

# Hardman & Co

Leaders in Corporate Research

Tel: 020 7929 3399  
Fax: 020 7929 3377

www.hardmanandco.com  
email: research@hardmanandco.com

4 -5 Castle Court  
London EC3V 9DL

## Espro Second half recovery

16.4.2008

While Espro had a poor first half to the year, the final results show that the company enjoyed a major turnaround in the second half. Net profit for the full year was still slightly down, but second half net profit increased 53% and the outlook for 2008-9 is positive.

- The new Opus product, which is the first to have multimedia capabilities, has done well since its launch with a number of high profit contract wins.
- The company has won business both in tourism and in the corporate sector.
- Espro has launched downloadable tours with a number of clients, and is now working with Apple/iTunes. These tours are currently provided free, but it may move some of them on to a paid-for basis in future.
- The first part of the year saw the company suffering from a lower level of business in Taiwan together with non-renewal of a contract in Turkey. However, this impact was absorbed during the first half, and business thereafter has more than made up for the drop.
- High profile contracts signed this year include Westminster Abbey, as well as extensions at the Bilbao Guggenheim, Forbidden City in Beijing, and Cabinet War Rooms. Espro has also expanded its market share in the US, notably with the Sears Tower Skydeck contract.
- We retain our estimates for next year. Management appears highly confident that it can continue to improve its performance with the new product lines it has introduced over the last year.

**Share Price:** 19p

**12m High:** 39.50p

**12m Low:** 19p

**Market Cap:** GBP 3.4m

**Shares in Issue:** 18.0m

**NAV/Share:** USD 0.16

**Gearing:** 48%

**Interest Cover:** -

**EPIC Code:** ESP

**Sector:** Media

**Market:** Plus Markets

**PR:** ICIS

+44 (0)20 7651 8688

**Nominated Advisor and Broker:**  
St. Helens Capital

**Website:** www.espro.com

**Previous Research Note:**  
'A Return To Revenue Growth And Improved Profitability', 28.11.2007, 27.5p

**Analyst:** Andrea Kirkby

Y/E	Sales	Declared	Adjusted	Adjusted	P/e ratio	Divi p.	Yield
December	USDm	Profit USDm	Profit USDm	Eps c.			%
2006	15.6	0.4	0.5	3.0	12.9	0	0
2007	16.6	0.2	0.4	1.7	23.1	0	0
2008e	17.4	1.3	1.4	6.3	6.2	0	0
2009e	19.7	2.2	2.4	10.9	3.6	0	0

Espro's final results showed a fine second half recovery for the company after what had been a disappointing start to the year. The first quarter is usually the slower quarter of the year, but this year saw some impact from lower revenues in Taiwan and the non-extension of a contract in Turkey. Revenue in the second half increased by 42% over the first half year, and by 22.9% over the corresponding period in 2006, while the company turned round from an operating loss to operating profit. There was some impact from currency, which contributed USD 650k to revenues in the full year. However even allowing for this the company saw revenue growth in the year.

<b>US\$ 000</b>	<b>H1</b>	<b>H2</b>	<b>% change</b>
<b>Revenue</b>	6850	9728	+42%
<b>Gross profit</b>	4247	5845	+37.6%
<b>Operating profit</b>	(427)	913	-

Gross profitability for the full year dipped from 62.7% to 60.9%, mainly as a result of the currency impact. Most of this impact was felt in the second half of the year.

Contracted revenues at the end of the period were USD 15.5m, over 90% of this year's total revenues, giving good visibility of the year ahead.

Espro benefited from the introduction of the Opus product, the first tour handset to have full multimedia capability, in addition to the existing product range. Contracts signed in the year included high profile deals at Westminster Abbey, the US Senate Visitors Center in Washington and the Sears Tower in Chicago, as well as a contract extension at the Forbidden City where Espro will have its products in place for the 2008 Olympics. Extensions were signed with a number of other customers including the Guggenheim in Bilbao, and the Cabinet War Rooms and Churchill Museum in London. It is good to see the extensions coming in on a multi-year basis – the Cabinet War Rooms contract will now run for a further five years. This gives Espro good earnings visibility.

Guide U, the group guiding product, has also done well this year and should increase its revenues over the next year. Its ability to manage multiple groups simultaneously makes it particularly useful for larger sites.

The company also launched downloadable tours during the year. It has been working with Apple/iTunes as well as with a number of its clients, for instance Tate Liverpool and the National Portrait Gallery, as well as Bath Tourism. Current projects, begun since the year end, include the China Millennium Monument Beijing Art Museum. While most of these tours are currently free, the group is investigating the possibility of charging for downloadable content. The Victoria & Albert Museum's 'China Design Now' audio tour has now been made available for purchase.

Management gave an upbeat assessment of prospects with this set of results. We are maintaining our forecast of a significant upswing in profits and EPS based on further growth in revenues. The shares appear to be rated on a prospective PER of 6.2 times, well below the media sector rating of 19.58x.

*The information in this document has been obtained from sources believed to be reliable, but cannot be guaranteed. Hardman & Co. can accept no liability for its contents. In the UK, this information is provided for the use of ordinary business investors, market counterparties and sophisticated investors, as defined in the rules of the Regulator, and is not intended to be made available to unsophisticated individuals. Hardman & Co. does not undertake investment business in the UK and therefore does not buy or sell shares, although it and individuals associated with it may own shares as long term investments. Hardman & Co. is commissioned by companies to produce research material, but estimates and content are, in all cases, those of Hardman & Co., not the companies concerned. Past performance cannot be relied upon as a guide to future performance.*