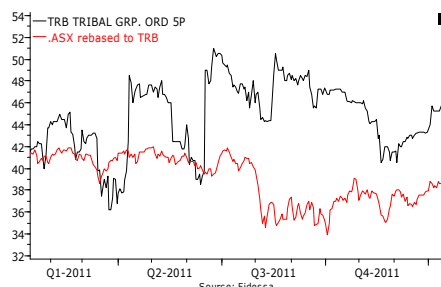


Tribal Group 54p

13 January 2012

Trading update positive, major upgrade



12m High: 64p

12m Low: 25p

Market Cap: £49m

Shares in Issue: 93.7

Gearing: 35%

Net debt: £16.0m

Interest Cover: 3.5x

EPIC Code: TRB

Sector: Support services

Market: London main market

Nominated Advisor & Broker: Investec

PR: Weber Shandwick

Website: www.tribalgroup.com

Description: Education software platforms and education related services such as inspection.

Analyst: Mike Foster

Tel: +44(0)20 7929 3399

Email: mike@hardmanandco.com

Tribal has today announced a trading update and new contract. It follows 16th November IMS “trading in line”, with the next event anticipated being preliminaries 22nd March.

We upgrade 2011 PBT 18%. 2012,13E PBT expectations are raised 6% (UK macro economy caution); 2012E turnover raised 2.5% to £120m. We anticipate clear scope for upgrades later. Technology (education software products) businesses traded strongly Q4 2011. Changes made in 2011 in sales and business development capabilities rapidly proved effective, built on hard work in 2010 and 2011. Overseas growth which has been a feature in recent years is continuing with a new contract in Australia announced today.

The outlook is that Tribal is “well positioned... in the UK and internationally”. Committed income “provides good underpinning” but we do note it has slightly fallen, from £186m to £178m (pre the new potential contract). 2012 is certainly not without challenges in the marketplace: we would look for possible pauses in some UK clients around the time of rising English undergraduate fees.

Our 2011 initiation research indicated “benefits of the major refocus and cost cutting are coming through now in a major way, overseas growing well.” We therefore modestly increase our 2012 profit estimate despite the good momentum and new contract. We understand Tribal’s strategy to be to re-invest profits in future growth, in these difficult macro-economic times. The excellent Q4 trading, the clients’ “appetite for upgrades and enhancements” Tribal Group refers to in its statement regarding Technology in the UK, and the New South Wales contract underpin 2012E numbers even more (we are raising turnover, maintaining margins) and fuel the investments in sales and in development capabilities from which Technology thrives.

The Services division also traded well Q4 and the IMS refers to good visibility currently.

As anticipated, debt fell: to £16m (our estimate had been £16.8m). Dependent on contract wins and investment, we still anticipate debt to reduce to zero around end 2014E or early following the year.

Valuation – The share price is still looking backwards at a difficult 2010 pre restructuring. Possibly also, Technology operations which are clear, focused repeat work, are wrongly confused by some with software content, which often is a far less robust model. Further, our 2012-13E assumes a UK downturn, which would reverse in 2014E. 2014E on this basis, should see a strong acceleration.

Y/E	Sales [1]	Declared Profit	Adjusted Profit [2]	Adjusted EPS*	P/E ratio	Div	Yield
December	£m	£m	£m	p.	X	p.	%
2010A	175.4	-57.8	6.8 [3]	7.2	7.5	2.5	4.6
2011E	117.0	-21.3	8.4 [3]	8.0	6.7	1.1	2.0
2012E	120.0	9.8	10.1	8.1	6.6	1.25	2.3
2013E	124.0	11.0	11.3	9.0	6.0	1.4	2.6

Source: Company accounts and Hardman & Co. estimates

[1] 2010 includes discontinued [2] adding back goodwill amortisation [3] ditto, including only Continuing operations.

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PROSPECTS: SUMMARY

Strong IP story and expansion overseas just starting to really take off. “Whilst mindful of continuing uncertain macro-economic conditions, we now plan to increase investment in our sales and business development capabilities in order that we may take better advantage of existing and emerging opportunities. As a result, our overall expectations for 2012 remain unchanged.” Source Tribal Group IMS, 13th January 2012.

Upgrades to 2011, 2012 and 2013E.

Investment: this is the crux for 2012: excellent growth overseas and the (still much larger) UK is underpinned by long contracts (some large ones in the Services division out to 2015) and repeat business (Technology). However, to service the existing customers and promote international growth, there are costs to doing this properly.

Benefits of good current trading and new contract being reinvested

Tribal is only just starting to reap the significant benefit of its refocusing actions. 2010-11, Tribal Group made a series of disposals, refocused the group, cut costs and boosted investment in the areas remaining. Technology had a strong year in 2010 – there was no negative impact from the group-wide reorganization, quite the reverse. The sales function has been re-cast and is proving itself successful. This IMS is not the first time Tribal Group has alluded to this and it is clearly a major factor behind the Q4. We do see scope for our 2012 upgrades, which stem in part from the new contract.

Enhanced sales and development ongoing, costs money

A new contract for New South Wales (NSW) rolls out Tribal’s student management systems later this year. “If successfully concluded this contract is expected to have a value in excess of Aus\$40m over the multiple year contract term.” (Tribal IMS). The contract, if signed, will further underpin our expectations for the medium term.” We formerly had turnover from the Technology division flat-lining 2010 – 2013E, a possible UK downturn balancing overseas growth. Q4 2011, H2 2012E sales expectations are being upgraded due to the IMS and the NSW contract, respectively. Tribal states: “Internationally, we have seen continued demand for our software in New Zealand and Australia, and we have extended the roll out of our student management systems under the previously announced framework agreement with seven polytechnic colleges in New Zealand.” Importantly, existing customer growth overseas continues.

New contract likely

Existing overseas contracts doing well

H2 2012E top line upgrades are modest and this is anticipated to be partly reinvested for future growth, not least that there are costs in expanding capability overseas and developing products for new clients – this is not all “off the shelf”.

Visibility rising all the time – we have always been mindful of the UK exposure and macro-economy

All this adds to visibility and client loyalty. We are tempted to upgrade PBT more for 2013E, as the investments in sales and development will be coming through to a growing client list and NSW fully onstream, we anticipate. At this stage, we are mindful of the uncertainties in UK university funding. This has had no impact (strong 2010 and excellent Q4 2011) but we have decided to upgrade PBT 2013E only by 6%, with regard to possible UK market downturns. The estimate can rise further if either a further major new client is won or there are contract expansions. In our research of December 2011, we estimated 2013E Technology growth 12% overseas and reduction 6% in UK. This trend remains the case, but the overseas component is now higher growth.

All is set for a strong, accelerating, 2014E and beyond. Our estimates assume a 2013E UK downturn. Technology and student management by their nature do require an ongoing level of spend to refresh and keep up to date, so our anticipated situation in 2014 would be a rebound beginning in the UK and strong expansion overseas continuing. See page 3. Technology EBITA progression in 2011 is still expected to be down from an excellent 2010. 2012E growth is low as we are assuming UK market is difficult and sales and development investment made. No reason why 2010 Technology EBITA should not be repeated in not many years’ time and grow well thereafter.

Even more so does this bode well for 2014 significant acceleration

As a reminder, in 2011 and 2012 to date, Tribal has won seven large Technology contracts, six of which overseas. We estimate overseas turnover of £12m 2012E; £15m 2013E; further good growth 2014E, boosted by the new NSW contract only being up to full speed later in 2013. At full year results announcement date, we anticipate upgrading these numbers unless some of the earlier overseas contracts are tailing off.

Tribal’s winning run is impressive

The cash flow model is now robust and finances strong – the balance sheet gearing is now 35%, steadily being reduced.

Cash flow good

Tribal Group PLC

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Profit & Loss	Year End	Year End	Year End	Year End
Y/E December £m	2010A	2011E	2012E	2013E
Turnover total	104.1	117.0	120.0	124.0
Turnover Technology	44.3	46.0	47.4	47.4
Turnover Services	62.5	71.0	72.6	76.6
EBITA total	8.3	10.2	11.0	12.1
EBITA Technology	10.7	9.5	9.7	10.2
EBITA Services	1.6	4.5	4.8	5.4
Central	-4.1	-3.8	-3.5	-3.5
Finance charges	-1.5	-1.8	-0.9	-0.8
Pre-tax profit adj	6.8	8.4	10.1	11.3
Discontinued, exceptional	-68.5	-29.0 [1]	0	0
Amortisation goodwill	-0.3	-0.3	-0.3	-0.3
Reported PBT	-62.0	-20.9	9.8	11.0
EPS (Adj.) (p)	7.2	8.0	8.1	9.0
Tax rate	0%	10%	25%	25%
Dividend (p)	2.5	1.1	1.25	1.4

Technology: upgrade 2012, 2013E £3m with 2013E reflecting UK market fall

Note: 2010 excellent year for Technology – no reason why 2010 levels should not be repeated

2011E: was £7.1m, now £8.4m. Modest rise 2012E and 2013E due to investment in sales and development

Might be a little more scope on dividend

Source: Company accounts and Hardman & Co. estimates

[1] - £5.2m exceptionals (mostly headcount reduction restructuring); - £24.0m Discontinued; £0.2m financial instruments

Cash Flow					
Y/E December £m	2009A	2010A	2011E	2012E	2013E
Operating cash flow pre-tax	21.2	17.3	-2.9	11.6	13.9
Interest	-1.0	-1.3	-1.8	-0.8	-0.7
Tax	-6.1	-1.4	0.5	-2.0	-2.6
Product/ systems devt.	-2.5	-3.2	-2.8	-2.5	-2.5
Net Capex	-1.9	-2.4	-0.8	-1.5	-1.6
Free cash flow	9.7	8.9	-7.8	4.8	6.6
Acquisitions/ disposals / deferred consid.	-13.3	4.5	13.3	0.0	0.0
Dividends	-4.4	-4.3	-1.0	-1.1	-1.2
Financing, leases [4]	0.0	0.2	-2.0	0.0	0.0
Currency	0.0	0.1	0.0	0.0	0.0
Increase/decrease cash	-8.0	9.1	1.7	3.7	5.3
Closing net cash	-27.8	-18.5	-16.0	-12.3	-7.0

2011E better than anticipated but 2013 we allow for wip in NSW

£16m former end 2011 estimate

Source: Company accounts and Hardman & Co. estimates

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Hardman & Co

4-5 Castle Court
London
EC3V 9DL
United Kingdom

Tel: +44(0)20 7929 3399
Fax: +44(0)20 7929 3377

www.hardmanandco.com

