

24th May 2010

## ReThink Group\* Final Results in Line: Stance upgraded from Buy to Strong Buy at 4.5p Target Price 20.5p

Rapidly expanding IT recruitment and IT consulting business ReThink announced results for calendar 2009 on May 13th with numbers coming in-line with our forecasts and accompanied by a confident statement. Despite that the shares have fallen, albeit on minimal volume, leaving the stock on a current year multiple of 4.8, falling to 2.6, which we believes offers a compelling buying opportunity.

Sales in 2009 increased by 15% to £49.7 million. However this reflects a sharp increase in temporary placements driven by ReThink expanding its contractor base significantly and a sharp decline in the higher margin permanent placement business. Hence gross margins fell from 27.9% to 22% and gross profits fell from £12.1 million to £10.9 million. At a pre-tax level Rethink met our forecasts with a profit of £300,000 which was generated almost entirely in the second half of the year. This compares with a figure of £190,000 in 2008 although those numbers were reduced by the £500,000 cost of gaining an AIM listing. Earnings per share came in at 0.24p, up from 0.09p.

Overall net debt was reduced by 28% to £4.2 million although this figure does not represent an accurate picture of the balance sheet since it includes invoice discounting against year end trade receivables of £9.6 million. Excluding this finance net cash increased from £327,000 at the end of 2008 to £357,000.

We always knew that 2009 would be a tough year for ReThink - as with all

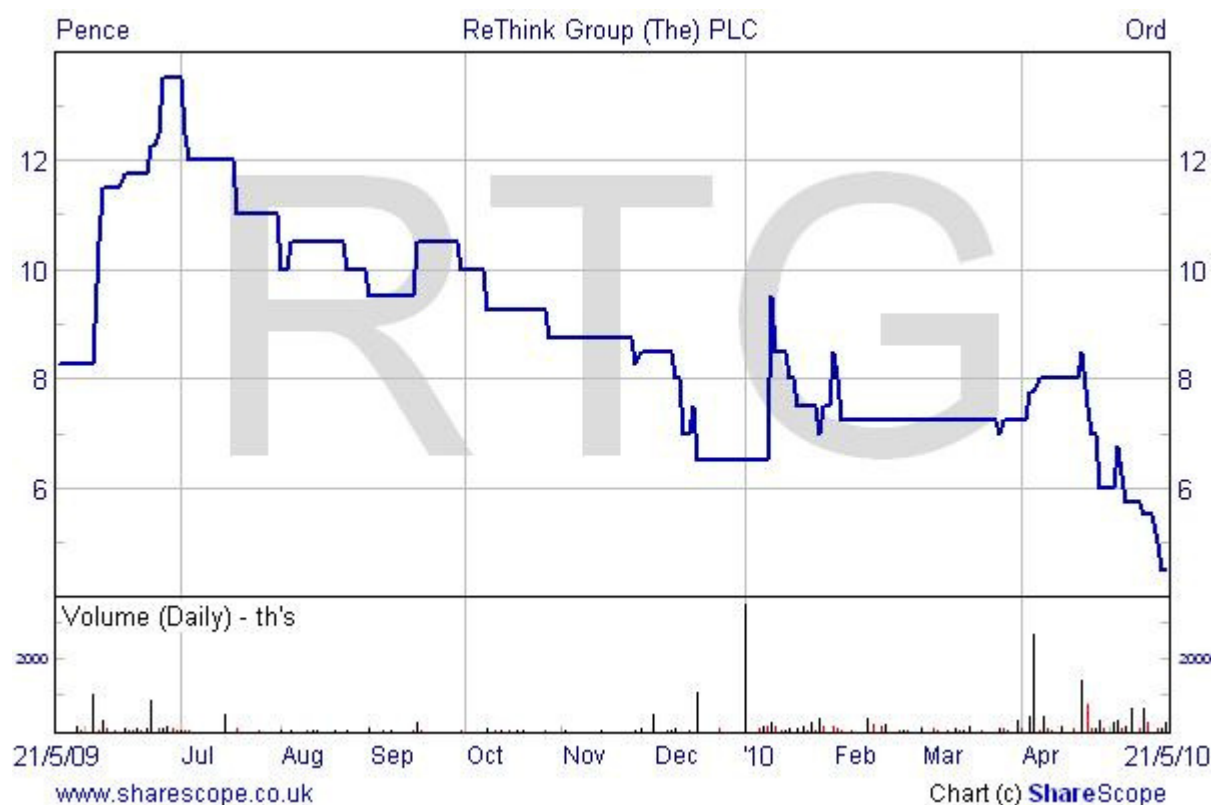
| Key Data           |  |
|--------------------|--|
| EPIC               | RTG  |
| Share Price        | 4.5p   |
| Spread             | 3p-6p  |
| Total no of shares | 90.9 million + 18 million options                                      |
| Market Cap         | £4.09 million (undiluted)  |
| 12 Month Range     | 4.5p -13.5p  |
| Net Cash           | £357,000   |
| Market             | AIM  |
| Website            | <a href="http://www.therethink-group.com">www.therethink-group.com</a> |
| Sector             | IT Recruitment & IT Consulting   |
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recruitment companies. However, we noted when initiating our coverage in September that the company was not merely sitting back and waiting for conditions to improve but was active pro-actively to improve the bottom line. Hence in the second half it worked hard to increase the customer base of its consulting arm Aiimi while cutting out underperforming staff in the recruitment business - overall staff numbers were 129 at the year end, a net reduction of 20. That on its own should drive profits forward in 2010 but we also note the statement from CEO Jon Butterfield which accompanied these results: *We have seen an improved demand for permanent recruitment services which, if sustained for the remainder of 2010, will have a positive effect on our business. Whilst there are signs of a return to more confidence in the market, conditions have some way to go to return to normality. We therefore look forward to 2010 with a positive mindset, but with a considered approach and our eyes wide open to the risks in the market.*

Hence our 2010 estimates are predicated on the increase in the number of contractors on the temporary side of the business and the ongoing growth of Aiimi continuing; the full effects of the reduced overhead kicking in from the start of the year and, critically, a material uplift in high margin permanent placements. This last factor while not having a huge impact on overall sales growth will have a material impact on gross profitability.

On the basis of these results we have marginally increased our 2010 sales forecast from £54 million to £56 million and our 2011 forecast by £1 million to £66 million. At this stage we are not altering profits or earnings estimates as we would like to see half year numbers before making amendments. However we regard the risks to our estimates to be very much on the upside rather than the downside.

While the recruitment sector as a whole has enjoyed a re-rating from cyclical lows during the past six months, ReThink shares have fallen sharply. Given the strong results and confident statement from CEO Butterfield we regard this as anomalous. We continue to value the company on 12 times our, cautious, 2011 earnings forecasts of 1.7p - i.e. at 20.5p. Recent share price weakness offers a compelling opportunity and at 4.5p - on a derisory 2010 earnings multiple - our stance is upgraded from **buy** to **strong buy**.



## Forecast Table

| Year to 31st December | Sales (£ Million) | Pre-tax Profit (£ Million) | Undiluted Earnings Per Share (p) | Price Earnings Ratio | Dividends Per Share (p) |
|-----------------------|-------------------|----------------------------|----------------------------------|----------------------|-------------------------|
| 2008A                 | 43.4              | 0.19                       | 0.09                             | 50                   | 0.0                     |
| 2009A                 | 49.7              | 0.3                        | 0.24                             | 18.8                 | 0.0                     |
| 2010E                 | 56                | 1.2                        | 0.93                             | 4.8                  | 0.0                     |
| 2011E                 | 67                | 1.7                        | 1.70                             | 2.6                  | 0.0                     |

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