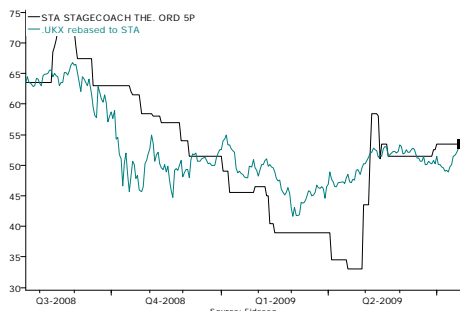


**Stagecoach Theatre Arts 52.5p**  
In line results, 4.8% yield

5 August 2009

**Share Price: 52.5p**



**12m High:** 72p

**12m Low:** 33p

**Market Cap:** £5.2m

**Shares in Issue:** 9.91m

**NAV/Share:** 32.9p (2009A)

**Gearing:** Nil (£1m net cash, 2009A)

**Interest Cover:** N/A

**EPIC Code:** STA.L

**Sector:** Specialised Consumer Services

**Market:** London AIM

**Joint Brokers:** Smith & Williamson  
Daniel Stewart & Co

**PR:** Peckwater PR

07870 458 364

**Website:** [www.stagecoach.co.uk](http://www.stagecoach.co.uk)

**Description:** Stagecoach Theatre Arts is the UK's largest franchise network of part-time performing arts and sports schools for children aged 4 to 16. 38,900 students attend its 687 schools worldwide.

**Analyst:** Sonia Kaur

**Tel:** 0207 929 3399

**Email:** [sonia@hardmanandco.com](mailto:sonia@hardmanandco.com)

Stagecoach Theatre Arts has announced full year results in line with our forecasts highlighting the popularity of the group's schools in what continues to be a very difficult wider trading environment. Key points from the results are:

- Network fees up 3.2% and a 3% increase in pre-tax profit.
- Net cash balances up 0.5% to £1.04m in spite of a double year tax charge of £350k (which will not be repeated in the current year) and dividend payments of £246k (2008: nil).
- A 25% increase in the total dividend to 2.5p, giving the shares a current yield of 4.8%.
- A very modest decline in the core Stagecoach UK business with student numbers down 5% to 37,468 and school numbers down from 621 to 617. However, occupancy remains impressive at 92%, and would have to fall below 50% for the schools to lose money.
- Four new schools opened overseas, taking the total number in operation to 50. We expect a further increase in the overseas school network in the current year, particularly in Germany and Ireland, and there is also a strong likelihood that at least one additional International Licence agreement will be signed, possibly in Hong Kong or Sweden.

The outlook statement confirms trading in the first two months of the current year - June and July - was in line with management expectations. Although cautious on UK main school sales, our forecasts assume revenues, profit, eps and the dividend will remain stable in 2009/10 assisted by growth both in the SportsCoach UK business and overseas. Continued good cash generation should see the y/e net cash balance rise to c. £1.3m, a figure equivalent to 25% of the current market cap.

In 2010/11, as economic conditions turn for the better, we believe Stagecoach Theatre Arts is in a strong position to resume its upward growth trend.

Y/E	Network Sales	Group Sales	Declared Profit	Adjusted Profit	Adjusted EPS	P/E ratio	Divi	Yield
May	£m	£m	£m	£m	p.		p.	%
2008A	28.47	6.33	0.71	0.71	5.09	10.3	2.00	3.8
2009A	29.44	6.20	0.73	0.73	5.31	9.9	2.50	4.8
2010E	29.51	6.29	0.73	0.73	5.28	9.9	2.50	4.8
2011E	30.99	6.60	0.81	0.81	5.83	9.0	2.62	5.0

## The Full Year Results

12 mths to 31 May	2008	2009	% Change
Network fees	28.5	29.4	3.2%
Group Revenue	6.33	6.20	-1.9%
Gross Profit	3.15	3.00	-4.7%
Operating Profit	0.70	0.70	-
Op Profit Margin	11.1%	11.3%	-
Interest income	0.01	0.03	200%
Pre-tax Profit	0.71	0.73	3%
Diluted EPS	5.09p	5.31p	4%
Dividend	2.0p	2.5p	25%
Net Cash	1.03	1.04	0.5%

The full year results show an increase in network fees, pre-tax profit, cash flow and the total dividend in spite of economic conditions and the pressures on consumer spending.

Network revenue increased by 3.2% during the year largely on account of September's 3.3% rise in UK tuition fees. Revenues at group level were marginally below the previous year, however, reflecting a well-flagged 48% reduction in initial fee income generated by new UK school sales, re-sales, and subsequent school openings. We put this down to the difficulties faced by potential franchisees in raising bank finance as opposed to a lack of demand and expect this area of the business to improve strongly once economic conditions improve.

COGS, at £3.2m, were unchanged on a year ago while administration costs reduced by 6.2% to £2.3m as the company reaped the full benefits of the cost savings programme initiated in 2006.

The 4% increase in EPS to 5.3p was ahead of our expectations. The effective tax rate for the year was 27.5% (vs. our forecast 28%) and includes the benefit of a R&D tax relief claim on work done for the group's global IT reporting management system. Our forecasts assume the effective tax rate will revert to the standard corporation tax rate of 28% in the current year and that the group's claim to offset its German losses against UK corporation tax is rejected.

Including the maiden interim dividend of 0.5p/share, the total dividend for the year has been raised by a considerable 25% to 2.5p/share. In our view, cover is reasonable at 2X and the current yield is attractive, at 4.8%.

The net cash balance at the year end was £1.04m, a 0.5% increase on the previous year. The two most significant cash outflow movements during the year were £246k in respect of dividend payments (2008: nil) and a double year cash tax charge of £350k (as the company moved to large company status for HMRC purposes requiring tax payments to be made in advance quarterly instalments).

The double year tax charge will not be repeated in the current financial year benefiting cash flow by c. £125k. Moreover, capital expenditure is expected to remain modest at £38k. As a result we expect the current y/e net cash balance to rise to c. £1.3m, a figure equivalent to 25% of the current market cap.

**“Stagecoach Theatre Arts has managed to report an increase in network fees, pre-tax profit, cash flow and the total dividend in spite of economic conditions”**

## School and Student Numbers

Territory	2009 main schools	2008 main schools	Occupancy
Stagecoach UK	617	621	92%
SportsCoach	20	26	78%
Stagecoach overseas	50	48	84%
Total main schools	687	695	

The recession has done little to diminish the popularity of Stagecoach's schools. In the core UK business (91% of network fees), there were four fewer schools in operation at the year end, a reduction of just 0.6%. The decline in UK student numbers was slightly higher, at 5%, but the key indicator in our view is occupancy which continues to be a very healthy 92%.

Four new schools were opened overseas, two in Greece, one in Germany and one in the US but there were also two closures in the period. Of the 50 overseas schools in operation, the 23 run under licence had a particularly good year with student numbers increasing by 6.5% to 1370 and pre-tax profits up 19% to £70k. Following last year's restructuring exercise, pleasing progress was also made in the group's wholly owned US business which recorded a first ever profit of £14k.

The one area of disappointment was Germany, the largest of all the territories overseas, and arguably the one with the most potential. Despite a 15% increase in occupancy to 94%, the credit crunch put the brakes on expansion last year resulting in a widened pre-tax loss of £100k. Management expects to open a number of new schools in Germany in the current 2009/10 financial year but we believe the German operations are unlikely to break even until the number of schools in operation doubles, possibly in 2010/11.

## Forecasts

Following these results we have introduced new estimates on Stagecoach Theatre Arts for both the current financial year and next.

For the current 2009/10 year, we now look for network fees, pre-tax profit, eps and the dividend to be maintained at 2009 levels.

With the economy still facing a number of challenges, we think it unlikely that franchisees will opt to increase tuition fees this September. For the same reason, we are also cautious on Stagecoach UK school sales and the prospects for the Stagecoach Agency business in light of the 26% decline in students enrolling for the 09/10 brochure.

More positively, management expects initial fee income to rebound strongly driven by new SportsCoach openings in the UK and further new openings overseas, particularly in Germany and Ireland. There is also a strong possibility that at least one new International Licence Agreement will be signed, either in Hong Kong or Sweden. The initial cost of an International Licence Agreement for a new territory covering multiple school openings is Euro 50,000. Thereafter the international licensee is charged the standard 12.5% royalty on fee income.

Consequently we look for a c.3% increase in student numbers in 2009/10 and occupancy to be maintained in excess of 90% across the network.

In the 2010/11 financial year, as economic conditions turn for the better, Stagecoach Theatre Arts is in a strong position to resume its upward growth trend. We look for pre-tax profits to rise 11% to £0.81m and a 12.6% increase in eps to 5.83p. We also forecast a conservative 5% increase in the total dividend payout for the year to end May 2011, of 2.62p/share.

**“Occupancy across the core UK network was a very healthy 92% at the year end”**

**“Pleasing progress is being made overseas”**

**“In 2010/11 we look for eps to increase by 12.6%”**

## Stagecoach Theatre Arts

<b>Profit &amp; Loss Account</b>	<b><u>2007A</u></b>	<b><u>2008A</u></b>	<b><u>2009A</u></b>	<b><u>2010E</u></b>	<b><u>2011E</u></b>
<b>Y/e 31 May £m</b>					
Franchise network turnover	£26.54	£28.47	£29.44	£29.51	£30.99
<b>Group turnover</b>	<b>6.32</b>	<b>6.33</b>	<b>6.20</b>	<b>6.29</b>	<b>6.60</b>
Cost of sales	-3.65	-3.18	-3.20	-3.23	-3.32
Gross profit	2.67	3.15	3.00	3.06	3.28
Admin expenses	-2.30	-2.49	-2.32	-2.36	-2.51
Other operating income	0.02	0.03	0.02	0.02	0.02
EBIT	0.39	0.70	0.70	0.72	0.79
Exceptional costs	0.00	0.00	0.00	0.00	0.00
Interest receivable	0.01	0.02	0.04	0.01	0.02
Interest payable	-0.03	-0.01	-0.01	0.00	0.00
Net interest receivable	-0.02	0.01	0.03	0.01	0.02
<b>PBT</b>	<b>0.37</b>	<b>0.71</b>	<b>0.73</b>	<b>0.73</b>	<b>0.81</b>
<b>Adj PBT</b>	<b>0.43</b>	<b>0.71</b>	<b>0.73</b>	<b>0.73</b>	<b>0.81</b>
Taxation	-0.21	-0.21	-0.20	-0.20	-0.23
Tax charge %	55%	29%	28%	28%	28%
PAT	0.17	0.50	0.53	0.53	0.58
Adj PAT	0.24	0.50	0.53	0.53	0.58
Minority interest	0.01	0.00	0.00	0.00	0.00
Dividends	0.00	0.20	0.00	0.25	0.26
DPS	0.00	2.00	2.50	2.50	2.62
For shareholders	0.18	0.48	0.53	0.77	0.84
No of shares (basic)	9.88	9.88	9.91	9.91	9.91
No of shares (diluted)	9.93	9.89	9.96	9.96	9.96
<b><u>Earnings per share</u></b>	<b><u>2007A</u></b>	<b><u>2008A</u></b>	<b><u>2009A</u></b>	<b><u>2010E</u></b>	<b><u>2011E</u></b>
Basic EPS	1.71	5.10	5.34	5.30	5.86
Diluted EPS	1.70	5.09	5.31	5.28	5.83
Adj EPS (fully diluted)	2.50	5.09	5.31	5.28	5.83

<b>Stagecoach Theatre Arts</b>					
<b>Balance Sheet</b>	<b>2007A</b>	<b>2008A</b>	<b>2009A</b>	<b>2010E</b>	<b>2011E</b>
<b>Y/e 31 May £m</b>					
Intangible fixed assets	£1.51	£1.38	£1.26	£1.13	£1.00
Tangible fixed assets	0.09	0.10	0.09	0.07	0.05
<b>Fixed assets</b>	<b>1.60</b>	<b>1.48</b>	<b>1.35</b>	<b>1.20</b>	<b>1.05</b>
Stocks	0.30	0.30	0.25	0.34	0.30
Trade debtors (< 1 year)	1.64	2.00	2.18	2.29	2.41
Other debtors	0.29	0.34	0.00	0.00	0.00
Cash at bank and in hand	0.34	1.03	1.04	1.30	1.45
<b>Current assets</b>	<b>2.57</b>	<b>3.67</b>	<b>3.47</b>	<b>3.93</b>	<b>4.16</b>
<b>Total assets</b>	<b>4.17</b>	<b>5.15</b>	<b>4.82</b>	<b>5.13</b>	<b>5.21</b>
Bank overdrafts	0.00	0.00	0.00	0.00	0.00
Bank loans	0.06	0.07	0.05	0.00	0.00
Trade creditors	0.24	0.00	0.00	0.20	0.00
Other creditors	1.10	2.04	1.53	1.50	1.70
<b>Current liabilities</b>	<b>1.40</b>	<b>2.11</b>	<b>1.58</b>	<b>1.70</b>	<b>1.70</b>
Bank loans	0.12	0.05	0.00	0.00	0.00
Other creditors	0.16	0.02	0.01	0.02	0.00
<b>Long-term liabilities</b>	<b>0.28</b>	<b>0.07</b>	<b>0.01</b>	<b>0.02</b>	<b>0.00</b>
Minority interests	0.00	0.00	0.00	0.00	0.00
<b>Equity shareholders' funds</b>	<b>2.49</b>	<b>2.97</b>	<b>3.23</b>	<b>4.00</b>	<b>4.85</b>
<b>Total liabilities and equity</b>	<b>4.17</b>	<b>5.15</b>	<b>4.82</b>	<b>5.72</b>	<b>6.55</b>

Stagecoach Theatre Arts

5 August 2009

Management	Major Shareholders										
<p><b>Chairman:</b> Graham Cole</p> <p><b>Joint Managing Director:</b> David Sprigg</p> <p><b>Joint Managing Director and Artistic Director:</b> Stephanie Manuel</p> <p><b>Finance Director:</b> Richard Dawson</p> <p><b>Franchise Development Director:</b> Manzoor Ishani</p> <p><b>Non-executive Director:</b> Julian Paul</p>	<table border="0"> <tr> <td>Stephanie Manuel</td> <td>30.76%</td> </tr> <tr> <td>David Sprigg</td> <td>28.38%</td> </tr> <tr> <td>F &amp; C Asset Management</td> <td>9.09%</td> </tr> <tr> <td>Hazell Carr Edwards</td> <td>8.83%</td> </tr> <tr> <td>Rensburg Investment Management</td> <td>4.88%</td> </tr> </table>	Stephanie Manuel	30.76%	David Sprigg	28.38%	F & C Asset Management	9.09%	Hazell Carr Edwards	8.83%	Rensburg Investment Management	4.88%
Stephanie Manuel	30.76%										
David Sprigg	28.38%										
F & C Asset Management	9.09%										
Hazell Carr Edwards	8.83%										
Rensburg Investment Management	4.88%										
Key Dates	Key Milestones										
<p><b>Annual General Meeting:</b> 16 Sept 2009</p> <p><b>Interim Results:</b> 3 February 2010</p>	<p><b>1998</b> Founded with three schools in Surrey</p> <p><b>1994</b> Commenced franchising</p> <p><b>2000</b> Wins prestigious Sir Bernard Ingham Trophy for business franchising</p> <p><b>2001</b> Listed on AIM</p> <p><b>2004</b> First franchises opened in USA and Germany</p> <p><b>2006</b> Initiated restructuring and cost cutting exercise following a slip into losses</p> <p><b>2008</b> Over 40,000 students worldwide, profit before tax of £707,000 and a return to the dividend list.</p> <p><b>2009</b> Payment of 2.5p total dividend during the year; a dividend yield of 4.8%.</p>										

**Disclaimer**

The conclusions and opinions expressed in the investment research accurately reflect the views of the first named analyst. Hardman & Co provides professional independent research services and the companies researched pay a set fee in order for this research to be made available. While the information in the research is believed to be correct, this cannot be guaranteed. There are no other conflicts of interest.

Neither Hardman & Co nor the analysts responsible for this research own shares in the companies analysed in this research note. Neither do they hold any other securities or derivatives (including options and warrants) in the companies concerned. Hardman & Co does not transact corporate finance and therefore does not earn corporate finance fees. It does not buy or sell shares, and does not undertake investment business either in the UK or elsewhere.

Hardman & Co does not make recommendations. Accordingly we do not publish records of our past recommendations. Where a Fair Value price is given in a research note this is the theoretical result of a study of a range of possible outcomes, and not a forecast of a likely share price.

Our research is issued in good faith but without legal responsibility and is subject to change or withdrawal without notice. Members of the professional investment community are encouraged to contact the analyst concerned.

This research is provided for the use of the professional investment community, market counterparties and sophisticated and high net worth investors as defined in the rules of the regulatory bodies. It is not intended to be made available to unsophisticated individuals. In the UK, any such individual who comes into possession of this research should consult their properly authorized professional adviser, or undertake one of the 'self certified' sophisticated investor tests that are available.

This research is not an offer to buy or sell any security.

Past performance is not necessarily a guide to the future and the price of shares, and the income derived from them, may fall as well as rise and the amount realised may be less than the original sum invested. For AIM and PLUS shares, it is the opinion of the regulator that risks are higher. Furthermore the marketability of these shares is often restricted.

This document must not be accessed or used in any way that would be illegal in any jurisdiction.

In some cases research is only issued electronically and in some cases printed research will be received by those on our distribution lists later than those receiving research electronically.

The report may be reproduced either whole or in part on condition that attribution is given to Hardman & Co, and on condition that Hardman & Co accepts no liability whatsoever for the actions of third parties in this respect.

Hardman & Co is not regulated by the Financial Services Authority (FSA).

© Hardman & Co.

**Hardman & Co**  
4 - 5 Castle Court  
London  
EC3V 9DL  
United Kingdom

Tel: 020 7929 3399  
Fax: 020 7929 3377

[www.hardmanandco.com](http://www.hardmanandco.com)

