

UPDATE

TMC Group FY08 results

| TMC Group €1.18 | 2007A Pro Forma | 2008A | 2009E | 2010E |
|--------------------|--------------------|-------------|-------------|-------------|
| Revenue | 32.9m | 42.4m | 46.6m | 51.2m |
| EBIT | 6.5m | 5.6m | 4.7m | 6.1m |
| EBIT margin | 19.7% | 13.3% | 10.0% | 12.0% |
| Net result | 4.7m | 4.0m | 3.3m | 4.4m |
| EPS | 1.21 | 1.04 (1.24) | 0.86 (1.57) | 1.14 (1.79) |

Source: Company figures, AEK Research, 2007 are pro forma results

TMC GROUP FY08 FIGURES

- TMC's FY08 results are well below our estimates
- Revenue is in line with our estimates, but margins fell short of (our) expectations
- TMC recorded an organic revenue growth of 28.8% (Technology & ICT recorded a 48.6% growth, while Adapté recorded a 11% decline)
- Despite the much lower than expected contribution of Adapté, TMC has not incurred any impairment on its €15.2m goodwill yet...
- Focus will be on cost cutting, increasing the productivity and managing the direct to indirect staff ratio
- The group proposes a dividend of €0.40 per share in cash (dividend yield 7.7%)
- Acquisitions stay on the agenda, although judged carefully
- We adjusted our estimates on the back of sharply deteriorating market conditions and the seemingly tough conditions Adapté is experiencing
- We lower our rating from Outperformer to **Market performer**.

FULL YEAR REVENUE IN LINE, OPERATIONAL RESULTS MUCH LOWER

TMC's FY08 included construction and civil engineering consulting firm Adapté, acquired in FY07 and consolidated as of the second half of FY07. Revenue in FY08 grew 28.8% to €42.3m from the pro forma €32.9m in the year ago period. Excluding Adapté, revenue of the existing technology and ICT activities rose 48.6% to €32.6m. The decline in revenues from Adapté revealed itself already during the first half of 2008 when we concluded turnover of the Adapté activities declined to €5.0m from €5.5m a year earlier. For the full year the revenue of Adapté decreased from €10.9m in FY07 to €9.7m in FY08, an 11% decline.

The company over the period reported a gross margin of €14.3m versus a pro forma €12.5m in FY07, or 33.8% versus 38.2% a year earlier. The EBIT result declined to €5.6m from €6.5m in FY07. As a percentage of revenue, this implied a decline to 13.3% from

19.7%. Net profit decreased to €4.0m versus €4.7m, implying a net margin of 9.5% versus 14.3%.

The operational results were significantly below our estimates. We had foreseen slightly higher revenue of €42.5m, but significantly higher EBIT and net result of €6.7m (15.8% of revenue) and €4.9m (11.5%) respectively. The lower than foreseen margins were explained by several factors: the already mentioned disappointing results at Adapté (negative growth where we anticipated zero growth) and a relatively stronger contribution from the lower yielding Technology & ICT activities. The development of the Sales and EBIT results for the two core segments look as follows:

| In €000 | 1H07 | 2H07 | 1H08 | 2H08 |
|------------------|--------|--------|--------|--------|
| Technology & ICT | 10,428 | 11,527 | 15,433 | 17,167 |
| Adapté | 5,519 | 5,400 | 5,030 | 4,706 |
| Total Sales | 15,947 | 16,927 | 20,463 | 21,873 |
| | | | | |
| Technology & ICT | 1,960 | 1,676 | 2,159 | 1,954 |
| in % of sales | 18.8% | 14.5% | 14.0% | 11.4% |
| Adapté | 1,591 | 1,241 | 952 | 547 |
| in % of sales | 28.8% | 23.0% | 18.9% | 11.6% |
| Total EBIT | 3,551 | 2,917 | 3,111 | 2,501 |
| in % of sales | 22.3% | 17.2% | 15.2% | 11.4% |

Source: Company figures, AEK Research, 2007 are pro forma results

Clearly from the table above one may conclude the results of the acquired Adapté are very disappointing. If we would exclude (incidental) costs incurred throughout 2008 for start ups, the operational profit would have improved by ~€20k. The decrease in operational profit also resulted from lower productivity in the second half of 2008, an increased profit margin for the employees and ongoing investments in account management & office locations.

During the second half the number of employees continued to increase, from 444 end of June 2008 to 460 end of December 2008 while the number of indirect employees increased by 2 to 76. As a consequence, the ratio direct/indirect slightly improved from 6.00 to 6.05. In August FY08 the company stated that the ratio should increase to somewhere in the range of 7.00, where today the group no longer feels confident to reiterate such a target. Two years ago the ratio hovered above 8.00, which shows the remaining growth potential.

In order to cope with lower demand and therefore a decreasing occupancy (the company commented the number of benchwarmers remained below 10%) and probably a (much) shorter sales cycle (the company declined to comment), management mentioned it intends to cut costs. Unfortunately the company could not address to which extend this would impact fixed costs.

OUTLOOK

TMC invested in the countrywide roll out of Adapté. CEO Manders expected to be able to counter challenges in the (construction) market, especially because of increasing demand for 'total solutions' and accompanying consultancy projects. So far the company has not succeeded in doing so. Nevertheless the company remains optimistic. It foresees investments in transport infrastructure will remain high. Clients of Adapté are local governments, construction companies and engineering firms in particular, hence any government related investment in infrastructure should directly contribute to the Adapté results. TMC intends to increase its focus on Adapté, as it expects to generate better returns in the near future when the government starts to invest in large infrastructure projects (see a.o. the recent release of Arcadis).

In conclusion, TMC has been able to keep up its growth profile, while bottom line results disappointed. Therefore we decrease our estimates for annual turnover growth in the period 2009 - 2010 to 10% (from above 15%), bringing revenue to €46.5m (previous estimate: €47.6m) in 2009, €51.2m in 2010 (€52.4m). As the company will probably incur more benchwarmers, lower tariffs which might be offset partly by cost cuts, we take into account lower margins, e.g. EBIT margins of 10.0% and 12.0% in FY09 and FY10 (from 17.5% and 18.0% respectively). This leads us to net EPS estimates for 2009-2010 of €0.86 (€1.57) and €1.14 (from €1.79). Based on these estimates, the company will be able to generate positive cash flow despite a) returning an expected €1.5m and €1.7m in dividend in FY09 (€0.40 per share) and FY10 (€0.44 per share), and b) the redemption of debt.

Based on the difficult market conditions (i.e. productivity going forward) and the steep decrease so far in results of Adapté, we take a cautious view on TMC. First we would like to see the impact of cost cuts materialize in the first and second quarter results. Second, we believe the business model needs to prove itself in the current downturn, as we believe costs could increase significantly fast once the number of benchwarmers increases. In anticipation of gaining more confidence in the business model given the current market conditions, we downgrade TMC to **Marketperformer**.

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PROFIT & LOSS

| Profit & loss | 2008 | 2009E | 2010E |
|------------------------|----------|----------|----------|
| Revenue | 42,336 | 46,570 | 51,227 |
| Direct expenses | (28,034) | (32,366) | (34,322) |
| Gross margin | 14,302 | 14,204 | 16,905 |
| % gross margin | 33.8% | 30.5% | 33.0% |
| Indirect personnel exp | (6,080) | (7,265) | (8,312) |
| Other expenses | (2,007) | (1,650) | (1,750) |
| Extraordinary income | (39) | | |
| EBITDA | 6,176 | 5,289 | 6,842 |
| % EBITDA margin | 14.6% | 11.4% | 13.4% |
| Depreciation | (269) | (307) | (338) |
| % of revenue | -0.635% | -0.7% | -0.7% |
| EBITA | 5,907 | 4,982 | 6,504 |
| % EBITA margin | 14.0% | 10.7% | 12.7% |
| Amortization | (295) | (325) | (357) |
| % of revenue | -0.697% | -0.7% | -0.7% |
| EBIT | 5,612 | 4,657 | 6,147 |
| % EBIT margin | 13.3% | 10.0% | 12.0% |
| Financial result | (160) | (160) | (160) |
| EBT | 5,452 | 4,497 | 5,987 |
| % EBT margin | 12.9% | 9.7% | 11.7% |
| Tax | (1,412) | (1,165) | (1,551) |
| % tax rate | -25.9% | -25.9% | -25.9% |
| Net result | 4,040 | 3,332 | 4,437 |
| % net margin | 9.5% | 7.2% | 8.7% |

Source: Company & AEK Research

BALANCE SHEET

| | 2008 | 2009E | 2010E |
|--------------------------------------|--------|---------|---------|
| Balance sheet | | | |
| Intangible assets | 17,761 | 17,436 | 17,079 |
| Tangible assets | 1,145 | 1,250 | 1,300 |
| Financial assets | 970 | 970 | 970 |
| Non current assets | 19,876 | 19,656 | 19,349 |
| Inventory | - | - | - |
| Trade receivables | 8,396 | 9,236 | 10,159 |
| Tax receivables | - | - | - |
| Other receivables | - | - | - |
| Other current assets | 2,498 | 2,748 | 3,023 |
| Cash and cash equivalents | 2,123 | 3,992 | 5,164 |
| Current assets | 13,017 | 15,975 | 18,346 |
| Total assets | 32,893 | 35,632 | 37,695 |
| Equity | 23,378 | 24,768 | 27,142 |
| Borrowings and long term liabilities | 1,661 | 661 | - |
| Deferred tax liabilities | 637 | 637 | 637 |
| Long term liabilities | 2,298 | 1,298 | 637 |
| Current portion l.t. liabilities | 1,354 | 1,354 | 1,354 |
| Short term bank borrowings | - | - | - |
| Debt to related parties | - | - | - |
| Corporation tax | 263 | 363 | 463 |
| Other tax and soc. sec. | 2,099 | 2,099 | 2,099 |
| Trade payables | 791 | 1,500 | 1,500 |
| Other current liabilities | 2,710 | 4,250 | 4,500 |
| Total current liabilities | 7,217 | 9,566 | 9,916 |
| Total liabilities | 32,893 | 35,632 | 37,695 |
| Net debt | 892 | (1,977) | (3,810) |

Source: Company & AEK Research

CASH FLOW STATEMENT

| Cash flow statement | 2008 | 2009E | 2010E |
|--|---------|---------|---------|
| Net result | 4,040 | 3,332 | 4,437 |
| Depreciation | 269 | 307 | 338 |
| Amortization intangibles | 295 | 325 | 357 |
| Net financing expenses | 160 | 160 | 160 |
| Share based payments | (173) | (200) | (200) |
| Corporation tax | 1,412 | 1,165 | 1,551 |
| | 6,003 | 5,089 | 6,642 |
| Change in trade receivables | (2,617) | (840) | (924) |
| Change tax receivables | - | - | - |
| Change in other current assets | 441 | (250) | (275) |
| Change in trade payables | (14) | 709 | - |
| Change tax and other soc sec payable | 548 | - | - |
| Change in other liabilities and accruals | (664) | 1,540 | 250 |
| Interest paid | (219) | (165) | (110) |
| Corporation tax paid | (1,926) | (1,065) | (1,451) |
| Net cash flow from operating activities | 1,552 | 5,019 | 4,133 |
| Interest received | 59 | - | - |
| Acquisitions | - | - | - |
| Capital expenditure | (512) | (600) | (600) |
| Loans to associates | (147) | - | - |
| Net cash flow from investing activities | (600) | (600) | (600) |
| Share issue | - | - | - |
| Paid capital (Dividend) | - | (1,550) | (1,700) |
| Repayment of long term debt | (1,020) | (1,000) | (661) |
| Change trade payables related to share issue | - | - | - |
| Change in tax receivables related to share issue | - | - | - |
| Net cash flow from financing activities | (1,020) | (2,550) | (2,361) |
| Movement in cash and cash equivalents | (68) | 1,869 | 1,172 |
| Balance at start of year | 2,191 | 2,123 | 3,992 |
| Movement in cash and cash equivalents | (68) | 1,869 | 1,172 |
| Balance at end of period | 2,123 | 3,992 | 5,164 |

Source: Company & AEK Research



DISCLAIMERS

History recommendation

| Date | Previous Recommendation | New Recommendation |
|------------|-------------------------|--------------------|
| 22-05-2008 | Not Rated | Outperformer |
| 26-08-2008 | Outperformer | Outperformer |
| 19-03-2009 | Outperformer | Market performer |

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| Rating | Expected absolute share price performance | Time horizon |
|------------------|---|--------------|
| Outperformer | better absolute returns | 12 months |
| Market performer | same absolute returns | 12 months |
| Underperformer | less absolute returns | 12 months |

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