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# COMPANY INFORMATION

Talarius plc (LSE – TLS)

Sept 2006

Company Eye Ranking

34/50

## EDITOR'S NOTE

Talarius (TLS) comprises of two gambling brands, Quicksilver and Cyberslotz, which operate in different areas - Quicksilver is the largest chain of adult gaming centre and Cyberslotz is an online gambling site. TLS has shown an increase in operating profit in the last six months

along with an increase in net assets.

In our opinion Talarius is protected from the current online gambling scandals by its street side activities and the company should continue to be profitable and grow strongly.

## FTSE AIM



## FUNDAMENTALS

Company Name	Talarius PLC
Current Price	219.00
Status	AIM
Market Cap(millions)	82.9774
Shares in Issue(millions)	43.87
Activities	Gambling
Sector	FTSE Travel and Leisure
Corporate advisor	Marwin Capital Ltd
Registrar	Capita Registrars

## HISTORY

RAL Holdings (RAL) was a £26m Management Buy Out (MBO) from the Rank Group in 1996. The MBO was led by current Chief Executive Officer Nick Harding and backed by Murray Johnstone.

Following the admission of Talarius plc to trading on the Alternative Investment Market (AIM) on 4 April 2005, the Company completed the reverse takeover of RAL on 3 June 2005 for a total consideration of £39m.

Subsequently the Group completed on 7 July 2005 the

£10.7m acquisition of Leisure Promotions Ltd, which operated 13 Adult Gaming Centres under the Royals brand across northern England and Scotland.

On 8 November 2005, Talarius announced to the London Stock Exchange (LSE) the £19m acquisition of Blackheath Leisure (Carousel) Limited. One of the largest operators of AGCs in London, Blackheath Leisure comprised 24 sites with circa 1,000 gaming machines. This acquisition gave Quicksilver a 17 per cent share of the British AGC sector, making it the clear market leader in UK high street gaming.

## THE BUSINESS

Talarius plc comprises two key gaming brands: Quicksilver is the UK's largest chain of Adult Gaming Centres (AGCs) currently with 185 sites spread across the length and breadth of the UK; Cyberslotz, which was launched in August 2001, is a "virtual gaming machine lounge" and is amongst the top ten most visited online gaming sites in the UK (source: Brandriver survey, June 2005).

The total number of people employed across Quicksilver

and Cyberslotz is circa 1,100.

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## TLS CHART



## R/E RATIO;

## RSI-14



## ACTIVITIES

### ADULT GAMING CENTRES

#### QUICKSILVER

The acquisition of Leisurama Entertainments Ltd and Leisurama Holdings Ltd on March 3rd 2006 raised the number of Quicksilver Sites to 185, the gaming machine estate to circa 10,000 machines and the number of people employed to circa 1,100.

The clear market leader in high street gaming with a 17 per cent share of the British AGC sector, the Quicksilver chain stretches from Fife in the North to Poole in the South and from Great Yarmouth in the East to Bristol in the West.

Quicksilver sites are open in the main between 9.00 and 19.00 hrs. Some sites remain open until 22.00 hrs, dependent on location.

A typical Quicksilver site has in the region of 1,200 square feet of trading floor and, on average, accommodates 40 gaming machines.

No person under the age of 18 is allowed access to the gaming machines. Uniformed staff provide complimentary food and non-alcoholic drinks for customers, as well as a change facility. The chain has its own in-store radio station – Quicksilver Radio.

Quicksilver customers are able to play their favourite slot games “on the move” following the launch of the brand’s Quicksilver Mobile Casino (QMC). The initiative is open to anyone in the UK who is over 18 and has a Java-compatible phone. Registration, which adheres to a robust age verification process, is entirely on the mobile.

Customers can choose from a range of games including

slot machines, roulette, blackjack and stud poker, with stakes from as little as 10p.

#### PRODUCT MIX

Section 34 machines are traditional Amusement With Prizes machines (AWPs). These offer a maximum jackpot of £25 cash for a stake ranging from 5p to a maximum of 30p.

The majority of machines found in Quicksilver sites are “lo-tech”, simple play in style – as opposed to “hi-tech” games typically found in a pub.

Of the 10,000 Quicksilver machine estate, 95 per cent fall under the Section 34 category.

The Gambling Commission is timetabled to review the maximum level of stakes and prizes by mid-2007. The last “triennial” review took place in 2001.

Each site is also able to operate a limited number of Section 16 machines which, within current legislation, offer a higher payout, limited to £500 within Quicksilver sites.

### ONLINE GAMING

#### Cyberslotz

The Cyberslotz engine is unique in the remote gaming sector, with all software designed, built and operated in-house.

In 2005, Cyberslotz made gaming industry history with the launch of Jackpot Roulette; the £1m payout represents the largest ever online jackpot.

Jackpot Roulette is one of 25 dedicated games that are unique to the portal.

## LIST OF CLIENTS

### ADULT GAMING CENTRES

Quicksilver operates two loyalty schemes, Quicksilver Gold and Platinum cards. In excess of 85,000 people hold a Gold Card, which gives them access to a range of free promotions and special offers.

### ONLINE GAMING

Cyberslotz virtual gaming lounge is amongst the ten most

visited online gaming sites in the UK.

Sales at Cyberslotz are growing at a rate of 60 per cent each year, confirming its position as one of the UK’s premier online gaming destinations.

The Talarius interactive division also offers a “white label” service which allows third-party organisations to utilise the Cyberslotz gaming engine under their own brand. This service gives companies an affordable entry to online gaming.



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## DEVELOPMENT HIGHLIGHTS

**3 June 2005** - £39m Reverse takeover of RAL  
**7 July 2005** - £10.7m acquisition of Leisure Promotions Ltd

**8 November 2005** - £19m acquisition of Blackheath Leisure (Carousel) Limited

## OUTLOOK

Talarius listed on the AIM market on 4 April 2005 as a cash shell with a strategy to consolidate businesses in the high street gaming market after identifying synergies and benefits that would occur by acquiring and making investments in companies or businesses in the sector. These synergies and cost saving opportunities in the acquired businesses are achieved through:

- Better husbandry of the machine estate
- Stronger staff leadership
- Leveraging Group ability to obtain better prices for capital equipment and utilities.

### Quicksilver

The Quicksilver strategy is to become the most

recognisable and respected brand in the low-stake, high-volume gaming market. This will be achieved through providing responsible, adult-only gaming experiences for men and women. The Quicksilver gaming experience is underpinned by security, comfort and social responsibility.

### Cyberslotz

Talarius will continue to drive the Cyberslotz online gaming business through enhanced marketing and promotion. Cyberslotz is unique in the gaming sector as Talarius designs, builds and operates all our own software. This allows the Group to be able to create an open platform with a wide range of slot gaming products, provided by a number of different suppliers.

## DIRECTORS

### David Williams - Non-Executive Chairman

David has over 35 years' experience in the investment market. He has served as Chairman in both executive and non-executive capacities for a number of companies, both public and private.

He has overseen the development of these companies through both organic and acquisitive growth as well as dealing with turnaround situations. For example, in 1994 David, as Chairman, worked with the executive team to float Waste Recycling Group plc at an initial value of £8m. During his seven years as Chairman at the company, its value grew to £550m. David was also Chairman of RAL Limited, an operator of 130 "high street" gambling sites across the UK on its management buyout from Rank Group plc. David is currently Chairman of Augean plc and Zetar plc as well as Marwyn Investments Group Limited and associated companies.

### Nick Harding - Chief Executive

Nick has 25 years' experience in the "high street" gambling market. Nick worked in a number of senior positions for Coral, Bass Leisure and Rank Group before leading the MBO of the RAL business from Rank in 1996.

In his eight years running RAL, it has grown, through limited investment, to become the UK's leading operator in the sector with 185 sites, together with an integrated and proprietary online gambling division.

Nick is a recognised and respected industry figure. He is Vice President of the trade association BACTA, a Trustee

of the Responsibility in Gambling Trust, sits on the advisory board of GamCare and was the founding Chairman of iGGBA, the UK's interactive gaming association. Nick has been licensed in the UK by the Gaming Board for cash bingo, AGC and gaming machine supply as well as being licensed as a bookmaker.

### Andy Hall - Finance Director

Andy has over 20 years of PLC experience from the high street retail and leisure sectors. From 1992 to 1999 he was Group Financial Controller at Whitbread plc, with financial responsibility for all aspects of the brewing and leisure businesses, which included the acquisition and integration of David Lloyd Leisure, Marriott Hotels, Costa Coffee, Cafe Rouge and Bella Pasta. From 1999 to 2004 he was Group Finance Director of Blacks Leisure Group plc where he oversaw the acquisition and integration of Millets, Just Add Water, Famous Army Stores and Sports Shop (Fife).

### Mark Watts - Non-Executive Director

Mark is a Director of Marwyn Capital Limited and its subsidiary companies. Mark has extensive corporate finance experience including recently advising the management of Augean plc on its £106m acquisition of two hazardous waste businesses in the UK, the management of Zetar plc on its £32m acquisition of a UK chocolate manufacturer, and the management of Inspicio plc on its £52m acquisition of Inspectorate Group, and their subsequent related admissions to trading on AIM. Mark is also a Non-Executive Director of Zetar plc and Inspicio plc



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## Robert Ware - Non-Executive Director

Robert served first as Corporate Development Director and then as Deputy Chief Executive of MEPC between June 1997 and June 2003. MEPC was the fourth largest property company quoted on the London Stock Exchange until September 2000 when Leconport Estates, a company jointly owned by clients of Hermes Pensions Management Limited and GE Real Estate, took the company private. Robert was a key member of the management team which was incentivised to achieve various targets set by Leconport Estates, such targets being met successfully.

Prior to joining MEPC, Robert served as a Director of Development Securities plc between 1988 and 1994 and filled the roles of Joint Managing Director and Finance Director in the latter stage of his tenure. In 1994, he left to take up the position of Managing Director of Dunton Group PLC, where he stayed until November 1996. He joined MEPC in June 1997. Robert is a Fellow of the Institute of Chartered Accountants in England and Wales. He is currently Executive Chairman of The Conygar Investment Company PLC and a Non-Executive Director of both Tarsus Group Plc and Raven Mount Plc.

## SHAREHOLDINGS

	Number	%
Lehman Brothers International	3,905,536	8.9
Goldman Sachs Group	3,481,700	7.93

	Number	%
Fidelity International Limited	3,476,142	7.92
Man Financial Limited	1,806,500	4.1
Morgan Stanley Securities Limited	1,683,931	3.84

## FINANCIAL HISTORY

### Profit and loss account 28 weeks to 15 July 2006

£'000	28 weeks to 15 July 2006	39 weeks to 31 Dec 2005
Turnover	31,908	25,557
Cost of sales	(3,635)	(4,066)
Gross Profit	28,273	21,491
Administrative expenses	(24,833)	(19,773)
Operating profit before amortisation and exceptional costs	5,103	3,180
Goodwill amortisation	(1,663)	(1,126)
Exceptional cost of flotation	-	(336)
Operating profit	3,440	1,718
Net interest payable	(1,229)	(721)
Profit on ordinary activities before taxation	2,211	997
Taxation	(1,277)	(701)
Profit on ordinary activities after taxation	934	296
Basic earnings per share	2.17p	0.96p
Diluted earnings per share	2.02p	0.90p
Underlying earnings per share	6.02	5.71p

### Balance Sheet as of 15 July 2006

£'000	15 July 2006	31 Dec 2005
Intangible assets	62,722	52,506
Tangible assets	24,590	22,158
<b>FIXED ASSETS</b>	<b>87,312</b>	<b>74,664</b>
Stocks	239	251
Debtors	4,838	4,393
Cash at bank and in hand	6,199	4,954
<b>CURRENT ASSETS</b>	<b>11,276</b>	<b>9,598</b>
Creditors: amount falling within one year	(16,336)	(12,544)
<b>Net current assets (liabilities)</b>	<b>(5,060)</b>	<b>(2,946)</b>
Assets less current liabilities	82,252	71,718
Creditors: amount falling after more than one year	(34,092)	(32,967)
Provisions for liabilities and charges	(2,640)	(2,985)
<b>NET ASSETS</b>	<b>45,520</b>	<b>35,766</b>
<b>CAPITAL AND RESERVES</b>		
Called up share capital	4,390	3,790
Share premium	39,900	31,680
Profit and loss account	1,230	296
<b>EQUITY SHAREHOLDERS' FUNDS</b>	<b>45,520</b>	<b>35,766</b>



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## 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 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.

## CONTACT

Bucklersbury House,  
3 Queen Victoria Street,  
London,  
EC4N 8AG,  
United Kingdom

## RANKING

	Ranking out of 50 (50 being highest)
<b>Business model - competitive advantage</b>	
Competition	34
Customers	38
Low cost	23
Management	40
- corporate governance	
- quality	
- shareholding	
Product	30
Sector	35
<b>Financial evaluation</b>	
Early and profitable exit potential	
Financial strength	
- cash flow	
- conservative accounting	
- need for funding	
Growth at a reasonable price	35
Risk	37
<b>Overall average rating</b>	<b>34</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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