

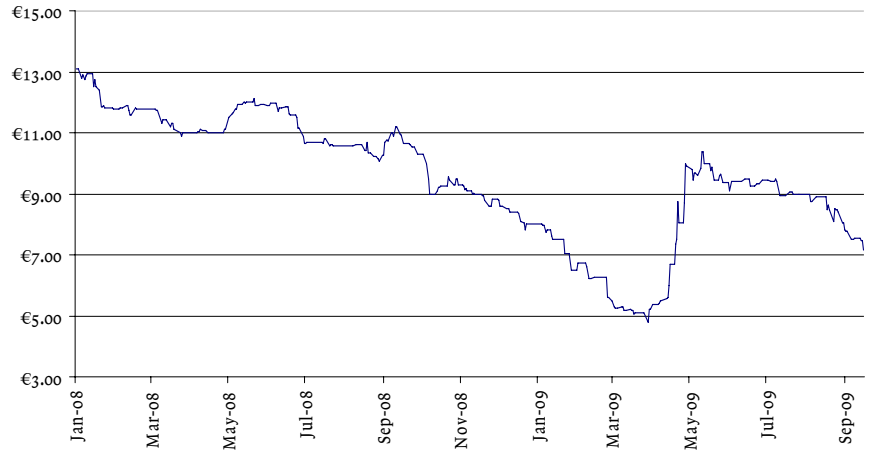
TMC GROUP

Share Data

Price	€7.14
Market cap	€29.0m
Outstanding shares	3,875,972
Year low/high	€4.80 / €10.94
Avg. daily volume	681 shares
Source Share Data: Bloomberg	

Major Shareholders

Mobion Holding B.V.	23.56%
Thijs Manders Beheer B.V.	23.56%
Cumano B.V.	15.71%
Bridge Career Holding B.V.	15.71%
S.P.Y.N. Holding B.V.	5.36%
Comnaar Investments B.V.	8.84%
Free Float	7.26%
Source Major Shareholders: AFM	



Source Price Graph: Bloomberg

Valuation Table TMC Group	Sales (€m)	EBITDA (€m)	EPS (€)	P/E	EV/EBITDA
FY08a	42.3	6.2	1.04		
FY09e	39.9	3.2*	0.46	15.5	8.9
FY10e	41.4	3.9	0.59	12.1	7.2

Source Valuation Table: AEK Research / TMC / Bloomberg,

TMC GROUP 1H09 FIGURES

- 1H09 top line results are in line with expectations, margins suffered from difficult market conditions
- TMC recorded a marginal drop in revenues of -3.9% (TMC Technology still increased revenue with 3.5%, ICT recorded substantial drop of -26.4% growth, while the Adapté business recorded an -8% decline)
- Number of employees dropped from 460 end of 2008 to 406 end of June 2009 (mainly because of outflow at Adapté and TMC Technology), as a consequence TMC does not expect a rebound in revenues soon, yet margins are likely maintained at current depressed levels
- With healthy balance sheet ratios left in place, we do not expect TMC will incur more extraordinary losses going forward (they recorded extraordinary restructuring expenses of about €600k, and impaired goodwill from acquisitions by €5.2m)
- TMC has proven to be decisive when it comes to cutting costs, while maintaining a focus on its strategy going forward, we maintain our **Marketperformer** rating

FIRST HALF YEAR REVENUE IN LINE, MARGINS UNDER PRESSURE

TMC's 1H09 showed a remarkable difference in operational performance between the different divisions. TMC Technology reported organic growth, which we consider to be a proof of the strength of the underlying business model. We are pleased to see the relatively good results from TMC ICT, which, despite a significant drop in revenues recorded a strong increase in operating margin.

In €000	1Ho8	2Ho8	1Ho9
TMC Technology	12,430	14,007	12,869
EBIT	2,229	2,155	1,448
in % of sales	17.9%	15.4%	11.3%
TMC ICT	2,953	2,906	2,173
EBIT	302	92	187
in % of sales	10.2%	3.2%	8.6%
Adapté	5,013	4,712	4,616
EBIT	952	547	-440
in % of sales	19.0%	11.6%	-9.5%

Source: AEK Research / TMC

The top line as well as bottom line results of the Adapté business (acquired in 2007) continues to disappoint. The decrease top line comes from a decrease in headcount, combined with lower utilization and significant pressure on tariffs. The latter two outpace the decrease in headcount, while fixed costs are likely to be reduced only marginally. This means, to our opinion, the operating profit from Adapté will continue to be negative at least until mid 2010 as we do not foresee a short term improvement in the construction and civil engineering market (we expect the anticipated impulse thanks to stimulus from the Dutch government will have its effect only as of 1H10).

Also, during the first half TMC disposed of the activities TMC Application Development and TMC Engineering & Construction. The activities were loss making and as such, the disposal, still consolidated in the first half figures, will have a positive impact on the operating profit going forward.

Excluding the extraordinary non-cash charge of €6.2m, TMC reported a gross margin of €5.8m (29.3%) versus €7.3m (35.8%) in 1Ho8. The EBIT result declined to €0.8m from €3.1m in 1Ho8. As a percentage of revenue, this implied a decline to 4.2% from 15.2%. Finally, net profit decreased to €0.5m versus €2.3m, implying a net margin of 2.8% versus 11.0%.

During the first half the number of employees showed a remarkable decrease, from 460 end of December 2008 to 406 end of June 2008. The number of indirect employees decreased as well to 72 (from 76). As a consequence, the ratio direct/indirect decreased to 5.6 from 6.05. In August FY08 the company stated that the ratio should increase to somewhere in the range of 7.00 and two years ago the ratio hovered above 8.00.

In our previous update on TMC we noticed the company could not address to which extent it expected the cost cutting measures to have an impact on overhead costs. With the first half release management has stated it expects a decrease of an estimated €400k in overhead costs annually, not too bad considering the extraordinary cost of €600k.

TMC has invested in the countrywide roll out of Adapté. CEO Manders has stated several times he expects to be able to counter challenges in the market where Adapté is active, especially because of increasing demand for 'total solutions' and accompanying consultancy projects. So far the company has not succeeded in doing so. With the impairment of €6.2m TMC acknowledges the forecasts were too positive and the expectations too high. A return to "business as usual" will probably take longer than previously anticipated. 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.

Meanwhile TMC very successfully proves the underlying business model with TMC Technology and TMC ICT. TMC technology continues to counter the difficult market conditions (organic growth), while despite a significant drop in revenues TMC ICT manages to increase its operating margin.

OUTLOOK

Due to the difficult market conditions for Adapté, the decrease in revenues at TMC ICT, and the disposal of two activities we need to lower our estimates going forward. We decrease our FY09 revenue target to €39.9m from €46.5m, and our FY10 target to €41.4m from €51.2m. As the company will probably have to deal with continued lower utilization and lower tariffs, we take into account lower margins as well. We reduce our EBIT margin estimates from 10.0% to 6.4% for FY09 (excluding the impairment on Adapté) and FY10 EBIT margin from 12.0% to 7.8%. This leads to a net EPS estimates for 2009 and 2010 of €0.46 (€0.86) and €0.59 (from €1.14) respectively.

With total assets at €5.2m, cash at €2.8m, shareholders' equity of €16.2m and total liabilities amounting to €€2.3m the group has enough means to counter the difficult market conditions, even if they were to exist for another two years (for instance: trade receivables are €5.9m, trade payables €0.3m, there is ample means left in working capital (i.e. factoring potential)). Nevertheless, despite the healthy balance sheet ratios, we expect TMC to skip its dividend payments for FY09 and maybe for FY10 as well.

Based on the difficult market conditions (i.e. productivity going forward) and the steep decrease so far in results of Adapté, we maintain our cautious view on TMC. First we would like to see the impact of cost cuts materialize in the third and fourth quarter results. Secondly we remain worried about the development at Adapté; a reversal, or even a halt, of the current downward trend (top line, bottom line as well as outflow personnel) would certainly help.

Yet, contrary to our previous believe, the current difficult environment has also proven the robustness of TMC's business model. It will be interesting to find out if TMC



Technology and TMC ICT are able to maintain the current performance in the next coming 12 months, a period we believe is the last (and probably most difficult) part of the current recession. The results so far have surprised us.

Despite revising our estimates downwards, where we pencil in zero dividends to be distributed in the next two years, we maintain our rating at **Marketperformer**.

Jeroen Willard, Financial Analyst

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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
17-09-2009	Marketperformer	Market performer

Supervisory authority

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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

Reliance

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