

## BURST MEDIA

### VITAL STATISTICS

Epic	BRST
Share price	22.5p
Mkt cap	£18.7m
12 month high/low	89p/13p
Nominated adviser/broker	Altium Capital
Website	www.burstmedia.com

### ACTIVITIES

Burst has three divisions. Burst Network manages advertising on behalf of a network of websites - acting as middleman between them and the advertisers. Burst Direct offers advertisers access to a network of more than 2,000 affiliate websites, where revenues are based on response levels. AdConductor is a service that offers integrated sales, campaign management and financial services to website publishers.

Burst did itself no favours by issuing a profit warning just months after floating at 82p a share on Aim in April 2006. Launching the Burst Direct division is blamed for the disappointment. It was designed to offer the group's advertisers an alternative advertising model but it proved to be more of problem than originally envisaged by Burst. It was responsible for an increase in Burst's headcount by 50% and operating costs jumped by 33%. This increased the capacity of the business but overall revenues only increased by 9% to \$23.5m. That meant that profits slumped from \$3.42m (£1.72m) to \$138,000 (£70,000). Even if the equity-based compensation charge is ignored profits were still lower at \$2.72m (£1.37m).

The management team has been boosted by new appointments in the past six months. Burst says that it has "a strong sales pipeline" and trading is line with expectations. However, it will take some time to reassure investors following its rapid profit warning.

## PIXEL INTERACTIVE MEDIA

### VITAL STATISTICS

Share price	39.5p
Mkt cap	£13.8m
12 month high/low	51.5p/26.5p
Nominated adviser/broker	Dawnay Day
Website	www.pixelmedia-asia.com

### ACTIVITIES

Pixel claims to be Asia's leading online advertising sales network. It is effectively the middleman between advertisers and agencies and around 30 large, branded websites - many exclusively. The business was part of DoubleClick until it was acquired by its management team in 2002. It has offices in Hong Kong, Shanghai, Singapore and Malaysia. The most recent acquisition, Easy Growth, adds an online affiliate network in China, which covers 1,400 sites.

Average revenue per advertiser increased 8% last year. Pixel added 122 new advertisers in 2006. The top five advertisers account for 20% of 2006 group revenues of \$7.71m (£3.88m), up from \$5.83m (£2.94m). The top five website clients, including MSN HK and Atnext.com, account for 84% of revenues. Pre-tax profit increased from \$843,000 (£425,000) to \$1.1m (£554,000).

There are 134m online users in China, which represents 10% penetration of the market. This shows the potential growth in Pixel's market. Pixel has five or six competitors in China and each of its other markets but none of those competitors has a pan-Asian presence.

Online affiliate network Easy Growth will help Pixel grow in China and provide cross-selling opportunities. It cost an initial

### Micro numbers

+30%  
Growth in China's PR market

\$1.9m (£972,000) but the full payment could be as much as \$10m (£5.04m) in cash and shares depending on performance. If the business makes a profit after tax of more than \$1.5m (£755,000) then the PE ratio will be five. If it is less than \$1.5m then the PE ratio will be reduced 10% for every 10% shortfall. Further acquisitions will be made to widen the geographic spread of the business and/or strengthen the product range. Pixel has \$5m (£2.52m) cash in the bank.

Expansion in mainland China will hold back the first half performance. There will be additional office and staff costs. The medium-term growth outlook for the region will be boosted by the 2008 Beijing Olympics. The first quarter is the quietest, while the fourth is the busiest. That means that the business is second half weighted. The poor performance of Burst Media, which is an equivalent business in the US and Europe, appears to have hurt the Pixel share price. Pixel hasn't disappointed like Burst so this is unwarranted.

## UPSTREAM MARKETING AND COMMUNICATIONS INC

Epic	UPS
Share price	5.25p
Mkt cap	£2.33m
12 month high/low	20.25p/5p
Nominated adviser/broker	Strand Partners/Walker Crips
Website	www.aboutupstream.com

### ACTIVITIES

Upstream provides a range of marketing and communications services in Asia Pacific. They include PR, events management, promotions and online marketing. It has wholly-owned offices in Hong Kong, Beijing, Shanghai, Taipei, Singapore and now Sydney - following the acquisition of Macro Consulting. There is also a branded franchise in Tokyo. Upstream gained its quotation via a reversal into quoted shell Raven Capital Inc last October.

Upstream is run by David Ketchum who has more than two decades experience in marketing and communications. Prior to founding Upstream in 2000, he worked for Hill & Knowlton, Burston-Marsteller and Calvin Klein.

Ketchum believes that the 2008 Olympics, Shanghai Expo 2010 and WTO market opportunities provide a background for long-term growth of marketing services in Asia Pacific. He says that the PR industry in China is growing at more than 30% a year.

New customers won in recent months include Burger King, China Telecom and JP Morgan. All this is good for organic growth and Ketchum wants to add strategic acquisitions on top of that. Acquisition targets have revenues of more than \$1m a year.

The Australian acquisition should benefit from cost savings due to economies of scale and potential cross-selling of their services. The shares have fallen back since the reversal but this reflects the fact that there have been no meaningful results produced by the group rather than any problem with the business.

# UPSTREAM