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SYSTEMHOUSE

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

THE IT SME: AN ENDANGERED SPECIES?

This month's SystemHouse is particularly concerned with the sustainable competitiveness of the UK IT sector in the years to come and the possible dangers - for our industry and more broadly for UK plc - of not addressing some fundamental challenges.

The fact is that the UK is in a position of strength today. This country has, for example, a positive balance of trade in technology - in other words we export considerably more than we import. The UK can also lay claim to some of the most advanced IT skills and innovative implementations in the world, particularly in financial services and even in some areas of the public sector.

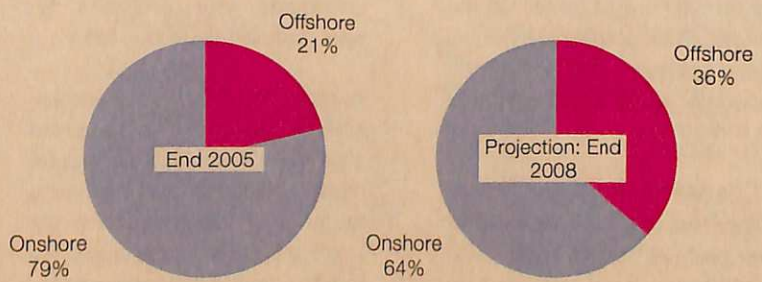
But we detect a growing sense that such advantages may be imperilled if we cannot adapt to the challenges that globalisation throws our way. The Holway Comment addresses a fundamental issue: the lack of the numerate talent needed to provide the next generation of IT innovators and leaders. In this article, we take a brief look at the future of the IT SME in the globalising IT market. (By 'SME' we are referring to businesses with fewer than 250 employees - the standard DTI definition.)

Small players matter

A vibrant economy needs vibrant smaller businesses, and the IT sector is no exception to this rule. Smaller firms aren't just important because they are the seeds that grow into big employers and major global players. They also play a key role in fostering and delivering innovation.

But anyone who has followed Ovum's UK market analysis will know that the smaller players have had a rough ride in recent years. This trend continues. In 2006, larger players are again outperforming smaller ones and further strengthening

The workforce moves offshore: will SMEs keep up?



The data show the distribution of the UK S/ITS workforce between the UK ("Onshore") and offshore/nearshore locations. All data are averages for the whole UK S/ITS industry and based on discussions with industry players.

Source: Ovum

[continued on page two]

Contents

INDICES
(changes in May 2006)

Ovum S/ITS Index	**-6.1%**	**4920**
FTSE IT (SCS)	**-4.9%**	**502**
techMARK 100	**-4.5%**	**1371**
Nasdaq Comp	**-6.0%**	**2178**

[continued from front page]

their grip on the market, with the top 50 now controlling three quarters of the total UK software and IT services market.

Why are smaller players disadvantaged?

A number of factors have been going against smaller players. Supplier rationalisation has meant IT departments focusing their spend on a reducing number of larger service providers and technology suppliers. Multi-sourcing is a reality, but even this trend has tended to spread spending among a limited range of bigger players. More broadly, the overriding shift from IT projects towards IT outsourcing and BPO often helps to lock the smaller players out.

Then we come to the issue of global sourcing. Recent conversations we've had with firms at all levels in the industry have confirmed that SMEs' relative lack of exposure to offshoring and nearshoring is placing them at a competitive disadvantage.

Here's an anecdotal example: one niche, UK-based IT services provider we've spoken to revealed that it was recently undercut by one of the major global consultancies when bidding for a project. The latter's day rates were lower as it was able to use offshore resources to create a blended rate.

It's clear what is happening. Global sourcing is making it possible for large providers not only to reduce their rates, but also to operate profitably on deals and accounts that were previously below their radar. Meanwhile, the Indian players are also adding to the competitive pressure and helping to keep rates keen.

Emphasise the value

There's a twist in our anecdotal tale of bidding quoted above, as the outcome eventually favoured the UK-based player and its more expensive onshore bid. In this case, the customer was willing to pay a premium for a speedy service from local domain experts. There's clearly an important message in this: continue to emphasise the value you can exert in your niche, rather than getting drawn into a battle for lowest costs. But we also need to be realistic, and the reality is that customers are increasingly demanding both top value and offshore (or at least blended) price points.

Offshoring can be hard when you're small

There are a number of reasons why smaller businesses find it hard to do global sourcing:

• Scale required - in reality, there's often a minimum size for an effective offshore unit. As one software developer with offshore experience told us, 'You need more than 100 in India to make it work. You still need HR, finance, etc, so a small operation is very hard to manage and the costs don't work so well.'

• Up-front investments - it requires an investment of management time and money to get an offshore capability off the ground. This is something many SMEs simply cannot afford, especially as the returns may not be immediate.

• Competition for talent - some companies that have set up their own offshore centres have found it difficult to attract local staff, as they lack the 'brand' as a local employer. Some UK firms have even invested in advertising their presence in certain Indian cities in order to encourage job applicants.

It can be done

Despite the obstacles, it is possible for smaller firms to exploit the offshore model. Financial Objects and Sirius Financial Solutions are two UK-based software players that took strategic decisions in 2003/4 to build development capability in India. Both have grown an offshore presence rapidly - indeed Financial Objects now employs more people in Bangalore than it does in the UK.

It's harder to pinpoint examples in the IT services arena. Here we find that smaller UK-based consultancies and SIs are tending to subcontract offshore delivery to partners (usually Indian or Eastern European firms) on a project-by-project basis. That's often a workable solution. But if they had the option, many such firms would go for the greater control and margin leverage of an in-house offshore operation.

Acquisition is another possibility, and it's worked in the long-run for the largest UK-based employer (from any industry sector) in India today - Xansa, which acquired in India in 1997. But in reality, even after recent stock market movements, most offshore firms of any calibre and scale remain too highly valued to be considered wise purchases. So we'd exercise caution in M&A.

In short, there's no easy answer, and SMEs' approach to global sourcing will continue to include organic, inorganic and partnering models. The pace at which the larger players in our industry are building their offshore capability (most are looking at 50% or more growth in headcount this year), means that not acting is, for many, simply not an option.

[continued on page three]

Holway Comment

In praise of numeracy

Richard Holway

What do Bill Gates (Microsoft), Larry Ellison (Oracle) and Steve Jobs (Apple) have in common?

Few would doubt that, over the last 30 years, these three have made perhaps the greatest individual contributions to computing and IT. In return, they have also amassed huge personal fortunes.

The other similarity is that they all have numerate backgrounds. All studied a numerate subject at university. Interestingly, all also gave up their academic studies before graduating!

But that was 30 years ago.

What do Sergey Brin and Larry Page (Google), Mike Lynch (Autonomy) and Niklas Zennstrom (Skype and Kazaa) have in common?

The answer is pretty similar. They are all currently making major contributions to computing and IT and have amassed huge personal fortunes. And they all also have numerate backgrounds.

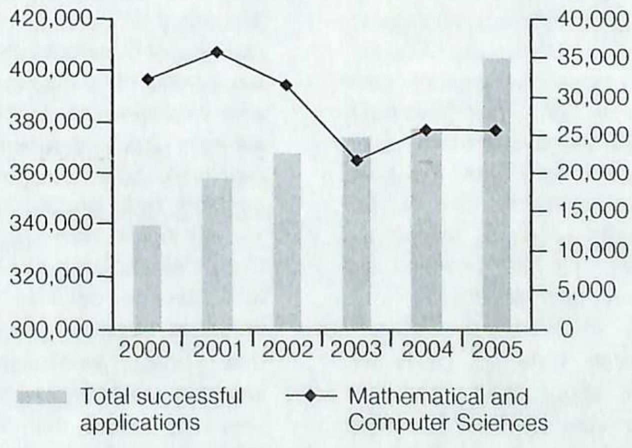
I too have a numerate background. Indeed it was an essential qualification to get into programming back in 1966 when I started. I happen to believe that numeracy and successful software innovation still go hand-in-hand. Whether it was building a new operating system or designing a piece of database software 40 years ago or creating a new search algorithm or the graphics for a computer game today, numeracy is still as essential as it ever was. But, for a whole range of reasons, numeracy is now very much out of fashion in the 'developed' nations.

In my view, this bodes ill for the future.

Some facts

Forty years ago, less than 10% of students went on to university.

Total versus Maths/Computer Science successful applicants



Source - Ovum derived from data on the UCAS website

Now the figure exceeds 40% and the Government has a target of 50%. Indeed since 2000, the number of successful applicants to go to university has surged by 18% as the chart shows. However, the number applying to study the numerate subjects of mathematics, statistics and/or computer sciences (Group G on the UCAS form) has fallen by 20%. The number of applicants for these numerate subjects has fallen from 10% of the total in 2000 to just 6.4% in 2005.

This is not just a UK phenomenon. A recent survey in the US found that just 1.1% of freshmen planned to major in computer sciences, down from 3.7% in 2000. US degrees in mathematics have plummeted by 20% since 1990 (source: National Science Foundation). Is it a mere coincidence that in the same period, America's share of industrial patents and published scientific papers has also fallen?

Conversely, the number of computer sciences graduates in Eastern Europe and Asia keeps rising every year. India and China alone create 900,000 new engineering graduates each year - three times the number produced by the US.

[continued on page four]

[continued from page three]

So why are we seeing this flight from numeracy?

Image

Last month the University of Hertfordshire published a study into the best, and worst, opening chat-up lines. The best was 'What's your favourite pizza topping?' The worst was 'I have a PhD in Computing'.

Amusing as this might initially seem, it does show what a poor image both computing and numeracy have today. Perhaps I can understand why youngsters wouldn't want to be associated with the 'geek-like' image of a Bill Gates. But why would you not want to be associated with the creators of the iPod or music downloads?

"The real wealth creation in our sector has always come from our ability to innovate"

Pay

Just ten years ago, the average salary in a UK IT company was 60% higher than the national average wage. Today that premium has been almost completely eroded. There are now a host of other sectors - financial services is a good example - where pay prospects look far more attractive.

Graduate recruitment

Many IT companies have completely abandoned their graduate recruitment programmes in the UK. The rest have made major reductions. I don't know of any major company that is now taking on more graduates than it did a decade ago.

Prospects

All these issues are compounded by the global sourcing revolution described in more detail in our front-page article. 'Students fear that if they become programmers they'll lose their jobs to counterparts in India or China who work for a fraction of the pay...Given the opportunity to make a mint on Wall Street or land a comfortable academic job, many students are turning away from software.' (Source - BusinessWeek 1 May 2006.)

Does it matter?

There is little doubt that a successful career, particularly with an IT services company, now depends on different attributes than those required just a few decades ago. Knowledge of business, expertise in specific vertical markets and more general skills in sales, marketing, programme management etc are now very much more to the fore. Numeracy is far less important for those roles.

But that is not the basis for my concern.

Leadership in software innovation has been at the very root of national wealth creation in our industry. Clearly the US has dominated and the industry built in the US around Microsoft is but one good example. But many UK companies have been excellent innovators too - even if their ultimate 'fate' has been to be acquired by a US predator! Much of the wealth created has still been to our ultimate national benefit.

Ultimately I do not worry too much about the bread-and-butter-type jobs in IT being undertaken 'offshore'. Even if I did, market forces mean that there is very little that could be done to prevent it. What really worries me is if innovation goes offshore too.

Thomas Friedman in his book The World is Flat says "In 30 years we will have gone from 'Sold in China' to 'Made in China' to 'Designed in China' to 'Dreamed up in China".

As the number of numerate graduates rockets in India and China and as these graduates gain all important work experience (some of it onshore in the UK and US), it is now just a matter of time before the new innovations in software, and technology in general, start to come from offshore too. The real 'value add', the real 'wealth creation' in our sector has always come from our ability to innovate. Without a resurgence of interest in numerate subjects, our very future prosperity is under serious risk.

Difficult to correct

I fear that correcting this situation is going to be difficult. According to John Howson, an expert on teacher recruitment at Oxford Brookes University, the UK is currently short of about 3,000 qualified maths teachers. A quarter of all maths lessons in secondary schools are taken by teachers of other subjects. I had the benefit of a maths teacher who was fanatically keen on his subject. Clearly that is not the case for many students today. Is it therefore really any wonder that we are in the state we are in? Even if we started today, it could take several decades before numeracy became hip again. By that time, innovations as important as today's Google or Skype, are more than likely to originate from China than the US or, let alone, the UK.

Cobalt Corporate Finance

VC INVESTMENT HAS A "TERRIFIC" START TO 2006

Latest figures from Cobalt Corporate Finance, the London based technology funding and M&A advisors, reveal a strong return of private investment into technology companies in the UK and Ireland over the first quarter of 2006.

Cobalt tracked £220m worth of private investments into 40 technology companies over the quarter - the largest value raised since the second quarter of 2002, and the largest number of deals since the third quarter of 2002.

Cobalt's Managing Director, Paddy MccGwire, commented: "*It has been a terrific start to the year, with eight investments of £10m+ compared to ten in the whole of 2005, standing out in particular. This was the highest quarterly number since 2001 and this range represented 23% of all investment by value in Q1, up from 10% in '05, demonstrating a change of investment approach and pushing the average size to £6.3m from £4.6m in '05.*"

Comment: 2006 could be a really exciting year for the technology sector if private investment continues at this rate. And according to Cobalt, the indications are that the second quarter could be as busy for venture capitalists as the first has been.

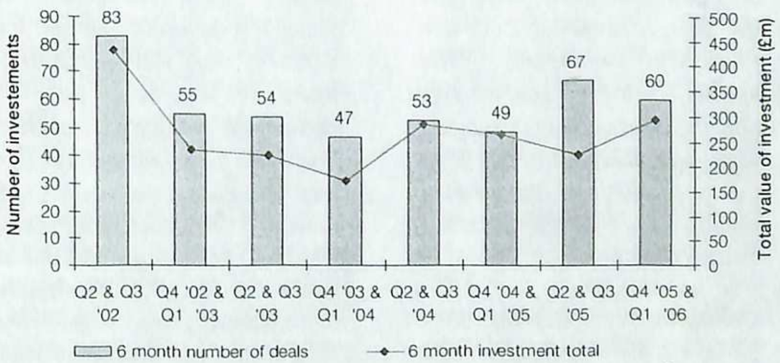
Yet, this massive surge in investments over the first quarter may well be a red herring. The previous fourth quarter of 2005 was the worst performing in terms of value and number of investments since Cobalt's records began. It is quite possible therefore that Q1'06 benefited from delayed investments originating in Q4'05.

Indeed, looking at the figures on a six-monthly basis - aggregating Q4'05 with Q1'06 and comparing it with the preceding six months - we see that the trend, although upwards, is slightly flatter then the Q1'06 results alone would imply. And though there were 11 more deals in Q4'05 and Q1'06 combined than in the same period in 2004/05, the total value invested was only £30m higher. In fact, there were seven fewer investments in that six-month period than in Q2 and Q3 2005 preceding it (See figure).

The important thing however is that overall the trend is upwards, and total investment value over the last six months is still higher than it has been since late 2002. Based on this evidence it seems that the value of VC investments is set to continue to grow over the coming year. But the real question is how fast, and for how long? We'll be keeping a close eye on the private investment trends over the current quarter to find out.

(Samad Masood)

Number of investments vs. total value of investments per six month period



Source: Cobalt Corporate Finance

-9%
177p

RM CONFIDENT OF OUTCOME FOR FULL YEAR

RM, supplier of ICT and other services to education, has announced interim results for the six months to 31st March 06. Organic revenue growth of c5% boosted turnover to £114.2m. From an operating loss of £1.0m in H105 RM has produced a profit of £1.2m, and a loss before tax of £0.9m has turned into a PBT of £2.0m. Diluted EPS previously -1.1p is now 1.6p.

The seasonal nature of RM's business means that H1 performance is not a good indicator of the outcome for the year as whole (with the majority of revenue and profit coming through in the second half). In addition, procurement under the Building Schools for the Future programme (BSF), which we believe RM is likely to be a significant beneficiary of, has been slower than the company anticipated. However, looking at the year as a whole CEO Tim Pearson commented "*The individual schools market has shown improvement after the weak start to the financial year; our good first-half performance gives us more confidence in the outturn for 2006*".

Comment: We spoke with RM's Group FD, Mike Greig, to get more detail on the results. He highlighted the company's good financial performance despite a tough environment in the schools market. Headline revenue grew c5%, with the contribution from education software and services up 15%, largely due to the contribution from the £37.5m Scottish Schools Digital Network project (SSDN), which RM won last September. Revenue from infrastructure software and services also increased (by 5%), driven by revenues from PFI projects. RM's other activity, hardware and distribution, experienced a 1% decline in revenues. Pearson described the PC market as *"pretty horrible"*, however growth in the supply of higher margin education resources in H106 offset the impact of the competitive PC market.

RM plc six months to 31st March	Turnover £m		
	H1 06	H1 05	Change
Infrastucture software & services	39.9	37.9	5%
Education software & services	26.3	22.9	15%
Hardware & distribution	48.0	48.4	-1%
TOTAL	**114.2**	**109.2**	**4.6%**

Whilst RM moved from a loss in H105, to a profit in the period, the gross profit percentage dipped from 27.2% to 26.7%, as cost of sales rose. Greig pointed out that the initial revenues from the SSDN project (which will provide a national education intranet for Scotland) were recorded at zero margin, in accordance with the company's accounting policies. This is the largest project that RM has undertaken, and we were reassured that it was going to plan, with the first end-user deliverable due in September 06. Profitability at the operating level was achieved in this period as management kept a tight rein on costs.

However, RM faced some tricky challenges in H1. The schools market proved very tough in Q1 as many establishments faced budget pressures, and a reduction in dedicated funding resulted in less spend on curriculum software. Furthermore, procurement under BSF (a £45bn/15 year programme, which we anticipate will include c£4.5bn spend on ICT) is going slower than RM envisaged. RM secured the first contract let under BSF, with Solihull in February 06, and the first school to go live in June. However, Greig advised that the slow pace of the programme means that revenue and profit contribution from BSF will materialise later in the year. Some bid efforts have been redirected towards other opportunities; nevertheless BSF remains a *"significant net investment"* in FY07.

The slow start to BSF is clearly a disappointment for RM (and for all the other S/ITS companies looking to get a piece of the action), but comes as no great surprise to us. The important lesson for suppliers is not to put all your eggs in the one basket. RM can point to a number of successes outside of the BSF programme during the period, and is optimistic that its IPR and expertise in specialist areas such as data and assessment, MIS and learning platforms, will continue to drive growth. With its broad base of products and services, and given that education projects provide a greater proportion of group revenues than ever before, we share management's confidence that the outlook for the full year remains on track.

(Heather Brice)

HP SERVICES "EXPANDS MARGINS" IN Q2

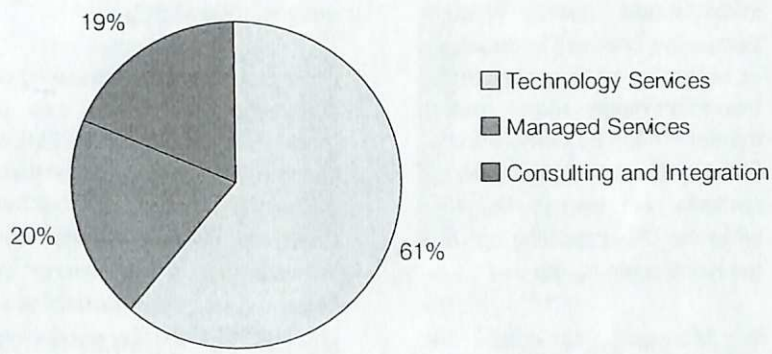
HP has released its Q2 figures for the three months to 30th April, showing net revenue growth of 5% year on year to $22.6bn. At constant currency, growth was higher at 8%. Non-GAAP operating margin was 8%, while cash flow from operations was $3.6bn.

HP Services (HPS) revenue declined 2% year-on-year (but rose 2% at constant currency) to $3.9bn. Revenue in Technology Services (the core support operation) declined 4% in dollar terms (down 1% in constant currency) to reach $2,368m, Consulting & Integration (C&I) declined 2% (but rose 5% in constant currency) to reach $736m, and Managed Services (the outsourcing business) grew 2% (up 7% in constant currency) to reach $788m. Operating margin was 8.9%, up from 7.3% year-on-year.

HP's software revenue increased 20% year-on-year to $330m, with revenue from HP OpenView and HP OpenCall increasing 25% and 11% respectively. The former was driven by *"solid momentum"* from the recently completed acquisition of Peregrine Systems. Operating profit was $3m, (a 0.9% margin), compared with a loss of $2m in the comparable period last year, and marking the third consecutive quarter of operating profitability.

EMEA (40% of revenues) saw Q2 revenue decline 2% year-on-year in dollar terms but rise 6% in constant currency. Asia-Pacific and the Americas registered growth (7% and 10% respectively in dollars).

HP Services world-wide revenue split Q2 2006



Comment: While revenue in HP Services continues to decline in dollar terms, we do see some underlying positives - and where this is most evident is in the margin improvement. HP's strategy is to cut costs and automate processes where it can in order to re-invest where it really needs to. So for example, it is just over half way through its process of staff reduction - the figure currently stands at 8,100 job cuts. Meanwhile it plans to hire "experienced and quality" sales staff in the "hundreds", in particular to give more resource to the very largest accounts.

Furthermore, we think HP's work to reduce costs around delivery of its managed services could mean it has a more streamlined delivery model better able to take on larger outsourcing contracts and deliver a decent profit. This is one reason why we believe that a few years down the line HP could be a stronger competitive force in the outsourcing market.

It's also interesting to see C&I revenue rising almost as fast as the outsourcing revenues, perhaps reflecting the trend we're seeing in Europe right now of end users being more confident and ambitious in commissioning IT consulting and systems integration work. Whether this spree will last long is another question, but we think HP can benefit from this robust demand through its recent efforts to play on its infrastructure and technology strengths when marketing its IT consulting and SI capabilities. The red flag is the steady fall-off in growth of the core Technology Services business, which still represents the bulk of HPS's business.

The European story

We estimate that HP Services revenues in EMEA are about 48% of HP Services worldwide. In other words, HP Services is relatively stronger in EMEA than elsewhere. Growth in HP Services in EMEA was 5-6% at constant currency, stronger than worldwide growth of 2% at constant currency. Approximately 38% of Services staff are based in Europe. Most of the 8,100 jobs axed as part of its restructuring programme thus far were in Europe.

One of the strongest characteristics of HP Services in

[continued on page eight]

[continued from page seven]

Europe is the difference between Eastern and Western Europe. The former is experiencing very good growth, in countries such as Russia. In particular, the public sector is proving to be a successful hunting ground for infrastructure deals. Western Europe by contrast is described as being "flat-ish" in dollar terms - being a much more mature market than Eastern Europe. France, Germany and Italy in particular are said to be slow, while the UK is "picking up" and the Nordics are "going well".

In Managed Services (the outsourcing business), mid-sized deals such as the one inked with the lift and escalator maker KONE are becoming typical of the contracts HP is winning in infrastructure outsourcing. In other words, megadeals are out of fashion, while deals in the $50m-$100m bracket are much more popular. HP says the average size of these mid-sized deals is rising slightly.

HP also said that its Consulting & Integration service line saw a "strong" performance in EMEA during Q2 (it grew 5% in constant currency worldwide), and that the OpenView systems-management software suite is "very strong" in Eastern Europe. We see this as a sign that HP is sensibly positioning its consulting and systems-integration capabilities around infrastructure issues. Infrastructure may not be sexy, but we see a wave of legacy infrastructure renewal in EMEA right now, accompanied by new infrastructure installation in the emerging markets of "new Europe".

The European services business faces the same challenges as the other geographies. Of note is the ongoing need to invest in global delivery services (for example, HP has opened a new centre in Sofia, Bulgaria, alongside the one in Bratislava, Slovakia) and become much more selective about the deals that are signed. And while many European staff have lost their jobs, we expect to see more hires as HP bulks out coverage in its sales teams across its most significant accounts.

(Kate Hanaghan & Douglas Hayward)

-20%
42p

DIMENSION DATA: EUROPE REMAINS A PROBLEM

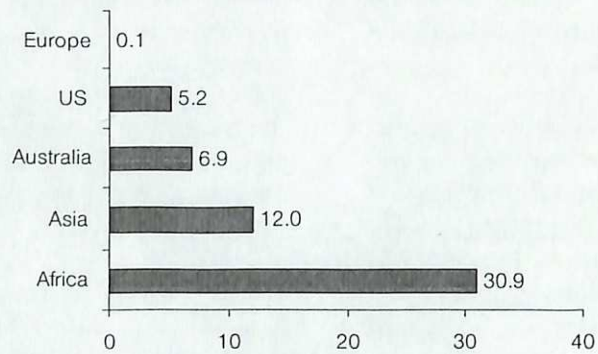
South Africa-based reseller and services player Dimension Data reported 16% revenue growth (to $1.45bn) in the six months to March. Operating margins increased to 2.6%, from 2.2% in the first half of FY05. Diluted EPS was 1.8 cents (H1 FY05: 0.6 cents).

Comment: We've come to expect a mixed bag from this global reseller that's aiming to grow its services business, and that's what we have here. The star this time is the US, which delivered 43% growth. Meanwhile, the extension of business in developing markets like Nigeria helped DiData grow by 26% in its home continent of Africa. The 10% operating margin DiData achieves in Africa also means the region continues to contribute most of its profits.

Europe is once again the problem child. Total European revenue fell by 1% to $356m, and operating profit slumped from $8.7m to just $88k. The reason was not just the continuing tough conditions in reselling network equipment and software. Services revenue in Europe was up just 1% at $154m, with the Merchants call centre services business in the UK and Ireland highlighted for its *"very poor half"* and operating losses of $2.1m (compared to a small profit in H1 of FY05). There's better news from Germany, Spain and Italy, but France and the UK business as a whole are dragging down the overall performance of the company in Europe. DiData has made much of its move during the first half to combine the management structures in the UK and Continental Europe. But so far, understandably, it's hard to see if this is helping. The second half should give us a clearer indication, but we suspect market conditions will continue to make life tough for DiData in Europe.

(Phil Codling)

DiData: operating profit by geography



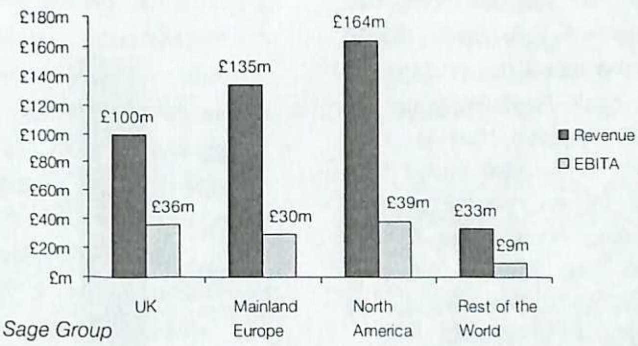
Total operating profit in H1FY06, $m

-7%
232p

ACQUISITIVE SAGE GROWS TOP LINE BY 18%

Sage reported its results and acquired two Asian businesses in May. The company has grown its revenue by 18% to £456m for the first half ended 31 March 2006. Operating (EBITA) margin has remained flat at 26%, producing EBITA of £119m. Acquisitions in Europe and North America contributed £24.5m to revenue over the year, resulting in organic growth of 5%.

Sage regional revenue and profit comparison



Source: Sage Group

No acquisitions were made in the UK market over the period, leaving revenue to grow 4% organically to £100m. The UK EBITA margin improved by one percentage point to 37%, although this was due to a one off charge in 2005 relating to an internal re-organisation.

Mainland Europe was a strong growth driver for Sage this half. Revenue from the region was up 53%, thanks to the contribution from the acquisition of France's Adonix. Organic revenue from the region was 6%, with the strongest organic growth (11%) coming from Spain, where Sage expanded its presence through the acquisition of Logic Control in June. EBITA margin from the region was flat at 22%.

North American revenue grew organically by 4% (excluding disposals in 2005) to £170m. The acquisition of Verus in February contributed £6.4m to revenue from this region for the year. EBITA margin increased to 25% from 24% last year - due to the £2.7m gain from the disposal of a small business unit in January 2006.

Rest of the world revenue (principally from South Africa and Australia) grew organically by 14% to £29m. EBITA margin rose to 27% from 18%.

On 16 May 2006 (after the first half period had closed) Sage acquired a Chinese Sage distributor comprising SWA Ltd and Huatuo Software Ltd, for a "small" sum. This Shanghai-based business resells and implements Sage's Chinese software products, ACCPAC and Adonix. On 23 May Sage paid £7m in cash for a 50.2% stake in UBS Corporation Berhad, a Malaysian Stock Exchange listed business management software vendor for SMEs. Sage is offering the same price per share for the remainder of UBS's stock. UBS reported revenue of £1.9m with a 47% profit margin (before amortisation and depreciation), for the year ended 31 December 2005.

Comment: This steady top line organic growth is not surprising - especially given that the company's growth agenda is to boost its portfolio through acquisition, while increaseing recurring services revenue from existing clients.

Both these goals were achieved with the purchase of Verus, a US based payment processor, which helped push services revenue up by 23% to £294m. Admittedly, services growth excluding acquisitions was only 7%, but the support services part of that grew 9% - making this the biggest contributor to organic growth, representing 50% of total revenue.

Indeed, it sounds as if Verus will be the focus of Sage's acquisition strategy this year. Sage says it is looking for bolt-on purchases to expand Verus's market reach in the US, and will eventually look to move the Verus payment processing service into Europe as well.

Overall then it has been another good set of results for Sage, which keeps its reputation as a well run and highly profitable S/ITS business. Indeed, the company suffered no margin dilution from its acquisitions over this period - an indication of its skilful acquisition management.

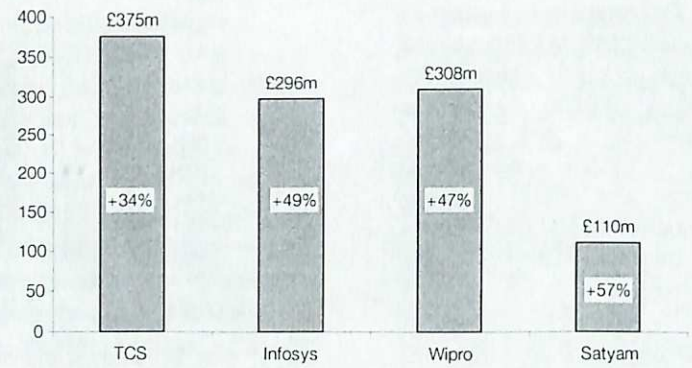
Yet pro forma organic growth (which is organic growth of its existing businesses and that of the acquisitions) was just 6%, implying that Sage's purchases are growing at about the same rate as it is. To keep its top line growth ahead of the S/ITS market Sage should also boost its organic growth. This means continuing to turn its business into more than the sum of its parts - through cross selling and integration - rather than just bolting on more of them.

(Samad Masood)

SATYAM JOINS THE $1BN CLUB

Satyam Computer Services, an Indian IT services firm, has announced full year results revealing that it has crossed the $1bn mark. Reporting under US GAAP, Satyam turned over $1.1bn in the year ended 31st March 06, an increase of 38%. Operating income rose 35% to $220m, producing an operating margin of 20.04% (fractionally down on FY05: 20.47%).

Leading Indian suppliers FY06 European revenues and growth rates



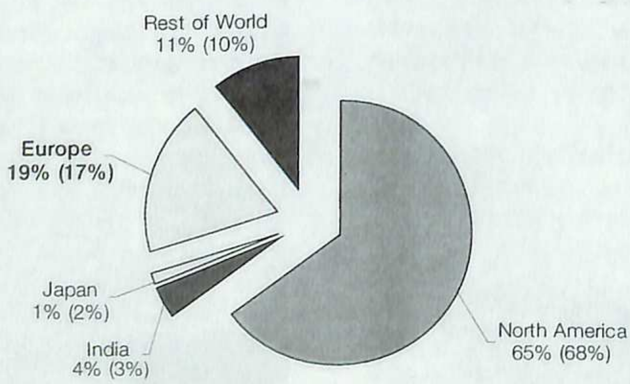
Growth was particularly strong in Europe, with revenue up c57% to $206.3m (c£110m), making it Satyam's fastest growing territory outside of the domestic Indian market. As a result, Europe now accounts for c19% of total revenue, up from c17% in FY05. And whilst software development and maintenance remains the company's biggest revenue generator, accounting for around half of revenues, consulting and enterprise business solutions grew strongly, and is heading towards 40% or total revenues.

Comment: FY06 was a landmark year for Satyam. Passing the $1bn mark means it joins compatriots TCS, Infosys and Wipro (all of whom reported FY06 results last month). However, despite faster growth than all three of its rivals, Satyam remains a tier two supplier in terms of scale - TCS is nudging $3bn turnover, Infosys $2.2bn and Wipro $1.8bn. Satyam also enjoyed faster growth in Europe in FY06, than its three compatriots, but its European operation has a way to go if it is to match that of its rivals.

More telling is that Satyam has some way to go if it is to emulate the profitability of its peers, as c20% operating margin is significantly behind that of the other three (though many UK S/ITS companies would be happy enough with that kind of performance). Understandably, Satyam's quest for growth has not helped operating margins - it has ramped up staff numbers by 38% to 26,500 over the course of the year, primarily through hiring, but also via a couple of acquisitions including London-based Citisoft in May 05, and Singapore-based Knowledge Dynamics in July 05.

Whilst Satyam may be finding the pursuit of revenue growth and profitability a tricky balancing act, it has made good progress in broadening its customer base. The company's reliance on its top 5 customers is easing (from c30% on FY05 to c25% in FY06), and it ended the year with 27 customers spending more than $10m on an annualised basis, compared to 21 a year ago.

Satyam FY06 (FY05) revenue by customer location
Total FY06 revenue = £1.1bn



Going forward, Satyam makes no secret of its ambitions. Growth of c25% is forecast in the current year, and acquisitions continue "to be a key objective of our long term growth plan" - so watch out for further news on this front.

(Heather Brice)

EDS REPORTS A POSITIVE Q1

EDS has reported its results for the January to March quarter. Reported revenue was up 7% at $5.1bn. The organic rate of growth, at constant currency, was 10%.

The company generated $78m of operating profit, compared to $26m in Q1 of 2005. The operating margin was 1.5% (0.5% in Q105). Pre-tax profit was $56m ($19m in Q105).

First quarter contract signings totalled $10bn in TCV (total contract value), up 45% on the same period last year.

Comment: The indicators from Plano continue to be positive and to underscrore the solid execution of Michael Jordan's ongoing turnaround plan for the company. EDS knows its operating margins need work, although the 1.5% returned in Q1 (compared to 2.7% for 2005 as a whole) shouldn't worry us too much. The first quarter is historically the lowest margin period of the year for EDS. More important is the overall upward trend, with Jordan feeling confident enough in his call with analysts last night to reiterate the goal of 7%+ for 2007. To help him get there, the current buoyancy in the topline is good news. But also crucial are the efforts to improve efficiency. So we can expect a short-term "increase in severance" in some of EDS' major markets, coupled with a continuing ramp up offshore (or "Bestshore" as EDS likes to brand it). As we've commented previously, EDS' offer for a majority stake in India-based Mphasis (as announced one month ago, and not yet accepted) has the potential to accelerate the rebalancing of the business' delivery capability towards lower-cost locations. But Jordan is clear that process rationalisation and automation are also playing a key part in trimming costs. EDS used to have 275 account management processes. It's now trying to develop and roll out just one.

On the revenue growth side of the equation, the $10bn of signings in the quarter looks positive, and puts EDS well on the way to its $23bn target for the full year. We should bear in mind, however, that 78% of this came from renewals, and that most of that came from just two key relationships (GM at $3.6bn and the US Navy extension at $3.9bn). Now that it has these two particular beasts under control, EDS should be able to focus more on converting the new business in its pipeline. Q2 has got off to a good start on this front with major signings at San Diego County and Kraft Foods (the latter worth $1.7bn of TCV).

As well as the US Navy and GM, one other contract dominated the quarter's numbers: the DII engagement at the UK MoD. Indeed, this mega deal accounts for much of the excellent performance from the EMEA business as whole, which grew revenue by 16% to $1.60bn in the quarter. This growth also helped the EMEA operating margin rise to 11.4% (10.3% in Q105).

The challenge now for Bill Thomas and his EMEA team, as for EDS at the global level, is to ensure that they deliver wins in other accounts and thus produce more broad-based growth, rather than relying on the UK government stronghold. Having been through the mill with the US Navy and the Inland Revenue, EDS knows all about the dangers of putting too many eggs in a small number of baskets. The good news from the market perspective is that sectors such as finance and telecoms currently offer more opportunities for growth than they have done for a while.

(Douglas Hayward)

CSC

STEADY PERFORMANCE FROM CSC, DESPITE UNCERTAINTIES

CSC reported Q4 revenues of \$3.88bn, the same as in Q4 2005, but up 3% on a constant currency basis. Its Q4 EBIT margin was 8.1%, up from 7.8% year-on-year. But net income fell from \$411.8m to \$199.4m and diluted EPS from \$2.13 to \$1.05.

For FY 2006 as a whole, revenues from continuing operations of \$14.6bn were up 4% (or 5% on a constant currency basis). CSC's EBIT margin was 6.6%, compared to 6.3% in FY 2005. Disposals helped cash levels on the balance sheet almost double to \$1.01bn during the year.

Comment: These results confirm that overall CSC is performing steadily, if not spectacularly. Wall Street focused on the halving of bottom line profit, but operating margins in the continuing business have made a small improvement during the year, and the balance sheet has strengthened. The forecast for EBIT in FY 2007 is another movement upwards to 7.5-8%, aided by the major restructuring and headcount reduction plans already announced.

CSC's moribund overall revenue growth also concerned investors, especially as CSC is only forecasting 2-3% growth for the current year. Meanwhile, the company's Q1 revenue estimate of \$3.4-3.5bn is below analysts' previous expectations. Behind the overall growth story, we continue to find huge contrasts in the different elements of CSC's business. North American federal government interests delivered 13% growth in the quarter, and Asia/Australia also performed strongly.

But overall commercial sector business globally fell slightly in the quarter, with Europe again the key culprit. CSC is still suffering disproportionately from the softness in central and southern European consulting and SI markets, and Europe as a whole fell by 11% in Q4 (or 4% in constant currency). That's despite CSC's continuing good growth in the UK, where at present it's able to claim, justifiably, more success on the NHS Connecting for Health Programme than any of the other major suppliers. In the more problematic markets such as Germany and Italy, the company is clearly (and wisely) moving to exit the price-sensitive lower end of the IT projects market and promote its outsourcing capabilities. But this strategy, and the personnel changes being enacted to deliver it, will take some time to bear fruit.

From here, CSC could take a number of paths. It's likely be a number of weeks yet before we'll know the outcome of its "review of strategic options". Nonetheless, it's clear from the comments of Chairman and CEO Van Honeycutt in his results call with analysts that he's pushing for a resolution as soon as possible, and before the current uncertainty starts to impact customers' decision making.

Should any of the private equity firms that are interested in CSC press the green light, they are likely to find some room for margin leverage in the business, and helpfully the company itself has begun the process of re-balancing its resources towards a more competitive, margin-enhancing offshore mix (Honeycutt is citing restructuring savings - before total leaver costs of \$375m - around \$150m in FY 2007 and \$300m in FY 2008).

But if those private equity firms should withdraw, it would be wrong to suggest that CSC would be lethally wounded, a factor that both competitors and customers of the company should bear in mind. Behind the current uncertainties, we still find a firm that is financially solid and potentially well placed for growth, provided that it can convert more of its pipeline in the coming year and get the topline moving across the business, most notably in Europe. FY06 was a year of renewals, including CSC's key global contracts at BAE Systems (as discussed separately in this month's SystemHouse), General Dynamics and Dupont. FY07 will need to see the emphasis on new business.

(Phil Codling)

HP SERVICES: THE EVOLUTION CONTINUES

We recently met with senior management at HP Services during an analyst conference held in the US. HP's TSG (Technology Solutions Group - which comprises Enterprise Servers and Storage, HP Services and HP Software) team gave an update on HP's IT services strategy. Services accounted for 17.8% of HP's total $87bn revenues in FY05. So whatever HP does to develop its services strategy, it can't ignore what this means for the other $71.5bn that is derived from everything from PDAs to high-end servers.

The services portfolio spans support services (a very large portion), managed services (outsourcing), consulting and integration, and more recently, managed print services. Since Q1 2004, services revenue (excluding managed print) has grown from $3.2bn to $3.8bn. However, throughout 2005 growth slowed so that by Q1 2006 revenue declined by 2.0% during the quarter (although it grew by 3.0% in constant-currency terms). Meanwhile, divisional operating margin (a variant of EBITA) - via a few ups and downs - currently sits at 7.8%, which is below the 8.3% of two years ago.

Drilling down a little further, Technology Services (the support organisation accounting for 62% of revenues in FY 05) saw its growth in dollar terms fall steadily in 2005, from 14% in Q1 to just 4.0% in Q4. Similarly, Managed Services (the outsourcing business, with 20% of worldwide sales) saw growth fall from 44% in Q1 to 9.0% in Q4. And Consulting & Integration (18% of sales) saw growth halve from 20% in Q1 to 11% in Q4. Slow growth continued into Q1 2006, with dollar-rate shrinkage in all sectors, equating to mid-single digit growth in constant-currency terms.

So the challenges are obvious. Areas for focus in the rest of FY06 include making further improvements to the global service delivery engine, signing the right deals on the right terms, and increasing the attach rate of services to product sales.

The mid-term opportunity

Let's remind ourselves that 62% of what HP does in services comes from maintenance. And, as we've seen, HP seems to have hit a wall here, with growth now in low or mid single digits. The company is therefore focusing on the other parts of its services business - namely Managed Services and Consulting & Integration - to drive growth. Managed print services is the latest addition to the services stable and another area of focus.

Back at the conference, the collection of executives were mostly on message with the Adaptive Enterprise 'mantra' - HP's marketing around the alignment of business and IT. Within this, infrastructure outsourcing is positioned as the "transformation engine". We think in the mid-term, HP has the opportunity to become a greater force in infrastructure outsourcing if it is able, for example, to fine-tune its global delivery service.

Around its managed services pitch, HP speaks of its ability to innovate. It's far from alone in pushing the innovation angle to customers - indeed, we're hearing plenty of noise from HP's peers around this right now. We'd make two points here. Firstly, suppliers should note that exciting innovation is not always the top priority for customers; a solid and steady outsourcing arrangement may be their prime objective. Secondly, while we see evidence that HP and others are working in an innovative way with their largest customers, we are not convinced the innovation message is necessarily applicable to customers across the board - i.e. those below the top tier. Beware of hopping onto 'bandwagons' is our advice! Nevertheless, a closer connection between HP Services and the company's labs could generate real value for customers and HP alike.

While innovation was a notable theme at the analyst conference, for customers, HP Services is much more likely to be viewed as a solid provider of reliable, low-risk infrastructure-oriented services than a bleeding-edge innovator - much of this ground being occupied by more business process-oriented service providers. And that isn't a bad thing. However, there is a sense among customers that HP could approach them with a little more confidence. HP knows that it needs to increase the number of business - as opposed to technology - conversations it has with customers. Many customers want to see that their provider

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understands their business environment, but HP needs to make sure its pace matches that of the customer. In its enthusiasm to prove it can innovate and create "transformational" solutions, HP must not lose sight of the fact that for many customers, it is still 'just' a (good) provider of infrastructure and "plain old maintenance", as one customer put it.

A strategy in evolution

HP's services strategy continues to evolve. HP's Consulting and Integration business, in particular, is currently receiving a lot of management attention and investment while the Managed Services business will be expected to broaden its portfolio (e.g. more application management) while also tightening its commercial approach. The question, of course, is where this will take it. Ovum's NavigatorTM model positions HP as a "market shaker" in infrastructure outsourcing, as opposed to a "market maker" capable of determining the direction of the market. By this we mean that HP isn't a driving force of the outsourcing 'elite', but rather a potentially disruptive player. Two or three years down the line, we expect to see HP punching above its weight in infrastructure-led outsourcing, with IT services that play to its strengths in infrastructure areas such as ITIL, SOA and utility computing. If HP Services can carve out a strong differentiation, it should be able to get those growth figures back to market-stealing rates.

See 'HP Services expands margin's in Q2' for more detail on HP's progress during Q2

(Kate Hanaghan)

BAE SYSTEMS

BAE SYSTEMS REWRITES ITS OUTSOURCING CONTRACT WITH CSC

UK-based aerospace and defence giant BAE Systems has signed a new outsourcing contract with CSC. The original ten-year deal between the companies, signed in 1994 when the customer was still known as British Aerospace, was a milestone in the growth of the IT outsourcing market. The first renewal in 2000 extended the scope of the agreement and added two years, taking it to 2006. The new contract runs to October 2011 and is estimated to be worth £1bn to CSC.

We spoke to Chris Coupland, Director of IT and e-business at BAE Systems, following his decision to re-sign with CSC. He emphasised that this win for the US player was no foregone conclusion, despite the two companies' history of working together. Like a lot of CIOs, he has pushed the supplier hard to justify its contract and to raise its game.

The process was typically thorough. In May 2004, two and half years before the old contract was due to expire, BAE Systems embarked on an investigation of its options. These included staying with CSC, switching providers and a move to multi-sourcing. Its motivation for such an in-depth process, and for considering all possible options, was borne out of a view that things were not working as well as they should. BAE Systems changed CEO in 2002 and looked to develop a more performance-based culture, as well as adding to its North American business through acquisition. These were challenging times, and the company needed to ensure its IT could support the changes in the business.

In the end, the RFP that BAE Systems and its third party advisors built didn't go to the wider market. CSC was offered the opportunity to bid ahead of anyone else, and was downselected as sole bidder in December 2005. Coupland emphasised that it wasn't just that CSC's bid met their RFP. The outsourcer's performance had already improved over the previous two years.

In terms of scope, not much has changed in the new agreement. But in terms of the shape of the deal and the relationship between provider and buyer, there are significant differences. It's clear why Coupland is happier with the new contract:

- First off, he's got more flexibility in the commercial terms to expose his principal outsourcer to competition, and where

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necessary to swap in other providers not just for projects but also for significant elements of the contract. This isn't entirely new. The customer has had the option for some time to open up parts of the deal, such as applications management, to other suppliers. But Coupland has clearly pushed for more competition and intends to use it.

• Secondly, he's going to see significant cost savings.

• And finally, the supplier's performance is improving, and he can be confident of this because he now has more reliable ways of measuring performance down to the individual business unit level.

The first point here is the key driver of all the other benefits. By reducing exclusivity and promoting competition, the customer is hoping to push for cost savings and best-of-breed performance in each area of the contract. Multi-sourcing might have been another way of doing this, although that doesn't necessarily introduce in-contract competition and can raise the danger of lock-in in each of the individual contracts. Coupland also points out that you need a large internal team to manage a multi-sourcing ecosystem, a luxury he doesn't have. In the end, he's gone for a blend of competition and consistency, and in so doing he has fundamentally re-balanced his relationship with his supplier.

Finally, readers mindful of CSC's intention to explore "*a potential sale of the company*" may have noticed that the issue of its ownership and long-term future hasn't been mentioned so far in this discussion. The impression we get from talking to users is that, while such question marks are hardly a positive, they are unlikely materially to influence buying decisions. The belief that a take-over "*wouldn't be the end of the world*" seems to be the prevalent attitude. That's entirely reasonable, not least because most of the industry is "in play" these days. Discount possible take-over targets and you'd end up with very short shortlists! In any case, change is inevitable and today's CIO is looking for a contract that can flex to accommodate changes, be they on the side of the user or the supplier. *(Phil Codling)*

networkers

NICHE RECRUITMENT FIRM NETWORKERS INTERNATIONAL DEBUTS ON AIM

Recruitment company Networkers International completed a reverse takeover, last month, of the AIM-listed cash shell Streetnames. The company, which turned over c£22m in FY05, is a minnow compared to many of the quoted recruitment companies we track, but warrants comment as it has carved out a very profitable niche supplying contract engineers to telecoms vendors and operators in Europe, America and emerging markets. Indeed Networkers generates more than half of its business in Africa, the Middle East, Asia and Latin America.

Supplying skilled expat labour to these emerging or developing markets enables Networkers to command an "*attractive*" margin - the company made a pre tax profit margin of c12% last year. Its network of offices (which includes China and South Africa) also gives it access to low-cost resources.

Networkers has grown entirely organically to date. This will continue to be the focus going forward, however the board is also looking to accelerate growth through "*small bolt on acquisitions*". One of the many challenges for Networkers in its maiden year will be to protect that profit margin whilst investing for growth, be it organically or via acquisition. It will also need to make hay while the sun shines - for today's niche market quickly becomes a crowded place, as rival firms look to get in on the action.

(Heather Brice)

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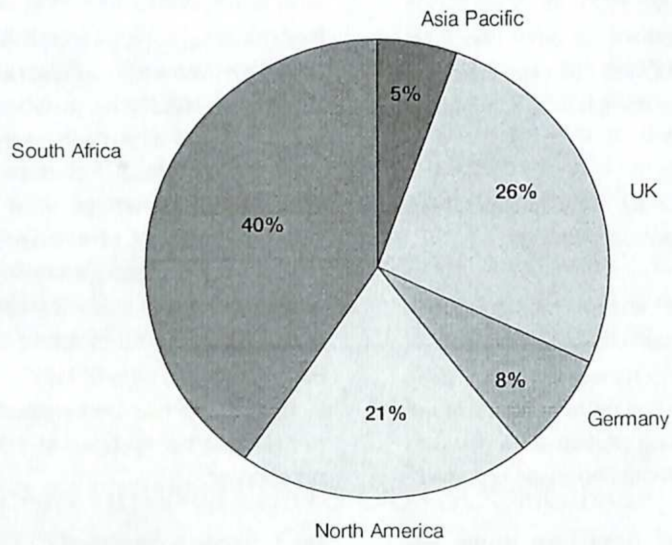
INNOVATION GROUP REPORTS 30% ORGANIC GROWTH

The Innovation Group has more than trebled its operating profit to £4m, pushing margins up to 11% from 4%, on revenue that grew 34% (30% organically) to £39m in the six months to 31 March 2005. Non-organic revenue of £1m was generated from the January 2006 acquisition of Germany's Servicekonzept AG.

Germany now represents 8% of Innovation Group's total revenue, with revenue more than doubling to £2.9m (46% organic growth). Yet organically, South Africa produced the strongest growth, up by 50% to £16m, and representing 40% of total revenue. The UK also registered strong growth of 35% to £10m, thanks mainly to the extension of an existing software contract that had been delayed from last year. North America, where the company only sells software, grew by 27% to £7.9m, representing 21% of the total. Asia Pacific was the only region to decline, with revenue falling by £300k to £2.1m.

Outsourcing now accounts for 60% of total revenue, and grew by 40% (35% organically) to £23m, improving the adjusted profit margin (before amortisation and share payments) from these services to 11% from 8.4%. Software revenue grew by 26% (23% organically) to £16m, with the adjusted profit margin improving to 16% from 2.6% last year.

Innovation Group regional revenue segmentation



Source: Innovation Group

Comment: This is a nice comeback for the Innovation Group, after what was a pretty lacklustre 2005. True, part of the turnaround can be attributed to the signing of some contracts that were delayed from the last financial year. But to be fair, growth has also come from the management's decision to combine the BPO and software sales effort.

Selling software backed-up by BPO services (and vice-versa) is a growing trend in the UK S/ITS market, and something that we increasingly support. The combination can be compelling for clients in transaction driven or highly regulated markets where suppliers need to exhibit a strong understanding of the subject (through intellectual property such as software) and also have the ability to outsource the entire process (BPO).

It certainly seems to be working for the Innovation Group. CEO Hassan Sadiq claims that 70% of the growth this half has been from existing clients, much of it because they are extending their software relationships into a longer-term BPO deals. The strong performance of the South African business, the only region to sell the full portfolio of Innovation Group's general insurance software and BPO services as combined products, further substantiates the combined BPO/software model.

The other benefit of the increased BPO focus is that recurring revenue is also growing, up by 40% to represent 70% of total revenues. Looking forward, Sadiq sees a strong pipeline, with client queries "exceeding expectations". Overall it seems that the Innovation Group is back on track and will be able to deliver some steady growth from its combined offering this year. Yet, we should not forget that the company is still a minnow in a market dominated by £1bn companies such as Capita, IBM, Accenture, CSC - and offshore challengers such as Tata Consultancy Services. Dealing with these players will be its next challenge.

(Samad Masood)

DELL TAKES ACTION TO RE-IGNITE GROWTH

May saw Dell announce its Q1 2007 results revealing worldwide revenue growth of 6.0% year-on-year to $14.2bn. Growth declined 6.0% quarter-on-quarter. Enhanced Services revenue grew 28% to $1.4bn, and 2.0% quarter-on-quarter. Revenue outside of the US grew 12%. In EMEA specifically, revenue grew 6.0% year-on-year but declined 9.0% quarter-on-quarter. Germany and *"emerging countries"* were largely responsible for growth in this region, where revenue stood at $3.3bn for the quarter - 24% of worldwide revenue.

Operating income margin was 6.7% worldwide, compared with 8.8% in Q1 last year. EMEA appears to be suffering particularly on the profit front, with operating income margin 5.5% compared with 8.3% in the Americas and 7.0% in APAC/Japan.

Dell admitted that *"the competitive environment is more intense than we had planned for or acknowledged"*.

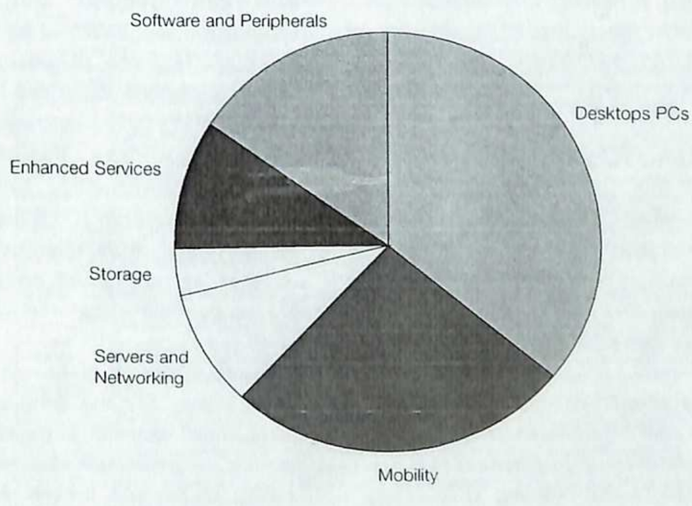
Comment: On the product business, it looks like Dell is suffering as competitors claw back some of the cost gap. Desktop sales are down 3.0% year-on-year, while server sales grew just 3.0%. Dell's response has been to make investments in customer sales, support and services and a focus on *"improving its cost structure and productivity"*.

Of course, a key characteristic of Dell's services business is that it is a *"big lumpy business"*. It typically signs large deals that have long sales cycles. An example of this is the Unilever managed services deal recently inked in the Americas (US, Canada and Puerto Rico) worth $40m and covering 40,000 seats. Dell needs to get a greater number of these deals on its book, and in fact already claims to have six such deals *"on its radar screen"*.

We think its services model is sound - in particular where it uses partners. In the UK, we estimate that about half of its services business is in support services. And of course, for the work that it can't do via telephone support (and we think it can do the majority of it this way) it uses partners, Unisys and Getronics, for field support. But Dell also has its own teams of solution architects, project and programme managers. In other words, it either does higher value work that is close to the customer, such as solution design; or it does the lower cost remote support, avoiding the middle ground which involves running an army of field engineers.

(Kate Hanaghan)

Dell worldwide revenue split Q107



PHOENIX DOES THE BUSINESS IN FY06

In May, Phoenix, the support company with a focus on the provision of managed services via IT services partners, released its results for the year ended March 2006. The company increased total revenue by 23.3% to £108.9m for the year to end March 2006. During the period, the company acquired NDR, a provider of business continuity services. NDR's contribution to revenue was £16m (since completion of purchase in April 2005). Excluding NDR, the underlying organic growth in revenue for the year was 5.2%.

Operating profit (before share option charges, amortisation of the acquired intangible asset arising on the NDR acquisition and flotation expenses) increased 38.3% to £22m. Group operating profit margin increased to 20.2% from 18.0% - NDR's operating margin was 25.7% and clearly a factor in helping to lift the overall margin. Excluding NDR, Phoenix pushed the margin to 19.3% (FY05:18.0%).

Group PBT increased 61.9% to £17.9m, while diluted EPS increased 35.1% to 20.8p. Cash generated by operations increased from £9.5m to £26.8m, representing 138% of profit from operations (FY05 73%).

Comment: We have since caught up with Nick Robinson, CE, and David Simpson, the new FD. As detailed, Phoenix put in another year of extremely good profits and cash generation, even though its core IT services business grew just 6.0%. Going forward, there are two key points of interest for us around Phoenix's performance. Can it maintain margins in the region of 20%, and can it improve revenue growth above the mid-single digits its core business experienced in FY06?

Phoenix IT plc	Revenues £m		
FYE: 30th March	2006	2005	Change
UK IT services	89.8	84.8	5.9%
Product sales	0.4	0.8	-50.0%
France	2.7	2.7	-
NDR	16.0	n/a	n/a
TOTAL	108.9	88.3	23.3%

In January, Phoenix renewed its significant contract with the DWP - but at a price. The value of the contract dropped from £10.5m to £8m per annum, and will drop further over the years to c£5m. We also understand that it's now less profitable. In addition, Phoenix lost out when Capgemini (with Unisys and BT) won the £350m/seven-year Metropolitan Police Service from its partner, Atos Origin. Unisys will now perform the work Phoenix did. This loss, coupled with the reduction at DWP, has hit revenues. However, of note is the fact that Phoenix does not have any more significant renewals for the next three years - that brings not only predictability to the revenue stream but some respite for the management team, which worked its socks off to help secure the DWP deal!

However, there is a counter to these losses. Phoenix announced a significant win with a "major US vendor" - a five-year deal worth initially £6.5m per annum. More generally, Phoenix has been steering away from the more commoditised work in desktop services (c20% of its revenues), into areas such as networking and security, which should help to protect revenue growth. It's also been developing new partnerships, with UK companies such as Capita and Xansa but also with the offshore companies. Indeed, in the last year it's gone from zero business with the Indian companies to having several deals on its books. For example, it's working with Wipro on Southern Water, with TCS on Pearl and with HCL on Dixons.

In addition, the acquired NDR business is going well, with revenue performance ahead of management expectations for the year. Furthermore, we sense that Phoenix is really quite ambitious about where it takes its BC capability next. It's now selling these services into its existing IT services partners (NDR's model has previously been around selling directly to the end user) and has grown the number of workplace seats on offer. Expect to see more developments in this space.

All in all, we think that growth in Phoenix's core business will be roughly the same in the coming year. However, we think it will be able to supplement this with higher growth business, such as business continuity. And of course, another acquisition is still a strong possibility. In the medium term, if it can develop more specialist areas and more partnerships this will lift growth in Phoenix's core business - and help to maintain those significant margins. Robinson for one is very confident that Phoenix will keep profits "stable".

(Kate Hanaghan)

Mergers & Acquisitions

Buyer	Seller	Seller Description	Acquiring	Price	Comment
Ascribe	**Jade Software Corp**	Privately owned New Zealand company	Jade Health, which provides health and social care software	The initial consideration comprises £1.5m in cash and £1.23m in shares.	This is the latest in a string of acquisitions for Ascribe, a UK software company best known for its medicine management software. Ascribe is already active in the Australasian market, where it claims to provide pharmacy software to four of Australia's jurisdictions and 20% of the New Zealand public hospital market. The acquisition of Jade Health strengthens its presence in the Australasian market and fits with the company's stated strategy of expanding its international customer base. As always, there are risks with a company of Ascribe's size stretching itself too far in international markets - it reported revenues of just £6.8m in the year to end of June 2005. However, Ascribe already has a presence in Australia and the appointment of a CEO for the region is a sign that it is taking the development of the business in the region seriously.
at UK plc	**Coding International Ltd**	Provider of coding services and developer of the National Supply Vocabulary used by a number of public bodies including the Inland Revenue	100%	£75k, one third in cash, another third in shares and the final third also in shares dependent on performance	The buyer said that coding was an increasingly important part of its public sector service offering. With just six employees, Coding broke even on turnover of £148k in the year to 30 September 2005. Spending on well-judged acquisitions can be an excellent way of increasing growth. The reason for this is that successful software companies can generate very good profits, and even quite small but well-positioned and managed companies can do this. But poorly judged acquisitions can be very damaging, and too many companies jump in without looking properly. It's therefore wise for @UK to start out with a small buy that is directly coupled to its existing business. @UK is a part of the 'Zanzibar' consortium for the office of Government Commerce, so there is potential upside if the pitfalls of the public sector can be avoided.
Calyx Group	**Matrix Communications**	Network support & solutions and content filtering and enabling products for mobile operators	Network support and solutions businesses only	£40.5m in cash and shares	This is a good deal for both sides. Matrix has done very well for itself, having spent two years buying and selling businesses in the lead up to this final disposal. On the face of it the company spent £16m in net cash over 2004 and 2005, selling up for £33.5m in cash to Calyx - that means they have doubled their money! And that still leaves it with a £2m stake in Calyx and the small but high potential Fujin operation, which itself is fending off high-value bids from larger players. Calyx will now become a c£60m support services player, and it has not overpaid, given Matrix's market capitalisation of around £36m. Both businesses also operate on a good margin (before depreciation and amortisation costs) and the combination of IT and network services should give Calyx a much more compelling proposition in both the UK and Ireland. However, Calyx may still face some internal challenges ahead. More than half of the company is now made up of businesses that have been bought and sold twice in two years, and in such situations employees can start to get restless. Cultural integration needs to be at the top of the agenda in the next few months.
Computer Software Group	**AIM Group Holdings Ltd**	Hull-based specialist in software for the legal and other professional services sectors	100%	£5.3m in cash	According to its 2005 accounts, AIM Group had revenues of £10m for the year to 30 April 2005 but a loss before tax of £1.03m. AIM Group has sold a profitable division, Reflex, between then and now, so the results for the year just closed would almost certainly show less revenue and a larger loss. The current MD, Jim Chase, will continue in post at AIM Group but all the other directors will depart. CS Group has a successful strategy of consolidating under-performing companies in the business sector, taking them on at the 'right' price and then imposing greater business discipline to turn around the company's performance.
Infor	**SSA Global**	Vendor of business applications software to the 'mid market'	100%	$19.50 per share	This is yet more consolidation in the business application market, and this time of two consolidators. With $1.6bn in annual revenue, Infor will be the third largest vendor in this market behind SAP and Oracle. It will have a sprawling diversity of products on three different architectures, .NET, Java and iSeries. Infor and SSA said that all their products are designed for 'micro-verticals', and are almost entirely complementary rather than competing. Infor/SSA's approach to product development and acquisition has been 'bottom up', offering specific products for specific micro-verticals. In contrast, most other business applications vendors are 'top down', first building a cross-market product set, then developing 'verticalised' versions for different sectors and sub-sectors, all based on the common code base. SAP is the prime example of a top-down approach. Done well, the top down approach gives far lower costs of developing and supporting products than with a 'bottom up' approach. Top-down is also enabling SAP and Oracle to build a flexible set of application components that can slot together in new ways.
Maxima Holdings	**QED Business Systems Limited**	Provides managed services for critical mainframe and mid-range computer systems and applications software	–	Maximum consideration of £4.8m	Maxima floated in November 2004 at 110p. It has since made five acquisitions (including QED) and seen its share price grow to 170p. The latest purchase provides a nice add-on to its existing applications business - not only increasing its scale, but also broadening its skills base. Furthermore, most of QED's £3.24m revenue comes from long-term applications management contracts - which is exactly the kind of revenue Maxima is looking for. Maxima's intention now is to leverage what will be an enlarged apps management division with a greater range of skills. Given that the acquisition comes right at the end of Maxima's financial year, it will be some months before we are able to quantify the impact of the purchase.
Montagu Private Equity Limited	**Misys**	Software and solutions	Misys' General Insurance Business	"Gross proceeds" from the sale were expected to be £182m in cash	We think that Misys has got a good price for the General Insurance business, and we hope that it now uses the proceeds wisely. There has been much talk of Misys buying iSoft. While we see the logic in this, we don't think anyone with sense should consider getting involved until the situation with the NHS contracts has been sorted out. But we return to our earlier advice to the Misys board: pat yourselves on the back for the price achieved for General Insurance, then swallow your pride and take whatever you can get for Sesame. Waiting will only make the price go down.
SQS Software Quality Systems AG	**Cresta Group Ltd**	Software testing and quality management	–	Maximum of £18m, of which £6m is paid up-front (half in cash, half in just over 1.4m new SQS shares	This will increase the proportion of SQS's revenues that come from the UK from 20% to 40%. The chief executive of Cresta, David Cottrell, will become CEO of SQS's merged UK operations, while the current head of SQS UK, Bob Bartlett, will become COO. Gaining a stronger footing in the UK looks an extremely canny move for SQS because software quality is a huge issue for the IT services industry here. Many large IT projects run into problems with software not doing what the customer wants it to do, in the private as well as the public sector (the fact that we hear rather less about the former doesn't mean these problems don't exist!). Greater use software quality processes will significantly help to address these problems, even those caused by requirements change or creep.
The Innovation Group	**Sureplan Australia**	Provides claims outsourcing and risk management services to the automotive leasing and self-insured fleet sectors	100%	A$7.75m (£3.1m). £2.7m in cash up-front, the remainder dependent on performance	TiG has been pretty active in M&A this year. This deal comes a few days after the £600k purchase of Prophit Share, and only a few months after the euro14m purchase of Germany's Servicekonzept AG. The company also made a £1m investment in January for a 25% stake in Conversant Limited, a specialist in anti-fraud technology. The timing of this latest deal makes it look like TiG is embarking on a big acquisition splurge. But CEO Hassan Sadiq assures us that this is not the case. Sureplan and TiG have been in discussions for almost two years now, and the timing of this deal is not reflective of a sudden change in acquisition policy, he says.
The Innovation Group	**Prophit Share Limited**	Cheltenham-based software company that specialises in developing business intelligence tools	100%	n/a	This is a small acquisition that sees Innovation expanding its toolset rather than boosting revenue. For example, Prophit's "claims leakage" tool should help improve operational effectiveness within TiG's rapidly growing outsourcing division, which provides insurance claims process outsourcing. We expect Prophit's developers will also help increase expertise in the software side of TiG's business. The price looks pretty good to us - considering that Prophit had already had £2m invested in it by Catylyst Fund Management in 2001. The company also has an impressive client list for its size, with names such as Vodafone, Zurich Financial Services, Standard Life, and More Than.

Recent IPOs

Name	Activity	Index Class	Market	Issue Price	Market Cap.	IPO Date	Price end May 06	Change since IPO
Atelis Plc	VoIP technology	SP	AIM	20p	£5m	09-May-06	19p	-5.0%
Inova Holding Plc	Embedded computing	SP	AIM	65p	£21m	19-May-06	62p	-5.4%

Forthcoming IPOs

Name	Activity	Index Class	Market	Est Issue Price	Est Mkt Cap.	IPO Date
Dillistone Group Plc	Recruitment software	SP	AIM	n/a	n/a	15-Jun-06
Proactis Holdings Plc	Procurement software	SP	AIM	n/a	n/a	01-Jun-06

UK software and IT services share prices and market capitalisation - May 2006

	SCS Cat.	Share Price 31-May-06	Capitalisation 31-May-06	Historic P/E	PSR Ratio Cap./Rev.	S/ITS Index 31-May-06	Share price move since 28-Apr-06	Share price % move in 2006	Capitalisation move since 28-Apr-06
@UK plc	SP	£0.64		-		971.45	7%	-3%	n/a
Alphameric	SP	£0.83	104.96	-	1.49	380.73	-9%	-7%	-£4.80m
Alterian	SP	£0.97	40.47	32.9	4.72	482.50	-22%	-27%	-£9.74m
Anite Group	CS	£0.67	230.97	17.8	1.31	388.89	-6%	-2%	-£17.45m
Ascribe	SP	£0.28	30.48	30.6	6.30	1,494.74	-10%	-19%	-£3.23m
Atlantic Global	SP	£0.18	4.44	-	2.20	622.71	-10%	-15%	-£0.26m
Autonomy Corporation	SP	£4.11	727.54	106.3	14.69	125.46	-9%	5%	-£78.07m
Aveva Group	SP	£11.84	259.33	22.2	3.90	5,920.00	1%	27%	£2.40m
Axon Group	CS	£3.24	187.62	29.0	2.06	1,852.86	-1%	19%	-£1.59m
Bond International	SP	£1.10	31.19	14.1	2.15	1,692.31	-7%	11%	£1.29m
Brady	SP	£0.27	7.10	-	2.55	327.16	10%	-16%	£0.90m
Business Systems	CS	£0.12	9.09	12.8	0.31	97.06	-4%	-32%	-£0.20m
Capita Group	CS	£4.56	2972.27	28.0	2.14	123,198.45	-2%	9%	-£102.77m
Centrom	CS	£0.03	4.38	-	0.78	500.00	9%	-33%	-£0.53m
Charteris	CS	£0.25	10.97	19.6	0.58	277.78	-4%	-31%	-£0.21m
Chelford Group	CS	£2.52	17.52	13.7	1.76	43,826.01	-14%	4%	-£3.35m
Civica	CS	£2.38	148.28	207.1	1.45	1,361.07	-3%	-4%	-£5.05m
Clarity Commerce	SP	£0.54	8.53	21.7	0.95	428.00	-20%	-30%	-£4.16m
Clinical Computing	SP	£0.07	2.21	-	1.17	60.24	22%	-25%	£0.27m
CODASciSys	CS	£4.94	125.52	20.0	1.87	3,825.58	-7%	19%	-£10.26m
Compel Group	CS	£0.77	26.63	41.3	0.44	616.00	-8%	-14%	-£1.13m
Computacenter	R	£2.20	417.70	20.2	0.22	327.99	-15%	-14%	-£75.77m
Computer Software Group	SP	£0.85	47.12	27.3	3.37	723.40	2%	27%	-£0.30m
Cornwell Management Consultants	CS	£0.59	10.83	9.6	0.94	425.13	-37%	-21%	-£5.81m
Corpora	SP	£0.08	7.79	-	17.95	202.63	-11%	-37%	-£1.17m
DCS Group	CS	£0.30	9.35	-	0.11	505.17	57%	182%	£3.40m
Dealogic	SP	£1.47	104.42	12.3	3.76	636.95	-10%	-1%	-£12.12m
Delcam	SP	£3.05	18.25	9.4	0.81	1,173.08	-4%	-8%	-£1.10m
Detica	CS	£12.52	279.86	39.0	4.11	3,130.00	-3%	4%	-£8.49m
Dicom Group	R	£2.18	188.65	33.0	1.09	668.30	-3%	5%	-£6.80m
Dimension Data	R	£0.42	566.59	28.4	0.85	73.71	-20%	4%	-£136.16m
DRS Data & Research	SP	£0.32	11.59	-	1.01	291.00	-17%	-15%	-£1.00m
Electronic Data Processing	SP	£0.58	14.66	34.3	1.95	1,776.18	-7%	-13%	£1.10m
FDM Group	A	£0.73	17.30	18.2	0.59	895.71	-13%	-13%	-£2.21m
Ffastfill	SP	£0.05	11.82	-	3.43	42.50	36%	32%	£2.72m
Financial Objects	CS	£0.48	21.56	-	1.42	206.96	6%	21%	£1.81m
Flomerics Group	SP	£0.96	14.33	15.5	0.02	3,692.31	-9%	10%	£14.11m
Focus Solutions Group	CS	£0.15	4.36	152.5	0.94	76.92	-15%	-29%	-£0.72m
GB Group	CS	£0.34	27.22	-	2.40	218.98	4%	0%	£0.22m
Gladstone	SP	£0.22	11.25	54.4	2.88	540.00	-10%	-8%	-£1.17m
Glotel	A	£0.80	31.39	16.6	0.37	415.58	-8%	-3%	-£2.17m
Gresham Computing	CS	£1.22	61.00	-	3.92	1,309.14	12%	50%	£6.17m
Group NBT	CS	£1.25	24.69	14.2	2.40	625.00	-10%	9%	-£2.34m
Harvey Nash Group	A	£0.60	38.77	10.8	0.02	342.86	-10%	35%	£34.35m
Highams Systems Services	A	£0.03	10.49	-	0.06	69.44	-5%	-20%	£9.65m
Horizon Technology	CS	£0.65	51.09	9.3	0.30	239.97	-6%	-22%	-£6.94m
IBS OPENSystems	CS	£1.73	69.60	-	4.54	1,134.43	-3%	8%	-£1.40m
I S Solutions	CS	£0.13	3.29	35.8	0.65	469.54	-13%	-7%	-£0.31m
ICM Computer Group	CS	£2.65	56.03	17.4	0.84	1,472.22	-15%	-21%	-£9.03m
IDOX	SP	£0.09	15.87	10.0	1.58	10.91	-29%	-40%	-£6.54m
In Technology	CS	£0.39	54.62	-	0.20	1,550.00	-2%	21%	-£1.12m
InterQuest Group	A	£0.48	12.80	7.2	0.59	834.78	-16%	12%	-£3.52m
Innovation Group	SP	£0.32	143.22	-	3.52	138.65	0%	6%	£7.42m
Intelligent Environments	SP	£0.04	7.02	-	1.92	43.09	12%	25%	£1.13m
Intercede Group	SP	£0.31	10.02	-	1.03	516.67	11%	-9%	£8.16m
Invu	SP	£0.23	24.15	16.8	12.35	2,382.08	5%	8%	-£14.74m
iSOFT Group	SP	£0.88	201.42	5.4	1.04	797.73	-25%	-77%	-£71.75m
iTrain	SP	£0.04	3.35	19.3	3.42	48.82	-13%	-23%	-£0.39m
K3 Business Technology	SP	£0.94	16.41	7.9	0.76	721.12	-3%	15%	-£0.30m
Kewill	SP	£0.68	54.39	22.3	2.36	1,348.81	-15%	-5%	-£8.63m
Knowledge Technology Solutions	SP	£0.01	1.84	-	2.08	250.00	-29%	-29%	-£0.76m
LogicaCMG	CS	£1.73	1980.48	23.9	1.12	2,365.78	-3%	-3%	-£72.32m
Lorien	A	£0.42	8.62	-	0.06	420.00	1%	6%	£0.90m
Macro 4	SP	£2.27	50.94	76.0	1.66	915.32	-8%	-13%	-£3.91m
Manpower Software	SP	£0.23	9.96	32.1	2.03	232.06	-4%	-22%	-£0.49m
Maxima Holdings	CS	£1.70	25.83	-	2.13	1,236.36	1%	10%	-£0.55m

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Mediasurface	SP	£0.14	10.24	-	2.00	1,015.44	-1%	18%	-£0.58m
Micro Focus	SP	£0.91	180.91	13.5	2.13	0.00	4%	-23%	£7.63m
Microgen	CS	£0.57	59.43	13.9	1.47	243.59	-3%	-22%	-£0.56m
Minorplanet Systems	SP	£0.42	11.97	-	0.68	847.46	-16%	-6%	-£2.90m
Misys	SP	£1.80	905.13	25.0	1.17	2,236.30	-14%	-25%	-£133.42m
Mondas	SP	£0.18	6.30	-	1.33	236.67	1%	37%	£0.18m
Morse	R	£0.75	112.50	-	0.40	298.00	-26%	-22%	-£42.46m
MSB International	A	£0.52	10.25	-	0.11	273.68	2%	44%	-£0.21m
NCC Group	CS	£2.55	82.00	41.2	4.62	1,526.95	-4%	10%	-£4.73m
Ncipher	SP	£2.10	58.73	14.7	3.76	840.00	-9%	1%	-£6.55m
Netcall	SP	£0.15	9.56	72.5	4.24	292.93	-6%	12%	-£0.67m
Netstore	CS	£0.36	45.27	24.8	2.31	240.00	-9%	-6%	-£4.21m
Nexus Management	CS	£0.01	3.48	-	2.79	345.45	15%	73%	£0.24m
Northgate Information Solutions	CS	£0.73	388.67	15.5	2.02	280.77	-6%	-15%	-£26.82m
NSB Retail Systems	SP	£0.29	105.39	7.0	2.57	2,521.74	-15%	-11%	-£19.20m
OneclickHR	SP	£0.03	4.46	-	0.97	71.25	-9%	-35%	-£0.19m
OPD Group (was PSD Group)	A	£2.75	82.96	22.5	1.82	1,250.00	-8%	10%	£3.61m
Parity	A	£0.53	20.04	-	0.00	8,833.30	0%	489%	£20.04m
Patsystems	SP	£0.15	23.96	-	1.56	140.19	2%	11%	-£0.09m
Phoenix IT	CS	£2.86	168.44	13.4	2.09	1,059.26	-8%	6%	-£15.89m
Pilat Media Global	SP	£0.58	29.31	16.6	2.12	2,875.00	10%	29%	£1.79m
Pixology	SP	£0.37	7.60	-	1.93	265.09	-15%	-33%	-£1.10m
Planit Holdings	SP	£0.23	20.61	16.1	0.77	967.08	-1%	-9%	-£0.92m
Portrait Software (was AIT)	CS	£0.19	15.54	6.7	0.89	123.11	29%	-29%	£2.80m
Prologic	CS	£0.73	7.70	-	1.23	882.53	-14%	19%	-£0.80m
QA	CS	£0.02	4.37	38.1	0.12	6.73	13%	100%	£0.57m
QinetiQ Group	CS	£1.71	1110.63	-		776.77	-15%	-22%	n/a
Qonnectis	CS	£0.02	3.05	-	55.74	501.33	-12%	-12%	-£0.29m
Quantica	A	£0.66	44.48	16.7	1.18	534.27	-5%	13%	-£1.48m
Red Squared	CS	£0.06	1.06	-	0.62	302.20	2%	-17%	-£0.47m
Retail Decisions	SP	£1.44	112.47	15.8	1.94	1,945.05	6%	8%	£6.43m
RM	SP	£1.77	161.13	76.7	0.69	5,042.86	-9%	12%	-£18.84m
Royalblue Group	SP	£7.08	231.37	22.4	3.97	4,164.71	-21%	-1%	-£63.07m
Sage Group	SP	£2.32	2988.72	20.4	4.16	89,134.62	-7%	-10%	-£242.20m
Sanderson Group	SP	£0.45	17.98	-	1.25	900.00	3%	-14%	-£0.21m
SDL	CS	£1.88	115.12	38.5	1.58	1,250.00	-7%	-13%	-£9.06m
ServicePower	SP	£0.25	18.93	-	3.16	250.50	-19%	-19%	-£6.17m
Sirius Financial	SP	£1.41	24.25	277.0	1.08	940.87	5%	-3%	£0.63m
SiRViS IT plc	CS	£0.03	3.28	8.9	1.28	23.91	-24%	-8%	-£0.86m
smartFOCUS plc	SP	£0.14	12.84	43.2	2.20	1,527.57	-18%	-6%	-£0.46m
Sopheon	SP	£0.19	27.59	-	6.28	273.38	-14%	-3%	-£1.68m
Spring Group	A	£0.40	64.06	13.8	0.15	444.44	-9%	-35%	-£6.37m
StatPro Group	SP	£0.80	31.83	17.6	2.67	1,005.50	1%	22%	£2.99m
SThree Group plc	A	£2.96	408.39	18.3	1.86	1,436.89	-9%	37%	-£42.77m
Stilo International	SP	£0.02	1.81	-	0.92	35.00	-18%	-33%	-£0.11m
Strategic Thought	CS	£2.23	56.60	-		1,645.76	-13%	65%	£56.60m
SurfControl (was JSB)	SP	£4.71	133.44	119.8	0.41	2,352.50	-14%	-10%	£111.80m
Systems Union	SP	£2.10	231.09	41.1	2.06	1,613.46	0%	60%	-£2.09m
Tadpole Technology	SP	£0.02	8.45	-	1.96	51.30	-11%	-41%	-£0.99m
Tikit Group	CS	£1.91	23.93	111.5	1.26	1,660.87	-5%	9%	-£1.46m
Torex Retail	SP	£0.86	309.98	-	2.04	2,143.75	-9%	-20%	-£30.66m
Total Systems	SP	£0.35		-	1.17	657.55	-9%	-13%	-£4.05m
Touchstone Group	SP	£1.47	17.08	-	1.18	1,395.24	-11%	8%	-£3.25m
Trace Group	SP	£0.96	14.42	16.4	1.03	768.00	-9%	1%	-£1.53m
Triad Group	CS	£0.23	3.71	31.0	0.11	172.59	-28%	-54%	-£1.21m
Ubiquity Software	SP	£0.27	51.16	-	8.01	678.39	-17%	-28%	-£8.61m
Ultima Networks	R	£0.01	1.79	6.3	1.21	21.22	-23%	-46%	-£0.52m
Ultrasis Group	SP	£0.02	27.04	-	18.13	36.73	-14%	-10%	-£0.79m
Universe Group	SP	£0.15	9.63	38.8	0.26	666.67	-13%	-21%	-£1.69m
Vega Group	CS	£2.08	41.83	23.6	0.84	1,703.28	-4%	2%	-£2.24m
VI group	SP	£0.10	4.10	-	0.37	200.00	5%	21%	£0.56m
Xansa	CS	£0.77	265.99	29.6	0.85	1,974.36	-17%	-14%	-£55.25m
XKO Group	SP	£1.02	27.65	-	0.87	676.67	-10%	0%	-£11.36m
Xpertise Group	CS	£0.53	2.85	-	0.21	2,106.00	1%	-36%	£0.10m

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

	Final - Nov 04	Final - Nov 05	Comparison
REV	£69,973,000	£73,493,000	+5.0%
PBT	-£59,487,000	£7,555,000	Loss to profit
EPS	-50.90p	5.10p	Loss to profit

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

	Interim - Oct 04	Final - Apr 05	Interim - Oct 05	Comparison
REV	£96,472,000	£189,403,000	£83,566,000	-13.4%
PBT	£9,539,000	£6,820,000	£10,066,000	+5.5%
EPS	1.90p	0.50p	2.60p	+36.8%

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

	Final - Dec 04	Final - Dec 05	Comparison
REV	£35,379,067	£54,834,272	+55.0%
PBT	£4,682,488	£7,210,588	+54.0%
EPS	0.03p	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

	Final - Dec 04	Final - Dec 05	Comparison
REV	£1,285,100,000	£1,435,500,000	+11.7%
PBT	£117,000,000	£153,100,000	+30.9%
EPS	11.21p	16.05p	+43.2%

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	£282,000	£1,367,000	+384.8%
EPS	3.72p	n/a	n/a

Civica plc

	Final - Sep 04	Final - Sep 05	Comparison
REV	£104,100,000	£106,028,000	+1.9%
PBT	£8,300,000	£2,501,000	-69.9%
EPS	11.50p	1.10p	-90.4%

Clarity Commerce plc

	Interim - Sep 04	Final - Mar 05	Interim - Sep 05	Comparison
REV	£8,236,000	£16,310,000	£8,415,000	+2.2%
PBT	£306,000	£513,000	£323,000	+5.6%
EPS	2.49p	2.36p	1.47p	-41.0%

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%

Comino Group plc

	Interim - Sept 04	Final - Mar 05	Interim - Sept 05	Comparison
REV	£12,229,000	£25,533,000	£13,061,000	+6.8%
PBT	£849,000	£2,297,000	£1,401,000	+65.0%
EPS	4.00p	11.10p	6.60p	+65.0%

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

	Interim - Aug 04	Final - Feb 05	Interim - Aug 05	Comparison
REV	£5,328,000	£14,072,000	£10,972,000	+105.9%
PBT	£86,000	£928,000	£955,000	+1010.5%
EPS	0.25p	3.19p	0.98p	+292.0%

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

	Interim - Jun 04	Final - Dec 04	Interim - Jun 05	Comparison
REV	£16,395,000	£33,446,080	£17,260,330	+5.3%
PBT	£4,879,000	£10,538,040	£6,112,500	+25.3%
EPS	2.14p	5.53p	4.18p	+95.3%

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

	Interim - Sept 04	Final - Mar 05	Interim - Sept 05	Comparison
REV	£32,311,000	£70,210	£43,466,000	+34.5%
PBT	£3,948,000	£9,049,000	£4,647,000	+17.7%
EPS	12.60p	28.10p	18.00p	+42.9%

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

	Final - Sep 04	Final - Sep 05	Comparison
REV	£8,319,000	£6,971,000	-16.2%
PBT	£1,032,000	£431,000	-58.2%
EPS	2.61p	1.01p	-61.3%

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

	Interim - Sep 04	Final - Mar 05	Interim - Sep 05	Comparison
REV	£1,921,000	£5,431,000	£2,731,000	+42.2%
PBT	-£809,000	£26,000	-£585,000	Loss both
EPS	-2.80p	0.10p	-2.00p	Loss both

GB Group plc

	Interim - Sep 04	Final - Mar 05	Interim - Sep 05	Comparison
REV	£5,232,000	£11,231,000	£5,939,000	+13.5%
PBT	-£20,000	£146,000	-£183,000	Loss both
EPS	0.00p	0.30p	-0.20p	Loss both

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

	Interim - Sept 04	Final - Mar 05	Interim - Sept 05	Comparison
REV	£58,141,000	£119,496,000	£68,718,000	+18.2%
PBT	£1,027,000	£2,571,000	£1,655,000	+61.1%
EPS	1.70p	4.70p	3.00p	+76.5%

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

	Interim - Sept 04	Final - Mar 05	Interim - Sept 05	Comparison
REV	£4,496,000	£13,512,000	£8,844,000	+96.7%
PBT	-£195,000	-£523,000	-£29,000	Loss both
EPS	-0.83p	-1.90p	-0.09p	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

	Final - Dec 04	Final - Dec 05	Comparison
REV	£17,099,000	£15,623,000	-8.6%
PBT	£4,904,000	£3,331,000	-32.1%
EPS	n/a	6.00p	n/a

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

	Final - Oct 04	Final - Oct 05	Comparison
REV	£9,555,000	£14,155,000	+48.1%
PBT	£89,000	£876,000	+884.3%
EPS	0.23p	0.85p	+269.6%

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

	Interim - Sept 04	Final - Mar 05	Interim - Sept 05	Comparison
REV	£132,420,000	£283,522,000	£131,779,000	-.5%
PBT	-£2,167,000	-£2,465,000	-£14,088,000	Loss both
EPS	-1.61p	-1.84p	-9.88p	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 04	Final - Mar 05	Comparison
REV	£1,605,000	£1,806,000	+12.5%
PBT	-£661,000	-£426,000	Loss both
EPS	-2.90p	-0.70p	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

	Interim - Sep 04	Final - Mar 05	Interim - Sep 05	Comparison
REV	£13,198,000	£26,680,000	£13,699,000	+3.8%
PBT	£1,011,000	£2,894,000	£1,339,000	+32.4%
EPS	1.60p	3.40p	1.50p	-6.3%

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	£1,038,016	£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

	Final - Dec 04	Finals - Dec 05	Comparison
REV	£42,444,000	£40,782,000	-3.9%
PBT	£1,118,000	£5,530,000	+394.6%
EPS	0.20p	4.10p	+1950.0%

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

	Interim - Nov 04	Final - May 05	Interim - Nov 05	Comparison
REV	£437,000,000	£888,400,000	£480,500,000	+10.0%
PBT	£40,200,000	£77,100,000	£34,400,000	-14.4%
EPS	6.80p	12.30p	5.60p	-17.6%

Mondas plc

	Interim - Oct 04	Final - Apr 05	Interim - Oct 05	Comparison
REV	£1,816,653	£4,592,675	£1,538,960	-15.3%
PBT	-£1,454,358	-£1,384,081	-£1,159,743	Loss both
EPS	-5.50p	-5.30p	-4.40p	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

	Interim - Nov 04	Final - May 05	Interim - Nov 05	Comparison
REV	£8,513,000	£18,786,000	£9,807,000	+15.2%
PBT	£2,312,000	£5,417,000	£2,606,000	+12.7%
EPS	3.30p	10.00p	5.30p	+60.6%

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

	Interim - Oct 04	Final - Apr 05	Interim - Oct 05	Comparison
REV	£96,816,000	£205,692,000	£162,664,000	+68.0%
PBT	£3,881,000	£3,889,000	£10,003,000	+157.7%
EPS	2.40p	0.79p	1.18p	-50.8%

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

	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

	Interim - Sept 04	Final - Mar 05	Interim - Sept 05	Comparison
REV	£8,017,000	£14,288,000	£4,827,000	-39.8%
PBT	£1,558,000	£1,433,000	£464,000	-70.2%
EPS	2.87p	2.49p	-0.77p	-126.8%

Prologic plc

	Interim - Sept 04	Final - Mar 05	Interim - Sept 05	Comparison
REV	£2,067,000	£6,928,000	£4,513,000	+118.3%
PBT	-£4,000	£1,433,000	£21,000	Loss to profit
EPS	-0.02p	2.76p	-0.10p	Loss both

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%

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

	Final - Sep 04	Final - Sep 05	Comparison
REV	£1,696,513	£2,455,915	+44.8%
PBT	-£466,614	-£290,700	Loss both
EPS	-2.32p	-1.05p	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	£162,000	£1,639,000	+911.7%
EPS	5.30p	4.50p	-15.1%

Sthree plc

	Final - Nov 04	Final - Nov 05	Comparison
REV	£242,413,000	£315,087,000	+30.0%
PBT	-£17,121,000	£12,152,000	Loss to profit
EPS	n/a	15.70p	n/a

Strategic Thought Group plc

	Interim - Sep 04	Final - Mar 05	Interim - Sep 05	Comparison
REV	£3,704,000	£9,250,000	£5,077,000	+37.1%
PBT	£513,000	£1,731,000	£901,000	+75.6%
EPS	1.70p	5.80p	3.40p	+100.0%

Stilo International Plc

	Interim - Jun 04	Final - Dec 04	Interim - Jun 05	Comparison
REV	£1,143,000	£2,076,000	£905,000	-20.8%
PBT	-£368,000	-£1,299,000	-£432,000	Loss both
EPS	-0.52p	-1.56p	-0.48p	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

	Interim - Sep 04	Final - Mar 05	Interim - Sep 05	Comparison
REV	£1,696,642	£3,451,633	£1,419,101	-16.4%
PBT	£136,878	£496,098	-£61,309	Profit to loss
EPS	1.03p	3.56p	-0.44p	Profit to loss

Touchstone Group plc

	Interim - Sep 04	Final - Mar 05	Interim - Sep 05	Comparison
REV	£7,749,000	£17,269,000	£9,757,000	+25.9%
PBT	-£196,000	-£82,000	£231,000	Loss to profit
EPS	-2.41p	-3.20p	0.62p	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 03	Final - Dec 04	Comparison
REV	£1,770,000	£1,906,000	+7.7%
PBT	£169,000	£313,000	+85.2%
EPS	0.09p	0.14p	+55.6%

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

	Interim - Oct 04	Final - Apr 05	Interim - Oct 05	Comparison
REV	£24,519,000	£52,602,000	£30,637,000	+25.0%
PBT	£1,638,000	£2,907,000	£1,963,000	+19.8%
EPS	5.83p	8.61p	6.24p	+7.0%

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

The skies are falling - May brings a downpour

Volatility was the main theme in May, with the FTSE100 recording its biggest fall in three years. By the end of the month the FTSE100 had fallen by 5%, leaving it up by only 1.9% on the start of the year. Our S/ITS index fell by 6.1% over the month, while the FTSE IT SCS fell 8.5%. Only the techMARK 100 managed to perform (slightly) better than the FTSE100, falling by 4.6%. The fact that the FTSE Small Cap fell by 5.6%, while the FTSE AIM index fell by 10.8%, implies that small and mid-cap companies suffered more on average than larger listed businesses.

It was resellers that took the biggest hit within the S/ITS index. The group fell 17.3% in the month, with Dimension Data, Ultima Networks and Morse all falling by more than 20%. Dicom fared the best, with only a 3% fall. The reseller category has had a poor year in general so far, and is usually the worst performer of all our categories. Nonetheless, the resellers are still 56% higher as a group than at the start of 2003 - its lowest point this decade.

31-May-06	S/ITS Index					4920.67
	FTSE IT (SCS) Index					502.34
	techMARK 100					1371.40
	FTSE 100					5723.80
	FTSE AIM					1121.62
SCSI Index =1000 on 15th April 1989	FTSE SmallCap					3423.69
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)	-6.06%	-4.97%	-4.55%	-8.54%	-10.78%	-5.60%
From 15th Apr 89	+392.07%	+178.72%				
From 1st Jan 90	+434.80%	+142.33%				
From 1st Jan 91	+595.14%	+164.94%				
From 1st Jan 92	+370.94%	+129.59%				
From 1st Jan 93	+208.78%	+101.08%				+146.78%
From 1st Jan 94	+194.72%	+67.44%				+83.21%
From 1st Jan 95	+228.22%	+86.72%				+96.04%
From 1st Jan 96	+117.87%	+55.15%	+73.76%		+17.64%	+76.34%
From 1st Jan 97	+83.78%	+38.98%	+49.93%		+14.91%	+56.83%
From 1st Jan 98	+62.13%	+11.46%	+43.75%	-49.77%	+13.07%	+48.00%
From 1st Jan 99	+24.84%	-2.70%	-5.81%	-65.26%	+39.92%	+65.32%
From 1st Jan 00	-57.10%	-17.41%	-63.71%	-86.49%	-41.97%	+10.52%
From 1st Jan 01	-41.23%	-8.01%	-46.54%	-74.23%	-21.99%	+7.55%
From 1st Jan 02	+2.55%	+9.71%	-6.88%	-40.50%	+24.93%	+32.74%
From 1st Jan 03	+81.39%	+45.26%	+111.38%	+47.65%	+86.04%	+88.05%
From 1st Jan 04	+5.22%	+27.85%	+35.11%	-0.25%	+34.26%	+38.33%
From 1st Jan 05	-0.10%	+18.89%	+14.63%	+3.41%	+11.52%	+24.13%
From 1st Jan 06	-3.10%	+1.87%	-4.21%	-11.65%	+7.22%	+3.58%

The computer services category fell by the smallest amount over the month (3.9%), but it still had its share of big declines, including the month's worst: Cornwell Management Consultants, which fell 37% to 59p thanks to a profit warning issued on the last day of May. Yet it was software companies that were the most prominent among the worst performers. Profit warnings from iSoft and IDOX pushed shares down by 25% to 88p, and 29% to 9p respectively. Meanwhile, 36% revenue growth and a move out of the red didn't stop business intelligence software vendor Alterian's shares from falling by 22% in the month. The reason? It hadn't grown enough in what is considered a very high growth segment of the market.

End May 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 May 06
IT Services (CS)	19.8%	-53.3%	-37.2%	13.1%	125.3%	17.4%	7.0%	1.7%	-3.9%
IT Staff Agencies	-74.0%	-77.4%	-63.9%	-34.9%	-2.1%	-35.8%	-18.8%	-1.3%	-6.6%
Resellers	60.6%	-22.6%	2.3%	13.9%	54.0%	-19.6%	-11.5%	-14.9%	-17.3%
Software Products	68.2%	-59.5%	-70.6%	-5.3%	56.8%	-3.4%	-0.7%	-4.9%	-6.6%
Holway S/ITS Index	24.9%	-57.1%	-41.2%	2.5%	81.4%	5.2%	-0.1%	-3.1%	-6.1%

Roughly one-third of companies that we cover under the S/ITS index registered share price growth over May, and only ten of those had double-digit growth (even fewer when you exclude the single-digit penny shares). Highlights are few, but include DCS Group - the best performer - up 57% to 30p on the back of an acquisition bid by US automobile dealership software company Reynolds & Reynolds. Portrait Software also grew, up by 29% to 19p, but this still leaves it down by 29% on the start of the year.

It is probably too early to call it, but it seems that - for the meantime - the UK stock market falls have bottomed out, after what was quite a bull run. But in truth the only real certainty is that volatility will remain for the next couple of months as investors find a new comfort zone. Clearly there is another interesting period to come. *(Samad Masood)*