

**Tribal Group Services**  
**26<sup>th</sup> March 2008**  
**9h30**

**Speakers: Peter Martin, Chief Executive**  
**Simon Lawton, Group Finance Director**

Peter: Good morning everyone and welcome to the Tribal results presentation. We'll kick off just picking up on some of the highlights in the results and then run through the detailed numbers and I'll pick up on the operational review and then talk a little bit about future prospects. As you know we changed our year end last year to December, so the period that we're reporting on is the 9 months to December 2007, but we've also included in the results presentation pro forma numbers for the 12 months so you'll have comparative figures going forward. In terms of the 9 months figures, we were very pleased by the performance in the period of both profit before tax and earnings per share, we're up very substantially as a result of good levels of revenue growth, but particularly an increase in profitability and a significant reduction in our interest charge following the sale of Mercury Health last year. So we're going into the new year in good heart and on the back of the results we've increased the final dividend to 1.8p, which is equivalent to an annualized increase of 13%. Looking at the 12 month pro forma numbers; again encouraging performance with profit before tax and earning per share both up by 20%, a very good performance in terms of cash conversion and Simon will talk a little bit more about that in a moment . Our balance sheet is now in a very much stronger position; we've net debt at the year end just below £7 million. With that as by way of introduction I'll hand over to Simon to talk a little bit more about the numbers.

Simon: As you've seen from the preliminary statement it's a very complex set of numbers, 37 pages, probably one of the longest, well certainly the longest we've produced, but that's really to do with the year end change and the short 9 month period. As Peter touched on, we believe the best

measure of our progress is the 9 months to December like-for-like and this is what this income statement shows. Revenue up 11%, very good PBT up 98%, earnings per share up 112%. We were particularly pleased with the improvement in margins, up from 6.1% to 7.6% in the period. Equally the order book is up 15% to £124 million and I think one of the key numbers to take away is the doubling of our pipeline up from £84 million to £168 million. That's on the back of a number of education bids that we spoke about when we had the Education briefing day at the end of January; that includes the offender learning contract opportunity which is worth somewhere between £20 to 25 million. The Ofsted renewal again is worth about £20 million and then there's 3 PFI hospital builds that are all somewhere between £10 - 14 million in value. As Peter also touched on the 13% increase in the annual equivalent dividend, the 2.95p is just for the 9 months and if you convert that back up that represents 3.9p on a 12 months basis.

Moving on to the 12 months, we really put this up for comparative purposes going forward but also for the analyst community because most of the analysts have built 12 month models and again it's demonstrating very strong performance at PBT up 20%, earnings per share are also up 20%. The equivalent consensus numbers against which we've delivered £15.8 million to PBT (the consensus was £15.5million), EPS of 12.7p the consensus was 11.7p. Looking at the EPS level we were helped by our tax rate again where we had another win with the Revenue on prior year bid costs relating to Mercury Health which was worth £1.6 million in rebate so the rate was about 27.2%, but going forward it will be 29.5% I anticipate, going forward. Well that slide plots the history of our committed revenue some 15% up to £124 million, that represented 40% of our planned revenue for 2008 at the beginning of the year at 1<sup>st</sup> January and as we stand today based on our first 2 months plus our forward order book for the rest of the year, that has now risen to 55% of our planned revenue.

This next slide is a new one for us, it's really showing the unwinding of our order book. It's really dominated by Education which counts for 74% of the total at £91 million. In Consulting as you would expect, visibility is reasonably short and we only really see 2 to 3 months look forward, we

have one large contract as you can see and then Support services is dominated really by our property businesses where we've got a record level of committed income of over 56% already for 2008.

Balance sheets, as we've touched on in our trading statement in January and also at the interims, we've got a very much stronger balance sheet; it's changed following the sale of Mercury Health. We've got net debt below £7 million, we've tidied up our goodwill, we took the impairment charge at the interim for £9 million. There's been no further impairments across the business. Retained earnings: our profits have been boosted by the sale and now stands at close to £37 million. We have one remaining earn out payment; the third consideration of £3 million payable in cash in May that relates to the Sportsvine minority buy back that we announced in October. The gearing of 4% against current market conditions in the credit market is a nice position to be in.

Cash flow, as Peter said, we had an outstanding operating property cash conversion 142%, it's always difficult to judge this with a change in the year end to December when businesses really shut down for the 2 weeks prior to the New Year. It was buoyed by some EU funding money that we received in advance of doing the work and that's £3 million. It was also helped by the refund of tax that I mentioned earlier of £1.6 million, but nevertheless the £25.2 million divides by the £17.7 million of EBITDA and that's how you get the 142%. Capex of £6.5 million we've taken the opportunity this year to boost some investments and that will be continuing going forward into the new year and as you can see we spent £2.3 million on product development, we're introducing the new business information system that cost £1.25 million and there'll be further roll out during 2008, but going forward on an annual basis it will be about £5 million of capex. And finally before I hand you back to Peter we've touched on the net debt, it's below £7 million. Just to remind you we have a £40 million bank facility with HBOS and HSBC which goes up to 2012, we've got plenty of headroom in our covenants and we're in the money on an interest swap at 4.99% today. I'll hand you back to Peter.

Peter: As you know, we report under three business streams Education, Consulting and Support services and this slide just shows the breakdown of the revenue and operating profit during the 9 months to December 2007. Returning to each of those business streams starting with Education which is our largest business stream. Overall it was a very good performance. I'm very pleased by the increase in operating profit; also pleased by the increase in the operating margin. We're not expecting that margin to continue at that level in the current year, as a result of investment in new products and new services and also increasing levels of bid activity. We have 3 principal businesses in Education and we operate right across the education sector; schools, further education, universities; we're also working with private training providers and also involved in offender learning so it is a very broadly based education business. Those of you who attended the investor day in January were able to get a very good appreciation of the breadth of capabilities that we have in this business. In terms of operating performance, it was a good performance right across all of the businesses in 2007 at a high level of contract wins which fed into committed income being 15% higher in our Education business at the start of this year, compared to the comparable period last year.

A very good performance in our schools inspections business, this is Tribal's largest single contract, it does come up for re-tender in the second half of next year and that process has started and potentially there's an opportunity to increase the scope of activity as a result of OFSTED looking to outsource a broader range of activities than just schools. Our software business has continued to strengthen its market position and is one of the major contributors to our committed income levels as we go forward.

In terms of the outlook; we've already touched on good levels in our order book, pipeline is strong, you'll find we've touched on that already and we are continuing to invest in some of our growth areas and increase our bid activity as we look to go after larger contract opportunities. We have been looking to increase the strength and depth in our management team in education and have made some important appointments in our BSF (Building Schools for the Future) and

academies area and also in our children services area. We're also starting to look increasingly at international opportunities, we did win some interesting contracts last year in some overseas markets and we do see some real opportunities to take our educational expertise, our world class software products, into selected overseas markets.

Consulting; we're very pleased by the recovery in Consulting with operating profit up by 41% in the 9 month period as a result of good growth in revenue, but also an improvement in operating margins. We are still looking to improve on those operating margins in Consulting they are not where we want them to be, we're looking to progressively improve that level of profitability over the next year or two. We operate across 4 principal areas in Consulting: health, housing regeneration, central government and local government. Our frameworks continue to be very important to our Consulting business; frameworks are essentially preferred supplier lists that are increasingly being used as the gateway to consulting work right across the public sector. We're very pleased by the increase in the number of frameworks that we are now participating in. We saw good demand across our 3 largest consulting practices; housing regeneration, health and central government. We have now restructured our local government consulting business where we see significant opportunities to grow and with new leadership in place we expect to see an improved performance there. And as we've touched on both at the interims and in the results today, we are continuing to invest in our health commissioning business and we are now on the framework of preferred suppliers to the Department of Health and have been short listed on all of the early pilot projects in this area. Again, in terms of the outlook, we're seeing good levels of demand across all of our Consulting businesses. The strongest quarter for us is the first quarter, but we are seeing good utilisation rates and good levels of fee rates and it's been a good start to the year in Consulting. We will continue to focus on frameworks as being the key source of new business for us in this area. Recruitment and retention is really key to our people objectives and we've been very encouraged by the quality of people that we are able to recruit, but it has been a tight market and we don't see that changing in the near term; and again we will be looking

selectively at international opportunities for our consulting business and this will typically be taking advantage of funds made available by agencies such as the World Bank, EU etc.

We have 3 businesses in our Support services business stream - architecture, communications and our resourcing business; overall the performance in 9 months was very good with operating profit up by 42% over the corresponding period. Within those numbers there was the Peterborough success fee which in part offset the decline in profitability in the resourcing business that we announced with our interim results. There is very strong demand in our architectural business and Simon's touched on that earlier, but we're seeing a very strong flow of opportunities particularly in health, but also in our other 2 key areas of education and science. Our communications business has continued to grow through development of existing clients, but also new clients in both the public and the private sector and the one disappointing area was resourcing and we touched on this at our interims in November; much of this is down to its core business of recruitment advertising where there is a continuing move away from traditional media to digital media. We have taken a whole series of actions to reduce costs and restructure the business and as a result of those actions the business is now performing much better and performing to its revised plan.

In terms of the outlook; the architectural business' very strong order book and pipeline certainly by some way the strongest position it's been in since we acquired the business some years ago. We're also seeing very favourable trading conditions in our communications business and as I mentioned resourcing is performing to plan in the current year. In terms of management; we appointed a group HR Director Virginia Rothwell in November that was a new appointment; and we are in the process of appointing a Chief Operating Officer. That's well advanced and I hope we'll be in a position to announce that in the next few weeks and we are looking as I touched on already to increase the strengths as a management team right across the business and we've made a number of appointments already and expect to make more as we go through the year. Our Senior Leadership Team of our 30 top managers which we brought together last year is now

fully established and working very well. We continue to focus on collaboration in getting all of our businesses to work together in a way which they haven't always done in the past and that's really to respond to our client needs, very often our clients are looking for an integrated solution and we're able to do that by playing to the broad range of capabilities that we have across Tribal. We've also recently completed formal management reviews across the business and I think we were very encouraged by the depth of talent that exists within the group.

We've also announced today as you would have seen in the results that Henry Pitman is standing down as a non-executive director having served Tribal as Founder, Chief Executive and latterly as a non-executive director; it will be our intention to appoint a new independent non-executive director in due course.

Just turning to the prospects, but first just touching on the macro environment; despite all the problems in the wider economy and credit markets in particular we remain encouraged about the prospects of our business. The Comprehensive Spending Review of government spending which was announced in October last year gave above average awards to our two principal areas of education and health. Those spending plans were confirmed in the budget earlier this month, indeed there was some additional funding allocated to education in the budget. I think we're also very encouraged by some pronouncements from Ministers, and in particular Gordon Brown, who wrote to the Financial Times two weeks ago and certainly used all the right words around greater diversity of providers, more choice and more competition. I think we're encouraged by the environment and also the continuing government agenda of public sector reform focusing on efficiencies and better value for money. At the moment we're certainly seeing no lack of opportunities to grow our business across all our areas of activity.

In terms of our strategy and we set this out very clearly; we will be continuing to focus on our core public sector markets - education and health, housing regeneration with local and central Government; we will continue to provide a range of services spanning consulting, support and

delivery and see those very much feeding off each other as we go down the route of greater collaboration and we will be continuing to develop integrated service offerings and as I've already touched on, I was really responding to our clients' needs who have complex challenges ahead of them. We will be continuing to invest in some of our growth areas such as health commissioning, building schools for the future, recruitment process outsourcing where we see significant opportunities. We will be looking, again as I have already touched on, selectively at international development and we're already seeing a good flow of opportunities that can build on our existing expertise and we will be looking to make acquisitions. We made a small one a couple of months ago in our housing and regeneration business, we bought a master planning urban design business which filled in our portfolio and is already making a significant contribution and we are looking at a small number of other acquisitions currently.

In terms of our financial objectives, again this has been set out. We are looking to target double digit organic growth over the medium term; we will be looking to progressively improve our operating margins. We've been pleased by the increasing committed income to 40% at the beginning of 2008, but over the next three years we'll be looking to increase that further to a target of 60%. We will be looking to enhance our earnings growth through our acquisition policy and we've already embarked on a progressive dividend growth policy with the announcement of our final dividend today. So just to finish up, in terms of current trading so far this year we've had good performance with trading across the business in line with our expectations; the first quarter is an important quarter for us, but we're seeing good levels of activity in all our business streams.

At the end of February we had delivered committed income revenue levels of 55% of our 2008 plan, at the same point last year we were at 45%, so a significant improvement on the position last year. We've talked about our continuing investment and increased bid activity in the first half of this year, particularly in our Education business. And our 2008 figures in terms of profit before tax and earnings per share will benefit from the reduced interest charge that was the result of the lower levels of debt. The pipeline of opportunities remains strong and we're looking forward to

the current year and beyond with some confidence. Very happy to take any questions people have.

Question: The point about the bid costs, can you give us an idea of for the 12 months to December what they were in '07 what your expectation is in '08 and perhaps you know the H1 the H2 skew in the current year?

Speaker: We typically spend about between £1 - 1.5 million on bid costs on a yearly basis and that's clearly expense above the line. I think this year we are seeing acceleration, I mean we've already started mobilising our teams for the offender learning bid which is not until 2009, we've already started mobilising for the OFSTED bid. So I think, there's a number of other contracts that we're seeing, so I think we are going to see it skewed, I think it's going to be £2 million over the course of the year and we're certainly seeing a lot of that in the first half, particularly in education.

Question: My second question was in terms of the comment about the need to get on frameworks particularly on the consulting side, to what extent is that going to hamper your ambitions to improve the margins within that business? It's particularly great to be a preferred supplier but if you're not normally having to sacrifice a margin for that position.

Speaker: Many of the frameworks do have fixed day rates and a bid process so that puts some pressure on day rates. Notwithstanding that, there are ways of playing that in terms of the mix of teams that you put onto a particular assignment and one of the trends we are seeing in our consulting business is towards longer term assignments which are usually at a slightly lower margin that are giving us much better levels of committed income. Yes there's continuing pressure but we think there are plenty of ways of playing the game to ensure that we can continue to improve margins.

Question: So over the next couple of years you'd still hope to get up towards the double digit margins within the consulting business?

Speaker: Our target is to get to 10% over the next 2 - 3 years.

Question: Thank you

Question: On the bid pipeline I know you mentioned 2009 for the offender learning, can you comment on the sort of timeline for the decisions on some of those other bids you know the big ones?

Speaker: Yes, well I think the architectural bids we're going to know by the Autumn, all three of those bids, the North Bristol PFI, and there's a couple in Wales, so we expect to be able to if we're successful, announce those after the interims. In terms of OLASS and offender learning it's not going to be until Spring of next year.

Question: One on your success rate on bidding, have you seen a change in that and what do you reckon your success rate is on the bids you put in? And secondly on PFI projects, there's been some comments in the press about difficulties in finding finance for those, are you encountering any problems in terms of the PFI projects?

Speaker: In term of the PFI projects we're only bidding on one major PFI project currently, which is the North Bristol one that's Simon mentioned. At the moment we're told the funding is in place for that and will be in place for that and the PFI project we're currently working on already has the funding committed. So we don't see that as a big risk to our current pipeline and the other major architectural contracts that we're bidding on is for on a Wales framework where they're not using PFI; it's committed government money. So it's not a long term risk for us.

In terms of our overall win rate, I mean it's something we're looking to improve, I mean across the business you can see it's around 1 in 4 and we would like to get that up more towards 1 in 3 and part of that is clearly around the quality of our proposition but I think it's also partly around improving our qualification process of being more selective about what we actually bid for.

Question: Just a couple of more questions from me, first of all you talked about the sort of top 30 team in terms of trying to improve the collaboration across the group. Can you talk about any changes you might have made to the way that top team is remunerated to try and really incorporate that within the business? That's the first question.

Speaker: Well we've been through the process over the last two or three months of revising the incentive structures for that top team, so that a significant proportion of their variable remuneration is based on collaborative behaviour that's found in a number of different ways. So that has been quite a significant change, I guess we'll see the success of that in 12 months time, but those structures are now in place.

Question: And broadly what's the mix of fixed and variable pay for those top teams?

Speaker: It varies but their bonus targets can vary from between 30 – 60% of basic.

Question: And then a question on the Resourcing business, I mean you've got that on track now hopefully but given the point at which we entered the current year are the profits in that business going to be likely to be flat or down year on year?

Speaker: We took quite a bit of a restructuring charge in the nine month period, all expense above the line it was about £600,000. So if you strip that out and add it back we should see quite a step change in profitability. To be very clear over the 2007 we made a profit of £300K....

Question: .....net of that £600k?

Speaker: Yes; and as far as I am aware, we're one of the few companies in the industry making profits.

Question: Great thank you very much.

Question: Just a quick one on acquisitions, your aspirations there. Are you sort of thinking small businesses bolting onto the existing areas or are there any markets you're not in that you want to move into?

Speaker: We're looking as I said at a small number of opportunities, most of those are relatively small, so the purchase price sub £5 million, but as I say we would look at a slightly larger opportunity if we felt it met our criteria both in strategic and in financial terms.

Speaker: Yes where they are clearly complimentary to existing capabilities then that's something we would look at.

Speaker: A good example would be in our architectural practice where we're looking at one or two smaller acquisitions, we already have a presence in the science market and we'll be very interested in buying a practice which has some really strong expertise in that area.

Speaker: Okay any other questions? Alright thanks very much everyone.