Brewin Dolphin Securities
Equity Sales and Research

WORLD TV GROUP (B)(A)

AIM (MEDIA)

BUY 0.97P

(unchanged)

World TV Group Plc (WTV) is an international televisual communications company and was born from the merger of World TV and Virtue Broadcasting (Virtue) in August 04. The merger has accelerated the strategy to offer the combined client list of corporates, governments and campaigning organisations an integrated communication package able to harness the power of TV and the web. Recent interims highlight the strategy already yielding positive results.

- The original World TV business had grown as a highly profitable televisual communication company specialising in corporate, governmental and campaigning programmes.
- The original Virtue business was the leading video webcaster in Europe with a large blue chip client list.
- Combining the businesses has created an international communications provider with significant opportunities to cross sell integrated TV and web services to the client base, which is a key differentiator in winning new business.

The management team has installed a commercial culture and has already produced significant cost savings (£0.9m of annualised cost savings in 05 and have identified a further £0.4m). With a strong pipeline and the reorganisation now complete we are looking forward to a period of underlying growth and are forecasting cash break even on a run rate basis in 05 and profits in 06.

Results

Recent interims highlight the strategy is beginning to work with organic turnover +7% and EBITDA profitable in Europe.

The company was recently hit by tax charges of c£0.5m, which it is disputing. The charge relates to incorrectly calculated PAYE and NI on share options exercised at the original Tornado (now World TV) flotation in 2000. To be prudent, we have adjusted our Balance Sheet by the full provision, although management are confident of at least a partial recovery.

Valuation

We are positive on the prospects for World TV and have an initial target price of 1.40p based on 1.2x prospective EV to Sales, a 45-50% discount to the media sector. We feel the share price can rise thereafter to 1.90p on a 12 month view but requires the triggers of increased underlying revenues and transformation from loss into profit.

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Market Capitalisation: £7.4m

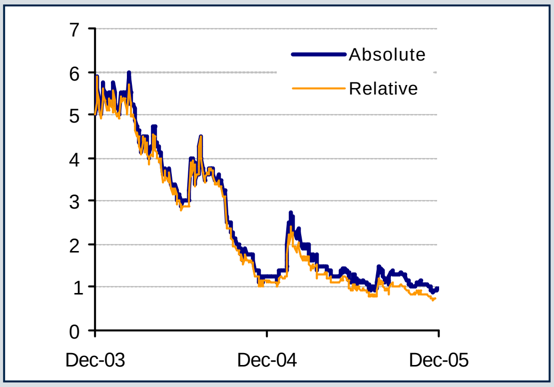
Enterprise Value: £7.7m

Rel perf to FT Allshare (ex-IT):

1 month	-11.0%
3 months	-25.9%
12 months	-33.7%

Shares in Issue: 755.4m

Reuters: WTV.L



Source: Bloomberg

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(B) Brewin Dolphin Securities act as Broker to the company
(A) World TV is Listed on AIM.

Year End Dec	Sales £m	PBT* £m	Tax %	EPS*† p	PE Ratio x	EV/EBITDA x	FCF/Share p	DPS p	Yield %
2003(A)	2.6	-1.6	0%	-0.9	-1.0		-1.4	0.0	0.0
2004(A)	10.0	-1.7	-7%	-0.4	-2.5		-0.5	0.0	0.0
2005(E)	8.9	-0.8	0%	-0.1	-9.8	n/a	-0.1	0.0	0.0
2006(E)	9.3	0.1	0%	0.0	146.5	17.8	-0.1	0.0	0.0

*Figures pre-exceptionals and goodwill amortisation, † Fully diluted, Source: Company Accounts/BDS Forecasts

Important disclosures are included at the end of this report.

World TV merged with Virtue Broadcasting in August 04 and was effected by the acquisition by Virtue of the entire share capital of World TV for a total consideration of £18.1m satisfied by cash of £1.0m and the issue of 440m new ordinary shares, representing 58.2% of the enlarged group.

World TV Group combines webcasting and TV programming capabilities

World TV was an international production company head quartered in London providing televisual news and corporate communications to International Corporates, PR agencies, Governments and Campaigning organisations.

Virtue Broadcasting was a provider of web broadcasting services across Europe and Australia to an extensive customer base of large corporates.

Rationale for Merger

World TV had developed a highly profitable business serving corporates, governments and campaigning organisations. The company had grown via a high quality customer base and has been profitable, cash generative and debt free for each of the last 3 years. By contrast over the last 3 years, through both acquisition and organic growth, Virtue has secured a leading position in the web casting market. The company has an excellent customer list of large corporates which only generates on average a few thousand pounds of revenue per customer based on commodity IR web casting.

Virtue has an extensive customer base of international corporates

The merger accelerated a process World TV was completing and allowed it to harness the power of tv and the web and offer the combined customers a comprehensive integrated communications package to create significant revenue growth.

Prospects

World TV Group can offer a much higher value service

- Proven management team with a profitable track record has already restructured the enlarged group and saved £1.4m on an annualised basis
- Significant revenue opportunities by cross selling to a first class customer base
- Selling higher value services by building on each others (World/Virtue) expertise
- Significant margin opportunity by offering higher value added services
- Valuation offers material upside

Costs have been reduced and the pipeline is strong

This research note covers a summary on the front page together with an executive summary above. We now analyse each of the old businesses under the headings of TV production and Web casting, which together create an international televisual communications company. We then analyse the recent interims and show illustrative financial forecasts together with our view on valuation.

World TV's mission is to harness the power of tv and the web

Customers include International corporates such as BP, The British Government and campaigning organisations such as Amnesty International

Socially responsible programming is at the core of World TV's services

Profitable and cash generative

BP programming attracts 25,000 viewers in 37 countries

WORLD TV - TV PRODUCTION

World TV is an international televisual communications company head quartered in London specialising in providing news and corporate communications programming to international corporates, PR agencies, governments and campaigning organisations.

Background

The pre merger World TV was founded in 1991 to provide production services to campaigning organisations such as WWF and Amnesty International. In 00 World TV won a 5 year contract with the Foreign Office, now extended to 2008 to provide a daily television news service BSN (British Satellite News) promoting Britain and British Government policy delivered via satellite to global news broadcasters. BSN produces news stories five days a week, 52 weeks a year, targeted at the Arabic and Islamic world. The BSN service is the number 2 news provider in the Middle East with over 410 broadcasters using the service. It is now the most successful government news service in the world. As a consequence World TV won the contract to produce Towards Freedom, a news programme focused on the Iraqi conflict.

The BSN contract accounted for £1.1m of revenue in 2004 and has recently been renewed to 2008. The Towards Freedom contract accounted for £0.4m of revenues and is non-recurring.

Towards the end of the 1990's the business began to look into the corporate market and in 2001 established a business television unit providing corporate news stories. A major customer is BP accounting for c.£1m of revenue p.a. with other multinationals seeking integrated communication packages, which is contributing to the groups growth.

Operating History

The table below shows the World TV operating history in financial terms and highlights its profitable nature.

£'m	12 mths to 30.06.01	12 mths to 30.06.02	12 mths to 30.06.03	6 mths to 31.12.03
Turnover	3.1	4.9	4.9	3.7
Operating profit/(loss)	-1.2	0.1	0.5	0.9
Operating margin	-39%	2%	10%	24%

Source: Company Reports

Case Study - BP

BP required a quarterly financial results series that would appeal to as wide an internal audience as possible. The aim was to summarise and explain the main points of the quarterly results for the less financially literate, while looking at impact on staff and other issues related to company performance.

World TV created a programme strand - Performance in Perspective (PIP) - with its own sub-brand, consistent with broader BP corporate branding. PiP is shot at BP's London headquarters and is presented by Juliet Morris, a reputable broadcaster, whose approach is rigorous and journalistic, as opposed to 'soft' and 'corporate'. The programme features an extensive interview with Lord Browne, Group CEO, on the company's performance and strategy; media reaction and comments from oil and gas sector analysts; and reports by the heads of BP's main businesses. As the series has developed, it has taken on a magazine style, with location reports and features on different aspects of business performance.

The English version of the programme is completed two days after the announcement of the results. It can be viewed initially at desktops on BP World (BP's Intranet). Three days later, it is webcast in five other language versions and is also distributed on DVD. The series has become increasingly popular with the internal BP audience. 5,000 viewers watched the first edition of the programme in 2002; by the first quarter of 2004 this had risen to a record 25,000 viewers in 37 countries.

Market Position

The TV production market is highly fragmented with a large number of London based small scale independents producing programming across the globe. It is a people dominated industry where relationships with customers and the skills of the production teams are paramount. There are few contractual agreements in the sector so relationships are key, the customers acquired from Virtue business provides a spring board for new relationships and further more towards new forms of webcast television. There are limited barriers to entry in the general market however a key differentiator for World TV is the breadth of its product offering following the Virtue merger. Also instead of cold calling new clients World TV can develop existing relationship through Virtue. World TV is one of the most profitable of these independents and was voted the Production Company of the Year in the AV Magazine Awards poll for 2004 and 2005.

Competitors are small and offer one product in one geography

This fragmented market provides significant opportunities for both organic and acquisitive growth

VIRTUE BROADCASTING - WEBCASTING

Background

Prior to its merger with World TV Virtue's aim was to build critical mass through acquisition in the Corporate Communications and IP services sector in what remains a fragmented European market place. Virtue was then to utilize this position to provide synergistic products and move into sustainable profitability.

Operating History

After a period of acquisitive growth the Webcasting unit now represents over 30 of the FTSE100 companies. The table below shows the growth in revenues, although continued historic operating loss.

£'m	12 mths to 31.12.01	12 mths to 31.12.02	12 mths to 31.12.03	6 mths to 30.06.04
Turnover	1.7	2.2	2.6	2.5
Operating profit/(loss)	-9.3	-5.9	-1.6	-0.8
Operating margin	-547%	-268%	-62%	-32%

Source: Company Reports

Virtue has created a market leading position via acquisition

Virtue invested heavily in R&D and acquisitions over the last 4 years. However whilst the company was able to rationalise R&D costs in 04, revenues were still insufficient to cover the expanding cost base. Since merging with World TV a number of cost reduction programmes have been put in place and the Virtue units collectively are moving towards break even.

Services

The group's core webcasting offering is the transmission of interactive presentations, combined with slides, text and other elements, into the Internet or Company Intranet both live and available on demand.

Virtue has excellent technological IP in the webcasting arena

The service is tailored specifically for four markets:

- Investor Relations - online transmission of financial results, analyst conferences and shareholder meetings;
- Public Relations - communication of current events to the media and the general public;
- Internal Communications - inform employees globally, on a regular basis, about current developments via company intranet and;
- Sales & Marketing - cost-effectively communicate with prospective and existing clients, as well as partners and resellers.

The web conferencing market is expected to grow quickly

Market Position

The introduction of broadband, the increased bandwidth capacity of corporate networks and better compression technology will improve picture quality and speed of downloads, making webcasting an acceptable means of communication in the corporate sector. The European conferencing services market is forecast (by IDC) to grow from £0.2bn in 2001 to £2.0bn in 2005. Within this sector online conferencing is forecast to have the fastest growth, which is largely due to the introduction of "on request" online conferencing (i.e. web conferencing and webcasting), and is predicted to increase its share of the conferencing services market from 19% in 2001 to 37% by 2005. World TV is the leader in the fragmented European market, occupied by a number of small ventures providing significant opportunities for consolidation.

Recent interim results highlight strategy is on track

INTERIM RESULTS

The interim results announced 26 September 2005 highlighted some key features as follows:

- Organic like for like sales growth of 7% (excluding the discontinued Kamera content business and Towards Freedom contract)
- Delivery of annualised costs savings of £1.4m
- EBITDA profit in Europe (from loss) in the period

The table below is a summary of the operating results in H1 to June 2005 against a pro forma comparative.

World TV £'000	H105	H104 Proforma	% Change	2004 Audited
Turnover				
Europe	4.841	5.104	-5.1%	9.4
Australasia	0.287	0.2	+43.5%	0.564
Total	5.128	5.304	-3.3%	9.964
EBITDA				
Europe	0.018	(0.171)		(0.574)
Australasia	(0.024)	(0.085)		(0.513)
Total	**(0.06)**	**(0.256)**		**(1.087)**
Dep/Am				
Europe	0.273	(0.482)		(0.999)
Australasia	0.014	(0.047)		(0.083)
Total	0.287	(0.529)		(1.082)
EBIT				
Europe	(0.255)	(0.653)	+60.9%	(1.573)
Australasia	(0.038)	(0.132)	+71.2%	(0.596)
Total	(0.293)	(0.785)	+62.6%	(2.169)
Interest	(0.014)	0.01		(0.167)
Adjustments/Imp etc	(0.045)			(2.737)
Loss before tax	(0.352)			(5.073)

Source: Company Reports, Brewin Dolphin Securities

Management

The original founders of the World TV business Andrew Booth and Peter Sibley are now joint Vice Chairman and focus on strategy and regional business development. Steve Garvey, Chief Executive is also responsible for strategy and the operational teams. A new Finance Director, Evelyn Kimber joined in October 2005 having previously worked with Steve Garvey and brings extensive industry experience.

Experienced and well balanced management team in place

Forecasts

Assumptions & Sensitivities

Our main assumption is organic sales growth of 5% (reported 7% at H1). We also allow for the discontinued Kamera Content business.

Our forecasts assume organic revenue growth of 5%, which could be improved upon with contract wins

We also allow for the disposal of the Kamera business

Annualised cost savings of £1.3m on 2004, to which £0.9m is allocated within the 2005 accounting period. The £0.9m cost savings have been produced via a consolidation of head offices into the World TV unit (saving £0.4m), rationalisation of R&D functions saving £0.3m and a down sizing of the UK management saving £0.2m. A further £0.4m has been identified, which is reflected in our 2006 forecast.

December	Sales (£m)	PBT* (£m)	EPS* (p)	Tax (%)	DPS (p)	Net Cash (£m)	PE
03A	2.6	-1.6	-0.9	0.0%	0.0	1.3	-1.0x
04A	10.0	-1.7	-0.4	0.0%	0.0	0.5	-2.5x
05E	8.90	-0.75	-0.10	0.0%	0.0	-0.3	-9.6x
06E	9.30	0.05	0.01	0.0%	0.0	-0.6	143.5x

*Figures pre-exceptionals and goodwill amortisation
Source: Company accounts, BDS forecasts

Sensitivities

P&L

Sensitivities linked to revenue

- The key sensitivities to our forecasts relate to revenue as there are minimal fixed costs, over and above personnel and most costs are directly linked to revenue (i.e. studio time). Revenues are relatively predictable as World TV has a long lead time and a number of contracts, such as the Foreign Office to 2008 and are relatively high value per customer, whereas Virtues revenues are small per customer and tied towards company results and equally easy to forecast, although new customer wins are very difficult to forecast accurately. To this end we take a prudent view of retention rates and pipeline conversion and believe that there may be upside of c.5-7% in our revenue forecasts.
- Costs have been addressed in 2004/5 and remain in control.
- Acquisitions - The broadcasting market is highly fragmented with access to equity and a confident management team, acquisitions are likely to be seriously considered.
- Tax Assessment - We have made an exceptional provision of £0.5m for Paye and NIC in response to an HM Revenue and Customs assessment. This assessment related to former employees and the exercise of share options at the time of float in March 2000. The company has appealed against the assessment and has signed indemnities regarding tax and NIC from these individuals and expects to recover a substantial portion of the monies, therefore our provision can be considered wholly prudent.

Cash flow neutral

Cash Flow

- Cash flows should mirror EBITDA forecasts, hence cash positive going forward. The group has a £0.3m facility to Dec 2005 underwritten by shareholders (3), although does not anticipate drawing down. The cash flow also reflects £160k outflow per annum to Dec 2006 reflecting a financial liability provided in 2004 accounts resulting from the early termination of a lease on the old head office.

- The company was recently hit by tax charges of c£0.5m, which it is disputing. The charge relates to incorrectly calculated PAYE and NI on share options exercised at the original Tornado (now World TV) flotation in 2000. To be prudent, we have adjusted our Balance Sheet by the full provision, although management are confident of at least a partial recovery.

The merger has heralded a change both in direction and profitability for the group and we feel this should be reflected in the valuation. Obviously this will require a number of triggers, as follows:

1. Proof of the cross selling opportunity
2. Identify cost savings
3. Increase underlying revenues
4. Transform from loss to profit

12 month target price reflects transformation from loss to profit

To date the management team has already started to make good on the strategy with the first signs of cross selling coming through with new customer wins of BAA, O2, Scania, Nordea, Teracom, Vector Plc, Microsoft and Bristol Myers Squibb. It has also implemented £0.9m of cost savings and a further £0.4m identified. These factors should lead to an increase in revenue and ultimately transform the group from loss to profit, which is the cornerstone of our two tier valuation, as follows:

Tier 1 target price 1.40p: Initial target price equates to 1.2x EV to sales, which is a discount of 46% to the media sector (2.25x) allowing for loss making and smaller company issues such as lower liquidity. We feel this valuation has already been justified by triggers 1 and 2 above.

Tier 2 target price 1.90p: Our 12 month target price assumes triggers 3 and 4 are realised and equates to a 30% discount to the media sector on prospective EV to sales basis and supported by a discounted cash flow.

The table below puts the valuation metrics into context.

VALUATION MEASURES	2004(A)	2005(E)	2006(E)
Enterprise Value	£7.6m	£8.4m	£8.3m
EV/SALES	0.8x	0.9x	0.9x
EV/EBITDA	-7.0x	n/a	18.4x
Op Profit/EV	-19.6%	-8.3%	1.2%

Appendix

World TV (B)(A)

PROFIT & LOSS Y/E Dec	2003(A) £'m	2004(A) £'m	2005(E) £'m	2006(E) £'m
Sales	2.6	10.0	8.9	9.3
EBITDA	-1.4	-1.1	-0.33	0.45
Op Profit	-1.6	-1.5	-0.70	0.10
Interest		-0.2	-0.05	-0.05
PTP pre-excep/g'will/Am	-1.6	-1.7	-0.75	0.05
Exceptional	0.3	-2.9	-0.50	
Goodwill/Am		-0.5	-0.23	-0.23
Pre tax Profit	-1.3	-5.1	-1.48	-0.18
EBITDA margin	-53.8%	-10.9%	-3.7%	4.8%
Operating margin	-61.5%	-14.9%	-7.9%	1.1%
Interest cover				
Tax charge (%)		-7%		
Minorities		0.1		
Pref Div				
Av. No of Shares (m)	172.4m	436.0m	755.4m	755.4m
F. Dil No of Shares (m)	172.4m	436.0m	755.4m	755.4m
EPS pre-exc/g'will	-0.9p	-0.4p	-0.1p	0.0p
EPS F.dil pre-exc/g'will	-0.9p	-0.4p	-0.1p	0.0p
FRS3 EPS	-0.8p	-1.2p	-0.2p	0.0p
Dividend (I)				
Dividend (F)				
Dividend cover				

BALANCE SHEET Y/E Dec	2003(A) £'m	2004(A) £'m	2005(E) £'m	2006(E) £'m
Intangibles	n/a	1.2	1.2	1.0
Tangibles	n/a	0.6	0.5	0.4
Investments	n/a			
Net Current Assets	n/a	0.2	-0.2	-0.2
LT Creditors & Provisions	n/a	-1.9	-1.8	-1.6
Shareholders funds	n/a	0.1	-0.4	-0.4

CASHFLOW Y/E Dec	2003(A) £'m	2004(A) £'m	2005(E) £'m	2006(E) £'m
Operating profit Pre Am	-1.6	-1.5	-0.7	0.1
Depreciation	0.2	0.4	0.4	0.4
Exceptionals	-0.3			
Working Capital	-0.3	-0.4	-0.1	-0.1
Share of JVs				
Other				
Operating cashflow	**-2.0**	**-1.5**	**-0.4**	**0.4**
Interest				
Tax		0.0	-0.1	
Dividends				
Other	-0.2	-0.1		-0.5
Underlying cashflow	**-2.2**	**-1.6**	**-0.5**	**-0.2**
Capital Expenditure	-0.2	-0.2	-0.3	-0.2
Acquisitions		-0.6		
Disposals	0.7			
Sales of Fixed Assets				
Shares	1.7	1.7		
Other				
Overall cashflow		**-0.8**	**-0.8**	**-0.4**
Y/E Cash/(Debt)	1.3	0.5	-0.3	-0.6
Shareholders funds	n/a	0.1	-0.4	-0.4
NAV per share	n/a	n/a	n/a	n/a
FCF per share	-1p	0p	0p	0p
Gearing	n/a	n/a	n/a	n/a
ROCE	n/a	n/a	n/a	n/a
Cash conversion	125%	99%	61%	350%

Source: Company Accounts/BDS Forecasts

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(B) denotes Brewin Dolphin acts as broker to company
(A) denotes AIM listing

Brewin Dolphin Securities Research - Recommendation Definition
(expected performance relative to constituent index, over next 6-12 months unless otherwise stated).

Brewin Dolphin Securities Research - Recommendation Definition
(expected absolute performance over next 12 months).
Strong Buy - 20%+ upside to BDS FV
Buy - 5% - 20% upside to BDS FV
Hold - minus 5% to +5% to BDS FV
Take Profits - minus 5% to 20% downside to BDS FV
Sell - minus 20% or more downside to BDS FV

Fundamental View:
Positive - quality company, strong management, strong fundamentals, focussed strategy.
Neutral - ambivalent over the company's strategy, market place, management.
Negative - BDS believes company has fundamental flaws and is not a long term investment.

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