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SYSTEMHOUSE

The monthly review of the financial performance of the UK software and IT services industry

MARKET TRENDS 2006: LOOK BELOW THE SURFACE

This month sees the publication of Market Trends 2006, Ovum's definitive analysis of the state and future of the £26 billion UK software and IT services market. Our topline expectations haven't changed a great deal. We now expect growth this year to come in at 6.1%, compared to the 5.6% forecast we published in January. The real interest lies in what's going on within the different markets that make up S/ITS.

Software steps up a gear

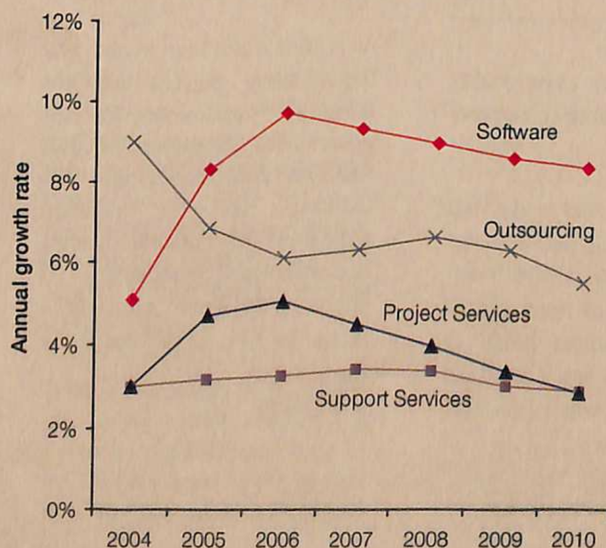
We have revised upwards our forecasts for the software products component of S/ITS. This market frankly surprised us with growth of 8% in 2005. This wasn't a short-term blip. For the current year, 2006, we are predicting growth just under 10%, and we believe that rates in the 8-10% range order can now be sustained in the coming years.

We've talked before about the sustained buoyancy in business intelligence, but it's clear that the increasing dependence of organisations on software more broadly will continue to drive the market. So, for the foreseeable future, areas like ERP and even system software are set for growth above wider S/ITS market rates.

Projects: a welcome return

Sadly the big rise in software spend projections isn't fully reflected in our project services line (i.e. Consulting and Systems Integration forecasts). On the whole, software is becoming increasingly easy to integrate and operate. Moreover, the continuing surge in the offshoring of project work is helping to keep market growth trimmed.

Nonetheless, the return of the CIO's "growth agenda" (see Systemhouse July 2006) is helping to sustain the generally high levels of work volume and utilisation in the industry this year. On balance, we have raised our project services forecasts by a little (to 5.5% for this year, for example,)



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INDICES
(changes in July 2006)

Ovum S/ITS Index	**-0.57%**	**4879**
FTSE IT (SCS)	**+0.12%**	**506**
techMARK 100	**-0.89%**	**1339**
Nasdaq Comp	**-3.7%**	**2091**

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and see a less pronounced drop-off in growth beyond 2007 than previously expected.

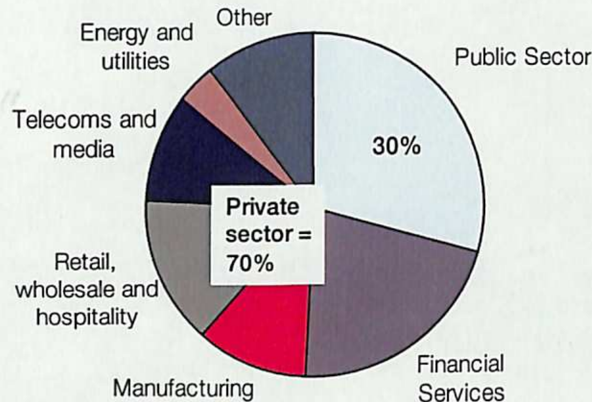
Outsourcing under pressure

Outsourcing, the key driver of IT services growth in the past few years, is under more pressure than we've seen for some time. There's a measurable lack of new deal value in the market and many contract renewals/restructurings are seeing values trimmed. Overall, we have reduced our forecasts for outsourcing market growth by up to 2% per annum in the coming years, with growth now declining from 7% in 2005 to 5% by 2010.

Even in BPO, we have seen a slowing of new deals (and a consequent reduction in growth figures for 2005 and 2006). We do still think there's plenty of longer-term life in BPO, however, and are forecasting a return to double digit growth rates in the years 2007-2009.

Forecasts in one of our four main S/ITS market subsegments - support services - haven't changed (barring a slight tweak downwards in 2009 and 2010, driven by the maturing of the managed services area). But 3-3.5% remains the rule of thumb in support, albeit one that conceals important differences between the declining maintenance segment and growth in managed services and business continuity.

UK S/ITS market by vertical, 2006



Don't forget the private sector

In 2005, as expected, we once again saw S/ITS growth in the public sector (at 12%) outpace its private sector equivalent (where growth came in at 4%). That means that the public sector increased its share of the total S/ITS market to just under 30%. You have to go back as far as 2001 to find a year when private sector S/ITS spending outgrew the public sector.

The industry shouldn't get too complacent about public sector growth, however. We've been hearing reports of more difficult conditions in some areas of government and see a slight dip in growth in the current year. More importantly, rates of spending increases in government will begin to tail off more fundamentally beyond 2008. And yes, this projection does include the impact towards the end of the decade of revenue from shared services initiatives.

Meanwhile, some areas of the commercial sector - notably financial services, telecoms/media and oil/gas - are seeing a return of more robust market conditions than we have seen for some time, as CIOs put a more positive "growth agenda" for IT into action. Banking in particular is faring well, with regulatory change in both the retail and wholesale markets helping to push growth above 6% this year and next.

All in all, it's not hard to see why those larger players that are currently overweight in UK government (for example, Fujitsu Services and Atos Origin) are working hard to increase exposure to private sector opportunities. For today's S/ITS suppliers, the public sector is "a place to be" rather than "*the* place to be".
(Phil Codling)

> As well as market analysis and forecasts, Market Trends updates our view on the ranking players in UK S/ITS. This year we've seen a change at the top, with IBM reclaiming the no.1 spot from EDS. Revenues at both firms underperformed the market in 2005, but IBM's 1% growth was enough to inch it ahead of its rivals. EDS remains the largest player in UK IT services (i.e. based on revenues excluding software business). And given the effect of DII this year, it should be in a position to challenge IBM for the top spot again in Market Trends 2007!

Holway Comment

Happy Birthday Hotnews

Ten years ago, in August 1996, the very first Hotnews was published. It was the first of its genre and quickly built up an impressive following - *aided by the fact that it was initially free!*

Although I've now been involved in the ICT sector for over 40 years and covered it as an analyst for 20 years, the last ten have undoubtedly seen the most profound change of all. We rarely get the time to ponder, reread our utterings and perhaps learn from the past.

The internet was not overhyped

The fact that Hotnews was unique back in 1996 gives an indication of how far we have come. The website invited readers to email us on 100665.3460@compuserve.com. We are sure such an email address, whose unfriendliness would not be tolerated today, will stir memories! Netscape had just IPOed and Hotnews was littered with news of internet companies. Indeed the first news item featured was Megalomedia (Saatchi & Saatchi's entré into the internet world) acquiring Webmedia.

Back in 1996 the internet had only around 30m users. Today that figure exceeds 1billion. Less than 1% of the UK population had internet access. Now that figure approaches 65%, making the UK one of the most "connected" nations in both Europe and the World.

There is still a way to go. In the UK, Social Security considers a TV as an essential, with 99% of the UK population having access to a TV. The same attitude and penetration is likely for the internet within a relatively short time. Indeed any child without internet access at home is rightly going to be considered to be seriously deprived. Currently, however, only 15% of the world's population has internet access and it is in the developing world that the greatest opportunities currently occur.

Richard Holway

Amongst the first stories we carried in Hotnews in August 06 was a forecast that *"by 2005 at least 8% of all shopping will be undertaken electronically"*. We went on to say *"we believe that such electronic trade will wreak more change on our industry than the PC in the early 1980s. You can ignore it but your customers will not"*.

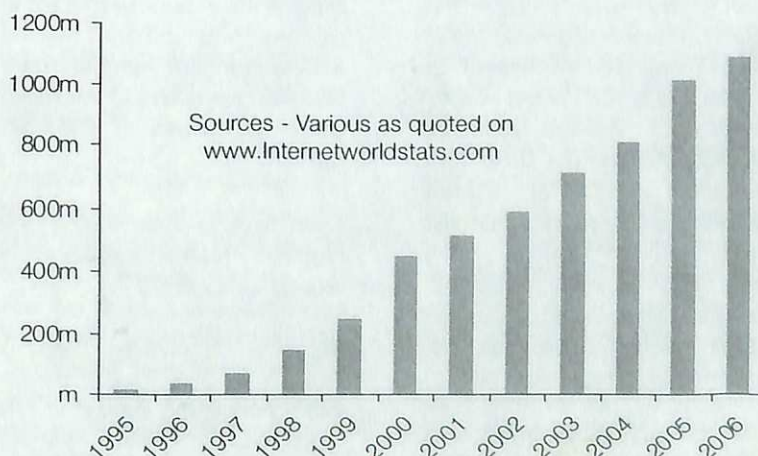
Ten years on, in June 2006 we carried the following item in Hotnews.

"Data from IMRG shows that internet shopping now accounts for 10% of retail sales in the UK. £30bn is expected to be spent online in 2006 - a 56% increase on 2005. In addition some £20bn will be spent online on such things as insurance and gambling. But the power of the internet goes even further with £30bn of sales actually made on the high street being influenced by research or price comparisons made on the internet."

In my view, the widely voiced criticisms that the internet was overhyped by analysts are actually not correct. The forecasts that both we and others issued in 1996 concerning internet use not only came to pass but were often exceeded! Indeed if I had written an article in 1996 about what I actually do today on the internet I would have expected readers to question my sanity.

The overhyping claim is possibly true relating to company

1996-2006
From 30m to >1billion in 10 years



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valuations. Investors in 1996, and later, had the attitude that any company related to the internet had, by association, both a higher value than any other business and a higher chance of succeeding. Of course neither is correct. But to have had such common sense would have meant you missing out on some major wealth creating opportunities. Firstly, the internet boom showed that just one star in your portfolio could more than outweigh nine or even 99 dogs. Secondly, timing - particularly knowing when to sell - was key.

Boring companies prevail

Our Boring Awards - for ten years of uninterrupted earnings growth - predate Hotnews. But Hotnews in August 1996 carried further impressive growth announcements from award holders Admiral and Capita. Sage was the other holder.

If our report on the internet (above) demonstrates how much things have changed in ten years, our Boring Awards demonstrate how much has stayed the same. Capita and Sage are *still* the only remaining Boring Award holders, having quite remarkably continued their unbroken record for another ten years - ie 20+ in total!

Even back in 1996 readers asked *"surely we have missed the boat?"* How wrong you would have been! An investment in Capita in Aug 1996 would now be worth 12.5x more and 5.5x more in Sage. Admiral got bought by CMG in 2000 for £1.1bn providing a near 6x increase over 1996.

Hotnews every day carries the slogan "We don't give share tips" and are not going to start now!

But for readers in 2006 who asked the same *"surely we have missed the boat?"* question, we would make two observations:

1 - In our August 1996 comment on Capita we remarked *"Capita has seen its profile change. Back in 1989 75% of its outsourcing revenues related to pure IT activities. Now it has fallen to 50% in 1995 and will fall still further in future"*.

This is exactly what happened. Capita rode - still rides - the BPO wave. It is the UK BPO leader by a country mile. BPO is still the place to be with Capita poised to be a major player in shared services within the public sector. We just cannot conceive of Capita being anything other than boring for years to come.

2 - At the 1996 Regent Conference, I predicted that by 2000 software product companies like Sage would make the majority of their revenues from what we now refer to as software as a service (soas). I was not alone. BusinessWeek in 1996 actually ran a cover story predicting that *"all software would soon be delivered to consumers over the web"*.

I have publicly admitted that I got my *timing* on this prediction very wrong. The pace of change towards SaaS is accelerating, with Salesforce.com legitimising SaaS in the enterprise space and Google and others making announcements almost daily bringing, for example, Microsoft Office alternatives to users via the web.

I still believe that this is the biggest market opportunity around for Sage.

My only "fear" with Sage is whether they will remain independent long enough to fulfil the promise or whether they, like Admiral, will succumb to a predator. Either way, their Boring Award seems safe for now.

Remember Y2K?

1996 was the year when Y2K really started to get taken seriously. Hotnews items in August were littered with new service launches like "Signature 2000" and dH2000. Parity launched a "complete date change package". We forecast that ITSAs would have a bonanza period as *"users would be reluctant to take on permanent IT staff for a short term requirement"*.

This, of course, was exactly what happened. ITSAs from Parity to MSB boomed and their share price rocketed. ITSAs had long been our "barometer of the industry". Their early good fortune led us to accurately predict bumper revenue growth of over 25% for the whole UK SITS industry in 1998. However, in 1996 neither they nor us predicted how short lived this bonanza would be and how steep the slowdown would be. ITSAs started to feel the cold draught at the end of 1998 as companies started to "lockdown" their newly updated Y2K systems. This led us to our "Y2K hangover" headline in early 1999 warning how this would affect the whole industry pretty soon. By the end of 1999 we were writing how "the Y2K hangover will not go away with the Alka Seltzers on 1 Jan 2000". Indeed our Holway evening in 1999 was the first to be introduced by a snatch of music. "There may be troubles ahead..." And none had more troubles in 2000-2003 than the ITSAs.

An end to the ITSA decline certainly signalled the modest recovery we have seen in the whole SITS market since 2004. If you buy the "ITSAs as a barometer of the industry" then you would get both good and

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bad vibes for the future. The ITSA bleeding has indeed stopped and the SITS industry is set fair for 5-6% pa growth. But growth is much more selective than ever before. Niche skills (financial services, programme management etc.) are in great demand. But the "commodity roles" are being hit by falling demand, lower fee rates and increased competition from global sourcing.

Probably as succinct a forecast for the SITS industry as a whole as you are likely to get.

India discovered

August 1996 Hotnews carried the following report

"According to Nasscom, the Indian equivalent of the CSSA, India's software revenues increased by 61% to $1.2bn in 1995 with exports rising 64%. Growth prospects are impressive with a domestic market worth over $2.5bn by 2000". This was, as far as I can see, the first time we have mentioned what we now refer to as global sourcing.

In the same month we reviewed FI Group (now Xansa) full year results to Apr 1996. At our usual results day discussions, the much missed Hilary Cropper had first mentioned her interests in India which, I admit, took me by surprise. FI soon after purchased IIS which formed the bedrock of Xansa's current strong positioning in India. Indeed Xansa is now the biggest UK-owned player in India.

Starting from that point in 1996, we have since written many times on the huge effect global sourcing, and India in particular, would have on IT Services. Just suffice to say that Nasscom's latest statistics show a 22% growth in their domestic market to $12.4bn with export revenues growing by nearly 40% in 2006 to $6.3bn. Figures that, similar to those for internet use, would have probably been greeted with derision in 1996.

What's in a name?

We were rather less concerned about carrying "rumour" back in 1996 than we are now. We leaked the fact that Cray was to be renamed Anite - much to Cray's annoyance as they had given an exclusive to *The Sunday Times*.

The very last item in Hotnews for August 1996 was about an invite we had received for a 16 September press briefing to "mark one of the most significant and far reaching announcements in the 30 year history of Hoskyns, the trading arm of Cap Gemini Sogeti". As Cap Volmac had already been rebranded Cap Gemini, it didn't take us long to write the obituary for one of the oldest and most respected names on the UK IT services scene.

Going forward

I'm not only pretty proud of the continuing reputation for Hotnews, but also pleased at the success of EuroView Daily too.

I wonder how many stories in Hotnews August 2006 will have such a profound effect on our industry as those we covered in August 1996?

REGENT DATA REVEALS CONTINUED M&A ACTIVITY

Regent Associates, the tech-focused M&A specialist, has released its latest round of data. In Q2 2006, the total number of European technology transactions increased 16% on Q2 2005 to 846. That's 7.0% up on Q1 2006. The value of deals in the first half of the year more than doubled over the comparable period in H1 2005 to $221bn.

On a country-by-country basis, a noteworthy trend was the increased activity of US buyers, with transactions up 33% over Q1 2006 to 117. The UK remains Europe's most active buyer, accounting for almost a quarter (205) of all European transactions.

While IT services has been the most active tech segment for M&A in the past, in Q2 it lost its crown to the media sector, which saw the number of transactions increase substantially on the prior year. The software product sector also saw lots of activity, with a 30% growth in the number of transactions.

Comment: Within the IT services sector, outsourcing has been largely responsible for driving the overall 3.0% growth in transactions. The number of transactions specifically involving European outsourcing companies has increased 82% in the last two years. Also notable is the increase in acquisitions of training and recruitment companies following what was a relatively inactive 2005.

More generally, the S/ITS industry has waited for quite some time now to see exactly what impact

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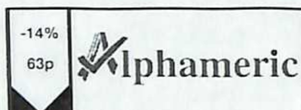
the Indian offshore companies would have on the European landscape. We've seen them increase their presence in terms of their market share and partnerships, but in terms of acquisitions activity (if not interest) has remained low. In the first half of 2006, they only made 10 acquisitions in Europe. However, Regent expects *"an increased number of completions in the remaining months of the year"*.

In terms of valuations of IT services deals, the dynamic for at least the last year has been for a convergence of expectations. In other words, the views of buyers and sellers with regards to what a company is worth are more closely aligned, which of course facilitates more deals. Regent has noted that valuations have been on a steady increase over the past three years. But could they now be reaching their peak? This is quite possible. However, this factor alone will not restrict the growth in the number of deals in IT services. For the foreseeable future, while there is plenty of cash around, while profitability is relatively good and while organic growth is hard to find, acquisitions will remain a high priority.

In the Autumn, Ovum will publish its full analysis of M&A trends in "Industry Dynamics". This is available to Holway@ovum service subscribers only. For more information please contact Suzana Murshid (SUM@ovum.com).

(Kate Hanaghan)

We are indebted to **Regent Associates**, M&A advisors to European technology organisations, for providing us exclusively with data on M&A activity.

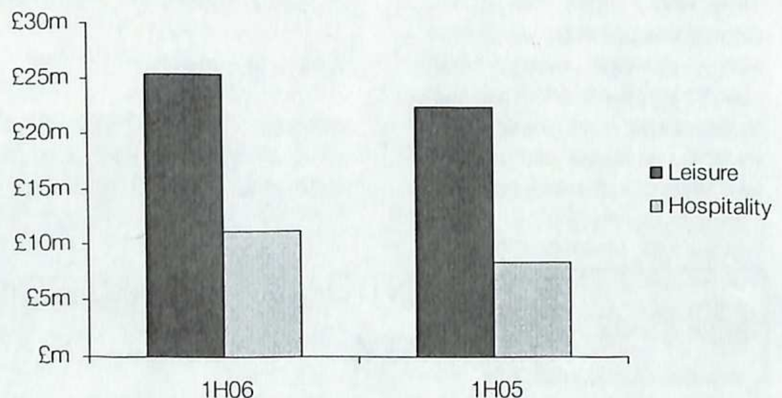


ALPHAMERIC PENETRATES OVERSEAS MARKETS IN FIRST HALF

Alphameric, the leisure and hospitality sector software company, has released its results for the first half ended 31 May 2006. Revenue for the company grew 18% to £36.5m, with operating profits (before exceptionals) growing by only 1% to £3.3m, a 9% margin. Exceptional administration costs brought profit before tax down to £2.8m, 14% lower than the previous year.

Revenue for the company's Leisure division climbed 13% to £25m, representing 69% of the total. The division, which focuses on selling EPoS and display technology to licensed betting shops, maintained its 10% margin over the first half. Hospitality, which represents the remainder of Alphameric's business, grew revenue by 32% to £11m. However, a lower mix of software and services sales over the period meant that Hospitality profit margin more than halved to 4.4% from 11% last year.

Alphameric revenue by division

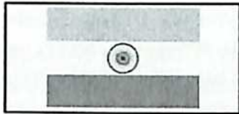


Source: Company results

Comment: Alphameric claims that its Leisure division is starting to penetrate overseas markets including Russia, Germany and Sri Lanka, where the company has recently received an EPoS order from a large bookmaker. This is good news. The company already dominates the UK betting shop sector, and although it has begun diversifying into sports media provision, there have long been concerns that its home market was becoming saturated.

Meanwhile there is a muted outlook for Alphameric's Hospitality sector business. Although growth was strong in this period, Alphameric says that there has been a slow down in order intake due to the high level of consolidation amongst its target pub and restaurant sector clients. Alphameric is still positive about long-term prospects and its ability to grow margins for the division, saying that it expects levels of activity to increase once the market has stabilised.

(Samad Masood)



INDIAN PLAYERS: FIRST QUARTER RESULTS

The top Indian players released their first quarter results in July. Here is our take on their performance:

TCS starts FY07 with impressive growth

Last week Tata Consultancy Services (TCS) released US GAAP results for the first quarter and year ended 30 June 2006. Total revenue under US GAAP was $900m, up by 42.3% year on year. Revenue from Indian sales grew 13% to $95m, with International revenue growth at 46.7% to $805m.

Operating profit was $201m, up 20% on the previous year, and equivalent to a 22.3% margin, down from a 26.5% margin last year.

Revenue from Europe and the UK grew 67% to around $249m, with UK revenue reported as $179m, or 20% of total global revenues. Globally, telecoms was the fastest growing sector, up 60% year-on-year to $149m, representing 16.5% of total revenue this quarter, compared to 14.6% last year. Telecoms is now the second largest sector for TCS, alongside Manufacturing.

Banking and financial services remains the largest contributor to revenue, representing 41% of the total, having grown 43.7% to $371m.

Comment: TCS is back on form. Revenue grew significantly faster this quarter than last year, when growth was around 27% and considered to be slowing. TCS has even outgrown arch-rival Infosys, which only achieved 39% growth in its first quarter.

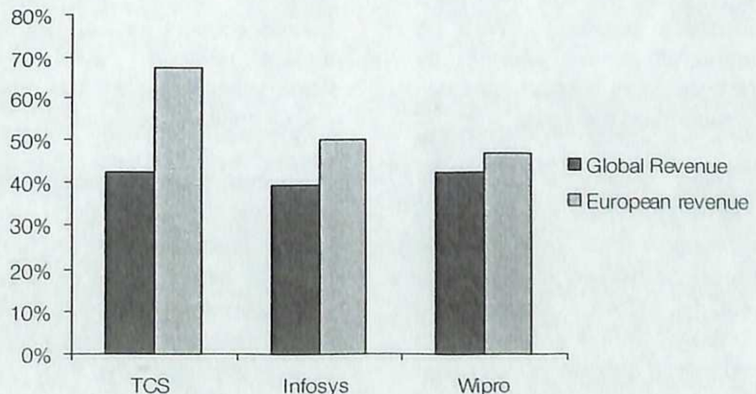
The UK was a major contributor to growth thanks to the life and pensions deal with Pearl Group. The press are speculating that TCS wants to expand even further into L&P by acquiring Vertex, the United Utilities owned BPO provider, which is number two in the UK life and pensions process outsourcing market. But we think this is unlikely, especially as TCS will have a job to swallow all of Pearl. There is plenty of L&P business in the pipeline over the coming years, and to convince potential new clients, as well as investors, TCS would be better off proving it can manage Pearl successfully over the next two years, rather than buying more business off competitors at a premium. Nonetheless, the fact that TCS now separates UK revenue out in its results is evidence of the growing importance and focus that the company now attributes to the country.

In Europe the company announced that a major European telecoms provider had selected it as a "Test Strategy" partner for the roll out of its next-generation network. This is a key deal and shows how much TCS is respected by clients who are choosing it to help with new business initiatives.

Expansion into new territories has been another driver of growth. TCS now generates $26m in revenue from "Ibero-America", and is seeing significant payback from its investment in low-cost locations. It says that four new clients have started using its centres in China, Hungary, Uruguay and Brazil over the quarter. This presence in such a wide range of countries is a growing differentiator for TCS when competing against its Indian rivals, which have been slightly slower to build centres in such a wide range of countries.

With the investment in nearshore and onshore locations it is not surprising that TCS's cost margins continue to fall. Employee costs are up five percentage points to 45% of revenue, and much of this can be attributed to the 930 UK-based staff that TCS added from its Pearl acquisition over the quarter. Rising labour costs in India will also have had an effect.

Comparison of Top 3 Indian players' revenue growth - 1Q07



Source: Company results

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This rising cost profile is inevitable - especially as the company increases its reliance on "onshore-heavy" deals that are key to competing head-to-head with Western IT services providers in consulting, BPO and infrastructure services. We can expect margin erosion to continue, but with profitability so high TCS and its Indian peers will not be feeling the pain any time soon.

Confident Infosys raises FY07 guidance

India's second largest IT services player, Infosys, unveiled another quarter of strong growth. Under US GAAP, Infosys' revenues in the three months to end June grew by 39% to $660m, compared to Q1 06. First quarter operating profit grew by 28% to $170m. That means operating margins fell year-on-year from 27.9% to 25.8%.

The Bangalore-based company has raised its revenue growth estimate for FY07 to between 35.4% and 35.9%, with full-year EPS growth raised to between 32.4% and 33.8%.

Comment: Infosys' share price rose by 7.5% in Mumbai as investors welcomed the raising of estimates on both revenue and profits. Those who suspected that naturally cautious Infosys might content itself with hitting expectations this year have been pleasantly surprised. We'll be interested to see whether its offshore peers will feel confident enough to do the same.

A major contributor to Infosys' booming top line is Europe, which once again grew faster than the whole - by just over 50% year-on-year to $173m. Management confirmed that it's investing in marketing and sales to boost Europe further - it thinks an even greater proportion of its business should come from this geography. The company's fledgling consulting operation is also helping to drive growth. Although it only accounted for 3% of worldwide Q1 revenue, Infosys Consulting CEO Steve Pratt says his unit enabled Infosys to open up nine brand new accounts in the quarter. As we expected, consulting is proving to be an enabler for Infosys as a whole, rather than just a business line in its own right. That role is equally important in existing accounts, where Infosys is seeking new, higher value revenue streams.

As for profitability, Infosys' margins remain enviably high. The Q1 net margin was maintained thanks to currency effects and income from interest, but the results see margins edging downwards at the operating level. Having maintained Q1 operating margins between 27.5% and 27.9% for the past three years, a drop to 25.8% is potentially significant. In fact, the operating margin fall is mostly explained by two factors: an upfront investment of $11m in visas (which Infosys will use throughout the year) and the addition of stock option payments. Salary increases of 14-15% in India also had an effect, especially as these fall particularly heavily in the quarter that follows the end of the financial year. But we should bear in mind, as CEO Nandan Nilekani reminded analysts, that Indian salaries account for just 12% of Infosys' revenue - even 15% wage inflation knocks less than 2% off the corporate margin.

So overall, Infosys is confidently predicting it can keep its margins flat this year, compared to FY06. Given its recent record of hitting expectations, we wouldn't doubt it, especially since there's scope to improve utilisation from the 76% recorded in Q1. One day, when the onshore-based players really have cracked the offshore model, Infosys' margins will likely begin to head downwards. But there is little evidence in these results that that process has started in earnest.

Wipro continues to lag behind, despite strong performance

Wipro's global IT services and BPO services unit reached revenues of $534m (under US GAAP) this quarter, an increase of 42% over Q1 05. While IT services grew by 44% this quarter, BPO revenues were up by 15%. Meanwhile, Wipro's operating margin in global IT services was slightly down to 24.6% from 25.2% while BPO improved operating margin from 7.3% last year to 19% this quarter. European revenues grew by 47% and now account for 34% of global IT services revenues, or $181m.

Comment: The trends here are roughly in line with what we have been saying about Indian IT services exporters in general over the past two years: growth is slowing and margins are reducing, but they are still very robust, and far ahead of the Western competition.

Despite a slight reduction, Wipro's margins remain three times as large as their Western counterparts. There have been concerns that Wipro's margins have been below those of its main Indian competitors. Yet, the good news this quarter is that Wipro has more than doubled its operating margin for its BPO business, thanks to the re-focus away from lower margin voice-led BPO business, we presume.

As for European revenue, Wipro's growth is somewhat slower than TCS and Infosys, and might be a cause for concern for the company's management, but can be attributed to the company's

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differing focus and strategy. Wipro is more acquisitive than either TCS or Infosys, but it looks to purchase technical skills, not revenue. Unlike many IT services players, Wipro is also very serious about R&D services, seeing strong growth around embedded systems across all verticals. Over the quarter the company acquired two firms - Saraware (based in Finland) to address the telecoms equipment manufacturer, and Quantech Global Services based in the US and India.

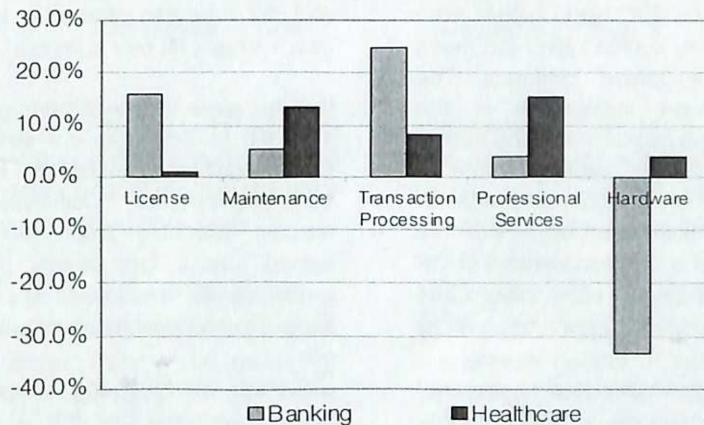
Despite falling behind TCS and Infosys, Wipro is still far ahead of its Western rivals. For example, the company has added in one quarter around 2,700 employees, of which around 400 came from acquisitions. This compares with leading European players, which typically have between 2,000 and 4,000 Indian staff in total.

(Samad Masood)

MISYS REVENUE RISES BUT PROFITS FALL

Misys' results for fiscal 2006 have turned out to be the curate's egg we have come to expect from the company, good in parts. The good parts are the overall growth, in particular the growth in licences in banking, the strength of maintenance in healthcare, and the sale of the general insurance business for a tidy profit. The not so good parts are the fall in overall operating margin, and especially in the banking division, the fall in licence sales in healthcare, disappointing maintenance from banking, and worst of all that Misys still owns Sesame.

Contrasting growth rates in the banking and healthcare divisions



Might think about suppressing the very large negative value for baking's hardware business.

Total revenue fiscal 2005 (which ended on 31 May 2005) was £953m, an increase of 12% over the £855m achieved in 2005. These and all the other group numbers exclude Misys' general insurance business, which had revenues of £34m in 2005 but was sold in May 2006.

Geographically, UK revenue was up 7% to £415m in 2006, most of this from Sesame. The rest of Europe contributed £107m, up 13%. Americas revenue, primarily from healthcare, was £364m, up 6% (helped by a 4% exchange rate benefit). Asia Pacific was £35m, up 29%.

Group operating profit was down 22% at £56m compared to £72m a year ago. The main cause for the lower operating profit was a large increase in cost of sales, up by £85m to £666m in total. Net profit was £213m compared to £62.4m a year ago. This was helped enormously by the one-off net proceeds form the sale of the General Insurance business, which added net profit of £172m, and without this net profit would have been £41m.

Misys produced 'like for like' figures for revenue and operating profit of £82m in 2005 and £86m in 2006. According to Misys, these profits exclude "exceptional items, gains and losses on embedded derivatives, amortisation of acquired intangibles, profit on disposal of WebMD common stock, the impact of acquisitions and disposals and is stated at constant exchange rates." We think we'll stick to the statutory numbers!

However, one number that is perhaps a little less arbitrary than profit is cash flow. Misys says that cash flow from the operations increased to £107m in 2006 from £100m in 2005.

As Figure 1 shows, the banking and healthcare divisions are like yin and yang - one has low growth rate where the other is growing strongly and vice-versa - and this even applies to the hardware sales, though these are tiny for the banking division.

Turning to the groups themselves, Banking had revenues of £267m, up 9% (or 7% like for like) and an

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operating profit of £22m, down 7%. Banking saw licence sales up by 16% to £73m, and its small transaction processing business grew well, but maintenance and professional services revenues were flat.

The issue here is a transition towards an integrated 'platform' with 'modules' that replace stand-alone products. This seems to explain the growth in licence sales as opposed to maintenance. On the analyst call, there was some discussion of relative win-rates against Temenos, but these were batted away by CEO Kevin Lomax, who said you couldn't read too much into anecdotal evidence. The increased investment in the banking platform, and the cost of restructuring, explains some of the 46% fall in operating profit for the banking group - but the turmoil in the management of this group may have also had something to do with this too.

Healthcare saw total revenues of £317m, up 9%, or 3% like for like. Licence revenues grew a disappointing 1% to £84m (and because of the rise in the dollar, this would have been a fall of around 3% at constant currencies). Maintenance grew at 13% to £123m, and professional services by 16% to £34m.

Misys said that it had ramped up the sales effort in the US healthcare division, though it has to be said that this didn't seem to affect the division's operating margin too badly. However, according to Misys, this is what has led to what will be a short term fall in healthcare licence sales, as it takes a while to bring new sales staff up to speed on accounts that they took over from experienced sales staff. One couldn't help wonder why this problem had not been anticipated and the transition phased in to give a smaller hit on r evenues.

Sesame grew 16% to £370m, or 18% like for like, while operating loss reduced from £5m last year to £2m, in both years its otherwise modest operating profit being turned into a loss largely by provisions for mis-selling claims relating to endowment mortgages.

Sesame's performance simply renews our view that this is a business Misys should exit at the earliest opportunity. The revenue stated for Sesame is actually mostly pass-through, and the 'real' revenue is around 10 to 15%. We suspect that one of the first actions of whoever buys Misys (if such a transaction does emerge) will be to sell off Sesame as soon as possible, or at least to separate it from the rest of the company.

One puzzle remains: what led to the £85m increase in 'cost of sales? 'None of the figures above help us understand why this happened. There are some hints - for example the banking restructuring and the claims in Sesame but these don't come close to explaining £85m. What this reinforces is that Misys provides very little visibility of its 'cost of sales' line, which makes up more than two-thirds of its operating costs. Many other international software companies disclose far more, such as the direct cost of goods and services, the cost of R&D and the cost of sales and marketing. We realise that most UK-registered software companies don't give this kind of detail - but some do and we applaud their openness.

We hope that the bidders for the company will be able to get a good insight into what's going on in this area. It's certainly an area we'd scrutinise if we were advising any of the parties.

(David Bradshaw)

AUTONOMY GROWS TO $61M IN Q2

Autonomy Corporation plc has now issued the details of its Q2 and H1 06 performance, to June 2006. Looking first at Q2, Autonomy had total revenues of $61.0m up 198% from the same period in 2005, aided by the acquisitions of etalk and Verity. Operating profit grew 661% to $14.3m from $1.9m, with operating margins shooting up to 23.4% from 9.2%. Net profit was $9.5m up 380% on the $2.0m a year ago.

Looking at the half-year results (or 'interims' in UK parlance), total revenue was up 200% to $117.1m from $39.0m a year ago. Operating profit was up 354% to $21.3m from $4.6m last year, while operating margin grew to 18.2% from 11.7%. Net profit was $14.4m up 207% on the $4.7m achieved a year ago.

Geographically, revenue from the Americas was $41.4m up 293% in the quarter, and $78.5m up 309% for the half-year. The rest of the world produced $19.6m up 96% in the quarter and $38.6m up 94% for the half year. Clearly, the

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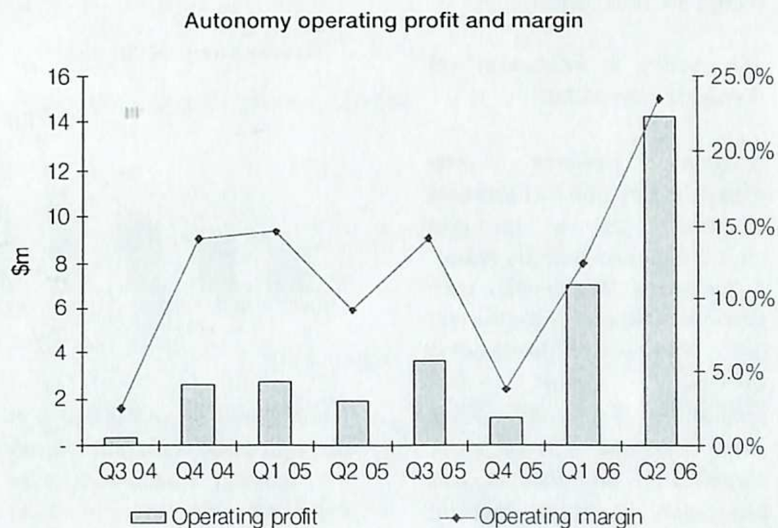
enlarged Autonomy is far more focussed on the Americas market (and in particular the US), which generated 68% of its revenue in the mot recent quarter, up from 51% a year ago.

Looking first at revenue, our estimate for the combination of Verity, etalk and Autonomy a year ago is quarterly revenue of $63.1m. (These numbers use Verity's Q4 05, which ended in May 05, and 2 months of our estimate of etalk, which became part of Autonomy in early June 2005). On this simplistic comparison, Autonomy's revenue is slightly down year-on-year.

However, Autonomy shut down certain etalk and Verity product lines (including etalk's hardware business), and disposed of much of Verity's professional services business. If these changes are taken into account, then you get the "10 to 20%" that Autonomy quotes for its organic growth.

But we're much more excited by the operating profit. Figure 1 shows Autonomy's reported operating profits (the blip in Q4

Figure 1 **Operating profits on the rise**

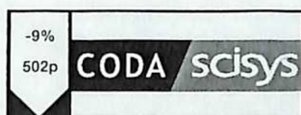


2005 is caused by $5m in merger-related restructuring costs - without this the operating margin would have been 19.5%).

CEO Mike Lynch characterised the competitive environment as 'benign', by which he meant that the company saw little competition in its deals, and when there was competition it was usually from Autonomy's direct rival, Fast. Lynch said that Autonomy never saw Google's enterprise search technology as a competitor for any deals, but it was seeing deals where Google customers wanted more capabilities than Google offered.

In summary this is a good quarter for the company. Q3 tends to be the slowest quarter of the year, so we'd expect to see flat revenue but continued good operating margins. However, the underlying market is growing strongly, and we'll be looking for strong growth in Q4.

(David Bradshaw)



CODA AND SCISYS TO DEMERGE: SO WHY DID THEY MERGE IN THE FIRST PLACE?

During July, CODASciSys announced the proposed demerger of its two principal business units: CODA (financial intelligence products) and SciSys (projects business concentrated on the government, space and defence sectors). Details of the demerger were outlined in Hotnews (4 July 2006).

To reiterate, we are supportive of the move as there is compelling logic behind the demerger; the two businesses address different markets and already operate semi-independently. Furthermore they have quite different operating models. The demerger will allow the businesses to pursue their individual growth strategies.

So, for those of you who remember SciSys (then Science Systems) acquiring CODA back in 2000, it begs the question, 'if this (not unexpected) move

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makes such a lot of sense, why did CODA and Scisys decide to merge six years ago'?

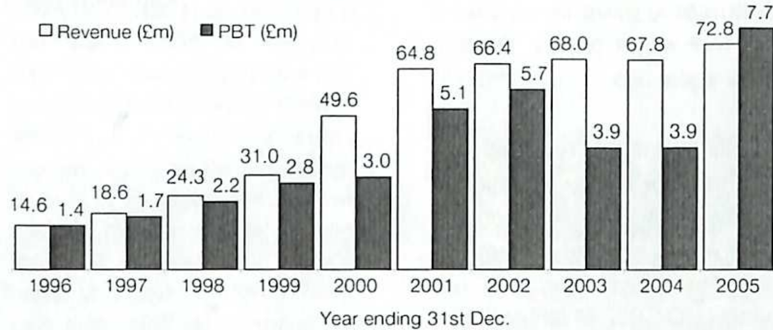
The history is interesting yet somewhat convoluted!

Science Systems was established in 1980 and was best described as a business consultancy and software house. It formed a relationship with CODA in 1989 and by the the end of the 90s it was CODA's leading business partner with involvement in over 200 CODA sites worldwide with particular expertise in procurement and integration services around CODA's finance systems. Indeed, 90% of the revenue from the Commercial division of the business (c£8m) was derived from its activities as an integrator and reseller of CODA.

However, CODA got into difficulties in the late 90s, putting a significant strain on the relationship between CODA and Science Systems. The acquisition of CODA by BAAN only seemed to make matters worse. So, as both an attack and a defence strategy, Science Systems bought CODA from BAAN in April 2000 and integrated it with SciSys Commercial, creating a CODA product and services division.

At the time of the merger, Graham Steinsberg, then head of Science Systems Commercial, stated *"The synergy between the Science Systems and CODA businesses is amongst the most extensive I have ever experienced. Our aim is ...(to combine) the world's premier best-of-class accounting solution with Science Systems' enviable reputation for accounting, consulting and implementation expertise".*

The proof was in the pudding. By November 2000, CODA had won 60 new customers worldwide and 41 existing customers had extended their investment in CODA products.



With the other part of the Science Systems business focusing on a very different market: project work in the government space and defence sectors, each business unit had its own CEO. And from the time of the merger onwards, the CODA and Science Systems business units began developing very separate and strong brands in their respective markets. CODA in particular embarked on large-scale investment in global marketing. Science Systems was rebranded CODASciSys in July 2002, reflecting the importance of both brands and the major role that CODA was playing in the organisation.

However, for the first few years of the decade, SciSys turned out to be a bit of a problem child. It struggled to capitalise on its domain expertise, did not have strong financial controls in place and was finding it difficult to achieve profitable growth (indeed it was loss making in 2003). This meant that CODAScisys reported a compound annual growth rate of just 1.5% between 2001 and 2004, although EBITA declined by 1.5% compound between 2001 and 2003 but improved as the business stabilised in 2004 (growing 18%).

But it was only in 2005 that CODASciSys was able to report that both the CODA and SciSys businesses were displaying independent financial and operational strength. SciSys achieved profitable growth in 2005 helping the CODASciSys business increase revenues by 7.4% to £72.8m and achieve an operating margin of 14.1% and a pre-tax margin of 10.6%. Finally, all the pieces were in place for the company to exercise a successful demerger.

The next episode in this story could be just as interesting. CODA is the mainstay of the business, accounting for £51m of turnover in 2005, and boasts a 20% profit margin. We expect CODA to remain standing on its own two feet. On the other hand, SciSys, despite improving its financial performance, still has far lower operating margins (c10%) and continues to struggle in its efforts to increase its revenue growth rate. Nonetheless it has a strong reputation for software engineering in its core markets of space and defence and could well be an attractive take-over target for other companies operating in those sectors.

This is unlikely to be the end of the story.

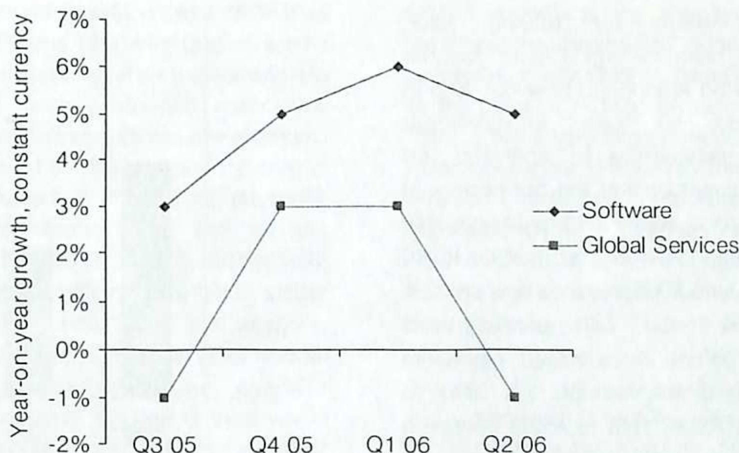
(Georgina O'Toole)

IBM Q2: NO SIGN OF A SERVICES RESURGENCE

IBM announced a mixed set of quarterly results, with positives in software but more concerns in services. Excluding the former PC business, total revenue increased 1% to $21.9bn compared with Q1 last year at constant currency. The gross profit margin was 41.2%, up 0.5% from 2005.

The Americas led the major geographies with 2% growth in constant currency terms to $9.5bn. EMEA was down 1% at $7.2bn. Asia Pacific once again disappointed, with a 3% fall in revenue to $4.2bn. As for the business divisions, Software provided the only good news with revenue growth of 5% to $4.2bn. Global Services saw a 1% fall in revenue to $11.9bn, and total signed services contracts hit $9.6bn during the quarter, bringing the backlog to $109bn, in line with a year ago. Hardware revenues decreased 7% to $5.1bn and Global Financing revenues were down 7% to $0.58bn.

Software outpaces services for IBM



Source: IBM, Ovum

Comment: This was another mediocre quarter for IBM in Europe. EMEA revenues decreased 1% to $7.2bn. France and Spain once again showed solid growth but Germany, Italy and the UK declined. This is extremely disappointing as IBM had been claiming better execution under its new European management structures in the last quarter.

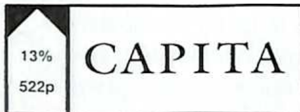
Results in Japan and therefore Asia Pacific (as Japan represents 50% of the revenue) were extremely poor once again and the same old tiresome party line of "we continue to work through our operating issues" was produced for the fifth quarter in a row. Growth has slowed even in emerging countries with a 3% decline in China, 19% growth in Russia and 4% in Brazil. The stellar exception was India where growth was 45%, giving IBM reward for its recent concentration on this country.

Growth in software revenues was led by IBM's branded middleware software (WebSphere, IM, Lotus, Tivoli and Rational), which grew 9% to represent nearly half of IBM's software business. This success was balanced by a decline in operating systems and other middleware, which are being affected by the general decline in mainframe software prices. Software pre tax margin was up 2 points to 24% as IBM continues to successfully ride the SOA wave.

The real disappointment, as in Q1, was the lack of growth from Global Services. Signings fell 34% compared to Q2 of last year. While it's true that Q2 2005 was a strong period for contract signings, CFO Mark Loughridge had to admit to analysts yesterday that "the performance fell short of expectations". With less deals than expected in the bag, IBM's previously stated (albeit modest) ambition of "mid-single digit" growth from Global Services in the second half of 2006 now looks unlikely.

It's a familiar story on services profits too. Because despite the sluggish topline and disappointing signings, both Global Technology Services and Global Business Services were able to raise pre-tax margins by around 1% year-on-year to 9.4% and 9.5% respectively, excluding restructuring charges. The fundamental problem now is that the impact of last year's restructuring and its associated cost reductions cannot last forever. And there's also a limit to the margin-enhancing effects of moving work offshore. Global Services must get the topline moving as well if it's to maintain its margins. Unfortunately, nothing in these results suggests that the division made much progress in Q1 towards executing on this goal.

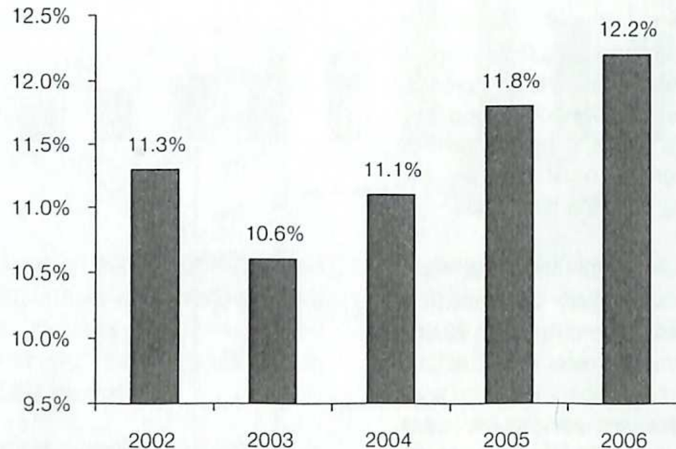
(Ian Wesley & Phil Codling)



ALDRIDGE LEAVES CAPITA ON A HIGH

Better-than-expected first half results provided the perfect platform for retiring Exec Chairman and Capita founder Rod Aldridge to bow out, and to do so with a confident reassurance to analysts and investors that the business is in good shape and highly capable hands. In the six months to 30 June 2006, revenue was up 23% to £845m, with operating profit (before share based payments and amortisation) up 27% to £103m. That took the operating margin up from 11.8% (in H1 2005) to 12.2%. Profit before tax grew by 21% to £85.1m and earnings per share rose 26% to 9.32p. The results helped to push Capita's share price above £5 for the first time since 2001.

Capita first half margins on the up



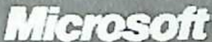
Source: Capita

Comment: The topline growth of 23% was above expectations. The organic rate of growth, stripping out the impact of Capita's characteristic handful of recent small acquisitions, was an equally impressive 17%. That's well in excess of broader market rates in the UK BPO industry, which have fallen below double digit levels in 2005 and 2006. Big ticket signings remain a key driver. CEO Paul Pindar said that 10-11% of the company's growth came from large new deals (notably those with Zurich's UK life business, Birmingham City Council, the BBC and DSG International). Crucially, there was also a strong contribution (i.e. the remaining 6-7% of organic growth) from the day-to-day work of selling smaller ticket offerings (such as software products and recruitment services) and getting more services into existing accounts.

Looking at Capita's sector splits, key drivers of H1 revenue growth were local government (now 17% of revenues compared to 15% in H1 last year) and life & pensions (8% versus 6%). That's not surprising given the distribution of recent larger contract wins. Overall, the H1 win rate was *"better than 1 in 2"*, i.e. in the range we've come to expect from Capita. A rare disappointment came in the Property Services part of the business, where the company has paid £3.5m to exit from an unworkable contract with the Dubai Rapid Link Consortium. On a more positive note, the Resourcing business continues its turnaround through a focus on profitability, with an improved margin from lower H1 revenues.

We'd previously been told to expect some downward pressure on margins. So the improvement in the H1 operating margin was a pleasant surprise, and the third year in a row that Capita has seen a first half improvement. The reasons are straightforward: as well as the high H1 revenue growth, costs incurred in the start-up phases of large contracts proved lower than predicted. Capita now expects to record an operating margin for the full-year higher than the level (13.3%) posted in 2005. It's hard at present to say where the margin will go in 2007. But given that Capita has not yet reached break-even point in its offshore operations and looking at the growth opportunities in many of its target markets, there should still be room for future leverage.

(Phil Codling)



MICROSOFT GROWTH REVIVES?

As readers will be aware, Microsoft had a very strong Q4 (to 31 June 2006) with total revenue growing year-on-year by 16% to $11.8bn. More impressively, operating income grew 30% to $3.88bn from $2.99bn, even after $351m in fines from the EU. Indeed, Microsoft's profitability seems to depend as much on the various legal actions that it gets involved in as it does on business performance. Net profit was down 24% to $2.82bn from $3.70, the fall being entirely due to a very low tax bill in 2005.

The strong quarter also lifted the full year to 31 June, Microsoft's fiscal 2006. Total revenue was $44.3bn up 11% from the $39.8bn in fiscal 05. Operating income was $16.5bn, up 13% from $16.6bn, and net profit was $12.6bn, up 3% from $12.3bn.

What is most interesting from an industry perspective is that growth has been strong across almost all Microsoft business lines. All the operating units have very different growth rates as well as sizes, but with the exception of MSN, all Microsoft's six operating units grew in the year. Bearing in mind that some of these are extremely large and mature businesses, 11% growth overall is an impressive feat.

Of the three largest operating divisions, server and tools grew the strongest at 15% for the year to $11.5bn, thanks especially to strong growth in SQL Server. It also saw 31% growth in operating profit to $4.32bn, taking it to 37.7% operating margin.

Client revenue saw annual growth of 9% to $13.2bn and operating profit of $10.2bn, though margin edged down to a mere 77.2%. The annual growth in client revenue of 9% (and 12% in the quarter) seems an anomaly when we are awaiting a much postponed major new product launch. The reason seems to be that many business customers have adopted multi-year licence plans that will give them the upgrade to Vista without any additional payment. Under questioning from the analysts, Microsoft CFO Chris Lidell said on the call that one quarter's additional slippage in Vista would produce 'only' $200m to $400m revenue impact, which for Microsoft is not an especially large sum.

Information worker showed growth of 5% to $11.8bn, with operating profit up $8.29bn though operating margin was down 1.4% to 70.5%. This could be where the delayed release of a product, in this case Office 2007, has hit revenue growth. We have a long term hypothesis that the 'home office' part of this division's market will be hit by open source, while the enterprise segment will see a switch to server-based products. However, the numbers suggest that neither of these are happening yet.

Microsoft Business Solutions put in a very good year, growing by 17% to $919m and making its first annual operating profit of $24m. MBS is moving towards that magical $1bn threshold. Microsoft CRM was mentioned a lot on the earnings call, and we believe it played a large role in the overall growth of MBS. We also believe that the UK showed the strongest growth in CRM licence revenues, contributing to the overall quarterly growth of 50,000 new end-user licences. Microsoft CRM has come a long way, and we think the strategy of tightly integrating it with Outlook (almost to the point of 'hiding' it) means there is still a very large potential market out there. What a pity that Microsoft will stop reporting separately on MBS (and several other businesses) in the new year, when it will report along its new business lines.

Amongst the other businesses, the smallest, Mobile and Embedded Devices, put in the strongest growth of 44% year on year to $377m and it made its first annual operating profit of $2m. Home and Entertainment grew by 36% year-on-year to $2.30bn, but increased its losses by 160% to $1.26bn. Since Microsoft subsidises every xBox sale, it's hardly surprising that losses increase as sales increase. MSN saw its revenue fall 2% to $2.30bn though investment in its AdCenter platform converted a $412m profit in 2005 into a $77m loss.

MSN is going through a major re-build of its infrastructure, and this has hit its ad revenues. In addition, its dial-up business is gradually dying away because of the ubiquity of broadband. Microsoft believes that it AdCenter ad-placement platform will give it some chance of catching up with Google, though the distance keeps getting greater. AdCenter has already been rolled out in some markets (notably the US and France) and will reach the UK in August.

So there is a 'special' reason why MSN did not grow.

(David Bradshaw)

DETICA MUST MANAGE ITS FUTURE GROWTH CAREFULLY

Detica, the specialist IT consultancy, has announced results for the year ended 31 March 06, revealing another year of revenue and profits growth.

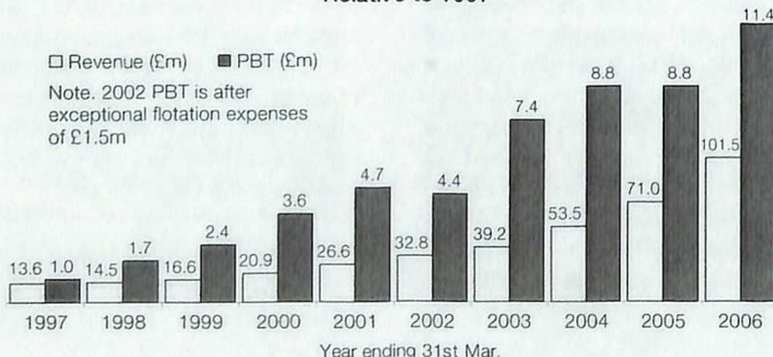
The headlines are as follows: revenue is up 45% to £101.5m, with organic growth running at 38%, operating profit is up 33% to £10.7m, and PBT is up 30% to £11.4m. Diluted EPS, formerly 28.1p, is 42.7p.

Detica enjoyed particularly strong demand from UK National Security clients, with revenue up 51% to £57.5m, whilst other Public Sector revenues grew 42% to £10.9m. The company's UK Commercial business reported a 34% increase in revenues to £32.8m - within Commercial, TMT was the star performer, delivering 110% growth.

The US business has made "significant progress" during the year, with revenue from US National Security clients up 27% to £6.0m. Since gaining the necessary approvals to contract directly with the US Government for National Security projects, Detica has secured four contracts, and comments that the sales pipeline continues to develop well.

Looking to the future, Dr Tom Black, Chief Executive, says they are considering further acquisitions, both in the UK and the US - Detica made three acquisitions in FY06, and now regard this as an "effective way of accelerating (our) growth".

Comment: Detica continues to succeed as a result of its clear focus on what it terms "information intelligence". Its clients have one thing in common: the need to process large amounts of data in quick time. In its traditional core business of national security (which covers all elements of intelligence and counter-terrorism operations, as well as defence, demand for Detica's specialist skills is unsurprisingly strong. But the company is also making significant headway in the commercial markets, most notably financial services and telecoms, where its clients require increasing levels of information on their customer base in order to compete effectively in their respective sectors. Importantly Detica is also finding synergies in its target markets. For example, it has identified strong demand from UK government departments for its anti-fraud solution (NetReveal) - previously a financial services sector offering.



However, most interesting is Detica's progress in growing via acquisition and also in growing its business outside of the non-core UK market (namely in the US). Detica has made a total of four acquisitions over the last three years - three of which were during FY06. The very first, of Rubus, was back in 2003, and became proof that Detica could successfully integrate an acquired company. Since then, despite the acquisitions becoming larger (the last being the purchase of Evolution Consulting Group for £8.8m in January), Detica has avoided venturing into the unmanageable, with all acquisitions remaining digestible. It has also selected companies to complement its existing core business.

Where Detica is taking bigger risks is in two areas: firstly its expansion into the US; and secondly its investment in Streamshield, its Internet content security business (launched in September 2004). On both counts, the signs so far are good but both are work in progress. In the US, Detica is concentrating on building a healthy business supported by high quality employees. Business has already been won but building a significant presence will take time and we don't expect the US to break even until FY08. Similarly, the feedback for Streamshield Networks is positive but this continues to be an investment story. To date Detica has invested £7.5m and expects to invest another £4m in the next financial year. In addition in order to tackle large-scale deployments on a global scale (something that Detica knows it can't do alone) it is talking to potential investors (both VCs and industry players)

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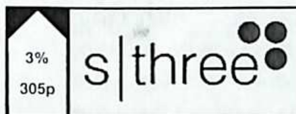
and hopes to raise c£10m+ in the next few months. We are concerned that Detica may have ventured too far outside its comfort zone in pursuing this new business line.

Detica FYE: 31st March	Turnover £m		
	2006	2005	Change
National Security	57.5	38.1	51%
Public Sector	10.9	7.7	42%
Total Public Sector	68.5	45.8	50%
TMT	15.9	7.6	110%
Financial Services	14.5	9.8	48%
Corporate Accounts	2.5	7.1	-65%
Total commercial sector	32.8	24.5	34%
TOTAL	**101.5**	**70.2**	**45%**

Whether it is growth of its non-core UK business (organic and inorganic) or expansion into new geographies or technologies, Detica's biggest challenge is managing this rapid development of the business. The company had 937 employees at the year-end - up 39% on the previous year (including the impact of acquisitions). As Detica well knows, its people are its biggest asset. Unfortunately in FY05, the company's attrition rate was 23%, indicating that it needed to do more to keep this precious asset happy. We are pleased to report that the attrition rate in FY06 had been brought down to 14% (with the help of a new HR Director).

Going forward, Detica will continue to acquire, and continue to grow - and as it does, management of that growth will be crucial.
(Georgina O'Toole)



STHREE DELIVERS AGAIN IN H1

SThree, the staffing company with a heavy focus on IT, had an impressive six months to end May 2006 with revenue increasing 24% to £178m. Net fee income increased almost 29% to £59.2m. Operating profit before exceptionals increased to £15.1m. PBT increased 49% to £14.5m.

Russell Clements, CEO, said: "*We remain confident that the first half positions us well to make further progress for the year as a whole.*"

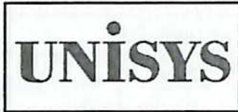
Comment: Whichever way you look at it, SThree continues to perform exceptionally well. Not only is it growing the top line (thanks to strong performances in both IT and other sectors) but profitability also continues to strengthen. The margin was 7.3% in H1 2005 and 8.5% (before exceptionals) in H1 2006. Compare that with the UK's largest IT staffing company, Spring, which is struggling with declining profitability.

SThree's profitability is linked to its very focused approach. It doesn't sign up to high volume, low margin arrangements. Competitors that do can sometimes get an artificially high lift in revenues by taking on managed contracts of this nature and benefiting from the pass-through revenue that comes from payrolling the contractors it 'inherits'. We also think that SThree's spread across more than 4,000 clients (concentrated in the SME market - which includes the autonomous divisions of large corporates) gives it increased opportunity to get deeper in accounts, picking out the more profitable work. Of course, SThree's federated model (i.e. many brands operating under the group umbrella) enables it to do this.

What is particularly encouraging this half is the performance of SThree's non-IT business and its business outside of the UK. This not only indicates that there's more to SThree than UK IT, but that we could be looking at a company that, long-term, has the potential to grow into something much bigger and more diverse than it is today.

We estimate that revenues specifically from the UK IT business were £219m in FY05 - up 27%. That performance has enabled SThree to move up our ranking of the UK's top fifty S/ITS companies into the top thirty. In terms of its share price performance, SThree has also done well. It only floated in November of last year but has recently joined the FTSE 250 index.

In H2 the company is expecting "*further progress*" - and we have every right to believe management following what has been a sustained period of consistently good performances.
(Kate Hanaghan)



UNISYS STILL IN MIDDLE OF RESTRUCTURING

Unisys has released its results for the second quarter ended 30 June 2006. Revenue fell 2% to $1.4bn, with operating losses increasing to $184m from $57m in the previous year. Despite spending more on restructuring, cash and cash equivalents increased slightly to $655m (from $642m) over the quarter thanks to gains from share sales and investments.

By business line, Services revenue fell 1% to $1.2bn, with the segmental operating margin of -0.9% significantly improved from last year's -3.7%. Within Services, only infrastructure services grew revenue, up 10% to $229m. This was offset by declines across consulting and systems integration, which fell 9% to $404m; outsourcing, which fell by 4% to $471m; and core maintenance, which fell 9% to $120m.

Technology business did not fare as well as Services, with revenue falling by 8% to $183m. The lower than expected sales also resulted in segmental operating margin falling to -12% from -4.8% last year. Within Technology enterprise server revenue declined by 12% to $146m, while the smaller "specialised technology" area grew revenue by 10% to $37m.

Geographically, "International" revenue (i.e. everything outside of the US) has grown at 2% to $779m, while US revenue fell 6% to $628m. Europe and Africa represented 35% of total Q2 revenue.

Comment: Unisys' *"broad-based repositioning"* continues to be reflected in both its top and bottom lines. The company has spent all of this year (and a good deal of the last) trying to reign in business to focus just on its largest clients and to cut back costs by reducing headcount and increasing offshore utilisation significantly.

The target is to achieve "mid to high" single digit revenue growth and improve operating profit margins to between 8% and 10% (excluding the retirement related expenses that continue to bog it down) by 2008.

To do this Unisys expects to make 5,000 staff redundant over 2006 - more than 2,000 of which have happened in the second quarter - and a further 500 over the first half of 2007. At the same time it plans to grow its offshore staff numbers to around 6,000 by 2008. Unisys currently has offshore centres in India and China.

These actions alone will take up a lot of Unisys efforts over the next 18 months, and it will be quite a feat to achieve this drastic offshore/onshore rebalancing in such a short time. However, Unisys is doing yet more.

For example it is also focusing on fixing *"problem contracts"* in order to improve profits. This is something that has been quite a big issue in the UK recently. Over the past year Unisys has re-negotiated its cheque processing joint venture and has also made a lot of changes to its life and pensions BPO operations. Although these efforts will ultimately improve margins, we have concerns that these problems will make it difficult for Unisys to win new BPO business in the UK. The company has also had some problem deals in the US, although we have no insight into how these are progressing.

Finally, Unisys continues to reposition its Technology business, increasingly focusing on *"value-added"* software while focusing on industry standard hardware. What this means is that the company is focusing more on specific areas for software such as Linux, Windows, and pain points such as security. Meanwhile it launched its technology roadmap to bring its ClearPath servers and mainframes onto an Intel platform.

Clearly Unisys is in the thick of its restructuring, and it is very difficult to judge how well things are going until all of these changes have worked their way through the business. By that time we expect Unisys to be a very different beast from what it is now. The earliest indication of success will be evidence that the cost base is reducing, and CEO Joe McGrath says that this will start to happen in the next quarter of this year.

(Samad Masood)

Mergers & Acquisitions

Buyer	Seller	Seller Description	Acquiring	Price	Comment
Accenture	**Meridian Informed Purchasing**	BPO specialist	100%	n/a	We've said for a while now that high-quality (and high-margin) BPO is often distinguished by the use of proprietary technology, not just to replace human labour but to improve processes or to add capabilities that the client organisation didn't have. This is a good example of Accenture's policy of selective acquisition to add such capabilities. The more that IT services players can add value by supplying business insight on top of delivering economies of scale and streamlining processes (important though these last two are), the more they can get closer to their clients' businesses and thereby stand a chance of charging a premium for their services.
Amdocs	**Cramer Systems Group**	Operational support systems	100%	"Approximately $375m in cash, net of cash on hand, subject to post-closing adjustments"	In one respect the timing on this acquisition looks very good. Many carriers are in the process of re-working their core networks to IP standards, and this will almost certainly require them to re-work both their OSS and their billing systems. However, starting now there won't be a combined system for a year or two - indeed it may not be something that would be practical anyway. That said, a coherent, combined offer should not take very long to assemble. So in the long run, even though Amdocs may wish to make its OSS and billing systems work well together, it will have to ensure that they work just as well as standalone offerings.
Atos Euronext Market Solutions	**Misys**	Apollo asset management business only	Apollo asset management business only	n/a	We are all for Misys focusing on its core markets of banking and healthcare, and therefore we welcome this disposal. However, the timing does seem a little odd to us, with so much uncertainty over the future ownership of the company. And at the risk of being boring, we'd much rather see Misys getting on with finding a buyer for Sesame.
becom	**Morse**	Resale and services	German and Austrian businesses	euro9.5m in cash	An expected move from Morse. It fits with the company's unambiguously-stated strategy of shifting away from its legacy in reselling and into services. The German and Austrian operation was heavily weighted towards the former. So its days were numbered, especially as it appears (as flagged in a trading update two months ago) to have become loss-making once again in its FY06 (which ran to June). The price accepted underlines how keen Morse was to get shot of Germany and Austria. If you consider that becom is getting euro8.5m of cash with the acquired operation, the price being paid is really just euro1m. That's 1% of FY05 revenues of c.euro100m! Furthermore, Morse will take an exceptional charge of euro2.7m arising from the disposal on its FY06 accounts. So this is a rather sorry end to an operation that began in 1996, when Morse opened its first office in Germany - indeed at the time, it was the company's first sortie outside the UK. That said, the disposal is a necessary and defensible step on Morse's path away from reselling.
Corpora	**Knowledgelake Inc**	Provider of content management and imaging systems	100%	$7.5m up-front plus up to $2.7m in earn-out over the next 15 months	Corpora specialises in content analysis and categorisation, while Knowledgelake has content management and imaging systems. Both are based on Microsoft's Sharepoint Portal Server, so appear highly compatible. However, we see some warning signs here. For a start, Knowledgelake is around 50% the size of Corpora. Knowledgelake had turnover of $6.29m and PBT of $970k in 2005 and 45 employees. Generally it's far easier to combine a business that's considerably smaller than you are. But secondly, Corpora has made some other acquisitions over the last year or so, and clearly is going through considerable changes in its business - sacrificing profitability for growth, whether organic or through acquisition. However, if the two companies keep it simple - combining their product sets so that each has a larger portfolio to sell to new and existing customers - then this may work well.
HP	**Mercury Interactive**	Software testing	100%	Cash tender offer equal to $4.5bn	We believe HP is spot on in recognising that CIOs need more unified toolkits to help them provision, operate and optimise end-to-end IT and business services. But, we believe the jury is still out on whether CIOs will turn to HP - a traditional systems management company - rather than a recognised software player such as IBM, Microsoft or Oracle, which are all also investing to build out similarly-integrated application and infrastructure management portfolios. When set against the backdrop of the Peregrine integration as well as the continued process of aligning its many other smaller acquisitions (e.g. Talking Blocks, Baltimore Technologies, Novadigm, Consera, etc.) it's clear that the Mercury integration cannot be accomplished simply by bolting Mercury onto the existing OpenView organisation. Rather, in order to harvest the value out of this investment, HP must rapidly create an entirely new go-to-market strategy and Software Business Unit organisation.
Management Consulting Group	**Ineum Consulting**	Former French consulting operations of Deloitte	100%	€120m	This looks like a bold move by MCG and will significantly strengthen the group in Europe. It gives it a very strong position in France, where Ineum claims to be the largest French-based standalone management consultancy. Ironically, MCG will be much bigger in France than in the UK, where it is listed. We see this purchase as a positive move by MCG, but we note that the industry-focused Ineum (excepting the bits going to Parson) is a very different beast to MCG's functionally-focused consultancies. This will introduce some complexity to MCG's management processes, although the company traditionally gives its brands considerable autonomy.
NCC	**Source Harbor Inc**	US-based escrow business	100%	$1.5m (£800k) in cash	The purchase of a second business in the US is a sound move. It's a smaller acquisition than the first but underlines the importance of the US market to NCC. The key challenge for NCC will be to develop its growing US presence into a business to rival the maturity, cross-sale ability and growth of the UK.
Sage	**UBS Corporation Berhard**	Provider of business management software for SMEs in Malaysia	100%	£14m	Sage faces mature and over-crowded markets for financials in much of the world, where there is little or no real organic growth (or growth is less than inflation). In these markets, the only way to grow is to acquire and then milk your 'cash cow' acquisitions. The good news is that a mature business can have very strong operating margins, provided the market has consolidated - hence the other element of Sage's strategy, market consolidation. Another, more risky but long-term strategy is to seek opportunities in less mature markets, like Malaysia. Indeed Malaysia is very attractive at the moment because of its strong economic growth (real GDP growth of 5.3%, with the IMF projecting 5.5% in 2006). Perhaps this explains the normally price sensitive Sage's willingness to pay over 7x revenue for UBS!
Sage	**Elit Group**	Provider of busines management software for the transport and food distribution sectors in France	51% of the share capital	£10.8m in cash	Ths purchase represents a further extension of Sage's range of industry-specific business management software and complements its existing C2G business, acquired last year. Sage is now set to make an offer to the remaining Elit shareholders to acquire all outstanding shares.
SurfControl	**BlackSpider Technologies Ltd**	Email content filtering services	100%	£20m plus the assumption of £1.2m of short term debt	SurfControl would appear to have paid a high price for a company with assets of only £3.1m and losses running at twice its revenue. However, BlackSpider is a managed service provider and this sector is notorious for its high fixed costs, and consequently having profits that depend on winning high volumes of business. MSPs inevitably lose a lot of money in their first few years of operation. SurfControl must be confident on its ability to rationalise costs in the merged company, and on the longer-term prospects for BlackSpider's services.
Torex Retail	**Retail-J**	Privately-held UK based electronic point of sales provider	100%	n/a	Overall the concern remains that Torex Retail is taking on too many businesses too fast. The company has acquired around 13 companies in two years, and it still faces a massive task in consolidating the technical foundations of its diverse product suite. The change in CTO to Mike Carrell will only increase worries that this process could suffer delays, and perhaps result in a change in technical direction. It is not surprising then that Torex Retail's shares have dipped on the news of this deal. It is difficult enough for analysts to keep up with this company's product portfolio, and the fear is that clients could end up just as confused.

Recent IPOs

Name	Activity	Index Class	Market	Issue Price	Market Cap.	IPO Date	Price end Jul 06	Change since IPO
Citel	VoIP software	SP	AIM	95p	£21m	07-Jul-06	108p	13.2%

Forthcoming IPOs

Name	Activity	Index Class	Market	Est Issue Price	Est Mkt Cap.	IPO Date
Probability plc	Mobile gambling payments service	SP	AIM	n/a	n/a	10-Aug-06
Continent 8 Technologies	Internet hosting for gambling sector	CS	AIM	n/a	n/a	01-Aug-06

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@UK plc	SP	0.55	20.50	-	14.10	832.06	-11%	-17%	-£2.63m
Alphameric	SP	0.63	79.04	9.1	1.49	286.70	-14%	-30%	-£8.41m
Alterian	SP	1.00	41.73	30.4	4.72	497.50	13%	-25%	£7.22m
Anite Group	CS	0.73	256.27	72.4	1.31	426.90	12%	7%	£29.71m
Ascribe	SP	0.33	37.11	34.9	6.30	1,710.53	5%	-7%	£2.75m
Atlantic Global	SP	0.16	3.53		2.20	525.42	-9%	-28%	-£0.45m
Autonomy Corporation	SP	4.15	766.77	77.9	14.69	126.68	1%	6%	£9.15m
Aveva Group	SP	3.50	233.68	29.4	3.90	1,750.00	-3%	-62%	-£4.32m
Axon Group	CS	3.74	194.93	32.1	2.06	2,137.14	11%	37%	£3.10m
Bond International	SP	1.28	35.79	16.4	2.15	1,969.23	8%	29%	£6.03m
Brady	SP	0.28	6.98	-	2.55	339.51	2%	-13%	-£0.03m
Business Systems	CS	0.10	7.74	10.9	0.31	84.03	-17%	-41%	-£1.94m
Capita Group	CS	5.22	3171.00	29.2	2.14	141,107.16	13%	25%	£141.71m
Centrom	CS	0.02	4.18	-	0.78	333.33	0%	-56%	£0.00m
Charteris	CS	0.16	6.67	7.9	0.58	172.22	-3%	-57%	£0.00m
Chelford Group	CS	1.87	13.40	10.4	1.76	32,521.68	-19%	-23%	-£1.96m
Civica	CS	2.26	115.40	19.4	1.45	1,291.09	-4%	-9%	-£4.29m
Clarity Commerce	SP	0.59	11.31	7.9	0.95	468.00	-3%	-23%	£1.74m
Clinical Computing	SP	0.07	2.36	-	1.17	57.42	2%	-29%	£0.01m
CODASciSys	CS	5.02	128.56	15.1	1.87	3,891.47	-9%	21%	-£11.69m
Compel Group	CS	0.80	27.23	12.3	0.44	640.00	-6%	-11%	-£1.16m
Computacenter	R	2.41	459.10	21.8	0.22	359.70	1%	-5%	£4.90m
Computer Software Group	SP	0.97	55.24	12.4	3.37	821.27	-4%	45%	£0.21m
Cornwell Management Consultants	CS	0.45	7.84	6.8	0.94	319.57	-19%	-40%	-£1.31m
Corpora	SP	0.09	5.31	-	17.95	236.84	0%	-27%	£2.06m
DCS Group	CS	0.31	9.43	-	0.11	516.67	3%	188%	£0.23m
Dealogic	SP	1.35	96.00	11.6	3.76	586.95	-6%	-8%	-£5.78m
Delcam	SP	3.13	18.96	9.7	0.81	1,203.85	-4%	-6%	-£1.11m
Detica	CS	2.58	230.90	30.6	4.11	645.00	-21%	-79%	-£59.69m
Dicom Group	R	2.19	198.05	21.7	1.09	671.37	0%	5%	£9.75m
Dimension Data	R	0.34	514.02	71.7	0.85	59.50	-7%	-16%	£33.81m
DRS Data & Research	SP	0.33	10.80	-	1.01	300.00	3%	-12%	£0.31m
Electronic Data Processing	SP	0.57	13.93	41.9	1.95	1,745.25	4%	-14%	£0.51m
FDM Group	A	0.75	17.41	14.6	0.59	920.25	6%	-11%	£0.92m
Ffastfill	SP	0.04	8.49	-	3.43	29.17	-30%	-10%	£3.88m
Financial Objects	CS	0.41	17.78	14.1	1.42	176.09	1%	3%	£1.52m
Flomerics Group	SP	0.98	14.33	13.9	0.02	3,750.00	4%	12%	£0.37m
Focus Solutions Group	CS	0.14	4.01	10.5	0.94	71.79	-7%	-33%	-£0.28m
GB Group	CS	0.36	29.51	-	2.40	228.98	-1%	4%	-£0.15m
Gladstone	SP	0.23	13.37	12.7	2.88	562.50	2%	-4%	-£6.27m
Glotel	A	0.76	29.27	11.9	0.37	394.80	-6%	-8%	-£1.44m
Gresham Computing	CS	1.03	51.78	-	3.92	1,107.53	4%	27%	£1.89m
Group NBT	CS	1.30	26.60	12.8	2.40	650.00	-9%	14%	-£1.28m
Harvey Nash Group	A	0.60	37.23	11.8	0.02	340.00	-1%	34%	-£0.51m
Highams Systems Services	A	0.05	0.90	13.0	0.06	128.33	54%	48%	-£0.14m
Horizon Technology	CS	0.57	44.41	11.4	0.30	207.79	-11%	-32%	-£5.50m
IBS OPENSystems	CS	1.73	69.00	13.7	4.54	1,131.15	2%	8%	£1.40m
I S Solutions	CS	0.18	4.46	51.7	0.65	670.78	29%	33%	£1.06m
ICM Computer Group	CS	2.76	59.00	15.0	0.84	1,533.33	13%	-17%	£7.02m
IDOX	SP	0.07	12.66	7.5	1.58	8.34	-19%	-54%	-£1.66m
In Technology	CS	0.37	52.08	-	0.20	1,480.00	0%	16%	-£18.59m
InterQuest Group	A	0.90	22.83	12.9	0.59	1,565.22	46%	109%	£4.82m
Innovation Group	SP	0.30	136.46	-	3.52	131.88	1%	1%	£4.57m
Intelligent Environments	SP	0.05	8.48	-	1.92	54.47	-15%	58%	-£0.09m
Intercede Group	SP	0.29	9.68	-	1.03	475.00	2%	-16%	-£0.17m
Invu	SP	0.25	26.58	20.3	12.35	2,631.55	-4%	19%	£2.61m
iSOFT Group	SP	0.62	144.40	2.9	1.04	565.91	-23%	-84%	-£39.92m
iTrain	SP	0.03	2.24	14.8	3.42	38.24	-19%	-40%	-£0.49m
K3 Business Technology	SP	0.96	16.94	-	0.76	729.68	-5%	16%	£3.62m
Kewill	SP	0.64	50.79	18.9	2.36	1,254.94	-8%	-12%	-£3.42m
Knowledge Technology Solutions	SP	0.01	1.48	-	2.08	200.00	0%	-43%	£0.37m
LogicaCMG	CS	1.70	1920.20	22.9	1.12	2,328.12	-2%	-4%	-£74.48m
Lorien	A	0.35	6.43	-	0.06	345.00	-9%	-13%	-£0.55m
Macro 4	SP	2.24	48.55	5.7	1.66	901.21	6%	-15%	£2.93m
Manpower Software	SP	0.18	8.08	26.1	2.03	187.63	1%	-37%	£0.29m
Maxima Holdings	CS	1.49	23.65	-	2.13	1,083.64	0%	-4%	£5.86m

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Mediasurface	SP	0.13	9.85	-	2.00	937.50	-12%	9%	-£1.35m
Micro Focus	SP	1.05	210.31	14.8	2.13	0.00	11%	-11%	£3.99m
Microgen	CS	0.57	58.38	14.0	3.06	241.45	-3%	-23%	-£0.91m
Minorplanet Systems	SP	0.38	10.81	-	0.68	765.78	1%	-15%	£3.91m
Misys	SP	2.43	1217.00	17.2	1.09	3,023.21	14%	2%	£17.63m
Mondas	SP	0.18	6.12	-	2.93	233.33	3%	35%	£1.57m
Morse	R	0.84	129.00	31.7	0.40	337.00	7%	-12%	£9.66m
MSB International	A	0.59	11.99	9750.0	0.11	307.89	6%	63%	£0.82m
NCC Group	CS	2.66	86.37	26.6	4.18	1,592.81	6%	15%	£4.21m
Ncipher	SP	2.21	54.90	20.1	3.76	884.00	7%	7%	-£3.80m
Netcall	SP	0.13	8.25	62.5	4.24	252.53	-11%	-4%	-£0.70m
Netstore	CS	0.36	45.27	24.8	2.31	241.67	7%	-6%	£10.64m
Nexus Management	CS	0.01	2.35	-	2.79	225.45	-38%	13%	-£0.04m
Northgate Information Solutions	CS	0.70	372.70	11.5	1.25	269.23	-10%	-18%	-£41.21m
NSB Retail Systems	SP	0.28	100.94	6.7	2.57	2,434.78	-3%	-14%	-£5.33m
OneclickHR	SP	0.04	5.76	-	0.97	96.88	11%	-11%	£0.56m
OPD Group (was PSD Group)	A	3.35	88.89	24.1	1.82	1,520.45	6%	34%	£5.63m
Parity	A	0.50	18.91	-	0.00	8,333.30	2%	456%	-£0.05m
Patsystems	SP	0.16	26.58	-	1.56	151.87	-4%	20%	-£0.31m
Phoenix IT	CS	2.81	163.65	11.5	2.09	1,040.74	-3%	4%	-£5.53m
Pilat Media Global	SP	0.53	30.42	15.5	2.12	2,625.00	-6%	18%	£2.20m
Pixology	SP	0.29	5.78	-	1.93	204.19	2%	-48%	-£5.93m
Planit Holdings	SP	0.27	24.42	9.5	0.77	1,104.17	10%	4%	£2.30m
Portrait Software (was AIT)	CS	0.20	17.29	153.8	0.89	131.32	5%	-25%	-£0.19m
Prologic	CS	0.85	8.50	18.9	1.23	1,024.10	0%	38%	£0.00m
QA	CS	0.02	4.18	13.0	0.12	8.97	33%	167%	-£0.26m
QinetiQ Group	CS	1.67	1089.22	16.4	0.00	760.82	-6%	-24%	-£60.65m
Qonnectis	CS	0.02	2.76	-	55.74	466.67	8%	-18%	£0.20m
Quantica	A	0.59	39.07	9.4	1.18	475.81	-9%	1%	-£4.03m
Red Squared	CS	0.04	0.86	-	0.62	233.52	-11%	-36%	-£0.10m
Retail Decisions	SP	1.77	138.26	18.7	1.94	2,390.80	30%	33%	£32.62m
RM	SP	1.76	159.23	76.3	0.69	5,014.29	8%	11%	£11.34m
Royalblue Group	SP	7.53	245.91	25.0	3.97	4,426.47	-2%	5%	-£4.40m
Sage Group	SP	2.33	2998.39	20.8	4.16	89,423.08	1%	-10%	£28.40m
Sanderson Group	SP	0.46	19.23	-	1.25	920.00	5%	-12%	£0.83m
SDL	CS	2.09	124.51	25.5	1.58	1,393.33	19%	-3%	£16.97m
ServicePower	SP	0.22	16.33	-	3.16	220.00	0%	-29%	£0.41m
Sirius Financial	SP	1.37	23.90	273.0	1.08	910.00	7%	-6%	£1.69m
SiRViS IT plc	CS	0.03	3.14	2.9	1.28	23.91	-8%	-8%	-£0.57m
smartFOCUS plc	SP	0.16	11.93	119.2	2.20	1,675.68	3%	3%	£1.17m
Sopheon	SP	0.20	25.84	-	6.28	280.58	3%	0%	£0.38m
Spring Group	A	0.43	68.33	-	0.15	475.00	10%	-31%	£5.26m
StatPro Group	SP	0.83	32.65	18.0	2.67	1,037.50	1%	26%	£3.80m
SThree Group plc	A	3.05	420.81	19.8	2.53	1,480.58	3%	41%	£14.14m
Stilo International	SP	0.02	1.92	-	0.92	42.40	6%	-19%	-£6.21m
Strategic Thought	CS	1.82	47.33	18.5	0.00	1,339.48	3%	34%	£1.30m
SurfControl (was JSB)	SP	4.15	115.27	36.4	0.41	2,075.00	-15%	-21%	-£36.32m
Systems Union	SP	2.14	234.64	17.5	2.06	1,646.15	0%	63%	-£0.82m
Tadpole Technology	SP	0.02	6.96	-	1.96	42.25	-13%	-52%	-£37.68m
Tikit Group	CS	2.06	25.94	121.2	1.26	1,791.30	10%	17%	£2.58m
Torex Retail	SP	0.60	228.34	7.5	2.04	1,487.50	-14%	-44%	-£28.35m
Total Systems	SP	0.37	3.82	17.0	1.16	688.68	-22%	-9%	-£1.12m
Touchstone Group	SP	1.53	17.86	9.7	1.18	1,452.38	-6%	12%	-£1.09m
Trace Group	SP	0.98	14.17	13.4	1.03	780.00	-1%	2%	-£0.64m
Triad Group	CS	0.24	3.56	-	0.11	174.07	2%	-54%	£0.06m
Ubiquity Software	SP	0.21	38.41	-	8.01	527.64	-16%	-44%	-£5.44m
Ultima Networks	R	0.01	1.54	-	1.21	18.29	-25%	-54%	-£1.03m
Ultrasis Group	SP	0.02	23.65	-	18.13	32.65	15%	-20%	£3.18m
Universe Group	SP	0.14	9.25	7.9	0.26	633.33	2%	-25%	£0.75m
Vega Group	CS	2.22	41.09	12.5	0.71	1,819.67	9%	9%	-£0.44m
VI group	SP	0.09	3.35	-	0.37	180.00	-18%	9%	-£0.64m
Xansa	CS	0.67	229.45	15.2	0.85	1,724.36	-9%	-25%	-£25.21m
XKO Group	SP	0.96	26.40	19.1	0.87	636.67	-7%	-5%	-£2.02m
Xpertise Group	CS	0.48	2.49	9.9	0.21	1,900.00	1%	-42%	-£0.08m

Note: We calculate PSR as market capitalisation divided by sales in the most recently announced financial year.
Main **SYSTEM**HOUSE S/ITS Index set at 1000 on 15th April 1989. Any new entrants to the Stock Exchange are allocated an index of 1000 based on the issue price. The SCS Index is not weighted; a change in the share price of the largest company has the same effect as a similar change for the smallest company. **Category Codes: CS** = Computer Services **SP** = Software Product **R** = Reseller **A** = IT Agency **O** = Other

Quoted Companies - Results Service

Note: Highlighted Names indicate results announced this month.

@UK plc

	Final - Dec 04	Final - Dec 05	Comparison
REV	£1,202,924	£1,454,073	+20.9%
PBT	-£384,745	-£1,683,883	Loss both
EPS	-2.20p	-8.50p	Loss both

Alphameric plc

	Interim - May 05	Final - Nov 05	Interim - May 06	Comparison
REV	£30,834,000	£73,493,000	£36,504,000	+18.4%
PBT	£3,292,000	£7,555,000	£2,823,000	-14.2%
EPS	2.40p	5.10p	1.80p	-25.0%

Alterian plc

	Final - Mar 05	Final - Mar 06	Comparison
REV	£7,806,000	£10,629,000	+36.2%
PBT	-£649,000	£889,000	Loss to profit
EPS	-0.04p	3.20p	Loss to profit

Anite Group plc

	Final - Apr 05	Final - Apr 06	Comparison
REV	£189,403,000	£164,667,000	-13.1%
PBT	£6,820,000	£10,449,000	+53.2%
EPS	0.50p	2.50p	+400.0%

Ascribe plc

	Interims - Dec 04	Finals - Jun 05	Interims - Dec 05	Comparison
REV	£1,644,000	£5,347,000	£4,537,000	+176.0%
PBT	-£4,000	£794,000	£717,000	Loss to profit
EPS	-0.16p	0.65p	0.44p	Loss to profit

Atlantic Global plc

	Final - Dec 04	Final - Dec 05	Comparison
REV	£2,146,000	£2,137,000	-0.4%
PBT	£188,000	-£631,000	Profit to loss
EPS	0.50p	-2.69p	Profit to loss

Autonomy Corporation plc

	Interim - Jun 05	Final - Dec 05	Interim - Jun 06	Comparison
REV	£20,834,010	£54,834,272	£63,348,936	+204.1%
PBT	£3,509,100	£7,210,588	£11,537,366	+228.8%
EPS	0.03p	0.04p	0.04p	+33.3%

Aveva Group plc

	Final - Mar 05	Final - Mar 06	Comparison
REV	£57,163,000	£65,930,000	+15.3%
PBT	£9,124,000	£11,155,000	+22.3%
EPS	23.78p	36.13p	+51.9%

Axon Group plc

	Final - Dec 04	Final - Dec 05	Comparison
REV	£60,273,000	£91,799,000	+52.3%
PBT	£6,600,000	£8,128,000	+23.2%
EPS	8.50p	10.50p	+23.5%

Bond International Software plc

	Final - Dec 04	Final - Dec 05	Comparison
REV	£9,578,000	£13,924,000	+45.4%
PBT	£1,881,000	£2,668,000	+41.8%
EPS	6.63p	7.82p	+17.9%

Brady plc

	Final - Dec 04	Final - Dec 05	Comparison
REV	£4,832,440	£2,431,609	-49.7%
PBT	£1,914,789	-£1,035,046	Profit to loss
EPS	5.80p	-2.70p	Profit to loss

Business Systems Group Holdings plc

	Interim - Sept 04	Final - Mar 05	Interim - Sept 05	Comparison
REV	£12,624,000	£29,485,000	£18,800,000	+48.9%
PBT	£196,000	£576,000	£499,000	+154.6%
EPS	0.45p	0.90p	0.60p	+33.3%

Capita Group plc

	Interim - Jun 05	Final - Dec 05	Interim - Jun 06	Comparison
REV	£687,300,000	£1,435,500,000	£845,000,000	+22.9%
PBT	£74,500,000	£153,100,000	£92,400,000	+24.0%
EPS	7.92p	16.05p	10.29p	+29.9%

Charteris plc

	Interim - Jan 05	Final - Jul 05	Interim - Jan 06	Comparison
REV	£8,866,000	£19,290,000	£10,662,000	+20.3%
PBT	£438,000	£891,000	£407,000	-7.1%
EPS	0.63p	1.28p	0.56p	-11.1%

Chelford Group plc

	Final - Dec 04	Final - Dec 05	Comparison
REV	£11,852,000	£14,494,000	+22.3%
PBT	£1,008,000	£1,367,000	+35.6%
EPS	14.68p	17.98p	+22.5%

Civica plc

	Interim - Mar 05	Final - Sep 05	Interim - Mar 06	Comparison
REV	£49,576,000	£106,028,000	£56,499,000	+14.0%
PBT	£559,000	£2,501,000	-£2,145,000	Profit to loss
EPS	-1.80p	1.10p	-4.70p	Loss both

Clarity Commerce plc

	Final - Mar 05	Final - Mar 06	Comparison
REV	£16,310,000	£18,884,000	+15.8%
PBT	£513,000	£953,000	+85.8%
EPS	2.36p	5.80p	+145.8%

Clinical Computing plc

	Final - Dec 04	Final - Dec 05	Comparison
REV	£1,757,997	£1,655,806	-5.8%
PBT	-£1,087,741	-£1,538,499	Loss both
EPS	-2.40p	-4.40p	Loss both

CODASciSys plc

	Final - Dec 04	Final - Dec 05	Comparison
REV	£67,830,000	£72,771,000	+7.3%
PBT	£3,914,000	£7,666,000	+95.9%
EPS	8.90p	22.60p	+153.9%

Compel Group plc

	Interim - Dec 04	Final - Jun 05	Interim - Dec 05	Comparison
REV	£41,512,000	£79,103,000	£41,032,000	-1.2%
PBT	£1,204,000	£1,346,000	£931,000	-22.7%
EPS	3.60p	3.40p	2.10p	-41.7%

Computacenter plc

	Final - Dec 04	Final - Dec 05	Comparison
REV	£2,410,590,000	£2,285,209,000	-5.2%
PBT	£67,928,000	£34,012,000	-49.9%
EPS	23.50p	10.90p	-53.6%

Computer Software Group plc

	Final - Feb 05	Final - Feb 06	Comparison
REV	£14,072,000	£25,156,000	+78.8%
PBT	£928,000	£2,347,000	+2.9%
EPS	3.19p	2.89p	-9.4%

Cornwell Management Consultants plc

	Final - Dec 04	Final - Dec 05	Comparison
REV	£17,738,285	£20,720,174	+16.8%
PBT	£1,257,282	£1,579,959	+25.7%
EPS	7.70p	6.40p	-16.9%

Corpora plc

	Final - Jun 04	Final Jun 05	Comparison
REV	£499,381	£1,930,101	+286.5%
PBT	-£2,649,553	-£4,844,338	Loss both
EPS	-16.10p	-11.50p	Loss both

DCS Group plc

	Final - Dec 04	Final - Dec 05	Comparison
REV	£42,200,000	£35,100,000	-16.8%
PBT	£2,100,000	-£3,400,000	Profit to loss
EPS	10.38p	-4.19p	Profit to loss

Dealogic Holdings plc

	Final - Dec 04	Final - Dec 05	Comparison
REV	£33,446,080	£36,280,700	+8.5%
PBT	£10,538,040	£14,314,300	+35.8%
EPS	5.53p	10.78p	+94.9%

Delcam plc

	Final - Dec 04	Final - Dec 05	Comparison
REV	£21,503,000	£24,011,000	+11.7%
PBT	£1,364,000	£2,337,000	+71.3%
EPS	21.60p	32.30p	+49.5%

Detica Group plc

	Final - Mar 05	Final - Mar 06	Comparison
REV	£71,027,000	£101,504,000	+42.9%
PBT	£8,781,000	£11,419,000	+30.0%
EPS	31.30p	42.70p	+36.4%

Dicom Group plc

	Interim - Dec 04	Final - Jun 05	Interim - Dec 05	Comparison
REV	£86,908,000	£179,795,000	£102,877,000	+18.4%
PBT	£7,450,000	£10,479,000	£4,640,000	-37.7%
EPS	5.90p	27.30p	3.40p	-42.4%

Dimension Data Holdings plc

	Interim - Mar 05	Final - Sep 05	Interim - Mar 06	Comparison
REV	£662,917,640	£1,571,761,404	£830,913,030	+25.3%
PBT	£12,077,110	£28,800,244	£16,556,262	+37.1%
EPS	0.32p	0.78p	1.09p	+240.6%

DRS Data & Research Services plc

	Final - Dec 04	Final - Dec 05	Comparison
REV	£14,408,000	£12,452,000	-13.6%
PBT	£452,000	£17,000	-96.2%
EPS	1.35p	-0.02p	Profit to loss

Electronic Data Processing plc

	Interim - Mar 05	Final - Sep 05	Interim - Mar 06	Comparison
REV	£3,472,000	£6,971,000	£3,274,000	-5.7%
PBT	£216,000	£431,000	£218,000	+0.9%
EPS	0.60p	1.01p	0.82p	+36.7%

FDM Group plc

	Final - Dec 04	Final - Dec 05	Comparison
REV	£32,971,000	£35,068,000	+6.4%
PBT	£1,805,000	£1,565,000	-13.3%
EPS	5.00p	4.10p	-18.0%

Ffastfill Plc

	Interim - Sep 04	Final - Mar 05	Interim - Sep 04	Comparison
REV	£1,583,000	£4,327,000	£227,700	-85.6%
PBT	£1,594,000	-£2,879,000	£1,566,000	Loss both
EPS	-1.00p	-1.60p	-0.70p	Loss both

Financial Objects plc

	Final - Dec 04	Final - Dec 05	Comparison
REV	£9,509,000	£13,916,000	+46.3%
PBT	-£45,000	-£183,000	Loss both
EPS	-0.16p	-0.52p	Loss both

Flomerics Group plc

	Final - Dec 04	Final - Dec 05	Comparison
REV	£10,241,000	£11,424,000	+11.6%
PBT	£671,000	£966,000	+44.0%
EPS	3.85p	6.01p	+56.1%

Focus Solutions Group plc

	Final - Mar 05	Final - Mar 6	Comparison
REV	£5,431,000	£6,585,000	+21.2%
PBT	£26,000	£128,000	+392.3%
EPS	0.10p	0.45p	+350.0%

GB Group plc

	Final - Mar 05	Final - Mar 06	Comparison
REV	£11,231,000	£2,835,000	-74.8%
PBT	£146,000	-£268,000	Profit to loss
EPS	0.30p	-0.30p	Profit to loss

Gladstone Plc

	Interim - Feb 05	Final - Aug 05	Interim - Feb 06	Comparison
REV	£3,912,157	£8,411,642	£4,314,130	+10.3%
PBT	£130,925	£195,919	£381,634	+191.5%
EPS	0.28p	0.38p	0.71p	+153.6%

Glotel plc

	Final - Mar 05	Final - Mar 06	Comparison
REV	£119,496,000	£134,175,000	+12.3%
PBT	£2,571,000	£4,020,000	+56.4%
EPS	4.70p	6.40p	+36.2%

Gresham Computing plc

	Final - Dec 04	Final - Dec 05	Comparison
REV	£12,398,000	£13,982,000	+12.8%
PBT	-£1,067,000	-£1,246,000	Loss both
EPS	-1.54p	-2.20p	Loss both

Group NBT plc

	Interims - Dec 04	Final - Jun 05	Interims-Dec 05	Comparison
REV	£5,413,000	£11,280,000	£6,164,000	+13.9%
PBT	£676,000	£1,690,000	£967,000	+43.0%
EPS	3.29p	8.30p	3.07p	-6.7%

Harvey Nash Group plc

	Final - Jan 05	Final - Jan 06	Comparison
REV	£163,374,000	£202,294,000	+23.8%
PBT	£3,169,000	£4,003,000	+26.3%
EPS	3.62p	5.05p	+39.5%

Highams Systems Services Group plc

	Final - Mar 05	Final - Mar 06	Comparison
REV	£13,512,000	£17,997,000	+33.2%
PBT	-£511,000	-£13,000	Loss both
EPS	-1.86p	-0.05p	Loss both

Horizon Technology Group plc

	Final Dec 04	Final - Dec 05	Comparison
REV	£190,777,237	£205,876,300	+7.9%
PBT	£4,872,000	£4,647,300	-4.6%
EPS	5.41p	5.11p	-5.5%

IBS OPENSystems plc

	Interim - Jun 05	Final -Dec 05	Interim - Jun 06	Comparison
REV	£5,216,000	£15,623,000	£9,383,000	+79.9%
PBT	£991,000	£3,331,000	£1,398,000	+41.1%
EPS	2.70p	6.00p	1.40p	-48.1%

ICM Computer Group plc

	Final - Jun 04	Final - Jun 05	Comparison
REV	£77,542,000	£77,628,000	+0.1%
PBT	£4,380,000	£4,438,000	+1.3%
EPS	14.00p	14.90p	+6.4%

IDOX plc

	Interim - Apr 05	Final - Oct 05	Interim - Apr 06	Comparison
REV	£7,024,000	£14,155,000	£6,912,000	-1.6%
PBT	£214,000	£876,000	£1,000	-99.5%
EPS	0.12p	0.85p	-0.07p	Profit to loss

Innovation Group plc (The)

	Interim - Mar 05	Final - Sep 05	Interim - Mar 06	Comparison
REV	£28,772,000	£60,916,000	£38,543,000	+34.0%
PBT	£1,078,000	-£11,344,000	£4,293,000	+298.2%
EPS	0.16p	-2.94p	0.75p	+368.8%

InTechnology plc

	Final - Mar 05	Final - Mar 06	Comparison
REV	£283,522,000	£284,729,000	+0.4%
PBT	-£2,465,000	-£12,112,000	Loss both
EPS	-1.84p	-8.26p	Loss both

Intelligent Environments Group plc

	Final - Dec 03	Final - Dec 04	Comparison
REV	£3,485,000	£3,074,928	-11.8%
PBT	-£209,928	-£452,796	Loss both
EPS	-0.02p	-0.23p	Loss both

Intercede Group plc

	Final - Mar 05	Final - Mar 06	Comparison
REV	£1,806,000	£2,142,000	+18.6%
PBT	-£426,000	-£382,000	Loss both
EPS	-0.70p	-0.90p	Loss both

InterQuest Group plc

	Final - Dec 04	Final- Dec 05	Comparison
REV	£24,389,937	£27,598,849	+13.2%
PBT	£926,876	£1,370,527	+47.9%
EPS	4.80p	6.60p	+37.5%

iomart Group plc

	Interim - Sep 04	Final - Mar 05	Interim - Sep 05	Comparison
REV	£6,428,000	£16,603,000	£10,952,000	+70.4%
PBT	£107,000	£1,724,000	£1,417,000	Loss to Profit
EPS	0.24p	4.26p	1.79p	N/a

INVU plc

	Final - Jan 05	Final - Jan 06	Comparison
REV	£3,149,000	£4,775,000	+51.6%
PBT	£608,000	£1,248,000	+105.3%
EPS	0.64p	1.23p	+92.2%

iSOFT Group plc

	Final - Apr 04	Final - Apr 05	Comparison
REV	£149,260,000	£261,992,000	+75.5%
PBT	£17,593,000	£44,524,000	+153.1%
EPS	6.57p	10.97p	+67.0%

I S Solutions plc

	Final - Dec 04	Final - Dec 05	Comparison
REV	£5,514,000	£5,085,000	-7.8%
PBT	-£328,000	£108,000	Loss to Profit
EPS	-1.17p	0.35p	Loss to Profit

iTrain plc

	Interim - Jun 04	Final - Dec 04	Interim - Jun 05	Comparison
REV	£436,885	£1,094,097	£947,655	+116.9%
PBT	-£29,634	£70,076	£33,494	Loss to Profit
EPS	n/a	0.10p	n/a	N/a

K3 Business Technology Group plc

	Final - Dec 04	Final - Dec 05	Comparison
REV	£8,529,000	£22,029,000	+158.3%
PBT	£1,160,000	£279,000	-75.9%
EPS	10.00p	-1.40p	Profit to loss

Kewill Systems plc

	Final - Mar 05	Interim - Mar 06	Comparison
REV	£26,680,000	£31,648,000	+18.6%
PBT	£2,443,000	£1,601,000	-34.5%
EPS	3.40p	3.30p	-2.9%

Knowledge Technology Solutions Plc

	Final - Jun 04	Final - Jun 05	Comparison
REV	£770,185	£1,250,474	+62.4%
PBT	-£904,161	-£966,536	Loss both
EPS	-0.71p	-0.65p	Loss both

LogicaCMG plc

	Final - Dec 04	Final - Dec 05	Comparison
REV	£1,669,800,000	£1,834,100,000	+9.8%
PBT	£42,400,000	£105,600,000	+149.1%
EPS	1.90p	7.40p	+289.5%

Lorien plc

	Final - Nov 04	Final Nov 05	Comparison
REV	£122,714,000	£129,161,000	+5.3%
PBT	£1,152,000	£34,000	-97.0%
EPS	6.90p	-0.01p	Profit to loss

Macro 4 plc

	Interim - Dec 04	Final - Jun 05	Interim - Dec 05	Comparison
REV	£16,596,000	£33,103,000	£14,940,000	-10.0%
PBT	£1,767,000	£2,779,000	£1,482,000	-16.1%
EPS	5.50p	11.80p	4.70p	-14.5%

Manpower SoftWare plc

	Final - May 04	Final - May 05	Comparison
REV	£5,146,663	£5,909,466	+14.8%
PBT	£388,906	£336,139	Profit to loss
EPS	1.00p	0.70p	Loss to profit

Quoted Companies - Results Service

Note: Highlighted Names indicate results announced this month.

Matrix Communications Group plc

	Final - Oct 04	Final - Oct 05	Comparison
REV	£10,603,000	£54,408,000	+413.1%
PBT	£890,000	-£1,836,000	Profit to loss
EPS	3.00p	-7.30p	Profit to loss

Maxima Holdings plc

	Interim - Nov 04	Final - May 05	Interim - Nov 05	Comparison
REV	£6,194,000	£8,076,167	£8,093,000	+30.7%
PBT	£800,000	£1,038,018	£389,000	-51.4%
EPS	4.34p	8.30p	1.44p	-66.8%

Mediasurface plc

	Interim - Mar 05	Final - Sep 05	Interim - Mar 06	Comparison
REV	£3,661,081	£6,796,433	£4,438,840	+21.2%
PBT	£138,747	-£811,609	£350,342	+152.5%
EPS	0.20p	-1.00p	0.40p	+100.0%

Micro Focus International plc

	Final - Apr 04	Final - Apr 05	Comparison
REV	£73,867,000	£81,198,000	+9.9%
PBT	£12,874,000	£14,903,000	+15.8%
EPS	5.55p	6.28p	N/a

Microgen plc

	Interim - Jun 05	Final - Dec 05	Interim - Jun 06	Comparison
REV	£21,227,000	£40,782,000	£19,608,000	-7.6%
PBT	£3,561,000	£5,530,000	£2,857,000	-19.8%
EPS	2.50p	4.10p	1.90p	-24.0%

Minorplanet Systems Plc

	Interim - Feb 05	Final - Aug 05	Interim - Feb 06	Comparison
REV	£11,400,000	£22,000,000	£10,900,000	-4.4%
PBT	-£3,100,000	-£19,200,000	-£100,000	Loss both
EPS	-244.00p	-12.00p	0.00p	Loss both

Misys plc

	Final - May 05	Final - May 06	Comparison
REV	£888,400,000	£953,300,000	+7.3%
PBT	£27,600,000	£226,600,000	+721.0%
EPS	12.30p	43.60p	+254.5%

Mondas plc

	Final - Apr 05	Final - Dec 05	Comparison
REV	£4,592,675	£2,091,456	n/a
PBT	-£1,384,081	-£1,446,579	Loss both
EPS	-5.30p	-5.40p	Loss both

Morse plc

	Interims - Dec 04	Final - Jun 05	Interims - Dec 05	Comparison
REV	£216,592,000	£429,531,000	£187,496,000	-13.4%
PBT	£2,598,000	£18,332,000	£6,112,000	+135.3%
EPS	0.60p	-14.10p	1.10p	+83.3%

MSB International plc

	Final - Jan 05	Final - Jan 06	Comparison
REV	£92,321,000	£95,660,000	+3.6%
PBT	£825,000	-£558,000	Profit to loss
EPS	3.34p	-2.89p	Profit to loss

NCC Group plc

	Final - May 05	Final - May 06	Comparison
REV	£18,786,000	£20,747,000	+10.4%
PBT	£5,417,000	£6,551,000	+20.9%
EPS	10.00p	13.60p	+36.0%

Ncipher Plc

	Final - Dec 04	Final - Dec 05	Comparison
REV	£14,244,000	£17,380,000	+22.0%
PBT	£2,061,000	£3,833,000	+86.0%
EPS	7.80p	10.89p	Loss to profit

Netcall plc

	Interim - Dec 04	Final - Jun 05	Interim - Dec 05	Comparison
REV	£1,432,000	£2,822,086	£1,592,700	+11.2%
PBT	£50,600	£158,059	£149,100	+194.7%
EPS	0.10p	0.20p	0.20p	+100.0%

Netstore plc

	Interim - Dec 04	Final - Jun 05	Interim - Dec 05	Comparison
REV	£10,111,000	£21,397,000	£16,140,000	+59.6%
PBT	£321,000	£653,000	-£1,659,000	Profit to loss
EPS	0.56p	1.43p	1.13p	Profit to loss

Networkers International plc

	Final - May 04	Final - May 05	Comparison
REV	£11,558,192	£21,812,542	+88.7%
PBT	£1,312,243	£2,558,331	+95.0%
EPS	n/a	n/a	n/a

Nexus Management plc

	Interim - Sep 04	Final - Mar 05	Interim - Sep 05	Comparison
REV	£1,231,134	£2,468,862	£1,233,412	+0.2%
PBT	-£18,143	-£186,945	£48,187	Loss to profit
EPS	0.00p	0.00p	0.00p	Loss to profit

Northgate Information Solutions plc

	Final - Apr 05	Final - Apr 06	Comparison
REV	£205,692,000	£332,738,000	+61.8%
PBT	£3,889,000	£30,594,000	+686.7%
EPS	0.79p	3.83p	+384.8%

NSB Retail Systems plc

	Final - Dec 04	Finals - Dec 05	Comparison
REV	£45,399,000	£48,387,000	+6.6%
PBT	-£8,680,000	£9,969,000	Loss to profit
EPS	-2.14p	4.00p	Loss to profit

OneclickHR plc

	Interim - Jun 04	Final - Dec 04	Interim - Jun 05	Comparison
REV	£2,291,391	£4,764,879	£2,785,928	+21.6%
PBT	-£730,170	-£1,745,204	-£135,855	Loss both
EPS	-0.66p	-1.30p	-0.09p	Loss both

OPD Group plc

	Final - Dec 04	Final - Dec 05	Comparison
REV	£43,714,000	£56,821,000	+30.0%
PBT	£2,856,000	£4,552,000	+59.4%
EPS	7.20p	13.60p	+88.9%

Parity Group plc

	Final - Dec 04	Final - Dec 05	Comparison
REV	£169,860,000	£138,523,000	-18.4%
PBT	-£6,914,000	-£8,425,000	Loss both
EPS	-2.24p	-3.23p	Loss both

Patsystems plc

	Final - Dec 04	Final - Dec 05	Comparison
REV	£11,775,000	£15,457,000	+31.3%
PBT	-£2,929,000	-£777,000	Loss both
EPS	-1.40p	-0.50p	Loss both

Phoenix IT Group plc

	Final - Mar 05	Final - Mar 06	Comparison
REV	£88,331,000	£108,919,000	+23.3%
PBT	£11,084,000	£17,949,000	+61.9%
EPS	15.40p	20.80p	+35.1%

Pilat Media Global plc

	Final - Dec 04	Final - Dec 05	Comparison
REV	£12,052,232	£13,004,880	+7.9%
PBT	£1,834,969	£2,465,999	+34.4%
EPS	2.49p	3.28p	+31.7%

Pixology plc

	Interim - Jun 04	Final - Dec 04	Interim - Jun 05	Comparison
REV	£1,888,623	£4,514,729	£1,805,948	-4.4%
PBT	-£835,547	-£2,163,393	-£725,742	Loss both
EPS	-3.16p	-9.79p	-3.12p	Loss both

Planit Holdings plc

	Final - Apr 04	Final - Apr 05	Comparison
REV	£26,926,000	£28,124,000	+4.4%
PBT	£1,547,000	£1,972,000	+27.5%
EPS	1.00p	1.40p	+40.0%

Portrait Software plc

	Final - Mar 05	Final - Mar 06	Comparison
REV	£14,288,000	£11,572,000	-19.0%
PBT	£1,433,000	-£1,344,000	Profit to loss
EPS	2.49p	-2.11p	Profit to loss

Prologic plc

	Final - Mar 05	Final - Mar 06	Comparison
REV	£6,928,000	£9,657,000	+39.4%
PBT	£421,000	£629,000	+49.4%
EPS	2.76p	4.49p	+62.7%

QA plc

	Final - Nov 04	Final - Nov 05	Comparison
REV	£30,153,000	£31,180,000	+3.4%
PBT	-£2,386,000	£141,000	Loss to profit
EPS	-1.40p	0.05p	Loss to profit

Qonnectis plc

	Interims - Dec 04	Final - Jun 05	Interims - Dec 05	Comparison
REV	£26,050	£60,007	£66,983	+157.1%
PBT	-£364,256	-£1,048,503	-£415,393	Loss both
EPS	-0.36p	-0.93p	-0.25p	Loss both

Quantica plc

	Final - Nov 04	Final - Nov 05	Comparison
REV	£30,848,000	£38,922,000	+26.2%
PBT	£1,957,000	£2,560,000	+30.8%
EPS	3.32p	3.86p	+16.3%

Qinetiq Group plc

	Final - Mar 05	Final - Mar 06	Comparison
REV	£858,900,000	£1,053,100,000	+22.6%
PBT	£109,600,000	£72,500,000	-33.9%
EPS	n/a	9.80p	n/a

Raft International plc

	Final - Oct 04	Final - Oct 05	Comparison
REV	£7,261,000	£8,126,000	+11.9%
PBT	-£991,000	-£1,410,000	Loss both
EPS	-1.45p	-2.14p	Loss both

Red Squared plc

	Interim - Mar 05	Final - Sep 05	Interim - Mar 06	Comparison
REV	£1,040,122	£2,455,915	£785,464	-24.5%
PBT	-£200,670	-£290,700	-£241,372	Loss both
EPS	-0.67p	-1.05p	-0.80p	Loss both

Retail Decisions plc

	Final - Dec 04	Final - Dec 05	Comparison
REV	£31,737,000	£54,672,000	+72.3%
PBT	£6,144,000	£8,020,000	+30.5%
EPS	6.95p	8.84p	+27.2%

RM plc

	Interim - Mar 05	Final - Sep 05	Interim - Mar 06	Comparison
REV	£109,211,000	£262,707,000	£114,185,000	+4.6%
PBT	-£904,000	£11,528,000	£1,967,000	Loss to profit
EPS	-1.10p	8.90p	1.60p	Loss to profit

royalblue group plc

	Final - Dec 04	Final - Dec 05	Comparison
REV	£59,768,000	£74,234,000	+24.2%
PBT	£9,802,000	£11,336,000	+15.6%
EPS	23.40p	31.00p	+32.5%

Sage Group plc

	Interim - Mar 05	Final - Sep 05	Interim - Mar 06	Comparison
REV	£372,900,000	£776,621,000	£455,900,000	+22.3%
PBT	£95,800,000	£205,357,000	£113,700,000	+18.7%
EPS	5.11p	11.10p	6.05p	+18.4%

Sanderson Group plc

	Final - Sep 04	Final - Sep 05	Comparison
REV	£11,880,000	£15,460,000	+30.1%
PBT	-£328,000	-£482,000	Loss both
EPS	-1.00p	-1.29p	Loss both

SDL plc

	Final - Dec 04	Final - Dec 05	Comparison
REV	£62,690,000	£78,479,000	+25.2%
PBT	£4,432,000	£5,217,000	+17.7%
EPS	5.19p	4.68p	-9.8%

ServicePower Technologies plc

	Final - Dec 04	Final - Dec 05	Comparison
REV	£4,114,000	£7,937,000	+92.9%
PBT	-£3,743,000	-£1,611,000	Loss both
EPS	-5.34p	-2.14p	Loss both

Sirius Financial Solutions plc

	Final - Dec 04	Final - Dec 05	Comparison
REV	£21,704,052	£21,780,968	+0.4%
PBT	£385,444	£340,229	-11.7%
EPS	1.40p	0.50p	-64.3%

Sirvis IT plc

	Interim - Nov 04	Final - May 05	Interims - Nov 05	Comparison
REV	£3,948,000	£8,083,000	£4,028,000	+2.0%
PBT	£345,000	-£2,432,000	£202,000	-41.4%
EPS	0.16p	-2.45p	0.09p	-43.8%

smartFOCUS Group plc

	Final - Dec 04	Final - Dec 05	Comparison
REV	£2,850,101	£6,041,106	+112.0%
PBT	-£324,052	£33,424	Loss to profit
EPS	-0.30p	0.12p	Loss to profit

Sopheon plc

	Final - Dec 04	Final - Dec 05	Comparison
REV	£4,323,000	£4,664,000	+7.9%
PBT	-£2,394,000	-£1,236,000	Loss both
EPS	-2.00p	-0.90p	Loss both

Spring Group plc

	Final - Dec 04	Final - Dec 05	Comparison
REV	£474,534,000	£454,725,000	-4.2%
PBT	£963,000	-£7,485,000	Profit to loss
EPS	4.91p	-4.89p	Profit to loss

StatPro Group plc

	Final - Dec 04	Final - Dec 05	Comparison
REV	£9,072,000	£10,786,000	+18.9%
PBT	£182,000	£1,639,000	+911.7%
EPS	5.30p	4.50p	-15.1%

Sthree plc

	Interim - May 05	Final - Nov 05	Interim - May 06	Comparison
REV	£143,546,000	£315,087,000	£177,993,000	+24.0%
PBT	£8,945,000	£12,152,000	£12,453,000	+39.2%
EPS	9.50p	15.70p	6.80p	-28.4%

Strategic Thought Group plc

	Final - Mar 05	Final - Mar 06	Comparison
REV	£9,250,000	£11,464,000	+23.9%
PBT	£1,731,000	£2,292,000	+32.4%
EPS	5.70p	8.80p	+54.4%

Stilo International Plc

	Final - Dec 04	Final - Dec 05	Comparison
REV	£2,076,000	£2,099,000	+1.1%
PBT	-£1,299,000	-£587,000	Loss both
EPS	-1.56p	-0.60p	Loss both

SurfControl plc

	Interim - Dec 04	Final - Jun 05	Interim - Dec 05	Comparison
REV	£25,440,000	£52,601,075	£27,072,000	+6.4%
PBT	£1,690,000	£4,097,312	-£337,000	Profit to loss
EPS	4.60p	20.80p	-0.88p	Profit to loss

Synchronica plc

	Interim - Jun 04	Final - Dec 04	Interim - Jun 05	Comparison
REV	£1,028,000	£2,424,000	-£1,784,000	-273.5%
PBT	-£1,370,000	-£2,376,000	-£952,000	Loss both
EPS	-9.60p	-14.70p	-5.10p	Loss both

System C Healthcare plc

	Interim - Nov 04	Final - May 05	Interim - Nov 05	Comparison
REV	£8,843,000	£18,228,185	£8,581,000	-3.0%
PBT	£1,710,000	£2,531,575	£400,000	-76.6%
EPS	2.31p	4.30p	3.08p	+33.3%

Systems Union Group plc

	Final - Dec 04	Final - Dec 05	Comparison
REV	£104,230,000	£113,354,000	+8.8%
PBT	£4,614,000	£8,189,000	+77.5%
EPS	3.90p	6.70p	+71.8%

Tadpole Technology plc

	Final - Sep 04	Final - Sep 05	Comparison
REV	£4,831,000	£9,115,000	+88.7%
PBT	-£2,767,000	-£9,221,000	Loss both
EPS	-1.00p	-2.60p	Loss both

Tikit Group plc

	Final - Dec 04	Final - Dec 05	Comparison
REV	£11,903,000	£20,162,000	+69.4%
PBT	£859,000	£632,000	-26.4%
EPS	4.50p	1.70p	-62.2%

Torex Retail plc

	Final - Dec 04	Final - Dec 05	Comparison
REV	£67,935,000	£167,366,000	+146.4%
PBT	£7,711,000	-£13,620,000	Profit to loss
EPS	2.90p	-5.40p	Profit to loss

Total Systems plc

	Final - Mar 05	Fi9nal - Mar 06	Comparison
REV	£3,451,633	£3,488,309	+1.1%
PBT	£496,098	£284,632	-42.6%
EPS	3.56p	2.13p	-40.2%

Touchstone Group plc

	Final - Mar 05	Final - Mar 06	Comparison
REV	£17,269,000	£23,056,000	+33.5%
PBT	-£82,000	£1,142,000	Loss to profit
EPS	-3.20p	2.46p	Loss to profit

Trace Group plc

	Interim - Nov 04	Final - May 05	Interim - Nov 05	Comparison
REV	£7,314,000	£16,110,706	£7,210,000	-1.4%
PBT	£235,000	£1,223,406	£415,000	+76.6%
EPS	0.93p	5.92p	2.00p	+115.1%

Ubiquity Software Corporation plc

	Final - Dec 04	Final - Dec 05	Comparison
REV	£5,314,776	£7,461,000	+40.4%
PBT	-£6,407,328	-£8,737,000	Loss both
EPS	-44.00p	-5.00p	Loss both

Ultima Networks plc

	Final - Dec 04	Final - Dec 05	Comparison
REV	£1,659,000	£1,074,000	-35.3%
PBT	£313,000	-£360,000	Profit to loss
EPS	0.14p	-0.20p	Profit to loss

Ultrasis plc

	Final - Jul 04	Final - Jul 05	Comparison
REV	£1,535,000	£907,000	-40.9%
PBT	-£364,000	-£576,000	Loss both
EPS	-0.02p	-0.06p	Loss both

Universe Group plc

	Final - Dec 04	Final - Dec 05	Comparison
REV	£43,992,000	£17,557,000	-60.1%
PBT	-£74,000	£357,000	Loss to profit
EPS	-0.10p	0.40p	Loss to profit

Vega Group plc

	Final - Apr 05	Final - Apr 06	Comparison
REV	£52,602,000	£62,126,000	+18.1%
PBT	£2,907,000	£3,854,000	+32.6%
EPS	8.61p	14.80p	+71.9%

VI Group plc

	Final - Dec 04	Final - Dec 05	Comparison
REV	£9,698,000	£10,192,000	+5.1%
PBT	-£259,000	£77,000	Loss to profit
EPS	-0.84p	-0.41p	Loss both

Xansa plc

	Interim - Oct 04	Final - Apr 05	Interim - Oct 05	Comparison
REV	£189,500,000	£376,400,000	£175,900,000	-7.2%
PBT	£4,900,000	£10,800,000	£7,800,000	+59.2%
EPS	1.15p	2.58p	1.90p	+65.2%

XKO Group plc

	Interim - Sept 04	Final - Mar 05	Interim - Sept 05	Comparison
REV	£21,585,000	£44,853,000	£11,624,000	-46.1%
PBT	-£1,225,000	£10,013,000	£615,000	Loss to profit
EPS	-4.80p	34.60p	1.20p	Loss to profit

Xpertise Group plc

	Final - Dec 04	Final - Dec 05	Comparison
REV	£13,170,000	£15,274,000	+16.0%
PBT	-£668,000	-£245,000	Loss both
EPS	0.16p	-0.06p	Loss both

ITSA'S LEAD GROWTH, WHILE RESELLERS CONTINUE TO FALL

UK IT indices finished July pretty much where they started. The techMark 100 and our Ovum S/ITS index both fell slightly, by 0.89% and 0.57% respectively, while the FTSE IT SCS grew by 0.12%. This reflects the mixed performance across the markets in general, with the FTSE 100, representing larger companies, up 1.63%, and the smaller cap focused AIM and small cap indices down by 3.16% and 0.29% respectively.

For the second time this year IT staffing agencies have been the only sub-segment that we track to increase their share prices on average over the month. ITSA share prices are up 9% in July, and up 12% on the start of the year. The main gainers have been smaller cap contributors such as Highams Systems (up 54% with a market cap just under £1m), and Interquest (up 46% to £23m market cap). However, the bigger players, such as Sthree (up 3% to £421m market cap), Spring (up 10% to £68m market cap), and OPD Group (up 6% to £89m) have still seen a lift in July.

31-Jul-06	S/ITS Index	4879.02
	FTSE IT (SCS) Index	506.90
	techMARK 100	1339.33
	FTSE 100	5928.30
	FTSE AIM	1046.20
SCSI Index = 1000 on 15th April 1989	FTSE SmallCap	3383.60

Changes in Indices	S/ITS Index	FTSE 100	techMARK 100	FTSE IT SCS Index	FTSE AIM Index	FTSE Small Cap
Month (01/05/06 to 31/05/06)	-0.57%	+1.63%	-0.89%	+0.12%	-3.16%	-0.29%
From 15th Apr 89	+387.90%	+188.68%				
From 1st Jan 90	+430.27%	+150.99%				
From 1st Jan 91	+589.25%	+174.41%				
From 1st Jan 92	+366.95%	+137.79%				
From 1st Jan 93	+206.17%	+108.27%				+143.89%
From 1st Jan 94	+192.23%	+73.42%				+81.07%
From 1st Jan 95	+225.45%	+93.39%				+93.75%
From 1st Jan 96	+116.03%	+60.69%	+69.70%		+9.73%	+74.27%
From 1st Jan 97	+82.23%	+43.94%	+46.43%		+7.18%	+54.99%
From 1st Jan 98	+60.76%	+15.44%	+40.39%	-49.31%	+5.46%	+46.27%
From 1st Jan 99	+23.79%	+0.78%	-8.01%	-64.94%	+30.51%	+63.39%
From 1st Jan 00	-57.47%	-14.46%	-64.56%	-86.37%	-45.87%	+9.23%
From 1st Jan 01	-41.73%	-4.73%	-47.79%	-73.99%	-27.24%	+6.29%
From 1st Jan 02	+1.69%	+13.63%	-9.06%	-39.96%	+16.53%	+31.19%
From 1st Jan 03	+79.85%	+50.45%	+106.44%	+48.99%	+73.53%	+85.85%
From 1st Jan 04	+4.33%	+32.42%	+31.95%	+0.65%	+25.23%	+36.71%
From 1st Jan 05	-0.94%	+23.14%	+11.95%	+4.35%	+4.02%	+22.68%
From 1st Jan 06	-3.92%	+5.51%	-6.45%	-10.85%	+0.01%	+2.36%

Notable winners from other sub-segments include Retail Decisions, up 30%, and Misys, up 14%, both of which have benefited from the M&A talks that surround the businesses. Capita, one of the largest cap companies that we track, also grew its value by 13% on the back of strong results this month, despite the earlier than expected departure of its chairman and founder Rod Aldridge.

The biggest losers have been resellers, which as a group saw their share prices fall by 4.9% in July. Although this is 52% higher than at the start of 2003, the story since has been pretty dire recently. Resellers are still valued 21% lower than the start of 2004 and 16% lower than the start of this 2006. Although Morse and Computacenter managed to grow (up 7% and 1% respectively), and Dicom managed to hold its value steady, the continuing falls at Dimension Data and Ultima Networks (down 7% and 25% respectively) let the side down.

End July 06	Move since 1/1/99	Move since 1/1/00	Move since 1/1/01	Move since 1/1/02	Move since 1/1/03	Move since 1/1/04	Move since 1/1/05	Move since 1/1/06	Move in July 06
IT Services (CS)	15.9%	-54.8%	-39.3%	9.4%	118.0%	13.7%	3.6%	-1.6%	-0.5%
IT Staff Agencies	-70.6%	-74.4%	-59.2%	-26.4%	10.7%	-27.4%	-8.1%	11.7%	9.0%
Resellers	57.9%	-23.9%	0.6%	12.0%	51.5%	-21.0%	-12.9%	-16.4%	-4.9%
Software Products	65.5%	-60.2%	-71.1%	-6.9%	54.2%	-4.9%	-2.4%	-6.5%	-2.0%
Holway S/ITS Index	23.8%	-57.5%	-41.7%	1.7%	79.9%	4.3%	-0.9%	-3.9%	-0.6%

Other notable fallers include Detica, which has seen its shares fall 21% in July, and 79% in the year so far. iSoft also continues to fall, with concerns about its ability to deliver on its NPfIT deals pushing shares down a further 23%, down 84% in the year so far. Retail software players also took a bit of a bashing, with Torex Retail and Alphameric both down by 14% in July, and K3 and NSB down by 5% and 3% respectively. *(Samad Masood)*

SYSTEMHOUSE

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