Benckiser	70
7	DFS	69
8	Ford	66
9	Nestle	66
10	BSkyB	64
11	Renault	59
12	Vauxhall	57
13	Kellogg	56
14	Orange	54
15	Masterfoods	53
16	Toyota	51
17	Lever Faberge Home Care	51
18	Tesco	50
19	Sainsbury's	49
20	Hutchison 3G	49
21	Volkswagen	46
22	Unilever Bestfoods	45
23	B&Q	44
24	O2	42
25	McDonald's	41

Source: Advertising Association/WARC

UK Advertising

In the ten years to the end of 2004 the annualised growth in UK GDP was 2.9%; that of total advertising spend in the UK was over 6%. In 2004 itself, the last full year for which ad spend data is available, spend on internet advertising, the new kid on the block, rose by a stratospheric 60% while that on TV rebounded to over 5% (see above table).

Advertising can be defensive and is subject to new technology.

Our assertion is twofold. Although advertising spend is widely perceived as cyclical, it also has a defensive component as companies struggle to maintain market share. The chart to the left shows how UK advertising spend has risen as a proportion of GDP since the early 1990s and has resumed that growth more recently.

The second part of our assertion is that as new broadcast and display technology becomes more widely available so advertising can become more cost-effectively targeted. Recent company results and comments illustrate the point. Unilever recently reported an 11 per cent dip in third-quarter profits after it increased advertising spend and cut product prices in a bid to boost growth. Unilever is one of the UK's Top 25 advertisers – see table to the left.

Elsewhere the Financial Times is reported to be on track to break even this year after recruitment and luxury goods ads lifted revenues by 6% since the start of the year. Third quarter results at Comcast highlighted a 4.5% increase in advertising revenue while AOL reported a 28% increase in Q3.

Broadcasters and ISPs move away from subscription models.

AOL noted a sharp drop in subscription revenues as the background to the rise in advertising revenues. That theme is echoed strongly by UK TV broadcasters. As the UK moves towards 2008 and the first wave of switching off analogue TV broadcasts in favour of digital, so companies are revising their business strategies.

One of the major shifts already underway reflects the strong growth in Freeview – the UK’s digital set-top box allowing reception of a growing number of non-subscription channels. There are already some 5 million Freeview boxes in the UK, a number which is set to double by 2008.

Channel 4 has recently put E4 and E4+1, previously only available on pay-TV, onto Freeview. It has also launched its new channel More4 directly onto Freeview. Thus far, E4 has been barely breaking even. The channels will no longer receive subscription income from Sky and cable.

ITV has also adopted Freeview having originally planned to continue down the subscription route. In April it launched ITV3, originally planned as a pay-TV channel. That now has been moved to Freeview and has been joined by ITV4. ITV’s director of digital channels, Jonathan Lewis, has said that ITV1 gets a greater share of viewing on Freeview than on Sky.

Advertising affected by growth in other technologies also. We explored in our last edition the changing face of broadcast entertainment. We believe that some of the changes highlighted there will also have a bearing on the advertising industry in the years to come.

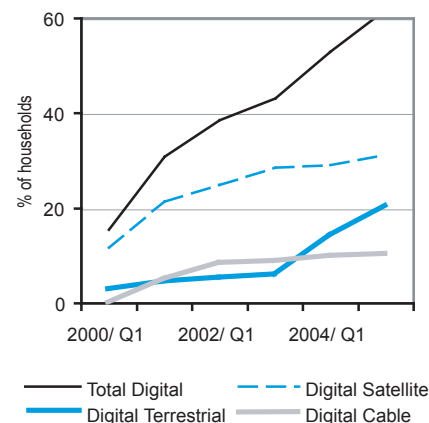
Broadband should accelerate internet advertising.

We discussed last time the rise of broadband internet subscriptions over narrow band. In that context it is no surprise to see the rapid growth in internet advertising reported earlier and elsewhere in this section. That acceleration coincides with the evolution of broadband take-up.

3G rollout provides new opportunities

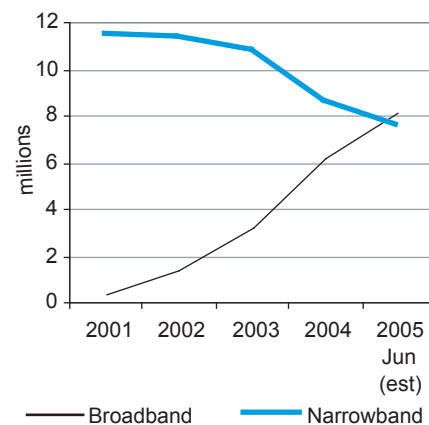
3G penetration rates lag well behind the availability. Evidently that is a reflection of the false start several years ago. But the roll-out is gathering pace and, in combination with broadband wireless, provides arguably one of the most dramatic opportunities for high quality, highly targeted advertising channels. We believe also

Digital TV household penetration



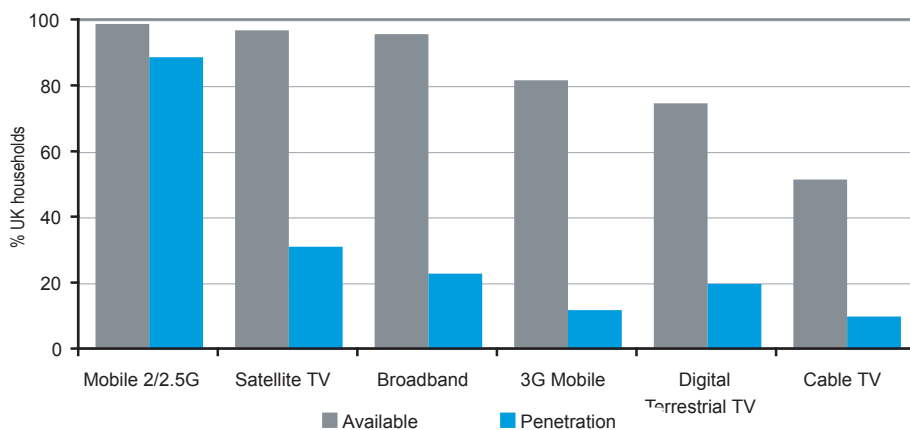
Source: OFCOM

UK Internet subscriptions

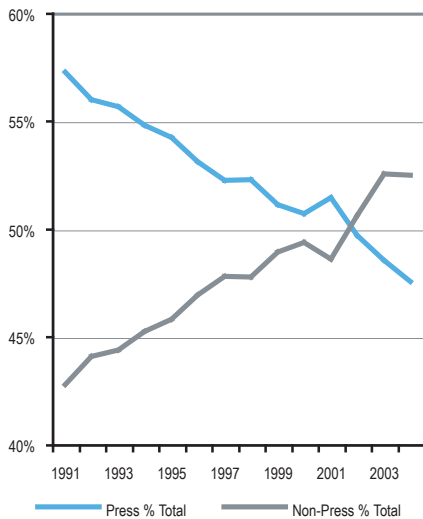


Source: OFCOM

Digital service adoption (Q1 2005)

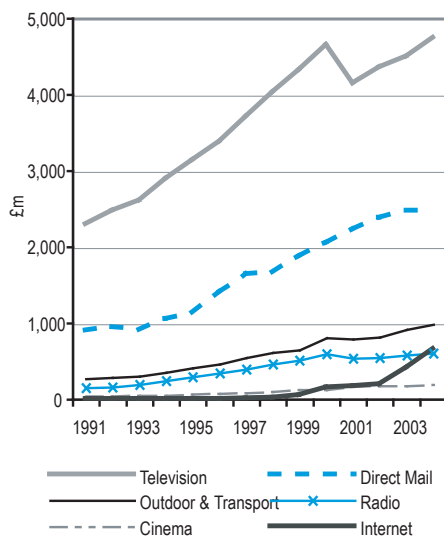


Changing proportions of ad spending



Source: Advertising Association/WARC

Non-press ad. spending



Source: Advertising Association/WARC

that the advent of “pico cells” over the next few years (essentially small, highly localised mobile cells) will bring increasing degrees of sophistication and flexibility to broadcast advertisers. As an aside we note the nascent industry for “virals” – cheaply produced adverts for mass distribution over existing digital broadcast media. Typically that has been the internet platforms. We suspect that increasingly it will be more selectively targeted through mobile wireless 3G platforms.

Broadcast advertising is rising

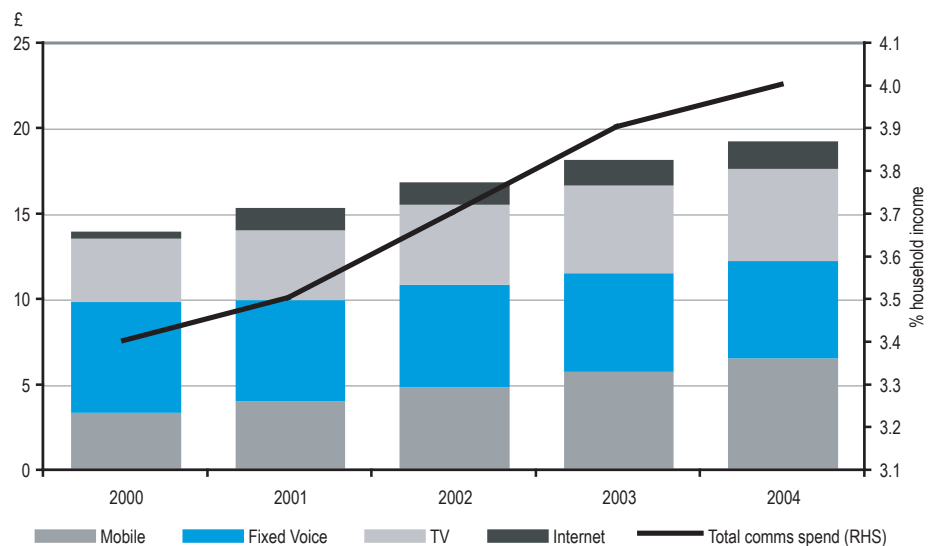
In 2004 total advertising spend in the UK was some £18.4bn (source IPA/ WARC). The chart shows how, since 2002, the proportion of that spend going to Non-Press media has overtaken the traditional print media outlets. In turn, the growth in Non-Press has been driven by a rebound in TV advertising and by the acceleration of internet based advertising

By contrast, most of the other media are flatlining with the exception of “Outdoor and Transport’ – billboards and buses. Even here the advent of mobile broadband and “pico cells” is likely to be felt as a positive, especially perhaps in shopping centres.

For us the Brave New World of advertising is dawning. UK households are already spending an increasing proportion of their income on communications – see accompanying chart.

That in turn reflects a greater propensity to take our entertainment at home. The combination of that demographic shift and the technological changes suggests increasing opportunities for advertising over digital platforms. In the home that is likely to mean increasing volumes of digital TV and broadband internet advertising. Outside the home that is likely to mean increasing numbers of highly targeted ads being broadcast over mobile broadband links to a pico-cell near you.

Average UK. weekly household communications spend



Source: OFCOM

We see explosive potential for internet and mobile advertising.

To answer the question “How far can the process go?” we indulge here in a patch of blue sky “research”. One possible scenario goes as follows.

- i) internet advertising accelerated effectively from a standing start in 2002. In the following two years it rose to some £700m in 2004, about 8% of the total non-press spend. In that short time it overtook radio advertising spend (see earlier chart)
- ii) we associate that rise with the similar rise in the penetration of broadband internet subscriptions. Mobile wireless has yet to make any impact but we expect availability to grow with the roll-out of 3G.
- iii) over the same short period spending on Direct Mail has fallen modestly as a proportion of total non-press spending. £2.5bn spend in 2004 represents some 25% of total non-press ad spend.
- iv) Although not shown, the ad spend through Regional Newspapers in 2004 was over £3bn
- v) It is our contention that the convergence of mobile wireless, pico-cell technology and demographic trends to higher household spend on communications will result in an explosion of highly targeted, localized advertising.
- vi) Such an explosion would probably claim as its front-line casualties ad spending currently through Regional Newspapers and Direct Mail, two of the most localized media available today. If so, and to the extent that they lost around 50% of current advertising, that would put annual internet and wireless mobile ad spend at almost £3bn, second only to TV advertising today.
- vii) Given the rate of growth in internet advertising already, we estimate that such numbers could be reached comfortably before the London Olympics in 2012. That “estimate” takes no account of the natural growth in overall advertising spend.

The table on the following page highlights a number of smaller companies operating in the spaces around the main theme, from advertising agencies through to providers of enabling technologies. Inevitably there is some overlap with the list provided in the last edition. Note that the list is not intended to be exhaustive.

Select smaller advertising and related companies

Principal business area	Company	Code	Recent Price (p)	Mkt Cap (£m)	Comment
Advertising	Avanti Screen Media	ASG	260	32	Screenmedia services to retail space and brands. Also consultancy for broadband multimedia
	Independent Media Distrib.	IMD	41.5	13.9	Digital delivery of broadcast material for advertising and entertainment industries
	Maiden Group	MDN	134.5	71.1	Outdoor advertising including "animated poster technology"
	Mediazest	MDZ	36	8.2	In-store media including 2d and 3d TV 19% held by Touch Group
	Screen FX	SFX	3.75	5.35	In-store media including large panel plasma and small touch-screen technologies
	Touch Group	TOU	9.5	6.4	Local and interactive business directories. Recently launched Voice-over IP joint-venture. First to launch pay-per-call advertising in UK 19% shareholding in mediazest
	Yoomedia	YOO	8.5	40	Interactive TV and mobile content. Sony Pictures has 10% stake
Mobile Content	Monsternob	MOB	390.5	191	Mobile content. Chairman = Hans Snook (ex Orange)
	Cellcast	CLTV			Interactive mobile content
	Stream Group	SEA	48	28.6	Mobile gaming
Software and Services	Bango	BGO			Provides technology and services to companies developing/selling mobile content. Recent contract with Sun Microsystems.

Driver Group (DRV)

Listed at 73p on 13th October, the subsequent weak general tone to the market has meant that Driver is currently trading at a modest discount to its issue price. The nominated adviser and broker is WH Ireland

Based in Rossendale in Lancashire, and founded in 1978 with origins as part of a quantity surveying firm, Driver provides dispute resolution services primarily to the construction industry – particularly civil engineering and high rise property development – as well as other non-contentious services, including commercial project management, planning, pre-contract services, and risk management.

Dispute resolution services are the largest part of the business. Services provided include advising claimants and respondents about the validity of a claim against a contract, preparation of claims and defences against claims, negotiation and settlement, strategic advice on dispute resolution, provision of expert witnesses, mediation and arbitration and other services.

The group has tended to target larger firms in the industry. It has six of the top ten construction firms on its books and enjoys a high level of repeat business. Four-fifths of turnover is reckoned to flow either from previous clients or ongoing projects. It operates from six offices in the UK, including Glasgow, London, Liverpool, Northampton and Teesside, and recently opened an office in the UAE.

The company's turnover has risen steadily in recent years, growing from £5.37m in the year to September 2002, to £7.6m last year and £6.12m in the nine months to June 2005. Over the same period underlying pre-tax profits have risen from £817,000 to £1.38m in the nine months, versus £1.29m for the whole of last year. Trading in the nine months was ahead of expectations, although since June results have been below expectations, which the company attributes to the onset of the holiday period and other seasonal factors. It expects trading for the full year to be in line with budget.

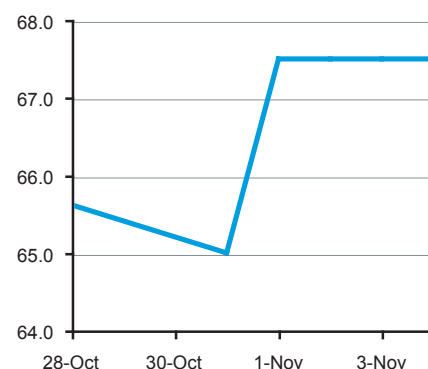
Several major contracts and disputes are also continuing into the new financial year and, together with new business booked in recent months suggest that further solid growth can be expected in the current year to September 2006. Projects such as the construction work related to the 2012 Olympics have to be completed within tight timescales and will inevitably involve disputes and litigation.

WH Ireland, the company's adviser, in pathfinder research published prior to the float, suggest that pre-tax profits could reach a reported £1.32m for the full year, versus £1.25m, rising to £1.84m in year to September 2006. This suggests a 2005/06 PER in the region of 11 times. This appears to be at a discount to the rating afforded other consulting firms, such as RPS and Ricardo, but may reflect the firm's involvement with construction, which is perceived as cyclical.

Newcomer of the Month

This section analyses a recently listed company from a more qualitative standpoint. Futures issues of Objective's Small & Mid-Cap Review will comment periodically on the progress of these companies

DRV - price since listing



Price (p)	67.5
Quote	AIM
Ticker	DRV
Hi-Lo since listing (p)	72.5-67.5
Shares issued (m)	23.2
Market Cap'n (£m)	14.57
Issue price (p)	73
Net Proceeds (£m)	15.7
Advisors & brokers	WH Ireland

Company Survey

From the Model

The Objective Capital model works to identify possible examples of mispriced stocks at both ends of the scale. We try to identify: stocks that have been unduly beaten down by mildly adverse corporate developments; those whose price action may not have fully reflected positive developments; and those whose price may be well ahead of the performance justified by good news, or slow to discount the bad.

In this section of the company comments we attempt to isolate those stocks that fall towards the extreme ends of the distribution of the model's results. We then look in more detail – in a formalised way – at the reasons for their being priced as they are. Considerations for selecting the companies to highlight are standard valuation criteria including PSR, prospective PE relative to earnings growth, ROE, price to cash flow, prospective yield and margins.

We also particularly filter stocks for analyst coverage, preferring those stocks that rank as lower risk and where analyst coverage is thin or non-existent, on the basis that it is here that the scope for mispricing is greatest.

We then select the best three or four stocks on these criteria as a distillation of the model's results for this month. Where appropriate we provide information on broker forecasts and recommendations, using consensus numbers and recommendations where possible. We leave readers to judge how appropriate these recommendations may be.

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.

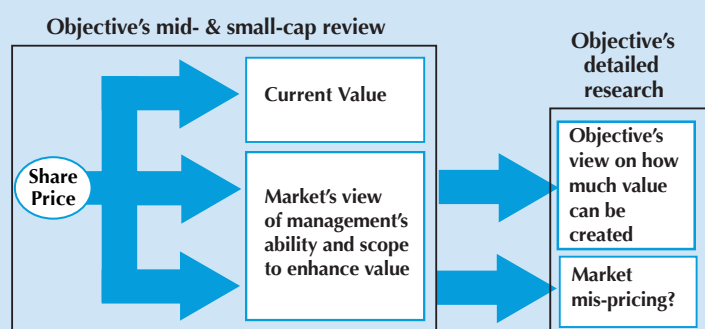
Our detailed company research answers the question of whether the change is justified or if what the market currently pays misses the real value management can add.

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.



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

This Month's Companies to Watch

Name (EPIC): Northern Recruitment (NRG)

Sector: Support services

Basic business: Recruitment consultancy. The company serves a broad spread of recruitment sectors and, though based in Newcastle, has offices in London, Glasgow and several other major cities throughout the UK.

Reason for potential mispricing: Significant price slippage despite robust trading statement. At the AGM on 18th October the company reiterated that first quarter profits were in line with management expectations and stated that the permanent recruitment market in the company's areas of business remained strong. Temporary recruitment had been at lower levels than last year, but was expected to revive.

The company reported that finances remained strong, and it was confident it could deliver another year of growth and viewed future prospects with enthusiasm. Slippage in the shares could reflect some selling pressure following the shares going ex a special dividend of 11.5p on 28th September. This should be a temporary factor.

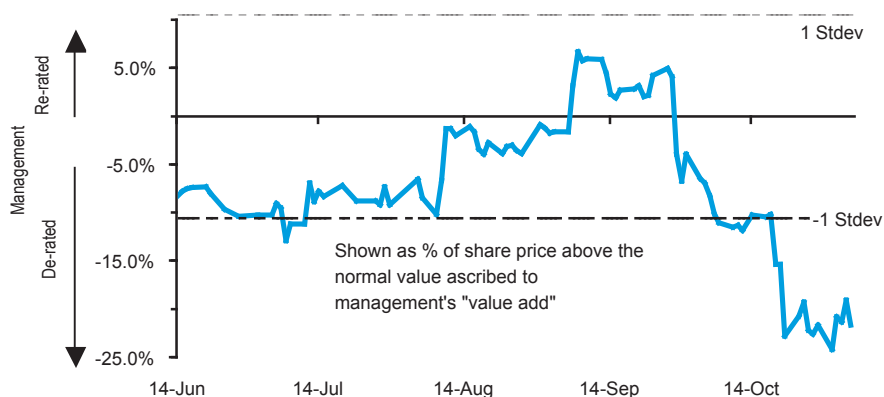
Value criteria: Expectations are that the company will produce pre-tax of £4.2m in the year to June 2006 with Brewin Dolphin, the company's broker, expecting £5m for the following year in a forecast made in August. This puts the shares on a current year earnings multiple of 11 times, dropping to under 10 times for 2006/07. The PEG factor is less than one for both years. The company has a historic ROE of around 35%, and return on capital over 50%. It sells at around 1.5 times sales.

Analyst coverage: Two analysts follow the company, Baird and Brewin Dolphin. Both rate the shares either a 'buy' or 'outperform'.

More information: www.nrgplc.com

Next results: Interim - February

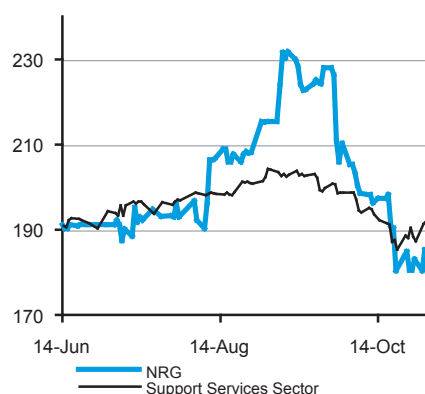
Portion of NRG share price attributed to "management value add"



NRG PE & PE relative



NRG v. Support services sector

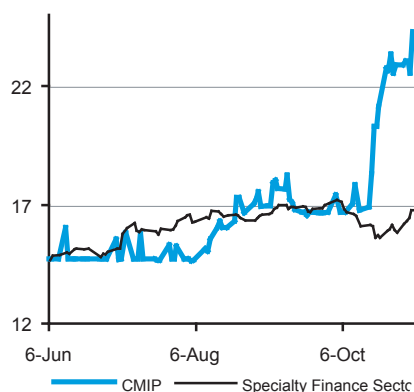


Name (EPIC): Capital Management and Investment (CMIP)

Sector: Speciality and other finance

Basic business: Indirect investment in businesses in manufacture and rental of modular construction units.

CMIP v. Speciality finance sector



The company, which is a vehicle from the Hugh Osmond stable, owns 28% of Ristretto. Ristretto is the Luxembourg based parent company of Algeco SA, Europe's leading modular construction business. Ristretto is in the process of acquiring Elliott Group, a UK company also involved in the same industry and currently owned by Ristretto's majority shareholder (TDR Capital) who are passing it on to Ristretto at cost plus financing charges, having acquired it from Davis Service Group in May 2005.

Following a refinancing of Ristretto, CMI will continue to own around 28% of the company. TDR Capital is an active value private equity house partly owned by Tudor Group and has been a partner in several other investments masterminded by the Hugh Osmond Camp.

Reason for potential mispricing: Despite a sharp rise in price since the Elliott acquisition was announced, underlying investments appear to be worth well in excess of current market value. CMI's original investment in Ristretto suggested that Algeco was a £100m company. Since then Elliott has been added at a cost of some £170m. Putting the two together suggests that the underlying value of CMI's investment is around £75m, to which can be added around £5m of cash in the CMI balance sheet. Even after the recent rise, CMI's market value is £58m.

Algeco and Elliott are in the process of being integrated and restructured, with synergy benefits expected to flow from combining the two companies. While CMI is in a minority position, it has worked successfully in the past with TDR and there is no reason to suppose that it will operate to their disadvantage on this occasion.

Analyst coverage: Unresearched

More information: No web presence

Next results: Final – mid-June

Name (EPIC): Manganese Bronze (MNGS)

Sector: Engineering & machinery

Basic business: Leading manufacturer of black London taxis. The company also owns Zingo, a patented mobile phone based taxi hailing system, and has a controlling interest in its North American distributor.

Reason for potential mispricing: Significant dip in price despite long awaited return to profit, better than expected results, and a positive statement.

MNGS has long been a business that looked interesting, but without the profits to match. Under the current chief executive Ian Pickering, the goal of solid profitability has now been achieved, and surplus assets are being sold.

Profits were substantially ahead of market expectations (£1.6m versus a consensus forecast of £1.1m). The company notes that it has a strong balance sheet and that sales of new taxis are ahead of the same period of the prior year. Zingo has signed new licensing agreements, one being with Computercabs, and eliminated losses. Group operating cash flow was around £9.9m this year versus 1.4m in the previous year.

Value criteria: Prior to the recent results, market forecasts had been in the region of £2.55m for the current year, although there was a wide disparity between the numbers expected by the two brokers following the stock. On the basis of the earnings that this figure implies, MNGS is on a PER of around 15 times. Historic free cash flow appears to be in the region of £9m, so the cash flow multiple at the current price is little more than three times.

Analyst coverage: Two brokers, Rowan Dartington and Collins Stewart (the company broker), follow the company.

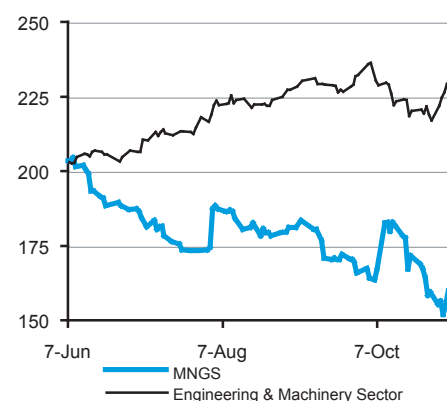
More information: www.manganese.com

Next results: Interims - March

MNGS PE & PE relative



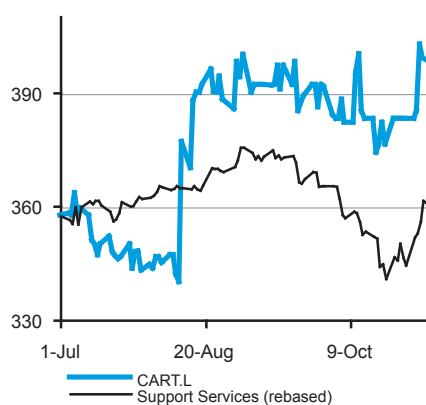
MNGS v. Engineering & mach. sector



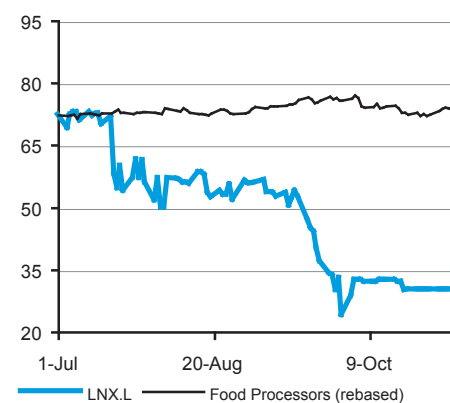
Companies in the News

The following comments relate to other companies highlighted by the model, and those that we have highlighted in previous issues, where news has emerged in the past month or so.

CART v. Support services (rebased)



LNx v. Food processors (rebased)



Carter & Carter (CART)

The first full year results from the company after floating on AIM in March, showed an increase in pre-tax profit from £2.3m in 2004 to £4.3m. Sales were £51.0m compared with £38.2m last year.

The company, which trains mechanics for car manufacturers such as Daimler and Ford, has seen a rise of 27% in school-leavers involved in apprenticeship schemes with revenue per student increasing 21%. Operating profits at the learning division increased by 43%. The courses are financed with cash from central and local government. Since the year-end the company has expanded its learning division by the acquisition of ASSA Training and Learning Limited, which runs government training schemes for the food and beverage sectors. Given Carter & Carter's reliable track record in the training field it should profit from the Government's policy to increase vocational learning and apprenticeships.

The outsourcing division has also produced positive results with a 56% increase in profits, partly due to the acquisition during the year of AA Technical Services. CEO, David Carter, said that another acquisition, in either division, should happen in the course of the next year.

More information: www.carter-and-carter.com

Lennox (LNx)

Shares in the company, which supplies British food to expatriates and tourists in Spain and Portugal, have been suspended.

The company said that it had become aware of a possible warranty claim relating to the European Supplies Group businesses, which were acquired by the company in December 2004. David Franks, the acting chief executive and a founder of the company, was one of the vendors of the businesses. He took over from Peter Voller in the summer after Mr. Voller left following a clash with other directors.

Despite due diligence prior to the sale, the company admitted that something was not fully disclosed at the time of the flotation, but declined to comment further.

Mr Voller was the largest shareholder in Farm, an offshore investment vehicle, for which Lennox paid £9.2m at the time of its flotation. Farm acquired European Supplies Group for £6.2m, which then became part of Lennox.

The company said that neither customers nor suppliers would be affected by the suspension.

The Television Corporation (TCP)

Television and new media producer, Tinopolis, is in discussions with The Television Corporation about a possible takeover. Llanelli based Tinopolis, which listed on the London Stock Exchange earlier this year, said any offer, if made, is likely to be in Tinopolis shares and cash.

More information: www.tvcorp.co.uk

Findel (FDL)

In a recent trading statement the Yorkshire based home shopping and educational supplies business said that sales for the six months to the end of September rose by 21% from a year earlier. However, like-for-like sales fell by 1% with sales in the home shopping division down 7%, due to a glitch in the mailing of catalogues.

Research by the company showed that personalising catalogues would increase sales but, as this is a lengthier process than the usual mailing plan, 27% of the catalogues were not sent out by the end of September, compared with 2% in 2004. The company is hopeful that the impact of this will be reflected in second half figures.

Total sales in the educational supplies business rose by 56% against the same period last year mainly due to the positive performance of Findel's two acquisitions – GLS and Huntleigh National Healthcare.

More information: www.findel.co.uk

Trafficmaster (TFC)

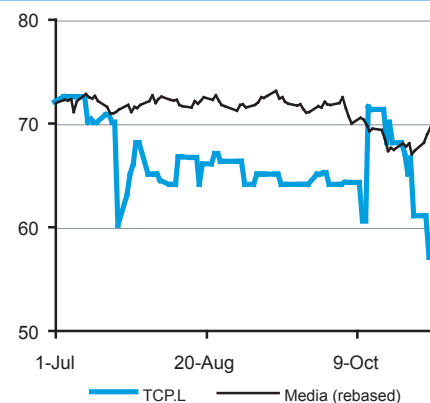
Trafficmaster, the satellite navigation equipment maker, has signed a five-year contract with Norwich Union to supply 'Pay As You Drive' insurance services to the motorist. This operates by 'black box' in-car units, which identify the location of the vehicle to allow the delivery of PAYD insurance.

The customer can also choose from a range of other optional services such as safety camera warnings, Smartnav navigation, emergency and breakdown calls and stolen vehicle tracking from RAC Trackstar. This is a major new market for Trafficmaster and it will initially supply Norwich Union with 10,000 black boxes in the first half of 2006.

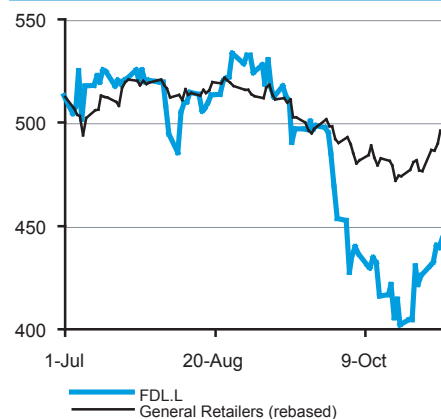
The company has also announced that it has signed an agreement with Peugeot to fit Smartnav into new 407 models.

More information: www.trafficmaster.co.uk

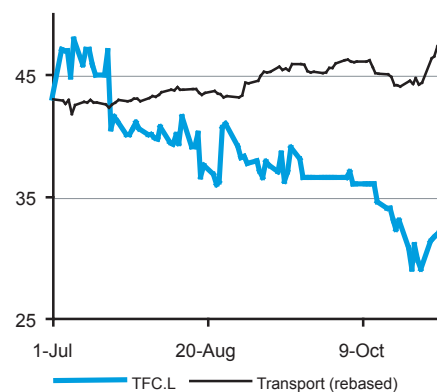
TCP v. Media (rebased)



FDL v. General retailers (rebased)



TFC v. Transport (rebased)



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Objective Capital Limited

2nd floor, 145 St. John St.
London EC1V 4PY
Tel: +44-(0)870-080-2965
Fax: +44-(0)870-116-0839
sales@objectivecapital.com

Internationally:
Phone: +44-20-7754 5994

For Marketing & Sales:
Token House
11-12 Tokenhouse Yard
London EC2R 7AS

Corporate: www.ObjectiveCapital.com
Research: www.ObjectiveCapital.co.uk

Recent flotation data

Company	Market	Type	Mkt Cap/Amnt Raised	Issue Date
Gondola Holdings	Main	Placing	£431.0m / £135.0m	03-Nov-2005
Phoqus	Aim	Placing	£45.0m / £10.0m	03-Nov-2005
Abcam	Aim	Placing	£57.5m / £10.0m	03-Nov-2005
Software Radio Technology	Aim	Placing	£24.2m / £4.0m	02-Nov-2005
Hikma Pharmaceuticals	Main	Placing	£483.0m / £69.9m	01-Nov-2005
Spacelabs Healthcare	Aim	Placing	£84.8m / £16.8m	31-Oct-2005
Zambezi Nickel	Aim	Placing	£3.4m / £1.6m	31-Oct-2005
Wogen	Aim	Introduction	£54.8m / n/a	31-Oct-2005
Max Petroleum	Aim	Placing	£90.9m / £25.9m	27-Oct-2005
Celoxica Holdings	Aim	Placing	£16.1m / £6.1m	27-Oct-2005
SPI Lasers	Aim	Placing	£25.5m / £12.0m	26-Oct-2005
Leyshon Resources	Aim	Introduction	£14.5m / n/a	26-Oct-2005
Accsys Technologies	Aim	Placing	£90.2m / £18.3m	26-Oct-2005
Beximco Pharmaceuticals	Aim	Placing	£58.0m / £12.0m	21-Oct-2005
Bateman Engineering	Aim	Placing	£71.4m / £14.3m	21-Oct-2005
Diablo Group	Aim	Placing	£3.3m / £1.0m	20-Oct-2005
Energy XXI Acquisition Corp	Aim	Placing	£214.0m / £171.0m	20-Oct-2005
Galapagos	Aim	Introduction	£73.2m / n/a	17-Oct-2005
Union Resources	Aim	Introduction	£24.0m / n/a	14-Oct-2005
DIC Entertainment	Aim	Placing	£32.9m / £19.3m	14-Oct-2005
Driver Group	Aim	Placing	£16.9m / £2.0m	13-Oct-2005
Caretech Hldg	Aim	Placing	£58.0m / £11.3m	12-Oct-2005
Neptune Minerals	Aim	Placing	£14.4m / £9.3m	10-Oct-2005
Kazakhmys	Main	Placing	£2.5bn / £315.4m	07-Oct-2005
Datong Electronics	Aim	Placing	£17.7m / £3.5m	07-Oct-2005
Petrofac Ld	Main	Placing	£742.0m / £322.4m	04-Oct-2005
Fairground Gaming	Aim	Placing	£10.7m / £3.8m	04-Oct-2005
ACTA	Aim	Placing	£44.8m / £8.0m	04-Oct-2005
International Metals Enterprises	Aim	Placing	£114.0m / £114.0m	03-Oct-2005
Travelzest	Aim	Placing	£10.2m / £5.2m	03-Oct-2005
Ashton Penney	Aim	Introduction	£5.0m / n/a	30-Sep-2005
Consolidated Comm. Corp.	Aim	Placing	£6.4m / £1.5m	30-Sep-2005
Moydow Mines International	Aim	Introduction	£4.6m / n/a	30-Sep-2005
International Ferro Metals	Aim	Placing	£143.6m / £80.0m	30-Sep-2005
Irish Estates	Aim	Introduction	£27.7m / n/a	30-Sep-2005

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