

14 December 2007

## FDM Group

Year end	Revenue (£m)	PBT* (£m)	EPS* ** (p)	DPS (p)	PE (x)	Yield (%)
12/05	35.1	2.2	6.8	1.5	18.4	1.2
12/06	44.5	2.9	9.3	1.9	13.4	1.5
12/07e	51.0	4.4	12.5	2.2	10.0	1.8
12/08e	59.5	5.1	14.9	2.5	8.4	2.0

Note: \*PBT and EPS (fully diluted) are normalised, excluding goodwill amortisation and exceptional items and FRS20 option changes.

### Investment summary: Riding high

The year end trading update paints a wholly positive picture; driven by the increasing impact of the in-house consultants known as 'Mounties', margins have risen beyond expectations. Once again we have raised our profit and eps estimates – this time by approximately 15% in each of the next two years. The argument for a re-rating of the shares is more compelling than ever.

#### Trading update: Mounties power margins

A gross margin of 20.9% in H1 has undoubtedly advanced further in H2 and the driving factor remains the performance of FDM's own permanent staff, known as Mounties. The Mounties generate a significantly higher gross margin than the placement of freelance contractors and as the former's contribution to turnover approaches 30%, an upgrade to forecasts becomes inevitable. This trend should continue in the future with the opening of a new training academy in Manchester, albeit management are still aware that managing the risk profile of the group means freelancers are likely to remain the major contributor to the top line.

#### Forecasts: Industry leading margins

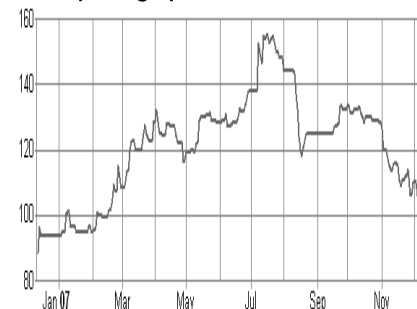
With margins of 40%+, the Mounties are more than twice as profitable as the freelance contractors. Although this has been well flagged, the pace at which the Mounties contribution has grown has exceeded expectations. As a consequence we have raised our gross margin assumptions to comfortably exceed 20% in the current year and beyond. This results in a rise in FY07 PTP to £4.4m (up 16% from the previous forecast) and EPS to 12.5p (+15%). In FY08, PTP is expected to increase to £5.1m (+13%) and EPS to 14.9p (+14%).

#### Outlook and valuation: Positive all round

While the investment case is not without its risks - over 30% of group turnover emanates from the financial sector – current levels of demand remain buoyant. FDM's valuation does not reflect a business model which has consistently outstripped growth in the overall IT services market and the earnings multiple warrants expansion given a CAGR in EPS of 20% from 2006-09. Meanwhile, DCF analysis suggests the fundamental value could be 50% above current levels.

Price 125p  
Market Cap £29m

#### Share price graph



#### Share details

Code FDMG  
Listing AIM  
Sector Support Services  
Shares in issue 23.2m

#### Price

52 week High 155.0p Low 93.5p

#### Balance Sheet as at 30 Jun 2007

Debt/Equity (%) N/A  
NAV per share (p) 38  
Net cash (£m) 5.2

#### Business

FDM provides IT staffing and IT services to clients across multiple business sectors in the UK, USA and continental Europe. It operates a distinct, high margin model which supplements the use of freelance IT contractors with its own employees.

#### Valuation

	2006	2007e	2008e
P/E Relative	94%	81%	73%
P/CF	28.0	5.1	6.2
EV/Sales	0.6	0.5	0.3
ROE	28%	29%	27%

#### Geography based on revenues FY06

UK	Europe	US	Other
84%	11%	5%	0%

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**Exhibit 1: Financials**

Year-ending 31 December	£'000s	2005	2006	2007e	2008e	2009e
Accounting basis		UK GAAP	UK GAAP	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>						
<b>Revenue</b>		<b>35,068</b>	<b>44,504</b>	<b>51,000</b>	<b>59,500</b>	<b>65,000</b>
Cost of Sales		(28,274)	(35,906)	(39,780)	(45,815)	(49,725)
Gross Profit		6,794	8,598	11,220	13,685	15,275
<b>EBITDA</b>		<b>2,223</b>	<b>2,915</b>	<b>4,393</b>	<b>5,128</b>	<b>5,620</b>
<b>Operating Profit (before GW and except.)</b>		<b>2,127</b>	<b>2,835</b>	<b>4,233</b>	<b>4,968</b>	<b>5,460</b>
Goodwill Amortisation		0	0	0	0	0
Exceptionals		(447)	0	0	0	0
Other (FRS20 adjustment)		(110)	(137)	(137)	(140)	(140)
<b>Operating Profit</b>		<b>1,570</b>	<b>2,698</b>	<b>4,096</b>	<b>4,828</b>	<b>5,320</b>
Net Interest		25	81	120	160	200
<b>Profit Before Tax (norm)</b>		<b>2,152</b>	<b>2,916</b>	<b>4,353</b>	<b>5,128</b>	<b>5,660</b>
<b>Profit Before Tax (FRS 20 adjusted)</b>		<b>1,595</b>	<b>2,779</b>	<b>4,216</b>	<b>4,988</b>	<b>5,520</b>
Tax		(666)	(743)	(1,406)	(1,585)	(1,755)
<b>Profit After Tax (norm)</b>		<b>1,486</b>	<b>2,173</b>	<b>2,947</b>	<b>3,544</b>	<b>3,905</b>
<b>Profit After Tax (FRS 20 adjusted)</b>		<b>929</b>	<b>2,036</b>	<b>2,810</b>	<b>3,404</b>	<b>3,765</b>
Average Number of Shares Outstanding (m)		21.8	22.9	23.2	23.4	23.4
<b>EPS - normalised (p)</b>		<b>6.8</b>	<b>9.5</b>	<b>12.7</b>	<b>15.1</b>	<b>16.7</b>
<b>EPS - normalised (FRS 20 adjusted) (p)</b>		<b>6.8</b>	<b>9.3</b>	<b>12.5</b>	<b>14.9</b>	<b>16.4</b>
<b>EPS - FRS 3 (p)</b>		<b>4.3</b>	<b>8.9</b>	<b>12.1</b>	<b>14.5</b>	<b>16.1</b>
Dividend per share (p)		1.5	1.9	2.2	2.5	2.8
Gross Margin (%)		19.4%	19.3%	22.0%	23.0%	23.5%
EBITDA Margin (%)		6.3%	6.5%	8.6%	8.6%	8.6%
Operating Margin (before GW and except.) (%)		6.1%	6.4%	8.3%	8.4%	8.4%
<b>BALANCE SHEET</b>						
<b>Fixed Assets</b>		<b>204</b>	<b>202</b>	<b>425</b>	<b>375</b>	<b>375</b>
Intangible Assets		14	16	125	125	125
Tangible Assets		190	186	300	250	250
Investment in associates		0	0	0	0	0
<b>Current Assets</b>		<b>10,272</b>	<b>12,112</b>	<b>14,952</b>	<b>18,770</b>	<b>22,313</b>
Stocks		0	0	0	0	0
Debtors		7,704	10,110	9,200	10,200	10,200
Cash		2,568	2,002	5,752	8,570	12,112
<b>Current Liabilities</b>		<b>(4,323)</b>	<b>(4,575)</b>	<b>(5,050)</b>	<b>(5,800)</b>	<b>(5,800)</b>
Creditors		(4,097)	(4,548)	(5,050)	(5,800)	(5,800)
Short term borrowings		(226)	(27)	0	0	0
<b>Long Term Liabilities</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Long term borrowings		0	0	0	0	0
Other long term liabilities		0	0	0	0	0
<b>Net Assets</b>		<b>6,153</b>	<b>7,739</b>	<b>10,327</b>	<b>13,345</b>	<b>16,888</b>
<b>CASH FLOW</b>						
<b>Operating Cash Flow</b>		<b>781</b>	<b>1,024</b>	<b>5,668</b>	<b>4,738</b>	<b>5,480</b>
Net Interest		25	81	120	160	200
Tax		(513)	(824)	(1,200)	(1,500)	(1,500)
Capex		(51)	(102)	(300)	0	0
Acquisitions/disposals		0	0	0	0	0
Financing		3,493	(170)	0	0	1
Dividends		(814)	(368)	(511)	(581)	(639)
<b>Net Cash Flow</b>		<b>2,921</b>	<b>(359)</b>	<b>3,777</b>	<b>2,818</b>	<b>3,542</b>
<b>Opening net debt/(cash)</b>		<b>560</b>	<b>(2,342)</b>	<b>(1,975)</b>	<b>(5,752)</b>	<b>(8,570)</b>
HP finance leases initiated		0	0	0	0	0
Other		(19)	(8)	0	0	0
<b>Closing net debt/(cash)</b>		<b>(2,342)</b>	<b>(1,975)</b>	<b>(5,752)</b>	<b>(8,570)</b>	<b>(12,112)</b>

Source: Company accounts/Edison Investment Research

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