

# TMC GROUP

## Share Data

Price	€7.01
Market cap	€27.6m
Outstanding shares	3,937,766
Year low/high	€4.80/€10.39
Avg. daily volume	1,000 shares
Source: Bloomberg	

## Major Shareholders

Mobion	23.56%
Thijs Manders	23.56%
Comnaar	8.84%
TMC Group	6.35%
S.P.Y.N. Holding B.V.	5.36%
Source: AFM	



Source graph: Bloomberg

TMC Group	Sales	EBITDA	EPS	DPS
€7.01	(€m)	(€m)	(€)	(€)
FYo8a	42.3	6.2	1.04	0.40
FYo9a	37.2	-3.5	-1.20	-
FY10e	36.7 (36)	2.8 (1.5)	0.38 (0.23)	0.15 (0.10)

Source: TMC; AEK Research

## TMC GROUP FY09

- FY09 sales: €37.2m, slightly below our estimate of €38.3m
- Net loss FY09: -€4.7m (including impairment of €6.2m on Adapté)
- Strong operational cash flow €3.1m thanks to a sharp decrease in receivables
- No dividend as expected over FY09 (FY08: €0.40)
- No qualified outlook for FY10
- Solvency remains high with 63.3% (FY08: 71.1%)
- We upgrade our sales and profit estimates for FY10
- We upgrade our dividend FY10 estimate from €0.10 to €0.15 per share
- We maintain our **Market performer** rating

## EXCEPTIONAL YEAR

TMC reported a net loss for FY09 of -€4.7m. The net result includes an impairment of €6.2m which the company took in 1H09. Sales FY09 of €37.2m were slightly below our estimate of €38.3m. The EBIT margin, excluding the mentioned impairment, was in line with our estimate: 5.9%. Beside the impairment of €6.2m on Adapté, the company's result has been affected by more extraordinary costs. The company paid two former members of its management team in total €360k as severance payment. In addition €213k was spent on legal and advisory fees. Finally: TMC took a charge of €65k for bad debtors in 1H09.

Good news on that front is that the company did not take an additional charge in 2H09 on outstanding bills. Beside extraordinary costs over FY09 of in total €338k TMC received subsidies from the Dutch government totalling €1.2m. Management expects to receive €1.2m in subsidies over FY10 as well.

#### **OPERATIONAL REVIEW**

The most important business unit of TMC, Technology, performed relatively well during FY09. Sales over FY09 (€24.5m) were 7.3% lower compared to FY08. Technology contributed 65.9% of total sales. EBIT margin for FY09 came down to 10.6% (FY08: 16.6%). TMC ICT contributed €3.8m, or 10.1%, to group sales (FY08: €5.8m). EBIT showed a minus of €482k FY09. However, 1H09 EBIT for TMC ICT already showed a negative of €440k. This means ICT has virtually turned break even in 2H09 which tops our expectation. The effects of cost cutting and the divestment of TMC Application development BV and Dynamics professionals BV are already visible. Finally Adapté: sales FY09 came down to €8.9m (FY08: €9.7m). Total contribution to group sales amounts to 23.9%. EBIT margin FY09 was 0.8% (FY08: 14.8%). No second impairment was taken, based on the expectation of flat sales in FY10 and a modest recovery for FY11.

TMC ended 2009 with a cash position of €1.8m. That is marginally higher than our expectation of a cash position of €1.5 - €1.7m. Operational cash flow FY09 was strong with €3.1m, largely thanks to a better DSO. Management sees some room to further improve DSO, but we think the biggest gain on the DSO front is behind us.

#### **OUTLOOK FY10**

Management did not provide a qualified outlook for FY10. Some important clients of TMC, like Philips and ASML, showed confidence for 2010. TMC hopes to see demand for temporarily staffing from TMC Technology increase. For TMC ICT management sees clients holding back due to uncertainty in economic recovery. Management expects demand to pick up somewhat, mostly in 2H10. Finally: Adapté. The construction market was poor in FY09 and no immediate recovery for FY10 is expected. Some improvement for the construction market is however expected for FY11 by management. Should this recovery not occur, a second impairment will be inevitable.

As expected no qualified outlook was given by management for FY10. However, we are more upbeat for FY10, specifically with regards to the margins (see Table: 1). We estimate TMC Technology to report FY10 sales of €25.2m (up from €23.8m) with EBIT margin of 10.4% (up from 6.8%). For ICT we are slightly less upbeat with regards to sales: €3.6m (down from €4.1m), but much more optimistic for the FY10 EBIT margin: 2.5% (vs earlier expected +/- 16.5%). Finally Adapté: we estimate sales at €7.9m (€8.1m), but hold on to our previous estimate of a break even result for FY10. We are however not convinced about the presumption that Dutch construction market will show a recovery in 2011.

Table 1: EBIT margin break down

<b>Sales break down (€)</b>	<b>FY08a</b>	<b>FY09a</b>	<b>FY10e</b>
TMC Technology	26,437,000	24,501,000	25,200,000
EBIT	4,384,000	2,606,000	2,620,800
margin in % of sales	16.6%	10.6%	10.4%
TMC ICT	5,859,000	3,761,000	3,550,000
EBIT	394,000	(482,000)	88,750
margin in % of sales	6.7%	-12.8%	2.5%
Adapté	9,725,000	8,883,000	7,900,000
EBIT	1,499,000	73,000	0
margin in % of sales	15.4%	0.8%	-
total EBIT in % of sales	14.9%	5.9%	7.4%

Source: TMC; AEK Research

#### SUMMARY

TMC reported a net loss of €4.7m for FY09. That net loss includes however a one off impairment of €6.2m on the purchase of Adapté (2007) and the company incurred some exceptional costs of in total €38k, mostly with regards to the ousting of two former members of the management team. Management has acted swiftly when confronted with the strong economic headwind in 2008/2009 by cutting costs and closing/divesting loss-making business. We are more upbeat with regards to FY10: not as much on the sales front, but more on the recovery of the margins. Margins are expected to recover thanks to TMC ICT which returns to operational profitability, TMC Technology and Adapté are expected to bottom out during FY10. However, management stated that it will take time (years) before margins will return to pre-crisis level.

We do not expect a full blown recovery for the market for temporarily staffing in 2010. As stated in earlier reports, it will take time to fully recover from the extraordinary economic downturn as experienced through late 2008 and full year 2009. Peak earnings for TMC are not expected before 2012. Current valuation of TMC is somewhat challenging for the short term when calculated on a forward P/E (17.8), or estimated dividend yield (2.2%). However, based on the ratio EV/EBITDA (FY10E: 5.4) valuation is less challenging. We emphasise that FY10 estimates include roughly €1m in subsidies from Dutch government.

The proven business concept, the earnings potential and the solid balance sheet give room for an upgrade once markets for temporarily staffing show a fundamental recovery. We maintain our **Market performer** rating on TMC Group.

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Table 2: Profit & Loss

€	FY05a	FY06a	FY07a	FY08a	FY09a	FY10e
Revenues	6,100,000	14,050,000	27,355,000	42,336,000	37,151,000	36,650,000
Direct staff expenses	(4,001,000)	(9,236,000)	(17,244,000)	(28,034,000)	(25,042,000)	(25,450,000)
Gross margin	2,099,000	4,814,000	10,111,000	14,302,000	12,109,000	11,200,000
% gross margin	34.4%	34.3%	37.0%	33.8%	32.6%	30.6%
Indirect staffing costs	(501,000)	(1,321,000)	(3,695,000)	(6,080,000)	(6,650,000)	(6,200,000)
Other costs	(621,000)	(640,000)	(1,280,000)	(2,046,000)	(8,912,000)	(2,175,000)
EBITDA	977,000	2,853,000	5,136,000	6,176,000	(3,453,000)	2,825,000
	16.0%	20.3%	18.8%	14.6%	-9.3%	7.7%
D&A	(7,000)	(26,000)	(259,000)	(564,000)	(557,000)	(557,000)
EBIT	970,000	2,827,000	4,877,000	5,612,000	(4,010,000)	2,268,000
	15.9%	20.1%	17.8%	13.3%	-10.8%	6.2%
Finance income	-	19,000	123,000	59,000	48,000	35,000
Finance expense	(52,000)	(130,000)	(209,000)	(219,000)	(218,000)	(290,000)
EBT	918,000	2,716,000	4,791,000	5,452,000	(4,180,000)	2,013,000
Tax on result	(281,000)	(803,000)	(1,230,000)	(1,412,000)	(560,000)	(523,380)
Tax %	-30.61%	-29.57%	-25.67%	-25.90%	-13.40%	-26.00%
<b>Net result</b>	<b>637,000</b>	<b>1,913,000</b>	<b>3,561,000</b>	<b>4,040,000</b>	<b>(4,740,000)*</b>	<b>1,489,620</b>
*incl. impairment						
€6,2m						
<b>EPS (€)</b>					<b>(1.20)</b>	<b>0.38</b>

Source: TMC; AEK Research

Table 3: Balance sheet

€	FY05a	FY06a	FY07a	FY08a	FY09a
Tangible assets	25,000	107,000	902,000	1,145,000	927,000
Intangible assets			18,056,000	17,761,000	11,298,000
Financial assets			823,000	970,000	852,000
<b>Total non-current assets</b>	<b>25,000</b>	<b>107,000</b>	<b>19,781,000</b>	<b>19,876,000</b>	<b>13,077,000</b>
Trade receivables	1,420,000	3,469,000	5,779,000	8,396,000	6,466,000
Tax receivable: profit		67,000			6,000
Tax receivable: other	51,000	272,000			
Other current assets	521,000	1,108,000	2,939,000	2,498,000	2,429,000
Cash + cash equivalents	302,000	5,001,000	2,191,000	2,123,000	1,825,000
<b>total current assets</b>	<b>2,294,000</b>	<b>9,917,000</b>	<b>10,909,000</b>	<b>13,017,000</b>	<b>10,726,000</b>
<b>Total assets</b>	<b>2,319,000</b>	<b>10,024,000</b>	<b>30,690,000</b>	<b>32,893,000</b>	<b>23,803,000</b>
<b>Equity</b>	<b>490,000</b>	<b>6,804,000</b>	<b>19,511,000</b>	<b>23,378,000</b>	<b>15,068,000</b>
Borrowings & long term liabilities			2,896,000	1,661,000	338,000
Deferred tax liabilities			712,000	637,000	562,000
Long term liabilities			3,608,000	2,298,000	900,000
Current portion long term liabilities			1,139,000	1,354,000	2,844,000
Tax on profit	366,000	978,000	702,000	263,000	
Other tax and soc sec			1,551,000	2,099,000	2,269,000
Trade payables	124,000	1,210,000	805,000	791,000	506,000
Other current liabilities	360,000	818,000	3,374,000	2,710,000	2,216,000
<b>Total current liabilities</b>	<b>1,829,000</b>	<b>3,220,000</b>	<b>7,571,000</b>	<b>7,217,000</b>	<b>7,835,000</b>
<b>Total liabilities &amp; Equity</b>	<b>2,319,000</b>	<b>10,024,000</b>	<b>30,690,000</b>	<b>32,893,000</b>	<b>23,803,000</b>

Source: TMC Group

Table 4: Cash flow statement

€	FY06a	FY07a	FY08a	FY09a	FY10e
<b>profit for the period</b>	1,913,000	3,561,000	4,040,000	(4,740,000)	1,489,620
<i>adjustments for:</i>					
depreciation fixed assets	26,000	112,000	269,000	263,000	263,000
amortization +impairment tangible assets		147,000	295,000	6,463,000	293,000
finance costs	111,000	86,000	160,000	170,000	255,000
stock based compensation	15,000	159,000	(173,000)		
corporate (profit)taxes	803,000	1,230,000	1,412,000	560,000	1,400,000
	<b>2,868,000</b>	<b>5,295,000</b>	<b>6,003,000</b>	<b>2,716,000</b>	<b>3,700,620</b>
Working capital adjustments:					
Trades + other receivables	(1,998,000)	(1,407,000)	(2,617,000)	1,930,000	772,000
other current assets	(587,000)	(662,000)	441,000	69,000	
Trades + other payables	202,000	315,000	(14,000)	(285,000)	(125,000)
other taxes + soc sec	695,000	281,000	548,000	170,000	
other current liabilities	458,000	919,000	(664,000)	(494,000)	
<b>CFO</b>	<b>1,366,000</b>	<b>5,013,000</b>	<b>3,697,000</b>	<b>4,106,000</b>	<b>4,347,620</b>
interest paid	(130,000)	(202,000)	(219,000)	(218,000)	(255,000)
corporate taxes	(886,000)	(973,000)	(1,926,000)	(904,000)	(950,000)
<b>Net cash flow from operational activities</b>	<b>350,000</b>	<b>3,838,000</b>	<b>1,552,000</b>	<b>2,984,000</b>	<b>3,142,620</b>
<b>Net cash flow from investing activities</b>	<b>(89,000)</b>	<b>(9,027,000)</b>	<b>(600,000)</b>	121,000	0
<b>Net cash flow from financing activities</b>	<b>4,456,000</b>	<b>2,381,000</b>	<b>(1,020,000)</b>	<b>(3,403,000)</b>	<b>(2,097,000)</b>
<b>Cash flow for the period</b>	<b>4,717,000</b>	<b>(2,808,000)</b>	<b>(68,000)</b>	<b>(298,000)</b>	<b>1,045,620</b>
Cash + cash equivalents at start of the period	282,000	4,999,000	2,191,000	2,123,000	1,825,000
Cash + cash equivalents at end of the period	4,999,000	2,191,000	2,123,000	1,825,000	2,870,620
<b>Cash flow for the period</b>	<b>4,717,000</b>	<b>(2,808,000)</b>	<b>(68,000)</b>	<b>(298,000)</b>	<b>1,045,620</b>

Source: TMC; 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
17-09-2009	Market performer	Market performer
17-02-2010	Market performer	Market performer
26-03-2010	Market performer	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

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