1 April 2010

DouglasBay Capital

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/08**	176	6.8	0.34	0.0	19.9	N/A
12/09e	662	11.4	0.85	0.0	7.9	N/A
12/10e	690	17.3	1.14	0.0	5.9	N/A

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items.
**Period from incorporation on 20 May 2008 to 31 December 2008.

Investment summary: Active value strategy

DouglasBay Capital (DBAY) is an investment vehicle, formed in 2008 to pursue an opportunity driven, active value investment strategy. Seeded by Laxey Partners (which still holds 93% of the equity), it has made one acquisition to date, European logistics company TDG. This has illustrated how DBAY plans to enhance the value of acquired assets. TDG is leaner post asset sales and rationalisation, its gearing has fallen and margins have been helped by lower overheads and a focus on profits, not revenues. DBAY's rating is an attractive way to access the initial acquisition and the future application of an investment style well placed to leverage a recessionary economic environment.

TDG: Initial investment responding to initiatives

Although TDG has delivered profits ahead of sector peers, DBAY sees potential for further upside from business improvement initiatives, cyclical recovery, the future realisation of non-core assets and, in a consolidating sector, ultimately, TDG itself.

Sensitivities: Gearing to cyclical logistics industry

We identify three issues: 1) DBAY's performance currently pivots almost entirely upon trading at TDG and, although it has materially improved returns, logistics is a cyclical business; 2) DBAY shares are illiquid, ie Laxey Partners holds 93%, which may influence decisions on fund-raisings, future distributions and exits; and 3) there is limited visibility regarding the timing, sector or scale of future investments.

Financials: Net debt set to decline during FY10

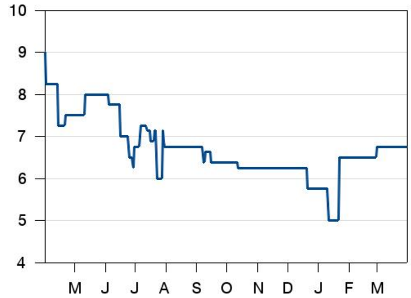
DBAY's financial position is effectively TDG's. Mid 2009 net debt of £109m has since been cut by further asset sales to an estimated £90m. Additional property disposals (we estimate another £30-40m in 2010, similar to the amount raised in 2009), could cut this further and put TDG on track to be debt free by late FY10/early FY11.

Valuation: Rating behind recovery potential

TDG's revenues for FY09 are expected to be c 10% lower y-o-y, but DBAY initiatives drove improvements on a like-for-like bases (adjusted for property sale & leaseback) in both EBITDA and operating profit. A rating of 5.9x earnings for FY10 is undemanding, solely on TDG's growth and exit potential and is well below the operation's sector 'peers'.

Price	6.75p
Market Cap	£91m

Share price graph



Share details

Code	DBAY
Listing	AIM
Sector	Investment Holding Companies
Shares in issue	1.34bn

Price

	High	Low
52 week	9.0p	5.0p

Balance Sheet as at 30 June 2009

Debt/Equity (%)	128
NAV per share (p)	6.77
Net borrowings (£m)	109

Business

DBAY is an opportunity driven active value investor. Formed in May 2008, the majority of its current portfolio comprises the investment in logistics group TDG, acquired in October 2008.

Valuation

	2008	2009e	2010e
P/E relative	187%	55%	52%
P/CF	0.7	0.8	0.4
EV/Sales	1.2	0.3	0.2
ROE	5%	15%	17%

Revenues by geography

UK	Europe	US	Other
69%	31%	0%	0%

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DouglasBay Capital is a research client of Edison Investment Research Limited

Investment summary: Active value strategy

Company description: Hands-on opportunistic investor

DBAY is an AIM-listed investment holding company. It invests in quoted and unquoted small and mid-sized companies. The investment strategy is primarily that of a value investor, with an intention to take a hands-on approach, ie similar to an "active value" investor. DBAY aims is to provide shareholders with capital growth and dividends from investment performance and exits. DBAY was seeded by Laxey Partners, the activist asset manager, which still holds 93% of the equity.

Valuation

The current share price of 6.75p implies a valuation of 5.9x FY10e earnings and is highly attractive relative to the intrinsic value of the existing investment portfolio and underpinned by strong asset backing. Initiatives at TDG are progressing well; it is delivering peer group leading performance. However, we see further scope to extract value from business improvement, cyclical recovery, asset sales, debt reduction and ultimately realisation. The creation of DBAY Property Group focuses attention upon the longer-term development potential of two properties, one in an urban location earmarked for mixed use redevelopment and another only part used by TDG for logistics. Besides a very attractive investment in the logistics sector, investors would also access the skills of a management team with a prior track record as a hands-on value investor and the application of a strategy that has already generated results at TDG to future acquisitions.

Sensitivities: Logistics industry & dominant shareholder

We identify three issues. Firstly, current forecasts and financials are almost entirely geared to TDG performance and thus the logistics industry, a cyclical business vulnerable to recessionary influences. Rationalisation of the business has improved EBITDA and operating margins despite a decline in turnover and the more specialist nature of the operation has proved resilient. Secondly, at this stage, with no visibility regarding future investments, it is difficult to make any assertion regarding management's ability to repeat the initial success achieved at TDG. Thirdly, DBAY shares are tightly held, with a 93% shareholder in founder Laxey Partners. We believe it will dilute its stake as DBAY makes future acquisitions, but in the meantime a lack of liquidity may deter minority investors.

Financials: Steady improvements at TDG, debt to fall further

There is only one set of annual results for DBAY, which itself only covers one quarter's trading, ie from the acquisition of TDG in October 2008. DBAY's figures are broadly those of TDG. H109 revenues were £328m and pre-tax losses £2.9m, the latter post £5.1m of exceptional, one-off costs. The group ended H109 with net debt at £109m, now estimated to be around £90m post asset sales. If further property disposals are consummated (we believe a further £30-40m worth of property could be disposed via sale & leasebacks in 2010), it has the potential to pay down all outstanding debt by end FY10, early FY11. Rationalisation of the TDG business and overhead savings have enhanced EBITDA and operating margins, both of which have improved during the 12 months to end September 2009, despite a 10% fall in turnover.

DBAY plans additions to its investment portfolio, both complementary bolt-ons at TDG and entirely new businesses. These will be funded, depending upon their size, from existing cash and debt facilities, or equity issues.

Company description: A hands-on active value investor

DBAY is an AIM-listed investment holding company. It invests in quoted and unquoted small and mid-sized companies. The investment strategy is primarily that of a value investor with a direct, hands-on approach, similar to the active value investment approach. The intention is to provide shareholders with capital growth and dividends as investments are realised. DBAY was seeded by Laxey Partners, the activist asset manager, which still holds 93% of the equity.

Value investment mandate

The traditional understanding of value investing was that outlined by Ben Graham over 70 years ago. This is that investment should not be passive and should be made only after a detailed assessment of the facts, where there was a compelling valuation that provides a margin of safety, and a return that was better than other viable options adjusted for risk. This is far more than a simple stock picking style, based on, for example, low valuation multiples or discount to book value.

DBAY's broad investment mandate is designed to provide the flexibility necessary to maximise value. The fund has no end date or requirement for confirmation votes for its extension. Its investment approach is, candidly, to act as a catalyst for change within any assets acquired. To achieve this it will take minority or majority stakes in private or listed companies and simultaneously seek to capitalise on its expertise in stake building derived from the team's Laxey background. It regards this ability to acquire stakes at the right price as an important component of building value.

It seeks influence and/or control in situations where the market has mispriced equity, perhaps where a company has not fully realised its true potential. It is not a passive investor, but actively works with management teams to support them in development of investments.

Hybrid investor: Between hedge fund and private equity

The group's positioning as a hybrid investor provides no identifiable direct competitor or peer group. Although the business model has elements in common with hedge funds, private equity, value investment or even turnaround specialists, its difference is 1) that it can handle the entire investment cycle in-house and 2) the speed at which it can act once it has taken a decision.

Management has positioned the business between hedge funds, which seek to maximise alpha return while hedging against any market risk (particularly on quoted investments), and private equity investors, where the strategy is to maximise returns via operational and strategic repositioning and leverage. Both also seek to exercise influence and act as catalysts for change in order to revitalise, reposition or improve the efficiency of companies and, in time, liquidate undervalued assets.

A further source of differentiation lies in the group's in-house team, which has the capacity to execute the entire investment process from identification to change management and exit. The team combines expertise gained at hedge funds, private equity, operational management, investment banking, restructuring & change management and real estate investment.

It also has access to sector skills, either in-house or via a network of advisors, to identify devalued opportunities, buy stakes, turnaround assets and revitalise strategy. This skill-set allows it to integrate rapidly with the management teams of the companies in which it invests.

Exhibit 1: TDG fact sheet

Operations and performance

TDG

The business operates from 130 sites throughout the UK, Ireland and Europe (Poland, Netherlands, Hungary, Spain, Germany and Belgium). It is one of Europe's leading supply chain management companies, with c 6,500 employees, 1,200 vehicles and over 1.7m^2 of warehouse space and one million pallet locations across Europe.

The group has well established customer relationships in the general market, complemented by specialist skills in such areas as paper and packaging, speciality chemicals, supply chain management and freight forwarding. The intention is to grow and channel future investment into these latter areas and, conversely, reduce the proportion of group business derived from the general market which is subject to most intense competition and pressure on margins. Acquisitions made during 2006 and early 2007, including Mond, SCA Transport, Bradship, Brisk and Doman, all reflect this focus and it is seeking further opportunities to expand in these areas.

Results highlights

	FY07 £m	FY08 £m	FY09e £m
Revenue	669.5	733.1	662.0
Underlying operating profit	20.4	26.8	20.0
Underlying profit before tax	15.7	21.6	17.3
(Loss)/profit before tax	15.8	(4.1)	1.4

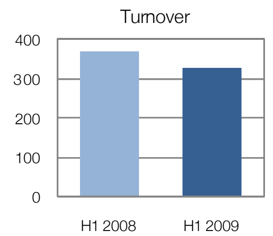
Financial performance

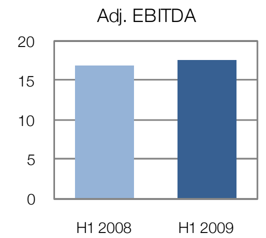
TDG traded resiliently in H109 despite difficult market conditions. Underlying operating profit was in line with H108 at £9.2m adjusted for planned property lease costs and DBAY management charges. That was a solid performance relative to a 12% fall in turnover (£327.8m) and compared with the operations logistics industry peers. The former TDG Contract Logistics division performed well and offset the impact of the downturn experienced by the chemicals business.

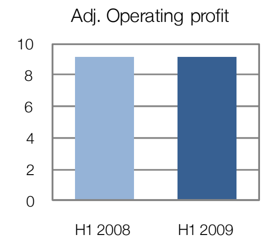
During the first half, DBAY implemented a number of changes intended to more rapidly realise the profit growth and cash generation potential that underpinned its rationale for acquiring TDG in October 2008.

- It combined TDG's two divisions and reorganised it along product and service offerings. The London office was closed and the finance function transferred to a consolidated head office organisation in Manchester.
- It introduced a new entrepreneurial culture across TDG, focused on cash generation, return on investment and rigorous cost control.
- Business development initiatives secured major new business in H109, including two blue chip UK customers with further wins achieved in H209.
- It established a sales and marketing capability in Hungary and secured access to a world class warehousing facility on a flexible, variable cost basis. This provides a foothold into Central and Eastern European markets.
- It established DouglasBay Property Group. There was a selective disposal of ownership in land and buildings including the £17.9m sale of a Dutch warehouse facility at Veenendaal. Additional disposals reduced net debt by £16.4m in H209. As a result of these sales and operational cash generation, DBAY's net debt fell by £21.1m during H109 to £108.5m. Another £16.4 of property sales were completed in H209 and further disposals and sales & leasebacks are under consideration.

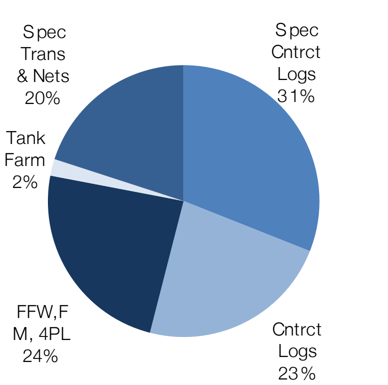
H1 2009 vs H1 2008 (£m)



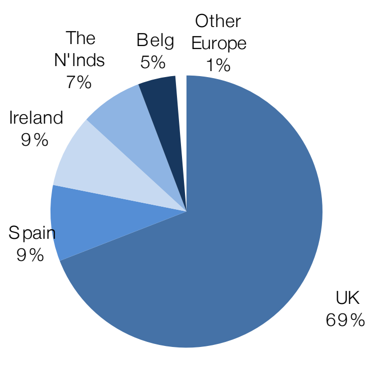




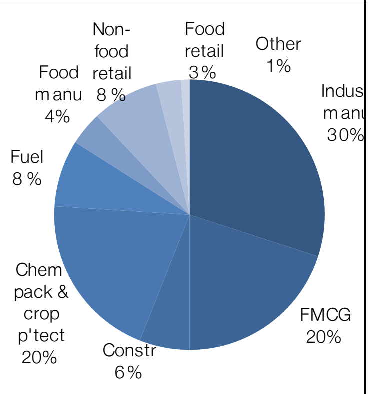
Divisional breakdown



Geographic breakdown



Revenue breakdown



Source: Edison Investment Research

Investment portfolio and growth strategy

The intention is for DBAY to grow via acquisitions that meet its active value criteria, while simultaneously managing the investment portfolio to generate attractive returns. Since its AIM listing, DBAY's management has focused upon enhancement of the value of TDG, but simultaneously reviewed other investment opportunities.

To date these have either been rejected when the due diligence stage identified unacceptably high risks, or because DBAY was unable to gain sufficient access to the assets to carry out detailed research. The intention is to continue to review new investments which will be financed from existing resources or via a rights issue at the time of purchase. The current investment portfolio is set out below.

Exhibit 2: Current investments

Logistics TDG	Real estate DouglasBay Property Grp	Other equity investments
One of Europe's leading logistics group of companies with 130 locations across seven countries: 6,500 staff and £733m turnover in FY08. Acquired by DBAY for £206m in October 2008. Focus on specialised markets with high complexity, and on know-how driven solutions: - Supply Chain Management - Freight Forwarding & Management - Specialised third party logistics Market leader in chemicals logistics in UK, Iberia & Benelux.	Owns substantial development opportunities: - Carnforth town centre - 125 acre site in Nottingham Also manages TDG's logistics properties in UK, Belgium, Holland, Spain, France (including 1.1m sqm of warehousing space owned by TDG).	Listed cos (net assets £3m). Other investments include stakes in unlisted tea plantations in Sri Lanka (net assets £3m). In liquidation.

Source: DBAY

Management team and track record

Although there is certainly value in the existing assets, the group's attractions pivot upon investors' belief in the ability of the management team to apply the investment strategy to extract value from acquisitions over the medium term. The progress made at TDG since its acquisition provides an illustration of the team's skill-set.

Although DBAY is at a relatively early-stage from an investor's perspective, the management team can leverage a depth of relevant experience gained in investment and active company management. In addition to CEO Alex Paiusco's specific experience of activist investment management at Laxey, DBAY's (and TDG's) CFO, Geoff Bicknell has a depth of expertise in turning around under performing companies in industries such as automotive and IT services.

Investment process

The company follows a structured approach to identifying, securing, adding and realising value from any investment. This is outlined below, with TDG as an illustration.

Exhibit 3: The DouglasBay investment process

	DBAY Investment Process	TDG
Step 1: Identification of value/ mispricing ie good assets, some issues, low visibility	Focus on small/mid cap European universe of over 2,500 listed companies with a market cap below £200m. Companies suffering illiquidity discounts, sub-scale, inadequate management, poor governance and/or poor coverage. Where mispricing is not a function of fundamental decline, but due to temporary issues and low visibility. Underlying assets fundamentally sound. Opportunities generated by DBAY in-house, or network of bank and intermediary contacts. Rigorously researched to identify hidden value and assets. Clarity from the outset regarding potential value creation.	Investment was identified in-house following a review of the sector and its underlying fundamentals (global trade/outsourcing trends). A detailed review was undertaken of the business potential before any approach. Included a review of the property assets, including external appraisal and valuation. Each property was investigated (leasehold/freehold) and visited to consider hidden value.
Step 2: Plan for value creation	Early clear path for enhancing the value of the investment. That can be operational, financial or strategic.	Identification of the opportunity to increase underlying value of the business by separation of the group's substantial property portfolio, not reflected in the market valuation at that time. Based on DBAY's assessment, the true market value of the property portfolio meant that minimal value was attributed to the operating business.
Step 3: Secure the assets and financing	This is regarded as an important component of the generation of superior returns, as it provides an opportunity to lower the entry price. DBAY has strong in-house expertise in stake building and financing of acquisitions. That can materially improve the potential returns on any investment. DBAY was able to accumulate a 22% stake in TDG without having to pay a significant control premium.	With the support of Laxey Partners DBAY secured a 22% stake in TDG before it bid for the company. That put it in a strong position to fend off a competing and substantially higher bid from Wincanton and secure the assets despite resistance from previous TDG management. DBAY took advantage of the falls in equity markets in 2008 to achieve a recommended offer for the company at 5.6x forecast EBITDA. It also secured debt financing during a difficult market in summer 2008.
Step 4: Implement the plan	Work with management to implement a value creation plan, taking a very hands-on approach.	DBAY's team is working closely with TDG management to improve group operations. Like-for-like EBITDA growth was achieved in H109 vs declines for much of peer group.
Step 5: Realising value	As a value investor, DBAY can hold assets as long as they are perceived to generate superior returns for shareholders. The aim is to turn around assets to generate high double-digit returns on the initial investment from annual cash flows.	TDG's cash generation has improved substantially since the takeover. DBAY has already realised £40.5m of TDG's property assets and has another £40m under offer.

Source: DBAY documents/Edison Investment Research

TDG: A case study for DBAY's investment strategy

Most of DBAY's assets relate to its holding in TDG, acquired in October 2008 as a good candidate for an activist investor. Its sector (logistics) was poorly covered while equity illiquidity created an opportunity for mispricing. DBAY's investment team felt that the market had ignored TDG's property asset backing and valued it as a standard contract logistics business, although freight forwarding and specialised logistics represented two-thirds of operations. The latter enjoys distinct margins, growth rates and valuation multiples. In addition, DBAY saw logistics as a sector with attractive underlying fundamentals, well placed to benefit from the inexorable rise in global trade.

Logistics sector and company prospects underpinned by trends

The logistics sector benefits from a continuing trend towards outsourcing. Transport Intelligence estimated the 2008 global logistics market at €941bn, only 28% outsourced to specialist third-party providers. DBAY saw potential for customers to capitalise upon efficient logistics processes to substantially reduce inventory levels. A second attraction was a fragmented sector in which consolidation was highly probable, considering the benefits to be derived from economies of scale. Figures put market leader DHL at below 5% market share and CEVA at 2.6% (2008).

DBAY was drawn by TDG's weighting towards specialised logistics and freight forwarding, rather than more commoditised contract logistics. Freight forwarding is an 'asset light' brokerage style business, an attribute that should enable better control of the cost base, particularly important in a recession. Thanks to its diversified customer base, TDG's contract logistics business has also proven to be highly resilient on a profit level. This reflects TDG's image as trusted partner and strong brand with a good record of long-term relationships and client retention.

It also saw the benefits of TDG's large freehold property portfolios, ie genuine downside protection for the investment and by implication that TDG's margins, while superficially in line with its peers, were actually well below if adjusted for rent saved by occupying its own premises. That pointed to operational shortcomings and potential for efficiency savings.

Operational leverage plus arbitrage opportunity

DBAY paid £206m (£240m EV including net debt) for TDG, equivalent to 5.6x FY08 EBITDA. The transaction was financed by funds managed by Laxey Partners by 1) exchanging the shares it owned in TDG for DBAY equity and 2) underwriting a £75m share issue at 10p/DBAY share. This was supplemented by a five-year, £165m Asset-Backed Lending facility provided by Burdale/Bank of Ireland, plus a syndicate made up of Barclays and Lloyds.

DBAY's management intended to streamline TDG and accelerate its know-how based product development. Value could be created by splitting property assets into a separate financial and operating entity, ie DBAY Property Group. At acquisition these consisted of 5m sq ft of TDG-owned sites valued at their £185m cost, a figure which DBAY regarded as a material discount to the portfolio's market value, yet close to the total purchase price it paid for the entire TDG group.

It identified early opportunities to release value through property sales or sale & leasebacks at 8-10% initial valuation yields, equivalent to 10-12x EBITDA. Since acquisition it has sold c £40.5m of TDG property assets at 10x EBITDA and further property assets are to be disposed. Outstanding debt is expected to have substantially reduced in the year to end of December 2009, from £132m to about £90m as a result of strong cashflows and asset sales. TDG should be debt free by 2011.

TDG business model

The core of a business model that has proven resilient through the business cycle is the 50:50 split between open book (ie cost plus) contracts, where TDG earns a management fee, and closed book, where the risk is higher but so is potential profit upside. That is supplemented by its ownership of the UK's largest network of public cold stores for the smaller food retailer and manufacturer, and the Dagenham tank terminal operation. There are four main income streams, as shown in Exhibit 4.

Exhibit 4: TDG revenue streams

Contract Logistics	Provision of outsourced logistics services for blue chip customers in the UK and Europe
Specialised Contract Logistics	Specialised contrac logistics, typcially with high barriers to entry and underpinned by highly innovative solutions, eg manufacturers consolidation centres
Transport Management & Networks	Handling transport, including full loads and part loads across Europe
Freight Forwarding / Management / 4PL	Shipments to overseas markets by air, sea and road. 4PL (fourth-party logistics) is an arrangement whereby a business contracts/outsources its logistical operations to two or more specialist firms (third party) and hires another specialist firm (the fourth party) to coordinate the activities of the third parties
Tank Terminals	Operation of a chemical/petrol storage facility in Dagenham

Source: DBAY documents

TDG is an innovator in 4PL and uniquely positioned with its "collaboration platforms", whereby owners share warehousing and trucks in order to reduce costs. While collaboration is discussed widely in the industry, TDG has actually implemented a solution for several clients. It brings together two quite different customers with similar product characteristics (eg high volume, low weight). Substantial savings and operational efficiencies (reduced carbon footprint) have been realised.

TDG appears well-positioned with an existing and growing pan-European platform, strong client relationships in the UK and selected European countries, a fast-growing freight forwarding business and a focus upon specialised logistics. It is a market leader in packed chemicals, an area with high barriers to entry due to the complexity of hazardous goods transport and high standards/permits required for warehousing. This specialised area of expertise drives business to TDG, as do assets such as its tank/fuel storage facility on the river Thames in Dagenham, a high margin operation, and its cold storage network, which is the largest of its kind in the UK.

Outlook for TDG

The strategy is to continue to drive business improvement. This is currently focused upon underperforming international assets and the development of new business lines. The good financial position (estimated year-end leverage of less than 2x EBITDA) should improve in the short term, with debt to fall post further disposals of surplus property. TDG will also review strategic options for its Dagenham tank terminal, which may at some stage become a separate investment within DBAY. There is potential to grow TDG by acquisition and DBAY has identified potential bolt-on purchases for 2010 to provide a growth platform in new geographies. An example on a small scale is the recently completed acquisition of RRS Logistics, a Hungarian logistics services provider. Although it is relatively small in size, the business has a blue-chip client base, and is seen as platform for further expansion in the region.

Sensitivities: Operational and equity specific

TDG: Trading and economic recovery

The performance of a logistics business will logically track that of the economies in which it trades. TDG operates on a contracted basis, which supports FY10 forecasts. We have assumed a slow recovery in the UK and no double-dip recession. Recent performance points to profit resilience to short-term revenue volatility, but further action may be taken to match overheads to demand.

Early stage investment strategy; no visible acquisition pipeline

DBAY has completed one acquisition to date. The active value investment strategy has attractions as a way to generate returns from assets purchased in the current economic environment, but at this stage any future potential is largely hypothetical, other than specifically relating to TDG. There is no certainty that DBAY will secure future investments and, although several opportunities are currently being investigated, no detail has been provided regarding likely sectors, scale or timing.

Dominant shareholder and outstanding put option

DBAY is run as a standalone investment vehicle, but has a dominant shareholder in Laxey Partners, whose 93% stake could influence decisions. Laxey's benefits are the same as other investors. It does not charge a management fee and thus the interests of all shareholders should be aligned, with a focus on share price maximisation or cash distribution. As the fund identifies and secures future investments it plans to finance these with equity issues and progressively increase the free float. Laxey has recently purchased further shares in DBAY including 5.5m at 6.1p/share on 1 February.

Approximately 70m shares are subject to a put option at 12p that could potentially be exercised in Oct/ Nov this year. These relate to a share buyback for Laxey Investment Trust's (TLIT) external shareholders agreed at the time of the acquisition. Some 100m of 1.3bn DBAY shares were held by former TLIT shareholders, but the put options only relate to shares retained by those original investors (c 70m shares). That could consume some £8-9m of cash and also shrink the free float.

Valuation

DBAY is currently valued at below underlying asset value and its logistics industry peer group, although the business profiles are not identical. A forward FY10 P/E of 5.9x looks attractive relative to a peer range of 10-23x, although it does not at this stage pay a dividend. We do not expect any distribution in the current year, although this is a key component of DBAY's strategy.

Exhibit 5: Peer group comparison

	Share price	Market cap £m	NAV/ Share FY+1	P/E Hist.	P/E +1	P/E +2	EV/ EBITDA Hist.	EV/ EBITDA +1	EV/ EBIT Hist.	EV/ EBIT +1	Div Yield Hist.	Div Yield +1
DouglasBay Capital	6.75p	90	6.6	19.6	7.9	5.9	4.7	3.5	9.0	6.0	0.0%	0.0%
Wincanton	201.25p	243	0.0	17.3	9.6	9.4	7.0	4.4	10.9	8.0	7.4%	7.4%
Norbert Dentressangle	€50.00	391	37.0	13.8	20.2	13.2	5.5	4.8	15.6	11.8	0.9%	0.9%
Kuehne & Nagel Interna	CHF 108	8,079	19.6	24.5	23.4	20.7	7.9	7.2	10.8	9.7	2.4%	2.4%

Source: Edison / ThomsonONE (EUR/GBP 0.8854 CHF/GBP 0.6245)

Our forecasts are based entirely on the prospects for TDG and ignore the possibility of further acquisitions, either bolt-on or entirely new investments. The FY10 forecast is underpinned by a high proportion of contracted revenues, while cash generation and further asset sales put DBAY on course to repay all debt by end FY10 or early FY11. The current rating does not discount TDG's growth potential and the group has announced material new client wins recently.

DBAY has an experienced team with a prior track record of identifying undervalued opportunities, an ability to conduct due diligence, acquire well and turn around underperforming businesses. This potential is hypothetical at this stage. Investors must also take a view regarding the implications of aligning themselves with a dominant shareholder (Laxey Partners with 93%). Laxey Partners has a vested interest in assisting DBAY with the successful implementation of its investment strategy.

The intention to distribute added value in the form of dividends should add to investor returns over time as will, ultimately, realisation of the group's investment in TDG. Although there are no immediate plans for disposal, the industry is expected to experience further consolidation. TDG may in due course represent an interesting acquisition for a US or Asian operator looking for a European base, or a complementary fit for one of the leading European competitors which, through the combination of its existing networks with TDG's networks, could create substantial synergies.

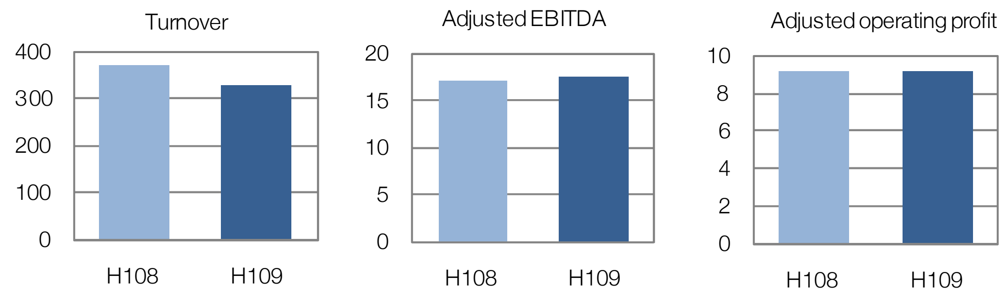
Financials

TDG post DBAY acquisition: Responding to a hands on approach

TDG's business has been substantially streamlined under the newly appointed CEO, Mike Branigan. A thorough review from non-essential overheads to renegotiated property leases has cut c £20m pa of costs and has helped absorb some of the impact of lower volumes in a recession. The benefits of a leaner operation are reflected in the bottom line and Exhibit 6 illustrates TDG's recent trading performance. Despite a 12% fall in turnover during H109 y-o-y, EBITDA was up by 3% and operating profit stable.

Exhibit 6: TDG financial performance – H108-H109

Note: Figures in £m. EBITDA and operating profit adjusted for property sale and leasebacks in 2009 & DBAY management fees.



Source: DBAY

This reflects a shift in priorities and management targets, away from turnover to profit and cash flows. In addition, the group believes that it has recently won business from competitors due to the advantages of being smaller, more flexible and customer focused. Bank debt is expected to have fallen from £132m at end FY08 to about £90m by end December 2009, post £40.5m of property asset sales, mainly during H209. Another small disposal in Q409 generated £1.5m and, according to management, additional disposals of properties will follow in 2010.

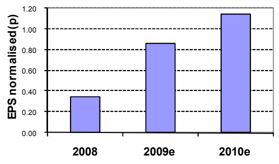
Exhibit 7: Financials

Note: 2008 covers three-month period from acquisition of TDG in October 2008.

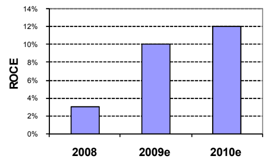
£'m	2008	2009e	2010e
Year end 31 December	IFRS	IFRS	IFRS
PROFIT & LOSS			
Revenue	176	662	690
Cost of Sales	0	0	0
Gross Profit	176	662	690
EBITDA	10	38	33
Operating Profit (before GW and except.)	10	20	19
Intangible Amortisation	(7)	0	0
Exceptionals	(7)	(10)	(5)
Other	0	0	0
Operating Profit	(3.8)	10.0	14.2
Net Interest	(4)	(9)	(2)
Profit Before Tax (norm)	6.8	11.4	17.3
Profit Before Tax (FRS 3)	(7.3)	1.4	12.3
Tax	(2.2)	0.0	(2.1)
Profit After Tax (norm)	4.6	11.4	15.2
Profit After Tax (FRS 3)	(9.5)	1.4	10.2
Average Number of Shares Outstanding (m)	1,337.8	1,337.8	1,337.8
EPS - normalised (p)	0.34	0.85	1.14
EPS - FRS 3 (p)	(0.71)	0.10	0.76
Dividend per share (p)	0.00	0.00	0.00
Gross Margin (%)	100.0	100.0	100.0
EBITDA Margin (%)	5.8	5.7	4.7
Operating Margin (before GW and except.) (%)	5.8	3.0	2.8
BALANCE SHEET			
Fixed Assets	295	206	143
Intangible Assets	70	70	68
Tangible Assets	210	130	70
Investments	16	6	5
Current Assets	144	140	153
Stocks	3	3	3
Debtors	115	126	139
Cash	23	10	11
Current Liabilities	(167)	(148)	(148)
Creditors	(154)	(138)	(143)
Short term borrowings	(13)	(10)	(5)
Long Term Liabilities	(171)	(120)	(60)
Long term borrowings	(140)	(90)	(30)
Other long term liabilities	(31)	(30)	(30)
Net Assets	101	78	88
CASH FLOW			
Operating Cash Flow	13	12	23
Net Interest	(3)	(9)	(2)
Tax	(0)	(2)	0
Capex	(4)	(9)	(10)
Acquisitions/disposals	(145)	45	55
Financing	77	0	0
Dividends	0	0	0
Net Cash Flow	(61)	37	66
Opening net debt/(cash)	0	130	90
HP finance leases initiated	0	0	0
Other	(68)	3	0
Closing net debt/(cash)	130	90	24

Source: Company accounts/Edison Investment Research

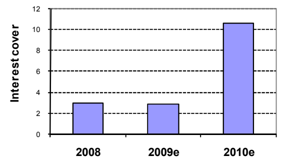
Growth



Profitability



Balance sheet strength



Sensitivities evaluation	
Litigation/regulatory	○
Pensions	○
Currency	◐
Stock overhang	◐
Interest rates	◐
Oil/commodity prices	◐

Growth metrics	%	Profitability metrics	%	Balance sheet metrics		Company details	
EPS CAGR 06-10e	N/A	ROCE 09e	12.1	Gearing 09e	66.4	Address:	
EPS CAGR 08-10e	87.7	Avg ROCE 06-10e	N/A	Interest cover 09e	2.8	33-37 Athol Street Douglas, IM1 1LB	
EBITDA CAGR 06-10e	N/A	ROE 09e	15.1	CA/CL 09e	1.0		
EBITDA CAGR 08-10e	80.9	Gross margin 09e	100	Stock turn 09e	N/A	Phone	01624 690 904
Sales CAGR 06-10e	N/A	Operating margin 09e	3.7	Debtor days 09e	71.7	Fax	01624 690 901
Sales CAGR 08-10e	98.8	Gr mgn / Op mgn 09e	27.0	Creditor days 09e	71.7	www.douglasbaycap.com	

Principal shareholders	%
Laxey Partners	93.2

Forthcoming announcements/catalysts	Date *
Preliminary results	April 2010
AGM	July 2010
Interim results	September 2010
*Note: * = estimated*	

Management team

CEO: Alex Paiusco

Joined Laxey Partners in 2005 as an investment manager. His previous career included investment banking with NM Rothschild & Sons, advising clients in telecoms, industrials, healthcare and private equity sectors, and before that M&A and equity capital markets divisions of West LB Panmure Gordon.

CFO: Geoff Bicknell

Joined DouglasBay in February 2009 and brings over 40 years of broad based financial, commercial and operational management expertise from international remits throughout Europe and North America. Currently an NED of Trafficmaster Plc and Brady Plc. Past directorships include TI Group Plc, Lucas Industries, Maxima Holdings Plc and Northgate Information Solutions Plc.

Chairman: David Panter

Chairman of The Laxey Investment Trust (LIT, the predecessor of DouglasBay) since 1997. He spent 25 years as a commodities broker in London and as a consultant to the World Bank, Overseas Development Authority, concentrating on privatisations in Sri Lanka and Georgia. Previously, he did 16 years service in India where he was chairman of Carritt Moran & Company Limited and a director of a number of tea plantation companies.

Edison Investment Research

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