

Code	TBC
Price	80p
Market Cap	£5.0m
Year End	February
Net Cash	£2.5m
Shares in Issue (pre-float)	6.25m
Next Results	Finals May 09

Company Description

Serviced office operator

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Introduction to Aim; £0.5m fundraising

Citibase provides serviced office accommodation to the cost conscious SME from 14 locations around the UK. The group is seeking an AIM quotation to facilitate future acquisitions along with a small fundraising to cover costs. The intention is to expand quickly within a fragmented area of the business service sector, offering a branded accommodation solution for cost conscious SME's. Citibase concentrates on the town/city centre market, rather than out-of-town locations and has just under 4,000 workspaces available. With a new, experienced fast growth management team, Citibase plans to increase the number of centres threefold to 42 over the next 3-4 years.

► **A growing market.** Accommodation costs are a necessary burden for business but lease obligations need not be. The UK serviced office market appears to have been growing at c 12% pa for the past few years. Despite nominal charges being higher than traditional leasehold occupation, the flexibility of the proposition for customers and the adaptability of the model to a variety of economic conditions implies the serviced office market can continue expanding especially as serviced office space still only accounts for a small percentage of the whole.

► **Expansion.** There are over 1000 centres in the UK of which c600 are in independent, non-aligned hands and thus offer the main expansion opportunity for Citibase. As profit growth and capital returns are highly geared to occupation levels and pricing, the combination of yield management skills with the benefits of scale are key to maximizing benefits from the group's growth strategy.

► **Valuation.** Citibase is a property manager rather than a property owner operating at the lower end of market pricing. Regus is the premier quoted brand and addresses the high end corporate market but a wide range of privately owned business centres exist in the UK which Citibase is seeking to consolidate. A modest 5x PER rating is in line with peers but does not reflect the group's ambitious expansion plans or the longer term profit potential.

Forecasts

Year end	2007	2008	2009(e)	2010(e)
Data				
Sales	8.77	10.13	10.3	11.8
EBITDA	-0.27	0.91	1.2	1.5
PBT	-0.55	0.64	1.0	1.3
Tax Rate	-2%	9%	28%	28%
Ratios				
EV/sales	0.3	0.2	0.2	0.2
EV/EBITDA	n/a	3.2	1.9	1.7
P/e	n/a	n/a	7.1	5.9
Yield	n/a	n/a	n/a	3.0

Investment summary

We believe that Citibase has in place an experienced management team with a clear strategy in place for organic growth in a fragmented service sector. Valuations in the sector are conservative but the fact that the group, having reached critical mass, is now seeking to expand over three years from a low point in the economic cycle and relying upon internally generated resource to do so is an attractive proposition for shareholders. The group is also committed to the policy of paying dividends.

The key points of the business are that Citibase is:

- ▶ Cash generative on the basis of its existing estate.
- ▶ Enjoys high marginal profitability and is well-managed.
- ▶ Is not capital hungry in order to expand (as would be a pure property company) and has cash in the balance sheet.

Positives

Fast growth

- ▶ The group has a clear three year vision but will be pragmatic over the rate of expansion. Growth can always be accelerated through securing bulk deals (management contracts) to achieve critical mass rather than expensive greenfield developments but the favoured approach is to add individual, compatible business centres to the portfolio.
- ▶ With acquired business centres comes the flexibility to add margin through service revenues and increase the number of workstations.
- ▶ The acquisition model is designed to provide a relatively quick payback period for acquisitions given low acquisition multiples and potentially high return on capital.
- ▶ Good average duration of customer occupancy offers a security of income and provides a rationale for expansion as average occupancy can be above the cash pay back period for acquisitions, (if still below that for the total planned consideration).
- ▶ Cash generating capacity means that growing dividend payments are ultimately achievable as the portfolio grows to maturity even if the short term emphasis will be on utilising cash flow to grow the business.
- ▶ Lease terms are set reasonably well in advance and thus limit upward threats to Citibase's cost base although leases across the group will fall for review on a rolling basis.

Negatives

- ▶ There is limited pricing power in the market as a function of competition.
- ▶ The business is managed to perform but earnings exposure can arise if revenue targets are missed.

- ▶ Underlying price increases for customers will be modest during a period of low inflation (confined to RPI) so the emphasis on aggressive marketing will be key to winning new custom.
- ▶ The sector is characterised by low multiples (5x post tax earnings) given the current environment and cautious investor sentiment. This outlook seems unlikely to change in the short term.
- ▶ Equity issuance as part of the expansion process will have a dilutive effect, especially if the timing of acquisitions is unfavourable or yield management techniques cannot beat sluggish customer demand.

In summary

- ▶ Citibase is **not** a property company.
- ▶ The focus will be on cash earnings in the short term and longer term on dividends but a dividend payment is a key objective from the outset.
- ▶ Surplus cash flow can fund expansion without recourse to shareholders.
- ▶ High gross margins of 50% on service revenues are achievable and Citibase enjoys a high marginal profitability where good occupancy rates are achieved.
- ▶ Citibase is characterised by a high level of pragmatism. Whilst conditions favour expansion as the group should be able to secure attractive leases in the current climate, financial criteria will govern the rate of growth rather than volume considerations alone.
- ▶ We have indicated only a conservative rate of growth in the number of workstations going forward, roughly 10% pa in our forecasts. However Citibase is keen to grow at higher rates than those we have used in our illustrated forecasts. Growth to 42 centres in 3-4 years implies over 10,000 workstations by 2012 against 4,000 at present. At this higher level, we estimate EBITDA could be £4m (assuming an 80% utilisation rate) before central costs (based on taking an average gross income of £500 per workstation). To achieve this higher level, the cumulative spend, assuming an approximate acquisition cost for 6,000 workstations of around £2,000 each (0.55x revenue) would be £12m, of which £6m would be in cash. We believe this is a supportable ambition assuming a high level of utilisation across the estate is achieved.

Background

Current business profile

Steady expansion since formation

Citibase was founded in 1993 – at a time when the UK was beginning to emerge from a period of recession and before the exciting era of the tech boom. From the outset, Citibase concentrated on offering flexibility for small businesses and has expanded consistently, adding around one centre per annum, with the exception of 1999 and 2005 when 5 and 4 respectively were added. The serviced office market has been growing faster than the general economy and is gauged by the number of workstations which we estimate has been growing at about 12% pa since 2001.

Locations (and workstations)				
Location	Date	Workstations (available)	Workstations (occupied)	Utilisation %
Edinburgh	Dec-96	311	270	87%
Aztec West	Dec-97	288	262	91%
Cambridge	Sept-98	175	175	100%
Leeds WS	Feb-99	112	69	62%
Manchester	Dec-98	605	327	54%
Leicester	Dec-98	267	179	67%
Bewdley	Dec-98	121	56	46%
Kenilworth	Dec-98	62	37	60%
Birmingham MX	Dec-98	427	362	85%
Newcastle	Jul-99	244	198	81%
Finchley	Mar 05	356	255	72%
Leeds PS	Dec-05	372	215	58%
Birmingham TR	Dec-05	217	119	55%
Victoria	Mar 06	347	318	92%

Source : Citibase

Citibase has demonstrated steady growth over the past five years as new centres have been added. Price inflation in the sector tends to be modest and is taken to be in low single figures, broadly reflecting inflation. Hence the emphasis on management techniques to improve utilisation.

Citibase: Revenue growth			
£m	2006	2007	2008
Revenue	7.496	8.779	10.132
Gross Profit	1.083	0.787	2.147
EBIT	0.066	-0.567	0.586
EBITDA	0.300	-0.273	0.912
PBT	0.078	-0.555	0.644

Source: Citibase

Proposal

“Acquisitive expansion in the provision of property solutions for the cost-conscious SME”

Town/city centre locations

It is important to position Citibase correctly at the outset in order to understand where the growth opportunities lie.

The serviced office sector is a segment of the rented commercial space market, but within that segment it is necessary to distinguish the types of space available (workspace, storage space, industrial office space, office parks, business centres, out-of-town facilities and town centre facilities) and the quality threshold of each operator. Accordingly each category has a customer profile it best addresses and thus competition exists within categories rather than across categories. Citibase focuses on town/city centre locations and is price conscious in its offering. Therefore market definition and client identification represents an important feature for Citibase and influences its marketing mix.

Small cost conscious professional/business users

Taking it one step further, Citibase defines its core competition as “the garden shed”. Typically small business start-ups comprise a team of 5 who generally prefer a central location for social as well as commercial reasons. While Citibase can happily accommodate larger businesses and for long stays, occupation levels (and pricing) are governed by the need to appeal to and attract a large number of smaller business users. Therefore group premises are selected for their central location and inherent physical flexibility, as room sizes are often adjusted to suit customer requirements.

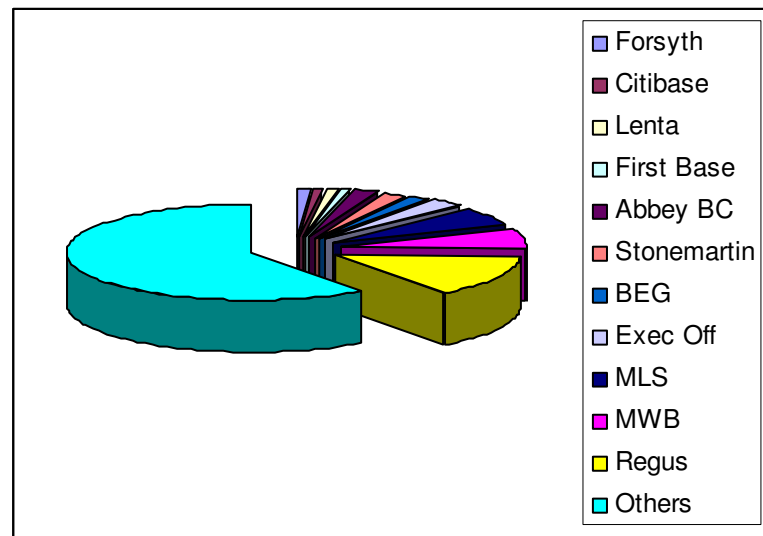
All-in, accessible pricing structure

Pricing is on a menu basis per workstation (typically 4 to a room) with a range of facilities on offer (telecoms, photocopying, meeting rooms etc). Under what are almost industry standard terms, customers sign up with 2 months rent in advance as a deposit and pay monthly in advance. The average stay across the Citibase portfolio is currently 27 months although individual centres have experience of much longer periods of customer occupancy.

Fragmented market

The UK serviced office market has enjoyed steady growth for the last few years. At the time of the MWB Business Exchange flotation in Dec 2005, the serviced office market in the UK was estimated to represent 1.7% of UK properties for business use, as against 15% in the US. The statistics are difficult to pin down as it depends on the definition of available space and length of occupation but the number of workstation users, even if nearer 3% of the office market, is still dwarfed by the permanent office population. There are also grounds for continued structural growth as the equivalent statistic for the American market is so much higher but the boundaries for segment classification can become blurred as property owners make space available on short lease or licence grounds which has the appearance of serviced office provision but is not the core business activity.

Serviced office provision in the UK



Source: DTZ 2006

The market is also fragmented as the chart above seeks to show, in part a function of low barriers to entry. The largest segment by far (blue) is that represented by the private sector and is the area of independent operators into which Citibase is seeking to expand. At the top end of the market, Regus as the largest single operator has an approximate 14% market share. MWB, the next largest operator holds approximately one half of that share at 7%, with MLS at 6%. The remainder tail away quickly to very low single digit market shares.

Large small company universe in UK

The reach of the small company market is extensive with 4.3m companies registered in the UK. The majority of those businesses employ fewer than 50. The typical customer for Citibase has 5 employees and Citibase has grown to offer 4000 workstations across 14 sites in the UK, (an average of 285/centre)

Adaptable service model

The argument stands that the serviced office business model is suitably adaptable to general economic conditions. In buoyant times, there are more business start-ups requiring office space, whilst in recessionary periods, cost cutting is key and downsizing suits the use of serviced office space. In essence, for customers the attractions of serviced offices lie in avoiding the complexities and financial obligations of the traditional leasehold structure. The price paid over a lease for a serviced office represents the premium for flexibility. Beyond that, the core task of Citibase is to locate suitable business centres and manage them effectively.

Clear market positioning

Citibase has positioned itself in a different segment of the market to either Regus or MWB Business Solutions, aiming at a lower market segment (£300/month v £850/month high end city profile rentals) and this distinction remains key to growth of Citibase. The branding is also a feature, seeking, in order to appeal to SME's, to be understated and cost-conscious rather than over-bearing in style.

Market can continue to grow

We believe there are a number of opportunities for growth Citibase will be able to explore. Firstly, we see the current economic uncertainty as working in favour of expansion for Citibase as landlords with suitable space would prefer to deal with one tenant (the business centre operator) rather than multiple occupants. Secondly, there is the possibility that corporate occupiers will seek to sublet

surplus space and appoint a business centre operator to assist them. Thirdly,, independent operators may well see the attractions of being part of a larger operation to boost returns and provide an exit route rather than continuing to operate alone in a more competitive environment.

Strength in diversity

One of the group's strengths is its broad customer base. Citibase presently has 393 customers of whom those accounting for over £5,000 of monthly workstation income represent 5% by number and 23% by value.

Pricing

Flexibility in pricing

The key attribute of serviced offices for customers is flexibility. The pricing structure Citibase offers is governed by the intended length of stay: a longer period of occupation is reflected by a more competitive rate (effectively a time-related discount from a benchmarked standard charge) whilst the highest charge (at a small premium to the benchmark) is reserved for spot market, very short duration office rentals. Managing this mix of business is reflected in the overall margins Citibase can achieve.

Service income as part of the yield management matrix

Without much direct pricing power, yield management techniques offer the key to improving gross asset returns. Two main revenue opportunities exist – rental agreements and service agreements. Rental agreements are reviewed on a rolling basis but over and above the basic workstation charge (loosely taken as £250/desk/month) charges are also made for a range of additional services. These which can be purchased either individually or provided as a package for a set monthly rate, the basic office charge being £59.99 per person per month for 1-5 people and £39.99 per person per month for 10+ people. Across the estate the average service revenue stream has developed strongly and now equates to an additional £80pm per workstation.

Branding opportunity

Expanding for growth; branding for SME's

Given that the market is highly fragmented, Citibase is keen to expand rapidly to achieve the given synergies. Citibase has also identified the benefits of branding as the network grows, with marketing and service cost efficiencies the most obvious to pursue. The purchasing synergies are attractive to the group but for customers the local service angle remains the most important. Citibase is highly sensitive to the non-corporatist, cost conscious nature of its clientele and despite its expansionist ambitions is very keen to carry existing customers with the group.

Yield management/optimisation

Margin management with growth can lead to sharply improved returns

Given a competitive market, the key to profit improvement and ultimately a vindication of the group's growth ambitions lies in effective yield management – basically concentrating on workstation density and pricing. The challenge is twofold – to ensure that average rates per workstation are maintained (a mix of flat rate, service rates and length of customer occupation) and that higher margin spot rentals are developed. Whilst we regard 85% utilisation as an achievable target benchmark across the estate, the group is planning to reach an 80% utilisation rate by 2012 for the purposes of cost allocation. Since the new management team has been in place the workstation estate has been reconfigured, lifting the number from 2200 to just short of 4000 (although a figure nearer 3600 reflects the number of workstations under direct group control). Utilisation rates on the higher workstation estate are currently c 74%

and managing this to 80% whilst incorporating new business centres will provide the initial revenue and profit impetus over the next three years.

Rents vary across the estate but service income is universally important

Average workstation rates across the Citibase portfolio vary, reflecting both the vagaries of location and the underlying leases Citibase has secured on premises. The range of monthly rates is approximately between £500- £200, with London Victoria representing the most expensive and Birmingham the cheapest. Service income can add over 30% to the basic rental and represents an important part of the pricing matrix.

Well located premises are important for stable revenues

Well chosen locations prove their value by being able to maintain a regular customer flow. Once the decision has been taken to locate in a town centre, cost conscious customers need a convenient location. The difference of a street or two can influence the attractiveness to customers and accordingly the rental levels achievable. The success of a location also depends on the immediate competition and general office availability as rental rates reflect general office availability. Hence location has a defensive characteristic for the pricing matrix. Citibase is also keen to achieve a blend of occupiers by length of stay. The average tenancy across the group is presently 27 months which provides a useful revenue underpinning for each centre.

A good position from which to expand

Revenue

Rents are paid monthly in advance with two months paid up front by way of deposit to secure the premises. Services are billed monthly in arrears and represent a high margin earnings stream. Consequently the group retains the benefit of the deposit until the customer relocates. Thus Citibase holds over £2m of cash in its balance sheet which mainly reflects deposits/pre-payments. Net group cash is obviously lower but still strongly positive. Any acquisition of an operating business centre would tend to reflect the same financing structure and hold a positive cash balance (unless indebted). Therefore Citibase can fund acquisitive expansion internally from the growing strength of cashflow.

H1/H2

An important aspect of the business is that the income is not seasonal. Holiday periods in August and December influence service revenues up to a point. The table below indicates the marginal effect on profitability of yield management and tight cost control.

A stable income proposition across the year

Citibase : First Half comparisons		
£m	H1 2008/09	H1 2007/08
Revenue	5.20	4.94
Cost of Sales	4.06	4.20
Gross Profit	1.14	0.74
Central Costs	0.65	0.63
EBITDA	0.66	0.26
EBIT	0.49	0.10
PBT	0.55	0.12

Source : Citibase presentation

Given the relatively low barriers to entry, the industry conditions are broadly similar for most players with the distinguishing feature lying in yield management techniques. Detail taken from the AIM prospectus for MWB Business Exchanges in 2005 indicates the dynamics of the industry and how little has changed. In a small way the prospectus also acts as an indicator of where Citibase is heading in terms of its current expansion programme and the potential end value.

Benchmarking performance – MWB Business Exchange had a £55m market capitalisation on flotation

MWB Business Exchange				
£	2003	2004	2005	Nov 05
	FY to Jun	FY to Jun	FY to Jun	Month
Workstations	9283	9283	8723	8723
Occupancy	76	66	80	84
Monthly rate	550	511	513	530
REVPOW	8473	8215	8402	8728
EBITDA/available workstation	266	112	511	663

Source : Aim prospectus

As the major player in the sector, it is worth looking briefly at the average returns the group has achieved this year. Citibase's margins have been a little lower than its peers but understandably so given the stage it is at in the group's growth phase. However, H1 EBITDA margins of 12.5% indicate that the core business is beginning to perform more strongly and the overhead impact will reduce as the business expands.

Regus : Interim results		
£m	Jun-08 (interim)	Jun-07(interim)
Revenue	507	411
Gross Profit	150	117.5
%	26	28
Operating Profit	74	56.4
%	14.5	13.7

Source : Regus interim results

Expansion by acquisition

Not a property owner

Citibase believes that its ambitious expansion programme in a fragmented market will allow it to add value over the medium term as the corporate concept becomes more established. Multiples in the sector are low, reflecting the relatively short occupancy periods and the supply of available vacant office space. The natural surplus of space in the market also places a ceiling on what Citibase need pay for any acquisition as the purchase cost quickly becomes benchmarked against the alternative of establishing a greenfield site. The only determinant to skew that policy is the issue of location, but again attainable rents ultimately influence pricing and returns.

The group will seek to expand by acquisition, using a 50/50 cash and shares model. As the group has no debt, internal cash-flow can support a programme of steady growth. A key part of the yield optimisation programme is to accelerate cash generation to accommodate a quicker expansion rate.

Given the current economic climate, the low rating of property stocks and the low rating of peers in the serviced office sector, we do not expect a sector re-rating in the short term to invalidate the Citibase model. We do perceive, however, the reasons for the urgency to expand at this stage of the market whilst developers put projects on hold and vacancy rates are expected to increase.

Citibase is not a property owner and therefore does not need to adopt a high level of gearing. However, if the rate of business centre acquisitions is too aggressive from the outset and likely to exceed 2000 workstations per annum, there is a risk that the group will become indebted as a function of the 50% cash payments to vendors and possible fit-out costs. The timing of acquisitions will also affect this financial profile.

As Citibase seeks to separate property management from property ownership, the group can choose locations to suit and secure leases from property owners on very commercial terms (an empty or undermanaged property is an unattractive proposition). However, Citibase will not take space for the sake of it as greenfield expansion tends to be expensive in terms of resource and finance given the differing dynamics of each regional market. **Accordingly Citibase seeks to expand by acquiring existing serviced office management businesses (normally owner run enterprises) rather than acquiring properties or taking long leases speculatively on properties.**

Roll-out of acquisition programme in the UK

Thus the bulk of expansion will come through the acquisition of single centre businesses with whom Citibase is in regular dialogue. Approximately 10% of growth may relate to start-up ventures and 10% to management contract under a royalty arrangement. The latter route provides opportunities to gain mass, with particular advantages in the supply sourcing for service revenues.

At the outset we suggested that the group wanted to increase the number of the business centres it operates threefold within a short space of time. The table below seeks to illustrate two important points rather than represent the planned timing of acquisitions. Firstly it can be seen that the business model responds well to aggressive yield management although there are risks if revenue undershoots expectations or should debt grow to introduce a new risk level. Secondly, the cumulative effect of effective yield management techniques allied to only a modest self funded expansion rate produces grounds for a sharp increase in profitability. Obviously the group is seeking to improve on the 10% expansion rate in the illustration.

The table seeks to show firstly how the revenue mix is derived and how the cost structure is built up. We have assumed a 5% increase in rents and an equivalent increase in service costs – after a 10% increase for the current year. Importantly we have NOT assumed an increase in workstation charges so as to both stress test the model and indicate how good management will be needed to target these areas.

Citibase – an illustrated expansion assuming an 10% increase in the number of workstations				
£	2009	2010	2011	2012
Workstations (net)	3530	3930	4330	4830
Utilisation (%)	74	76	78	80
Effective	2612	2987	3377	3864
Workstation Price				
£200 pm	6269	7168	8106	9274
£250 pm	7837	8960	10132	11592
£300 pm	9404	10752	12159	13910
Service Charges per workstation				
£40pm	1254	1434	1621	1855
£60pm	1881	2150	2432	2782
£80pm	2508	2867	3242	3709
Combined Revenue				
Low	7523	8602	9727	11128
Average	10344	11828	13375	15301
High	11912	13620	15401	17620
Cost of Sales				
Rent/Rates	4150	4851	5585	6520
Utilities/Services	4000	4675	5370	6330
Central	900	950	950	1000
	<u>9050</u>	<u>10476</u>	<u>11905</u>	<u>13850</u>
EBITDA				
Lower	-1527	-1732	-2178	-2722
Average	1244	1494	1470	1451
Upper	2862	3144	3496	3770
Revenue/workstation	2930	3010	3089	3168
EBITDA/workstation (average)	352	380	339	300
EBITDA/workstation (gross)	607	621	558	507

Forecasts have taken the average EBITDA for 2009 and 2010. Estimates do not include the effect of any workstation price rises.

Source: Finncap estimates

Main features

Certain key aspects of the acquisition model emerge:

- ▶ The need to keep a tight control of service costs going forward and recoup charges in this area.
- ▶ The need to ensure gradual and consistent increases in workstation charges so as to recoup underlying rent increases.
- ▶ Prevent any increase in central costs, assuming the group to be correctly resourced for growth at present and maximise the existing overhead structure.
- ▶ And crucially, to use yield management techniques to ensure that cumulative gross cash flow (before central costs) is effectively maximised to allow Citibase to expand.

On the basis that cash flow will grow as the group expands, we believe that it would be possible to acquire 2,000 workstations per annum. In turn this might represent about 10 smaller business centres and before occupation arrangements were possibly re-configured. Theoretically the rate of expansion would have scope to increase as the business grew. However, initiating and maintaining this rate of expansion may have implications for the level of dividend payment the group could sanction and over-expanding could also restrict room for capital expenditure on premises new to the group.

Thus the rate of expansion will be governed by the amount of free cash-flow available to fund the acquisition programme internally. Using the metrics below we can see that assuming income of £300 pm/workstation, 1000 additional workstations would add £3.6m of revenue to the group and gross EBITDA of £0.5m. Assuming a total cost per acquired workstation of approximately £2000 (0.55x revenue), the cash outflow for acquiring 1,000 workstations pa would be £1m, (assuming 50% cash/ 50% shares). Our previous table assumed an expansion rate only one half of this level, which we believe to be conservative given the current performance of the group.

Acquisition model			
	Workstation Data	Workstations (acquired)	£m
Revenue	£3600 pa	250	0.90
	(ie £300 pm av rent+ services)	500	1.80
		1000	3.60
EBITDA	£500pa	250	0.12
	(ie gross ebitda, pre central costs)	500	0.25
		1000	0.50
Acq Cash Cost	50/50 cash/shares	250	0.25
	(ie total paid of £2000/w-s)	500	0.50
		1000	1.00
Approx pay back 24 mths			

Affordable ambitions

An important feature of the group is that if workstation occupation rates are increased by at least the rate of inflation and the group continues to exercise a tight control over costs, the cumulative benefit of expansion will allow the group to expand more quickly as it grows. **This is the key to the validity of the expansion programme.** As the table below seeks to show, at both a gross level (excluding central costs) and at a net level (including group costs) Citibase should produce sufficient cash to allow its vision to be realised. We seek to show how the cumulative effect of growth, even at an additional rate of 1000 extra workstations pa (and recalling that the group would like to double that rate of growth), begins to develop momentum.

We expect the growth rate to accelerate with size

Citibase – cumulative cash flow grows with expansion

Cumulative Cash flow		Total workstations	
Gross	£500pa	3500	1.75
(excl central. costs)		4500	2.25
		5500	2.75
		6500	3.25
Net	£300pa	3500	1.05
(incl central costs)		4500	1.35
		5500	1.65
		6500	1.95

Source: Finncap estimates

Management Incentives

Following admission the company intends to operate a Value Creation Plan (VCP) to motivate and retain the senior management team. The VCP envisages paying out 15% of the performance over a benchmark growth rate through the issue of fully paid shares which would vest after a three year period. We have not incorporated the cost into our forecast at this stage, but the effect will be accounted for in subsequent P&L estimates as will be the dilution effect of the shares to be issued in due course.

Competition

There is a wide range of competitors in the serviced office market. We list below a selection in order to provide a sense of how elements of regional focus come into play. The over-riding impression is that operators seek representation in the key business locations across the UK as part of a wider geographic ambition. Thereafter the process becomes governed by external location factors to provide differentiation (in town/ out of town/ transport links etc). Well-located premises influence utilisation rates considerably. Stanhope Business Centres, based in Covent Garden, was purchased by MWB in 2007 and enjoyed a utilisation rate of 90%+, providing a useful example of the location/utilisations rate matrix.

Therefore, in general, utilisation has a sharp impact on profits given the high marginal contribution rate once the fixed costs of a business centre are covered.

Private (75% of the market)

Abbey Business Centres – 14 centres.
Avanta – 18 centres (London).
Basepoint – 24 centres (midlands/south).
Bizspace – 7 serviced office centres within a nationwide rental portfolio of 110 outlets covering offices, light industrial, workshops, studios and self-storage.
Bruntwood – 80+ buildings for rental (north west).
Evans Easyspace – 50 centres.
Executive Communication Centres – 8 centres.
Forsyth Business Centres – 13 centres (north east).

Within the market there are distinctions between the companies listed above. Basepoint, Bizspace and Evans for example that have more of an industrial workspace focus, whilst Bruntwood and Evans are primarily property companies rather than business centre operators. Citibase, with its focus on town centre property for cost conscious SME's has a different slant. Citibase's ambitions are also national given both its expansion plans and its short-term desire to expand further in the southern, rather than northern, market.

Publicly quoted (25% of the market)

Regus

Capitalised at £483m, Regus generates revenue of £1bn pa from 150,000 workstations. Assuming full occupancy the revenue level would equate to an annual income per workstation of £6681 or £556 per month. As utilisation will not reach 100%, the average rates charged are obviously higher and reflect the group's strategy of occupying high visibility city centre premises around the world. Regus now trades from 71 countries. Recently Regus moved its tax and administration domicile to Jersey and Luxembourg respectively. The outlook for profits and earnings (10.5p EPS 2007) for the group both this year and next is broadly flat. The shares stand on a current year forecast PER of 4.3x and a dividend yield of 2.4%. At 30 December 2007 net assets were £309m.

MWB Business Exchanges

Capitalised at £44m, MWB operates 57 business centres (1.5m ft sq; 14,000 workstations), forecast to generate revenues of £107m in 2008 and profits of £17m. This would imply a high end average charge per workstation of £636 pm. Forecast EPS of 18.2p for 2008 puts the shares on a forward PER of 3.4x and a forecast dividend yield of 3.4% assuming dividends of 2.1p. The shares are 67% owned by parent hotels group MWB. Steve Jude was a non-executive director between March and December 2006. In October 2007, MWB Business Exchange acquired Stanhope Business Centres for £11.6m (including £1.8m cash). Stanhope owned two premises in Covent Garden on long leases - 2019 and 2021, which added 427 workstations and 43500 ft sq of space. Utilisation was over 90% and revenues were £4.7m and EBITDA was £1.7m (implying revenue of £917 pm/workstation at 100% utilisation).

Workspace Group

Capitalised at £171m, Workspace Group now has REIT status and therefore is a property company first and foremost, which marks it apart from its serviced office peers. Revenues for the current year are forecast to be £59m, generating profits of £9.1m. Earnings of 4.4p are forecast to be distributed in full which at 97p, implies a dividend yield of 4.5%.

Serviced Office Group

A REIT capitalised at £2.4m, operating 8 centres (4 owned, 4 leased), being mainly southern based, and representing 1930 workstations. First half revenues grew 6% to £3.6m, implying a rent per workstation of £310pm (again assuming an illustrative 100% utilisation therefore actual rates charged will be higher). Operating profit in H1 was £0.5m and net assets stood at 7.4p at that stage.

The wider market.

The market for serviced offices continues to grow and still represents only a small percentage of the UK commercial floor-space and the UK office workforce. In 2001 the market was put at 9m sq ft, representing 90,000 workstations, 40% of which were located in London. By 2005 the number of workstations had grown to 150,000 with 180,000 estimated by the end of 2007 (implying a c. 12% growth pa in workstations).

Finances

Citibase: Summary Financial Data		
P&L	2007	2008
(£m)		
Turnover	8.77	10.13
Gross Profit	0.79	2.15
EBITDA	-0.27	0.91
<i>Margin %</i>	-3.08	8.98
Depreciation	0.29	0.33
EBIT	-0.56	0.58
Net Interest	0.01	0.06
PBT	-0.55	0.64
Balance sheet	2007	2008
Fixed Assets	1.94	1.84
Current Assets	1.84	3.01
Debtors	0.82	0.79
Cash	1.02	2.22
Current Liabilities	3.48	4.04
Trade	1.23	1.41
Deposits	1.49	1.56
Other		
Net Current Liabilities	-1.63	-1.02
Non Current Liabilities	-0.19	-0.12
Borrowings	-0.07	-0.02
Provisions	-0.12	-0.10
Net Assets	0.10	0.68
Cash flow	2007	2008
Operating Profit	-0.56	0.58
Depreciation	0.29	0.33
Working Capital	0.88	0.50
Net Inflow	0.61	1.41
Finance	0.01	0.05
Tax	-0.02	0
Capex	-0.39	-0.22
Repayments	-0.06	-0.06
Net cash increase	0.15	1.18

Source: Citibase

The Portfolio

Citibase : Current Locations and Lease terms							
Location	Landlord	RICS Sq. ft.	Lease Start Date	Lease End date	Current Annual Rent	Sellable Workstations	Occupied Workstations @ Aug 08
Bewdley	Robobond Ltd	8,000	25/12/98	24/12/18	45,000	121	56
Birmingham 1	October Property Investments Limited	29,313	25/12/98	24/12/18	145,000	427	362
Birmingham 2	TRW Pensions Trust Ltd	16,668	15/12/05	25/12/15	237,500	217	119
Bristol	Carlton Offices Ltd	19,200	23/12/97	28/6/14	272,000	288	262
Cambridge	Bush Property Investments	10,500	21/4/98	15/12/10	226,500	175	175
Edinburgh	Echoback Ltd	16,300	2/8/01	1/8/16	260,000	311	270
Kenilworth	Bridge House (Bewdley)	5,800	25/12/98	22/3/15	49,000	62	37
Leeds 1	Bridge House (Bewdley)	7,800	25/12/98	22/3/13	43,100	112	69
Leeds 2	Romulus (Close Investments Ltd)	20,000	14/12/05	13/12/10	Management contract	372	215
Leicester	Bridge House (Bewdley)	18,000	25/12/98	27/4/16	68,200	267	179
London 1	Land Securities	19,431	9/1/05	8/1/10 *	331,438	347	318
London 2	BCP (Close Investments Ltd)	20,000	4/3/05	8/3/09	Management contract	356	255
Manchester	Rockvale Resources Ltd	37,497	25/12/98	24/12/18	260,000	605	327
Newcastle	RPU Group	11,000	1/7/99	30/6/19	80,000	244	198

Source: Citibase

Management team

Gearing up for growth

Ian Read

Co-Founder director and Chairman. Aged 50. Qualified civil engineer with an MBA in Finance and over 20 years experience in the property and finance sectors. Involved with public and private company acquisitions and sales as well as corporate and property finance, managed LET's and various serviced property activities. Ian set up Citibase in 1993 with David Joseph and also acquired, grew and sold a serviced Harley Street Medical House. In addition formed Freehold Managers PLC to create, manage and grow (to £140m) a unit trust for Close Brothers.

Steve Jude

Managing Director. Aged 45. Between 1999 and 2002, Steve was Group Sales & Marketing Director of Regus plc where he doubled the global gross margin through the introduction of yield management techniques learned in the travel industry. This radical improvement in operational profitability enabled the successful IPO of Regus in London and New York.

Steve has been actively involved in the business services sector for many years, having been board director of SIRVA UK (then owners of Pickfords, Hoults). Previously Steve was a director of International Sales at Avis Europe. Steve has also been a Non-executive director of MWB Business Exchange plc where he chaired the Audit committee.

David Joseph

Co-Founder and Non Executive. Aged 62, David has over 40 years experience in the commercial property sector. He set up Citibase with Ian Read in 1993, having worked alongside him on a LET project - London and Edinburgh Trust. David trained with King and Co (now King Sturge) and qualified as a Chartered Surveyor before joining the international department at Knight Frank. He was a development director at Portmans with responsibility for a substantial commercial portfolio.

Philip Warner

Non Executive. Aged 57. Chairman of Warner Estate Holdings PLC. Philip joined the board of Warner Estates Holdings PLC in March 1979 and was appointed Chairman in 1993. A barrister, a Non-executive Director of Stonemartin PLC and a Director of several private companies.

Senior Management team

Making it happen on the ground

Richard Axtell – Richard was previously General Manager at Regus Plc with full responsibility for Eastern Europe, turning a £7m loss into breakeven within 12 months. Richard was then given troubleshooting responsibility for the London region, which is the engine room of the Regus Global Business.

Caroline Taylor – Caroline is responsible for the smooth operation of all the centres. Caroline has worked in business to business support services for 15 years. Prior to joining Citibase, Caroline was Operations Director at Prontaprint Ltd.

Huw Williams -Huw joined Citibase after spending the previous 7 years creating and running a successful clinical information company. Prior to that

Huw was Regional Manager at Regus where he worked in Eastern, Central and Western Europe, responsible for sales, sales training and support services. His background before Regus was on the international stage with both Bass Brewers and Coca-Cola responsible for amongst other things the international roll-out and success of Caffreys Ale and Hooch.

Phil Turner - Phillip has extensive experience in distribution, pricing and yield management, including 18 years with Hilton International in operational and central roles with his final position being Director of Distribution. Prior to working with Citibase, Phillip managed global pricing and yield management for Regus PLC.

David Mellon - David has 9 years experience in the serviced office industry along with experience of facilities management gained working for Halliburton and GEC. David is responsible for the production of management and financial accounts, forecasting and controlling expenditure against budget. David also oversees the development of Citibase's management information systems and is responsible for the training of finance staff.

Lisa Watson - Lisa's has 20 years experience in the service industry. Her responsibilities include human resources, health & safety and training. Lisa is a member of the CIPD and was sponsored by Citibase through her Masters degree in human resource management.

Citibase: Pre-float shareholding structure

Shareholder	(pre-placing proceeds)	%
I Read		40.27
D Joseph		40.27
S Jude		5.25
Cardiff & Provincial		14.21

Source: Citibase

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