BREWIN DOLPHIN
INVESTMENT BANKING

# Brulines (A)

Support Services

**BUY**

## Initiation of Coverage

**Date** 9th April 2009

| | |
|---|---|
| Share Price: | 84.5p |
| 12m Price Target: | 135p |
| Upside: | 60% |
| Fundamental View: | Positive |
| Forecast Sensitivity: | 3 |
| Shares in Issue: | 27.9m |
| Market Cap: | £23.6m |
| Forecast Cash/(Debt): | £4.3m |
| Enterprise Value: | £19.3m |

**Brulines is the market leading provider of real time monitoring systems and data management services for the UK leisure sector. There are a number of opportunities for growth in its core market, and for expansion into new markets through leveraging its core infrastructure and data management skills. The services/products that recent acquisitions have brought also offer further potential. Brulines is strongly cash generative and has significant recurring revenues under 3-5 year contracts. Its systems provide tangible cost savings for its customers and, as a result, we expect demand to remain robust in more challenging economic conditions. This morning's year end trading update confirmed that the full year results are expected to be in line with expectations and, despite selling into difficult markets, the business is proving very resilient. Brulines has a strong balance sheet (forecast cash of £6.7m for FY10), and the c.2.5x covered, c.6.5% dividend yield is an additional attraction. We initiate coverage with a Buy recommendation and a 12 month price target of 135p (March 2010 EV/EBITA of 6x), reflecting our view that our FY10 forecasts are conservatively pitched, FY11 should see a material progression once the loss making acquisitions start contributing and we expect further earnings enhancing acquisitions.**

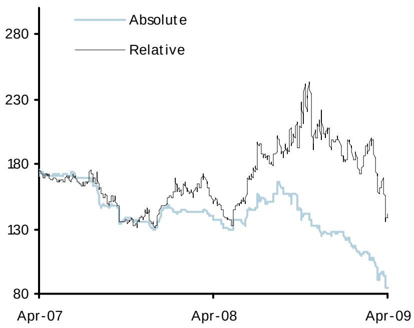
**Recurring revenues underpinned by long-term contracts provide good visibility** – ongoing service contracts in the Dispense Monitoring (DM) business account for c.60% of our DM FY09 forecast (c.55% of group revenues). If volume recovery services are also included (and the revenue recovery they deliver for clients suggests they will continue to remain desirable), then the visibility in DM increases to c.70% (group, c.65%).

**Dispense Monitoring – market leading position, yet substantial growth opportunities remain** – Brulines is the market leader, with an over 95% share of supply to the pub sector for dispense monitoring and c.70% penetration in the tenanted pub market. However, Brulines only has its systems in around 23k of the c.142k UK licensed sites (c.16% of the market), providing considerable opportunities for growth. The group is also increasing its product range, for example, it is developing the 'i-draught' offering which focuses on tangible yield and cash benefits, plus quality; and is looking at moving into wine and spirits monitoring (its current systems focus on draught beer).

**Significant market opportunities for the machine monitoring, garage forecourt and vending machine monitoring businesses** – Brulines' current offering in these emerging markets is relatively small, although the group has market leading positions and products, proven data monitoring and management skills, and customer relationships and marketing expertise that places it in a strong position to capitalise on the opportunities.

**Impressive and increasing margins** – The DM business returned margins of 23.2% in FY09. The systems and processes are scalable and the group should benefit from the investments made and operational leverage as it grows; therefore we expect underlying margins to trend upwards.

**Strong balance sheet (net cash) and excellent cash generation** – We are forecasting net cash of £6.7m for March 2010 (bolstered by the £4.7m placing in December 2008 at 125p), providing the flexibility to fund organic investment and capitalise on acquisition opportunities as they arise. Cash conversion has been well in excess of 90% and we expect strong conversion to continue.




*Source: Datastream*

Reuters: **BRU.L**


Analyst:

Mark Fleetwood

0845 059 6629



This document is a Marketing Communication and has not been prepared in accordance with legal requirements designed to promote the independence of *investment research* and is not subject to any prohibition on dealing ahead of the dissemination of *investment research*. **Please refer to important disclosures at the end of this document.**


| Year End March | Sales £m | PBT* £m | Tax % | EPS† p | PE Ratio x | EV/EBITDA x | FCF/Share p | DPS p | Yield % |
|---|---|---|---|---|---|---|---|---|---|
| **2007(A)** | 16.8 | 3.1 | 24.0 | 11.2 | 7.5 | 5.7 | 23.5 | 3.0 | 3.6 |
| **2008(A)** | 17.1 | 4.2 | 31.3 | 11.5 | 7.4 | 5.6 | 14.8 | 5.0 | 5.9 |
| **2009(E)** | 18.4 | 5.0 | 28.0 | 13.6 | 6.2 | 3.3 | 10.2 | 5.4 | 6.4 |
| **2010(E)** | 20.5 | 5.3 | 28.0 | 13.2 | 6.4 | 2.8 | 9.4 | 5.7 | 6.7 |

**Figures pre-exceptionals and goodwill amortisation, † Fully diluted, Source: Company Accounts/BD Forecasts*

## YEAR END TRADING UPDATE – HIGHLIGHTS

- Full year results for 31 March 2009 are expected to be in line with market expectations.

- Despite the challenges in the pub sector, the impact on group performance has been minimal and the core beer monitoring operation has continued to see good y-o-y growth and recurring revenues have increased.

- There have been some issues in terms of delays in installations that have been impacted by factors such as organisational changes, although in response, Brulines has developed a rental model which places less emphasis on the need for an upfront capital payment, and this may prove useful in a market where capital purchases may be more restricted.

- The mix has improved and more new installations have been delivered into medium sized pub companies and regional brewers. Sales of more advanced and higher value products/services have also improved, for example, the i-draught system appears to have been well received.

- The acquisitions of Edensure and Vianet appear to be going very well, synergies have come through, new business wins have been encouraging, and both are expected to break even on a monthly basis in FY10. Both these businesses have market leading and globally scalable products and operate in markets with no dominant competitors.

- Management expect the current economic environment to increase its customers' focus on costs, which should bode well for the services Brulines offers.

- Despite the more difficult trading environment future growth prospects are encouraging and management continues to view the future with confidence.

## OVERVIEW & BACKGROUND

**Brulines is the market leading provider of real time monitoring systems and data management services for the UK leisure sector. The operational transparency that its systems provide improves management information systems, reduces stock loss, shrinkage and wastage, and helps save costs. The pub market has faced a number of challenges over the past few years, and the smoking ban and current downturn in consumer spending in particular has led to an increased focus on cost and operational efficiency. Against this backdrop, as Brulines' services deliver cost savings, management expects demand to continue to be robust.**

**Dispense Monitoring** (94% of FY08 revenue)

Brulines is the market leader in dispense monitoring for the pub industry and its Dispense Monitoring Systems (DMSs) are installed in over 22,500 outlets throughout the UK. These remote data capture systems provide management information on usage patterns, stock wastage and volume loss issues (e.g. where drink usage does not reconcile with till records, discrepancies can be investigated). A typical system includes an electronic communications platform (housed in a robust box, often in a bar/cellar) and products such as flow monitors that are fitted to the beer draught system and transmit information back to the communications platform. Information from the communications platform can be remotely captured and is processed using Brulines' software systems and data analysts.

Brulines also provides volume recovery services which follow up discrepancies and attempts to recover lost income for the Pubcos.

A typical issue that Brulines' systems tackle occurs where some landlords (e.g. in the tenanted pub market), as opposed to complying with the tenancy agreements that require them to purchase their products from the landlord's nominated supply chain, instead buy products from wholesalers (where cheaper prices can often be obtained). This is known as buying outside the beer tie.

Brulines has also developed 'i-draught', an offering which addresses waste, temperature, cleaning, flow rates, revenue shrinkage and poor beer quality. These are important issues which once addressed can improve saleability and generate cost savings for pub owners and brewers in a market where consumption is falling and competition for market share is increasing.

**Machine Monitoring** (6% of FY08 revenue)

Brulines services the amusement and gaming market (amusement with prizes or AWP) through its Machine Insite and Coin Metrics businesses.

Machine Insite provides data management and consultancy services to operators in the pub, club and leisure markets, for 34,000 AWP machines in 4,400 outlets across around 30 groups and customers. Coin Metrics (acquired in May 2007) helped Brulines enhance its product offering through adding a wireless remote data capture product that enables machine owners to constantly monitor the financial performance of the gaming sites and assets accurately and in real time.

**Other** (FY09 will be the first year the following acquired businesses have been part of the group)

The other key businesses are Edensure (petrol forecourt monitoring, acquired in October 2008) and Vianet (vending telemetry solutions and data applications) which was acquired in December 2008. The market opportunity in each of these markets is vast, and although the group's current offering in each is relatively small, the markets are yet to be developed, Brulines has market leading technology and there is significant potential for growth.

In line with group's strategy to develop additional revenue streams, Edensure provides fuel stock data analysis services to garage forecourt operators. The key benefits include: reducing pump losses, quick leak identification and delivery and till reconciliations.

The Vianet acquisition provided the group with proven technology and critical mass in the vending machine data monitoring market. The services being developed provide real time data capture and operational information on sales activity, equipment status, stock and cash levels, stock replenishment and temperature monitoring.

## INVESTMENT CASE

**Recurring revenues underpinned by long-term contracts provide excellent visibility**

We are attracted to the group's recurring revenue model which is replicated across many of its offerings. Brulines' services help clients recover otherwise lost revenues and through the provision of value added management information, enable clients to maximise cost savings and improve the efficiency of service delivery and asset usage.

The cost of the DMSs is relatively small, especially in context of the returns that can be generated. For example, in the pub market, a standard installation would cost c.£1,600 (initial system capital cost) and there would be an ongoing 3-5 year support/data management contract at a cost of £9-£11 per week. Management estimates that the return on investment for the core DMS from protecting rent and discount streams will be 6-9 months. For the i-draught systems, through typical till and yield variances, and labour wage savings (from automated monitoring), on an annual basis, the cost of the system and support equates to just over 10% of the total profit improvement.

**Dispense Monitoring - market leading position, yet substantial growth opportunities remain**

Brulines has DMSs in c.70% of sites in the tenanted pub market. In addition to growth opportunities from further penetration in this market, there are c.142k pubs, bars and premises in the UK where these systems could be used (tenanted pubs at c.32k units is biggest individual component, accounting for c.23% of the total). Management estimates that the total potential DMS market is worth c.£170m of up front capital sales and c.£61m per annum of recurring revenue. Brulines' current market share is around 16%.

Following the achievement of high levels of penetration in the tenanted market, the Managed pub sector is now being targeted. i-draught trials are in place at over 100 sites, which if successful would provide access to c.12,000 pubs.

Brulines has, at varying stages of development, a number of additional service offerings that it aims to bolt on to its existing business model. Examples include, i-draught (beer), syrup-till reconciliation, wine and spirits monitoring, and food fridge freezer temperature monitoring.

Following a successful proof of concept pilot with 5 retailers at 12 sites in Denver (which completed in Q4 08) and a number of positive meetings in the USA with brewers, distributors and pub operators, Brulines has an opportunity to begin developing a commercial proposition for customers in the USA. Although still at a very early stage, there are positive signs, and this appears to be a relatively low risk opportunity to try and develop an offering in this market. Management estimates that in the USA, up to 20% of each keg fails to reach the till.

**Significant market opportunities for the Machine Monitoring, garage forecourt and vending machine monitoring businesses**

Brulines' offering in each of these markets is relatively small in terms of revenue, although these are emerging markets which have not been accessed before (in any material way), Brulines has market leading technologies and there are significant opportunities for growth.

*Machine Monitoring*

The total potential market size for real time data on gaming and leisure machines is estimated to be around £32m for unit sales and c.£24m p.a. in recurring licence fees. Brulines' Machine Monitoring business has a c.8% market share of the £12m AWP market and audits around 34,000 machines in 4,400 outlets.

Management's aim is to leverage the DMS infrastructure to gain market share and displace the fragmented supplier base, whilst, where possible, moving from annual to multi-year contracts. The Coin Metrics offering is also beginning to gain traction following recent business wins (Moto, Welcome Break and Odeon). Machine revenues have been falling, and management believes this creates an opportunity, as improved monitoring and information enables assets to be used more efficiently.

There are also opportunities for cross selling, e.g. the Machine Monitoring offering into Dispense Monitoring customers.

*Edensure – garage forecourt monitoring*

The acquisition of Edensure (£250k) provided Brulines with a platform from which to develop an offering focused on the UK garage forecourt market. There are 9,300 sites in the UK and Edensure has a c.2% market share. The UK market for fuel stock analysis could potentially be worth £10m and the market for forecourt services is estimated at around £80m. In the EU market, there are 90,000 sites, fuel stock analysis could be worth c.£80m and forecourt services, £610m. Examples of possible opportunities include: car wash and air tower revenue share management, price elasticity modelling, virtual back office systems and facilities management systems. Management plans to combine organic and acquisitive growth and has the financial stability and infrastructure to grow the business.

*Vianet – vending machine market*

Management believes there are many technical, communicational, organisational and customer synergies between Vianet and the other group businesses. Brulines will use its sales, marketing and scalable data management skills to develop and deliver market leading products and services, with the focus being to increase Vianet's market penetration.

**Impressive and increasing margins**

Group operating margins increased from 19.3% in 2007 to 23.4% in 2008 as the group has grown and benefitted from positive operational leverage. The offerings are scalable, and we would expect further margin progression in the underlying business if it continues to grow. We do, however, highlight that the Vianet acquisition was loss making prior to acquisition and Edensure will (at first) deliver little in the way of incremental profit; therefore, in the short term this could suppress the overall group margin (although the underlying upward trend should continue).

**Strong cash generation**

Cash conversion has typically been well in excess of 90%. The timing of material contracts around the year end can have an impact on the annual working capital movement, although we see no reason why the underlying trend should change materially. Our forecasts assume cash conversion of around 90% in both FY09 and FY10 (lower than has historically been achieved for prudence).

**Strong balance sheet (net cash) and acquisition opportunities**

We are forecasting that Brulines will have net cash of £4.3m at the end of FY09 and £6.7m at the end of FY10, providing the group with the financial flexibility to fund organic investment and capitalise on acquisition opportunities as they arise.

We expect the current economic climate to accelerate the number of available acquisition opportunities. Businesses on the watch list include competitors and niche/specialist service providers. Some of these businesses will be at an early stage post (or during) product development and others will simply be sub-scale. Against the backdrop of a more challenging market, these smaller businesses may not have the balance sheet strength to support their development/growth strategies and some could encounter financial difficulties. Being part of a larger group may prove very attractive.

**6.5% dividend yield is a further attraction**

Whilst we view Brulines as a growth (rather than income) stock, the c.2.5x covered 6.5% dividend yield, supported by the strength of the balance sheet, is undoubtedly an additional attraction.

## INVESTMENT SENSITIVITIES

**Site closures** – If sites close, monitoring systems at these sites will no longer be needed. Whilst this must be a consideration, management highlights that it has seen little in the way of closures as its systems tend to be installed at pubcos with a portfolio of sites where sales volumes are higher and that it is the lower volume, more marginal, or independent sites which are most likely to be closed.

**Budget pressures** – The current economic climate will have undoubtedly put pressure on customer budgets and funding availability, which may increase their resistance to buying new services. Whilst we recognise that this is an issue, the tangible cost savings that the group's services can offer should prove attractive (especially in a market where customers are increasingly focused on costs). Brulines is also looking at providing different sales packages, e.g. where the upfront capital cost (purchasing the physical system) could be spread more evenly over the contract period through a rental arrangement. We note that if the rental model is adopted, it would have an impact on the businesses working capital dynamics.

**Pricing pressure** – Customer margins are being squeezed and they are trying to make savings through reducing supply chain costs. Management's view is that the relatively small cost of its systems and the cost saving benefits the systems provide, should limit the exposure to pricing pressures (which we understand have not been experienced to date).

**Competition** – Brulines is the clear market leader in the DMS market and has spent years developing and improving the technology. Whilst similar technology could be developed, in our view, the key barrier to entry relates to the infrastructure and investment that has been made and the returns that are being delivered for established customers. There is more competition in the fragmented machine monitoring market, although Brulines is well placed given its financial strength, customer relationships and data management and monitoring expertise.

**Acquisition integration and growth** – Management has suggested that the recent acquisitions have been integrated well. That said, we recognise that it is relatively early, particularly for the loss making Vianet acquisition and we are looking for further evidence that management can successfully develop these businesses and grow their revenues.

**There are many opportunities for growth, execution is the key risk** – In all of its markets, there appear to be many opportunities for growth, be it moving into the managed pub market in Dispense Monitoring, or gaining market share in the other businesses. The key, as with the acquisition integrations, will be management's ability to deliver.

## FINANCIALS

We understand that following the acquisitions of Edensure and Vianet, management is currently evaluating the group reporting structure, and it may change when the final results are reported in June. Our initial forecasts are therefore tabled at the group level and we will look to forecast on a more granular basis once we have better visibility of the ongoing structure.

**PROFIT AND LOSS ACCOUNT**

| Year end March | 2007(A) £m | 2008(A) £m | 2009(E) £m | 2010(E) £m |
|---|---|---|---|---|
| **REVENUE** | | | | |
| Dispense Monitoring | 16.5 | 16.1 | | |
| Machine Monitoring | 0.3 | 1.0 | | |
| **Group Revenue** | **16.8** | **17.1** | **18.4** | **20.5** |
| **OPERATING PROFIT** | | | | |
| Dispense Monitoring | 3.2 | 3.7 | | |
| Machine Monitoring | 0.0 | 0.3 | | |
| **Group Operating Profit** | **3.2** | **4.0** | **5.2** | **5.3** |
| EBITDA | 3.4 | 4.3 | 5.8 | 6.0 |
| OPERATING MARGIN | | | | |
| Dispense Monitoring | 19.5% | 23.2% | | |
| Machine Monitoring | 5.1% | 25.6% | | |
| **Group operating margin %** | **19.3%** | **23.4%** | **28.3%** | **25.9%** |
| Total Interest | -0.2 | 0.2 | -0.2 | 0.0 |
| **Profit pre exceps/g'will** | **3.1** | **4.2** | **5.0** | **5.3** |
| Tax Rate (%) | 24.0% | 31.3% | 28.0% | 28.0% |
| **EPS F.dil pre-exc/g'will (p)** | **11.2** | **11.5** | **13.6** | **13.2** |

*Source: Company Accounts/BDIB estimates*

### Key assumptions:

### Revenue

- We assume that revenue in the core dispense monitoring business will increase in both FY09 and FY10 as a result of:
    i. a higher number of installed units (we assume 23k for FY09 and 24k for FY10), and
    ii. an increase in the average weekly revenue for the installed units, to reflect a combination of price increases, and an increasingly proportion of sales from more advanced offerings (e.g. the i-draught system).
- We also understand that the volume recovery business has been growing strongly and have reflected this in our forecasts.
- We highlight the increasing recurring revenue component and the fact that customer attrition is exceptionally low (we understand that less than 15 installed units were lost in FY08).
- We assume stable underlying revenues at £1m for the machine monitoring businesses in both FY09 and FY10.
- We forecast an additional £0.9m of revenue in FY09 from the acquisitions of Vianet (£0.7m – £0.3m of which relates to an exceptional non-recurring contract) and Edensure (£0.2m). We assume annualised pro forma continuing revenue from Vianet and Edensure combined of £2m and reflect this in FY10.

### Margins

- We expect margins to continue to progress in the core dispense monitoring business as it grows, efficiency improves and the benefits of historical investments start to come through. We also understand that Brulines has also been benefitting from some higher margin ad-hoc work in FY09, e.g. specific volume recovery assignments. We prudently assume lower levels of this higher margin work in FY10, and this is largely responsible for our FY10 margin forecast being lower than FY09.

- We assume that profits from the machine monitoring business will be broadly similar y-o-y.
- The full year pre close trading statement includes positive statements regarding the acquisitions and states that the losses they have been making have been reduced. Edensure was part of the group for 5 months in FY09 and is expected to be close to monthly breakeven (profitability) going into FY10. Vianet (3.5 months in FY09) is expected to achieve monthly breakeven in H1 FY10 and is performing ahead of management's expectations. Our FY10 forecasts assume that these acquired businesses continue to suppress overall group profitability, although given the pace of improvement that appears to be coming through, FY11 could see a material progression.
- We note that the earnings progression is impacted by the placing (see below), although highlight that funds were raised to capitalise on acquisition opportunities, and expect management to be active in this regard.

**CASH FLOW STATEMENT**

| Year end March | 2007(A) £m | 2008(A) £m | 2009(E) £m | 2010(E) £m |
|---|---|---|---|---|
| **Operating Profit** | **3.2** | **4.0** | **5.2** | **5.3** |
| Depreciation | 0.2 | 0.3 | 0.6 | 0.7 |
| Exceptionals | -0.7 | 0.0 | -0.3 | 0.0 |
| Working Capital | 2.4 | 0.6 | -0.9 | -1.1 |
| Other | 0.0 | 0.1 | 0.0 | 0.0 |
| **Operating cashflow** | **5.2** | **5.0** | **4.6** | **4.9** |
| Interest | -0.2 | 0.2 | -0.2 | 0.0 |
| Tax | -0.6 | -1.1 | -1.4 | -1.5 |
| Dividends | 0.0 | -1.1 | -1.3 | -1.5 |
| **Underlying cashflow** | **4.4** | **3.0** | **1.7** | **1.9** |
| Capital Expenditure | -0.4 | -2.9 | 0.2 | 0.4 |
| Shares | 7.5 | -0.7 | 4.5 | 0.0 |
| Acquisitions | -0.1 | -4.2 | -1.3 | 0.0 |
| Other | -4.2 | 0.0 | 0.0 | 0.0 |
| **Overall cashflow** | **7.1** | **-4.9** | **5.1** | **2.3** |
| **Y/E Cash/(Debt)** | **4.1** | **-0.8** | **4.3** | **6.7** |
| Op. cashflow/op. Profit (% conversion) | 161% | 124% | 88% | 92% |
| Op. cashflow/op. Profit (% conversion – pre exceptionals) | 182% | 124% | 94% | 92% |
| Free cashflow | 4.9 | 3.7 | 2.7 | 2.7 |

*Source: Company Accounts/BDIB estimates*

- Capital investment is relatively limited. The £2.9m expenditure in 2008 primarily related to the cost of the new head office.
- The £4.7m share placing (£4.5m net of costs), announced on 12 December 2008 significantly strengthened the balance sheet.
- Acquisition costs – c.£1m for Vianet, c.£250k for Edensure in FY09. The cost in FY08 relates to the Nucleus Data Holdings acquisition.
- We assume cash conversion will continue to be strong, although for prudence, lower than has been achieved historically (we do not foresee any material change in underlying working capital dynamics). That said, specific customer contracts and timing issues could have a material impact on the year end position (for example, if there is a business case to change payment terms).

## VALUATION

We initiate coverage with a Buy recommendation and a 12 month price target of 135p (March 2010 EV/EBITA of 6x), and highlight the following:

- Our FY10 forecasts are conservatively pitched and we could envisage margin progression ahead of our forecast if higher value ad-hoc work recurs and if the improvement in the acquired businesses continues to be ahead of expectations;
- FY11 should see a material progression once the contribution from the recent acquisitions begins to come through;
- The placing was undertaken at a price of 125p per share to a number of institutional investors and we expect Brulines to deploy its cash and make further earnings enhancing acquisitions.

BREWIN DOLPHIN
INVESTMENT BANKING

# FINANCIALS

| Income Statement<br>Year End March | 2007(A)<br>£m | 2008(A)<br>£m | 2009(E)<br>£m | 2010(E)<br>£m |
|---|---|---|---|---|
| **Sales** | **16.8** | **17.1** | **18.4** | **20.5** |
| EBITDA | 3.4 | 4.3 | 5.8 | 6.0 |
| Depreciation | 0.2 | 0.3 | 0.6 | 0.7 |
| **Operating profit** | **3.2** | **4.0** | **5.2** | **5.3** |
| Other Income | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest | -0.2 | 0.2 | -0.2 | 0.0 |
| **PBT (normalised)** | **3.1** | **4.2** | **5.0** | **5.3** |
| Exceptionals | -0.7 | 0.0 | -0.3 | 0.0 |
| Goodwill | 0.0 | 0.0 | 0.0 | 0.0 |
| **PBT (reported)** | **2.4** | **4.2** | **4.7** | **5.3** |
| Tax Rate (%) | 24.0 | 31.3 | 28.0 | 28.0 |
| Minority Int | | | | |
| Pref Dividends | | | | |
| Av. No. Shares | 20.3 | 24.2 | 25.5 | 28.1 |
| F. Dil. No. Shares | 20.7 | 24.9 | 26.4 | 29.0 |
| **EPS(nm - F.Dil.) (p)** | **11.2** | **11.5** | **13.6** | **13.2** |
| **DPS (p)** | **3.0** | **5.0** | **5.4** | **5.7** |

| Cash Flow<br>Year End March | 2007(A)<br>£m | 2008(A)<br>£m | 2009(E)<br>£m | 2010(E)<br>£m |
|---|---|---|---|---|
| Operating profit | 3.2 | 4.0 | 5.2 | 5.3 |
| Depreciation/Amortisation | 0.2 | 0.3 | 0.6 | 0.7 |
| Working Capital | 2.4 | 0.6 | -0.9 | -1.1 |
| Interest | -0.2 | 0.2 | -0.2 | 0.0 |
| Tax | -0.6 | -1.1 | -1.4 | -1.5 |
| Exceptionals | -0.7 | 0.0 | -0.3 | 0.0 |
| Other Operating Cashflows | 0.0 | 0.1 | 0.0 | 0.0 |
| **Cash flow from Ops** | **4.4** | **4.0** | **3.0** | **3.4** |
| Net Capex | -0.4 | -2.9 | 0.2 | 0.4 |
| Acqs/Disposals | -0.1 | -4.2 | -1.3 | 0.0 |
| Other Investing Cashflows | | | | |
| **Cash Flow from Investing** | **-0.5** | **-7.1** | **-1.1** | **0.4** |
| Ord Div | 0.0 | -1.1 | -1.3 | -1.5 |
| Share Issues | 7.5 | -0.7 | 4.5 | 0.0 |
| Other Financing Cashflows | -4.2 | 0.0 | 0.0 | 0.0 |
| **Cash Flow from Financing** | **3.3** | **-1.8** | **3.2** | **-1.5** |
| **Net Inc/Dec in Cash** | **7.1** | **-4.9** | **5.1** | **2.3** |
| **Y/E Cash/(Debt)** | **4.1** | **-0.8** | **4.3** | **6.7** |
| Enterprise Value | 19.5 | 24.4 | 19.3 | 16.9 |

| Ratios | 2007(A) | 2008(A) | 2009(E) | 2010(E) |
|---|---|---|---|---|
| Sales Growth (%) | n/a | 1.8 | 7.8 | 11.4 |
| EBITDA Margin (%) | 20.4 | 25.3 | 31.5 | 29.3 |
| Op Margin (%) | 19.3 | 23.4 | 28.3 | 25.9 |
| Int Cover (x) | 18.0 | -22.5 | 26.0 | n/a |
| EPS Growth (%) | 94.7 | 2.4 | 18.8 | -3.5 |
| DPS Growth (%) | n/a | 66.7 | 8.0 | 4.6 |
| Div Cover (x) | 3.8 | 2.4 | 2.6 | 2.4 |

| Balance Sheet | 2007(A) | 2008(A) | 2009(E) | 2010(E) |
|---|---|---|---|---|
| Intangibles | 9.2 | 13.6 | | |
| Tangibles | 0.5 | 3.4 | | |
| Net Current Assets | 2.0 | 0.3 | | |
| LT Creditors | 0.0 | -4.0 | | |
| & Provisions | | | | |
| **Shareholders funds** | **11.7** | **13.3** | **17.2** | **21.7** |

| Valuation | 2007(A) | 2008(A) | 2009(E) | 2010(E) |
|---|---|---|---|---|
| P/E (@current price) | 7.5 | 7.4 | 6.2 | 6.4 |
| P/E (@target price) (x) | 12.0 | 11.8 | 9.9 | 10.3 |
| EV/EBITDA (x) | 5.7 | 5.6 | 3.3 | 2.8 |
| EV/Sales (x) | 1.2 | 1.4 | 1.0 | 0.8 |
| FCF Yield (%) | 20.6 | 15.6 | 11.4 | 11.5 |
| Dividend Yield (%) | 3.6 | 5.9 | 6.4 | 6.7 |

| Ratios | 2007(A) | 2008(A) | 2009(E) | 2010(E) |
|---|---|---|---|---|
| NAV (p) | 57.1 | 54.1 | 66.0 | 75.7 |
| Gearing (%) | -34.8 | 6.0 | -25.2 | -30.8 |
| ROCE (%) | 42.3 | 28.4 | 40.5 | 35.4 |
| FCF/Share (p) | 23.5 | 14.8 | 10.2 | 9.4 |
| Cash Conversion (%) | 181.9 | 124.4 | 94.2 | 92.5 |

Source: Company/BD Estimates

**Company Description**

Brulines is the market leading provider of real time monitoring systems and data management services for the UK leisure sector.

**Future Newsflow**

| | |
|---|---|
| 9 June 2009 | Final Results |

BREWIN DOLPHIN
INVESTMENT BANKING

**(B) Denotes Brewin Dolphin acts as broker to the company** **(A) Denotes AIM listing**

**Brewin Dolphin Research - Recommendation Definition (expects absolute performance over next 12 months).**
Buy - 20%+ upside to BD 12m Price Target
Add - 10% - 20% upside to BD 12m Price Target
Hold - minus 10% to +10% to BD 12m Price Target
Reduce – minus 10% to 20% downside to BD 12m Price Target
Sell - minus 20% or more downside to BD 12m Price Target

**Fundamental View:**
Positive - quality company, strong management, strong fundamentals, focussed strategy.
Neutral - ambivalent over the company's strategy, market place, management.
Negative - BD believes company has fundamental flaws and is not a long term investment.

**Forecast Sensitivity:**
1 = highly likely downgrade 2 = likely downgrade 3 = neutral 4 = likely upgrade 5 = highly likely upgrade

**Prices of other securities mentioned: None**

This report has been prepared by its author(s) as a marketing communication and it has not been prepared in accordance with the requirements to promote Independent Research. It is therefore not subject to any prohibition on dealing ahead of the dissemination of Investment Research. In practice however, our conflict management procedures prohibit Brewin Dolphin Limited ("BD") and its personnel from dealing ahead of our Non-Independent Research and our Independent Research.
Our research analysts receive compensation based upon various factors, including quality of research, client feedback, competitive factors and revenues of BD, a portion of which is generated by investment banking activities. Investors should be aware that BD does, and may seek to do, business with companies covered in its research reports and may, as a result, have a conflict of interest that could affect the objectivity of this report. Investors should consider this factor in making their investment decision. For further information please refer to BD's Conflicts Management Policy by clicking here: http://www.investmentbanking.brewin.co.uk/pdf/cmp.pdf.

A list of clients to whom BD provides investment banking services and a list of transactions in which BD has acted as lead manager/co lead manager can be accessed by clicking the following links:
http://www.investmentbanking.brewin.co.uk/trackrecord/ourclients
http://www.investmentbanking.brewin.co.uk/trackrecord/ourdeals

1. This report does not constitute or form part of any offer for sale or subscription of or solicitation of or invitation for or any offer to buy or subscribe for any securities nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever. The information contained herein is subject to change without notice and its accuracy is not guaranteed. It may be incomplete and may not contain all material information relating to the Company. 2. The factual information contained in this report has been obtained from public sources and from the Company and is believed to be reliable and accurate. The report may have been sent to the Company in order that the Company may highlight any factual inaccuracies contained in it but the Company has not necessarily made any comment on it. All opinions and forecasts contained in this report are entirely those of the author(s) (and are not necessarily the views held throughout BD). For the avoidance of any doubt BD has no authority whatsoever to give any information or make any representation or warranty on behalf of the Company, any of its shareholders or any other person in connection therewith and this report has not been authorised or approved by the Company. Unless otherwise stated, prices contained herein constitute a judgement as at 4.30pm the day before the date of publication. Any opinions, forecasts or estimates present a possible outcome on the basis of the assumptions set out herein. They represent only one outcome and are the independent view of the author(s) of this report only. These opinions, forecasts or estimates are subject to risks, uncertainties and assumptions and there can be no assurance that future results or events will be consistent with any such opinions, forecasts or estimates. Securities traded on the Alternative Investment Market are classed as non-readily realisable and it may be difficult to sell them or to ascertain their true value or risk exposure. 3. BD has not independently verified all the information given in this report. Accordingly, no representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this report. To the maximum extent permitted by law and without prejudice to any rights recipients of this report may have neither BD, the Company nor any other person (including, without limitation, any director, representative or employee of BD) shall have any liability whatsoever for any loss howsoever arising from any use of this report or its contents or otherwise arising in connection therewith. 4. This report is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, in whole or in part, for any purpose. In the United Kingdom this report and the investment activity to which it relates may only be communicated to and is only directed at Professional clients or Eligible Counterparties as defined by the Financial Services Authority. This report has only been approved by BD for communication to Professional clients or Eligible Counterparties and must not be acted on or relied on by any other person and in particular any person falling within the Retail client classification as defined by the Financial Services Authority. Any investment or investment activity to which this communication relates is available only to and will be engaged in only with those persons for which this communication is intended. Any US recipients of this document are believed, by Brewin Dolphin Ltd, to be major US institutional investors only as defined by Rule 15a-6 of the Securities Exchange Act of 1934. Any US institution wishing to obtain further information or to effect a transaction in any security discussed herein should do so only through their US registered broker dealer. Statistics relating to the research recommendations that BD publishes each quarter may be obtained at the following link:
http://www.investmentbanking.brewin.co.uk/trackrecord/researchrecommendations

BD or a connected person may have positions in or options on the securities mentioned herein or may buy, sell or offer to make a purchase or sale of such securities from time to time. In addition BD reserves the right to act as a principal or as agent with regard to the sale or purchase of any security mentioned in this report.

**© Brewin Dolphin Ltd. All rights reserved. Onward transmission, reproduction or sale of our research reports in whole or in part is prohibited without prior permission of Brewin Dolphin Ltd.**