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# COMPANY INFORMATION

Hat Pin plc (LSE - HTP)

Info sheet compiled September 2006

Company Eye Ranking

37/50

## EDITOR'S NOTE

The group owns and operates two leading executive search firms Kendall Tarrant Worldwide and Saxton Bampfylde Hever, which provides executive search consulting services to the advertising, media, and communications industries. The company operates from locations in Hong Kong, London, New York, and San Francisco and covers Asia, Australia, Europe, Latin

America, and the US. The recruiting firm has been in business for more than 25 years. Kendall Tarrant founded its London office in 1979 and its US offices in New York and San Francisco, in 1997 and 2001 respectively. The Group started this year on a positive note and reported a profit. We believe Hat Pin plc would be a good addition for short/medium type investment portfolio.

## 1 YEAR CHART



## FUNDAMENTALS

Company Name	Hat Pin plc
Current Price	79.00
Status	AIM
Market Cap	12,49 m.
Shares in Issue	23,965,872 m.
Activities	Provision of human resource services to all sectors of the advertising industry
Sector	Support Services
Corporate advisor	Arden Partners
Registrar	Capita Registrars

## COMPANY OVERVIEW

Hat Pin plc is an executive search and recruitment group and owner of market leading brand Kendall Tarrant Worldwide. Shares were re-admitted to trading following the acquisition of 70 per cent. of the issued share capital of Saxton Bampfylde Hever plc, one of the UK's most

respected executive search companies. The Group's principal activity is the provision of human resources to the advertising, marketing and communications industries. Operates in the United Kingdom, the United States of America and Hong Kong.

## THE BUSINESS

Hat Pin primarily operates in the provision of human resource. The group operates through its subsidiary brands, Kendall Tarrant Worldwide & Saxton Bampfylde Hever (in which it acquired a 70% stake in December 2005):

**Kendall Tarrant Worldwide** is the UK's largest and most successful advertising recruitment firm and a highly respected name in advertising and communications worldwide, with offices in London, New York, San Francisco and Hong Kong.

**Saxton Bampfylde Hever** is a premium brand within the executive search industry. It has a track record of strong growth over nearly 20 years and the potential to expand its activities further. Within the private sector, Saxton Bampfylde has an extensive track record in senior media,

retail/consumer, financial services, professional services and technology appointments. Within the public and not-for-profit sectors, Saxton Bampfylde is a leading adviser on senior appointments in higher education, central government (including regulatory and trade body appointments at the interface between government and business), charities and the arts.

**On 8 September 2006** The Group announced the acquisition from Alexander Mann Group of Alexander Mann Financial Markets, a leading international specialist executive search business operating in the financial services sector. The Company will pay a maximum consideration of £7.0 million in a mixture of cash and shares for Alexander Mann, which has operations in the UK and Hong Kong. On completion of the acquisition, AMFM will be rebranded Akamai Financial Markets.



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## STRATEGY

The Hat Pin Group has a clear strategy of increasing shareholder value through growth. The Board expects to achieve this growth both organically and by selective acquisitions. The strategy to achieve organic growth is to be implemented by taking advantage of opportunities arising in both new and existing areas of Kendall Tarrant Worldwide's and Saxton Bampfylde Hever's operations. Within Kendall Tarrant Worldwide, the Directors are currently pursuing new areas of business including recruitment assignments in media, public relations and public affairs. In addition, it has recently expanded its geographical coverage to include mainland China and Latin America.

Saxton Bampfylde Hever intends to grow its existing market sectors, concentrating on further growing its board appointments and review practice, as well as its life

sciences/healthcare and diversity practice areas.

The Board also expects to grow and develop the group by positioning Hat Pin as a consolidator within what is a very fragmented industry. The Board anticipates that it will continue to look at businesses with strong growth potential and that have committed and ambitious management teams in place. Any acquisition is likely to take the form of at least a controlling equity stake and the Directors will expect acquisitions to be earnings enhancing and generate a return above the cost of capital.

This acquisition strategy is also intended to help reduce the reliance of the Group on revenue streams derived from any one particular economic sector, geographical area or discipline.

## GROUP TRADING COMPANIES

### KENDALL TARRANT WORLDWIDE

Kendall Tarrant is the UK's largest and most successful dedicated marketing communications executive search and recruitment firm and a highly respected name in the field of recruitment for advertising and communications worldwide, having offices in London, New York, San Francisco and Hong Kong and consultants focusing on the Greater China market in Shanghai and Latin America in Sao Paulo and Santiago.

### SAXTON BAMPFYLDE HEVER

Saxton Bampfylde Hever with partners around the globe, is one of the world's leading executive search companies. Its client list spans both the private and public sectors and Saxton Bampfylde is best known for working with the most senior corporate executives, for work with boards on non-executive appointments, and for high-level appointments in government, higher education and the not-for-profit sector.

## COMPANY DEVELOPMENT

### Asia

Kendall Tarrant had an exceptional year in Asia in 2005, mirroring the return to economic growth and an increase in recruitment activity in the region. Turnover grew by 40% to £0.7 million, with equally healthy increments in net profit and margins. Particularly encouraging was the increase in the number of retained briefs assigned to Kendall Tarrant, especially in talenthungry markets like China. This underlines the strength and depth of the strategic, consultative partnership Kendall Tarrant has established with senior agency management in Asia.

In 2005, the bulk of its Asia revenue came from senior management, account handling and planning placements. The number of regional creative mandates for creative directors, both permanent and freelance, was extremely buoyant. This positive development has spurred The Group to increase its consultant resource in the coming year. Equally, in the growing marketing services area of integrated, digital/interactive and activation The Group are beginning to build new client relationships. The Group continue to leverage its already strong and established UK candidate database against these briefs while building the Asian database. China also had a good first year under Harrison Dong, with revenues accounting for over 20% of its regional turnover.

One interesting development in China, in addition to general talent recruitment, is that Hat Pin are now being asked by communications networks to assist in market entry assignments at the global level. This is great testament to the strength of the market knowledge and expertise.

### Review of Saxton Bampfylde Hever

Although the business was acquired too late to have an impact on the financial year, The board were pleased to welcome the team to Hat Pin. Saxton Bampfylde Hever ("SBH") is a premium brand within the executive search industry, with a highly experienced management team. It has a track record of strong growth over nearly 20 years and the potential to expand its activities further.

Within the private sector, SBH has an extensive track record in senior media, retail, financial services, professional services and technology appointments. Within each of these areas SBH aims to build sustained relationships with a small number of leading firms (currently two-thirds of SBH's active private sector mandates represent business from clients for whom SBH has worked previously). Within the public and not-for-profit sectors, SBH is a leading adviser on senior appointments in higher education, central government (including regulatory and trade body appointments at the interface between government and business), charities and the arts.



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## Review of Kendall Tarrant Worldwide 2006

Kendall Tarrant Worldwide in the UK has seen a number of important changes in the first half of 2006, most significantly the merger and integration of Stolkin + Partners. This business was acquired in March 2006 and The Group is pleased with how smoothly the integration has progressed. The first half has seen particularly robust performances from both Account Handling and Planning in the UK. In addition, Hat Pin has continued to invest in its recently launched media practice and digital practice, both of which the Group believe has great potential. After a trial period The Group decided to close Kendall Tarrant UK's client-side practice area as it concluded that Saxton Bampfylde Hever would be better equipped to handle corporate leads generated from Kendall Tarrant UK's business.

The USA has continued its strong run, with its Latin American initiative meeting expectations in its first six months of trading. All sectors are performing well despite some disruption to Planning due to staff turnover, and the group continue to identify new consultants to join the team.

Asia has had an excellent start to 2006. Hat Pin has hired a new consultant to cover Creative in Shanghai, and both Hong Kong and China are benefiting from increased demand for talent in the region.

## Saxton Bampfylde Hever

Saxton Bampfylde Hever is now well integrated within the Hat Pin Group and has traded strongly in its first six months of ownership. The market for top level executive search continues to be buoyant and Saxton Bampfylde Hever has been active across all sectors, working for three of the top five FTSE companies alongside a growing Board practice and continuing strength in the not-for-profit arenas of government, education and charities. Saxton Bampfylde Hever is taking steps to develop further its future positioning and strategy, including a programme of active recruitment of new members of staff at all levels; with, for example, five new researchers joining this summer and a number of discussions taking place with experienced search consultants about joining the business. Global work continues to grow, with the firm active on projects from Mongolia to California.

## DIRECTORS

### Terry Hitchcock (54) – Non-Executive Chairman

Terry joined Hat Pin as Chairman on 22 September 2005. In 1973 he joined Simon & Coates, a stock-broking firm, having graduated from Magdalene College, Cambridge. In 1986 the firm was acquired by Chase Manhattan Securities, where Terry was appointed head of institutional equities. Terry co-founded Collins Stewart in 1991 and became an executive director. He retired from Collins Stewart in March 2005. Terry has been an active charity trustee in homelessness and ageing. In 2005 he was appointed as a director of the Diana, Princess of Wales Memorial Fund Trustee Company.

### Angela Campbell-Noë (41) – Chief Executive

Angela became Chief Executive in May 2004. Her background is in investment banking. She joined Goldman Sachs in 1987 having graduated from Oxford where she studied law. She then headed the food and drink practice at Baring Brothers and, most recently, led the Luxury Goods and Personal Care franchise for Deutsche Bank. As Chief Executive of Hat Pin her responsibilities include implementing the Group's strategy of organic and acquisition-led growth.

### Stephen Bampfylde (53) – Executive Director

Stephen is Chairman and co-founder of Saxton Bampfylde Hever and a founder of The Amrop Hever Group, an international network of executive search firms. Stephen

read social and political science at Jesus College, Cambridge. He has been involved in the recruitment of executives to senior positions across a wide variety of commercial sectors for 25 years and has considerable experience filling higher education, regulatory and senior government posts. Stephen is on the Advisory Board of the Business School at Cambridge University, is Chairman of Guildford Cathedral Council and was a founding member of the Archbishops' Council of the Church of England.

### Paul Billett (39) – Finance Director

After qualifying as a Chartered Accountant Paul spent eight years with PricewaterhouseCoopers, providing audit and transaction support services to some of the firm's largest clients. Prior to joining Hat Pin in July 2005, he was Finance Director of AIM-listed Dynamic Commercial Finance Plc, which he joined from PwC in December 2003.

### Peter Walker (47) – Non-Executive Director\*

Peter has been a member of the Hat Pin Board since June 2003. A Chartered Accountant by training, he has worked in the marketing services industry for the last eighteen years, and has a wealth of experience in acquiring and nurturing service-based businesses. He is currently a director at Clemmow Hornby Inge, a leading independent London advertising agency and, most recently, he was appointed as Chief Financial Officer for the Minit Group, the worldwide network of household services stores.



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## SHAREHOLDINGS

	Number	%		Number	%
Mr and Mrs ALR Morton		9.21%	Universities Superannuation Scheme	1,900,556	7.93
Southwind Limited	1,025,000	9.31%	Lord Stevenson of Coddendam	818,738	5.40%
			Glasgow Investment Managers		4.75%

## FINANCIAL HISTORY

### Consolidated Profit and Loss Account for the six months ended 30 June 2006 (unaudited)

£'000	2006	2005
Turnover	6,209	5,118
Administrative expenses	(5,595)	(4,360)
Operating profit	615	758
Interest receivable	19	35
Interest payable	(73)	(7)
Profit on ordinary activities before taxation	560	658
Tax on profit on ordinary activities	(279)	(197)
Profit on ordinary activities after taxation	281	461
Minority interests	(90)	-
Profit for the period	191	461
Basic earnings per share	1.3p	4.2p
Diluted earnings per share	1.2p	4.0p

### Consolidated Balance Sheet for six months ended 30 June 2006 (unaudited)

	2006	2005
Intangible assets	5,752	4,760
Tangible assets	465	498
Fixed assets	6,217	5,258
Debtors	3,006	2,736
Cash at bank	1,766	1,958
Current assets	4,772	4,694
Amounts falling due within one year	(3,832)	(3,892)
Net current assets/(liabilities)	940	802
Creditors falling due after one year	(2,087)	(1,333)
Deferred tax	105	78
Net assets	5,175	4,085
Share capital	385	375
Share premium account	3,348	3,130
Capital redemption reserve	3	3
Other reserves	351	258
Profit and loss account	768	809
Own shares held by the Employee Benefit Trust	(41)	(41)
Shareholders' equity	4,814	4,534
Equity minority interests	361	271
Capital employed	4,175	4,805

## FINANCIAL OVERVIEW

Profit before tax, share option charges under FRS 20 and goodwill amortisation is up 158% to £861,000 (2005: £399,000) As indicated in our 2005 Annual Report, the effective tax rate has risen this year because 2005 saw the last of the benefit of trading losses in the US. The effective tax rate for the period rose to 36% from 31% for the same period in 2005 and we expect it to remain at this level throughout the rest of the year. The business's operations remain strongly cash generative. Net cash costs totalling £718,000 in connection with the acquisition of Saxton Bampfylde Hever and Stolkin + Partners mean that there was a net cash outflow for the period of £192,000 (June 2005: net inflow of £441,000). Net debt, taking into account the Company's £2m term loan used to fund the acquisition of Saxton Bampfylde Hever, was £234,000 (31 December 2005: £42,000).

## RISK FACTORS

In addition to the other relevant information, the following specific factors should be considered carefully when evaluating whether to make an investment in the Company. The investment offered in this document may not be suitable for all of its recipients. Before making an investment decision, prospective Investors should consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities. A prospective Investor should consider carefully whether an investment

in the Company is suitable for him/her in the light of his/her personal circumstances and the financial resources available to him/her. There are various risk and other factors associated with an investment of the type described in this document. In particular: The value of an investment in the Company is largely dependent upon the expertise of the Directors and their ability to identify and acquire or invest in suitable companies or businesses. There can be no certainty that the Company will be able to identify suitable acquisition targets or complete the



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purchase of any identified targets at a price the Directors consider acceptable. In the event of an aborted acquisition it is likely that resources may have been expended on investigative work and due diligence, which cannot be recovered.

The acquisition of other businesses can involve significant commercial and financial risks and there can be no certainty that any acquired business will not have a material adverse effect on the operations, results or financial position of the Company.

## HISTORY

**1997** Kendall Tarrant opened its first international office in NY.

**1998** Kendall Tarrant Hong Kong began trading.

**2001** Kendall Tarrant expanded in the US with the opening of the San Francisco office.

**2003** Kendall Tarrant continued to expand its operations by working in Latin America via its USA offices.

Peter Walker joined the board as a Non-Executive Director.

**2004** Angela Campbell-Noë joined Hat Pin plc and was appointed to the Board as an Executive Director with responsibility for implementing the Group's growth strategy. She was appointed CEO in October of the same year. KTHK Ltd expanded its operations to include mainland China with the appointment of a senior manager in Shanghai.

**2005** Terry Hitchcock was appointed Non-Executive Chairman taking over from Gay Haines.

Gay Haines stood down from her Chairman's role after thirteen years whilst remaining an Executive Director with responsibility for Business Development.

Paul Billett joined the Group as Finance Director.

Hat Pin plc acquired a majority share in Saxton Bampfylde Hever, part of the Amrop Hever Group and appointed Stephen Bampfylde to the Executive Board.

**2006** Kendall Tarrant consolidated its position within Latin America with the appointment of a senior manager and consultant team based in Chile and operating across markets in Brazil, Argentina and Columbia.

Kendall Tarrant London acquires Stolkin + Partners, further consolidating its position as leader in its market.

## CONTACT

56-60 Hallam Street  
London  
W1W 6JL  
United Kingdom

## RANKING

	Ranking out of 50 (50 being highest)
<b>Business model - competitive advantage</b>	
Competition	30
Customers	35
Low cost	
Management	39
- corporate governance	
- quality	38
- shareholding	
Product	35
Sector	35
<b>Financial evaluation</b>	
Early and profitable exit potential	45
Financial strength	
- cash flow	
- conservative accounting	
- need for funding	
Growth at a reasonable price	40
Risk	38
<b>Overall average rating</b>	<b>37</b>



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## FURTHER INFORMATION ABOUT THE RANKING

### Competitive advantage

Companies are assessed according to their business model and how this translates into strong and sustainable competitive advantage. This can only be achieved with low cost activities and doing something different from the competition. This 'differentiation' must add value to the customer who is then prepared to pay a premium price. The differentiation is most obvious in the product but it can exist anywhere in the company's value chain of activities, such as

easy payment terms, convenient locations, superior management, and quality of suppliers. Companies that do not achieve competitive advantage because they have the same costs and/or do the same as the competition are marooned in a profitless zone. They helplessly try to compete with the one weapon left open to them, which is the disaster of cutting prices and typically leads to similar retaliation by competitors, with disastrous results.

## THE FOLLOWING ELABORATES ON THE RANKING CRITERIA

### Competition

How intense is the competition and are there barriers to entry?

### Customers

Is the company controlling its customers and therefore its revenue streams? Are customers glued to the company and providing valuable and reliable recurring revenue or are they one-off, or 'transactional', providing shaky revenue? The company should ideally have weak and numerous customers.

### Low costs

Has the company achieved low cost activities thus allowing more of the top line revenue to trickle down to the profit line?

### Management

Is there good corporate governance? What is the quality of management, as this is crucial to any business? Are the directors' shareholdings significant but not so large that they control the company?

### Product

Is the product different from the competition and adds value to the customer? Are there threatening substitutes? Does it have a powerful brand?

### Sector

Is the company in an attractive sector that is profitable and adds value?

Services tend to be more protected than products from international competition. Does the sector ride the tailwind of multi-year mega trends? Is the business well positioned in the current stage of the economic cycle? What is its resistance to a recession?

### Profitable exit potential

What is the potential for selling the share profitably? This is more applicable to pre-flotation investments.

### Financial strength

Does the company have strong cash flow, the lifeblood of any business? Is the accounting conservative or is there 'accounting for growth'? Does it need more funding? Is the profit margin healthy and at least equal to its sector? What has been the track record in the growth rate of profits?

### Growth at a reasonable price

Does the share offer growth at a reasonable price? This is commonly measured using the PEG. This is the price earnings ratio (PE) divided by the forecast growth rate in earnings per share (EPS). The lower the PEG the better and under 1.0 is considered good for a blue chip company and under 0.6 for a small growth company.

### Risk

What is the risk rating of the share due to factors such as new markets, its business model and strategies?

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