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ThirdForce PLC (THF.I) 28c

Acquisition of Creative Learning Media (CLM)

Contact :

Stuart Draper
(01) 6333850
stuart.draper@dsl.ie

Owen Turner
(01) 6333829
owen.turner@dsl.ie

- **Acquisition announced :** The acquisition of CLM announced on the 9th of September represents a significant positive development for the company. From a financial perspective, the acquisition is very well structured. It is a predominantly paper transaction at a reasonable headline value and there is a significant earn-out element which protects the downside. The acquisition is accretive to earnings, has been completed from internal cash resources and has been substantially de-risked by the earn-out.

- **Attractively priced :** The cost of deal was cash of €1.7m and equity of €3.5m, plus a further €2.9m in equity subject to CLM achieving certain revenue targets for the year ending 31/05/06. Given that CLM is forecast to contribute sales of €8.5m in its first full year of consolidation, the total consideration payable of €8.1m would represent an acquisition multiple of 0.95x forward sales. This would appear a very attractive price given that peers trade at c.2x 2005 sales. With €2.9m of the consideration earn-out based, ThirdForce is also protected in the event of CLM not achieving its revenue targets. The fact that CLM generated turnover and operating profit of €2.4m and €0.2m respectively for 2004, rising to €4.2m and €0.5m for the year ended 31/05/05 shows the rapid growth trajectory of its turnover and profitability.

- **Strategic benefits :** From a strategic perspective, CLM is an ideal fit for ThirdForce. It is a pure e-learning company which focuses on a mass market need driven by regulation rather than by government policy. Its focus is on health, safety and job skills, mainly within the hospitality sector. The CLM customer base is corporate entities rather than the government and educational institutions to which ThirdForce usually sells. This is a strong positive, giving ThirdForce access to the existing customers of CLM and also providing it with a product base which is more readily sold to corporates. This should in turn provide another market for Thirdforce's current stable of products.

- **Creative Media Learning :** The major driver of the CLM market is increasing government regulation and the need for staff training in areas such as health and safety and food safety/ handling. In many cases, large customers of CLM such as Whitbread would have traditionally had to send new employees on courses led by trainers. However, particularly in the context of an industry with high staff turnover, it is far more cost efficient to provide electronic based training that staff can take at any time and then sit an electronic test from a hand held terminal. CLM has managed in many instances to move beyond the market driven by regulation to provide other add-ons such as corporate induction training and manager training. CLM has also been developing an offering in the adult literacy and numeracy area, which ThirdForce has also targeted. This development is highly complementary with the direction ThirdForce has identified as a key strategic growth area.

- **ThirdForce's strategy** : ThirdForce's core product, European Computer Drivers License (ECDL), is currently sold primarily in the UK to large education suppliers such as the University for Industry (the UK equivalent of FAS). The company has emerged as the strongest supplier of such software as many of its competitors have fallen away and it has taken an increasing market share in the UK. The company estimates that it has by far the largest market share in the UK. While very impressive, this means that ThirdForce's growth in its core market with its core product is limited to the speed at which it can grow the market rather than the speed at which it can win market share from competitors. In the light of this, the company has correctly been following a diversification strategy to maintain its growth. This strategy has followed two distinct avenues, that of broadening its product offering and that of broadening its client base. The company has been very clear that it intends to achieve this diversification through both organic growth and acquisition. It is in the light of this that the recent performance of and acquisitions by the company must be considered. The company has, correctly in our view, invested heavily in internal product development in 2005, specifically targeting e-assessment and skills for life as two major growth opportunities it will pursue.

- **Internal Product development** : E-assessment involves providing electronic assessment services to any institution, awarding body or accreditation scheme. The interesting aspect of e-assessment is that the engine to allow the company provide this service has already been largely built to support its current ECDL product. The other interesting aspect of this potential business line is that, unlike the provision of courseware, the testing of an individual's ability does not require a large amount of content to be turned into electronic form. A database can be built with a number of questions and answers from which a number are randomly selected to test an individual seeking an accreditation. This means that the cost of development and maintenance of current content is far lower. Skills for life is a major area for governments around the world and particularly in the UK where there is very substantial financial backing from the government for employers to encourage them to offer basic literacy and numeracy skills to their staff. This area is one which sits well with the company's existing product lines as basic IT skills such as the ECDL receive similar government support. From the government's perspective a base level of literacy, numeracy and IT skills are necessary for an individual to function in the modern era and there is a great need to address the deficiency of those skills in some areas of the adult population. The company made a small strategic acquisition of a company called AVEdge at the beginning of 2004 which developed television programmes based around adult literacy. This acquisition, combined with the development skills in ThirdForce, forms the core of the new skills for life division.

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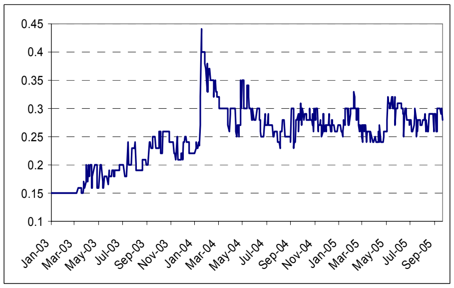
- **Developing new markets** : The company has also developed versions of its core testing software in Arabic, Spanish and Chinese with a view to targeting those markets. There have been small but significant inroads made into each market. The difficulty for the company in generating sales of a similar scale to those in the UK is the need for the ECDL qualification to be recognised generally within those markets as a qualification worth having. This depends to a considerable extent on the ECDL Foundation, an independent body which markets and oversees the award of the qualification. It also would benefit significantly from a government focus on the area of population up-skilling similar to that by the UK government.

- **Recent results :** ThirdForce recently announced results for the 6 months ended 30/06/05. Turnover and underlying eps of €5.722m and 0.18c respectively were largely in line with consensus forecasts post the company's AGM of 25th May. Even though turnover was 2% lower year on year, the underlying eps of 0.18c represented a significant improvement on the prior year comparative of 0.01c. This profitability improvement was driven by lower operating expenses, as well as by lower interest and tax charges. The slightly lower turnover was largely driven by a shift in training patterns within the UK government funded sector. This shift in training patterns is likely to be temporary in nature and a recovery in such sales should commence in H2 2005.

- **Conclusion / Valuation** : ThirdForce has acquired in CLM a profitable business that presents it with, new product, a new route to market for its existing products, synergistic development goals and a UK development base which should help reduce its current currency exposure. As a result, we are now forecasting group sales to grow to €23m in 2006, driven by the CLM acquisition as well as increased penetration into UK schools. This would generate a 2006 eps of 1.39c, a significant uplift on the 2006 eps of 0.87c without CLM. As a result, ThirdForce's pe reduces to 20.1x 2006 eps before goodwill of 1.39c (from 32.2x previously), an undemanding multiple given the group's growth potential.

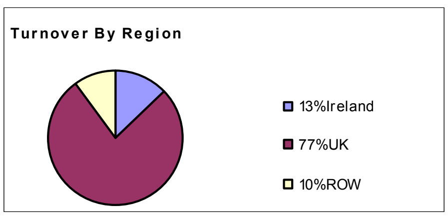
Dolmen Securities Ltd has recently acted as adviser to ThirdForce plc.

Price Performance



Company profile

ThirdForce is an e-learning courseware and testing provider with offices in Dublin, London, Canada and Australia. January 2004 was the start of the first full financial year for the new enlarged ThirdForce plc. In 2003 ThirdForce acquired Irish e-learning business The Electric Paper Company Limited and in February 2004, AV Edge Limited, both of which have now been successfully integrated within the Group.



Major Shareholders	No of Shares	%
P McDonagh	41.2m	28.8
H Skinner	14.9m	10.4
G Skinner	14.9m	10.4
J Parkes	9.4m	6.6
Nortrust Nominees Ltd	7.8m	3.5
D McMahon	6.9m	4.8
R Taylor	6.7m	4.7
Total Shares Outstanding	143.31m	

Financial Data	2004	2005e	2006e
Revenue (€'000)	12,028	13,231	23,000
EBITDA	1,626	1,727	2,220
EPS (reported) (c)	-0.43	-0.31	-0.11
EPS (pre g-w)	0.68	0.81	1.39
P/E	41.2	34.6	20.1
DPS	0.0	0.0	0.0

Share Data	
Current Price (c)	28.00
Mkt Cap (€m)	40.1
Reuters	THF.I
Bloomberg	RTG ID
Sector	E-Learning
Chairman	P McDonagh
CEO	B O'Sullivan
CFO	E McGovern
Website	www.thirdforceplc.com

DOLMEN SECURITIES → Website : www.dolmensecurities.com
Dolmen House, 4 Earlsfort Terrace, Dublin 2, Ireland. • Tel : +353 1 633 3800 • Fax : +353 1 677 7044 • Email : info@dbb.ie
45 South Mall, Cork, Ireland. • Tel : +353 21 422 2122 • Fax : +353 21 422 2123 • Email : cork@dbb.ie