Vision and venture

UK professional services sector

May 2007

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COMPANIES FEATURED

ACM Shipping*
Arden Partners
Aukett Fitzroy Robinson
Begbies Traynor
Braemar Seascope
Charles Russell (U/Q)
Christie
Clarkson
Cohort
Colliers CRE
DTZ
Fox Williams (U/Q)
Hyder Consulting
Irwin Mitchell (U/Q)
Jelf
Mattioli Woods
Moore Stephens (U/Q)
Mouchel Parkman
Murgitroyd
PHSC
RPS
RWS
Savills
Scott Wilson
SMC*
Tenon
Travers Smith (U/Q)
Vantis*
VEGA
Waterman Group
White Young Green
WSP

Companies denoted with * are a research client of Edison Investment Research Limited

UK Professional Services

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Management, management, management

A review of the UK professional services sector highlights many of the attributes investors find attractive: above average EPS growth, consistency in earnings growth, strong cash generation, high ROCE characteristics, robust balance sheets and reasonable dividend yields. The critical differentiators in choosing an investment in the sector, we believe, are down to two factors: (1) the quality of management and (2) the consideration of cyclical or counter-cyclical stock plays.

Strong growth characteristics

Based on ONS statistics, the UK service sector has grown by an average 8.5% p.a. over the last decade. Average EPS growth for the companies we profile in this piece mirrors this with around c.10% growth for calendar 2007e. Behind this strong growth we identify three key drivers: (1) increasing regulation raising demand for professional advice, (2) growing need for specialisation with increasing complexity of transactions and (3) the outsourcing of expertise to reduce corporate overheads.

Management quality is not a commodity

The key differentiator in the sector appears, unsurprisingly, to be the quality of management. The success stories in the sector have management who have demonstrated the ability to grow businesses in a balanced manner, successfully integrating acquisitions. Failures have often resulted in new management coming in to turn the situation around and, with time, in significant reratings.

Asset allocation should take account of the cycle

Whilst the secular growth trends are apparent, investors do need to be aware of the UK economic cycle. Growth at present appears to be robust but downside risks are increasing, particularly if we see further rate rises. The professional services sector includes a number of counter-cyclical plays.

Catalyst for private companies to come to market

The advantages of listing are numerous: (1) to monetise goodwill, (2) to secure funding for expansion, (3) to enable the leveraging of a brand globally rather than locally, (4) to allow for succession planning and (5) to incentivise and retain key staff. The Clementi review, resulting in the Legal Services Bill, may act as a catalyst for a number of lawyers and accountancy firms listing in the coming year, focusing investor interest in the sector.

Key investment ideas: Three types of investment plays

We identify three types of investment ideas. As core holdings we highlight RPS, WSP, DTZ Holdings and Savills. Stocks where we believe there to be a potential for rerating include Clarkson and VEGA. We identify Hyder and Begbies as counter-cyclical plays.

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Investment summary: Vision & venture

Introduction: Outperforming FTSE All Share by 25% YTD

The Professional Services sector is diverse and is spread across a number of Stock Exchange classifications. This in itself offers the potential for market inefficiency, with many stocks buried in sector classifications that lead to inappropriate valuation comparisons. It is notable that the companies in this piece have outperformed the FTSE All Share by 25% over the YTD.

The report is structured in five sections:

(1) The growth characteristics of the sector, identifying secular and cyclical trends.

(2) The key differentiating factor in picking an investment in the sector: management.

(3) An examination of valuation.

(4) Identification of the key sensitivities/risks in the sector.

(5) The reasons for listing and the catalysts investors should be aware of.

Highlighted companies

Core holdings: RPS can justify its premium rating. While close to 50% of its revenue relates to planning and development, the environmental exposure provides for solid underpinning and is an area we see will continue to draw investor interest. Another market favourite is WSP. Again revenues are heavily dependent on the property market but it has diversified its sector exposure, has good international breadth and, above all, a highly regarded management team.

Scepticism about the health of the UK property cycle, particularly with rising rates, potentially accounts for the lower ratings of both DTZ Holdings and Savills. Yet they are both market leaders, with diversified and international business models. They should be core holdings if investors believe the supply v demand argument means the property sector will prove more resilient to interest rate rises than some may fear.

Rerating opportunites: Clarkson's rating is being held back by concerns regarding the shipping cycle, which ignores the re-balancing of the global manufacturing economy to the Far East. Fears over Russian litigation have also acted to hold back share price performance. The breadth of the group's operations, its market leading position and its global reach mean it should stand at a premium to the transport sector. VEGA has recently undergone a major re-structuring programme yet to be fully recognised by the market.

Counter-cyclical plays: While the recent strong performance of Hyder means the shares may be up with events, management has taken advantage of this strength to diversify its business base via acquisitions. While such a strategy carries risks it has increased the group's exposure to the Middle and Far East and provides for a strong order book. Begbies Traynor has a good balance of growth opportunities while its insolvency business gives it defensive qualities.

Characteristics of the sector: Attractive for investors

A key investor concern regarding the quality of many AIM companies is the lack of trading record. In direct contrast, many Professional Services sector companies have a long trading track record and have performed strongly across the cycle. Aggregating the companies profiled in this piece, we highlight the following growth, profitability and cash generation characteristics we believe investors find attractive:

- Compound average growth in revenue (CAGR) of 25.3% between 2003 and 2007.
- Average EPS growth of 6.6% for 2006(a/e) and 10.3% in 2007e.
- Operating margins that are forecast to increase to 15% in 2007e.
- Average ROCE of c.33%.
- The sector balance sheet is cash positive, with sector market capitalisation at £4.8bn whilst sector EV is at £4.7bn.
- Average dividend yield of 1.8% based on 2007 estimated payouts.

Behind these operating statistics is a macro trend of UK professional services accounting for a growing proportion of GDP. Volumes per ONS statistics increased from c.4% of UK GDP in 1992 to just over 8% in 2004. Based on data to Q306, the sector has demonstrated compound annual growth of 8.5% over the last decade. There is modest cyclicality in the sector, throwing up asset allocation opportunities between cyclical plays such as engineering consultancies and counter-cyclical opportunities such as insolvency practitioners.

We identify the following trends that we believe contribute to above-GDP growth in the sector:

(1) A growing burden of regulation: has resulted in demand for professionals with expertise in a position to guide the client through complex legislation.

(2) A growing need for specialisation: the sheer divergence of expertise required to transact intricate commercial deals has led corporates and individuals to seek increasingly specialist advice from a range of advisors.

(3) A growing trend to outsource: this can be driven by either: 1) an organisation working on a particular transaction or project buying-in expertise for a set period of time i.e. management consultants, or 2) the complete outsourcing of a function within an organisation e.g. accountancy.

In addition, many of the industries in which these companies operate remain highly fragmented and, in most fields, sensible opportunities exist to build scale through organic growth and consolidation.

Appraisal of management is critical in the investment process

Many of the ratings in the sector can be explained by factors that all investors are likely to find important: scale, liquidity, track record of shareholder returns, growth in cash flows and strong balance sheets. There are a group of stocks (RPS, Waterman, Mattioli Woods and Murgitroyd) that have ratings which are significantly higher than are explained by such factors. The common factor between these stocks is a perception of the quality management.

Valuation: P/E driven, a number of interesting undervalued situations

Whilst we examine a range of valuation techniques to understand the Professional Services sector, simple P/Es appear to be the preferred metric for investors. No one factor explains stock ratings, rather it appears a range of factors are taken into account, with premiums being paid for quality management teams such as RPS and Mattioli Woods. Stocks we believe to have some valuation upside include Aukett Fitzroy, Clarkson and VEGA, where restructurings and quality of management are yet to be fully rewarded.

Sensitivities: Three key areas to focus on

(1) Management: strategic execution and ability to manage growth, acquisition, competitive pressures and brand integrity are factors that investors should be mindful of. A disappointing announcement can rapidly change perception of management and hence the rating of a stock.

(2) Economic background: the impact of interest rates on the sector is more important in terms of its likely impact on demand rather than from a balance sheets point of view. Of more significance is cost inflation, with upward pressure on salaries having the potential to eat into margins. Finally, exchange rate movements may become more of an issue as the sector derives more revenue from outside of the UK.

(3) Legal: implications of the upcoming Legal Services Bill and changes in employment law offer opportunities and risks that investors should be mindful of.

Catalysts for further listings will put sector in focus

Partnership structures, historically the predominant form of Professional Services companies, are becoming less and less relevant for modern employment and enterprise, particularly in meeting the shorter time horizons for money and status of today's younger talent. In our discussions with managements of Professional Services companies, we are able to identify the following key motivations for companies to float:

(1) Access to capital provides borrowing and investment power: the ability to expand when the appropriate opportunity presents itself can be crucial to the success of a business. Traditional partnerships have limited scope to borrow which can make the financing options available through listing attractive.

(2) Securing the retention and succession of talent: with people businesses, motivational structures are key to success. The ability to offer an equity stake early in an employee's career as part of the reward package can be central to building a team. This applies not only to the recruitment and retention of individuals, but also within the consolidation model.

(3) Monetising goodwill: having built a successful organisation on a partnership model, the individuals involved will have accumulated a substantial element of goodwill. By retiring or moving on, those individuals sacrifice the goodwill built up through their efforts as, unlike with equity, there is no mechanism for capturing and crystallising or redistributing it.

(4) Consolidation opportunities: the areas in which Professional Services businesses operate have traditionally been highly fragmented, the firms have been established by small

groups of individuals without any substantial requirement for capital. The flexibility of a public market quote is likely to appeal to ambitious managements as:

a. Whilst Professional Services companies are strongly cash generative, they are not sufficiently so to pursue an accelerated consolidation timetable.

b. The companies profiled in this report currently generate c.72% of their revenues from the UK. For some, a key opportunity for growth is to pursue international opportunities. Again, the capital to establish an international presence can be drawn from a public market quote.

(5) Leveraging a brand: historically, it was possible to establish as a sole trader or with a handful of partners. Given the increasingly regulated trading environment and the costs involved in setting up the necessary infrastructure, this route is no longer available except in pockets of private practice. This can create opportunities for many quoted companies to combine entrepreneurial talent with brand, infrastructure and appropriate equity incentivisation to attract high quality staff.

The Legal Services Bill, currently making its passage through the legislature post the Clementi review, will enable lawyers, should they wish, to take the listing route for the first time. This, we believe, will focus investor interest in the sector.

1. Definition

For the purposes of this report we define Professional Services as the application of specialist technical knowledge to create bespoke solutions for clients. The term has traditionally been used to describe firms working within the formally regulated professions, such as law, accountancy and architecture but, more broadly, it encompasses firms such as engineering consultants, ship brokers and investment banks.

1.1. Growth, key drivers & financial attributes

The Professional Services sector has demonstrated above-GDP growth, growing at 8.5% over the last decade. There is modest cyclicality within the sector and whilst the outlook appears robust, there may be some asset allocation moves towards counter-cyclical plays such as Vantis, Begbies Traynor and Tenon, particularly if interest rates rise further. Underlying this growth is a secular trend of increasing regulation and complexity of transactions, together with a willingness by UK corporates to outsource rather than build teams with appropriate expertise in-house. Whilst these trends explain the above GDP growth, revenue growth in the quoted sector is even higher, 25.3% between 2003 and 2007e for example. The difference can be attributed to the other big contributor to growth: consolidation.

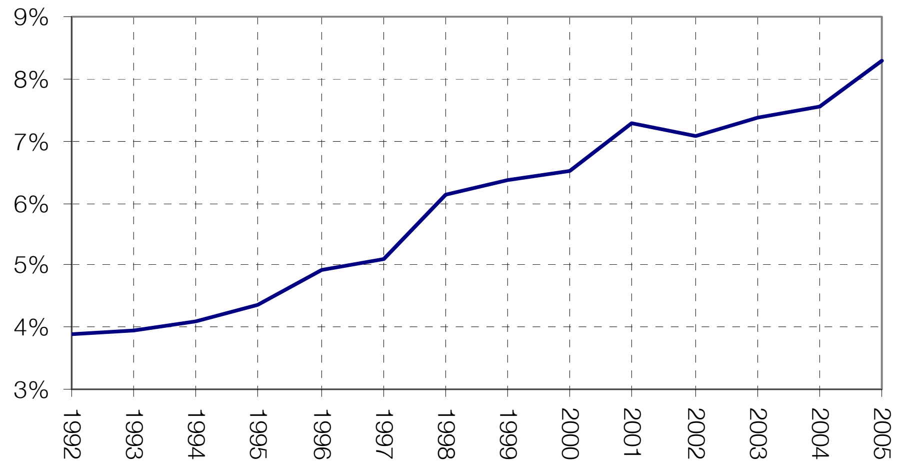
Underlying demand and a fragmented industry background creates financial attributes that are extremely appealing for investors, including strong cash generation, healthy balance sheets, above average EPS growth and ROCE of c.33%.

1.2. Growth with dampened cyclicality

Historic macro trends: Above GDP growth, modest cyclicality

Looking at the historic patterns it is clear that the service sector of the economy has not suffered from the same degree of cyclicality as other areas. As the manufacturing base of the UK has shrunk, the proportion of GDP accounted for by the service economy has climbed since the early 1990s, with the strongest advances in 1996 and 1998 and a slower period in the first years of the new millennium.

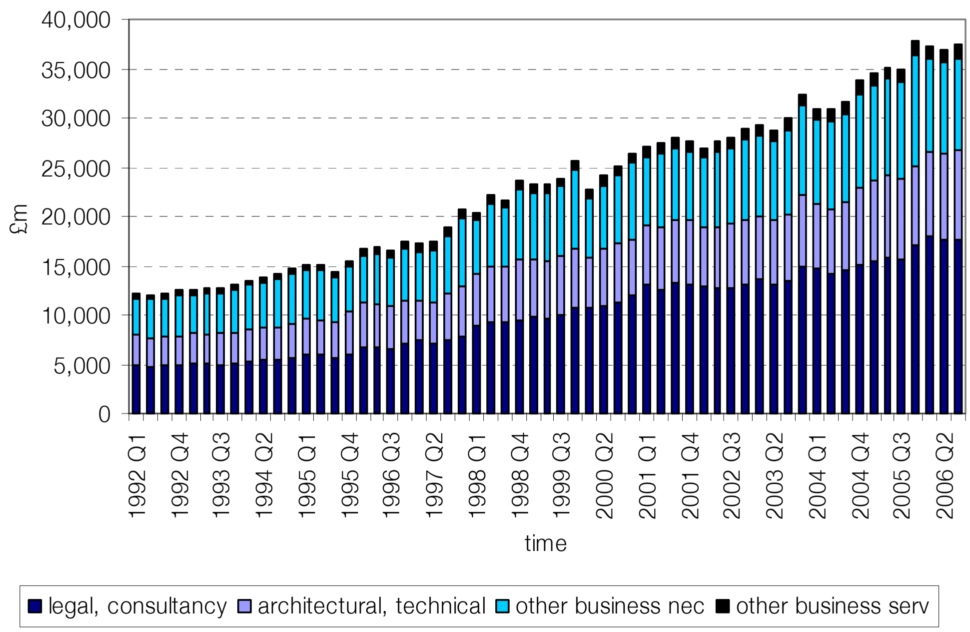
Exhibit 1: Service sector % GDP at volumes



Source: ONS

The spend in the key areas that this report addresses has also been rising (as defined by ONS figures for legal, consultancy, architectural and technical spend). Overall spend for the four areas identified has increased at a CAGR of 8.5% p.a. over the last decade (last reported data to Q306) and at 5.75% over the last three years. The biggest annual increase was in 2001, where overall spend rose 12.1% and the lowest level of growth was in 1993 when spend expanded by 4.2%. It is clear that the sector's growth trend has been strong, but it is inevitable that there has been a degree of cyclicality along this trend.

Exhibit 2: Service sector spend



Source: ONS

Of the areas illustrated in Exhibit 2 (above), the strongest growth trend over the period 1992–2005 was the Legal & Consulting area, growing at 9.6% compound at volumes (at real terms). Architectural and Technical Consultancy grew by 8.1% compound over the same period. Whilst the architectural cycle can be expected to be correlated to economic confidence, there are other types of business service that can be seen to be more counter-cyclical, such as those dealing with insolvency. The cycle for the legal and accountancy sectors are more dampened, with volumes boosted by heavy corporate activity in the upswing re-emerging after a more difficult period as valuations correct and become more attractive.

Outlook: Marginally slower growth in 2007

Consensus estimates suggest that UK GDP growth will slow slightly in 2007, from 2.6% to 2.4%. However, the risk to this expectation is if weakening US demand has a contagious effect on the global economy. The UK economy earns a significant amount from the US, estimated at 15% of UK exports in 2005. More importantly, in the context of this report, UK quoted companies earn an estimated 35% of their revenues from the US.

UK consumer spending is forecast to pick up slightly in 2007 from the 2.2% growth recorded in 2006. We believe the housing market will remain firm, thanks to general economic confidence and cash coming into the top end through bonuses and equity gains. Mortgage approvals, a good indicator of the overall housing market, have been strengthening for the past four quarters.

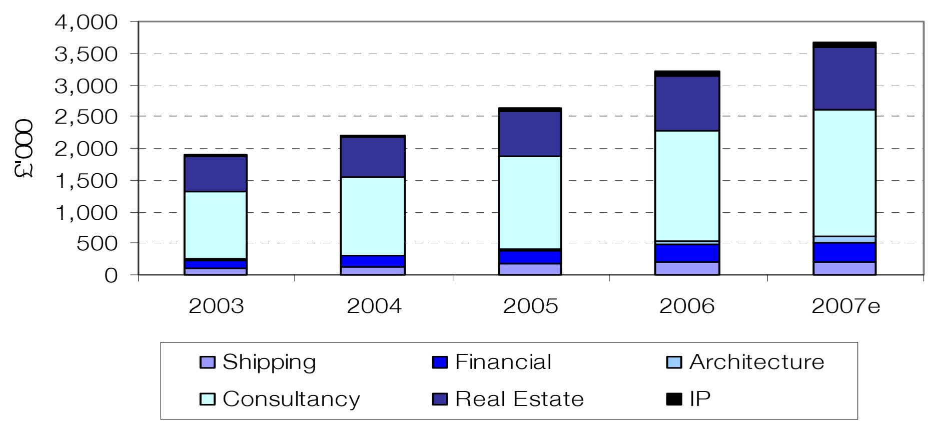
The Treasury projects that public sector spending will increase by 5.5%. However, growth in departmental spending which has a greater influence of the performance of the quoted sector, is expected to slow during 2007.

In terms of the equity market, we believe the UK may suffer if US corporate earnings start to face increasing downgrade pressure from a combination of weakening consumer demand and margins, and profit share of GDP should revert to normalised levels.

Sector revenue patterns

Aggregated revenues for the companies profiled in this piece have a CAGR of 25.3% between 2003 and 2007e. This is in excess of the ONS statistics trend growth rate of 8.5%, the difference principally due to the impact of acquisitions.

Exhibit 3: Revenue growth from subsectors

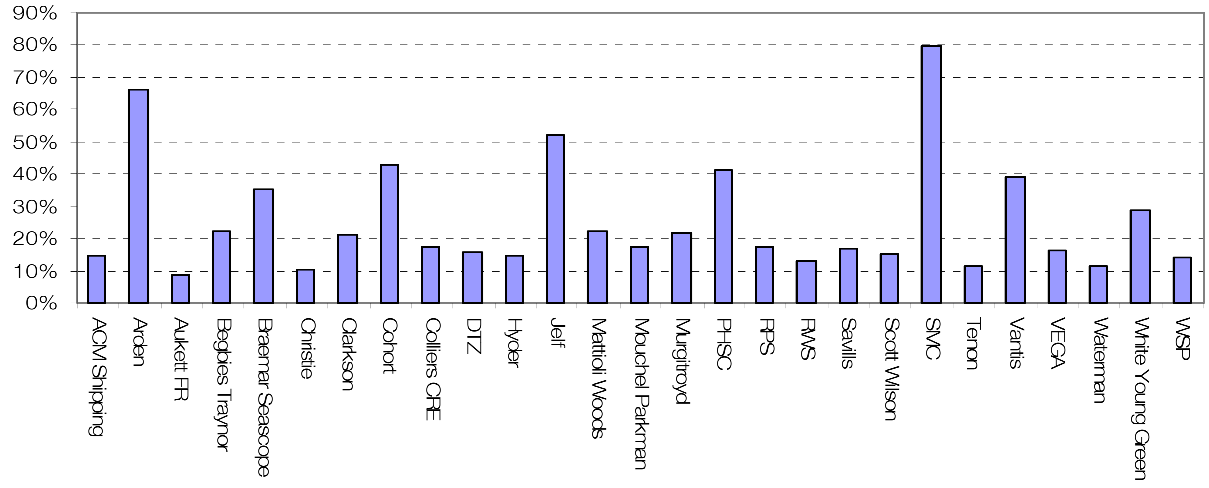


Source: Edison/Market forecasts

We have not attempted an exhaustive definition of the quoted sector, but have selected a number of businesses to profile from a cross-section of subsectors. The subsector we have defined as 'Consultancy' covers the greatest diversity of activity, from the engineering consultancies such as White Young Green and RPS through to defence industry consultant, VEGA, and the smaller PHSC, consulting in health and safety matters to corporate customers. As some of the longest established companies in the sector, the engineering consultants have achieved such scale that they somewhat dwarf the data from others.

The flipside of this is that growth becomes harder to achieve, and the greater levels of anticipated revenue growth are in the smallest subsectors examined, the architectural services and IP consultancy companies.

Exhibit 4: Individual companies' compound revenue growth 2003–2007e



Source: Companies' accounts, market forecasts. Note: Mattioli Woods and RWS cover 2004–7e.

The companies at the top of this curve are a mix of those with substantial acquisition programmes, such as SMC (which comes with its own issues), and those at a very early stage of their development and consequently growing from a low base, such as Arden Partners. Even the company with the lowest compound growth over the period, the architectural practice Aukett Fitzroy Robinson, is still posting a very respectable annualised improvement of 9%.

1.3. Key drivers: Rules, complexity, consolidation

Whilst the shift in the economy towards the service industries has been partially a function of the reducing influence of the manufacturing base, this does not account for the actual growth in national spend (demonstrated in Exhibit 2) nor for the above trend growth in the quoted sectors revenues we touched on in the previous section. We consider three key drivers behind this shift: regulation, specialisation and outsourcing, and consolidation.

Increasing regulation

In an increasingly litigious society, the axiom of 'caveat emptor' no longer holds much sway. The attitudinal shift has led to increased pressure on legislators and regulators to provide a protective framework within which entities may safely trade. The resultant legislation has reached such a degree of complexity that, in many fields, only those especially trained are in a position to advise the client. Despite the myriad political promises to reduce the burden of 'red tape' on commerce and industry, it seems unlikely that the complexities will be unravelled.

Increasing specialisation & outsourcing of expertise

The sheer diversity of expertise required to transact complex commercial deals means that, unless such transactions recur regularly, the personnel with the most appropriate qualifications and expertise are going to amount to an expensive and underutilised overhead. It is therefore, for most businesses, cost effective to hire in this expertise as and when it is required. This leaves the client business free to concentrate its efforts on the fulfilment of its own core product or service delivery.

Consolidation

The areas in which Professional Services businesses operate have traditionally been highly fragmented, as the firms have been established by small groups of individuals without any substantial requirement for capital. The combination of larger clients requiring better capitalised suppliers, and the rising costs of ensuring full compliance with all necessary legislation has driven the need of the firms involved to build scale. Many of the companies profiled in the Appendix have been assembled primarily through acquisition programmes over many years. Companies profiled in this report following this strategy include: corporate consultancy, Jelf; defence services company, Cohort; business services group, Tenon, and architectural group, SMC.

However, consolidation is far from a panacea and the experiences of companies such as Tenon and SMC demonstrate the problems that can arise from a rapid programme of acquisition without the necessary resource and experience to integrate. Scale, per se, does not increase efficiency where the activities are disparate and require specialist input.

There is an implicit assumption that firms with strong cash flows will be the consolidators. However, it should be noted that there are many US law firms which established in London and have found their ambitions to build a City franchise frustrated. They will doubtless be appraising opportunities that might arise post the implementation of the Legal Services Bill (see page 28).

1.4. Financial attributes of the sector

The professional services sector has many of the attributes investors look for in good investments. In particular we highlight the following:

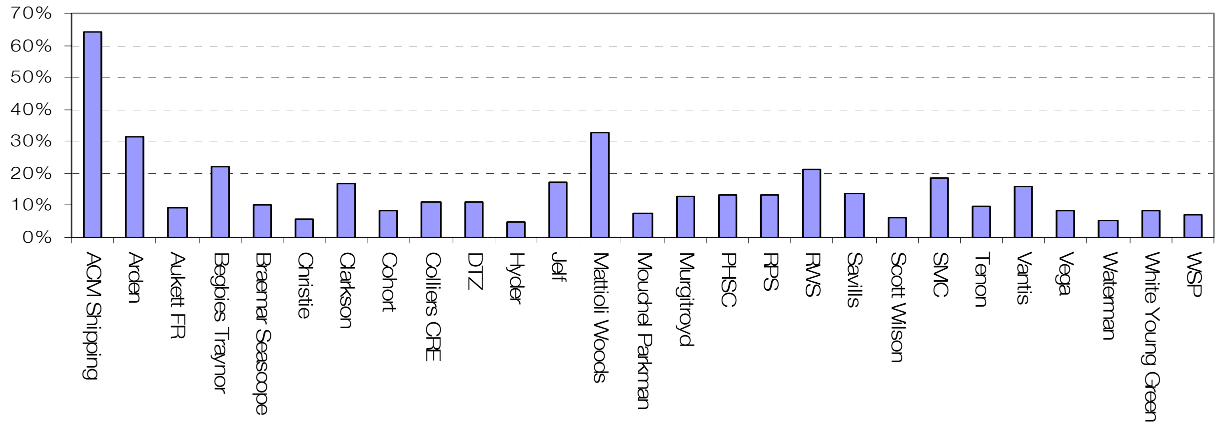
- Solid revenue in the UK.
- Operating margins that average 15% based on 2007 forecasts.
- Average revenue per employee of £110k against average cost per employee of £56k.
- Average ROCE of c.33%.
- EPS growth of 6.6% in 2006a/e and 10.3% in 2007e.
- Dividend yields of 1.8% with average dividend growth of 47%.
- Forecast 2007 EBITDA to free cash flow conversion of c.44%.
- Strong balance sheets: the sector is in a net cash position.

Whilst differences in profitability, growth, cash generation and capital structure are discussed in more detail under the company profiles section, we believe the key themes are:

- Significant scope for international expansion: the companies profiled generate 72% of their revenues from the UK. While there are barriers preventing some subsectors pursuing an overseas growth strategy, most noticeably the legal profession which operates on a broadly national regulatory basis, there appears to be a drive to increase international exposure amongst others, such as engineering consultancies and real estate agents.

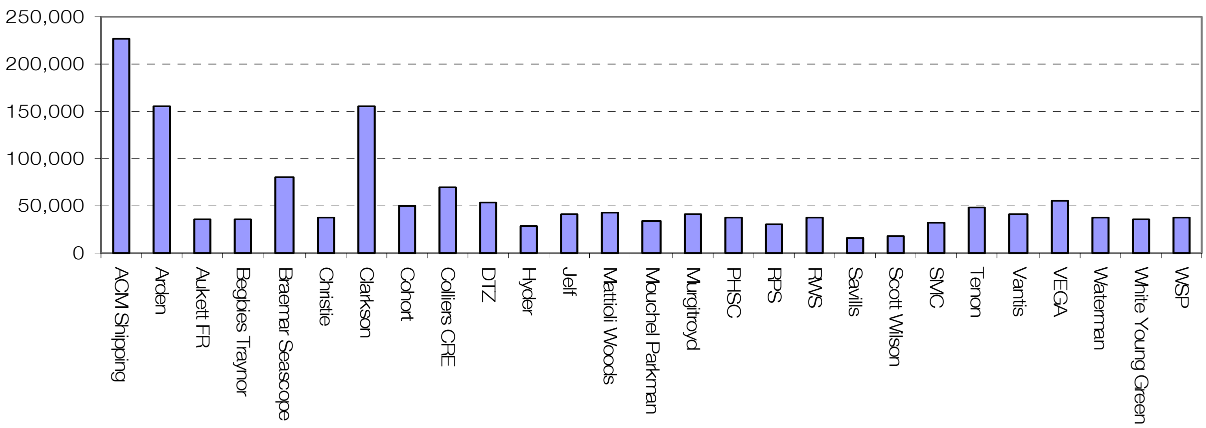
- Differentiation between high and low value services: in addition to cost control, a key difference between the operating margins is the mix of value added services. High value generating employees, such as those at brokers Arden and ACM tend to result in higher operating margins. These differences can be seen between companies operating in the same area, for instance, Vantis' higher operating margins when compared to Tenon's can partly be attributed to business mix.
- Generally high operational gearing in the sector tends to be exploited by expansive firms: the strong growth in revenues over the period under review is against a relatively fixed cost base and has supported the above market average operating margins exhibited by the sector. Whilst some of the businesses under review have a degree of flexibility in their resourcing, such as RWS, the tight labour market in other professional areas can be a limiting factor. There is therefore a possibility that the benefits of operational gearing may be thrown into reverse as utilisation becomes less efficient. With utilisation rates as high as they are, then the only flex in the revenue earning capacity is by raising fees or acquiring additional operational capacity. However, the data across this sample and timescale does not demonstrate a clear relationship between revenue growth and operating margins.
- Cash conversion lends itself to acquisition based strategies: with fewer requirements for capital spend than other quoted sectors, the cash conversion characteristics of the Professional Services sector ought to be, and are, impressive. For Edison clients we have used our own detailed models, but for those stocks which are not clients we have built our models around market forecasts for revenue and pre-tax profit. We have assumed no further gains in working capital efficiencies from the companies beyond that achieved by the time of any interim figures subsequent to published accounts and adjusted for post-balance sheet acquisitions. As expected, it is the degree of conversion of EBITDA into free cash that has enabled the quoted sector to fund its extensive acquisition programmes and to provide investors with a meaningful dividend yield. As individual reporting years differ, we have analysed the data for one year historic and two years' prospective (where available), and taken averages to gain an impression of the cash conversion characteristics of the underlying businesses. There are no clear patterns here to distinguish between subsectors in their cash conversion characteristics, but there is a clear message as to the strength of the underlying cash generation of these companies.

Exhibit 5: Operating margins based on 2007e



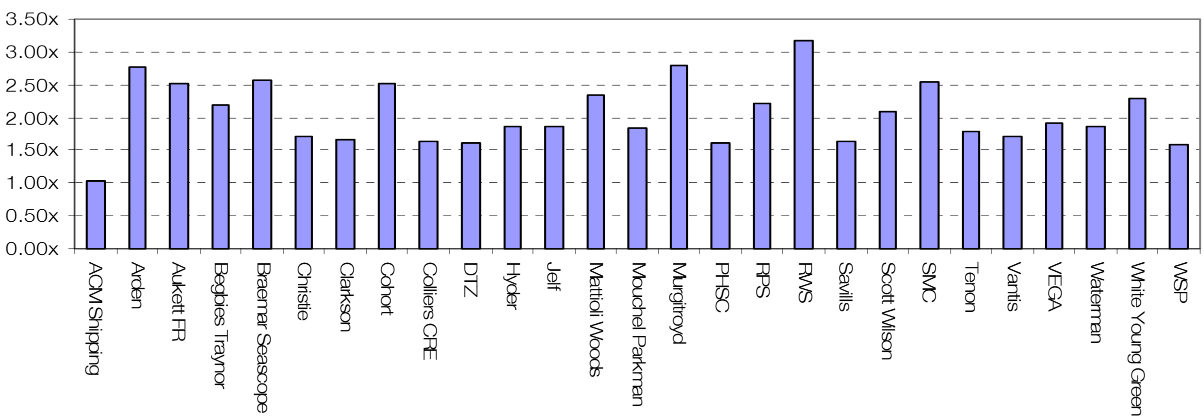
Source: Edison and consensus estimates

Exhibit 6: Costs per employee (£'000)



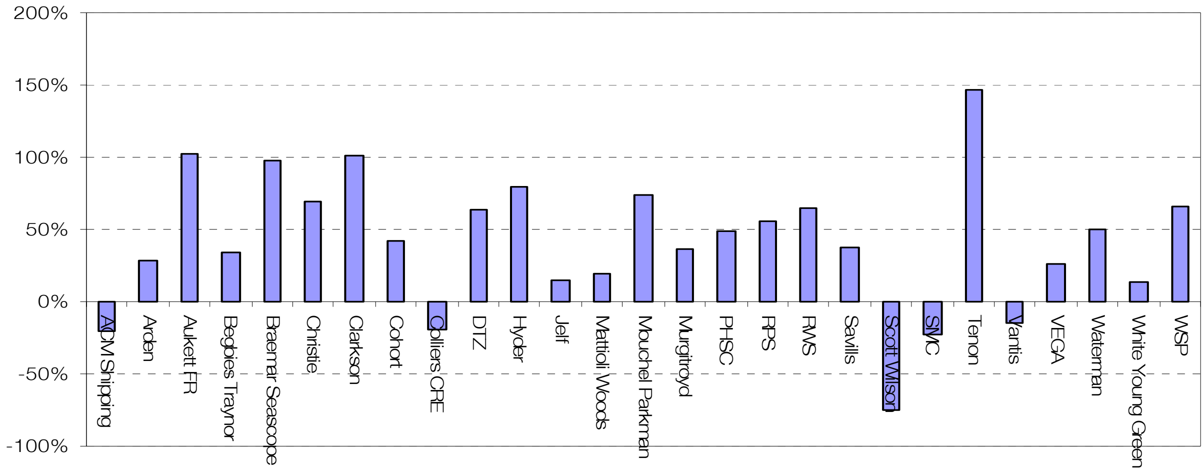
Source: Companies' accounts

Exhibit 7: Revenue relative to employee costs



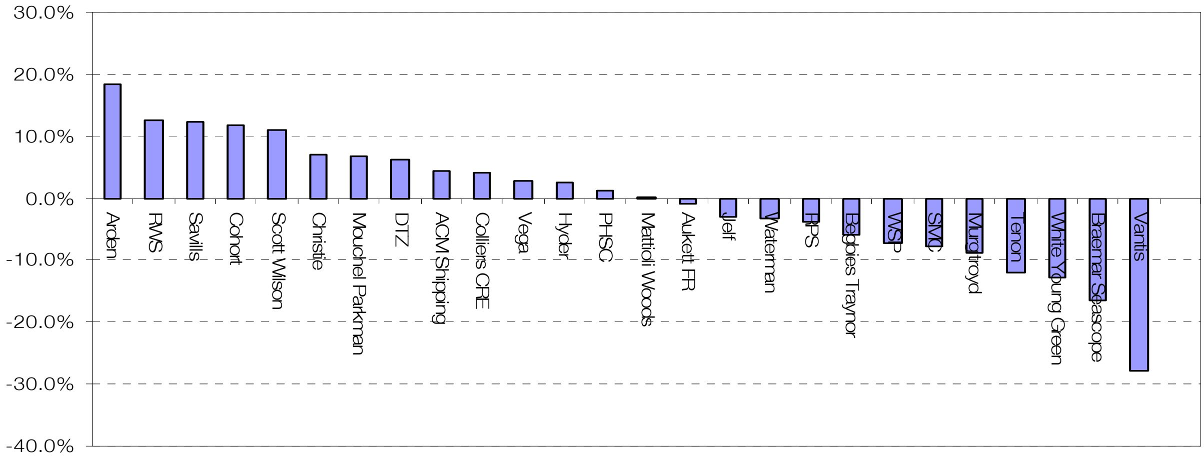
Source: Companies' accounts

Exhibit 8: Average conversion of EBITDA to free cash flow



Source: Companies' accounts, Edison, market forecasts

Exhibit 9: % market capitalisation in cash/net debt



Source: Companies' accounts/Hemscott

2. Management: The key differentiator

Much of the sector's ratings can be explained by factors that all investors are likely to find important: scale, liquidity, track record on shareholder returns, growth in cash flows and strong balance sheets. There are a group of stocks (RPS, Waterman, Mattioli Woods and Murgitroyd) that have ratings which are significantly higher than those explained by such factors. The common factor in these stocks is a perception of management quality. Our case studies on Murgitroyd, Tenon and Aukett Fitzroy highlight how an acquisition strategy can impact a share price for better or worse. We explore the length of time it can take to re-build investor confidence and the subsequent upside following a rerating.

2.1. Ratings reflect market view of management

We found that no one factor was strongly correlated to the rating (P/E) of the stocks in this report. Instead we assumed that investors deemed a number of factors important. Our methodology was to construct a ranking table based on a range of factors and we ran a series of correlations on overall ranking based on these factors e.g. Savills has the largest market cap and hence ranks number one in the first column of Exhibit 10.

Exhibit 10: Ranking based on range of factors, plus overall rank on sum of scores vs P/E (1 = highest, 26 = lowest rank)

	Market Cap	Total return	Free CF growth	ROCE	Balance sheet	EV	EBITDA growth	Total score	Overall rank	P/E
ACM Shipping	25	17	1	26	10	25	23	127	23	10.5
Arden	22	14	4	26	2	24	18	110	18	13.9
Aukett FR	26	1	17	11	16	26	3	100	16	12.4
Begbies Traynor	10	16	14	18	20	10	9	97	14	17.0
Braemar Seascope	15	24	24	8	26	14	26	137	26	12.1
Christie	16	22	18	3	7	17	14	97	14	19.3
Clarkson	9	20	21	7	1	11	27	96	12	10.3
Cohort	20	13	16	12	5	22	4	92	11	17.5
Colliers CRE	14	5	13	21	11	15	17	96	12	11.3
DTZ	5	18	9	5	9	5	7	58	2	12.6
Hyder	8	3	23	1	13	8	24	80	7	16.9
Jelf	17	21	3	16	17	16	1	91	10	15.2
Mattioli Woods	21	21	2	13	15	20	12	104	17	20.6
Mouchel Parkman	3	11	10	6	8	4	16	58	2	20.2
Murgitroyd	23	12	8	24	23	21	5	116	20	19.0
PHSC	27	7	15	15	14	27	22	127	23	9.5
RPS	2	23	12	19	19	2	8	85	9	23.3
RWS	11	9	11	2	3	13	19	68	4	18.4
Savills	1	19	7	4	4	1	11	47	1	15.2
Scott Wilson	6	15	27	10	6	7	6	77	5	20.1
SMC	24	4	25	17	22	23	2	117	22	6.8
Tenon	13	26	22	22	24	12	25	144	27	12.3
Vantis	12	2	26	25	27	9	15	116	20	12.8
Vega	19	25	6	9	12	19	20	110	18	13.8
Waterman	18	10	20	23	18	18	21	128	25	18.3
White Young Green	7	6	5	20	25	6	13	82	8	18.6
WSP	4	8	19	14	21	3	10	79	6	20.8

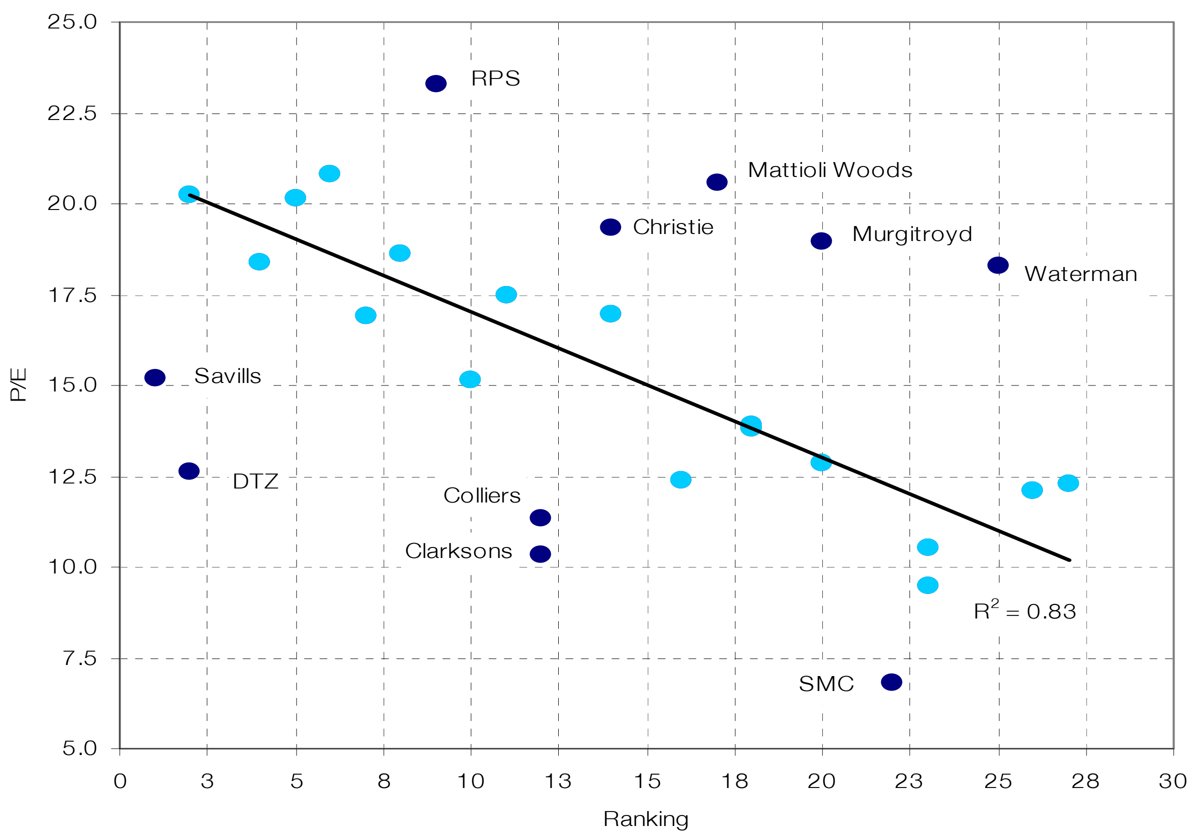
Source: Complied by Edison Investment Research. Note earnings calenderised

We concluded that the following factors were important to investors:

- Scale and liquidity: our correlations improved when we included overall market capitalisation and EV in the ranking tables.
- Managements who are working in shareholders' interests: as a proxy, we use total shareholder returns (TR) over the last year or from date of IPO if within the last year as a proxy to get a quantitative measure of this.

- **Growth, particularly in cash flows:** our correlations improved once we included EBITDA and FCF growth. EPS growth did not improve our correlations.
- **Balance sheet structures:** investors appear to be averse to high gearing in the sector.

Exhibit 11: Ranking based on range of factors, plus overall rank on sum of scores vs P/E (1 = highest, 26 = lowest rank)



Source: Edison Investment Research

Our R^2 of 83% excludes five outliers either side of the best fit line. We rationalise this on the basis that the market on the whole will be fairly valued, but there will be situations where there is apparent under/overvaluation or where there are highly/lowly rated management teams.

Exhibit 11 above shows that:

- Christie
- Murgitroyd
- Mattioli Woods
- RPS, and
- Waterman

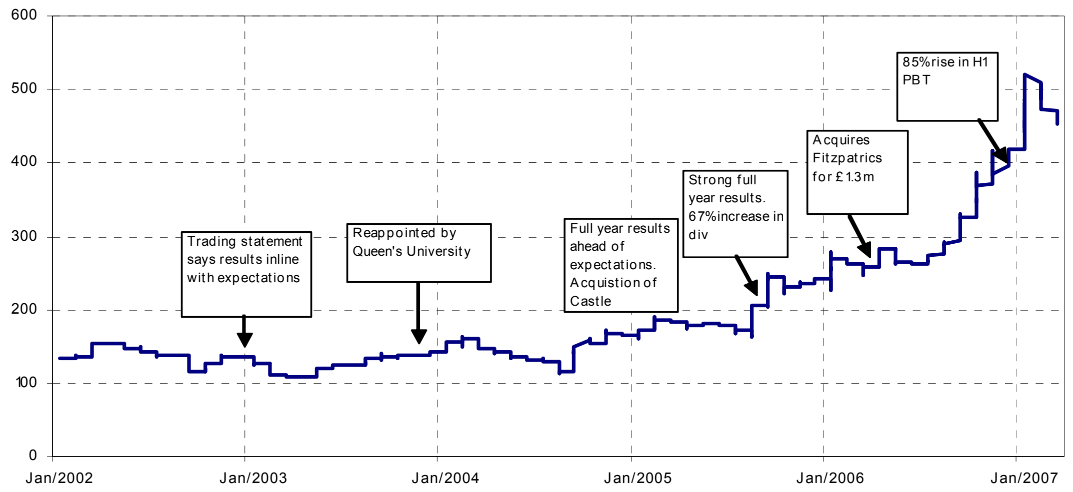
are all rated higher than would otherwise be explained by factors in our ranking table. In all five cases, the analysts examining these stocks believe that they have strong management teams which may explain the higher market rating.

Case study 1: Murgitroyd — a highly rated management team

Murgitroyd is a classic study in consistently delivering on promises, remaining patient and eventually being rewarded with a higher ratings multiple. Once the core business was delivering solidly, management started using the higher rating to start acquiring; a strategy vindicated by a substantial uplift in share value.

Mugitroyd listed on AIM in November 2001. Between flotation and the start of 2005 its market capitalisation remained stable between £12m–£14m. Today its market capitalisation is £40m and it trades on 19x 2008e earnings.

Exhibit 12: Murgitroyd five-year share price performance



Source: Bloomberg/RNS

Improved trading, and increased scale through acquisitions and organic growth, contributed to a significant improvement in operating cash flow to a forecast of £2.8m for 2007. This has been achieved despite acquisition spend of c.£4.8m over the past five years.

Upwards momentum in the share price began in August 2005 with the announcement of a 42% increase in full-year profits and a 62% increase in the dividend payout. The group also announced the completion of the acquisition of David W.J. Castle & Co, providing greater scale to the business.

A key feature in the group's financial progress throughout the decade has been its focus on operating margins — ahead from 7.2% in 2003 to a forecast of 13.6% for 2007, driven by a focus on higher margin 'heavy time' work.

In April 2006, the group announced the acquisition of Fitzpatricks Group for £1.3m, further adding to group scale.

Full-year 2006 results demonstrated the successful integration of Castle & Co as well as strong organic growth. Operating profits were up c.40% on sales growth of c.30%. The group also indicated that it was looking to open an office in Italy to add to its offices in the UK, Ireland, Germany and France.

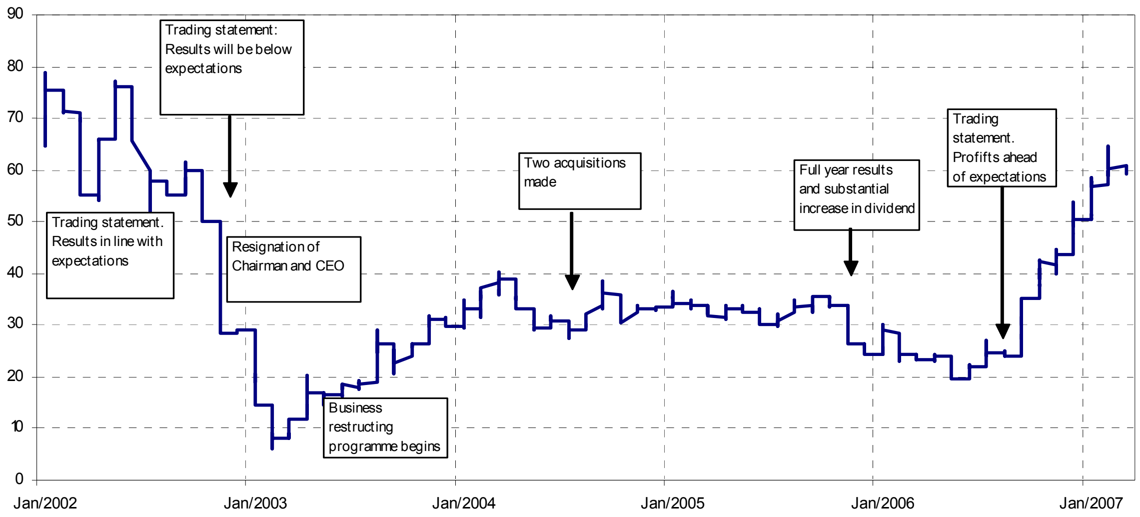
The upward momentum of its share price was interrupted by a 7% fall on the back of its interim results in January 2007. Ironically, customer demand led to a change in the business mix from low margin work outsourced to overseas partners to higher margin in-house work. This resulted in a drop in turnover albeit with higher profits.

Case study 2: Tenon — the impact of poor acquisitions

Tenon's five-year share price history illustrates the effects of a poor acquisition and integration strategy, and subsequent recovery following a change in management and restructuring programme.

Tenon floated in April 2000 with a market capitalisation of c.£50m and, post restructuring, is today trading at twice that level at c.£100m. Its balance sheet and cash flow statements reflect the turnaround in the company's fortunes.

Exhibit 13: Tenon five-year share price performance



Source: Bloomberg/RNS

In 2001 and 2002 the group made 12 acquisitions which had a combined turnover of £80m. In May 2002, the group released a trading statement reporting that it would meet market expectations. However, by November, the group was forced to admit that results would fall short due to deteriorating market conditions and exceptional restructuring costs. The immediate result was a 40% fall in the company's share price.

Hindsight showed that many of the acquisitions were poorly structured, leaving former owners with no incentive to continue growing their businesses within a wider group and the acquired businesses were never fully exploited for their cross-selling opportunities.

In February 2003 a new Chairman (Neil Johnson) and a new CEO (former MD, Andy Raynor) joined the board and immediately instigated an internal review. The restructuring programme which followed resulted in the group exiting a number of non core businesses, a change to management structure and the negotiation of new banking facilities.

For the rest of 2003, Tenon's share price rose as the effects of the restructuring programme began to feed through. In mid-2004, the group made two acquisitions for a total consideration of £8.9m. With little movement in the share price following the deal, it appears that investors were waiting for proof of successful integration.

The share price continued to mark time despite the company announcing a substantial increase in dividend (150%) with its full-year results to June 2005.

In early 2006, the group announced that it had received an expression of interest from a number of parties, including one from the management team, to acquire the business. While these talks ultimately broke down, and the consequent uncertainty pushed the share price down, trading began to improve from mid-2006 onwards. A bullish trading statement in July 2006 led to a substantial rise in the group's share price, which had doubled by the end of the year.

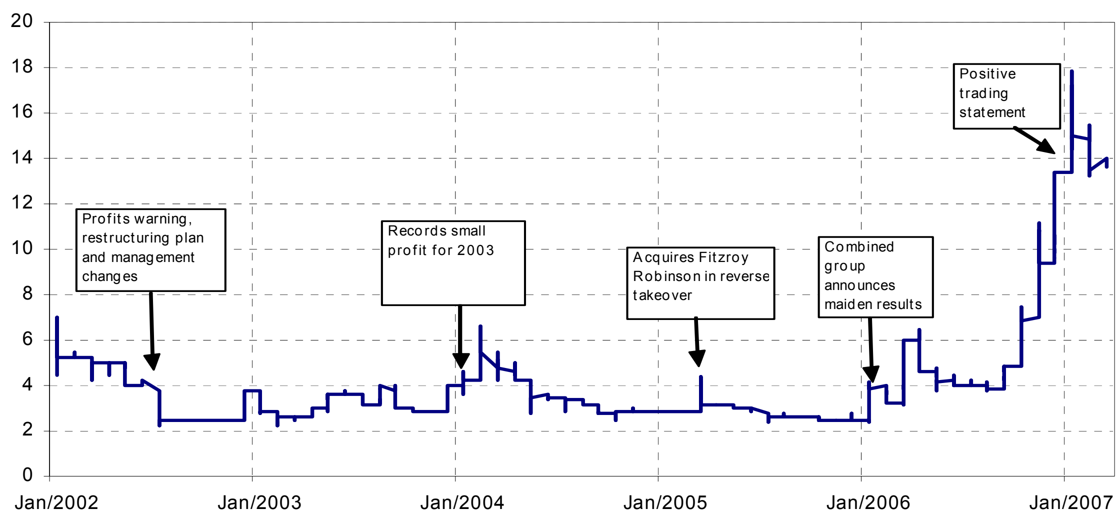
Since 2003, Tenon has reduced its net debt of c.£30m to forecast £1.4m in 2007. Over the same period, its level of operating cash flow has grown from £4.2m to a forecast £18m in 2007. This is despite the company continuing with its acquisition programme, with combined acquisition spend of £4.6m in 2005 and 2006.

The group's recovery was underlined by its recent interim results, released March 2007. Key features were a significant increase in pre-tax profits £5.1m (£1.9m) and a 42% increase in turnover to £74.1m (£52.1m). While economic factors have clearly played a part in the group's turnaround, its new management structure with its focus on controlling the cost base, cross–selling and improving margins has clearly delivered.

Case study 3: Aukett Fitzroy Robinson — rebuilding and rerating

Up until the reversal of Fitzroy Robinson in March 2005, Aukett had been struggling as an independent entity. Its small scale meant that it was unable to win substantial contracts and generate improved margins through economies of scale.

Exhibit 14: Aukett Fitzroy Robinson five-year share price performance



Source: Bloomberg/Edison Investment Research

Aukett Fitzroy Robinson's shares traded in a relatively stable range between 2002 and early 2006, with the exception of a small spike in early 2004 as the group announced a small profit, board changes, including a new group Managing Director and Finance Director, and measures to restructure the business. Over the four-year period, the group's market capitalisation was less than £5m and it was highly geared (gearing at 30 September 2002 was over 200%). The group currently has a market capitalisation of £21m and, on 2007 consensus forecasts, will end the year with cash balances of over £1m.

In January 2006, the combined group announced its maiden results which included a five-month contribution from Fitzroy Robinson which offset the loss-making Aukett. The company also announced that it planned to move from the Full List to AIM.

Throughout 2006, as positive newsflow built, there was a significant improvement in the company's share price which trebled between mid-2006 and December. This included a trading statement in October which reported that results were likely to be ahead of management's expectations and the award of the largest contract in its history.

3. Valuation: A number of undervalued plays

Whilst we have examined a range of valuation metrics to understand the Professional Services sector, simple P/Es appear to be the preferred metric of investors. As discussed in the previous section, no one factor explains stock ratings, rather it appears a range of factors are taken into account with premiums being paid for quality management teams such as RPS and Mattioli Woods.

For some of the companies below the line on Exhibit 11, we believe the following explains their ratings and hence provides some indications for where there is an undervalued situation in the sector:

- We believe Aukett Fitzroy and VEGA have undergone restructuring which has yet to be fully priced in by the market.
- Clarkson recently issued an indifferent trading update followed by an announcement that it was facing litigation in Russia. However, if management is able to take steps to restore confidence in the business, it has the potential for a rerating.
- Scepticism about the health of the UK property cycle, particularly with rising rates, potentially accounts for the lower ratings of Savills, DTZ Holdings and Colliers. Yet they are both market leaders, with diversified and international business models. They should be core holdings if investors believe the supply vs demand argument means the property sector will be more resilient to interest rate rises than some may fear.

Basis of valuation: P/Es appear to stand out

We have applied numerous metrics on a comparative basis across the sector in an attempt to differentiate between the valuations attributed by the market to the different companies but have found most to be statistically insignificant, that is to say that there is no evident correlation between various valuation and measurable growth characteristics.

Furthermore, absolute methodologies such as discounted cash flows and EVA are complicated by:

- The rapid expansion of the sector makes it difficult to assess both long-term growth rates and operating margins.
- Acquisition based growth making DCF methodologies difficult to employ without making a range of assumptions on prices paid for acquisitions, allocation of cash to acquisition strategies and timing of future acquisitions.
- The balance sheets of the majority of Professional Services companies do not include their most important asset, namely people, and the resulting EV/IC to ROCE/WACC analysis did not produce a strong explanation of the valuations within the sector.

We believe the market focuses on P/Es for two reasons:

- The sheer disparity between the stocks examined suggests that the market defaults to the most readily available metric for comparisons across different industry groupings and stock market groupings.
- The majority of the stocks profiled are in the small and mid cap space where investors often focus on P/Es.

Exhibit 15: Peer comparison

Name	Price	05 p/e	06 p/e	07 p/e	Div yield	Div yield '07	EV/EBITDA	2006 EV/Sales	P/Cf
ACM Shipping	197.5			10.5	0.0	3.0	2.6	1.7	11.4
Arden	182.5	18.9	13.9	13.9	1.0	3.7	7.4	2.4	11.8
Aukett FR	14.3	98.8	24.4	12.4	0.0	0.0	17.7	1.3	12.5
Begbies Traynor	155.5	22.6	19.0	17.0	1.0	1.6	14.0	3.6	19.7
Braemar Seascope	406.0	11.0	11.8	12.1	4.4	4.5	7.3	0.8	13.5
Christie	256.0	23.6	15.4	19.3	1.4	1.5	7.1	0.6	5.8
Clarkson	919.0	6.5	11.1	10.3	3.5	3.9	7.5	1.2	9.0
Cohort	159.5	18.4	20.7	17.5	0.3	0.9	12.3	1.3	31.9
Colliers CRE	202.0	12.8	10.9	11.3	2.3	2.4	6.2	0.8	14.3
DTZ	615.0	18.4	14.3	12.6	1.6	1.8	11.3	1.2	11.8
Hyder	472.0	27.0	21.0	16.9	0.3	0.4	13.7	0.9	14.1
Jelf	262.0	30.2	19.5	15.2	0.0	0.0	13.8	2.0	20.1
Mattioli Woods	271.5	25.0	23.9	20.6	0.5	0.7	16.9	5.2	24.5
Mouchel Parkman	443.8	28.7	23.2	20.2	0.9	1.0	14.6	1.2	13.5
Murgitroyd	477.5	36.3	24.1	19.0	1.0	1.5	17.5	2.1	21.2
PHSC	51.5	11.7	10.5	9.5	1.5	1.6	6.0	1.3	7.8
RPS	319.5	36.2	27.2	23.3	0.8	0.9	16.5	2.3	16.1
RWS	312.5	23.3	19.6	18.4	2.3	2.4	11.9	2.6	15.3
Savills	672.0	40.4	15.9	15.2	1.5	1.9	9.0	1.5	9.8
Scott Wilson	326.5	24.3	23.3	20.1	0.8	0.9	6.0	0.4	17.7
SMC	74.0	11.5	9.4	6.8	1.4	2.0	10.5	2.1	27.3
Tenon	59.3	15.1	13.6	12.3	1.7	2.0	7.8	0.9	4.1
Vantis	232.5	16.9	13.5	12.8	2.1	2.0	10.7	2.0	45.5
Vega	275.0	16.9	15.0	13.8	0.9	1.1	10.3	0.9	15.6
Waterman	201.5	20.3	19.4	18.3	2.7	2.8	9.4	0.7	8.9
White Young Green	471.0	26.4	22.0	18.6	1.5	1.7	11.6	1.3	19.6
WSP	733.0	34.6	23.7	20.8	1.2	1.4	13.0	1.1	12.3
Sector average		25.2	17.9	15.5	1.3	1.8	10.8	1.6	16.1

Source: Companies' accounts, Edison, market forecasts

4. Sensitivities: Management, rates & legal

We have banded sensitivities in three key areas, the most important of which relates to quality of management, this proving to be the main driver of market sentiment towards, and valuation of, a Professional Services company. The three areas comprise:

(1) Management: strategic execution and ability to manage growth, acquisition, competitive pressures and brand integrity are factors that investors should always be mindful of. A disappointing announcement can rapidly change perception of management and hence the rating of a stock.

(2) Economic background: the impact of interest rates on the sector is more important in terms of its likely impact on demand rather than from balance sheets. Of more significance is cost inflation, with upward pressure on salaries having the potential to eat into margins. Finally exchange rate movements may become more of an issue if the sector acquires outside of the UK.

(3) Legal: implications of the upcoming Legal Services Bill and changes in employment law offer opportunities and risks that investors should be mindful of.

4.1. Management sensitivities

All issues are issues of management

Whilst the issues relating to change are many and various, they all at a fundamental level relate to the skill of the management in handling the processes and individuals involved. However, the flotation route is not one that will solve inherent management problems within a business and, in fact, might highlight previously masked inadequacies.

Strategic execution of acquisitive growth and culture

'People' businesses tend to be run by individuals whose expertise has been in the core skills that the enterprise offers. This can lead to a lack of prioritisation for back office systems, IT and information management. With an acquisitive culture, particularly when growth in the top line is the driver, a lack of attention to these details can store up considerable problems.

The recent trading statement from SMC highlights an issue of relevance to any industry consolidators, but particularly so in the case of Professional Services businesses not historically in the quoted arena. In SMC's case, a wide range of interpretation of the degree of Work in Progress had existed within the smaller practices which had been taken over and accounting practice had not been standardised as a matter of course. In some instances, the issues are exacerbated by earn-out provisions, which preclude the realignment of accounting policies.

Broadly, the issue relates to the integration of new subsidiaries into an existing structure and whether there is additional economic value being added to the enlarged group over and above the assets. The economies of scale are less obvious than in an industrial context as the overhead is so biased towards employment costs. Savings in utilities and consumables will not have so great an impact. For some, such as Vantis and Tenon, there are significant opportunities in cross-selling to the client base, but this is dependent on the nature of the services.

The difficulties inherent in merging or blending information technology and management information systems are almost invariably underestimated. With systems designed to suit the specifications and needs of one business, a compromise between two sets of thought processes rarely results in a functioning solution for either party. Whilst often blamed on the provider, the issues tend to reflect a lack of sufficient planning or understanding of the potential uses of the information the system is supposed to generate.

Where businesses have experienced some of these issues, the recovery time in terms of share price is not as long as might be expected, provided that the underlying problems have been dealt with. Tenon had earned a reputation for over-reaching itself with its acquisition programme. Now trading has been seen to be improving, with operating margins set to move steadily ahead. In response, the share price has risen very strongly since the middle of 2006.

Brand management

Whilst brand management is more usually associated with the consumer space, many of the Professional Services companies considered within this report are handling an increasing range of services under the umbrella of their brand. For businesses growing predominantly by acquisition, the transition of the purchased goodwill into the larger entity represents one of the greatest management challenges. As the consolidating businesses increase in scale, the protection of the brand can become more problematic if the only deals that are available continue to be small.

As in any operation, the key to preserving the value of the brand is in ensuring that the quality of the service delivered is at least to the standard anticipated by the client.

Barriers to entry

The main barrier to entry in all incarnations of the Professional Service organisation is the ability to bring together sufficient qualified and experienced human resource to gain the confidence of potential clients. Historically, it was much simpler to operate as a sole trader or with a small group of similarly qualified individuals, particularly in those spheres where membership of the appropriate professional body lent sufficient credibility. In many areas, such as the provision of Independent Financial Advice, the necessity of scale has been forced upon the providers by their inability to obtain suitable professional indemnity and/or insurance cover.

Whilst in some areas there may be opportunities for firms to buy their way in through predatory pricing, for the supplier of Professional Services the quality of the service delivered is the key factor in retaining business.

4.2. Economic sensitivities

Interest rates

Interest rates have less direct impact on the sector than indirect. However, there are subsectors with greater sensitivity by dint of their customer base. For example, in the property sector we highlight the real estate agents such as Savills and DTZ and, to a lesser extent, property sector suppliers SMC, Aukett and Colliers as being more sensitive to interest rate rises than most.

Whilst there are differences across the subsectors, the high degree of conversion of operating profits into cash means that few of the companies covered are making extensive use of their balance sheets. Around half of our sample has an element of financial gearing. Where they do, the average proportion of debt to market capitalisation is just under 10%. For those with a net cash position at the end of the last published financial year, this represents an average of 9.3% of their market capitalisation.

We would therefore conclude that the major impact of a background of rising interest rates will be on the business of the client companies, rather than on the Professional Services companies themselves.

Cost inflation

Of greater concern is the impact on the underlying companies of upwards pressure on wages and salaries. Within the partnership culture, the tradition of apprenticeships existed over a number of years as the junior staff completed their professional qualifications whilst working alongside and learning from more senior colleagues. Self-evidently, the revenue generating potential of these individuals increases the nearer they get to qualifying and there are also costs incurred in the investment of senior partners' time. For a company looking to drive its operational returns, whether or not due to pressure from external stakeholders, the temptation has to be to avoid this financial drain by recruiting staff trained up by other firms. Although academic institutions have to some degree filled the gap on the technical training, the combination of theory and practice learned on the job is more difficult to replicate.

The ability to retain newly-qualified and junior staff is one of the key issues for many of the firms recently listed or seeking a listing. The quoted company offering equity as part of a remuneration deal has an inbuilt negotiating advantage.

For those companies within our sample where the full data are available, the average cost per employee rose by 9.2% last published over previous published from £47.5k to £51.8k.

However, in many areas covered by this report, there is relative transparency such that clients are sufficiently well informed and the majority of the cost inflation can be passed through.

Currency

Although the geographic spread shows that there is little direct exposure of these companies to the US, much of the ex-Europe work is US$ denominated. For an engineering consultant working in the Middle East, there will be a substantial degree of matching between dollar costs and expenses, so the key relevance of currency moves is in the translation of profit into sterling.

4.3. Legal sensitivities

Legal specific issues

The British Judiciary predominantly retains its reputation internationally for probity, partly predicated on its independence from interference by the legislature. There is a great deal of concern, however, about the implications of the post-Clementi environment under the Legal Services Bill. With businesses/practices that have been transferred into Alternative Business Structures, the Regulator will be in the form of the proposed Legal Services Board. The proposal that the Head of the Legal Services Board be appointed by the Secretary of State has led to worries being voiced that this could be interpreted as governmental interference and the Bar Council in particular are strongly opposed, preferring the appointment to be in the gift of the Lord Chancellor. There are also vigorous debates ongoing as to who should fund the establishment and running costs of these new entities, the government favouring a solution self-funded by the legal profession.

Furthermore, there are concerns internationally about the introduction of external equity into law firms, a situation unacceptable in many EU territories. Whilst the possible repercussions are not yet fully clear, the proposals may in fact have the effect of limiting expansion opportunities into European territories and restricting the work that a UK firm can undertake in those territories.

Employment law

Traditional partnerships tended not to operate with contracts of employment, rather relying on service agreements or even less formalised arrangements. There are particular issues with regards to the recently enacted legislation on age discrimination and its implementation in partnerships that may have to be tested through the courts. Where recruitment or promotions have depended upon experience post qualification, this could be challenged by someone with less on the grounds of merit. Lockstep agreements similarly fall outside the spirit of the Act and it also raises issues about retirement ages, commonly not agreed by contract for partners.

There is therefore a legislative pressure for service providers to ‘normalise’ their relationships with those who work for them.

4.4. Other sensitivities

Invoicing methodologies

The traditional business model for legal and consultancy partnerships, in particular, has been based on hourly-based invoicing. Within some areas, there is a shift taking place towards project costing or success fees. Within the financial arena, however, there has been an element of backlash due to the perception that decision-making has been compromised by commission incentives. Time-based charging has a greater transparency for the client with a premium value attributed to advice deemed to be independent.

5. Catalysts for more IPOs in the sector

"What have we retained from the partnership? A flat communication structure, loyalty, entrepreneurial spirit and very long working hours." — *Director, recently floated ex-partnership*

As companies move away from the old partnership model, where mechanisms for growth can be relatively limited, the benefits of a stockmarket listing become compelling. Key catalysts include:

- Ability to access capital and create sound balance sheet platform for growth.
- Ability to attract, retain and incentivise key personnel.
- Crystallise unrealised value for investing partners.
- Currency of equity to make acquisitions.
- Create a platform to grow internationally.

5.1. Traditional partnership structure outdated

"A partner is a sole trader sharing some overheads." *CEO, floated ex-partnership*

Traditionally, this type of business has been structured as a partnership, with decision making either by unanimous resolve or by majority consensus. Whilst based on archaic laws, these partnerships have proved comparatively stable structures over generations, have given a framework for training and provided the opportunity for career progression. Seniority has of itself increased the level of influence that an individual partner can exert.

However, the model of a lock-step partnership offering a long-term career path and a particular associated lifestyle looks increasingly anachronistic in a society where individuals regularly move between employments without compromising their careers and without necessarily sacrificing pension provision. Time horizons for money and status have shortened.

Many organisations have already grown to a size where there are sufficient opportunities for individuals to build careers internally. However, where the businesses are earlier in their development stage, it can be difficult to provide the optimal combination of opportunity and reward to recruit and retain the equivalent of the Junior Partner. This is less so within some of the larger firms of lawyers and accountants, which generate significant amounts of cash, particularly where there is a commodity element to the business, such as audit. This cash can be redeployed internally, rather than be reallocated to external stakeholders or to fund acquisitions.

5.2. Advantages of a public market quote

There are numerous drivers that might push an enterprise towards a stockmarket listing as a way of moving the business forward.

Access to capital provides borrowing and investment power

For some, the ability to secure expansion of scale at the appropriate timing can be crucial. Whilst the limited capital investment requirements point to substantive generation of cash within the businesses, the degree of funding available at a given moment when an acquisition is advantageous may be insufficient. As a traditional partnership, the amount of borrowing available would be limited to the capital value of the individual partners, most commonly being the value of their houses. An ambitious partnership could therefore find itself constrained by their banking arrangements.

For engineering consultant Scott Wilson, which listed on the Official List in March 2006, the most significant use of proceeds was to fund a substantial pension deficit. However, the more common motivation is to add the currency of equity to the business model.

Securing the retention and succession of talent

Given that the businesses share reliance on professionally qualified and/or highly trained individuals, the motivational structures are key to success. The ability to offer an equity stake as part of the reward package can be central to building the team. Amongst the profiled companies, this is most recently evidenced by the float of ACM Shipping which, before flotation, paid out virtually all its earnings out as a bonus. With bonus payments being scaled back, key staff and consequently shareholders are expected to benefit from a c.35% to 40% dividend payout ratio and a progressive dividend policy.

Succession issues, whilst always important, can be thrown into relief by a partnership structure. With a founder perhaps looking to retire, it may be that the business has become too closely identified with that individual or that it has transformed more into a lifestyle than a commercial operation, making the transition more disruptive than might otherwise be the case. For most of the quoted sector, this transition took place some time ago, prior to flotation or perhaps on moving to a LLP structure, but the degree of 'corporatisation' depends mostly on the prior culture. However, it remains relevant when they are actively pursuing consolidation opportunities within fragmented industries.

Monetising the goodwill

Having built a successful organisation on a partnership model, the individuals involved will have accumulated a substantial element of goodwill. By retiring or moving on, those individuals sacrifice the element of the goodwill built up through their own efforts as there is no mechanism for its capture and crystallisation or redistribution.

Using equity for growth through acquisition

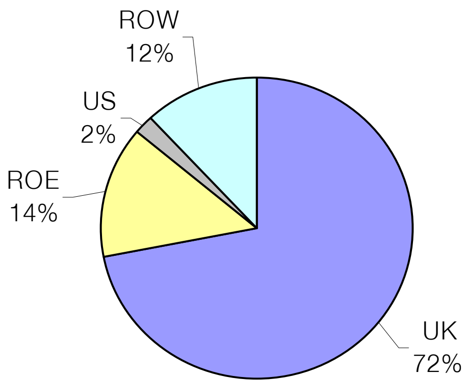
Traditional partnerships tend to start life as small groups of professional individuals, for whom the catalyst of an IPO opens the way to growth and transformation through acquisitions, adding scale, size and enhanced market reach.

Create a platform to grow internationally

The international reach of the Professional Services sector is well beyond what might be expected for companies of this size, with the engineering consultancies having a particularly strong geographic spread.

Whilst the whole UK economy has become increasingly based upon the service sector, the cost base of the commoditised end has shifted an element of supply to lower-wage economies. This has raised service and cultural issues, resulting in some of those jobs being repatriated. The bulk of the Professional Services are supplying either from the UK or offices in situ. However, there are opportunities to outsource areas requiring less direct client contact.

Exhibit 16: Geographical breakdown of revenues



Source: Edison/Companies' Accounts

International expansion is likely to be a goal of many of the firms currently appraising a stockmarket listing. However, there are very specific legal barriers in some countries on ownership and cultural differences in attitudes towards ownership for providers of particular services. For example, in the UK, a firm of Chartered Accountants must be 51%-owned by a Chartered Accountant (although the Financial Reporting Council is examining relaxing these rules). Similarly, in France the concern does not centre so much on who runs a business, but ownership is crucial. A Patent Attorney's practice must be 50%-owned by a Patent Attorney, with similar restrictions on lawyers. In Germany, a Patent Attorney must be a partner in order to undertake private practice.

Tax implications

The tax implications of the ownership structure may also be a driving force behind the decision-making, particularly with IHT issues. Selling equity is obviously a far more attractive proposition than realising capital values to be taxed at 40%. For more recently established enterprises, setting up under an EIS, as was done at Arden Partners, is an attractive option.

The British law firm Lovells has run into taxation issues in attempting to move to a LLP and it seems as if its partners based in Paris will need to become equity-owning employees in order to avoid double taxation. Norton Rose, Freshfields Bruckhaus Beringer and Linklaters have also discovered that their proposed corporate developments fall foul of French taxation laws. Clifford Chance and SJ Berwin have chosen to omit their French operations from their plans.

5.3. Specific catalysts for the legal sector

Whilst the changes to ownership structure and their consequences have already been extensively applied in many areas of business, law firms have, to date, been unable to follow. Following the recommendations on the future of this sector by Sir David Clementi, the Legal Services Bill has been drawn up and is currently making its progress through the legislature. The intent of the legislation is to shift the emphasis of the provision of legal services to be that of service to the client and to provide that client with a greater degree of recourse should things go awry. Whilst the Bill is principally concerned with the workings of solicitors, some changes are also envisaged to the Bar, particularly in the proposed handling of complaints. The two branches of the legal profession are, however, to remain distinct.

Amongst its other provisions, this Bill will enable law firms to incorporate, be owned by non-lawyers and to introduce external capital. It thus opens the possibility of such firms obtaining listings on the public markets. The new environment will undoubtedly prove more competitive and less protective. There is therefore likely to be consolidation at the commodity end of the market, where scale and control of central overheads are more influential on return.

Flexibility of the ABS structure

The proposed Act also makes allowance for a new category of legal firm entitled the 'Alternative Business Structure' (ABS), under a new regulator, the Legal Services Board. Such ABS firms will be able to act as a holding company equivalent for multidisciplinary partnerships allowing, for example, a firm of lawyers to offer additional professional services to their clients. On the reverse, it will also enable other firms, principally providers of other Professional Services, to offer legal services to third parties themselves, i.e. it will no longer be a pre-requisite that legal advice comes from a law firm. Whilst multi-disciplinary practices have existed before, under the auspices of the large accountancy firms, these were unbundled some while ago with, by way of example, the Scottish lawyers McGrigors having been part of KPMG until its demerger in 2003. In the US, the Sarbanes-Oxley legislation has also restricted appetites for such structures.

Whilst this gives a significantly greater degree of flexibility to the management of growth, there remains a substantial degree of scepticism amongst those running those firms which might take advantage, about the benefits of an ABS structure. It is a not uncommonly held opinion that clients would, in fact, be discouraged from using the services of a firm that might be deemed to be compromised by its other activities and that they would much prefer to choose the most appropriate partner for each service required. A good example might be as to whether a client purchasing a property would have confidence in using a solicitor employed by the estate agent involved in the deal. However, this attitude should fade in time if confidence can be built that best advice lies at the heart of practice.

Appendix: Company profiles

ACM Shipping

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
03/05	13.8	0.4	1.21	0.0	N/A	N/A
03/06	13.6	0.5	0.12	0.0	N/A	N/A
03/07e	14.7	4.2	16.8	6.00**	11.8	0.3
03/08e	16.1	4.8	19.4	6.80	10.2	3.4

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items
EPS based on current issued capital; **pro rata payment (c.1.5p) expected for 2006/2007

Investment summary: Awaiting news

ACM shares established a useful premium on their issue prices last November and have been marking time in recent weeks, awaiting the full-year results announcement in June. This premium seems fully justified by the group's impressive and consistent long-term record in one of the more consistent sectors of the market, but the continuing weakness of the US$ must be applying some pressure on group margins. We expect the shares to mark time until the situation becomes clearer.

Short-term margin pressures

Interim results, announced last December, showed revenue 10.4% ahead at £7.46m, suggesting the group is well on course to deliver full-year targets. The profit numbers were of limited value, because of the impact of the restructured staff bonus scheme. With costs largely in sterling, but revenues US$ based, the second half will have seen margins squeezed, but we continue to view the longer-term with confidence.

Positive strategy

ACM has an impressive and consistent record going back to its inception 24 years ago, despite the vagaries of currency movements and the shipping cycle. Group strategy is based on building and motivating a very stable team; organic growth will be supplemented largely by taking on small specialist operations enabling the group to move seamlessly into adjacent business areas. While spot rates can fluctuate on a short-term basis, there is a growing involvement in counter-cyclical business.

Strong cash generation

With no inventories or fixed assets, group operations are highly cash generative in most years. With some 50% of profits available for the staff bonus and a progressive dividend policy, a high proportion of the generated funds will be paid out.

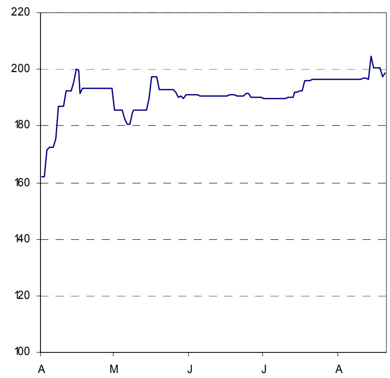
Valuation: Ahead of peer group

The rating is close to that of Clarksons and some 11% below the highest rated shipbroking group, Braemar Seascope. A higher rating can be earned over the medium-term as the group's qualities become better understood by the market.

Price	198.5p
Market Cap	£30m

Note: Priced at 24 Apr 2007

Share price graph



Share details

Code	ACMG
Listing	AIM
Sector	Transport
Shares in issue	15.3m

Price

	High	Low
52 week	205p	160p

Balance Sheet*

Debt/Equity (%)	N/A
NAV per share (p)	N/A
Net cash (£m)	2.3

**as at 30 Sept 2006*

Business

ACM is a shipbroker, with a focus on the global oil tanker market. It arranges spot freight, time charter, and ship sale and purchase, broking to an international customer base.

Valuation

	2006	2007e	2008e
P/E relative	N/A	94%	86%
P/CF	N/A	11.8	13.6
EV/Sales	N/A	1.8	1.5
ROE	N/A	113%	83%

Geography based on revenues

UK	Europe	US	Other
96%	0%	0%	4%

Analyst
Nigel Harrison 020 7190 1758
nharrison@edisoninvestmentresearch.co.uk

ACM Shipping Group is a research client of Edison Investment Research Limited

ACM Shipping: Financials and key performance indicators

Revenue per employee: £238k

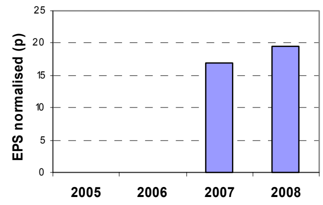
Cost per employee: £228k

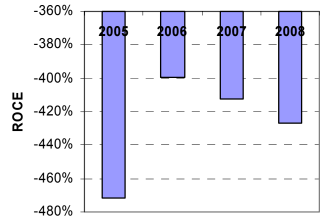
Revenue: Cost 1.0x

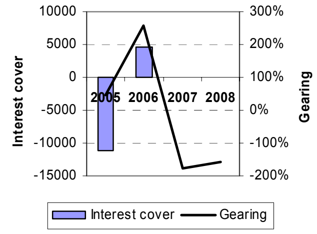
Summary financial table

Year to March	2005	2006	2007e	2008e
Profit & Loss				
Turnover	13,848	13,552	14,662	16,109
(% change)	48%	(2%)	8%	10%
EBITDA	11,335	9,471	9,543	10,492
(% margin)	82%	70%	65%	65%
(% change)	99%	(16%)	1%	10%
EBIT pre GW and except's.	11,223	9,327	9,392	10,333
(% margin)	81%	69%	64%	64%
Net financial items	1	(2)	106	257
Bonus payments	(10,814)	(8,853)	(5,297)	(5,828)
Pre-tax profit (norm'd)	410	472	4,201	4,762
Tax	(224)	(453)	(1,620)	(1,789)
Net Income	186	19	2,581	2,974
EPS (norm'd and fd)	N/A	N/A	16.8	19.4
(% change)	N/A	N/A	N/A	15%
Balance Sheet				
Fixed Assets	1,355	944	1,017	1,097
Current Assets	3,441	4,418	7,605	9,379
Current Liabilities	(3,983)	(4,453)	(4,838)	(5,316)
Long term Liabilities	(2,591)	(1,421)	(1,492)	(1,567)
Shareholders Equity	(1,778)	(512)	2,292	3,594
Cash Flow				
Cash flow from operations	(1,842)	(1,842)	2,567	2,232
Capex	(635)	(65)	(68)	(72)
Acquisition capex	0	0	0	0
Net debt(cash)	(825)	(1,326)	(4,233)	(5,674)

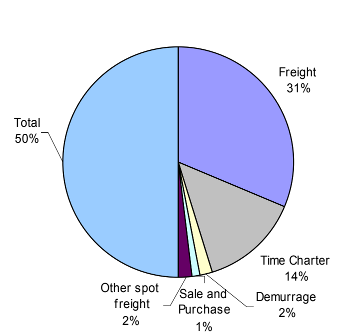
Performance



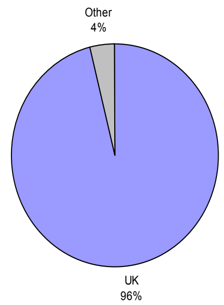




Business breakdown (% Sales 2006)



Geographic breakdown (% Sales 2006)



End-user market breakdown (% Sales 2006)

N/A

Arden Partners

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
10/05	10.5	3.0	9.0	0.0	20.3	N/A
10/06	14.3	4.7	13.0	3.6	14.0	2.0
10/07e**	15.9	5.3	13.9	6.7	13.1	3.7
10/08e**	16.6	5.6	14.6	7.1	12.5	3.9

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items
**consensus forecasts

Investment summary: Relationship broking

Arden's maiden figures were modestly ahead of forecasts. More importantly, the statement for the current year was quietly optimistic; a position reinforced by a positive AGM statement, in contrast to some of its peers. It is less reliant than some on IPOs to deliver on its numbers and has good opportunities to build revenues without compromising its central premise of quality research.

Longer-term vision

The business is being built with an eye to sustainability, rather than focusing on short-term opportunity, giving some assurance on the resilience of the model should AIM experience a more difficult period. To date, unbundling has been a positive experience, with total remuneration from larger institutional clients in commission and research payments ahead of the prior year. The proportion of revenues stemming from corporate finance and broking increased to 57% (50%) and there is scope to increase further through larger transaction sizes and retainers. The research-led mentality remains, with new ideas requiring a sponsor from each of research, sales and corporate finance. Further investment is being put behind the market making, but at a steady pace. Arden is also working to build a franchise with Indian companies looking to raise finance in London.

Costs under control

The main constraint on faster expansion of the research function is Arden's attitude towards salaries. With the equity spread broadly amongst the employees, the bonus payout at 35% is lower than most other firms, as increasing shareholder value has more resonance. Fixed salaries and costs in the year were 43% of revenues. Management are now looking at introducing an LTIP. The only full-year figure to be posted at significant variance to estimates was the FRS20 charge at £17k, which had been thought to be more substantial, as it has been for several peers.

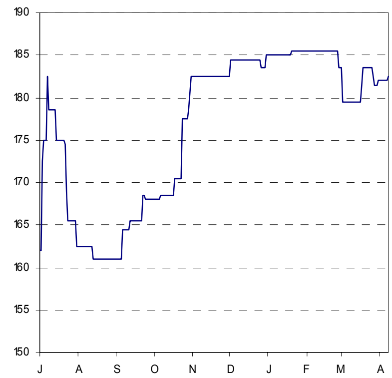
Fair valuation

Given the doubts about the strength of the markets in 2007, Arden looks to be fairly priced, within the relatively wide range of its peers. In keeping with its emphasis on shareholder return, the shares offer a premium yield to the sector.

Price	182.5p
Market Cap	£45m

Note: Priced at 24 Apr 2007

Share price graph



Share details

Code	ARDN
Listing	AIM
Sector	General Financial
Shares in issue	24.7m

Price

52 week	High	Low
	186p	161p

Balance Sheet*

Debt/Equity (%)	N/A
NAV per share (p)	32
Net cash (£m)	8.3

**as at 31 Oct 06*

Business

Arden Partners is a research-led institutional stockbroking firm. It provides its services to corporate and institutional clients, predominantly in the small and mid cap markets.

Valuation

	2006	2007e	2008e
P/E relative	101%	104%	105%
P/CF	11.8	8.0	8.1
EV/Sales	2.4	2.1	1.8
ROE	41%	32%	26%

Geography based on revenues

UK	Europe	US	Other
100%	0%	0%	0%

Analyst
Fiona Orford-Williams 020 7190 1755
forford-williams@edisoninvestmentresearch.co.uk

Arden Partners: Financials and key performance indicators

Revenue per employee: £433k

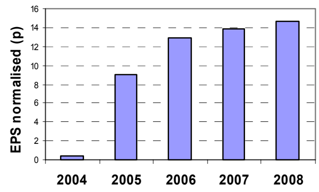
Cost per employee: £156k

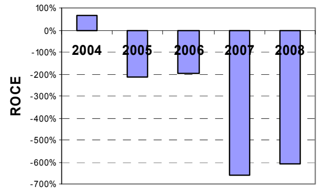
Revenue: Cost 2.8x

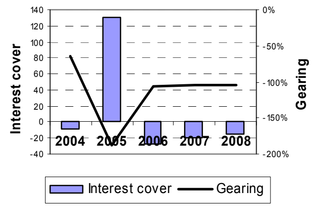
Summary financial table

Year to October	2005	2006	2007e	2008e
Profit & Loss				
Turnover	10,515	14,274	15,900	16,600
(% change)	170%	36%	11%	4%
EBITDA	3,182	4,640	5,178	5,390
(% margin)	30%	33%	33%	32%
(% change)	643%	46%	12%	4%
EBIT pre GW and except's.	3,056	4,495	5,033	5,245
(% margin)	29%	31%	32%	32%
Net financial items	(23)	168	252	340
Other	0	0	0	0
Pre-tax profit (norm'd)	3,033	4,664	5,285	5,585
Tax	(977)	(1,489)	(1,691)	(1,787)
Net Income	2,056	3,174	3,594	3,798
EPS (norm'd and fd)	9.0	13.0	13.9	14.6
(% change)	2,167%	44%	7%	5%
Balance Sheet				
Fixed Assets	219	388	388	389
Current Assets	12,716	17,228	21,872	25,738
Current Liabilities	(9,954)	(9,828)	(10,948)	(11,430)
Long term Liabilities	0	0	0	0
Shareholders Equity	2,980	7,789	11,312	14,698
Cash Flow				
Cash flow from operations	4,399	3,604	5,669	5,602
Capex	(188)	(315)	(150)	(150)
Acquisition capex	0	0	0	0
Net debt(cash)	(5,615)	(8,260)	(11,881)	(15,307)
Cash earnings per share	19.3	15.4	22.9	22.5

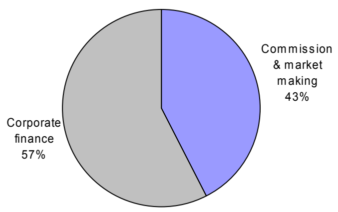
Performance



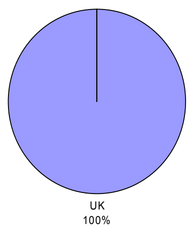




Business breakdown (% Sales 2006)



Geographic breakdown (% Sales 2006)



End-user market breakdown (% Sales 2006)

N/A

Aukett Fitzroy Robinson

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
09/05	12.6	0.2	0.0	0.0	N/A	N/A
09/06	16.3	0.8	0.4	0.0	35.6	N/A
09/07e**	19.0	1.9	1.0	0.0	14.3	N/A
09/08e**	22.0	2.9	1.5	0.5	9.5	3.5

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items
**consensus forecasts

Investment summary: Building up

Aukett Fitzroy Robinson is now moving into the next phase of its corporate development and raising its profile with more newsworthy projects. Its historic reputation was that of a traditional partnership within the structure of a quoted plc. The share price is indicating that the market must still be convinced of its strategy, although forecasts are starting to show the benefits coming through.

Moving on from the restructuring

Since the takeover of Fitzroy Robinson in April 2005, there has been an extensive programme to realign the business, with office closures, relocations and IT investment projects. The intention is to focus on fewer, larger projects and more active management of the cost base. The group has identified particular opportunities in Russia and specific Eastern European cities, which now form the crux of its overseas plans, with less emphasis on the competitive Western European markets.

Paying off from 2008

The December trading update outlined some substantial newly-won projects across the UK from both retained clients and from new clients with stage fees of £5m over the next two years. This indicates that the group is gaining credibility and proving that it can convert opportunities.

Cash starts to flow

With operating margins set to improve with the higher level of overhead recovery, we also anticipate that the company will move into a net cash position during the current year, barring any acquisitions. Over the last year and the current year, we expect Aukett FR to be converting its EBITDA into free cash flow at a rate of 79%. We also expect the company to start paying a dividend in the year to September 2008.

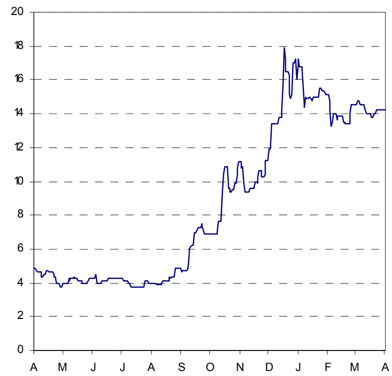
Valuation: As yet unconvinced of growth to come

The lower valuation reflects the subdued rate of revenue growth compared with the other companies in this comparison.

Price	14.3p
Market Cap	£21m

Note: Priced at 24 Apr 2007

Share price graph



Share details

Code	AUK
Listing	AIM
Sector	Support Services
Shares in issue	145.6m

Price

52 week	High	Low
	17.9p	3.8p

Balance Sheet*

Debt/Equity (%)	6
NAV per share (p)	2.0
Net borrowings (£m)	0.2

**as at 30 Sep 06*

Business

Aukett Fitzroy Robinson is an international firm of architects. Created from the merger of Aukett with Fitzroy Robinson in April 2005, the firm is in the top 12 UK practices.

Valuation

	2006	2007e	2008e
P/E relative	234%	110%	79%
P/CF	12.5	12.6	7.8
EV/Sales	1.3	1.0	0.8
ROE	21%	38%	47%

Geography based on revenues

UK	Europe	US	Other
81%	19%	0%	0%

Analyst
Fiona Orford-Williams 020 7190 1755
forford-williams@edisoninvestmentresearch.co.uk

Aukett Fitzroy Robinson: Financials and key performance indicators

Revenue per employee: £88k

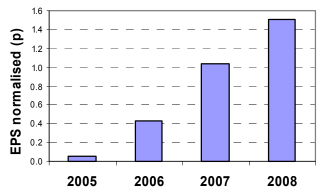
Cost per employee: £35k

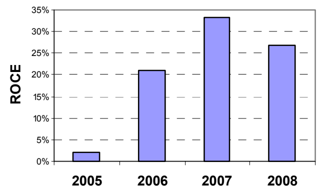
Revenue: Cost 2.5x

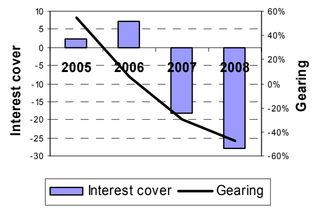
Summary financial table

Year to September	2005	2006	2007e	2008e
Profit & Loss				
Turnover	12,611	16,284	19,000	22,000
(% change)	6%	29%	17%	16%
EBITDA	585	1,177	2,075	3,075
(% margin)	5%	7%	11%	14%
(% change)	N/A	101%	76%	48%
EBIT pre GW and except's.	287	891	1,800	2,800
(% margin)	2%	5%	9%	13%
Net financial items	(125)	(122)	100	100
Other	25	0	0	0
Pre-tax profit (norm'd)	187	769	1,900	2,900
Tax	(136)	(137)	(400)	(700)
Net Income	51	632	1,500	2,200
EPS (norm'd and fd)	0.0	0.4	1.0	1.5
(% change)	N/A	815%	137%	47%
Balance Sheet				
Fixed Assets	2,028	1,943	1,900	1,900
Current Assets	7,222	7,773	9,364	11,398
Current Liabilities	(5,400)	(5,597)	(6,212)	(7,488)
Long term Liabilities	(1,520)	(1,162)	(1,100)	(1,100)
Shareholders Equity	2,330	2,957	3,952	4,710
Cash Flow				
Cash flow from operations	426	1,655	1,649	2,649
Capex	(117)	(265)	(200)	(300)
Acquisition capex	143	0	0	0
Net debt(cash)	1,383	180	(1,200)	(2,260)
Cash earnings per share	0.4	1.1	1.1	1.8

Performance



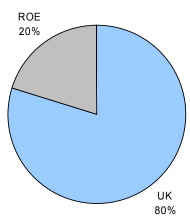




Business breakdown (% Sales 2006)

N/A

Geographic breakdown (% Sales 2006)



End-user market breakdown (% Sales 2006)

N/A

Begbies Traynor

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
04/05	16.0	3.3	5.1	0.0	30.8	N/A
04/06	33.2	7.3	7.8	1.5	20.1	1.0
04/07e**	46.0	9.3	8.4	2.3	18.7	1.5
04/08e**	53.0	10.6	9.6	2.9	16.4	1.8

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items
**consensus forecasts

Investment summary: A typical example

Since floating on AIM in October 2004, Begbies Traynor has carried out a steady programme of acquisition and organic expansion. It has built a strong position in its market which gives leverage in negotiating deals. The company should exhibit defensive characteristics in a slowing economy but for now its growth attributes are being recognised.

Going for growth

Begbies' strategy is typical of the pattern of growth sought by many professional services businesses. With a core operation in business insolvency services built organically and through acquisition, management is extending the franchise into contiguous areas. Revenue is targeted to increase by over 30% compound to 2010 whilst maintaining operating margins over 20%, making a demanding but achievable challenge.

Cashflow funds expansion

With the strong cashflow characteristic also shared by many in the sector, funding the acquisition element of the growth strategy is not a particular issue. The international expansion is being approached in a low risk manner, through the creation of a network of similar service providers in different territories.

Increase scale

With many individuals and small insolvency practices, there remains plenty of opportunity for Begbies to continue adding to its core business, but to achieve its targets it will need to be looking for more substantial targets and broadening its remit. This will inevitably increase the possible complications of integration. To date, the record on integration has been good.

Valuation: Justified

The company's rating reflects its commendable acquisition record to date. The company has defensive characteristics in the slower part of the economic cycle, but for now the growth attributes are to the fore.

Price	157.0p
Market Cap	£127m

Note: Priced at 24 Apr 2007

Share price graph

Share details

Code	BEG
Listing	AIM
Sector	Support Services
Shares in issue	80.9m

Price

	High	Low
52 week	204p	134.5p

Balance Sheet*

Debt/Equity (%)	1
NAV per share (p)	51
Net borrowings (£m)	7.4

**as at 30 Apr 2006*

Business

Begbies Traynor assists companies, creditors, financial institutions and individuals on all aspects of financial restructuring and corporate recovery.

Valuation

	2006	2007e	2008e
P/E relative	144%	149%	138%
P/CF	19.7	16.1	11.4
EV/Sales	3.6	2.7	2.6
ROE	15%	15%	18%

Geography based on revenues

UK	Europe	US	Other
100%	0%	0%	0%

Analyst
Fiona Orford-Williams 020 7190 1755
forford-williams@edisoninvestmentresearch.co.uk

Begbies Traynor: Financials and key performance indicators

Revenue per employee: £79k

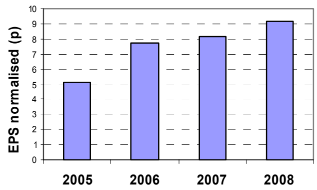
Cost per employee: £36k

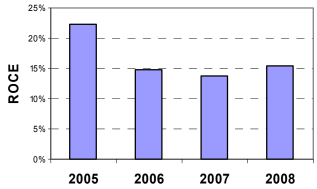
Revenue: Cost 2.2x

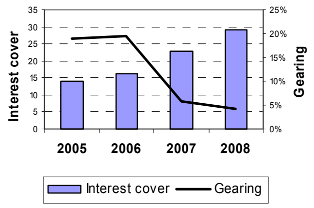
Summary financial table

Year to April	2005	2006	2007e	2008e
Profit & Loss				
Turnover	16,010	33,242	44,975	48,750
(% change)	N/A	108%	35%	8%
EBITDA	4,133	8,601	10,713	12,177
(% margin)	26%	26%	24%	25%
(% change)	N/A	108%	25%	14%
EBIT pre GW and except's.	3,580	7,790	9,902	11,366
(% margin)	22%	23%	22%	23%
Net financial items	(254)	(476)	(432)	(392)
Other	0	0	0	0
Pre-tax profit (norm'd)	3,326	7,314	9,470	10,973
Tax	(864)	(1,737)	(2,888)	(3,237)
Net Income	2,462	5,577	6,582	7,736
EPS (norm'd and fd)	5.1	7.8	8.4	9.6
(% change)	N/A	52%	8%	14%
Balance Sheet				
Fixed Assets	29,508	41,347	38,791	36,235
Current Assets	13,502	20,570	35,637	36,817
Current Liabilities	(10,804)	(10,614)	(18,233)	(18,066)
Long term Liabilities	(5,707)	(12,938)	(12,169)	(11,698)
Shareholders Equity	26,499	38,365	44,026	43,289
Cash Flow				
Cash flow from operations	N/A	5,730	7,410	11,114
Capex	N/A	(1,112)	(811)	(811)
Acquisition capex	N/A	(7,435)	(5,912)	(4,210)
Net debt(cash)	5,023	7,442	2,528	1,772
Cash earnings per share	N/A	8.0	9.7	13.7

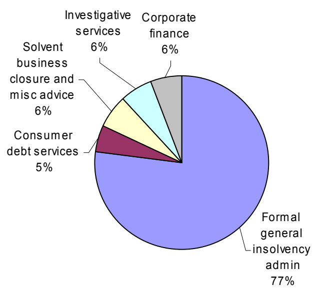
Performance



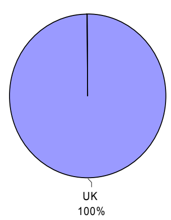




Business breakdown (% Sales 2006)



Geographic breakdown (% Sales 2006)



End-user market breakdown (% Sales 2006)

N/A

Braemar Seascope

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
02/05	45.2	9.1	33.5	16.0	12.0	4.0
02/06	68.5	10.6	37.6	18.0	10.7	4.5
02/07e**	103.0	10.4	34.9	18.5	11.6	4.6
02/08e**	110.0	10.7	35.7	18.5	11.3	4.6

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items
**consensus forecasts

Investment summary: Quality of earnings

Braemar Seascope is acknowledged as a quality business in the shipbroking sub-sector, with a slight premium rating which reflects the historic conservative nature of City estimates and the diversification strategy which has introduced a number of complementary sector services offering useful potential. Margin pressures, caused by the weakness of the US$, has held back the share price in recent months.

Sterling/dollar undermines short-term performance

Market conditions remain relatively buoyant in the current year, although charter rates are below their highest levels. Organic growth in revenue has been countered by the impact on margins of the short-term weakness of the US$ (revenues are largely in dollars, while costs are mainly in sterling), while momentum is building in the recent acquisitions. Underlying profits in the first half of 2006/2007 were marginally below those of the previous year, but there was a positive trading statement.

Diversification strategy

Management action to reduce the impact of the shipping cycle is beginning to pay off as earnings from the diversification activities start to build. Acquisitions have added a number of adjacent specialist consultancy and service operations to the group; further strategic deals can be expected over the medium-term.

Strong cash flow

With working capital equivalent to well under 10% of turnover and limited capital investment demands, the group is operationally cash positive in most years. There tends to be a cash outflow during H1, following staff bonus payments. Net cash of £8.1m at August 2006 suggests ample funds are available to finance future acquisitions without recourse to the City.

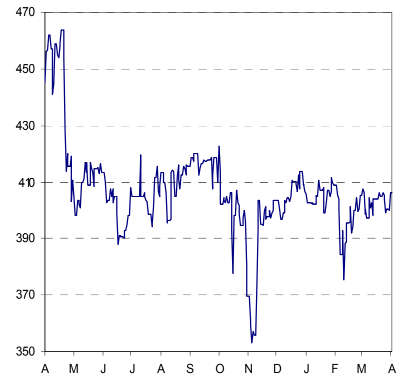
Valuation: Premium rating justified

Braemar Seascope is the highest rated of the three quoted shipbroking groups. However, the group has a history of beating City estimates, while the whole segment is rated some 30% below the International Transportation sector as a whole.

Price	403.5p
Market Cap	£82m

Note: Priced at 24 Apr 2007

Share price graph



Share details

Code	BMS
Listing	Full
Sector	Transportation
Shares in issue	20.2m

Price

	High	Low
52 week	464.0p	353.0p

Balance Sheet*

Debt/Equity (%)	N/A
NAV per share (p)	165
Net cash (£m)	8.1

**as at 31 August 2006*

Business

Braemar Seascope is a global shipping services group. Shipbroking remains the core profit earner, but the group has extended by acquisition into a number of adjacent complementary services.

Valuation

	2006	2007e	2008e
P/E relative	77%	95%	101%
P/CF	5.7	13.5	8.3
EV/Sales	0.9	0.8	0.7
ROE	23%	17%	16%

Geography based on revenues

UK	Europe	US	Other
82%	0%	0%	18%

Analyst
Nigel Harrison 020 7190 1758
nharrison@edisoninvestmentresearch.co.uk

Braemar Seascope: Financials and key performance indicators

Revenue per employee: £209k

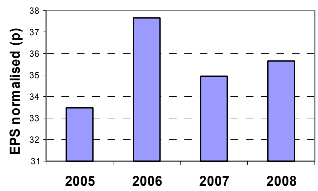
Cost per employee: £81k

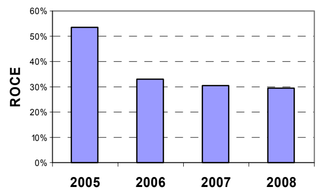
Revenue: Cost 2.6x

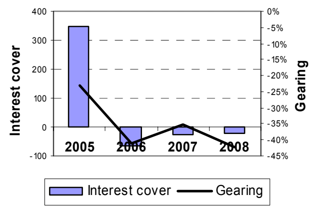
Summary financial table

Year to February	2005	2006	2007e	2008e
Profit & Loss				
Turnover	45,203	68,497	103,000	110,000
(% change)	49%	52%	50%	7%
EBITDA	9,019	10,516	10,089	10,339
(% margin)	20%	15%	10%	9%
(% change)	120%	17%	(4%)	2%
EBIT pre GW and except's.	8,722	10,177	9,750	10,000
(% margin)	19%	15%	9%	9%
Net financial items	(25)	160	400	450
Other	365	243	250	250
Pre-tax profit (norm'd)	9,062	10,580	10,400	10,700
Tax	(2,699)	(3,115)	(3,172)	(3,264)
Net Income	6,363	7,465	7,228	7,437
EPS (norm'd and fd)	33.5	37.6	34.9	35.7
(% change)	N/A	12%	(7%)	2%
Balance Sheet				
Fixed Assets	28,786	30,155	29,855	29,555
Current Assets	25,728	31,296	46,747	52,865
Current Liabilities	(26,242)	(28,112)	(42,013)	(44,829)
Long term Liabilities	(183)	(482)	(482)	(482)
Shareholders Equity	28,089	32,857	34,107	37,109
Cash Flow				
Cash flow from operations	11,044	13,769	6,036	10,456
Capex	219	(380)	(339)	(339)
Acquisition capex	(1,026)	(521)	(1,132)	0
Net debt(cash)	(6,531)	(13,468)	(12,048)	(15,826)
Cash earnings per share	60.0	71.0	29.9	51.4

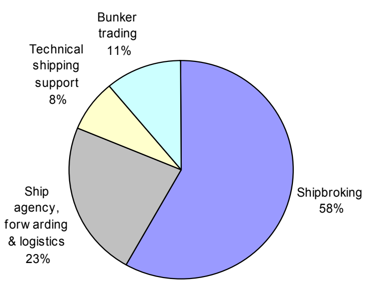
Performance



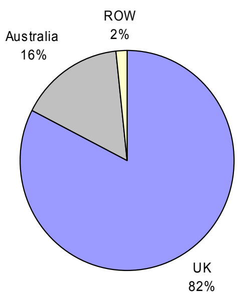




Business breakdown (% Sales 2006)



Geographic breakdown (% Sales 2006)



End-user market breakdown (% Sales 2006)

N/A

Edison investment research

Christie

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
12/05	77.5	4.4	10.9	3.5	23.5	1.4
12/06	87.1	6.2	16.6	4.0	15.4	1.6
12/07e**	95.8	6.5	17.2	4.0	14.9	1.6
12/08e**	105.4	7.2	19.7	4.5	13.0	1.8

Note: PBT and EPS are normalised, excluding goodwill amortisation and exceptional items

**consensus forecasts

Investment summary: European expansion

Whilst Christie's activities are various in nature, they are all tied to improving their customers' use of their own assets. Its focus on European expansion differentiates the business from the other property-based Professional Service companies, as do its operations supplying product to customers.

Developing a broader-based business

Christie transferred from the main list to the AIM market in November 2005. The company has been broadening its scope both by activity and geography, principally through organic expansion. The investments in the development of the software business and the growth of the agency revenue stream have affected the profit mix over the last couple of years.

Investing the cashflow

As with other businesses covered in this report, Christie has strong cashflow characteristics. It does, however, have a greater internal requirement to fund the software development for the retail sector products. This has the potential to earn sufficient returns to provide some protection to any downturn in the property cycle.

Buoyed by M&A

A strong background of corporate M&A, particularly within the core leisure sector, has proved fertile ground for Christie. The outlook for the consumer economy may now be more mixed, but this may not lead to fewer assets changing hands unless valuations fall to such a level that clients are unwilling to realise their losses. A poorer retail and hospitality background may also prompt a more receptive customer environment for Christie's stock management solutions.

Valuation: Fair

With increasingly confident statements, the share price has performed strongly over the last year and it may be that greater visibility of earnings for 2008 is needed to drive the price further from this level.

Price	256.0p
Market Cap	£65m

Note: Priced at 24 Apr 2007

Share price graph

Share details

Code	CTG
Listing	AIM
Sector	Support Services
Shares in issue	25.2m

Price

52 week	High	Low
	266.5p	129.0p

Balance Sheet*

Debt/Equity (%)	N/A
NAV per share (p)	50.1
Net cash (£m)	8.9

** as at 31 Dec 2006*

Business

Christie provides professional business services (incl. surveying, valuation, agency, consultancy, finance, insurance, stock control and business software) in the leisure, retail and care sectors in the UK and Europe.

Valuation

	2006	2007e	2008e
P/E relative	108%	116%	107%
P/CF	5.8	8.1	7.5
EV/Sales	0.6	0.5	0.4
ROE	33%	30%	28%

Geography based on revenues

Europe	ROW
99%	1%

Analyst

Fiona Orford-Williams 020 7190 1755

forford-williams@edisoninvestmentresearch.co.uk

Christie: Financials and key performance indicators

Revenue per employee: £65k

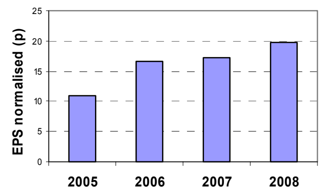
Cost per employee: £38k

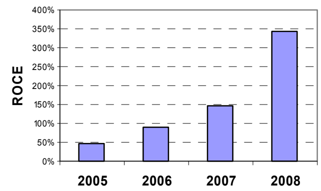
Revenue: Cost 1.7x

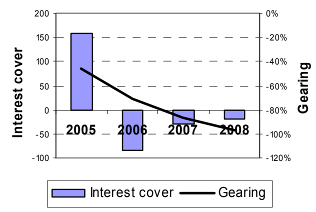
Summary financial table

Year to December	2005	2006	2007e	2008e
Profit & Loss				
Turnover	77,506	87,096	95,806	105,386
(% change)	N/A	12%	10%	10%
EBITDA	5,701	7,377	7,538	8,101
(% margin)	7%	8%	8%	8%
(% change)	N/A	29%	2%	7%
EBIT pre GW and except's.	4,450	6,128	6,288	6,851
(% margin)	6%	7%	7%	7%
Net financial items	(28)	73	211	341
Non-recurring items	0	0	0	0
Pre-tax profit (norm'd)	4,422	6,201	6,499	7,192
Tax	(1,694)	(2,019)	(2,145)	(2,230)
Net Income	2,728	4,182	4,354	4,962
EPS (norm'd and fd)	10.9	16.6	17.2	19.7
(% change)	N/A	53%	4%	14%
Balance Sheet				
Fixed Assets	11,205	11,952	11,652	10,809
Current Assets	21,238	26,307	29,785	35,192
Current Liabilities	(13,618)	(17,691)	(18,774)	(20,639)
Long term Liabilities	(9,011)	(8,035)	(8,200)	(7,900)
Shareholders Equity	9,795	12,533	14,463	17,462
Cash Flow				
Cash flow from operations	6,772	10,578	7,839	8,432
Capex	(2,568)	(1,597)	(1,250)	(1,250)
Acquisition capex	(79)	0	0	0
Net debt(cash)	(4,452)	(8,942)	(12,588)	(16,888)
Cash earnings per share	27	43	31	33

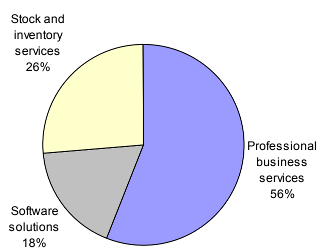
Performance



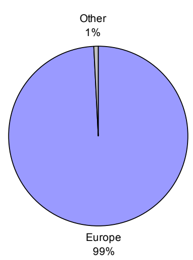




Business breakdown (% Sales 2006)



Geographic breakdown (% Sales 2006)



End-user market breakdown (% Sales 2005)

N/A

Clarkson

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
12/05	115.9	26.8	141.9	32.0	6.5	0.3
12/06	117.7	20.7	83.1	36.0	11.1	0.4
12/07e**	127.1	23.9	89.0	38.0	10.3	0.4
12/08e**	132.7	25.6	95.9	40.0	9.6	0.4

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items
**consensus forecasts

Investment summary: Undervalued

Having fallen sharply in 2006, when it became clear that its growth run had come to an end, Clarkson's share price rallied strongly in 2007, only to drift back on fears about Russian litigation. With the added adverse impact on margins of a continuing weak US$, confidence in this high-quality business remains fragile. However, the strong balance sheet and clear medium term strategy reinforce our confidence.

Recovery under way

Last year's profit setback was fully flagged to investors and, with a strong second half recovery and increased order books, the outlook is encouraging despite pressure on margins caused by unfavourable exchange rates. We look for steadily rising profits over the next two to three years as the impact of recent acquisitions comes through to the bottom line, raising the quality of underlying earnings.

Acquisitions remain on the agenda

Clarkson has completed a series of acquisitions in recent years, broadening the overall scope of the business. The range of services offered to ship owners and charterers has been extended as has the type of vessels managed by the group. We expect this strategy to continue over the medium-term.

Strong balance sheet

The Clarkson balance sheet is built to counter shifts in the shipping cycle. The business is cash generative in most years, with no inventories and little need for capital investment. The year-end tends to be the optimum time of the year ahead of major staff/director bonus payments, but there are ample resources to continue supplementing organic growth by acquisition.

Valuation: Market leader, but lowest rating

On the basis of City estimates Clarkson is rated at a discount to its two immediate competitors. The progressive increase in quality of earnings across the sector is not yet recognised by in the share price, which is still focused more heavily on exchange rates, the shipping cycle and fears about Russian litigation.

Price	919.5p
Market Cap	£167m

Note: Priced at 24 Apr 2007

Share price graph

Share details

Code	CKN
Listing	Full
Sector	Transportation
Shares in issue	18.2m

Price

	High	Low
52 week	1,058p	725p

Balance Sheet*

Debt/Equity (%)	N/A
NAV per share (p)	359.0
Net cash (£m)	23.0

**as at 31 Dec 2006*

Business

Clarkson is a leading global shipping services group, with interests ranging from its original expertise as a shipbroker across a complete range of specialist services.

Valuation

	2006	2007e	2008e
P/E relative	79%	87%	76%
P/CF	8.6	6.2	6.1
EV/Sales	1.1	1.0	0.9
ROE	23%	21%	20%

Geography based on revenues

UK	Europe	US	ROW
57%	0%	4%	39%

Analyst
Nigel Harrison 020 7190 1758
nharrison@edisoninvestmentresearch.co.uk

Clarkson: Financials and key performance indicators

Revenue per employee: £258k

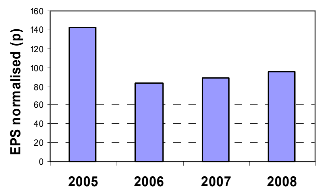
Cost per employee: £156k

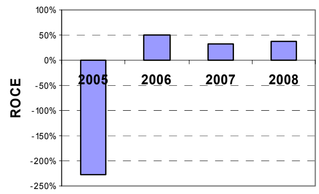
Revenue: Cost 1.7x

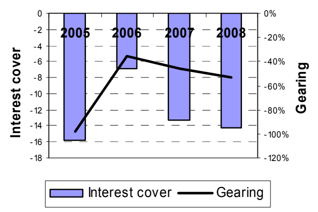
Summary financial table

Year to December	2005	2006	2007e	2008e
Profit & Loss				
Turnover	115,900	117,700	127,060	132,710
(% change)	41%	2%	8%	4%
EBITDA	25,500	19,000	23,105	24,806
(% margin)	22%	16%	18%	19%
(% change)	16%	(25%)	22%	7%
EBIT pre GW and except's.	24,200	17,100	21,205	22,906
(% margin)	21%	15%	17%	17%
Net financial items	1,500	2,500	1,591	1,617
Non-recurring items	1,100	1,100	1,100	1,100
Pre-tax profit (norm'd)	26,800	20,700	23,897	25,623
Tax	(8,900)	(6,900)	(7,695)	(8,174)
Net Income	17,900	13,800	16,202	17,449
EPS (norm'd and fd)	141.9	83.1	89.0	95.9
(% change)	45%	(41%)	7%	8%
Balance Sheet				
Fixed Assets	46,300	90,700	92,600	93,600
Current Assets	80,800	105,900	102,673	108,201
Current Liabilities	(67,700)	(70,100)	(75,245)	(78,351)
Long term Liabilities	(11,600)	(61,100)	(42,600)	(35,200)
Shareholders Equity	47,800	65,400	77,428	88,250
Cash Flow				
Cash flow from operations	37,000	18,400	26,877	27,519
Capex	(5,900)	(2,100)	(2,900)	(2,900)
Acquisition capex	(3,200)	(5,500)	0	0
Net debt(cash)	(46,900)	(23,000)	(35,800)	(47,235)
Cash earnings per share	225	107	148	151

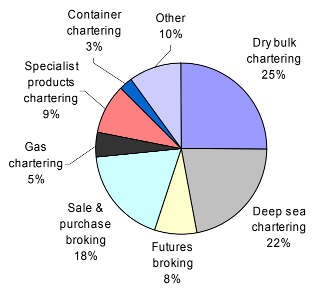
Performance







Business breakdown (% Sales 2006)



Geographic breakdown (% Sales 2006)

N/A

End-user market breakdown (% Sales 2006)

N/A

Edison investment research

Cohort

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
04/05	14.4	2.0	9.5	0.0	16.8	N/A
04/06	17.8	1.9	8.2	0.4	19.4	0.3
04/07e**	32.0	2.9	7.5	1.4	21.3	0.9
04/08e**	38.6	4.1	10.0	1.7	16.0	1.1

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items
**consensus forecasts

Investment summary: Acquisition vehicle

Cohort is a holding company which listed on AIM in March 2006. It listed with one operating company, SCS and has since purchased MASS Consultants for £13m. As with any stock predicated on an acquisition strategy, the market will want to see evidence of management's ability to integrate its purchases. The opportunity to build a credible business is currently sufficiently interesting to outweigh the risks.

Service background

The group has been formed as an acquisitive vehicle to participate in the consolidation of the defence technical services sector. SCS brought in directors with backgrounds at Alvis and the armed forces. With a number of providers of technical advice having been bought by major equipment manufacturers, Cohort is being developed on the premise of the need for independent evaluation and advice. The next acquisition (MASS, August 2006) is a UK systems house specialising in the aerospace and defence markets. The deal was funded with a mix of cash and shares placed at 135p to raise £8.8m.

Dilutive effect

Short-term returns are being affected by the dual impact of the dilutive effect of the additional shares and the assumption of corporate overhead. This self-evidently limits the cash conversion in this investment phase of the group's development.

Scale bringing credibility

The contracts being pitched for are sizeable, but increasing scale will facilitate the group's credibility with its customer base. Cohort is building a meaningful order book, which has already been enhanced with the MASS purchase. Management will need to prove to the market that it can successfully integrate the acquired businesses and that there are genuine economies of scale.

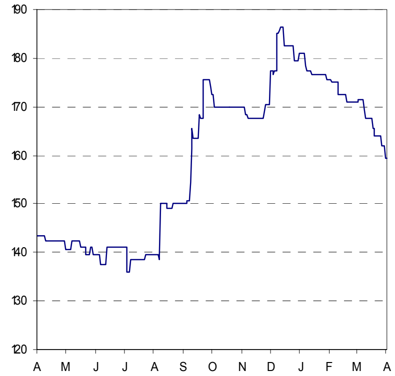
Valuation: Reflecting the opportunity

The opportunity to build a credible player in this sector currently outweighs the inherent risks.

Price	159.5p
Market Cap	£47m

Note: Priced at 24 Apr 2007

Share price graph



Share details

Code	CHRT
Listing	AIM
Sector	Aerospace and Defence
Shares in issue	29.5m

Price

	High	Low
52 week	186.5p	136.0p

Balance Sheet*

Debt/Equity (%)	N/A
NAV per share (p)	40
Net cash (£m)	5.6

**as at 30 Apr 2006*

Business

Cohort has been formed to take advantage of opportunities in the international defence technical services market.

Valuation

	2006	2007e	2008e
P/E relative	139%	170%	134%
P/CF	30.0	40.8	15.9
EV/Sales	1.2	1.4	1.1
ROE	16%	10%	12%

Geography based on revenues

UK	Europe	US	Other
100%	0%	0%	0%

Analyst
Fiona Orford-Williams 020 7190 1755
forford-williams@edisoninvestmentresearch.co.uk

Cohort: Financials and key performance indicators

Revenue per employee: £126k

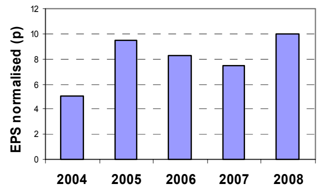
Cost per employee: £50k

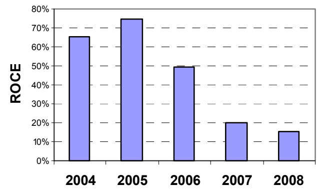
Revenue: Cost 2.5x

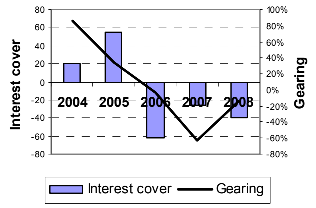
Summary financial table

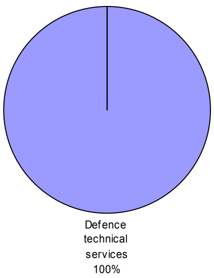
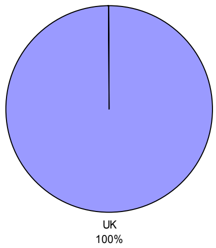
Year to April	2005	2006	2007e	2008e
Profit & Loss				
Turnover	14,432	17,823	31,970	38,550
(% change)	29%	23%	79%	21%
EBITDA	2,062	1,858	2,822	4,031
(% margin)	14%	10%	9%	10%
(% change)	67%	(10%)	52%	43%
EBIT pre GW and except's.	2,015	1,797	2,761	3,970
(% margin)				
Net financial items	(37)	29	109	100
Non-recurring items	(281)	(319)	0	0
Pre-tax profit (norm'd)	1,978	1,826	2,870	4,070
Tax	(473)	(440)	(669)	(1,123)
Net Income	1,505	1,386	2,201	2,947
EPS (norm'd and fd)	9.5	8.2	7.5	10.0
(% change)	87%	(13%)	(9%)	34%
Balance Sheet				
Fixed Assets	1,023	8	13,723	13,723
Current Assets	4,518	11,966	13,418	17,320
Current Liabilities	(2,843)	(2,830)	(5,076)	(6,121)
Long term Liabilities	(469)	(220)	(780)	(780)
Shareholders Equity	2,229	8,924	21,284	24,142
Cash Flow				
Cash flow from operations	1,305	893	1,152	2,958
Capex	(36)	463	(62)	(61)
Acquisition capex	(130)	(50)	(11,670)	0
Net debt(cash)	(57)	(5,591)	(3,126)	(4,910)
Cash earnings per share	8.2	5.3	3.9	10.0

Performance







Business breakdown (% Sales 2006)	Geographic breakdown (% Sales 2006)	End-user market breakdown (% Sales 2006)
		N/A

Colliers CRE

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
12/05	79.6	7.9	15.8	4.1	12.8	2.0
12/06	92.0	9.8	18.5	4.6	11.0	2.3
12/07e**	107.4	12.1	17.8	4.9	11.4	2.4
12/08e**	116.9	13.5	19.3	5.4	10.5	2.7

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items

**consensus forecasts

Investment summary: Using the market

March's 2006 results statement reassured on revenues and margins. However, progress in earnings is being constrained by the dilutive impact of November's rights issue. With considerable financial resource available, management confirmed it has a number of earnings accretive acquisitions "under review". Given greater clarity, the shares could move ahead strongly.

Spreading the net

Colliers CRE was formed in 2000 from the merger of Conrad Ritblat and Colliers Erdman Lewis and floated on AIM the following year. Since then it has added greater functionality to its service offering through acquisition and expanded the number of offices around the UK. This process is being boosted with the proceeds of a £15m rights issue last November (1-for-3 @140p). As with all Professional Services, maintenance of the integrity of the brand is crucial in ensuring that high-quality deals and individuals are attracted to the group. *Estates Gazette* listed Colliers CRE as the eighth largest UK agent by turnover in 2005.

Top end

Colliers' (2005) revenue per employee at £113k is well in excess of the other real estate agents, as are its costs per employee at £69k, with the ratio of the two in line. Cash conversion is at the lower end of the range, nevertheless averaging 48%.

Wider range of services

By broadening its revenue base with more property-based Professional Services such as surveying, valuation and FSA-authorised asset management, Colliers has improved the quality of its earnings. It will, naturally, remain tied to the health of the UK commercial property market.

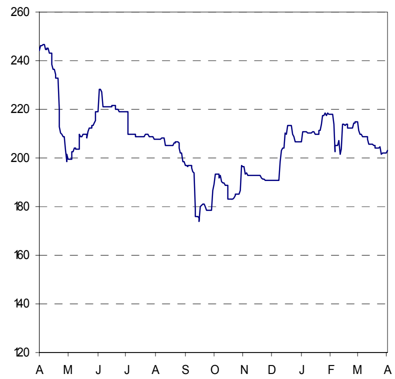
Valuation: Awaiting further acquisition news flow

The capital valuation metrics indicates Colliers CRE could support a share price considerably higher. With the dilutive impact of November's rights issue weighing heavily on 2007's forecast earnings, the market is waiting to see how the proceeds are applied.

Price	203.0p
Market Cap	£92m

Note: Priced at 24 Apr 2007

Share price graph



Share details

Code	COL
Listing	AIM
Sector	Real Estate
Shares in issue	45.5m

Price

	High	Low
52 week	246p	173p

Balance Sheet*

Debt/Equity (%)	5.8
NAV per share (p)	140.1
Net borrowings (£m)	3.7

** as at 31 Dec 2006*

Business

Colliers is a leading provider of real estate consultancy services covering all the major commercial areas of chartered surveying.

Valuation

	2006	2007e	2008e
P/E relative	78%	91%	89%
P/CF	14.0	9.7	8.2
EV/Sales	0.8	0.9	0.9
ROE	10%	12%	13%

Geography based on revenues

UK	Europe	US	Other
95%	5%	0%	0%

Analyst

Fiona Orford-Williams 020 7190 1755

forford-williams@edisoninvestmentresearch.co.uk

Colliers CRE: Financials and key performance indicators

Revenue per employee: £113k

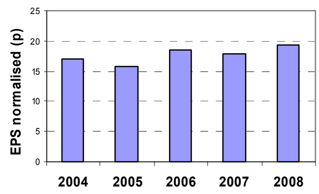
Cost per employee: £69k

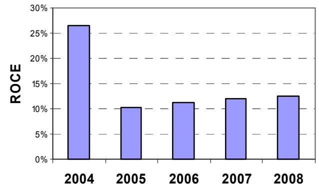
Revenue: Cost 1.6x

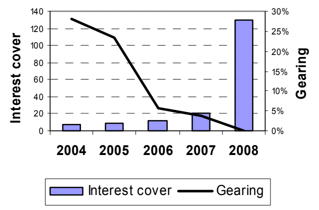
Summary financial table

Year to December	2005	2006	2007e	2008e
Profit & Loss				
Turnover	79,575	92,013	107,430	116,860
(% change)	19%	16%	17%	9%
EBITDA	9,672	11,667	13,428	14,323
(% margin)	12%	13%	12%	12%
(% change)	12%	21%	15%	7%
EBIT pre GW and except's.	8,309	9,938	12,065	12,960
(% margin)	10%	11%	11%	11%
Net financial items	(904)	(836)	(600)	(100)
Other	502	660	660	660
Pre-tax profit (norm'd)	7,907	9,762	12,125	13,520
Tax	(2,840)	(3,183)	(3,638)	(3,975)
Net Income	5,067	6,579	8,488	9,545
EPS (norm'd and fd)	15.8	18.5	17.8	19.3
(% change)	(7%)	17%	(4%)	8%
Balance Sheet				
Fixed Assets	50,818	61,843	61,845	61,845
Current Assets	37,388	51,200	49,979	55,373
Current Liabilities	(31,900)	(35,543)	(35,567)	(37,783)
Long term Liabilities	(16,940)	(13,953)	(9,000)	(7,500)
Shareholders Equity	39,366	63,869	67,607	72,285
Cash Flow				
Cash flow from operations	9,509	4,792	9,859	12,140
Capex	(2,534)	(2,909)	(3,000)	(3,000)
Acquisition capex	(599)	(5,716)	0	0
Net debt(cash)	9,193	3,719	2,620	2
Cash earnings per share	32.5	15.2	21.7	25.6

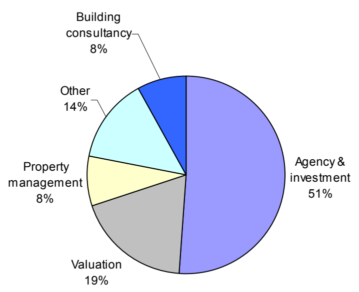
Performance



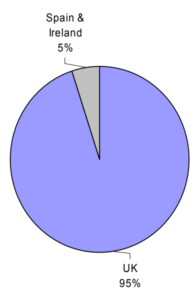




Business breakdown (% Sales 2006)



Geographic breakdown (% Sales 2006)



End-user market breakdown (% Sales 2006)

N/A

DTZ

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
04/05	194.4	20.6	24.5	7.5	24.5	1.3
04/06	232.0	29.7	37.2	9.8	16.1	1.6
04/07e**	276.4	36.4	45.5	10.9	13.2	1.8
04/08e**	302.2	40.2	50.4	11.9	11.9	2.0

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items
**consensus forecasts

Investment summary: High activity

More international in its outlook and deriving more of its income from the capital markets than its peers, DTZ is benefiting from high levels of activity in its core markets. Its spread of business should give some degree of resilience as the cycle turns. For now, the shares appear to be trading below a level justified by the figures.

International expansion

DTZ can trace its history back to 1784. It floated in 1987 and began its international expansion programme in Europe in the 1990s, followed by Asia, the US, India, Japan, Bahrain and, most recently, China. Its primary market relates to the maximisation of return and occupier provision from commercial property. It has a demanding global client base requiring high levels of service and an increasing range of property-based professional services.

Cash resource…

The ratio of employee revenues to costs is similar to the peers, despite the disparate geographies, reflecting the higher value added over and above transaction-based revenues. Fixed costs account for 68% of overhead. Cash conversion averages 54% (over current + historic) and with substantial positive cash balances, the group has the flexibility to take advantage of acquisition opportunities as they arise.

…backs up Capital Markets activities

At the interim stage, growth from the Capital Markets operations (investment management and agency, corporate finance) had grown 52%, 34% of which was organic, and become the largest income stream for the group. DTZ would obviously be susceptible to any slow down in the international flow of capital, but is protected to some extent by its diverse geographies, range of activities and fee structures.

Valuation: Upside potential

Forecasts for revenue, improving operational margins and a lower rate of taxation add up to strong expected earnings growth. A modest uplift would also be supported by the capital ratios.

Price	600.0p
Market Cap	£344m

Note: Priced at 24 Apr 2007

Share price graph

Share details

Code	DTZ
Listing	Full
Sector	Real Estate
Shares in issue	57.3m

Price

	High	Low
52 week	835.0p	566.5p

Balance Sheet*

Debt/Equity (%)	N/A
NAV per share (p)	131
Net cash (£m)	30.4

**as at 31 Oct 2006*

Business

DTZ is an international real estate advisor, supplying transactional and research services. The business is focused on commercial property.

Valuation

	2006	2007e	2008e
P/E relative	115%	105%	100%
P/CF	11.8	7.8	7.7
EV/Sales	1.2	1.1	1.2
ROE	30%	26%	25%

Geography based on revenues

UK & Ireland	Other EMEA	US	Asia Pacific
66%	23%	3%	8%

Analyst
Fiona Orford-Williams 0207 190 1755
forford-williams@edisoninvestmentresearch.co.uk

DTZ: Financials and key performance indicators

Revenue per employee: £87k

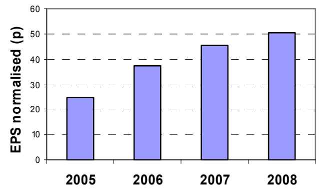
Cost per employee: £54k

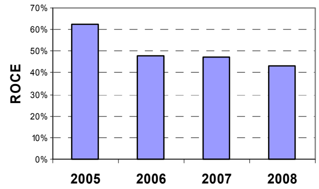
Revenue: Cost 1.6x

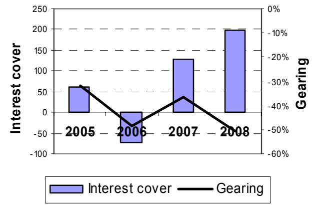
Summary financial table

Year to April	2005	2006	2007e	2008e
Profit & Loss				
Turnover	194,441	232,050	276,400	302,200
(% change)	17%	19%	19%	9%
EBITDA	19,318	25,749	32,993	36,641
(% margin)	10%	11%	12%	12%
(% change)	N/A	33%	28%	11%
EBIT pre GW and except's.	20,277	27,839	35,083	38,731
(% margin)	10%	12%	13%	13%
Net financial items	(267)	318	(187)	(35)
Other	593	1504	1504	1504
Pre-tax profit (norm'd)	20,603	29,661	36,400	40,200
Tax	(7,782)	(9,460)	(10,811)	(11,316)
Net Income	12,821	20,201	25,589	28,884
EPS (norm'd and fd)	24.5	37.2	45.5	50.4
(% change)	N/A	52%	22%	11%
Balance Sheet				
Fixed Assets	57,175	63,919	97,445	97,445
Current Assets	82,134	114,391	149,485	180,872
Current Liabilities	(69,664)	(88,566)	(106,838)	(116,499)
Long term Liabilities	(24,259)	(24,202)	(44,043)	(41,727)
Shareholders Equity	43,910	62,547	92,167	116,209
Cash Flow				
Cash flow from operations	25,607	27,118	43,541	44,444
Capex	(2,629)	(3,269)	(2,711)	(2,566)
Acquisition capex	(7,345)	(2,803)	(20,508)	0
Net debt(cash)	(13,981)	(30,291)	(34,894)	(59,587)
Cash earnings per share	51.8	54.2	81.4	77.6

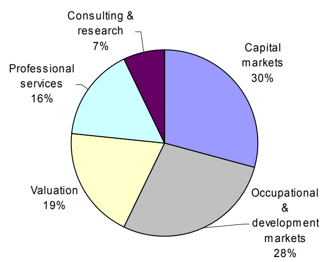
Performance



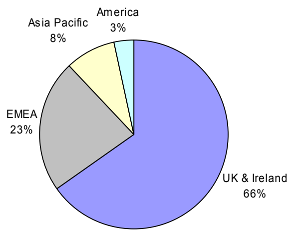




Business breakdown (% Sales 2006)



Geographic breakdown (% Sales 2006)



End-user market breakdown (% Sales 2006)

N/A

Hyder Consulting

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
03/05	136	3.4	10.9	0.8	43.0	0.0
03/06	171	7.9	19.7	1.2	23.8	0.3
03/07e**	197	9.4	25.0	2.0	18.8	0.4
03/08e**	206	12.2	29.0	3.0	16.2	0.6

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items
**consensus forecasts

Investment summary: Acquisitive strategy continues

Hyder Consulting shares have performed strongly over the last year reflecting strong interim results (to September 2006) which were accompanied by a positive outlook statement and reiteration of the group's strategic orientation towards higher margined business via acquisitions.

Strategic focus on higher value advisory business

Hyder is ranked number 13 in New Civil Engineer's 2006 survey of UK-owned engineering consultancies. Management's stated long-term strategy is to develop its engineering design and project management businesses geographically through infill acquisitions and to increase higher margined advisory businesses to more than 30% of revenue over three to four years. Recent acquisitions (Cresswell and ACLA) contributed to an increase in short-term advisory contracts in the interim results.

Acquisitions key to future growth

Acquisitional outlays have exceeded £10m over the last three years financed by equity issue, the latest of which raised a net £7.6m in early October 2006. The latest acquisition was the £3.3m purchase of RPA Quality Surveyors in April. Further acquisitions are in the pipeline with active negotiations underway in Hong Kong/China, the UK, Australia and Germany which, if all were to come to fruition, could cost up to £20m.

Balance sheet well positioned for growth

The October fundraising will have lifted net cash to around £12m, which, with strong underlying cashflow will leave the company in a good position to pursue its acquisition programme. Meanwhile, attention is being paid to reducing the still sizeable pension deficit (£25.6m end-September 2006) which management plans to eliminate within 10 years.

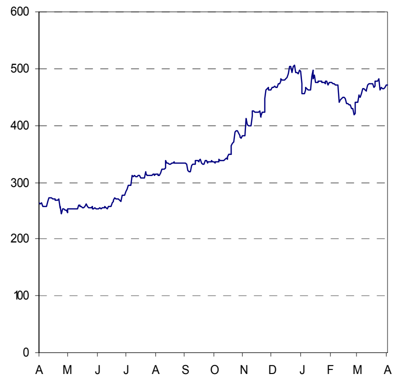
Valuation: Full PE justified

A relatively full PE is justified by a strong order book, growth prospects and the ability of the balance sheet to support a sizeable ongoing acquisition strategy.

Price	469.0p
Market Cap	£168m

Note: Priced at 24 Apr 2007

Share price graph



Share details

Code	HYC
Listing	Full
Sector	Support Services
Shares in issue	35.85m

Price

52 week	High	Low
	505.5p	242.5p

Balance Sheet*

Debt/Equity (%)	N/A
NAV per share (p)	23.0
Net cash (£m)	6.2

**as at 31 Mar 2006*

Business

Hyder provides engineering and infrastructure consultancy and management.

Valuation

	2006	2007e	2008e
P/E relative	170%	149%	136%
P/CF	14.1	19.6	14.5
EV/Sales	0.9	0.7	0.7
ROE	85%	55%	44%

Geography based on revenues

Europe	Asia/Pacific	Middle East
54%	26%	20%

Analyst

Fiona Orford-Williams 020 7190 1755
forford-Williams@edisoninvestmentresearch.co.uk

Hyder Consulting: Financials and key performance indicators

Revenue per employee: £54k

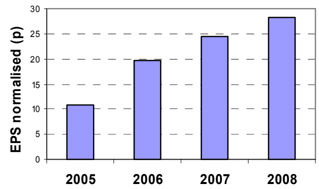
Cost per employee: £29k

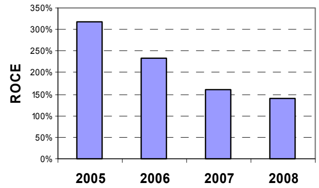
Revenue: Cost 1.9x

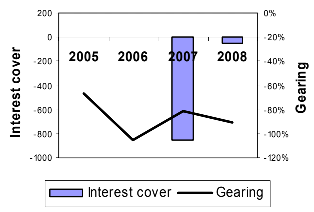
Summary financial table

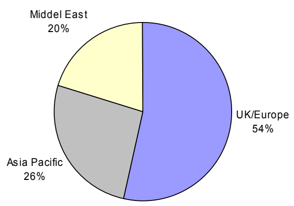
Year to March	2005	2006	2007e	2008e
Profit & Loss				
Turnover	136,233	171,314	197,300	206,000
(% change)	11%	26%	15%	4%
EBITDA	5,656	10,939	10,999	13,733
(% margin)	4%	6%	6%	7%
(% change)	44%	93%	1%	25%
EBIT pre GW and except's.	5,529	9,333	9,399	12,053
(% margin)	4%	5%	5%	6%
Net financial items	(2,154)	(1,427)	11	172
Other	0	0	0	0
Pre-tax profit (norm'd)	3,375	7,906	9,410	12,225
Tax	(382)	(1,230)	(1,024)	(1,797)
Net Income	2,993	6,676	8,386	10,428
EPS (norm'd and fd)	10.9	19.7	25.0	29.0
(% change)	N/A	81%	27%	16%
Balance Sheet				
Fixed Assets	23,836	35,867	34,243	35,919
Current Assets	62,232	81,171	96,740	106,427
Current Liabilities	(34,005)	(54,213)	(60,870)	(63,299)
Long term Liabilities	(45,249)	(54,874)	(54,522)	(55,022)
Shareholders Equity	6,675	7,621	15,261	23,694
Cash Flow				
Cash flow from operations	1,355	11,032	8,005	11,603
Capex	(1,034)	(1,548)	(1,600)	(1,680)
Acquisition capex	(2,267)	(3,934)	(3,979)	3,300
Net debt(cash)	(4,451)	(6,214)	(12,484)	(18,239)
Cash earnings per share	5.1	34.1	24.0	32.4

Performance







Business breakdown (% Sales 2006)	Geographic breakdown (% Sales 2006)	End-user market breakdown (% Sales 2006)
N/A		N/A

Jelf Group

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
09/05	11.5	1.3	7.5	0.0	34.5	N/A
09/06	25.1	3.3	12.4	0.0	21.1	N/A
09/07e**	36.0	5.9	16.6	0.0	15.8	N/A
09/08e**	41.5	6.8	19.4	0.0	13.5	N/A

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items
**consensus forecasts

Investment summary: Consolidation continues

Jelf Group is a corporate consultancy, with a focus on insurance, healthcare, employee benefits and wealth management. The company has delivered on its consolidation strategy through a string of 21 acquisitions since 2001, including its two largest purchases to date, the Goss Group, in March 2006 and SPS Wellbeing in January 2007. Consensus estimates are for a 2007e EPS of 16.6p, which would put Jelf on a multiple of 15.8x.

Corporate consultancy continues acquisition strategy

Jelf acts as a corporate consultancy offering a range of services to corporate clients and UK SMEs. Revenue for FY06 (YE Sept) comprised: insurance (41.9%), wealth management (31.4%), employee benefits (14.6%), healthcare (11.7%) and commercial finance (0.4%). The company is a top three healthcare intermediary, top 10 insurance intermediary, and top 50 IFA.

Continuing to drive growth through acquisitions

The company has generated growth organically, but the major driver has been acquisitions; the company's strategy is to capitalise on consolidation trends in its industry. Jelf has made 21 purchases since 2001, including six in FY06 and six over the course of H107.

Goss purchase in 2006 a key driver in doubling revenue

The bulk of the acquisition-led growth in 2006 was generated by the Goss Group, an insurance brokerage and financial services advisor, which made a significant contribution to the doubling of revenues YoY in FY06. Importantly, the group also generated organic growth of c.30% in FY06. Management expects current trends of consolidation in the insurance broking industry to continue, offering room for further acquisitions in this space.

Valuation: Trading at 15.6x 2007e PE on consensus

We do not actively cover Jelf, and use consensus forecasts for valuation indicators. Helped by recent acquisitions including SPS, the market expects a normalised EPS for Jelf of 16.6p for 2007e and 19.4p for 2008e, which would have the company trading on a PE of 15.8x and 13.5x for 2007e and 2008e, respectively.

Price	262.0p
Market Cap	£64m

Note: Priced at 24 Apr 2007

Share price graph

Share details

Code	JLF
Listing	AIM
Sector	General Financial
Shares in issue	24.6m

Price

	High	Low
52 week	265.0p	140.5p

Balance Sheet*

Debt/Equity (%)	N/A
NAV per share (p)	67
Net cash (£m)	2.0

**as at 30 Sept 2006*

Business

Jelf is a corporate consultancy offering several service lines to clients including insurance, healthcare, employee benefits, commercial finance and wealth management.

Valuation

	2006	2007e	2008e
P/E relative	151%	125%	114%
P/CF	19.9	15.3	44.9
EV/Sales	1.9	1.9	1.6
ROE	15%	19%	18%

Geography based on revenues

UK	Europe	US	Other
100%	0%	0%	0%

Analyst
Neil Shah 020 7190 1755
nshah@edisoninvestmentresearch.co.uk

Jelf Group: Financials and key performance indicators

Revenue per employee: £78k

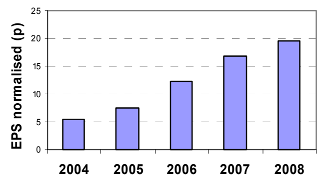
Cost per employee: £42k

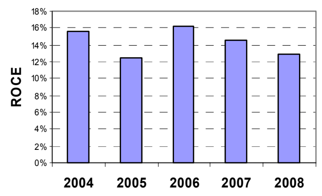
Revenue: Cost 1.9x

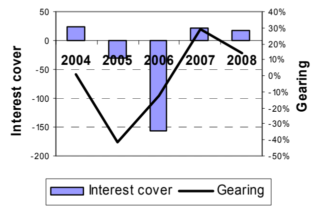
Summary financial table

Year to September	2005	2006	2007e	2008e
Profit & Loss				
Turnover	11,501	25,095	36,000	41,500
(% change)	N/A	118%	43%	15%
EBITDA	1,416	3,559	6,420	7,419
(% margin)	12%	14%	18%	18%
(% change)	N/A	151%	80%	16%
EBIT pre GW and except's.	1,291	3,284	6,150	7,150
(% margin)	11%	13%	17%	17%
Net financial items	41	21	(300)	(400)
Other	0	0	0	0
Pre-tax profit (norm'd)	1,332	3,305	5,850	6,750
Tax	(348)	(921)	(1,784)	(2,000)
Net Income	984	2,384	4,066	4,750
EPS (norm'd and fd)	7.5	12.4	16.6	19.4
(% change)	N/A	66%	34%	17%
Balance Sheet				
Fixed Assets	4,053	21,448	26,845	27,045
Current Assets	8,105	18,065	27,087	32,619
Current Liabilities	(6,975)	(17,697)	(20,987)	(21,000)
Long term Liabilities	(751)	(5,489)	(11,700)	(11,700)
Shareholders Equity	4,432	16,327	21,245	26,965
Cash Flow				
Cash flow from operations	1,185	2,535	4,200	1,432
Capex	(378)	(1,108)	(700)	(500)
Acquisition capex	(1,049)	(10,818)	(6,000)	0
Net debt(cash)	(1,839)	(1,987)	2,613	3,081
Cash earnings per share	29.5	20.1	15.5	45.4

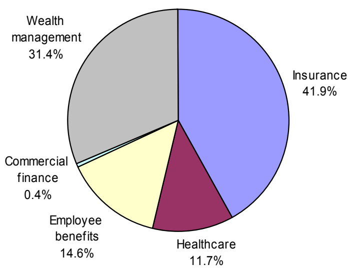
Performance



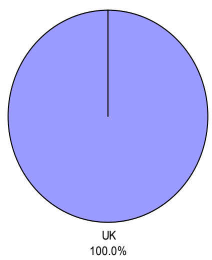




Business breakdown (% Sales 2006)



Geographic breakdown (% Sales 2006)



End-user market breakdown (% Sales 2006)

Mattioli Woods

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
05/05**	6.3	2.0	11.1	0.0	24.5	N/A
05/06***	7.6	2.2	10.5	1.4	25.9	0.5
05/07e†	8.6	2.8	11.4	2.4	23.8	0.9
05/08e†	9.8	3.4	13.8	2.8	19.7	1.0

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items; ** Adjusted on pro rata basis. ***DPS for 05/06 on pro rata basis †consensus forecasts

Investment summary: High rating fully justified

Having delivered in its first year as a public company, Mattioli Woods is on course to sustain its impressive momentum stretching back more than 15 years. There is a clear strategy, involving a combination of organic growth and bolt-on acquisitions. The shares are currently at their all-time high, but this is fully justified by the increasing quality of earnings and underlying cash generative nature of the business.

Steady and consistent growth

The group has grown its fee revenues consistently over 15 years, advising its client base professionally, whilst simultaneously building and training a strong home-grown consultancy team. A high (63%) and rising level of recurring work is supplemented by a flow of new business, including referrals from an extensive list of professional practices, who introduce their clients either directly or through a series of seminars.

Opportunity for active management

The poor performance of many pension funds and the constant flow of legislative changes provide many opportunities for the more active pensions consultancies. The company has a reputation within its industry for keeping its clients in touch with these opportunities enabling them to maximise returns. The consistent investment in staff training ensures a consistent approach to clients across the whole practice.

Bolt-on acquisitions to supplement growth

Management is monitoring a number of potential acquisitions, typically involving the purchase of client lists from retiring competitors. The ideal target will operate up to 300 pension schemes, which can be quickly absorbed into the group structure, with both the client and the company benefiting from more active administration.

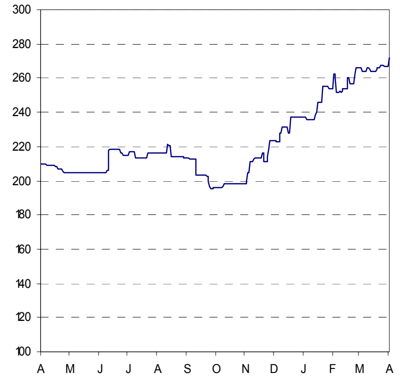
Valuation: Increased rating justified

Mattioli Woods' shares have performed strongly over the past three months, following an extended period of consolidation after the enthusiasm of the post-flotation period. A rating of c.24x current year EPS leaves little margin for mistakes, but the consistent growth and high quality of earnings justify the City's enthusiasm.

Price	271.5p
Market Cap	£46m

Note: Priced at 24 Apr 2007

Share price graph



Share details

Code	MTW
Listing	AIM
Sector	General Financial
Shares in issue	17.0m

Price

52 week	High	Low
	271.5p	178.0p

Balance Sheet*

Debt/Equity (%)	N/A
NAV per share (p)	5.7
Net cash (£m)	0.1

**as at 31 May 2006*

Business

Mattioli Woods provides bespoke pension consultancy and administration services. It currently advises more than 1,500 schemes, with some £760m of funds under trusteeship.

Valuation

	2006	2007e	2008e
P/E relative	183%	181%	161%
P/CF	25.0	16.4	13.9
EV/Sales	5.3	5.2	4.4
ROE	16%	18%	18%

Geography based on revenues

UK	Europe	US	Other
100%	0%	0%	0%

Analyst

Nigel Harrison 0207 190 1758

nharrison@edisoninvestmentresearch.co.uk

Mattioli Woods: Financials & key performance indicators

Revenue per employee: £102k

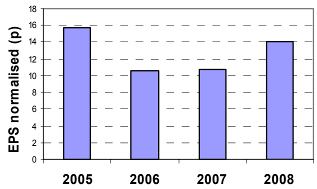
Cost per employee: £44k

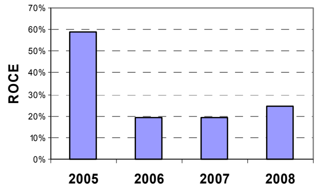
Revenue: Cost 2.4x

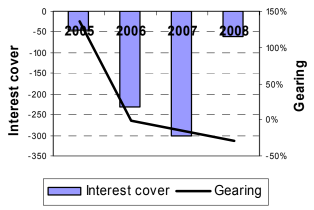
Summary financial table

Year to May	2005	2006	2007e	2008e
Profit & Loss				
Turnover	6,281	7,573	8,600	9,800
(% change)	N/A	21%	14%	14%
EBITDA	2,780	2,328	2,884	3,436
(% margin)	44%	31%	34%	35%
(% change)	N/A	(16%)	24%	19%
EBIT pre GW and except's.	2,738	2,234	2,791	3,343
(% margin)	44%	30%	32%	34%
Net financial items	62	10	9	57
Other	(809)	0	0	0
Pre-tax profit (norm'd)	1,991	2,244	2,800	3,400
Tax	(841)	(675)	(840)	(1,020)
Net Income	1,150	1,569	1,960	2,380
EPS (norm'd and fd)	11.1	10.5	11.4	13.8
(% change)	N/A	(5%)	8%	21%
Balance Sheet				
Fixed Assets	4,920	6,243	6,216	6,216
Current Assets	4,147	5,546	7,363	9,749
Current Liabilities	(6,280)	(1,986)	(2,211)	(2,470)
Long term Liabilities	(56)	(144)	(150)	(150)
Shareholders Equity	2,731	9,659	11,219	13,344
Cash Flow				
Cash flow from operations	1,751	653	2,715	3,445
Capex	(141)	(274)	(93)	(93)
Acquisition capex	0	(1,091)	0	0
Net debt(cash)	3,712	(93)	(1,739)	(3,912)
Cash earnings per share	14.0	4.4	15.9	20.2

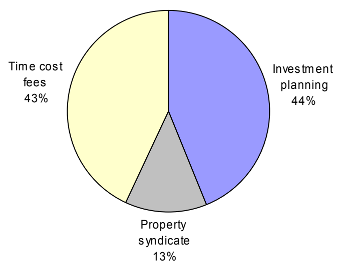
Performance



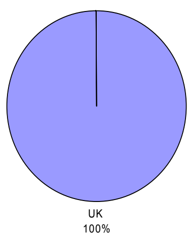




Business breakdown (% Sales 2006)



Geographic breakdown (% Sales 2006)



End-user market breakdown (% Sales 2006)

N/A

Mouchel Parkman

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
07/05	308.0	20.9	13.6	3.3	32.6	0.7
07/06	374.0	27.4	18.0	4.1	24.7	0.9
07/07e**	432.9	32.0	20.3	4.7	21.9	1.1
07/08e**	480.9	37.1	23.5	6.0	18.9	1.4

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items
**consensus forecasts

Investment summary: Public focus

Mouchel Parkman's business model differs from the other engineering consultancies, focusing on the provision of managed services primarily to the public sector. It has therefore much better visibility of earnings (£1.25bn at the time of December's AGM), an impressive bidding pipeline and record of contract wins. These attributes are, however, fully reflected in its premium to the sector.

Achieved scale…

With the merger of Mouchel and Parkman in 2003, the group had sufficient scale to bid for more substantial contracts and the ability to take on managed service elements. The second largest consultant in Highways (after Atkins), Mouchel Parkman has broadened its base by increasing its exposure to non-governmental regulated industries such as rail. *New Civil Engineer* ranked the company the fifth largest UK-owned consultant.

…but taking opportunities to add

With one of the higher rates of free cash conversion of its peers (98% by Edison's definition), the company had built a very strong net cash position. A substantial sum (£49m) was spent in November 2006 on three acquisitions in Project Management, Traffic Systems and Water Consultancy. We expect the cash position to rebuild, enabling further broadening of the group's capabilities.

Interim results

Recent interim results were in line with City expectations. Turnover grew to £206.4m compared with £175.1m the same period 2006, while adjusted EPS increased from 7.9p to 9.3p. Significantly, the group's contract win rate grew from 33% to 40% and its forward order book stood £1.35bn at period end.

Valuation: Visibility in the price

At a 9% premium to its nearest peers and a 25%+ premium to the Professional Services sector, the market is clearly rewarding Mouchel Parkman for its earnings' visibility. The stock looks fully valued.

Price	443.8p
Market Cap	£487m

Note: Priced at 24 Apr 2007

Share price graph

Share details

Code	MCHL
Listing	Full
Sector	Support Services
Shares in issue	109.7m

Price

	High	Low
52 week	473.8p	323.0p

Balance Sheet*

Debt/Equity (%)	N/A
NAV per share (p)	64.0
Net cash (£m)	33.3

**as at 31 Jul 2006*

Business

Provision of professional support services to government, local authorities and regulated industries.

Valuation

	2006	2007e	2008e
P/E relative	175%	170%	156%
P/CF	13.5	10.9	9.9
EV/Sales	1.2	1.1	0.9
ROE	28%	21%	19%

Geography based on revenues

UK	Other
98%	2%

Analyst
Fiona Orford-Williams 020 7190 1755
forford-williams@edisoninvestmentreserach.co.uk

Mouchel Parkman: Financials and key performance indicators

Revenue per employee: £63k

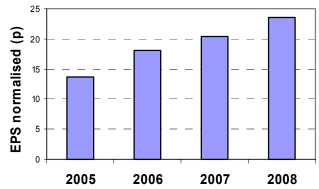
Cost per employee: £34k

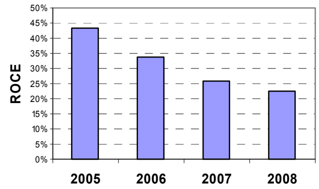
Revenue: Cost 1.8x

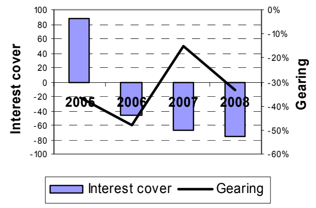
Summary financial table

Year to July	2005	2006	2007e	2008e
Profit & Loss				
Turnover	308,021	374,020	432,870	480,900
(% change)	N/A	21%	16%	11%
EBITDA	24,031	29,885	34,598	39,679
(% margin)	8%	8%	8%	8%
(% change)	N/A	24%	16%	15%
EBIT pre GW and except's.	21,174	26,774	31,487	36,568
(% margin)	7%	7%	7%	8%
Net financial items	(241)	592	468	487
Other	0	0	0	0
Pre-tax profit (norm'd)	20,933	27,366	31,955	37,055
Tax	(6,407)	(7,914)	(9,337)	(10,842)
Net Income	14,526	19,452	22,618	26,213
EPS (norm'd and fd)	13.6	18.0	20.3	23.5
(% change)	N/A	32%	13%	16%
Balance Sheet				
Fixed Assets	63,583	63,940	112,240	112,240
Current Assets	115,051	134,629	143,302	187,060
Current Liabilities	(73,496)	(77,737)	(89,890)	(99,808)
Long term Liabilities	(54,780)	(51,358)	(58,300)	(58,300)
Shareholders Equity	50,358	69,474	107,352	141,192
Cash Flow				
Cash flow from operations	23,013	34,894	45,291	48,407
Capex	(18,970)	(8,361)	(3,111)	(3,111)
Acquisition capex	(32)	(5,000)	(48,700)	0
Net debt(cash)	(18,400)	(33,366)	(16,106)	(46,860)
Cash earnings per share	22.1	32.8	41.4	44.2

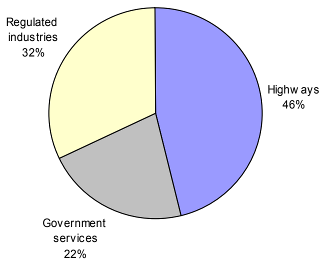
Performance



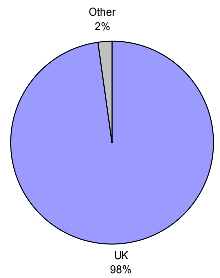




Business breakdown (% Sales 2006)



Geographic breakdown (% Sales 2006)



End-user market breakdown (% Sales 2006)

N/A

Murgitroyd

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
05/05	14.5	1.4	11.4	3.3	41.9	0.7
05/06	18.8	1.9	14.4	4.7	33.2	1.0
05/07e**	23.0	2.8	23.3	7.4	20.4	1.5
05/08e**	24.8	3.1	25.4	8.1	18.8	1.7

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items
**consensus forecasts

Investment summary: Overseas focus

Murgitroyd's growth has been derived from a mix of organic expansion and acquisition, with the recently published half-year figures showing a positive contribution from Fitzpatricks, purchased in June 2006. Overseas expansion remains a focus with new offices opening in Europe, as well as a sales office in the US.

Improved mix and control

Due to improving gross margins, the group has been successful at moving its operating margins ahead from 7.2% in 2003 to a forecast of 13.0% for 2007. This reflects a different mix of fee income, with heavy time, and hence gross margin, work instructions representing a greater proportion of sales. Murgitroyd has also become more efficient at ensuring that the full value of the work is reflected in the invoicing.

Cost inflation

Shortages of suitably qualified professionals are a potential issue in this area. Whilst the group does address this through internal training, employment costs will continue to be a key performance indicator. Average wages and salaries rose by 9.1% in the year to May 2006. The cash being generated has been used to fund the internal growth and the acquisition programme, consequently, unlike many of the companies covered in this review, Murgitroyd has modest levels of gearing.

Market continues strong

The figures from the European Patent Office show new applications continue to be filed at a growing pace of 7% in 2005 and the Community Trade Mark Office handled 8.4% more applications in 2006 than in 2005. Murgitroyd expects the market to remain buoyant as a reflection of general confidence.

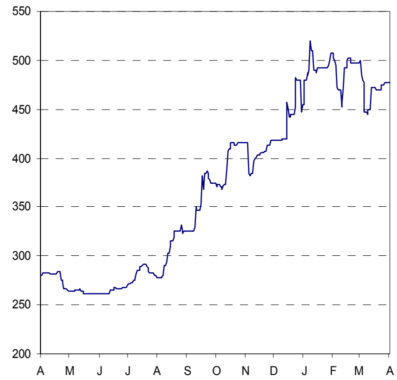
Valuation: Limited scope for further outperformance

An extremely strong share price performance over the last six months, up over 70% since August, is a reflection of the good news flow. Further out-performance from current levels is dependent on earnings upgrades.

Price	477.5p
Market Cap	£40m

Note: Priced at 24 Apr 2007

Share price graph



Share details

Code	MUR
Listing	AIM
Sector	Support Services
Shares in issue	8.3m

Price

52 week	High	Low
	492.5p	259.0p

Balance Sheet*

Debt/Equity (%)	27
NAV per share (p)	135
Net borrowings (£m)	3.0

** as at 30 Nov 2006*

Business

Intellectual Property services, including filing, prosecuting, litigating, licensing, assigning and renewing patents, trade marks, designs and advising on copyright.

Valuation

	2006	2007e	2008e
P/E relative	237%	160%	153%
P/CF	22.7	14.0	11.7
EV/Sales	2.3	1.9	1.7
ROE	11%	16%	16%

Geography based on revenues

UK	Europe	US	Other
62%	10%	14%	14%

Analyst
Fiona Orford-Williams 020 7190 1755
forford-wiliams@edisoninvestmentresearch.co.uk

Murgitroid: Financials and key performance indicators

Revenue per employee: £113k

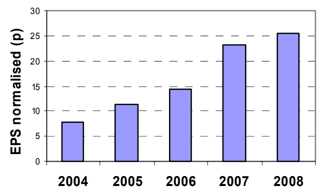
Cost per employee: £40k

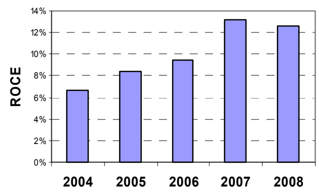
Revenue: Cost 2.8x

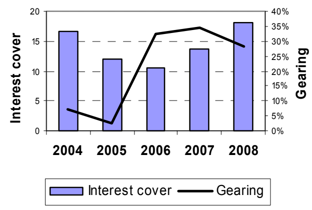
Summary financial table

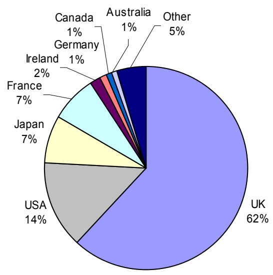
Year to May	2005	2006	2007e	2008e
Profit & Loss				
Turnover	14,456	18,837	23,000	24,800
(% change)	18%	30%	22%	8%
EBITDA	1,696	2,303	3,393	3,535
(% margin)	12%	12%	15%	14%
(% change)	40%	36%	47%	4%
EBIT pre GW and except's.	1,502	2,114	2,966	3,239
(% margin)	10%	11%	13%	13%
Net financial items	(126)	(201)	(216)	(179)
Other	0	0	0	0
Pre-tax profit (norm'd)	1,376	1,913	2,750	3,060
Tax	(434)	(697)	(752)	(882)
Net Income	942	1,216	1,998	2,178
EPS (norm'd and fd)	11.4	14.4	23.3	25.4
(% change)	43%	27%	61%	9%
Balance Sheet				
Fixed Assets	11,391	10,947	12,480	12,480
Current Assets	6,251	6,596	7,880	8,418
Current Liabilities	(4,427)	(4,136)	(4,325)	(4,589)
Long term Liabilities	(2,857)	(2,499)	(3,688)	(3,116)
Shareholders Equity	10,358	10,908	12,347	13,193
Cash Flow				
Cash flow from operations	1,331	1,740	2,830	3,310
Capex	(160)	(203)	(203)	(203)
Acquisition capex	(1,099)	(692)	(1,954)	(870)
Net debt(cash)	3,209	3,417	4,275	3,703
Cash earnings per share	16.1	21.0	33.9	39.7

Performance







Business breakdown (% Sales 2006)	Geographic breakdown (% Sales 2006)	End-user market breakdown (% Sales 2006)
N/A		N/A

PHSC

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
03/05	2.2	0.54	4.8	0.0	10.7	N/A
03/06	3.7	0.58	4.3	0.8	12.0	1.6
03/07e**	4.5	0.60	4.3	0.8	12.0	1.6
03/08e**	5.3	0.75	4.5	0.9	11.4	1.7

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items
**consensus forecasts

Investment summary: Under the radar

Just as scale is rewarded, so is illiquidity punished. This micro-cap has some interesting activities and management has shown it can bite the bullet when returns are not forthcoming. With respectable cash conversion, it should be in a position to continue consolidating in a highly fragmented sector, benefiting from the lessons learnt to date. The company recently raised £1m via a placing to fund working capital and the acquisition programme.

Active corporate programme

Having listed on OFEX in 2003, PHSC moved across to AIM in July 2005. It made its largest purchase just prior to that move, buying Adamson's Laboratory Services (specialising in asbestos management) for £1.4m, of which £0.1m was in shares at 62.5p, the cash element partially met with the proceeds from a placing to PCB clients. The purchase of Health & Safety Click in August 2005 was less successful. Although the concept of an online subscription advice offering was sound, the timescale needed to generate profits would have drained cash from the rest of the group and the company has been returned to its management. PHSC has recently purchased a modest consultancy operation to continue its geographic expansion.

Scale important

By continuing to add scale in a highly fragmented market, PHSC is gaining better quality reference clients and proving able to undertake larger and longer contracts. This business area is typical of those described in the main section above; fragmented with many sole traders and small partnerships, the increasing levels of regulation require specialist expertise.

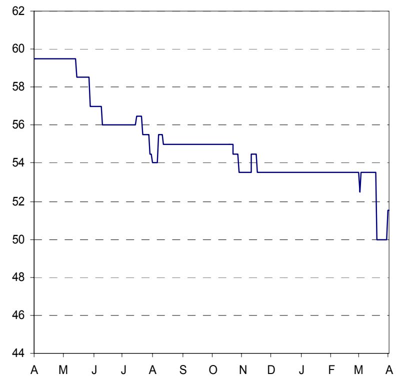
Valuation: Reflects illiquidity

The dilutive effect of the additional shares is holding back earnings progression, but the (right) acquisition programme is more important for this stage of the company's development. Capital valuation techniques indicate that a share price considerably higher could be supported but the current illiquidity may restrict a rerating in the short-term.

Price	51.5p
Market Cap	£6m

Note: Priced at 24 Apr 2007

Share price graph



Share details

Code	PHSC
Listing	AIM
Sector	Support Services
Shares in issue	11.7m

Price

52 week	High	Low
	59.4p	50.0p

Balance Sheet*

Debt/Equity (%)	1.4
NAV per share (p)	28
Net borrowings (£m)	0.1

**as at 30 Sep 2006*

Business

Health, safety and environmental services to corporate and public sector clients.

Valuation

	2006	2007e	2008e
P/E relative	86%	95%	96%
P/CF	7.8	6.0	6.4
EV/Sales	1.3	0.8	0.8
ROE	13%	10%	12%

Geography based on revenues

UK	Europe	US	Other
100%	0%	0%	0%

Analyst

Fiona Orford-Williams 020 7190 1755

forford-williams@edisoninvestmentresearch.co.uk

PHSC: Financials and key performance indicators

Revenue per employee: £61k

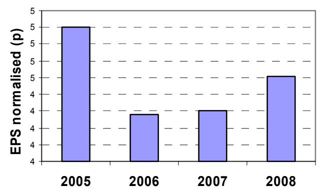
Cost per employee: £37k

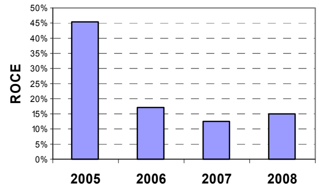
Revenue: Cost 1.6x

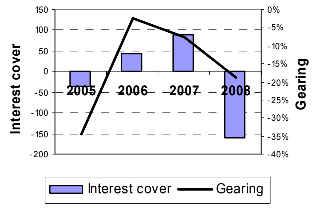
Summary financial table

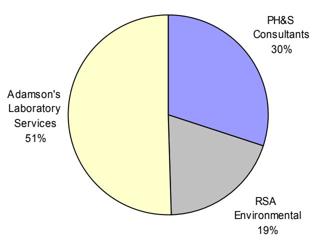
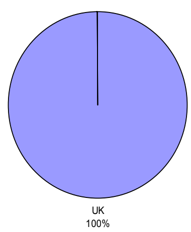
Year to March	2005	2006	2007e	2008e
Profit & Loss				
Turnover	2,217	3,705	4,500	5,300
(% change)	N/A	67%	21%	18%
EBITDA	611	808	815	922
(% margin)	28%	22%	18%	17%
(% change)	N/A	32%	1%	13%
EBIT pre GW and except's.	520	592	595	722
(% margin)	23%	16%	13%	14%
Net financial items	14	(13)	5	28
Other	0	0	0	0
Pre-tax profit (norm'd)	535	579	600	750
Tax	(160)	(163)	(180)	(225)
Net Income	375	415	420	525
EPS (norm'd and fd)	4.8	4.3	4.3	4.5
(% change)	N/A	(11%)	1%	5%
Balance Sheet				
Fixed Assets	1,494	3,000	2,813	2,646
Current Assets	1,215	1,473	2,688	3,116
Current Liabilities	(359)	(751)	(796)	(890)
Long term Liabilities	0	(492)	(404)	(329)
Shareholders Equity	2,349	3,229	4,302	4,543
Cash Flow				
Cash flow from operations	574	631	833	941
Capex	(68)	(2)	(200)	(200)
Acquisition capex	(303)	(1,345)	(160)	(137)
Net debt(cash)	(806)	(75)	(1,227)	(1,566)
Cash earnings per share	7.4	6.6	8.5	8.1

Performance







Business breakdown (% Sales 2006)	Geographic breakdown (% Sales 2006)	End-user market breakdown (% Sales 2006)
		N/A

RPS

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
12/05	218	24.3	8.8	2.4	36.3	0.8
12/06	297	34.6	11.7	2.8	27.3	0.9
12/07e**	322	40.7	13.7	3.2	23.3	1.0
12/08e**	342	45.5	15.3	3.7	20.9	1.2

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items
**consensus forecasts

Investment summary: Premium play

The shares sit at a deserved premium, reflecting the company's niche expertise and consequent ability to achieve premium operating margins. The proportion of spend on the planning phase of major projects continues to rise as the cost of 'surprises' at later stages becomes more onerous. The management team is highly regarded within and outside the industry, has consistently demonstrating its ability to integrate acquisitions.

First and foremost

RPS listed on the USM in 1987 (moving to a full listing in 1995), but the firm dates back to 1970, when it was the first consultancy of its kind. Although many consultants now have environmental businesses, RPS has built a deserved reputation as an established authority. Most of the growth has been organic, supplemented by acquisition. It is the seventh largest UK-owned engineering consultant, according to *New Civil Engineer's 2006 survey*.

Operational gearing

With its specialisation, RPS delivers operating margins well ahead of others in the sector and continues to achieve year-on-year improvements. Conversion of EBITDA into free cash is running at around 56% (averaged), putting it ahead of the pack.

Pivotal process

RPS's core competencies continue to become increasingly pivotal to large-scale project management, in situations where the risk element can be very high. Being a key international player will ensure that RPS is high on the developer's or government agency's list. Longer-term, the company needs to continue adding to its arsenal to ensure that it can offer the multi-disciplinary services its clients expect.

Valuation: Premium player

From end-April 2004, the shares have appreciated by 2.8x, rising c.35% in the last six months. They have the highest EV/EBITDA of the engineering consultants and one of the highest in the Professional Services sector.

Price	319.5p
Market Cap	£657m

Note: Priced at 24 Apr 2007

Share price graph

Share details

Code	RPS
Listing	Full
Sector	Support Services
Shares in issue	206.0m

Price

	High	Low
52 week	334.0p	189.0p

Balance Sheet*

Debt/Equity (%)	16
NAV per share (p)	92
Net borrowings (£m)	30.1

**as at 31 Dec 2006*

Business

RPS is an international consultancy providing advice on the development of natural resources, land and property, management of the environment and health and safety of people.

Valuation

	2006	2007e	2008e
P/E relative	194%	185%	175%
P/CF	15.8	15.5	13.9
EV/Sales	2.3	2.1	1.9
ROE	13%	14%	14%

Geography based on revenues

UK	Europe	Other
55%	28%	17%

Analyst
Fiona Orford-Williams 020 7190 1755
forford-williams@edisoninvestmentresearch.co.uk

RPS: Financials and key performance indicators

Revenue per employee: £69k

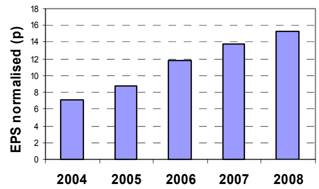
Cost per employee: £31k

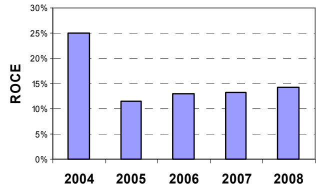
Revenue: Cost 2.2x

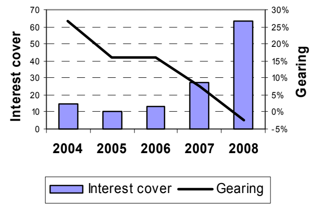
Summary financial table

Year to December	2005	2006	2007e	2008e
Profit & Loss				
Turnover	217,830	296,843	321,690	342,455
(% change)	30%	36%	8%	6%
EBITDA	30,748	41,612	46,415	50,357
(% margin)	14%	14%	14%	15%
(% change)	20%	35%	12%	8%
EBIT pre GW and except's.	26,900	37,482	42,285	46,227
(% margin)	12%	13%	13%	13%
Net financial items	(2,647)	(2,892)	(1,550)	(732)
Other	0	0	0	0
Pre-tax profit (norm'd)	24,253	34,590	40,735	45,495
Tax	(6,436)	(10,508)	(12,383)	(13,512)
Net Income	17,817	24,082	28,352	31,983
EPS (norm'd and fd)	8.8	11.7	13.7	15.3
(% change)	25%	33%	17%	12%
Balance Sheet				
Fixed Assets	174,983	197,738	201,338	201,838
Current Assets	90,331	103,260	111,355	129,582
Current Liabilities	(55,982)	(65,523)	(69,879)	(73,586)
Long term Liabilities	(47,461)	(48,541)	(33,387)	(23,858)
Shareholders Equity	161,871	186,934	209,427	233,976
Cash Flow				
Cash flow from operations	28,149	40,663	42,008	47,484
Capex	(3,708)	(3,769)	(3,850)	(3,850)
Acquisition capex	(22,762)	(22,404)	(6,140)	(1,940)
Net debt(cash)	25,940	30,129	15,643	(5,533)
Cash earnings per share	14.2	20.2	20.6	23.1

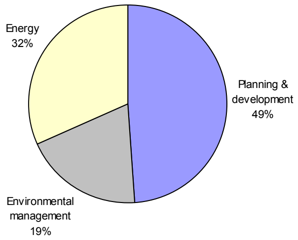
Performance



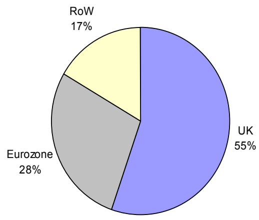




Business breakdown (% Sales 2006)



Geographic breakdown (% Sales 2006)



End-user market breakdown (% Sales 2006)

N/A

RWS Holdings

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
09/05	35.9	7.4	12.6	6.0	24.8	1.9
09/06	40.8	9.0	15.7	7.2	19.9	2.3
09/07e**	45.7	10.0	16.6	7.5	18.8	2.4
09/08e**	50.3	11.0	18.2	8.3	17.2	2.7

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items
**consensus forecasts

Investment summary: Patently obvious

RWS has built a strong market position within the translation of technical documentation, serving a diverse international blue-chip client base. Its results to September 2006 came in ahead of the market, despite a temporary lull in throughput from a major client. With demand returning to normal levels, combined with new client wins and the continuing increase in the number of patents being filed, the increased profit forecasts are supported. The shares should have some further modest upside.

Market expansion

RWS's key category is in the translation of patents for technically-based industries, where clients are actively seeking to protect extensive investment in their Research and Development programmes. The group continues to win new corporate clients and Patent Attorneys looking to outsource their translation requirements to a single supplier as opposed to a number of freelancers. The number of patent applications is growing at 8% compound. If 'one-offs' are stripped out, corporate applications are estimated to be increasing at 10%.

Highly cash generative business model

With little requirement for capital and the extensive use of a network of freelance translators as a variable cost to manage the margin, cash conversion is high. Acquisitions within the existing business strands are limited by the lack of scale amongst the competition, but there may be opportunities to extend elsewhere within Intellectual Property management. At the year-end, RWS had net assets of £21m, of which £16m was cash and the group has a progressive dividend policy.

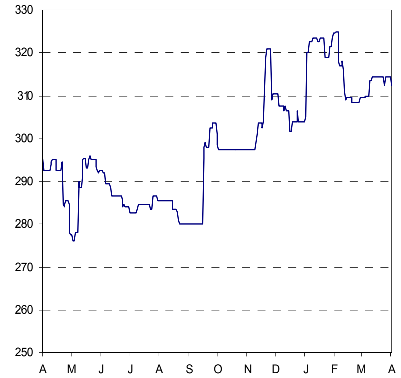
Valuation

We regard the possible regulatory risks as modest and manageable. Given the attractive financial characteristics, we are comfortable with the rating moving towards the higher end of the support services sector.

Price	312.5p
Market Cap	£125m

Note: Priced at 24 Apr 2007

Share price graph



Share details

Code	RWS
Listing	AIM
Sector	Support Services
Shares in issue	40.1m

Price

52 week	High	Low
	325p	276p

Balance Sheet*

Debt/Equity (%)	N/A
NAV per share (p)	54
Net cash (£m)	15.9

**as at 30 Sept 2006*

Business

Provision of intellectual property support services and high level technical, legal and financial translation services.

Valuation

	2006	2007e	2008e
P/E relative	142%	149%	145%
P/CF	15.2	13.0	12.2
EV/Sales	2.6	2.3	2.0
ROE	31%	26%	25%

Geography based on revenues

UK	Europe	US	Other
90%	2%	1%	7%

Analyst

Fiona Orford-Williams 020 7190 1755

forford-williams@edisoninvestmentresearch.co.uk

RWS Holdings: Financials and key performance indicators

Revenue per employee: £119k

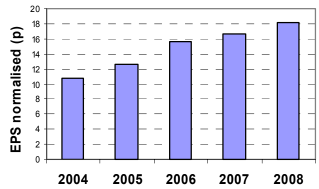
Cost per employee: £37k

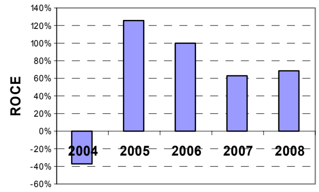
Revenue: Cost 3.2x

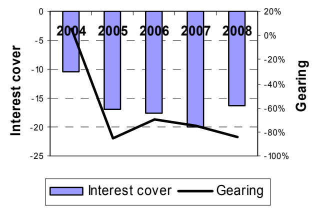
Summary financial table

Year to September	2005	2006	2007e	2008e
Profit & Loss				
Turnover	35,875	40,779	45,700	50,300
(% change)	15%	14%	12%	10%
EBITDA	7,371	8,863	9,776	10,614
(% margin)	21%	22%	21%	21%
(% change)	85%	20%	10%	9%
EBIT pre GW and except's.	7,029	8,556	9,526	10,364
(% margin)	20%	21%	21%	21%
Net financial items	412	483	474	636
Other	0	0	0	0
Pre-tax profit (norm'd)	7,441	9,039	10,000	11,000
Tax	(2,265)	(2,509)	(3,000)	(3,300)
Net Income	5,176	6,530	7,000	7,700
EPS (norm'd and fd)	12.6	15.7	16.6	18.2
(% change)	17%	24%	6%	10%
Balance Sheet				
Fixed Assets	7,984	7,254	6,623	5,992
Current Assets	19,624	24,978	31,190	36,537
Current Liabilities	(10,437)	(10,993)	(11,090)	(11,344)
Long term Liabilities	0	0	0	0
Shareholders Equity	17,171	21,239	26,723	31,185
Cash Flow				
Cash flow from operations	7,142	7,967	10,973	11,981
Capex	(233)	(208)	(250)	(250)
Acquisition capex	(2,430)	0	0	0
Net debt(cash)	(11,929)	(15,912)	(22,676)	(28,764)
Cash earnings per share	18.7	20.6	27.7	30.2

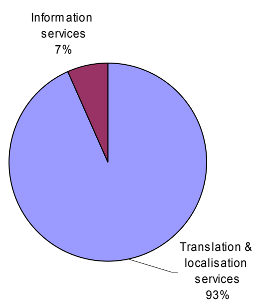
Performance



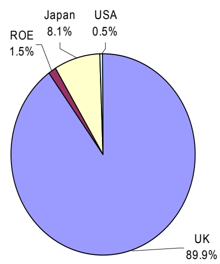




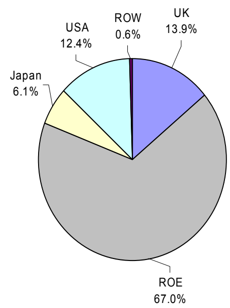
Business breakdown (% Sales 2006)



Geographic breakdown (% Sales 2006)



End-user market breakdown (% Sales 2006)



Savills

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
12/05	373.9	59.7	33.3	10.2	20.2	1.5
12/06	517.6	86.2	42.1	13.0	16.0	1.9
12/07e**	562.9	80.4	44.3	18.4	15.2	2.7
12/08e**	585.4	85.7	47.5	20.8	14.1	3.1

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items
**consensus forecasts

Investment summary: Well-balanced portfolio

One of the world's leading international property advisors, Savills, has offices and associates in the UK, Europe, Asia Pacific and Africa. Although driven by strong UK residential and commercial property markets over the last few years, revenues are broadly based; generated from five core business areas. Transactional income, such as residential agency fees, is balanced by arguably more visible income from property and facilities management services, financial services and fund management. The UK contributed 65% of turnover and 80% of operating profit during 2006.

Exceptional brand in upmarket residential property

Savills has benefited from strong recent UK residential demand and a focus on the top end of the London market. At an average sales price of £1m, its UK residential division is thriving and c.£9bn of City bonuses suggest that the expensive end of the London house market is unlikely to be overly concerned by rising interest rates.

Broadly based revenues

In 2006, consultancy and property & facilities management accounted for around 45% of revenues, with transaction fees 48%. It manages £2.2bn (2005:£1.8bn) in funds and over 800m sq ft in property in Europe, SE Asia and Australia.

Sector resilient to interest rate rises so far

Asian and UK property markets may have cooled somewhat post interest rate rises, but the full-year results included a confident outlook for 2007. Reported earnings have risen by an average of 33% per annum over the last five years. A broad international portfolio should enable Savills to continue to capitalise upon dynamic markets for commercial and residential property, with initiatives in place to continue to strengthen group operations in Western Europe and Asia.

Valuation

The shares have had a relatively steady 2007. However, the areas, in theory, most exposed to interest rate rises remain resilient, with management and consultancy divisions winning clients. The strong balance sheet could fund further international growth, and a current year rating of c.15x doesn't fully discount growth prospects.

Price	672p
Market Cap	£885m

Note: Priced at 24 Apr 2007

Share price graph

Share details

Code	SVS
Listing	Full
Sector	Real Estate
Shares in issue	131.6m

Price

	High	Low
52 week	687.5p	490.5p

Balance Sheet*

Debt/Equity (%)	N/A
NAV per share (p)	126.1
Net cash (£m)	96.5

**as at 31 Dec 2006*

Business

One of the world's leading international property consultants and real estate agents, with expertise in commercial, rural, residential and leisure property. Also provides a range of property related financial services and specialist fund management.

Valuation

	2006	2007e	2008e
P/E relative	114%	120%	119%
P/CF	9.8	10.3	10.1
EV/Sales	1.5	1.3	1.2
ROE	26%	24%	22%

Geography based on revenues

UK	Europe	US	Other
73%	9%	0%	18%

Analyst
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Savills: Financials and key performance indicators

Revenue per employee: £26k

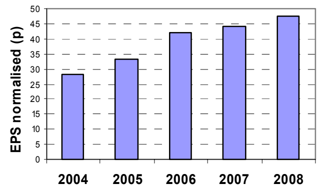
Cost per employee: £16k

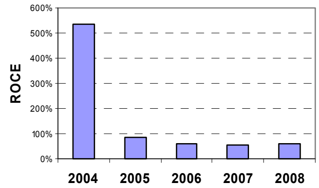
Revenue: Cost 1.6x

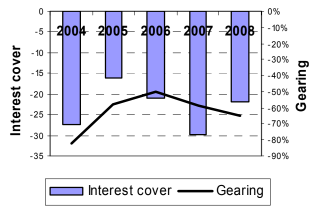
Summary financial table

Year to December	2005	2006	2007e	2008e
Profit & Loss				
Turnover	373,866	518,700	562,920	585,380
(% change)	14%	39%	9%	4%
EBITDA	60,442	83,800	82,098	86,200
(% margin)	16%	16%	15%	15%
(% change)	15%	39%	-2%	5%
EBIT pre GW and except's.	55,869	78,200	77,525	81,627
(% margin)	15%	15%	14%	14%
Net financial items	3,479	3,700	2,596	3,719
Other	329	500	329	329
Pre-tax profit (norm'd)	59,677	82,400	80,450	85,675
Tax	(17,799)	(26,000)	(21,850)	(22,841)
Net Income	41,878	56,400	58,600	62,834
EPS (norm'd and fd)	33.3	42.1	44.3	47.5
(% change)	19%	27%	5%	7%
Balance Sheet				
Fixed Assets	111,413	172,000	170,535	169,070
Current Assets	283,290	291,200	340,837	387,631
Current Liabilities	(194,937)	(214,100)	(223,960)	(232,720)
Long term Liabilities	(31,452)	(36,300)	(35,800)	(35,800)
Shareholders Equity	167,739	208,500	247,913	284,483
Cash Flow				
Cash flow from operations	44,859	87,400	85,973	88,336
Capex	(10,056)	4,400	(4,573)	(4,573)
Acquisition capex	(7,081)	(30,100)	0	0
Net debt(cash)	(96,495)	(104,800)	(145,991)	(185,550)
Cash earnings per share	37.7	70.1	65.3	67.1

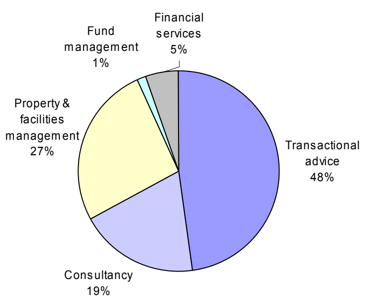
Performance



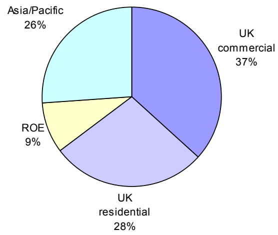




Business breakdown (% Sales 2006)



Geographic breakdown (% Sales 2006)



End-user market breakdown (% Sales 2006)

N/A

Scott Wilson

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
04/05	171.9	5.1	12.9	0.0	28.3	N/A
04/06	197.8	8.9	13.7	2.5	23.8	0.8
04/07e**	245.5	16.0	14.2	3.0	23.0	0.9
04/08e**	303.2	19.9	17.2	3.3	19.0	1.0

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items
** consensus forecasts

Investment summary: Blessed release

Last year's flotation has transformed Scott Wilson's prospects and freed it to follow its peers in building a multi-disciplinary, international consultancy business. Whilst it will remain hungry for cash in this growth phase, we expect cash conversion to normalise within three years. The discount to the quoted engineering consultants has closed and we see no current justification for the shares to move to a premium.

Unshackled to grow

Scott Wilson floated in March 2006 at 156p, valuing the group at £112m. Its growth had been constrained by working capital, a substantial pension fund deficit and succession issues. With the cash injection and the additional currency of equity, the group has stabilised and has completed five acquisitions in the UK and overseas. In its 2006 survey, *New Civil Engineer* ranked Scott Wilson the ninth largest UK-owned consultancy.

Cash behind the curve

The group is forecast to have very strong revenue growth over the next couple of years and therefore we see a greater requirement to retain cash within the business. Cash conversion should start to move nearer the sector average by 2009. The group has the lowest revenue per employee of the peers covered in this report, but also a considerably lower cost per employee, a function of its presence in both China and India.

Infrastructure exposure

63% of the group's revenues are earned by the Transportation Division, primarily road and rail, but including maritime and aviation. The group therefore has a sensitivity to public sector infrastructure spend in the UK.

Valuation: Up with the pack

Scott Wilson has performed well since flotation and closed the valuation gap with its peers. We see little reason for it to move to a premium.

Price	326.5p
Market Cap	£244m

Note: Priced at 24 Apr 2007

Share price graph

Share details

Code	SWG
Listing	Full
Sector	Support Services
Shares in issue	74.7m

Price

	High	Low
52 week	326.5p	199.0p

Balance Sheet*

Debt/Equity (%)	N/A
NAV per share (p)	75
Net cash (£m)	27

**as at 30 Apr 2006*

Business

Scott Wilson is an international consultancy offering integrated professional services for civil and structural engineering projects, transportation, environmental studies and institutional development.

Valuation

	2006	2007e	2008e
P/E relative	170%	183%	159%
P/CF	50.9	18.0	15.2
EV/Sales	0.4	1.0	0.8
ROE	11%	14%	16%

Geography based on revenues

UK/Ireland	Other
73%	27%

Analyst
Fiona Orford-Williams 020 7190 1755
forford-williams@edisoninvestmentresearch.co.uk

Scott Wilson: Financials and key performance indicators

Revenue per employee: £36k

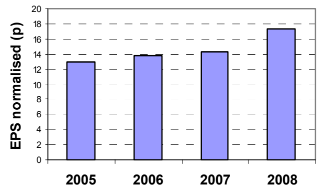
Cost per employee: £18k

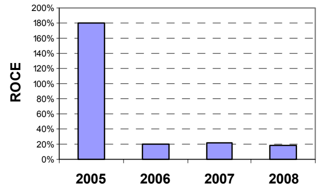
Revenue: Cost 2.0x

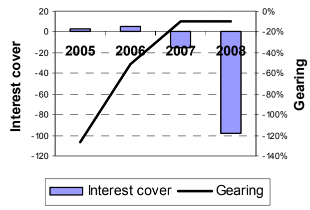
Summary financial table

Year to April	2005	2006	2007e	2008e
Profit & Loss				
Turnover	171,945	197,765	245,450	303,200
(% change)	N/A	15%	24%	24%
EBITDA	9,944	13,238	18,200	23,100
(% margin)	6%	7%	7%	8%
(% change)	N/A	33%	37%	27%
EBIT pre GW and except's.	8,204	11,062	15,000	19,700
(% margin)	5%	6%	6%	6%
Net financial items	(3,132)	(2,117)	1,000	200
Non-recurring items	0	0	0	0
Pre-tax profit (norm'd)	5,072	8,945	16,000	19,900
Tax	(1,905)	(6,325)	(5,328)	(6,388)
Net Income	3,167	2,620	10,672	13,512
EPS (norm'd and fd)	12.9	13.7	14.2	17.2
(% change)	N/A	6%	3%	21%
Balance Sheet				
Fixed Assets	31,564	34,621	62,222	62,222
Current Assets	55,534	99,639	105,545	125,869
Current Liabilities	(44,483)	(45,631)	(55,600)	(67,574)
Long term Liabilities	(62,679)	(35,881)	(38,019)	(38,019)
Shareholders Equity	(20,064)	52,748	74,148	82,498
Cash Flow				
Cash flow from operations	6,221	2,135	12,298	15,952
Capex	(5,871)	(7,935)	(3,387)	(4,000)
Acquisition capex	(461)	(600)	(26,400)	(3,700)
Net debt(cash)	25,325	(26,950)	(7,184)	(8,386)
Cash earnings per share	26.4	6.6	17.0	21.0

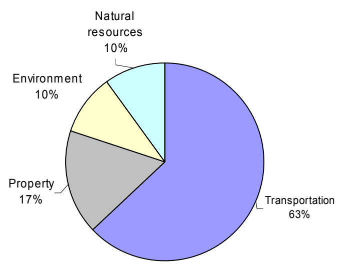
Performance



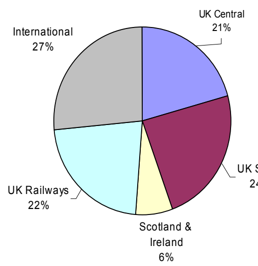




Business breakdown (% Sales 2006)



Geographic breakdown (% Sales 2006)



End-user market breakdown (% Sales 2006)

N/A

SMC Group

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
12/04	8.1	1.1	3.6	0.0	20.6	N/A
12/05	13.5	2.7	5.5	1.0	13.4	1.4
12/06	30.9	2.6	3.6	1.2	20.6	1.6
12/07e	51.5	8.0	11.1	1.4	6.7	1.9

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items

Investment summary: Awaiting clarity

SMC is the UK's largest architectural practice, with broad coverage of the UK by sector and geography. This group has grown rapidly since its June 2005 IPO, completing 12 acquisitions in pursuit of a strategy designed to derive benefits from consolidation of a fragmented industry. The core objective is to access industry leading margins and profit growth, by creating a group with the scale and breadth of skills to secure an increasing proportion of larger, more valuable commissions.

Substantial & growing market for SMC skills

Industry estimates put total fees for UK architectural services at c.£3.5bn for 2007/2008, £92bn worldwide. This figure has grown by 5% p.a. compound over the last three years, and this rate is expected to continue (source: Davis Langdon LLP).

Market dynamics shifting towards larger practices

A trend towards larger construction value and more complex mixed use projects is expected to drive increased demand for architects able to demonstrate that they have the experience and skills to provide the coordination role, and the resources and capability to deliver multiple, overlapping projects.

Back on message after recent setback; strategy intact

The full-year results were in line with lower expectations, reflecting a much more conservative view regarding valuation of work in progress. The review, now largely complete should represent a one-off hit. The outlook is more positive; acquisitions have enhanced geographical spread and sector expertise, reflected in the larger, more valuable contract wins upon which the strategy was predicated. There is good visibility for the current year, with around 65% of revenue forecasts secured and the full benefit of cost savings worth £1.4m p.a. to flow from H2.

Valuation: Expect some inertia while reputation is restored

If the issues that led to the profit shortfall have been tackled, the rating looks good value relative to core growth prospects. We now expect SMC to continue to provide evidence that the acquisitions completed thus far are adding value. This will be necessary to restore confidence in management and get its growth strategy back on track.

Price	74p
Market Cap	£34m

Note: Priced at 24 Apr 2007

Share price graph

Share details

Code	SMC
Listing	AIM
Sector	Construction & Building Materials
Shares in issue	46.1m

Price

52 week	High	Low
	193p	56.5p

Balance Sheet*

Debt/Equity (%)	49
NAV per share (p)	52.2
Net borrowings (£m)	14.7

**as at 31 Dec 2006*

Business

Architecture and design group based in London, SMC is engaged in major office, retail and residential projects in the UK, Eire, mainland Europe, the Far East and Canada.

Valuation

	2005	2006	2007e
P/E relative	97%	164%	174%
P/CF	N/A	N/A	N/A
EV/Sales	1.9	1.4	1.4
ROE	25%	6%	6%

Geography based on revenues

UK	Europe	US	Other
99%	1%	0%	0%

Analyst
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rleboff@edisoninvestmentresearch.co.uk

SMC Group is a research client of Edison Investment Research Limited

SMC Group: Financials and key performance indicators

Revenue per employee: £81k

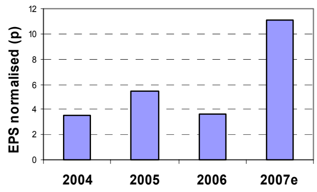
Cost per employee: £32k

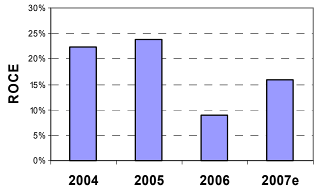
Revenue: Cost 2.6x

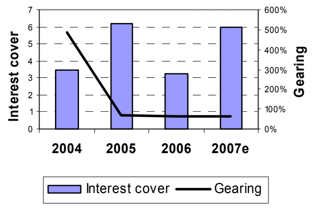
Summary financial table

Year to December	2004	2005	2006	2007e
Profit & Loss				
Turnover	8,089	13,510	30,875	51,500
(% change)	0%	67%	129%	67%
EBITDA	4,083	7,432	14,590	28,000
(% margin)	50%	55%	47%	54%
(% change)	44%	82%	96%	92%
EBIT pre GW and except's.	1,550	3,271	3,719	9,600
(% margin)	19%	24%	12%	19%
Net financial items	(445)	(527)	(1,160)	(1,600)
Other	0	0	0	0
Pre-tax profit (norm'd)	1,105	2,744	2,559	8,000
Tax	(316)	(1,005)	(995)	(2,480)
Net Income	789	1,739	1,564	5,520
EPS (norm'd and fd)	3.6	5.5	3.6	11.1
(% change)	16%	53%	-34%	210%
Balance Sheet				
Fixed Assets	3,622	10,212	38,549	38,549
Current Assets	5,677	10,509	28,268	29,000
Current Liabilities	(5,214)	(5,814)	(22,420)	(21,815)
Long term Liabilities	(3,122)	(7,894)	(20,335)	(19,000)
Shareholders Equity	963	7,013	24,062	26,734
Cash Flow				
Cash flow from operations	243	(141)	(349)	7,670
Capex	(67)	(107)	(1,551)	(700)
Acquisition capex	0	(2,659)	(13,092)	0
Net debt(cash)	4,698	4,673	14,735	17,315
Cash earnings per share	1.1	(0.5)	(0.9)	16.6

Performance



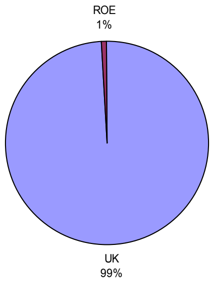




Business breakdown (% Sales 2006)

N/A

Geographic breakdown (% Sales 2006)



End-user market breakdown (% Sales 2006)

N/A

Tenon

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
06/05	99.4	8.0	4.2	0.5	14.1	0.8
06/06	123.6	10.5	4.5	1.0	13.2	1.7
06/07e**	124.2	10.8	4.5	1.2	13.2	2.0
06/08e**	138.2	12.4	5.2	1.4	11.4	2.4

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items
** consensus forecasts

Investment summary: Restructuring delivers

Tenon's significant rerating and doubling in share price over the last six months suggests the market is confident that the company's major restructuring, begun in 2003–2004, is bearing fruit. Strong results for the six months to 31 December 2006 confirmed this positive trend.

Accountancy, tax and other business services

Tenon provides tax and other business services to UK SMEs. Revenue breakdown for FY06 was: tax and business services (49%), financial services (18%), specialist taxation (15%), recovery/insolvency (13%) and corporate finance (5%).

Benefits of 2003–2004 restructuring coming through

In 2003–2004, the company underwent a major restructuring of its business including selling off non-core operations. This restructuring was greeted warily by the market, and the company's share price declined over most of 2004–2006. However, the trading results did improve gradually over this period.

Strong FY06 results the turning point

The September 2006 release of Tenon's strong FY06 results saw a significant reversal of market sentiment. There was clear evidence in the results that the restructuring strategy was proving successful and the company was able to capitalise on a year of robust growth in its sector. The company again released strong results with its interims in March 2007. Solid trading continues to sustain the share price.

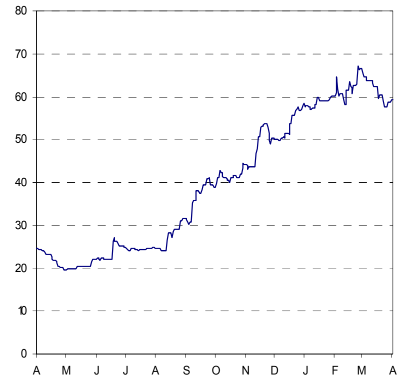
Market has Tenon on PE of 13.2x for 2007e

We do not actively cover Tenon, and therefore use consensus forecasts for valuation indicators. The market expects an EPS of 4.5p in 2007 and 5.2p in 2008, which would see Tenon trading on a PE of 13.2x for 2007e. This is similar to nearest competitor Vantis, on 12.8x 2007e.

Price	59.3p
Market Cap	£99m

Note: Priced at 24 Apr 2007

Share price graph



Share details

Code	TNO
Listing	AIM
Sector	General Financial
Shares in issue	166.3m

Price

	High	Low
52 week	65.0p	19.5p

Balance Sheet*

Debt/Equity (%)	4.3
NAV per share (p)	36.2
Net borrowings (£m)	2.5

**as at 31 Dec 2006*

Business

Tenon provides accounting, tax, as well as business recovery and corporate finance services to UK SMEs.

Valuation

	2006	2007e	2008e
P/E relative	94%	104%	96%
P/CF	3.8	5.4	6.5
EV/Sales	0.8	0.8	0.7
ROE	13%	13%	15%

Geography based on revenues

UK	Europe	US	Other
100%	0%	0%	0%

Analyst
Neil Shah 0207 190 1755
nshah@edisoninvestmentresearch.co.uk

Tenon: Financials and key performance indicators

Revenue per employee: £86k

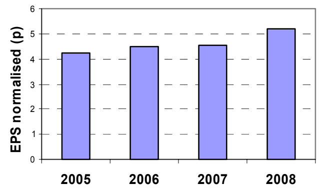
Cost per employee: £48k

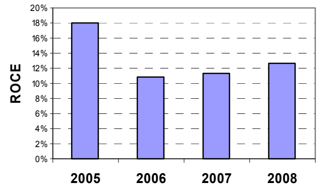
Revenue: Cost 1.8x

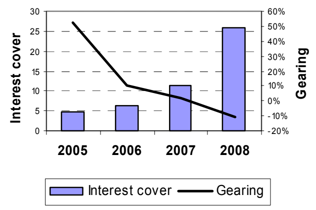
Summary financial table

Year to June	2005	2006	2007e	2008e
Profit & Loss				
Turnover	99,437	123,582	124,195	138,185
(% change)	N/A	24%	0%	11%
EBITDA	11,685	13,823	13,130	14,227
(% margin)	12%	11%	11%	10%
(% change)	N/A	18%	-5%	8%
EBIT pre GW and except's.	10,233	12,531	11,830	12,927
(% margin)	10%	10%	10%	9%
Net financial items	(2,194)	(2,011)	(1,050)	(500)
Non-recurring items	0	0	0	0
Pre-tax profit (norm'd)	8,039	10,520	10,780	12,427
Tax	(1,560)	(2,780)	(2,857)	(3,355)
Net Income	6,479	7,740	7,923	9,071
EPS (norm'd and fd)	4.2	4.5	4.5	5.2
(% change)	N/A	7%	1%	14%
Balance Sheet				
Fixed Assets	70,445	66,043	61,340	56,270
Current Assets	48,351	57,516	61,644	64,208
Current Liabilities	(30,300)	(37,452)	(37,271)	(38,331)
Long term Liabilities	(31,490)	(27,833)	(26,657)	(19,657)
Shareholders Equity	57,006	58,274	59,057	62,490
Cash Flow				
Cash flow from operations	9,779	25,000	18,150	15,236
Capex	(1,007)	(776)	(1,400)	(1,300)
Acquisition capex	(3,600)	(1,003)	(300)	0
Net debt(cash)	29,925	12,167	1,365	(6,642)
Cash earnings per share	6.1	15.6	11.0	9.2

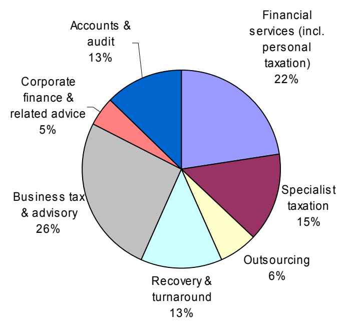
Performance



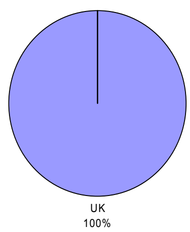




Business breakdown (% Sales 2006)



Geographic breakdown (% Sales 2006)



End-user market breakdown (% Sales 2006)

N/A

Vantis

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
04/05	38.9	5.3	9.4	3.5	24.7	1.5
04/06	71.2	10.2	16.0	3.7	14.5	1.6
04/07e	88.4	11.8	18.1	4.2	12.8	1.8
04/08e	95.5	13.0	19.0	5.6	12.2	2.4

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items

Investment summary: News flow overblown

Vantis continues to perform well, driven both by a continued string of acquisitions as well as organic growth. Although net debt has risen considerably to £39.9m, largely in the funding of acquisitions and increased working capital requirements, interest cover remains comfortable. We believe a string of short-term negative news flow does not justify the significant decline in the share price over the last three months, as they do not imply any material change in operating prospects. We value Vantis at 281p/share using a DCF, versus the current share price of 241p.

Operating performance continues

Vantis' operating performance remains strong, with its core accountancy (about 50% of revenues) and its consultancy and business recovery divisions being driven by both acquisitions and organic growth. However, Vantis' share price has been hit by a string of negative news flow, which has overshadowed the operating performance.

Negative news flow has little effect on fundamental value

Vantis' share price has been hit mainly by news of: 1) a discrepancy with the Inland Revenue regarding a client's tax treatment and, 2) the decline in IVA share prices, as Vantis had recently entered this market, although it comprises less than 1% of revenues. Management states that both of these items are minimal in terms of effects on earnings.

Increase in debt in line with acquisitions

Vantis has seen a significant increase in its net debt (excluding leases) to £39.9m, funding large acquisitions and increased working capital requirements in its business recovery division. Interest cover has declined from 5.3x in H106 to 4.9x in H107, but still remains comfortable.

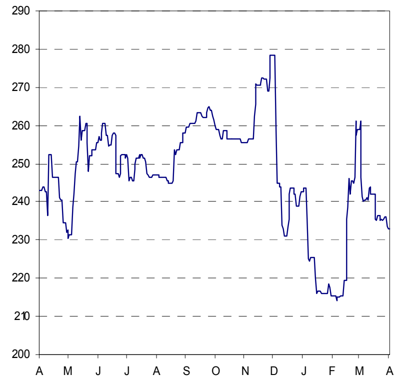
Valuation: Below fair value on short-term news flow

We believe none of the news flow suggests a fundamental decline in Vantis' short-term operating prospects, or its long-term value. We value the company on a DCF basis at 281p, significantly above the current price of 241p.

Price	232.5p
Market Cap	£118m

Note: Priced at 24 Apr 2007

Share price graph



Share details

Code	VTS
Listing	AIM
Sector	General Financial
Shares in issue	50.8m

Price

52 week	High	Low
	278.5p	216.0p

Balance Sheet

Debt/Equity (%)	126
NAV per share (p)	70.3
Net borrowings (£m)	41.0

Business

Vantis principally offers tax, accountancy, business recovery and consultancy services to UK-based SMEs.

Valuation

	2006	2007e	2008e
P/E relative	108%	107%	111%
P/CF	45.5	N/A	12.8
EV/Sales	2.0	1.8	1.8
ROE	23%	20%	20%

Geography based on revenues

UK	Europe	US	Other
100%	0%	0%	0%

Analyst

Graeme Cunningham 020 7190 1755

gcunningham@edisoninvestmentresearch.co.uk

Vantis is a research client of Edison Investment Research Limited

Vantis: Financials and key performance indicators

Revenue per employee: £71k

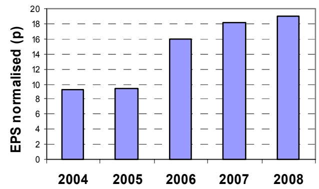
Cost per employee: £42k

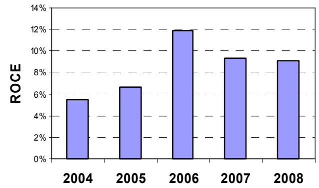
Revenue: Cost 1.7x

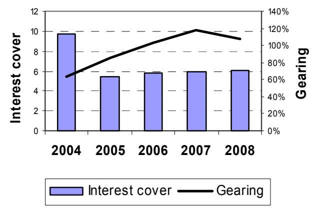
Summary financial table

Year to April	2005	2006	2007e	2008e
Profit & Loss				
Turnover	38,899	71,159	88,432	95,490
(% change)	45%	83%	24%	8%
EBITDA	6,946	13,373	15,541	16,904
(% margin)	18%	19%	18%	18%
(% change)	25%	93%	16%	9%
EBIT pre GW and except's.	6,434	12,359	14,221	15,518
(% margin)	17%	17%	16%	16%
Net financial items	(1,171)	(2,126)	(2,419)	(2,535)
Other	0	0	0	0
Pre-tax profit (norm'd)	5,263	10,233	11,802	12,983
Tax	(1,378)	(1,428)	(3,181)	(3,730)
Net Income	3,885	8,805	8,621	9,253
EPS (norm'd and fd)	9.4	16.0	18.1	19.0
(% change)	1%	70%	13%	5%
Balance Sheet				
Fixed Assets	24,831	41,979	41,196	40,445
Current Assets	29,316	50,043	62,074	66,990
Current Liabilities	(23,977)	(42,301)	(42,474)	(44,406)
Long term Liabilities	(8,858)	(18,181)	(26,245)	(24,852)
Shareholders Equity	21,312	31,619	34,708	38,343
Cash Flow				
Cash flow from operations	(10)	2,413	7,112	12,217
Capex	(983)	(1,263)	(1,326)	(1,392)
Acquisition capex	(2,732)	(4,309)	(5,700)	(2,100)
Net debt(cash)	18,137	32,842	40,947	41,528
Cash earnings per share	0.0	5.4	15.4	26.4

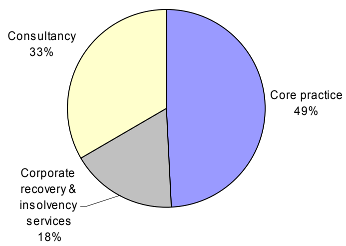
Performance



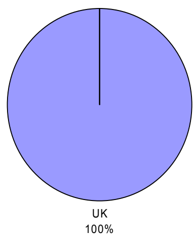




Business breakdown (% Sales 2006)



Geographic breakdown (% Sales 2006)



End-user market breakdown (% Sales 2006)

N/A

VEGA

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
04/05	52.6	3.7	13.4	2.0	20.5	0.7
04/06	62.1	4.5	17.6	2.5	15.6	0.9
04/07e**	65.0	5.2	18.6	3.0	14.8	1.1
04/08e**	70.5	5.8	20.6	3.3	13.4	1.2

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items
**consensus forecasts

Investment summary: Clearing the air

The market historically found VEGA's activities diverse and difficult to assimilate. Following a re-organisation, the management team has been strengthened and more depth has been added. The company can now present its proposition more clearly to both investors and clients. Acquisitions will need to be in adjacent business activities to avoid concerns of a lack of focus resurfacing.

Clarification

VEGA has gone through a process of change, the company's structure has been tidied and its strategy, particularly between its Consulting, Technology and Managed Solutions business offerings, clarified. The operational management team has been strengthened to focus on delivering improved returns, for instance in controlling the margin sacrificed to subcontractors. The three strands should deliver a mix of fixed price and time & materials contracts and a mix of contract duration.

Improving financials

The market is anticipating further modest improvements in operating margin over the next couple of years and progress has already been posted at the interims in December. There should also be a marked uptick in the conversion of EBITDA to free cash flow. In the absence of acquisitions, we anticipate the group ending the year with a modest net cash position.

Defensive defence

Although overall European budgets for aerospace and defence are under continuous pressure, more efficacious spending of those budgets is a shared goal. The group has good positioning both with its clients and its geography.

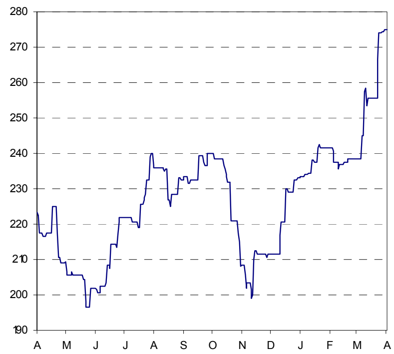
Valuation: Still waiting to be convinced

December's interim figures were sufficient to reassure the market, given the statement that the outcome for the full-year should be in line with previous expectations. Further expansion of the rating can be expected following additional positive news flow.

Price	275.0p
Market Cap	£56m

Note: Priced at 24 Apr 2007

Share price graph



Share details

Code	VEG
Listing	Full
Sector	Software & Computer Services
Shares in issue	20.4m

Price

52 week	High	Low
	275.0p	196.5p

Balance Sheet*

Debt/Equity (%)	10
NAV per share (p)	83
Net borrowings (£m)	1.6

**as at 30 Apr 2006*

Business

VEGA is a consulting, technology and managed solutions company specialising in programme & system assurance.

Valuation

	2006	2007e	2008e
P/E relative	111%	117%	112%
P/CF	16.6	9.9	9.4
EV/Sales	0.9	0.8	0.7
ROE	22%	19%	18%

Geography based on revenues

UK	Europe	US	Other
65%	35%	0%	0%

Analyst

Fiona Orford-Williams 020 7190 1755
forford-williams@edisoninvestmentresearch.co.uk

VEGA: Financials and key performance indicators

Revenue per employee: £105k

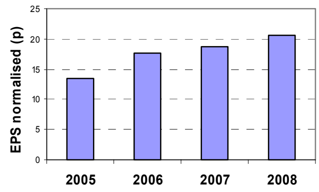
Cost per employee: £55k

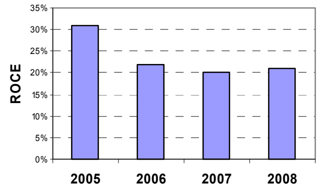
Revenue: Cost 1.9x

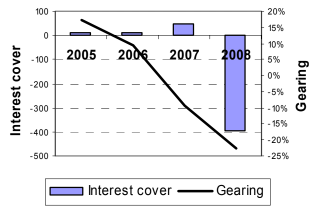
Summary financial table

Year to April	2005	2006	2007e	2008e
Profit & Loss				
Turnover	52,602	62,126	64,985	70,475
(% change)	19%	18%	5%	8%
EBITDA	4,299	5,240	5,750	6,183
(% margin)	8%	8%	9%	9%
(% change)	48%	22%	10%	8%
EBIT pre GW and except's.	3,992	4,803	5,313	5,746
(% margin)	8%	8%	8%	8%
Net financial items	(327)	(351)	(109)	14
Other	0	0	0	0
Pre-tax profit (norm'd)	3,665	4,452	5,203	5,760
Tax	(997)	(745)	(1,289)	(1,438)
Net Income	2,668	3,707	3,914	4,322
EPS (norm'd and fd)	13.4	17.6	18.6	20.6
(% change)	N/A	32%	6%	10%
Balance Sheet				
Fixed Assets	16,885	16,564	16,670	15,927
Current Assets	16,763	20,661	22,942	27,964
Current Liabilities	(14,673)	(16,757)	(16,580)	(17,892)
Long term Liabilities	(4,847)	(3,566)	(2,299)	(2,299)
Shareholders Equity	14,128	16,902	20,733	23,700
Cash Flow				
Cash flow from operations	4,204	3,364	5,643	5,977
Capex	(105)	(652)	(437)	(437)
Acquisition capex	(5,263)	0	0	0
Net debt(cash)	2,449	1,607	(1,887)	(5,391)
Cash earnings per share	21.3	16.5	27.7	29.3

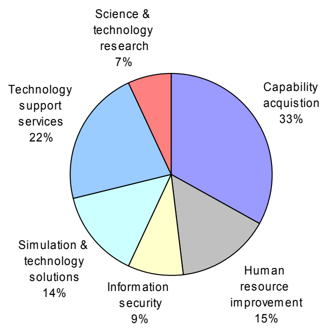
Performance



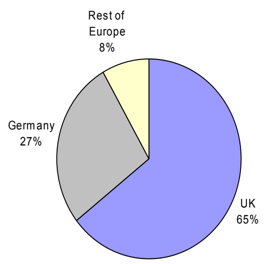




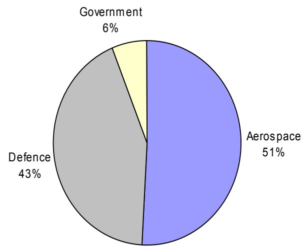
Business breakdown (% Sales 2006)



Geographic breakdown (% Sales 2006)



End-user market breakdown (% Sales 2006)



Waterman

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
06/05	72.7	4.1	9.5	5.3	21.2	2.6
06/06	83.7	4.5	10.3	5.7	19.6	2.8
06/07e**	94.3	4.7	10.5	6.0	19.2	3.0
06/08e**	106.8	5.4	11.6	6.3	17.4	3.1

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items
**consensus forecasts (do not include proposed acquisition of Boreham Consulting Engineers)

Investment summary: Steady as she goes

Despite its long history, Waterman is less well-known than its peers in engineering consultancy. Its progress has been steady and resilient, rather than spectacular, and is expected to remain so. The company is soundly financed and has an attractive and growing dividend yield.

Growing organically, broadening by acquisition

Founded in 1952, Waterman moved from partnership to plc in 1988, when the business was floated in London. It has grown through a mix of organic growth and acquisition and has recently been re-organised into five reporting divisions. The largest of these are Civils and Structural, providing design services and advice. A programme of modest acquisitions has built the range of expertise within the group and enabled the company to take on more extensive contracts. The overseas workload is also building up, with some noteworthy projects in CIS and China.

Improving visibility

As with the other quoted engineering consultancies, the instigation of long-term framework agreements with the client base is improving the visibility of earnings. The group is involved with work on several very high profile projects, such as White City, Thames Gateway and various Whitehall refurbishments. This aspect of 'visibility' inevitably brings greater opportunities and helps attract quality staff.

Ensuring continuity

Bob Campbell, managing director since the flotation, announced his intention to retire at the end of the company's financial year. He will be succeeded by Nicholas Taylor, who has been running the Structures Division.

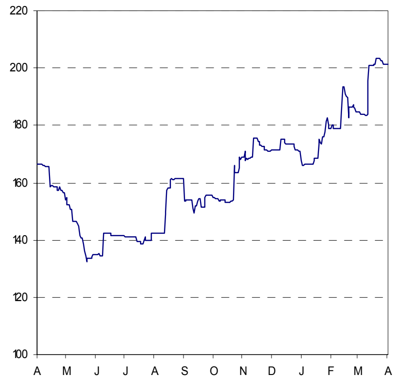
Valuation: Modest upside

Having underperformed in the second quarter of 2006, the share price has now recovered past the level reached last April. The discount to its immediate peers reflects the more modest pace of growth, but the shares offer an attractive and growing dividend yield.

Price	201.5p
Market Cap	£58m

Note: Priced at 24 Apr 2007

Share price graph



Share details

Code	WTM
Listing	Full
Sector	Support Services
Shares in issue	28.8m

Price

	High	Low
52 week	205.0p	132.5p

Balance Sheet*

Debt/Equity (%)	16
NAV per share (p)	104
Net borrowings (£m)	4.8

**as at 31 Dec 2006*

Business

Waterman Group is a leading provider of engineering and environmental consultancy services to the property and construction sector in the UK and overseas.

Valuation

	2006	2007e	2008e
P/E relative	127%	139%	133%
P/CF	8.9	11.9	11.0
EV/Sales	0.7	0.6	0.5
ROE	10%	10%	11%

Geography based on revenues

UK	Overseas
82%	18%

Analyst

Fiona Orford-Williams 020 7190 1755
forford-williams@edisoninvestmentresearch.co.uk

Waterman: Financials and key performance indicators

Revenue per employee: £71k

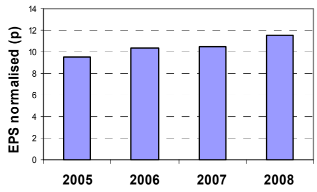
Cost per employee: £38k

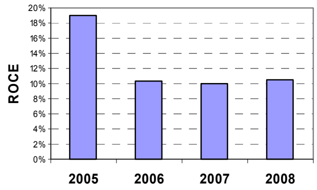
Revenue: Cost 1.9x

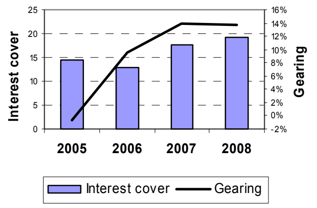
Summary financial table

Year to June	2005	2006	2007e	2008e
Profit & Loss				
Turnover	72,712	83,680	94,250	106,750
(% change)	12%	15%	13%	13%
EBITDA	5,530	5,897	6,117	6,821
(% margin)	8%	7%	6%	6%
(% change)	N/A	7%	4%	12%
EBIT pre GW and except's.	4,357	4,836	5,017	5,721
(% margin)	6%	6%	5%	5%
Net financial items	(300)	(373)	(284)	(296)
Other	0	0	0	0
Pre-tax profit (norm'd)	4,057	4,463	4,733	5,425
Tax	(1,299)	(1,421)	(1,623)	(1,964)
Net Income	2,758	3,042	3,111	3,461
EPS (norm'd and fd)	9.5	10.3	10.5	11.6
(% change)	N/A	8%	2%	10%
Balance Sheet				
Fixed Assets	25,125	25,009	26,610	27,060
Current Assets	37,775	38,943	39,843	44,339
Current Liabilities	(26,982)	(26,098)	(28,729)	(31,693)
Long term Liabilities	(7,500)	(7,992)	(7,902)	(7,750)
Shareholders Equity	27,714	29,498	29,192	31,305
Cash Flow				
Cash flow from operations	5,731	5,899	4,515	4,927
Capex	(1,423)	(1,019)	(1,100)	(1,100)
Acquisition capex	(1,208)	(1,854)	(1,600)	(700)
Net debt(cash)	3,802	2,846	4,077	4,288
Cash earnings per share	20.6	20.9	15.7	17.0

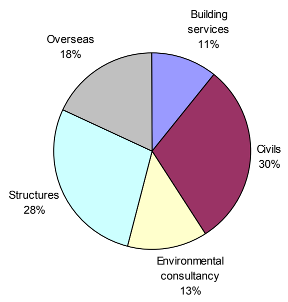
Performance



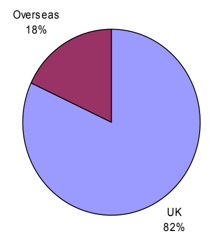




Business breakdown (% Sales 2006)



Geographic breakdown (% Sales 2006)



End-user market breakdown (% Sales 2006)

N/A

White Young Green

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
06/05	143.9	9.4	16.6	7.2	28.4	1.5
06/06	167.5	11.7	19.1	8.1	24.7	1.7
06/07e**	210.6	15.8	23.7	9.1	19.9	1.9
06/08e**	236.9	18.2	27.0	10.1	17.4	2.1

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items
**consensus forecasts

Investment summary: Text book example

White Young Green has an exemplary record of both acquisitional and organic growth. It has, to date, successfully broadened its offering of services, its geography and its client base, whilst building up its framework contract exposure. It is now the 12th largest UK-owned consultant (*New Civil Engineer*) and has order book visibility amongst the best in the sector. The shares have now recovered from profit taking after the interim figures.

Managing up the operating margin

Revenues from the private sector have been growing particularly strongly and should account for over half of the group's income in the current year. The group is focused on adding new services at a higher level of added value, with forecast improving operating margins as a result. The group has made four acquisitions to date this financial year (three in England, one in Ireland) for an initial consideration of £17.0m.

Scale brings its own challenges

One downside of having built the group to this size is that acquisitions have to be larger to have the required impact, increasing the inherent risk profile. A larger number of smaller purchases take up a disproportionate amount of management time, but in fragmented areas of business, could prove all that is available. The group's reputation, however, is continuing to attract earnings' enhancing deals.

Purchasing with mix of cash and shares

Gearing at the half-year was reported at 52%. For the financial year, interest cover is set to be very comfortable at 8.2x, with the following year expected to be broadly cash neutral. This year's acquisitions have been financed 64% cash: 36% shares and have brought in additional net assets of £6.2m.

Valuation: Value increasingly recognised

The shares have performed strongly recently, buoyed by the positive news flow on acquisitions and on trading.

Price	471p
Market Cap	£225m

Note: Priced at 24 Apr 2007

Share price graph

Share details

Code	WHY
Listing	Full
Sector	Support Services
Shares in issue	47.8m

Price

	High	Low
52 week	487p	343p

Balance Sheet*

Debt/Equity (%)	38
NAV per share (p)	164
Net borrowings (£m)	28.8

**as at 30 Jun 2006*

Business

White Young Green is a national and international consultant providing a wide range of engineering, environmental, quantity surveying, town planning and management services to the public and private sectors.

Valuation

	2006	2007e	2008e
P/E relative	176%	158%	147%
P/CF	21.2	8.1	8.0
EV/Sales	1.4	1.2	1.1
ROE	11%	11%	12%

Geography based on revenues

UK	Europe	US	Other
65%	31%	0%	4%

Analyst
Fiona Orford-Williams 020 7190 1755
forford-williams@edisoninvestmentresearch.co.uk

White Young Green: Financials and key performance indicators

Revenue per employee: £82k

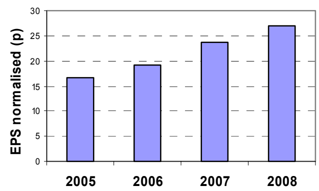
Cost per employee: £36k

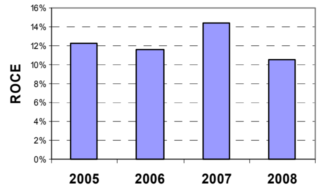
Revenue: Cost 2.3x

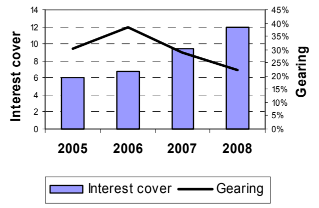
Summary financial table

Year to June	2005	2006	2007e	2008e
Profit & Loss				
Turnover	143,906	167,487	210,615	236,870
(% change)	N/A	16%	26%	12%
EBITDA	14,722	18,239	21,628	23,907
(% margin)	10%	11%	10%	10%
(% change)	N/A	24%	19%	11%
EBIT pre GW and except's.	11,312	13,670	17,628	19,907
(% margin)	8%	8%	8%	8%
Net financial items	(1,883)	(2,020)	(1,865)	(1,670)
Other	0	0	0	0
Pre-tax profit (norm'd)	9,429	11,650	15,763	18,237
Tax	(2,638)	(3,224)	(4,414)	(5,316)
Net Income	6,791	8,426	11,350	12,921
EPS (norm'd and fd)	16.6	19.1	23.7	27.0
(% change)	N/A	15%	24%	14%
Balance Sheet				
Fixed Assets	48,981	79,824	104,617	104,617
Current Assets	74,145	93,441	105,374	117,165
Current Liabilities	(52,964)	(61,429)	(73,682)	(81,360)
Long term Liabilities	(19,390)	(36,483)	(34,519)	(29,415)
Shareholders Equity	50,772	75,353	101,790	111,007
Cash Flow				
Cash flow from operations	12,756	9,375	27,602	27,952
Capex	(2,466)	(2,065)	(4,000)	(4,000)
Acquisition capex	(1,378)	(17,458)	(26,636)	(9,091)
Net debt(cash)	15,422	28,838	29,276	24,856
Cash earnings per share	31.9	22.2	58.0	58.7

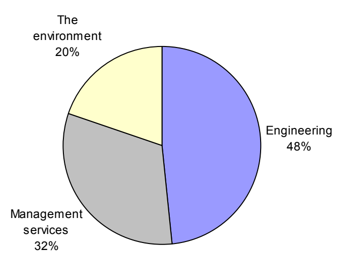
Performance



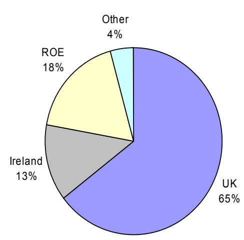




Business breakdown (% Sales 2005)



Geographic breakdown (% Sales 2005)



End-user market breakdown (% Sales 2005)

N/A

WSP

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
12/05	349.1	19.4	21.2	6.4	34.6	0.9
12/06	416.7	26.7	30.9	9.0	23.7	1.2
12/07e**	481.4	31.3	35.2	10.2	20.8	1.4
12/08e**	529.0	35.2	39.6	11.5	18.5	1.6

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items
** consensus forecasts

Investment summary: Track record of growth

WSP has a long track record of delivering and has successfully (to date) handled potentially problematic overseas expansion. Whilst the balance sheet is used more heavily than by some peers, the cash generative qualities of the group mean that this need not be of concern. The higher exposure to private sector work, at two-thirds of revenues, does however make the business subject to greater cyclicality than some others in the sector.

Organic growth, supplemented by acquisition

Founded in 1972, WSP listed on the USM in 1987. It has since grown organically supplemented by acquisition, diversified geographically and added to its skill set. The capability in the Environmental division has been most heavily invested recently. The company's 2005 five-year plan outlined revenues growing 50% and net margins improving to 7.0%. Revenue should comfortably exceed that target and margins reached the target level in 2006. WSP is the fourth largest UK Engineering Consultant by fee income (*New Civil Engineer 2006 survey*).

Visible earnings stream

The scale of projects being undertaken is increasing and the visibility of earnings improving. At the year-end, WSP had an order book of £700m, a 12% uplift on the half-year. It has the greatest geographical spread of its peers in a focused range of activities.

Comfortable balance sheet

Whilst the gearing is at the higher end of the sector, it remains well within the comfort zone. EBITDA converts to free cash flow at an average of 56% (prior year/current year), so further leverage could be considered if required.

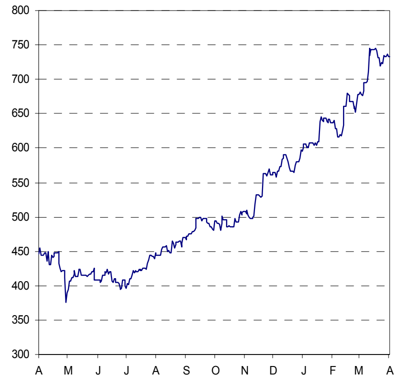
Valuation: Fair value achieved

Having underperformed in the period 2000–2003, since the turn of that year the share price has marched steadily ahead and now roughly equates to the level implied by its capital ratios.

Price	733p
Market Cap	£454m

Note: Priced at 24 Apr 2007

Share price graph



Share details

Code	WSH
Listing	Full
Sector	Support Services
Shares in issue	62.0m

Price

	High	Low
52 week	749p	375p

Balance Sheet*

Debt/Equity (%)	37
NAV per share (p)	150
Net borrowings (£m)	34.9

** as at 31 Dec 2006*

Business

WSP is an international, professional consultant providing services in the three key markets of Property, Transport & Infrastructure and Environmental & Energy.

Valuation

	2006	2007e	2008e
P/E relative	169%	165%	156%
P/CF	12.9	13.1	11.7
EV/Sales	1.2	1.0	0.9
ROE	21%	20%	19%

Geography based on revenues

UK	Europe	US	Other
40%	36%	12%	12%

Analyst

Fiona Orford-Williams 020 7190 1755
fiona-orford-williams@edisoninvestmentresearch.co.uk

WSP: Financials and key performance indicators

Revenue per employee: £60k

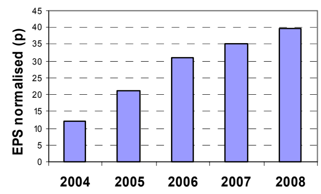
Cost per employee: £38k

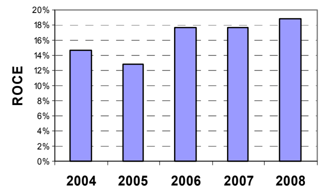
Revenue: Cost 1.6x

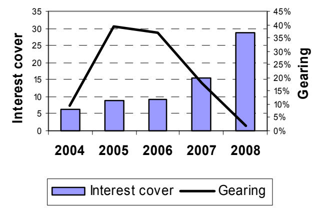
Summary financial table

Year to December	2005	2006	2007e	2008e
Profit & Loss				
Turnover	349,074	416,700	481,370	529,015
(% change)	15%	19%	16%	10%
EBITDA	27,600	35,700	39,292	42,302
(% margin)	8%	9%	8%	8%
(% change)	23%	29%	10%	8%
EBIT pre GW and except's.	21,860	29,900	33,492	36,502
(% margin)	6%	7%	7%	7%
Net financial items	(2,428)	(3,200)	(2,167)	(1,272)
Other	0	0	0	0
Pre-tax profit (norm'd)	19,432	26,700	31,325	35,230
Tax	(5,829)	(7,200)	(9,050)	(10,164)
Net Income	13,603	19,500	22,275	25,066
EPS (norm'd and fd)	21.2	30.9	35.2	39.6
(% change)	77%	46%	14%	13%
Balance Sheet				
Fixed Assets	130,006	142,400	140,334	138,268
Current Assets	130,600	166,700	189,583	206,368
Current Liabilities	(94,144)	(123,112)	(140,876)	(153,184)
Long term Liabilities	(83,516)	(91,900)	(77,660)	(60,934)
Shareholders Equity	82,364	94,088	111,381	130,518
Cash Flow				
Cash flow from operations	31,873	34,800	34,573	38,825
Capex	(5,866)	(10,100)	(5,866)	(5,866)
Acquisition capex	(3,584)	(13,200)	0	0
Net debt(cash)	32,214	34,900	20,260	2,534
Cash earnings per share	52.9	56.7	55.8	62.6

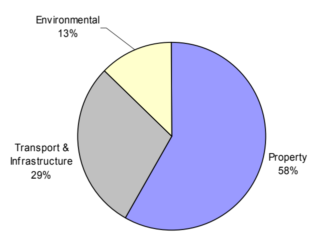
Performance



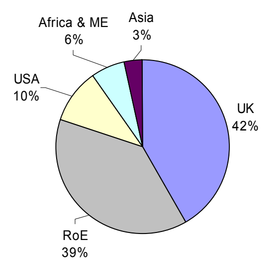




Business breakdown (% Sales 2006)



Geographic breakdown (% Sales 2006)



End-user market breakdown (% Sales 2006)

N/A

Charles Russell

Charles Russell is a top 50 City legal firm, based in London but with offices in Cheltenham, Guildford, Oxford and Geneva. It offers services in corporate and commercial, real estate, litigation and dispute resolution, employment and pensions, private client and family. It is currently constituted as a Limited Liability Partnership.

Revenue for 2005 was reportedly £58.2m, a rise of 16% over the previous year, equating to over £330,000 average profit per equity partner, up 22%.

Rising value of AIM advice

The firm has 366 fee-earners worldwide, of whom 94 are partners in the UK. 15 of those partners are within the corporate finance function, advising on 30 AIM listings in 2005 and 37 in 2006. In all, the firm advised on 36 deals worth £292m in 2005 rising to 447 deals worth £882m in 2006.

Moving closer to the clients

Whilst the corporate finance is, of necessity, London-based, Charles Russell has adopted the approach of opening regional offices to build closer relationships with its corporate customers, opening its Oxford office in August 2005. Its Geneva office was opened last year and there are reports that the firm is considering opening another in Bahrain, to service its Middle Eastern telecoms and private client practice.

Fox Williams

Fox Williams is an independent business law firm, providing practical commercial advice. It was founded by six partners in 1989 and has since grown to a staff of around 100 of whom 60 are lawyers. Of those lawyers, 15 are partners. Its core strengths are in employment and partnership law, but it has recently been attempting to broaden its fee-base following a management shake-up last year.

Diversifying the offer

Fox Williams has made its first moves to diversify, setting up a specialist US law tax practice in 2004. Within its corporate practice, the firm specialises in advising on deals sub £100m, allowing the firm to build a franchise in deals smaller than are economic for firms with heavier overhead structures.

Committed to partnership

The senior partner, Tina Williams, remained with the firm after the departure of Ronnie Fox in 2005. Partners at the firm have been behind the formation of the Association of Partnership Practitioners, a multi-disciplinary forum for those interested in the law and practice relating to partnership. Fox Williams has advised numerous partnerships on their conversion to LLP, including the chartered surveyors, Cluttons, actuaries Hymans Robertson and several firms of solicitors.

Irwin Mitchell

Irwin Mitchell is one of the older law firms, having been founded in 1912, specialising in criminal law and now providing a wide range of services to individuals, businesses and institutions. The firm is particularly known for its personal injury and business advisory work. Legal 500 lists the firm as having 1,124 fee-earners, of whom 111 are UK partners, with a further 15 partners in the Spanish offices in Madrid and Marbella.

Fee income was reported to have been £111m for 2005, with profit margins static at 23%. This is equivalent to just over £200,000 profit per partner.

Expanding geographically within existing expertise

The firm has grown to its top 50 status by focusing on building its franchise in particular areas around business services, personal injury and catastrophic injury, with a steady programme of new office openings around the UK and in Spain. This has been supplemented by strategic acquisitions such as that of Alexander Harris in May 2006.

Specialist business services to alternative business structure?

The firm is also known for its business services practice, including acting for individuals and firms accused of fraud, revenue and customs crimes. It also has an associated patent attorney practice, Marks & Clerk. There is a possibility that the firms may take advantage of the Legal Services Bill to form an Alternative Business Structure to formalise the relationship.

Travers Smith

Travers Smith is a top 30 City law firm, with a particular specialism in complex cross-border advice, accounting for around 40% of revenues. The firm consists of over 400 staff, of whom 256 are lawyers, that number including 56 partners. There are 230 fee-earners across 10 primary areas of practice. Founded in the early years of the 19th century, the firm has grown organically, regarding merger and acquisition as potentially dilutive to quality and culture.

The Lawyer lists Travers Smith as having revenues of £58.1m in 2005, with profit per equity partner of £705,000 and net profits of £33.1m.

Shift in international strategy

Having expanded internationally by opening overseas offices due to fears of industry consolidation that would restrict the flow of business, Travers Smith has now shut its German operation (as have Lovells and Clifford Chance). The preferred strategy is now to work with indigenous parties on a case-by-base basis. The company retains its liaison office in Paris.

Differentiation from the Magic Circle

Whilst dwarfed in scale by the Magic Circle lawyers, Travers Smith nevertheless undertakes work for significant clients, with a reputation for winning business by committing high-level partners to work that might be allocated further down the organisation by a larger firm.

Moore Stephens

Moore Stephens UK is a network of independent member firms of Chartered Accountants that operate under the banner of the Moore Stephens name. The UK network has over 1,500 staff, with a comparatively high proportion of partners and is one of a number of other networks worldwide under the brand. It specialises in Audit & Accountancy, Business Systems Assurance, Corporate Finance, Corporate Recovery, Forensic Accounting, Insurance broking, IT consultancy, and Tax, Trusts & Estates.

According to *Accountancy Magazine*, the group was the UK's 12th largest by fee income in 2006, earning £89.5m, an increase of 8.7% on the prior year. Some of the network has now transferred to LLP status, with the latest making the move in October 2006.

Claim demonstrates advantage of LLP status

Moore Stephens LLP and Moore Stephens London are together currently subject to a £90m negligence claim relating to the audit of the failed firm Stone & Rolls, which has now been filed at the High Court funded by the US technique of litigation funding. In the case of Moore Stephens LLP, the claim predates the transfer to LLP status. Therefore the liability rests with the partners themselves as the LLP is not retroactive. Moore Stephens rejects the allegations and has applied to have the case struck out.

Organic growth record

The individual firms within the network have predominantly grown organically, but Moore Stephens South LLP recently merged with Casson Beckman, creating a 14-partner operation. Whilst traditional accountancy and audit form the core workload, the services offered have been expanded to include wider consultancy services such as business analytics and risk management. This should help preserve the achieved margin from pricing pressure within the commodity end of the business.

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