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SYSTEMHOUSE

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

INDUSTRY TRENDS: SLOW BUT SURE WON'T WIN THIS RACE

UK S/ITS companies have boosted their profits and financial health through relentless cost cutting and company consolidation, as evidenced by rocketing M&A activity. But the lack of top line growth is failing to excite investors, with little movement in share prices or new equity investments. Companies must put renewed emphasis on top line revenue growth if investors are to be satisfied. In a marketplace that is forecast to offer little growth, that is going to be very difficult for most. It's a race where only the fittest and fastest runners will succeed.

There's some cause for cheer in our latest Industry Trends analysis. First of all, we found good progress on profits. The combined EBITA (earnings before interest, tax and amortisation) of UK-based S/ITS firms grew by 28% last year. That pushed the industry EBITA margin up to 6.0%, compared to 5.0% in 2003. The EBIT margin rose to 3.9%. So operating profits are at their highest level since 1999.

And the industry finally made it back into the black at the pre-tax level – albeit with a PBT margin of just 2.1%.

That these improvements were achieved on a pretty flat revenue base emphasises the role cost cutting and consolidation are playing in boosting the industry's financial health. Indeed, if we take out the effect of acquisitions, the companies covered in our analysis grew by just 2.8% in 2004. Add acquisitions back in and the figure rises to 6%.

Efforts rewarded?

So are these improvements in financial performance helping to boost the investment outlook for the sector? It's hard to find evidence that this is the case.

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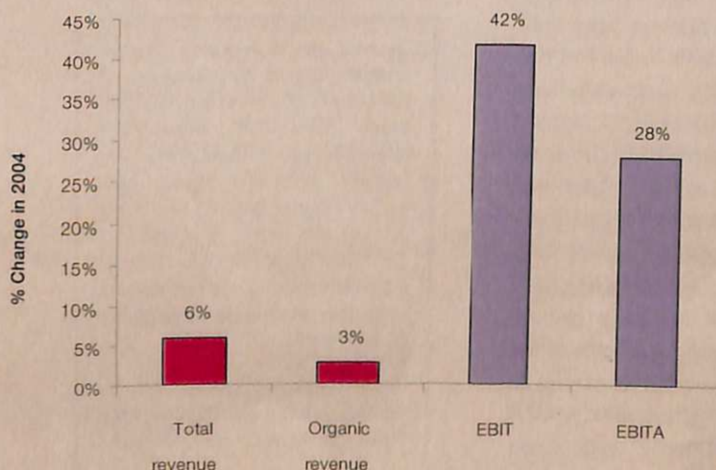
Profits on the up



Source: Ovum

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INDICES
(changes in September 2005)

Holway S/ITS	**-1.15%**	**5307**
FTSE IT (SCS)	**-1.90%**	**518**
techMARK 100	**+0.5%**	**1281**
Nasdaq Comp	**0%**	**2151**

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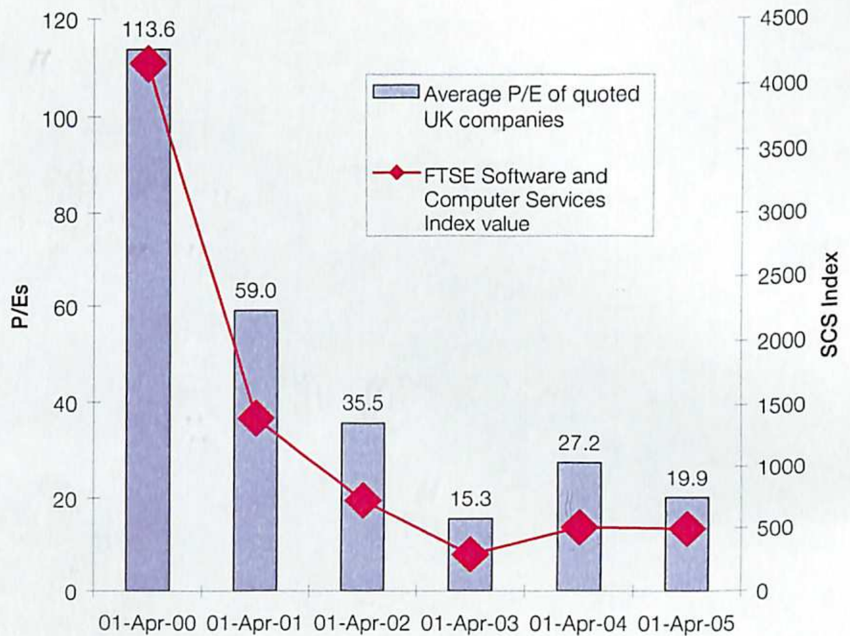
First of all, there's not exactly a flood of new capital coming into S/ITS. Data from Cobalt Corporate Finance shows a total of £214m invested in privately-held UK S/ITS companies in the first half of 2005 – that's down 18% on a year earlier. So it appears that the more stable financial footing of the S/ITS sector, and its ever-improving ability to generate profits, are failing to attract increased new investment.

As for the quoted sector, it looks on the face of it as though investors have seen a good return. In the 12 months to end August 2005, the Ovum S/ITS index, which covers 130 UK-based quoted companies, registered a gain of 14%. However, that's below the rise in the FTSE All-Share index, which grew by 21% over the same period.

While S/ITS share prices have shown only modest gains, price/earnings (P/E) valuations have actually fallen. We analyse average P/E ratios for the S/ITS sector on 1 April each year, as we believe this gives the most accurate picture of things. The average P/E in S/ITS went from 27 on 1 April 2004 to just under 20 a year later. Over the same period (as shown by the graphic), the FTSE Software and Computer Services index was flat. In other words, as earnings have risen, investors have in fact discounted P/Es, suggesting that they do not have much confidence in S/ITS companies' ability to sustain their profit growth.

The missing link: growth

This lukewarm response by investors to improved profits underlines an inescapable fact: sound financials are desirable but, fundamentally, investors are also looking for top line growth.



Source: Thompson Datastream and FTSE

Despite so much focus on financial management in the S/ITS industry over the past three years, that's not so surprising. After all, it's very hard to raise profits in the longer term if you're not expanding the business.

The great challenge is that the S/ITS sector is set on a "mature" growth path. Ovum's forecasts put the growth of the UK market in the 4-6% range for the foreseeable future.

Consolidation accelerates

The impact of the mature market on M&A leaps out at us too. Data provided by Regent Associates shows that Europe saw 573 S/ITS acquisitions in the first half of 2005 - that's almost as many as in the whole of 2003. Faced with a "single-digit" future, firms are buying to stimulate growth in the top and bottom lines. Such activity - when combined with sound financial management – can help get investors excited about the company. Some of the best-performing S/ITS stocks in the sector over the past year – notably Autonomy and Torex Retail – help to bear this out.

The truth is that being a S/ITS company no longer makes you a growth stock. And, whether public or privately-held, if you're not a growth stock, you're not going to fire up investors (not to mention your own staff!). The message is clear: companies should view their financial health as a platform for growth – be it organic, inorganic or both – rather than as a goal in its own right. Slow but sure is unlikely to win the race for investors' favour. In today's environment, fast but sure is a much more attractive, and difficult, formula. *(Phil Codling)*

Ovum's latest Industry Trends analysis covers the fortunes of UK-based S/ITS companies (i.e. those HQ'd here, rather than overseas) in three individual reports: *Financial Health* and *Industry Dynamics*, both of which appear this week, and *Investor Sentiment*, which will appear later this month). These reports can be accessed online by subscribers to the *Holway@Ovum* service. For more details, please contact *Holway@Ovum* Service Manager, Phil Codling, on 01252 740910.

Holway Comment

Richard Holway

IFRS – more scope for confusion

The major part of being an analyst is all about making comparisons – between markets, geographies, companies. When it comes to company analysis, the major task is ensuring that you compare like-with-like. The major problem is then determining a common base on which to base those comparisons.

There are still many SYSTEMHOUSE readers around who will remember my campaign about 10 years ago to outlaw the capitalisation of development expenditure. In 1995, many quoted UK software companies artificially inflated their reported profits by putting this expenditure on the balance sheet. It made any meaningful comparison of performance almost impossible. QSP and Coda were in the same market. QSP reported profits for years merely because they capitalised development costs. At the headline level QSP looked healthy compared with Coda (which expensed such costs as incurred) Only after repeated badgering (from me) did QSP finally divulge how much they were capitalising, which showed (as I had expected) that they had been loss-making for years. Soon afterwards they went into receivership. Fortunately, very few software companies now capitalise development.

The same kind of problem has existed over the amortisation of goodwill resulting from acquisitions. Some, like Sage, did not amortise at all. Others chose 3, 5 or 20 year straight-line writeoffs. As this is often such a big figure, analysts therefore chose to ignore it leading to the infamous EBITDAE often referred to as "earnings before all the bad bits".

Although I have views about what I think is right and wrong in these and other issues, my strongest view is reserved for having just one standard way of doing things – mainly so that my life as an analyst is simplified and I can make straightforward comparisons between companies. And, by the way, if analysts have difficulty doing this, what hope do normal investors have?

So, I naively hoped that the introduction of IFRS would make a major step towards a common standard.

Oh, how naïve, how wrong, can I be?

Audit committees

As a non executive director I now sit on several audit committees and have just been through my first experience of reporting interim results under IFRS.

I am now convinced that, rather than providing a base for standard comparison, IFRS has introduced greater confusion and far more areas for companies to manipulate their results. The companies themselves have suffered by the increased workload, investors and analysts are more confused than ever and the only people to gain are the accounting firms which have been raking in record profits from IFRS related work.

Let me give you a few examples:

R&D: IFRS requires that, if certain criteria are met, R&D expenditure MUST be capitalised and amortised over its useful life. But the rules are capable of wide interpretation. For example, you can only capitalise R&D costs if the technical feasibility of the development is proven. So when is that? And who is going to "prove" that feasibility?

So, in this reporting round, we have already seen some companies returning to the old, bad habits and capitalising R&D. We are very pleased to see that others have decided that "technical feasibility" is only proven when the R&D is complete and the product is in live operation with the customer – ie when all the development costs have been expensed anyway! By the way, this is an approach that we are pleased to see Microsoft has taken.

So, rather than creating a standardised approach, IFRS has created more scope for confusion. We fear that, as a result, we might be reporting on more QSPs in the year to come.

Business combinations: The situation gets worse. Let's say you acquire a software company – a pretty common occurrence nowadays! You then have to separately value its various identifiable assets. So, you would have put a value on the software they had developed and capitalise

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that. Potentially making the problem of capitalised R&D described above even worse!

But you also have to value (and then capitalise) such things as customer lists, the value of brands etc. So, if Ovum had bought Holway this year, they would have had to put a value on you, our subscribers, and then on the "Holway" brand. If anyone says that these can be valued in any scientific way, they are clearly living in cloud cuckoo land. PwC have a whole team now working on the abstract area of brand valuation...they are doing very well out of it too!

The difference between all these intangible assets acquired on an acquisition and the price you have paid, is goodwill....

Goodwill: Under IFRS companies must reverse previous goodwill amortisation and, rather than an annual amortisation, must undertake an annual impairment review. As we saw in the period after the dot.com crash of 2000, impairment reviews are a pretty subjective issue! We often reported on companies, even after impairment, carrying goodwill for previous acquisitions which far exceeded the market value of the whole company. Other than creating extra fees for accountants, do I believe that annual impairment reviews will provide a better comparison method? No. I think almost every analyst will continue to ignore goodwill.

Holiday pay: Looking through the new interim statements under IFRS, there is one common entry. All companies have reported the accrued value of holiday pay. As you know, staff tend to take holidays in July and August, so at the half year there is a disproportionate amount of holidays untaken. So a charge to the P&L account is made for the half year.

Of course this is reversed at the full year, when all the holidays have been taken.

It may sound trivial, but when you look at the amount of work that goes into calculating this and reporting it in the thousands of companies involved, the costs are far from trivial. And has it helped you better compare performance between companies? I think not.

Of course, there are many other changes under IFRS. Not least recognising the costs of share-based employee payments. But I won't bore you with the intricacies of the "Black Scholes" and "Monte Carlo" pricing models in this article.

Whilst the accountants get rich

But, yet again, the only real beneficiary of these changes seems to be the accountants. One of the companies in which I am involved was charged £60,000 for preparing interims under IFRS for the first time.

PwC have just reported a 12% increase in UK revenues to £1.7bn and an increase of 17% in profits per partner to an average of £620,000 each. PwC reckon that IFRS has boosted their revenues by £100m. I am sure that results from Deloitte, Ernst and Young and KPMG will show similar excesses.

And all for what?

So far it seems that analysts are finding it all so complex and confusing that they are ignoring the effects of IFRS in their reporting.

I rest my case.

Footnote

As the measurement of profits becomes more and more subjective, there is one measure that is FACT. That's cash. Maybe we will, at long last, see analysts pay more attention to reporting on cash generation and how this correlates to profits.

But a reversion to cash double-entry book keeping would be far too simple. Just think of all the fees the auditors would lose.

(Richard Holway)

COMPUTACENTER SEES REVENUES AND MARGINS SLIDE IN H1 2005

Computacenter unveiled a disappointing set of H1 figures, emphasising the importance of growing its services business as the traditional technology business continues to decline.

Computacenter Six months to 30 June 2005	H1 2005 £m	H1 2004 £m	Change
Technology sourcing	893.8	998.8	-10.5%
Infrastructure integration	52.8	58.7	-10.0%
Managed services	205.0	197.4	3.8%
TOTAL REVENUE	1151.6	1254.9	-8.2%
Discontinued operation		26.0	
CONTINUING REVENUE	1151.6	1228.9	-6.3%

For the six months to 30 June 2005, revenues excluding discontinued operations declined 6.3% (from H1 2004) to £1.15bn. Operating profit plunged 82% to £5.4m, and PBT fell 73% to £8.2m. Operating margins were slashed to 0.5% (versus 2.4% in H1 2004) and net margins were 0.2% (versus 1.6% in H1 2004). Diluted EPS was just 1.2p (versus 10.5p). Cash flow was a better story, with net operating cash flow up at 5% of revenues (versus 2% in H1 2004).

The UK saw revenues down 6% at £716m and operating margin almost halved to 2.1% (from 3.9% in H1 2004). Managed services (essentially desktop-oriented support and maintenance) grew 1.3%. The company blamed falling product-distribution sales and margins for the UK's decline, adding "a fundamental re-engineering of our technology sourcing business is now underway".

To emphasise its focus on services, Computacenter is separating the UK product-reselling and services business organisationally, and plans to report their results separately at year-end. It has re-organised the UK sales force, revamping its commission system, and has created a series of solution-focused business units to target customers better. To hit mid-market customers, it has established a telesales business.

Germany saw revenues down 4% (in sterling terms) at £300m, with operating margins plunging from 6% in H1 2004 to -3.6%. Again, services were the bright spot, growing 6.5%. Computacenter blamed difficult economic conditions, adding that the fruits of its reorganisation earlier this year will not be fully felt until 2006. France saw revenues fall 14% and operating margins down from -1.4% to -6.3%. Belgium and Luxembourg saw a similar revenue fall to £9.8m, with margins turning negative (from 0.6% to -1.1%).

In segment terms, the traditional technology sourcing business (78% of group revenues in H1) saw revenues fall 10.5% to £894m. But infrastructure integration services also fell, by 10%, to £53m. Only the managed services business managed a rise (up 3.8%) to reach £205m, but was down 3% on the preceding six months.

Computacenter understandably described H1 as *"challenging"*, blaming the overall declines in revenues and margins on the woes of the product-reselling business, especially in the UK. It expects the UK product distribution business to face *"intense price competition"* for the *"foreseeable future"*, as vendors increasingly sell direct and offer ever-lower discounts to distributors and resellers.

Looking forward, Computacenter said that trading in July and August had been *"subdued"*, particularly in the UK, but that it expects profitability to improve in H2.

Comment: Back in March, we congratulated Computacenter on keeping margins and revenues essentially flat in a market that saw product prices decline by 12% to 15% during 2004. *"This is a company doing a good job in a bad market"*, we said. Things are clearly worse now, and growth of the managed services business is simply not enough to make up for the terrible market conditions in product reselling. Furthermore, with growth of just 1.3%, we reckon Computacenter's UK managed services business is losing market share.

The separation of the UK services and products business is interesting – is this the precursor to a full split? In March we commented *"the big question is whether the reselling business adds anything to the services business, or whether it should be separately owned"*.

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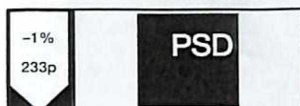
Computacenter must be asking itself the same question. We think that product reselling adds very little, if anything at all, and is clearly causing major problems at Computacenter.

We see life as a reseller getting harder, not easier. Computacenter has a £205m managed services business that's growing, but not fast enough. This business needs all the management focus it can get, which is why its organisational separation looks a good idea. Meanwhile, Computacenter has to find ways to manage the long-term decline of the reselling business. *(Douglas Hayward and Heather Brice)*



PSD AND HAYS BUCK THE TREND

During the month the FT carried details of a survey by e-skills UK (the industry body for IT, telecoms and contact centre employers), which confirms what we all suspect – demand for IT staff has stalled. Following five quarters of growth, demand fell in Q1 05.

e-skills believes the falling demand primarily effected permanent staff, and points to an increase in the unemployment rate for the sector, which rose for the first time since mid 2003. It also observed a 5% fall in the number of advertisements for IT staff in Q1, the first decline for 18 months. In contrast, Q1 saw a 1% decline in demand for IT contractors, according to e-skills.

Meanwhile, we witnessed two, very different, listed recruitment businesses reporting their results. PSD Group, an international recruitment service firm with a significant technology practice, announced its interims, and staffing goliath Hays reported its annual results.

PSD reported a *"recovery of the technology business"*, during the six months to 30 June 2005, with a 21% increase in net fee income (i.e. the amount generated after pass through revenue paid to contractors) to £4.7m. Within the UK, the technology practice delivered a 14% increase in NFI, so the growth was clearly not limited to overseas activities.

PSD Group plc Six months to 30 June 2005	H1 2005 £m	H1 2004 £m	Change
Turnover	27.0	20.4	32.3%
Net fee income	15.5	12.1	28.3%
Technology net fee income	4.7	3.9	20.6%
of which UK	2.9	2.6	14.1%
non-UK	1.8	1.3	33.1%

Total NFI across all sectors was up 28% to £15.5m, and revenue was up 32% to £27.0m resulting in a significant improvement at the bottom line as PBT rose 46% to £2.3m. Diluted EPS increased from 3.7p to 6.6p.

Comparing the numbers to the prior six months, there is also good growth in the technology practice (though not as stellar), with UK NFI up 7%, and worldwide up 6%.

Meanwhile FTSE100 constituent Hays has reported its full year results for the twelve months to 30 June 2005, saying, *"the business today is bigger, stronger, more profitable and cash generative than it has ever been before"*. Leaving aside the divested operations, top line revenue from recruitment activities was up 18% to £1,640.4m, and NFI up 16% to £470.6m. Drilling down Hays' IT recruitment division generated net fee growth of 25% to £29.3m. Hays comments that they experienced *"very strong growth from the permanent recruitment business and double-digit growth in contractor numbers"*.

Contrast these upbeat statements, with recent warnings of weakened market conditions from one of the UK's leading ITSAs, Spring. It warned the market in June, and again in July, that it was experiencing a downturn in contractor numbers and the anticipated improvement in its permanent recruitment division had not occurred. Spring advised that revenues for the six months to June 2005, due to be reported in the next few weeks, will show a small decrease.

So what's going on? Both PSD and Hays' results seem to fly in the face of the general market trend. Perhaps the explanation lies in their respective focus. PSD has a particularly strong presence in the permanent IT staffing arena, and has done for many years, so we would expect them to see off less focused, one-size-fits-all rivals. On the other hand, Hays has scale, and a ruthlessly efficient back office – essential for squeezing profits out of those lower margin, higher volume accounts. Within the sector it is often 'accused' of

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Hays plc FYE: 30 June 2005	2005 £m	2004 £m	Change
Turnover from continuing ops	1640.4	1388.8	18.1%
Net fee income	470.6	404.7	16.3%
Technology net fee income	29.3	23.4	25.2%

driving margins ever lower, sacrificing margin for turnover. But its time to wake up! If this is the case, then other ITSAs need to accept that this is the shape of the competitive landscape, and it's the way things will stay. Clearly Hays can afford to out-bid other ITSAs to secure the volume deals, because at the group level it continues to improve profits, and margins. With an international footprint that delivers around a quarter of revenues, and a presence in many verticals, its breadth means that the fortunes in the UK IT staffing sector is hardly likely to rock the boat.

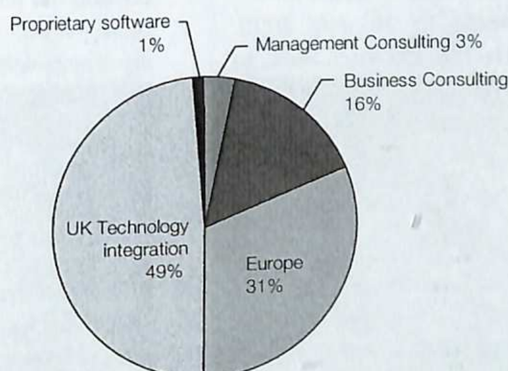
As we have advised before, to succeed in today's ITSA market, you need to be very focused, or very large. Players that are neither will be relentlessly squeezed.

(Heather Brice)

MORSE REPORTS STRONG SERVICES GROWTH IN FY05

Morse, the self-styled *"technology integrator"*, has increased revenue for the year to end June 2005 by 10% to £429.5m. Revenue from continuing operations was roughly flat at £385.8m. During the year, Morse made its biggest ever acquisition when it bought Diagonal for a net consideration of £38.9m. Diagonal contributed £44.2m in revenue and returned to growth with an increase in annualised turnover of 13%.

Morse FY 05 Revenue by activity
Total continuing revenue = £385.8m



Operating profit from continuing operations – including £2.8m from Diagonal – improved from £7.4m to £10.7m, with total margin improving to 2.4% from 1.9%. Pre-tax losses deepened from £12.4m to £18.3m, mirroring an increase in goodwill to £23.2m.

During the year, Morse disposed of its French operation which was heavily weighted towards infrastructure sales, to Opengate Capital UK (Holdings) Limited for an initial consideration of euro 1 (a further euro 1.0m is payable in cash depending on the business achieving certain financial targets).

Comment: Value-added reselling is dead. This was a bold statement from Duncan McIntyre, Chief Executive of Morse, at the company's FY 05 results presentation. All the more bold, given that Morse's own heritage is as a VAR, and in the year to end of June 2005, the company derived over half of revenues from technology supply!

However, the business is in the process of changing its focus – Morse is transforming itself from a pure reseller to a consulting, technology and support company. It will be a difficult journey, but Morse has made some good progress in 2005 – a year which McIntyre described as *"pivotal"*.

Services revenues rose 52% during the year to £190.0m, 16% organically, taking the contribution close to half of total turnover. Morse's long term strategic aim is to generate upwards of 70% of gross profits from services, and in FY 05, the proportion was 52% (57% if we exclude France, which has been sold off since the year end).

Morse's European business (which comprises Germany & Austria, Spain and Ireland) is now in better shape. Germany delivered c9% growth to £76.6m, largely thanks to the acquisition during FY04 of Techsol, and returned to operating profit. The challenge here is that

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services account for only a third, so Morse is actively looking to develop its management and business consultancy capabilities. Spain grew by 13% to £26.2m, but operating profit remained static at £1.6m as Morse invested in its services portfolio and support structure. Meanwhile Ireland *"performed strongly"*, and Morse reports that market conditions remain good.

The challenge for Morse (as with all other resellers aspiring to become a services-oriented business) is to grow the contribution from consulting and support quickly enough to offset the inevitable decline in the technology-supply side of the business. McIntyre said that they are no longer interested in fulfilment revenue for fulfilment revenue sake, anticipating a run rate of c£160m pa from technology supply (compared to £188m in FY 05), as they deliberately exit those accounts where they are unable to up sell. This is a sensible thing to do, but it does mean that maintaining overall revenue growth in the years ahead will be very difficult, without further acquisitions – and we think that investors will be looking for revenue and profits growth from S/ITS companies.

(Heather Brice)

DRS' INTERIMS REQUIRE CLOSER EXAMINATION

DRS Data & Research Services, supplier of products and services for marking examination papers, and counting election papers, has announced interim results for the six months to 15 July 2005. Revenue has declined 35% to £6.3m, and a PBT of £0.8m is now a loss before tax of £0.2m. Diluted EPS, previously 2.36p, is now – 0.68p.

Comment: At first glance, DRS' results look somewhat alarming. However, there were no nasty surprises here, and this is very much a company in transition. The drop in revenue reflects that fact that its 2004 results were dominated by the London Mayor, Assembly and European Parliamentary election project, which contributed c£4.0m in the year as a whole. In addition, although DRS gained some work as a result of the General Election earlier this year, it failed to secure any *"significant"* election work, essentially because the use of electronic counting or voting was not permitted.

Looking at the results in more detail, whilst total turnover fell significantly with revenue from print and scanning equipment both suffering, the contribution from software and services remained pretty much unchanged.

As expected, the bottom line took a battering as the company invested in its e-Marker products and services (which make the marking of examination papers more efficient). DRS also notes that the product still requires substantial investment in the short term. However, e-Marker holds a lot of promise for DRS. Three major awarding bodies in England, Wales and Ireland have used the technology to assist with marking papers, and longer term the take up of e-Marker will lead to greater levels of recurring contracted revenues. This has to be good news, as for the time being DRS remains very exposed to fluctuations in revenues (and profits) inevitably associated with the timing of one-off contracts.

(Heather Brice)

DRS Data & Research Services Six months to 15 July 2005	H1 2005 £m	H1 2004 £m	Change
Software and services	2.2	2.2	0.5%
Print	1.9	3.5	-46.8%
Scanning equipment	2.2	4.0	-44.5%
TOTAL	6.3	9.7	-35.0%

16%
186p

SDL'S H1 05 PERFORMANCE TRANSLATES INTO RECORD SALES AND OPERATING PROFITS

SDL, provider of multilingual enterprise software for content management, has announced interim results for the six months to 30 June 2005. Revenue is up 11% to £34.1m, operating profit has increased 86% to £3.0m and PBT has increased 91% to £3.1m. Cash flow also improved, with a 74% increase in cash flow from operating activities. Diluted EPS, previously 1.97p, is now 3.09p.

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Commenting on the outlook, Chairman and CEO Mark Lancaster said, *"We are continuing to see the benefits of our long-term investments in both local geographic infrastructure and software solutions, which we anticipate will maintain the trend of strong revenue growth and increased profit contribution"*.

Comment: After reporting pretty much flat revenues for FY04, its good to see SDL firmly back in growth mode. The 11% top line growth is all organic, and even more impressive is the uplift in profits (and margins).

SDL is clearly benefiting from the need for all companies, not just its technology-oriented customers, to grow their global revenues in order to produce top line growth. So whilst the company can point to new sales wins with organisations such as Sony and Texas Instruments during the period, it also picked up orders from Hasbro and Regus.

Following its acquisition of TRADOS, its US rival, in July 05, SDL has further consolidated its grip on this niche market. The next few months will be crucial, as SDL must maintain its momentum whilst integrating TRADOS (both in terms of the product suite and sales and marketing operations). The company also intends to keep an eye out for further acquisition targets that provide *"geographical leverage and potential technology in – fills"*.

With a clutch of new customer wins, and early adoption of its new authoring software, the year as a whole is shaping up well for SDL. Providing technology that offers customers real competitive advantage, by speeding up time to market of new products and services in new geographical markets, will continue to strike a chord with many organisations.
(Heather Brice)

NETSTORE TURNS IN A PROFIT IN FY05

Netstore, the AIM-listed provider of outsourced applications management, has turned in a profit in FY 05. Announcing its results for the year to 30 June 2005, Netstore revealed turnover up 3.5% to £21.4m, with revenue from continuing operations up 7.0% to £20.5m. Operating profit, pre goodwill amortisation, was £813K, compared to a loss of £8K in FY 04, and PBT was £653K, compared to a LBT of £678K. Diluted EPS is 1.43p (FY 04 LPS: 0.14p).

Netstore FYE: 30 June 2005	2005	2004	Change
Turnover	21.4	20.7	3.5%
Gross profit	10.3	10.4	-0.9%
Gross profit margin	48.0%	50.1%	
Operating profit	0.8	0.0	Loss to profit
Operating profit margin	3.8%	n/a	

The company also announced a maiden final dividend of 0.26p.

Commenting on the results Neil Lloyd, CEO, said: *"We continue to meet our expectations and (that) we have made substantial strategic progress with our acquisitions: adding scale, adding capability and adding customers in our target markets.we have reason to look forward with confidence"*.

Comment: Netstore really has made progress in FY 05, both in terms of strategy and financial performance. With regard to strategy, Netstore provides outsourced applications management on a shared platform basis, for mid-market organisations. Target markets are finance, banking and insurance, the public sector (excluding central government) and telecoms.

During the course of the year the company has focused on adding scale and complementary services. The acquisition of Cassium Technologies in May 2005 added business and technology consultancy skills (specifically Microsoft based managed services), in addition to bringing new customers in the finance arena. Since the year end Netstore has acquired System Software Services (SSS), an IT-security company operating primarily in the public sector (in particular with local authorities, police and NHS Trusts). The combined turnover of these two companies in their most recent financial years was £11.7m – which represents a big step up for Netstore.

Turning to the financials, we are pleased to see that Netstore has got its house in order, with cash flow from operations now positive –

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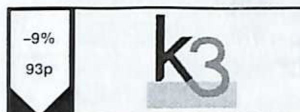
£2.4m compared to an cashflow of £1.3m last year. The value of business secured during the year was up 59%, with new sales up 34%, and Netstore reports a strong start to the year with the sales pipeline at *"record levels"* and sales orders ahead of target.

We agree with Lloyd that they have reason to be confident. Netstore is emerging as an astute consolidator in the fragmented mid-market. And by virtue of what they do, they enjoy high levels of recurring revenues - c70% in FY 05. The challenge facing the company in the year ahead is to continue generating organic growth, whilst keeping a close eye on margins. *(Heather Brice)*



ACQUISITIVE K3 ANNOUNCES H1 05 RESULTS

K3 Business Technology Group, the AIM-listed provider of Microsoft-based solutions to the retail, distribution and manufacturing sectors, has announced results for the six months to 30 June 2005. The numbers are somewhat complicated by the fact that K3 made two acquisitions and a disposal in the last financial year, and a further acquisition in Q2 05, but in summary: total revenue is up 235% to £9.3m, with continuing operations up 282% to £9.1m. Operating profit pre goodwill amortisation improved significantly from £0.1m to £0.9m, however PBT was lower at £0.07m (compared to £1.2m) as H104 was boosted by a £1.3m profit on disposal. Tax on profits in the period led to a loss per share of 1.1p, compared to an EPS of 9.0p.

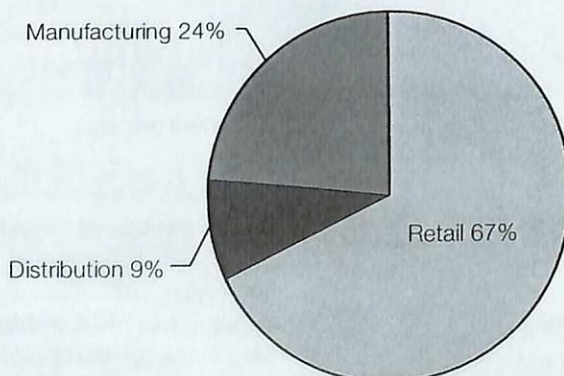
Commenting on the outlook, Chairman George Matthews said *"We are particularly encouraged by the performance of our retail and manufacturing divisions and view prospects for the group overall with optimism"*.

Comment: Following its programme of acquisitions and disposals, K3 now comprises three distinct divisions.

- Retail, currently the largest division with turnover of £6.3m, is primarily based on the acquisition of K3 Landsteinar in October 2004. K3 was *"delighted"* with its performance, pointing to seven new contract wins worth £6.7m, and *"significant growth"* in consultancy services on the back of a contract with Carpetright.
- Distribution (which includes Euclid, acquired April 2004) experienced a slower than expected order intake in H1, resulting in revenues of £0.8m. Profitability was also depressed by investment in upgrading the warehouse management software. However, K3 picked up some new business, and is encouraged by the sales pipeline.
- Meanwhile manufacturing delivered revenues marginally ahead of 2004 levels, at £1.9m. The existing manufacturing software operation "turned in another good performance" and improved profitability, and the addition of IEG (in June) made a small contribution. Going forward, K3 sees *"tremendous scope"* for cost savings and for cross-selling IEG's complementary software.

K3's transformation over the past year has better positioned it for growth. We expect manufacturing to continue to be a tough sector in which to make a living, and the distribution division is still very much a minnow. But K3 is building up momentum, and scale, in servicing the mid-market, especially in retail. *(Heather Brice)*

K3 Business Technology Group
Revenue by division H1 05
Total revenue = £9.3m



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PARITY

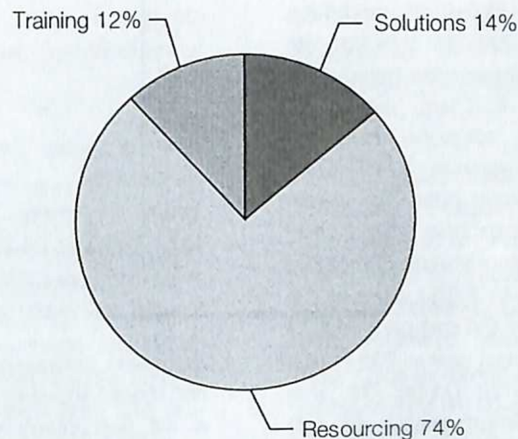
PARITY IN H1: REBALANCE, REALISM, RECOVERY *UPDATE*

Parity, the IT staffing and solutions company, has released its results for the six months ended 30 June 2005. Revenue has grown by 7% to £88.8m, but the company has reversed last year's first half operating profit of £903k, reporting a £985k operating loss. Loss before tax has come in at £1.9m, compared to a £203k profit last year. Diluted loss per share was 0.64p compared to a profit of 0.05p last year.

Comment: The venue for Parity's H1 analyst meeting set the tone for an update from management where the theme was operational realism. As part of its recovery strategy, Parity has made significant strides to sub-let or re-use empty properties. We met with the new Executive chairman, John Hughes and the new Head of Finance, Ed Watkinson, at what was previously an unused property but is now the company's HQ.

For Parity, the past months have all been about cost reductions and it's clear Hughes has made his mark in this respect. Property, we've mentioned, but other activities include: reducing capex to an absolute minimum, terminating a large contract with its desktop and network support provider, reducing the cost base of the training business and centralising finance and HR functions.

Parity revenue split H1 2005
Total revenue = £88.79m



UK resourcing - revenue increase, margin decline

The resourcing business grew 26% in the last full year and 14% in the last six months. In the UK, the business grew 17.8%. Parity says that growth came primarily through its public sector business, while the corporate market showed "modest" growth. But revenue is only half the story. The problem for Parity is that much of its resourcing business is driven by lower-margin preferred supplier arrangements. Parity has now taken steps to build a spot business (which is higher margin business) from literally nothing. This business will take a while to create, so the benefits may take some time to filter through. In parallel, Parity needs to find opportunities to provide more value-added services in order to differentiate itself from competitors and boost margin.

Solutions (SI and consulting) - revenue flat, margin slumps

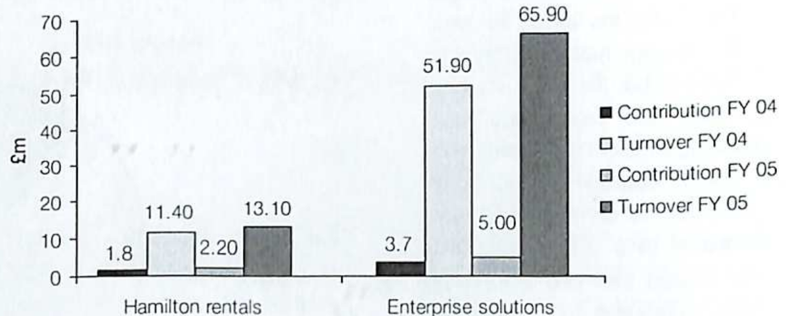
Compared with the first half of 2004, the first six months of 2005 were pretty awful for the solutions business. Margin slumped from 10.7% to 0.35% on flat sales. There's something of a 're-balancing act' going on at the moment as Parity invests in sales people, consultants and programmers and slims down on higher-level management. What we see as also being significant, though, is its move to realign its aspirations. Perhaps Parity's biggest downfall in the past has been its 'go shoot the moon' mentality. Hughes recalls occasions when sales people were chasing deals in the order of £50m-£100m. Now that Parity has a tighter grip on what is realistic, it must focus its energies on winning the win-able.

Training - revenue declines 6.5%, losses deepen

Our view for some time has been that Parity should consider the sale of its loss-making training business. The market is over-supplied and web-based training has eaten into the market for lower-value training. Furthermore, the business carries a large cost base in the form of trainers and training properties. Parity has attempted to address the problems here, but we wonder if Hughes will look to do something more radical a little way down the line. *(Kate Hanaghan)*

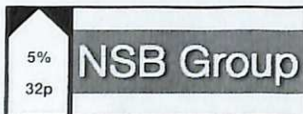
COMPEL RACKS UP A GOOD YEAR

Compel, a provider of IT rentals and IT solutions, increased revenue for the year to end June 2005 by 25% to £79.0m. Its rentals business grew revenue by 15% to £13.1m, while its Enterprise solutions business increased revenue by 27% to £65.9m. Group operating margin before exceptional costs and goodwill amortisation increased from 1.9% to 2.8%, while at the pre-tax level the company moved from a loss last year of £327k to a profit of £812k. Diluted EPS was 1.8p, an improvement on last year's loss of 0.9p.



Comment: Clearly this year has been a really good one for Compel. It's won a good stash of new customers, notably in the ERP area where it has inked deals to supply new systems to customers such as Manchester Airport. But even by its own admission, revenue growth of 25% and margin improvement of almost a full percentage point is not sustainable in today's market. Although we believe growth will moderate in the current year, all the signs are that it will still be well in excess of our forecast for the S/ITS market of 5.9%.

Going forward, Compel's Oracle business will continue to play an essential role in bringing in new customers. If Compel can retain these customers on a long term basis - and it has proved in the past that it is very capable of doing this - we think the company can feel positive about its future. But we also think that an acquisition in the Oracle space wouldn't be a bad idea. But as CEO Neville Davis puts it, the company will no doubt have to kiss a lot of frogs before it finds its Prince Charming. Happy courting, Neville! *(Kate Hanaghan)*



NSB'S UK FEES DOUBLE IN FIRST HALF

NSB Retail, the AIM listed retail software company, has revealed strong growth in the UK market in the first six months to 30 June 2005. Although the Canadian headquartered company has reported total revenue up just 2.6% to £22.2m, operating profit has shot up by 35% to £3.4m (a 15% margin), with profit before tax up 45% to £3.5m.

An extraordinary gain on the sale of its UK business to BT last year boosted net profitability last year by about £10.5m, which has resulted in earnings per share coming in 73% lower (at0.81p) than the previous first half. However, discounting the £10.5m gain from last year reveals net profits were up by 65%.

Comment: North American-focused NSB has certainly turned the business around from two years ago when revenue fell by 12%. Part of its restructuring involved the sale of its UK business to BT, which is now NSB's exclusive distributor here.

Although overall revenue growth is not too impressive, the royalty fees from BT's sales of NSB software in the UK have doubled to £800k in this period, due in part to the introduction of a new merchandising product that NSB delivered to BT in December 2004.

But NSB's focus is clearly on North America, where it generates 96% of its revenue, and the company only really has one toe left in the UK market, where the tone is being set by aggressive consolidator Torex Retail. Torex will ultimately turn its head towards the North American market, and we wonder if NSB could be a candidate for its shopping list. Indeed, at the end of September Torex announced the proposed acquisition of Canadian firm Systech Retail Systems Corp for up to C$38.5m - bringing it straight onto NSB's home turf. *(Samad Masood)*

LOGICACMG REPORTS GROWING SALES – AND BUYS UNILOG

LogicaCMG posted its H1 2005 results in late August. Overall, group revenues grew 11% to just under £892 (up 8% excluding the Edinfor outsourcing business that came on stream on 20 April), driven mainly by growth from outsourcing contracts. Group operating margin was 4.6%, up from 4.1% in H1 2004. Orders were strong, driven by outsourcing, and the book-to-bill ratio was just under 1.6 to 1. Outsourcing is now 28% of IT services revenue, versus 27% in H1 2004.

The core IT services business (87% of total revenues) saw revenues rise 11.5% (8.6% organically), driven by growth in the UK and Netherlands. But the IT services operating margin was 5.1%, down from 5.7% in H1 2004. The two homeland geographies (UK and Netherlands) grew and remained profitable, but Germany and France remain loss-making. The Wireless Networks software business was profitable for the second quarter, albeit on 1% operating margin.

The UK grew a healthy 10.1% to £370m, but operating margin was 9.4% - down from 10.7% in H1 2004, hit by some lower-value materials revenues associated with the start of some major contracts. The UK experienced continued pricing pressure on short-term time and materials engagements, especially in telecoms.

LogicaCMG said that *"many of our customers are planning to spend more on external IT services this year"*. It expects organic revenue growth of about 5% this year.

A few weeks later, in mid-September, LogicaCMG announced it was buying Unilog, the French IT consultancy and systems integrator. The offer values Unilog at euro 930m and will – if completed – create the tenth largest IT services house in Europe, with 27,000 employees and pro-forma 2004 sales of £2.1 billion.

Comment: The Unilog acquisition gives LogicaCMG critical mass in a third European geography (after the UK and Benelux), lifting it to the upper reaches of the European Tier 2. Unilog is strong in IT consulting, and its CEO Didier Hermann suggested that his company has a few tricks to teach LogicaCMG here. If so, this could strengthen LogicaCMG's story in transformational outsourcing, where (in perception, at least) it's rather weak.

One concern is that margins in IT services were disappointing in H1. This was partly thanks to the new IFRS accounting standard, and partly to lower-margin revenues associated with the beginning of big outsourcing contracts.

As the outsourcing portfolio matures, the revenue mix should improve.

Overall, LogicaCMG is doing a good job of building up its outsourcing revenues quickly without diluting margins to much – especially in the UK.

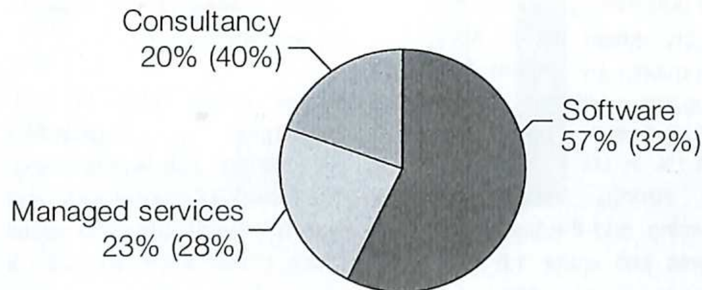
We had three main concerns about the H1 results. First, the public-services engine in the UK looks like it's now coasting rather than accelerating. CEO Martin Read said this "reinforces the importance of having a balanced portfolio," and we agree. Second, LogicaCMG faces continued exposure to pricing pressure from Indian and other offshore outsourcers. UK MD Guy Warren says the solution is to emphasise the company's project-management abilities and its industry and process expertise, as well as its willingness to offer fixed-price, fixed-time engagements in which it assumes significant project risk. We agree.

Third, we think that LogicaCMG isn't making the most of its consulting abilities. It tends to see IT consulting as subordinate to outsourcing, and fed by the latter. But consulting should play an important role in winning outsourcing and system-integration work, not just vice versa. A bit more self-confidence and aggression here wouldn't hurt. The Unilog acquisition could be just the trick – the French company has a strong consulting tradition. *(Kate Hanaghan)*

MICROGEN RACKS UP IMPRESSIVE MARGIN IMPROVEMENT

Microgen, the software, services and consulting firm, has delivered an impressive improvement in operating margin to 15.6% from 10.9% for the six months to end June. Revenues were almost flat at £21.2m, but the company has quite significantly shifted its revenue profile. 57% of total revenue now comes through the company's proprietary software, compared to 32% during the equivalent period last year. In addition, 63% of revenue is now derived from the financial services sector, versus 46% last year. PBT increased 45% to £3.6m from £2.5m, while EPS improved from 2.3p to 2.6p.

Microgen revenue split H1 2005
Total revenue = £21.2m (£21.1m)



The company has also restated its 2004 results under IFRS. As a result, PBT for the full year in 2004 moved from £1.1m to £3.7m, while EPS moved from 0.2p to 3.1p.

Comment: Clearly Microgen is getting a few tricks right here. The upward shift in operating margin is predominantly down to the increasing proportion of its software business, which now accounts for more than half of Group revenue. Additionally, Microgen has retrained more consultants allowing the company to reduce its exposure to lower margin work (the more general IT consulting) and increase consultant fee rates. Software, when done right, usually carries higher margins that IT services. While we advise companies to choose between being a software house and a services house in order to focus their efforts better, we nevertheless think that proprietary software can be used as a competitive differentiator by services houses - as long as this doesn't result in loss of management focus.

Executive Chairman Martyn Ratcliffe said in a statement that the company is continuing to feel the benefits of scale achieved through its acquisition strategy. Certainly our view is that the company has done a good job of integrating these purchases. However, Ratcliffe also acknowledged *"Group operating margin is currently at the upper end for companies of Microgen's size and sector"*. We have no doubt Microgen is looking to increase its scale and, if the right opportunity comes along, it could well buy something relatively big.

While its strategy of focusing on IPR-led consultancy is serving it well on the profits front, even Microgen cannot escape the low-growth environment of the IT services market. The company noted that while market conditions improved in late 2004, the recovery has since been *"erratic and less predictable"*. *(Kate Hanaghan)*

SPRING BRACES ITSELF FOR A TOUGH WINTER

As previewed in a warning from management in July, **Spring Group** has suffered during the first half of the year with revenues down 4.0% and the dissolution of its 0.7% operating margin. The operating loss (before reorganisation costs and amortisation and impairment of intangibles) stands at £2.0m for the six months to end June 2005.

Across its divisions, the performance was as follows:

• Spring Technology (the bit we're interested in) saw revenues decline 4.6% to £192.0m and moved from a 1.5% margin to a loss of £200k. Within this division, Contracting Services declined 6.0% to £171.2m and saw

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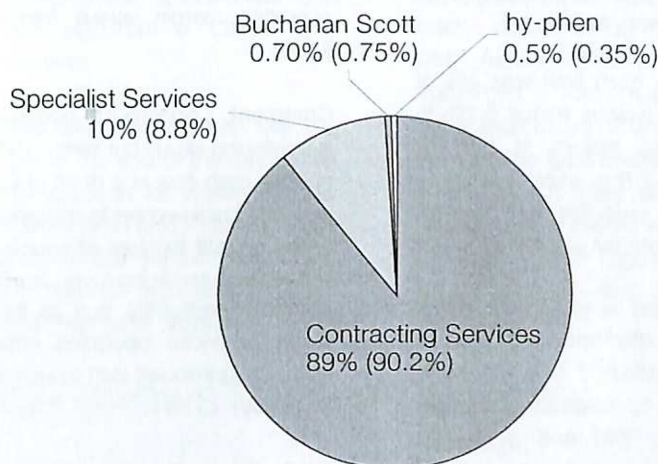
margin squeezed from 1.76% to 1.22%. The Specialist Services business increased revenues by 6.0% but became loss-making. Buchanan Scott, Spring's executive search business, declined 13% to £1.3m and saw losses deepen. hy-phen, the managed recruitment business, saw revenues increase 29% from a very low base of £700k; its losses deepened slightly to £600k.

- Spring Personnel saw flat sales (£27.9m) and a slight reduction in profits from £500k to £400k.

Spring's shares dropped almost 11.0% during early trading on the day of the results announcement to hit 63.11p.

Comment: Spring's reliance on the provision of IT contractors to its major clients is clearly causing problems. And with a margin last year of just 1.76% on the contractor business, even a relatively small decline in revenues is enough to drag it into losses. Our overall view of the market for IT staff is that, like the S/ITS market more generally, single-digit growth will be the theme for the coming years.

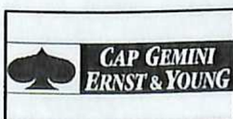
To attract margin of more than 2.0%, suppliers need to be more than a "one size fits all" outfit. So for instance, we'd also recommend to Parity, which released its interims on Tuesday, to really focus on creating services that add value and differentiate it from other competitors in the line-up. This means becoming more strategically involved with clients - not just 'transacting' with them - and providing services such as the assessment of staffing and training needs.



To protect both margin and revenue from the volatility of the IT staffing market, we recommend that suppliers are not over-reliant on one revenue stream. Of course, this is what has hurt Spring during the period; major clients required fewer contractors with very serious consequences for Spring, which sees 78% of its total revenues coming from IT contracting services.

Recent results from other IT staffing agencies show that breadth of services, or a focus on more profitable services, is really key. For example, Harvey Nash has a wide (but not shallow) spread meaning that its Q2 was strong and "better than expected". Meanwhile, PSD's strong historical focus on permanent staffing enabled it to register a 14% increase in net fee income within its UK technology practice. While Spring's (largely) permanent business, Specialist Services, increased revenue by 6.0%, it saw last year's 2.5% margin dissolve into a loss of £1.2m. This is a warning to Spring that it must not rely on significant revenue growth as the driver of profits.

The bad news is that although Richard Barfield, CEO, says Spring is "well positioned to trade into improved market conditions", he also admits that the "weak trading conditions...of the second quarter...appear unlikely to improve materially during the second half". It's going to be a tough Autumn (and Winter) for Spring. *(Kate Hanaghan)*



CAPGEMINI RAISES ITS MARGINS IN H1 - BUT OUTSOURCING NEEDS ATTENTION

Capgemini released its H1 2005 results last month [September], with revenues growing impressively by 17.1% year-on-year (21% organically) to reach euro3,472m, while operating margin reached 1.8% (compared to minus 1.5% in H1 2004 and 0.6% in H2 2004). Pre-tax margin was 3.3% (versus minus 4.9% a year before) and net margin was 3% (versus minus 5.1%), thanks

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in part to disposals. Capgemini was in the black with a net margin of 1.7% (versus minus 5.3% in H1 2004).

Operating cash flow was 3% of revenues (versus minus 5.1% in H1 2004), thanks in part to disposals. But even excluding disposals, cash flow was positive, the first time for years in H1.

Outsourcing is still loss-making, (minus 1.8% operating margin, up from minus 2.4%), thanks to big ramp-up costs on two major contracts, TXU and Schneider. The UK's Aspire contract is nicely profitable, however - we estimate it has an 8% operating margin. Consulting services raised its margin to 1.3% (from break-even 0.2%) and the core systems-integration business raised its operating margin to 3.1% (from minus 4.9%).

The UK grew revenues by 62% (65% organically) to reach euro 864m (£593m), on the back of the Aspire outsourcing mega-deal, with country operating margin up to 3.2% (versus minus 2.2% in H1 2004 and a positive 2.6% in H2 2004)

Profitability improved year-on-year in all European geographies, notably the Nordics (5.5% operating margin, versus minus 2.7%) and the UK & Ireland (3.2% operating margin versus minus 2.2%).

Comment: Capgemini's recovery is continuing slowly but surely. The positive cash flow is a good sign, as is the improvement in margins. These are still too low, of course, but as the outsourcing mega-deals approach profitability, and as the North American operation gets fixed, Capgemini will start to look a lot better.

COO Pierre Danon says the outsourcing operating margin target is 8%, and he admits that this will take some time to reach. Given that outsourcing is the engine of growth, making it profitable is Capgemini's number-one priority.

In the UK, ironically, it's outsourcing that's raising profitability. The territory's consulting division has very low profitability, despite rising utilisation rates, and it's Aspire that's keeping the show going in profit terms. UK consulting and system-integration margins are still in the low single digits.

We think Capgemini has many strengths, include a wide portfolio of services and a consulting capability with a Big Four heritage. But it's brand is still damaged by the years of under-performance and the difficult integration of E&Y Consulting, and it's relied on Aspire for growth and profitability for the last year. Now that Aspire has been fully on stream for a year, it ceases to be a growth story, and the UK must find revenue growth elsewhere.

We understand that Atos Consulting has much higher margins than Capgemini's UK consulting operations, and we suspect that growth in consulting (and SI) is low single digits at best. We think these low margins and growth are not a general market issue - they're a Capgemini issue.

We suspect that Capgemini has not yet got its consulting operation working in sync with its outsourcing and systems integration unit, in the way that others - like Accenture and Atos - have already done. That's surely a priority for UK MD Mark Porter, who was singled out for praise by Danon recently for getting the UK back to (low) profitability.

(Douglas Hayward)

MACRO 4 SEES LIGHT AT END OF TUNNEL

Macro 4, the document management and mainframe systems software company, has grown revenues by 5.9% to £33m, with operating profits (including amortisation and before exceptional items) up 42% to £1.9m for the year ended 30 June 2005. Exceptional costs of £1.1m, mostly due to redundancies, brought profit before tax to £794k, down 24% on last year's equivalent. Diluted earnings per share were up 52% to 2.9p.

The real good news is that CEO Ronnie Wilson now expects Macro 4's legacy systems management revenue to end its eight-year decline sometime over this coming December and January period, and that recurring maintenance revenue will now cover any further declines.

Comment: As we have said before, Macro 4 needs to be viewed as two separate businesses: Business Information Logistics (document management) - the growth engine, with revenues up 19.6% to £16.2m; and Systems Management Products, which has battled the decline of its

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legacy VM/VSE user base by moving onto OS/390 and OS/400 platforms. Revenues for SMP were up 4.4% to £16.9m for the year.

However, SMP is considerably more profitable than the younger BIL business, and boasts a 23% operating margin (before exceptionals, amortisation and tax), though that has declined from 27% last year. For its part, BIL has reached profitability this year, with a £621k profit (before exceptionals, amortisation and tax), up from a £970k loss last year.

Now that Macro 4 can see the light at the end of the tunnel, the real question for Wilson and his team is what next? The company recently split the two businesses into separate profit and loss lines, and has now appointed each division with its own CEO - new joiner Michael Brand for BIL, with COO Alan Sloan expanding his role to include taking the reins at SMP. Although Macro 4 has not confirmed anything, the temptation to sell off one of these two diverse businesses must be enormous. It may only be a matter of time before we hear of an MBO, IPO or sale to another vendor coming from Macro 4. *(Samad Masood)*

ATOS ORIGIN GROWS MARGINS IN H1 2005

Atos Origin's results for the half-year to 30 June 2005 showed worldwide operating profit up 18% in organic terms at euro183m (a 6.7% operating margin, versus 6.3% in H1 2004), on revenues up organically 8.1% at euro2,725m. Net income was euro121m, a net margin of 4.5% (versus 1.1% in H1 2004), and net debt fell significantly from euro491m to euro363m. Cash flow from operations was 8.1% of total revenues, thanks in part to disposals.

Profitability in key European geographies generally changed little. The UK saw operating margin up slightly from 8% to 8.3%, but (as we reported previously) did disappointingly in revenue terms, with revenues down 1.3% in organic terms at euro588m (£404m), thanks to a contract that was not renewed in April. Atos said that had it not been for that rogue contract, revenue growth would have been 4% in H1, including 6% growth in Q2.

Atos repeated its expectation of full-year group organic revenue growth of 8% upwards, adding that it now expects operating margin of 7.5% to 8%. These figures are reported under IFRS standards, which involve some restating of H1 2004 figures.

Comment: At group level, this was a good performance. Among service lines, the star performer was Consulting, which recorded revenue growth of 12.6% (13.6% organically) to reach euro227m, and a whopping increase in operating margin from 6.5% to just under 15%. Consulting clearly outstripped performance in systems integration and outsourcing, and Atos says that the unit is now driving growth in the two other service lines, adding that Consulting is now "fully integrated with delivery operations". We see this as confirmation of our often-repeated thesis that a strong consulting capability - if managed well - can add significant value to an outsourcing / systems integration business, creating a growth engine in which all three elements feed each other's growth.

The UK's profitability is pretty good. This is a tightly run operation that has turned its consulting arm from a potential liability into a source of strength. We think that Atos Origin UK has some interesting plans to turn consulting into a creative front-end that feeds the BPO, outsourcing and systems integration arms. But despite this progress, the UK is not yet a growth machine in the manner of Accenture.

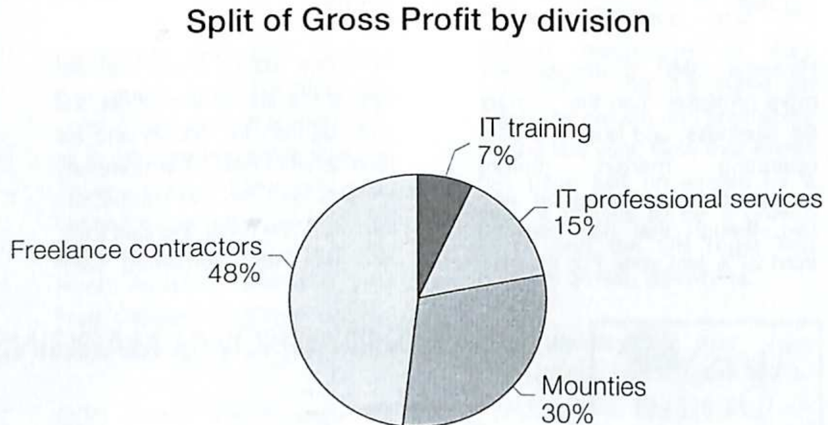
Is that a problem? Yes, in the sense that Atos Origin wants to be a Top 3 player in the UK, and that won't happen organically at this rate. Unless some huge mega-deals appear out of the blue, another big acquisition is the way forward in the UK, now that Sema looks well digested.

But slow organic growth is arguably preferable to growth that dilutes margins. Look at the problems that Accenture has with its NHS mega-deals; it will have lost up to £150m on the NHS contracts in its 2005 financial year just ended, and further (though lesser) losses are due this year. Accenture's NHS work only turns profitable in FY 2007, a big disappointment for the pioneer of transformational outsourcing. Atos actually managed to increase UK margins the year it absorbed Sema, so acquisition is a credible route forward for Atos Origin in the UK. You can't say that about many other companies. *(Kate Hanaghan)*

FDM'S 'MOUNTIES' PLAY CRUCIAL ROLE

FDM Group, the IT staffing and professional services company, has released its maiden interim results since floating on AIM on 7 April 2005. Revenues for the company have risen by 4.2% to £16.4m, with operating profit (before the £497k spent on the IPO) up 12.8% to £924m. However, IPO costs contributed to profit before tax falling 51% year on year to £400k, and diluted earnings per share fell by 78% to 0.5p, due in part to the payment of a 0.5p interim dividend.

Split of Gross Profit by division



Comment: After releasing its first set of results since flotation, we caught up with the management at **FDM Group**, the IT staffing and professional services company. FDM's model is one that we believe could provide a cushion for its profits against a more general backdrop of low single-digit growth in the UK IT services market.

The company focuses on high margin contracts; you won't see FDM chasing preferred supplier contracts with lower margins - *"we're not going to play that game"*, says CEO Rod Flavell. A proportion of the staff it places are its own in-house trained consultants (or 'Mounties' as FDM likes to call them) that are focused on Java and .NET technologies. FDM invests c£20k in training up a consultant, who will then be tied in to a two-year contract. It also places other IT contractors, although this activity is not as profitable as the former.

Progress since this time last year has been steady with gross profits increasing from 19% to 19.5%. Flavell says demand for FDM's contractors is 'strong' and that the IT staffing market is, in his view, growing 'steadily'. Revenue growth in the first half was a modest 4.2% and, going forward, we expect growth to come through the addition of new customers. FDM is right to focus on bringing in new clients in order to grow revenues - it would be wrong to rely on the market alone for improvements to the top line. The signs are promising here with a 20% increase in the customer base in H1. Without doubt, the 'Mountie' model would have helped here. *(Kate Hanaghan)*

CORNWELL DOES WELL IN H1 2005, BUT PRIVATE SECTOR DISAPPOINTS

Cornwell Management Consultants reported a good H1 2005, but the company's private-sector business is still not taking off the way it wants. The AIM-quoted consultancy which specialises in public-sector IT-related consulting reported first-half revenues up 12% at £10m, with operating (EBIT) profit up 15% at £815k.

Operating margin was up slightly at 8.1% (versus 7.9% in H1 2005) and pre-tax margin was 9.7% (versus 8.1%), thanks in part to the sale of the company's former headquarters. Net margin was 6.9% and diluted EPS was 4.1p - down from 4.6p in H1 2004, partly as a result of new shares issued during the AIM float late last year.

Cornwell reported rising average fee and utilisation rates (the latter rose to 77%, from 72% in H1 2004) during the quarter. Cash flow was negative, thanks to a flurry of unpaid public-sector invoices expected to be paid in H2. The only real bad news was private-sector revenue down 45% at £0.7m, caused chiefly by declines in financial services. Cornwell says it has taken action - including staff changes - to reverse the decline. The company got 93% of its revenue from the public sector in H1 2005. It got 3% of revenues from financial services.

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Comment: Cornwell is a good consultancy that's found a good niche. We like its positioning as the "trusted adviser" to CIOs and decision makers, helping them to select and manage their suppliers and to plan and oversee big IT projects. And its public-sector focus has worked well over the last few years.

But it's got challenges if it wants to grow fast. Utilisation rates are surely approaching their peak, and average fee rates probably don't have much more headroom. Push utilisation rates too high, and you burn out the staff. Push fee rates too high, and you price yourself out of accounts.

The public sector can't drive IT consulting growth forever. Cornwell must raid the private sector for new sources of revenue growth. The acquisition of outsourcing adviser **Quantum Plus** last month was a good move, bringing in private-sector clients, and we'd like to see this replicated in the financial services area, where Cornwell wants to expand next.

Cornwell obviously has a good understanding of government, but the language and mindset of financial services customers is markedly different, even if the underlying work involved is similar. Despite its strengths, Cornwell might struggle to exploit a heavily government-focused brand in financial services. It's rightly cautious about acquisitions, but if it can spot a Quantum-like player in financial services, it would be strengthened with new blood and increased brand credibility.

(Douglas Hayward)

EDENBROOK: GROWING FAST WITH THE HELP OF INTELLECTUAL PROPERTY

We sometimes get asked whether IT services companies should develop software packages to sell to their customers. We warn them against charging down the road of selling stand-alone software packages, which we feel often leads to dangerous diversions. But we nevertheless believe that intellectual property is an essential part of any service house's working capital, and that proprietary software can be a powerful differentiator for services companies.

Take London-based systems integrator **Edenbrook** for example. Edenbrook expects revenues of £17m this year. It's backed by VC vehicle Elderstreet and has around 180 staff.

Edenbrook gets its revenues from SI (systems integration) work based around two main technology platforms: Oracle's E-business suite, and Microsoft's .NET platform (and its Axapta ERP product). It develops and sells niche software packages that sit on top of these big ERP suites, but without challenging the latter.

Co-founder and director Steve Anderson expects growth in the 'mid 20 percent' range next year, versus 70% (60% organic) this year. He expects pretax margins this year of 8%, growing next year to about 10%. His long-term target is double-digit pre-tax margin. *"If we stopped growing right now, we could add 3 to 4 percentage points onto the margin immediately"*. He adds that Edenbrook is seeing demand growth among customers. *"There are a lot of people on old mainframes and IBM mid-range systems who want to implement Web services architecture, and who want the platform that they use to be more open"*.

For us, Edenbrook is an interesting example of an integrator pursuing the right strategy in today's market. It's building niche vertical and technology focus - for example, it's developed modeling tools for managing Oracle upgrades and business-intelligence software being used in the leisure and hospitality and utilities sectors.

While we advise clients to choose between being a services house or a software house, we add an important rider: that repeatable intellectual property (meaning methodologies and software - chiefly the latter) can be an excellent source of differentiation for systems integrators and IT consultancies.

Not only can proprietary software help to win the deal, supporting it later helps to maintain and deepen the client relationship. Just look at all the systems integrators now offering application support and maintenance services. The big problems only come when suppliers allow their software businesses to zoom off in different directions from the rest of the company.

It's often said that IT services is about people. True, but what makes the difference between a staffing agency selling bodies and a good consultancy/integrator is not just good people, important though they are. It's the web of intellectual property that binds these people together, spreading best practice and time-saving efficiencies through the organisation, ensuring that he organisation shares knowledge and exploits its investments properly.

Selling on the basis that you have the best people in the business is not a particularly original sales story, even when backed by good customer references. Our advice: if you want to build a successful business, make sure you build and maintain repeatable intellectual property, be it software or methodologies. Along with good people, it's the intangible working capital of IT services.

(Douglas Hayward)

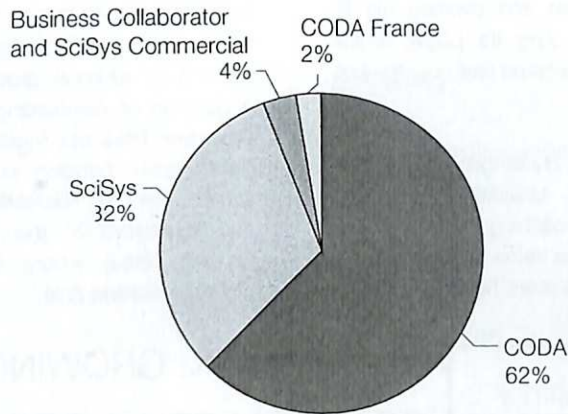
CODASCISYS ACHIEVES SIGNIFICANT PROFITS GROWTH

CODASciSys, the software and services company that targets the accounting, space and defence sectors, has revealed flat organic revenue in its results for the first half ended 30 June 2004, but profitability has improved significantly.

Total revenue for the company grew 3.7% to £35.3m, thanks mainly to the acquisition of distribution partner **CODA France**, which added £837k to revenue. Operating profits (after tax, amortisation and exceptional items) were up an impressive 78% to £3.3m, with profit before tax up 80% to £3.4m. Diluted earnings per share have more than doubled to 9.4p, and the company has announced an interim dividend of 2p per share.

Comment: The great news here is the profitability. The accounting solutions focused CODA business is running at a 14.5% operating margin (after amortisation), compared to 10% last year. The company's small Business Collaborator division has also recorded a £5k profit after last year's £355k operating loss (after amortisation).

CODASciSys H1 2005 revenue breakdown



Shareholders' response to the results was muted with a meagre 0.6% share price rise on the morning of the announcement. But with a value of £4.27 at the end of the month, CODASciSys' shares are still up 33% year on year - a pretty good result.

Despite chairman Mike Love's statements that CODASciSys's markets are beginning to "show renewed signs of growth", there is little here to show that organic revenue will increase significantly in the near future. For example, at £16.9m, deferred income for the period is in fact £1m lower than last June, though admittedly this may be due to a more conservative view of the pipeline than previously.

It seems that CODASciSys will have to rely on its M&A strategy as the main provider of revenue growth in the short term. But to really convince us CODASciSys will need to show a return to organic growth in the coming second half. *(Samad Masood)*

SIRIUS TURNS STABILITY INTO PROFITABILITY

Sirius Financial Solutions, supplier of software and services to the insurance and financial services industry, has produced a strong improvement in profits for the six months ended June 2005. While revenues inched up just 2%, the operating margin (before goodwill amortisation) improved from 4.9% to 7.0%. Profit before tax improved from just £8k to £242k. Diluted EPS was 0.6p, from last year's loss of 0.2p.

Stephen Verrall, Chairman and Group CEO, said: "*Sirius is well placed to continue growing top line revenues and improve profitability...*"

Comment: On the profits front, the turning point for Sirius came during its last full year (to December 2004) when it registered a significant jump. The transition in its model from perpetual licensing to term licensing (i.e. from a lump sum payment up-front to a subscription-type arrangement) has made sales more predictable. Although this shift means that licence revenues are initially lower, the company has focused on upping the contribution from non-licence revenues to counteract this.

from 36.0% in the comparable period of 2004. Going forward,

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this will continue to be an area of focus for management. Indications are that top line revenue growth will continue to be modest for at least the next year or so. However, services revenue (e.g. development, customisation and training) is still looking strong and so too is the list of prospects on products more generally. Furthermore, the company appears to be strengthening its opportunities overseas.

As for the profits, there will be more opportunities for cost savings as its offshore capability grows over the next two years. And, with sales of its core intermediary offering (which is the single biggest contributor to profits) expected to be stronger in H2, we could see some margin improvements filter through by year-end.

(Kate Hanaghan)

ICM COMPUTER FOUNDER DEPARTS ON A HIGH

For the year to end June 2005, **ICM Computer Group**, the BC and support services company, showed revenues flat at £77.6m, with operating profit before goodwill amortisation up by 10% to £6.1m. EPS was up from 14.0p to 14.9p. The proposed final dividend of 2.35p takes the payment for the full year up to 3.6p (FY04: 3.45p).

Comment: ICM has turned in a very respectable performance. Total turnover was flat, reflecting the decline in the solutions business (by 14%) but growth in the support (+8%) and business continuity (+18%) businesses. Operating margin (before goodwill amortisation) improved from 7.1% to 7.8%

The results demonstrate that while there is very minimal top line growth, the mix of revenues is changing - and for the better. Contracted revenues, from support and BC, are growing well and bringing margin benefit. Within its solutions business (which covers project-led services such as infrastructure design, network design and consulting), ICM has focused on increasing higher margin, value-add services and only selling hardware as part of a wider (and more profitable) solution. The result is that while solutions revenue declined 14% during the year, gross profits declined only 11%. We expect there to be further evolution within this part of the business.

ICM's support business grew 8%, but only 2% organically in what management describe as *"a very competitive environment"*. Gross profits were up 7%, slightly less than revenue, due to lower margins on contracts signed in the year. Furthermore, as previously warned, since buying Synstar, HP has brought in-house non-HP business that was previously subcontracted to ICM.

We see absolutely no indication that the support market will improve from being anything other than *"very competitive"*, which is why ICM's BC business is such a key element of the bigger picture. The offering covers continuity planning, equipment recovery, hosted data recovery, mobile data centre recovery and office recovery. Revenues increased 18% to £14.0m, with gross profits up 25% due to better utilisation of BC centres. It now has 12 centres across the UK, two of which opened during the year.

One of the interesting trends of the past year has been the increase in dedicated seat sales. In other words, customers who are prepared to pay for the exclusive use of space within a recovery facility. While this means ICM can sell out chunks of its recovery space in one go, it must get the balance between dedicated and syndicated sales right; syndicated sales (where a seat is sold over and over again) can be, by their nature, very profitable.

Barry Roberts, the current CEO, will be stepping down in November. His long-term right-hand man, Steve Wainwright, will step up to the plate. Roberts founded the company back in 1986 and he will remain in the background in a consultative role. Wainwright has been an integral part of ICM's growth over the past 15 years and we think he's the right person to take ICM forward. *(Kate Hanaghan)*

TIKIT GROUP GROWS 62% IN FIRST HALF

Tikit Group, a software and services company primarily focused on UK and European law firms, has seen revenues grow 62% to £9.55m in the six months to 30 June 2005. Operating profit before interest, amortisation of goodwill, and share charges was up 39% to £924k, giving a 9.6% margin.

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The operating profit gains were pretty much wiped out by acquisition related goodwill charges, which were up £401k to £633k, resulting in profit before tax down 38% year-on-year to £263k. However, Tikit chairman Mike McGoun is confident that the company will be able to return the business to a 10% margin for the full year, ultimately aiming to bring operating margin up to around 12%.

Diluted earnings per share came in at 0.2p, down 93% from 2.9p in the first half of 2004. Tikit will pay an interim dividend of 0.75p per share on 11 October 2005.

Comment: Tikit has strengthened its position in its UK legal sector niche with the acquisition of close rival ResSoft for £2 million in February this year, after picking up accounting and legal infrastructure software and services company NIS for £1m in December 2004. Although the revenue contribution that these purchases made in the first half has not been revealed, we estimate that organic revenue growth was still impressive at about 14%.

Moreover, these acquisitions have helped to boost services business, contributing to the balance and "quality" of Tikit's revenues. The company now can boast that 41% of its revenue is on a recurring contracted basis, and sales growth was achieved across all its business lines, with Support Services up 92% to £3.88m; Consultancy up 57% to £2.88m; Software up 34% to £2.38m.

Although Tikit's French business has still yet to make any real progress, the company also has an operation in Madrid, and may well open another office in Europe. Nevertheless, Europe is not the main aim for Tikit now, and Mike McGoun re-iterated that his company's strategy is to focus on the UK legal sector, where Tikit has a lot more opportunity to grow its existing clients' IT spend.

As we have said before, razor-like focus on a niche market is one way to succeed in today's S/ITS market, and we see no reason to change our view that Tikit will continue to go from strength to strength. *(Samad Masood)*

TELECITY RELEASES LAST RESULTS BEFORE DE-LISTING

Telecity, the AIM-listed colocation provider that is going private in October, has released its results for the first half of 2005, revealing improved revenue growth and a considerable improvement in profitability.

Revenue for the six months to 30 June 2005 grew 17.6% to £14.4m, with earnings before interest, tax, depreciation and amortisation up an impressive 78% to £1.4m. Ongoing depreciation costs of around £3m meant that operating losses were £1.6m, 29% lower than the £2.3m loss recorded in last year's half. Diluted losses per share reduced by 50% to 0.6p.

Comment: After failing to sell itself to 3i in May this year, Telecity is now being bought by Inhoco – a company established specifically for this purchase by 3i and Oak Hill Investors – for 21p per share, or £57.9m.

That this price values Telecity at more than twice its 2004 annual revenue (£25.8m) is a testament to the company's turnaround in the last few years – as well as its future plans to be a consolidating force in the sector.

Colocation, which involves providing suitable properties to host IT and telecommunications equipment, has been a difficult business over the past five years. Early over investments in capacity meant that the post-dot.com downturn hurt here more than many other IT sectors. Indeed, the ripples of over-capacity are still being felt in the sector. However, there is still significant disparity in supply and demand geographic – even within a city such as London – and it is this that Telecity must be hoping to take advantage of by embarking on an M&A strategy.

Although only profitable at the EBITDA level, Telecity is now clearly heading in the right direction, with recurring revenues accounting for 85% of the total and net cash flow positive (£1m compared to last years £1.5m loss). Nevertheless, colocation is a business that requires significant up front investment to expand, and going private should help Telecity to insulate itself from fickle investors as it tries to grow through acquisition.
(Samad Masood)

Mergers & Acquisitions

Buyer	Seller	Seller Description	Acquiring	Price	Comment
2 e 2	Trisys	Provider of data storage amd network back-up solutions	100%	Total consideration of up to £8.11m	For the year to February 2005, Trisys produced an EBIT margin of 10% on revenues of £14.9m. It's not focused on specific sectors but does have a foothold in the public sector and local authority markets.
2 e 2	Yul Data Security	A Dutch provider of data management, data security and storage solutions	100%	A non-disclosed cash consideration	In combination with the Trisys acquisition, this latest purchase by acquisitive 2e2 will take the company to annualised revenues of c£140m. The key challenge for 2e2 is to make these and its other business units prosper from one another through cross sales. The company has proved it can do this, we just want to see more of the same!
Chelford Group	Agility Systems Ltd	Expertise in supply chain and warehouse management for the packaged goods and transport and logistics markets	100%	Up to £3.8m, consisting of £1.8 in cash and £1.2m in shares, with the balance subject to performance	Chelford seems to have decided not to keep all its eggs in the one SAP basket. In the press release, Trevor Lewis, Chelford's Chief Executive, says: "Agility is an excellent fit with Chelford's existing activities and conforms to our strategy of acquiring complementary companies with good organic growth potential." We find it very hard to disagree with this assessment. Chelford's main business is based on SAP software, and this is where it gets 95% of its revenue. This purchase therefore enables it to spread its eggs across a few more baskets.
Computer Software Group	Transoft Group			£2.4m in cash and shares	Given CSG's success with integrations so far, we expect Transoft will be quite a good fit across all of CSG's business. The company has paid a very reasonable price, considering that Transoft has £4m in recurring revenue. But more than just technology and existing clients, Transoft will also give CSG two offices in the US - in Atlanta, Georgia and Dayton Ohio. These offices will be used as a foothold for the US market. It is too early to say whether CSG will take its consolidator approach across the pond. Even if CSG is to continue focusing directly on UK in the near-term, with its rapacious appetite we suspect it won't be long before we hear of another purchase.
GE Healthcare	IDX Systems	US healthcare software provider	100%	$44 per share in cash representing a total consideration of $1.2bn	It seems IDX came to the conclusion that to continue to grow and win business, particularly in international markets, it needed greater scale. But despite assurances from IDX CEO Jim Crook that this is the "ideal marriage" there are still a lot of questions yet to be answered. It isn't yet clear, for example, whether the IDX management team will stay on or exactly how IDX's products will sit alongside offerings from GE. The fact that GE Healthcare is headquartered in the UK and understands the NHS market (it already supplies PACS systems to the NHS in the South of England) ought to strengthen IDX's capability in the UK and its relationship with the NHS.
iSoft	Novasoft Sanidad	Spanish healthcare applications provider	100%	An initial consideration of euro12m (comprising euro9m in cash and the rest in iSoft shares).	This acquisition fits nicely with iSoft's international expansion strategy, giving it an entrée to the Spanish market. Drawing on its experience in England, where it is a key supplier under the £6bn National Programme for IT in the NHS, and in other advanced healthcare IT economies, such as Singapore, iSoft is hoping to capitalise on developments in the Spanish market by being in at the start of a period of healthcare service reform.
LogicaCMG	Unilog	French service firm	100%	euro 73 per share in cash, valuing it at euro 930m	This is one of the first ever deals where a UK S/ITS company has acquired a French S/ITS company of size and substance - reversing a trend of foreign acquisition of UK S/ITS companies going back over the last two decades. The coupling really makes sense and the new entity will now be in the Top Ten of European IT services companies.
Logicalis	TBC	IBM partner	100%	N/a	This is Logicalis' third acquisition since March. It claims to have integrated both Notability (an IBM partner with turnover of £30m) and Hawke (an HP partner with £15m in turnover) "seamlessly", taking its annualised revenues to £100m. With the addition of TBC, annualised revenues will hit £125m. While this latest purchase obviously brings more scale, which is a key driver of the company's acquisition strategy, it also adds weight to Logicalis' IBM business and, more specifically, its managed services offering.
Maxima	Hanston Technology Partners Ltd	Oracle-based consultancy	100%	Total consideration of £8.75m	The appeal of Hanston is that, as well as being profitable, it has been growing - albeit from a small base - consistently for the past few years. In addition, a large proportion of sales is recurring revenue. Hanston is quite a different purchase to that of Ringwood, which was essentially a bolt-on buy. A key difference is that Maxima will be able to use Hanston to go straight into new customers with a services offering rather than selling services on the back of a system sale. In an environment where many buyers are not focused on replacing old systems with new, this is a good strength for Maxima to have under its belt.
SimCorp	Solutionforge	Straight-Through Processing solutions	A "controlling stake"	N/a	SimCorp has been quite successful in the last couple of years - in terms of financial performance and the ability to attract new customers - and the acquisition make sense. We believe it will strengthen SimCorp's current portfolio of applications, its future position in the market for investment and treasury management software and increase the number of leading financial institutions in the portfolio.

Recent IPOs

Name	Activity	Index Class	Market	Issue Price	Market Cap.	IPO Date	Price end Sept 05	Change since IPO
SQS Softw are Quality Systems AG plc	Softw are testing and quality management	CS	AIM	190p	£30m	20-Sep-05	202p	6.3%
Vimio plc	Mobile media compression technology	SP	n/a	100p	£25.6m	02-Sep-05	147p	47.0%

Forthcoming IPOs

Name	Activity	Index Class	Market	Est Issue Price	Est Mkt Cap.	IPO Date
Ex Libris	Library softw are	SP	AIM	n/a	n/a	12-Oct-05
Seeing Machines Ltc	Image recognition technology	SP	AIM	n/a	n/a	n/a

UK software and IT services share prices and market capitalisation - September

	SCS Cat.	Share Price 30-Sep-05	Capitalisation 30-Sep-05	Historic P/E	PSR Ratio Cap./Rev.	S/ITS Index 30-Sep-05	Share price move since 31-Aug-05	Share price % move in 2005	Capitalisation move since 31-Aug-05	Capitalisation move (£m) in 2005
Alphameric	SP	£0.99	£119.3m	-	1.71	454	6%	24%	£7.23m	£24.60m
Alterian	SP	£1.37	£54.5m	-	6.99	683	-5%	33%	-£2.80m	£14.38m
Anite Group	CS	£0.64	£227.2m	-	1.20	374	-2%	13%	-£6.28m	£27.10m
Ascribe	SP	£0.36	£38.3m	-	5.71	1882	15%	88%	£5.08m	£17.92m
Atlantic Global	SP	£0.17	£3.8m	-	1.76	559	-30%	-57%	-£1.60m	-£4.92m
Autonomy Corporation	SP	£3.38	£401.6m	74.6	12.03	103	-3%	101%	-£11.58m	£220.43m
Aveva Group	SP	£8.99	£196.8m	66.7	3.42	4493	6%	36%	£11.72m	£54.24m
Axon Group	CS	£2.13	£122.1m	20.6	2.03	1217	-13%	44%	-£7.79m	£45.03m
Bond International	SP	£1.06	£26.6m	14.2	3.78	1623	-2%	29%	-£0.50m	£5.93m
Brady	SP	£0.39	£10.1m	15.2	4.22	481	-27%	-57%	-£3.74m	-£15.19m
Business Systems	CS	£0.19	£16.2m	20.5	0.55	162	-1%	28%	-£0.21m	£3.58m
Capita Group	CS	£3.77	£2,483.3m	26.2	1.93	101843	3%	3%	£82.39m	£56.08m
Charteris	CS	£0.41	£17.6m	28.3	1.28	456	2%	6%	£0.43m	£1.08m
Chelford Group	CS	£2.88	£20.5m	30.1	1.73	50087	19%	125%	£4.48m	£12.00m
Civica	CS	£2.35	£119.4m	-	1.15	1340	4%	3%	£4.58m	£16.03m
Clarity Commerce	SP	£0.80	£12.8m	32.5	0.96	640	1%	19%	£0.08m	£1.99m
Clinical Computing	SP	£0.11	£3.3m	-	1.88	85	-28%	-68%	-£1.26m	-£6.94m
CODASciSys	CS	£4.28	£108.6m	28.1	1.60	3314	2%	27%	£1.90m	£22.86m
Comino	SP	£2.70	£37.6m	31.0	1.47	2077	1%	23%	£0.35m	£7.11m
Compel Group	CS	£1.01	£33.9m	52.9	0.54	804	-3%	10%	-£1.01m	£3.59m
Computacenter	R	£2.25	£426.7m	17.7	0.18	335	11%	-23%	£42.38m	-£123.08m
Computer Software Group	SP	£0.61	£30.7m	18.6	2.18	515	11%	-2%	£3.17m	£3.67m
Cornwell Management Consultants	CS	£1.33	£23.4m	-	1.32	955	2%	0%	£0.35m	£1.32m
Corpora	SP	£0.10	£6.2m	-	12.49	270	-20%	-34%	-£1.52m	£0.64m
DCS Group	CS	£0.15	£3.8m	-	0.07	250	18%	43%	£0.56m	£1.13m
Dealogic	SP	£1.63	£113.7m	19.0	3.67	707	-13%	20%	-£17.49m	£19.24m
Delcam	SP	£3.21	£19.6m	15.1	0.91	1235	4%	64%	£0.73m	£7.72m
Detica	CS	£9.90	£222.4m	31.0	3.13	2475	7%	28%	£15.09m	£49.73m
Dicom Group	R	£9.93	£211.7m	35.3	1.36	3044	1%	21%	£2.77m	£41.05m
Dimension Data	R	£0.38	£503.6m	-	0.36	67	-1%	-1%	-£3.36m	-£6.52m
DRS Data & Research	SP	£0.37	£12.1m	-	0.84	336	-16%	-10%	-£2.29m	-£2.08m
Electronic Data Processing	SP	£0.79	£4.1m	-	0.49	2404	-4%	5%	-£0.01m	-£14.08m
FDM Group	A	£1.05	£24.3m	-	0.74	1282	19%	34%	£3.83m	£6.16m
Ffastfill	SP	£0.06	£14.3m	-	5.41	50	-4%	-6%	-£0.60m	£1.94m
Financial Objects	CS	£0.44	£17.8m	-	1.87	191	10%	-15%	£1.62m	£3.45m
Flomerics Group	SP	£0.83	£0.3m	-	0.03	3173	-4%	24%	£0.13m	-£9.41m
Focus Solutions Group	CS	£0.22	£6.1m	-	1.13	113	-12%	-44%	-£0.84m	-£4.85m
GB Group	CS	£0.37	£29.7m	-	2.64	235	-4%	45%	-£1.22m	£9.51m
Gladstone	SP	£0.19	£9.5m	19.6	1.24	475	-3%	-16%	-£0.25m	-£0.50m
Glotel	A	£0.94	£36.0m	19.1	0.40	486	2%	-8%	£1.05m	-£2.94m
Gresham Computing	CS	£0.86	£43.4m	-	3.50	925	-40%	-69%	-£28.54m	-£93.62m
Group NBT	CS	£1.26	£24.5m	14.2	2.17	630	1%	22%	£0.19m	£4.53m
Harvey Nash Group	A	£0.57	£5.1m	1.7	0.03	323	-4%	-38%	-£0.08m	-£51.64m
Highams Systems Services	A	£0.05	£1.7m	-	0.12	146	0%	-5%	£0.00m	-£0.08m
Horizon Technology	CS	£0.78	£57.3m	14.8	0.30	286	-1%	0%	-£0.71m	£4.99m
IBS OPENSystems	CS	£1.75	£69.8m	-	N/a	1144	2%	16%	£1.20m	£9.40m
I S Solutions	CS	£0.15	£3.6m	-	0.65	540	7%	0%	£0.25m	£0.00m
ICM Computer Group	CS	£3.34	£69.6m	22.0	0.90	1856	-5%	-19%	-£3.84m	-£15.63m
IDOX	SP	£0.11	£21.0m	35.2	2.20	14	10%	1%	£1.87m	£0.81m
INCAT International	SP	£2.20	£53.3m	-	0.82	1376	1%	43%	£0.49m	£15.90m
In Technology	CS	£0.44	£61.4m	-	0.22	1740	13%	-43%	£7.06m	-£44.18m
Innovation Group	SP	£0.29	£125.3m	-	2.16	126	-7%	-17%	-£11.27m	-£27.29m
Intelligent Environments	SP	£0.04	£5.6m	-	1.83	39	16%	-42%	£0.81m	-£3.56m
Intercede Group	SP	£0.29	£3.0m	-	1.6	475	50%	54%	£0.72m	-£6.35m
Invu	SP	£0.24	£40.6m	17.8	12.88	2474	27%	2%	£18.71m	£22.44m
iSOFT Group	SP	£4.32	£982.7m	38.9	3.75	3927	-5%	25%	-£63.85m	£182.67m
iTrain	SP	£0.06	£5.0m	63.8	4.59	75	-22%	-22%	-£1.38m	-£1.38m
K3 Business Technology	SP	£0.93	£15.9m	-	1.87	711	-9%	-11%	-£0.03m	£1.95m
Kewill	SP	£0.77	£61.6m	22.0	2.31	1522	-3%	34%	-£0.55m	£14.86m
Knowledge Technology Solutions	SP	£0.03	£4.8m	-	6.19	650	-19%	-41%	-£1.11m	-£3.34m
LogicaCMG	CS	£1.76	£1,321.6m	56.8	0.79	2410	-1%	-9%	-£15.02m	-£124.77m
Lorien	A	£0.32	£6.0m	7.4	0.05	320	-4%	-39%	-£0.28m	-£3.82m
Macro 4	SP	£2.93	£63.5m	97.5	1.92	1179	1%	60%	£0.33m	£29.58m
Manpower Software	SP	£0.28	£12.6m	40.4	2.44	291	18%	-10%	£1.89m	-£1.45m

UK software and IT services share prices and market capitalisation - September

	SCS Cat.	Share Price 30-Sep-05	Capitalisation 30-Sep-05	Historic P/E	PSR Ratio Cap./Rev.	S/ITS Index 30-Sep-05	Share price move since 31-Aug-05	Share price % move in 2005	Capitalisation move since 31-Aug-05	Capitalisation move (£m) in 2005
Maxima Holdings	CS	£1.67	£26.1m	-	2.11	1215	-6%	70%	£4.30m	£14.69m
Mediasurface	SP	£0.14	£10.8m	-	2.00	1029	-2%	87%	-£0.19m	£5.08m
Micro Focus	SP	£1.02	£202.4m	15.0	2.49	0	-42%	-33%	-£148.54m	-£98.63m
Microgen	CS	£0.66	£67.5m	36.7	1.59	282	-16%	17%	-£13.57m	£10.14m
Minorplanet Systems	SP	£0.03	£4.2m	-	0.12	54	-16%	-38%	-£0.80m	-£2.12m
Misys	SP	£2.02	£1,028.4m	69.7	1.16	2513	-11%	-3%	-£123.75m	-£140.88m
Mondas	SP	£0.17	£4.4m	-	0.96	220	-8%	-11%	-£0.29m	-£0.42m
Morse	R	£0.86	£129.9m	-	0.33	344	-11%	-10%	-£15.78m	£4.10m
MSB International	A	£0.60	£12.2m	23.2	0.13	313	-2%	-28%	-£0.31m	-£4.82m
NCC Group	CS	£2.25	£73.4m	36.9	3.91	1347	-12%	17%	-£10.27m	£10.60m
Ncipher	SP	£2.35	£65.7m	15.9	4.61	940	3%	11%	£3.02m	£8.92m
Netcall	SP	£0.16	£10.4m	78.8	4.29	318	17%	-17%	£1.48m	-£2.11m
Netstore	CS	£0.38	£38.5m	26.0	1.80	253	-4%	1%	-£1.52m	£1.76m
Nexus Management	CS	£0.01	£2.3m	-	1.95	227	-11%	-4%	-£0.27m	£0.52m
Northgate Information Solutions	CS	£0.81	£430.1m	98.5	2.09	311	4%	25%	£15.98m	£109.43m
NSB Retail Systems	SP	£0.32	£115.0m	-	2.53	2739	5%	19%	£5.48m	£21.90m
OneclickHR	SP	£0.07	£10.0m	-	2.09	169	35%	93%	£2.60m	£4.83m
Parity	A	£0.06	£17.7m	-	0.10	1021	-26%	-38%	-£6.13m	£2.52m
Patsystems	SP	£0.14	£22.9m	-	1.94	133	-8%	16%	-£1.99m	£4.72m
Phoenix IT	CS	£2.87	£169.0m	21.1	1.91	1063	-10%	5%	-£19.44m	-£0.60m
Pilat Media Global	SP	£0.45	£22.8m	48.4	1.89	2250	2%	22%	£0.51m	£4.08m
Pixology	SP	£0.80	£16.0m	-	3.54	573	-16%	-58%	-£3.10m	-£22.30m
Planit Holdings	SP	£0.24	£22.0m	17.1	0.78	1000	0%	0%	£0.00m	£0.00m
Portrait Software (was AIT)	CS	£0.22	£16.0m	8.1	1.12	141	-14%	-31%	-£2.60m	-£0.29m
Prologic	CS	£0.69	£6.9m	-	0.99	825	-3%	-12%	-£0.20m	-£0.90m
PSD Group	A	£2.33	£58.4m	22.4	1.34	1057	-1%	-11%	-£0.31m	-£6.56m
QA	CS	£0.02	£4.4m	-	0.15	7	-17%	-50%	-£0.93m	-£4.51m
Qonnectis	CS	£0.02	£3.7m	-	N/a	633	36%	-37%	£0.98m	-£2.55m
Quantica	A	£0.62	£39.7m	16.9	1.29	500	2%	33%	£15.07m	£20.76m
Raft International	SP	£0.08	£5.1m	-	0.71	123	19%	-9%	£0.83m	-£0.49m
Red Squared	CS	£0.07	£1.9m	-	1.15	378	6%	-24%	£0.11m	-£0.60m
Retail Decisions	SP	£0.23	£65.5m	16.4	2.06	304	-25%	-21%	-£21.42m	-£17.33m
RM	SP	£1.68	£151.0m	-	0.57	4793	-1%	-3%	-£1.58m	-£4.61m
Royalblue Group	SP	£6.47	£211.3m	25.5	3.53	3803	-2%	45%	-£3.92m	£65.85m
Sage Group	SP	£2.31	£2,958.9m	21.5	4.30	88654	1%	14%	£25.67m	£359.16m
Sanderson Group	SP	£0.76	£31.0m	-	2.14	1520	12%	25%	£3.27m	£6.36m
SDL	CS	£1.86	£113.3m	63.7	1.81	1237	16%	38%	£15.58m	£38.41m
ServicePower	SP	£0.35	£26.0m	-	6.33	350	3%	3%	£0.74m	£0.95m
Sirius Financial	SP	£1.03	£18.1m	46.8	0.84	687	6%	23%	£0.97m	£3.64m
SiRViS IT plc	CS	£0.06	£6.7m	-	2.1	51	-10%	-4%	-£0.71m	-£0.29m
smartFOCUS plc	SP	£0.19	£14.4m	-	5.1	2027	-3%	108%	-£0.38m	£7.77m
Sopheon	SP	£0.21	£25.9m	-	6.00	306	-10%	-11%	-£2.55m	-£0.52m
Spring Group	A	£0.60	£95.5m	20.5	0.20	664	-7%	-35%	-£7.62m	-£49.19m
StatPro Group	SP	£0.60	£21.8m	8.9	2.40	744	5%	78%	£1.10m	£10.75m
Stilo International	SP	£0.03	£2.3m	-	1.09	50	0%	-44%	£0.00m	-£1.80m
SurfControl (was JSB)	SP	£4.45	£45.0m	-	0.94	2225	-9%	-19%	-£7.20m	-£119.83m
Systems Union	SP	£1.43	£155.9m	28.0	1.50	1100	7%	24%	£11.69m	£32.18m
Tadpole Technology	SP	£0.05	£18.0m	-	3.72	112	-5%	-54%	-£0.84m	-£19.49m
Telecity	CS	£0.21	£57.2m	-	2.21	27	0%	11%	£0.00m	£6.18m
Tikit Group	CS	£2.08	£26.3m	109.2	2.21	1804	2%	29%	£0.63m	£6.39m
Torex Retail	SP	£1.08	£348.4m	41.5	5.13	2700	-6%	43%	-£15.91m	£101.26m
Total Systems	SP	£0.46	£4.8m	12.8	1.39	858	-2%	-15%	-£0.11m	-£0.84m
Touchstone Group	SP	£1.29	£14.7m	-	0.85	1229	0%	39%	£0.00m	£4.38m
Trace Group	SP	£0.94	£14.2m	15.8	0.92	748	12%	16%	£1.52m	£1.96m
Triad Group	CS	£0.52	£7.9m	65.8	0.17	385	7%	-10%	£0.53m	-£6.77m
Tribal Group	CS	£2.09	£159.4m	-	0.69	1264	0%	45%	£0.29m	£51.71m
Ubiquity Software	SP	£0.36	£65.8m	-	12.38	905	0%	4%	£0.00m	£1.84m
Ultima Networks	R	£0.02	£4.6m	-	2.42	55	-10%	20%	-£0.51m	£0.78m
Ultrasis Group	SP	£0.02	£25.0m	-	16.32	44	-8%	542%	-£2.04m	£22.04m
Universe Group	SP	£0.21	£12.6m	40.2	0.29	911	-8%	1%	-£1.08m	£0.28m
Vega Group	CS	£2.15	£43.8m	24.7	0.83	1762	0%	10%	-£0.19m	£4.08m
VI group	SP	£0.09	£3.4m	-	0.35	183	7%	-36%	£0.23m	-£1.91m
Xansa	CS	£0.91	£313.1m	34.5	0.83	2333	6%	-2%	£18.18m	-£4.43m
XKO Group	SP	£1.08	£37.2m	3.1	0.83	720	13%	49%	£10.77m	£17.24m
Xpertise Group	CS	£0.01	£4.5m	-	0.34	43	-10%	43%	-£0.52m	£1.37m

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.

Alphameric plc

	Interim - May 05	Final - Nov 04	Interim - May 05	Comparison
REV	£18,048,000	£69,973,000	£31,520,000	+74.6%
PBT	-£2,350,000	-£59,487,000	£3,117,000	Loss to profit
EPS	-2.10p	-50.90p	2.30p	Loss to profit

Alterian plc

	Final - Mar 04	Final - Mar 05	Comparison
REV	£5,668,000	£7,806,000	+37.7%
PBT	-£3,232,000	-£432,000	Loss both
EPS	-7.10p	0.10p	Loss to profit

Anite Group plc

	Final - Apr 04	Final - Apr 04	Comparison
REV	£196,232,000	£189,403,000	-3.5%
PBT	-£28,897,000	£6,820,000	Loss to profit
EPS	-8.60p	0.50p	Loss to profit

Asite plc

	Interim - Jun 04	Final Dec 04	Interim - Jun 05	Comparison
REV	£788,000	£1,674,000	£793,000	+0.6%
PBT	-£843,000	-£3,962,000	-£962,000	Loss both
EPS	-0.70p	-3.60p	-0.50p	-28.6%

Atlantic Global plc

	Final Dec 03	Final Dec 04	Comparison
REV	£1,956,000	£2,146,000	+9.7%
PBT	£496,000	£188,000	-62.1%
EPS	1.35p	0.50p	-63.0%

Autonomy Corporation plc

	Interim - Jun 04	Final - Dec 04	Interim - Jun 05	Comparison
REV	£16,900,000	£35,379,067	£20,830,000	+23.3%
PBT	£1,650,000	£4,682,488	£3,500,000	+112.1%
EPS	0.01p	0.03p	0.03p	+200.0%

Aveva Group plc

	Final - Mar 04	Final - Mar 05	Comparison
REV	£38,113,000	£57,543,000	+51.0%
PBT	£6,109,000	£5,764,000	-5.6%
EPS	22.42p	13.41p	-40.2%

Axon Group plc

	Interim - Jun 04	Final - Dec 04	Interim - Jun 05	Comparison
REV	£26,685,000	£60,273,000	£40,393,000	+51.4%
PBT	£2,703,000	£6,600,000	£3,546,000	+31.2%
EPS	3.30p	8.50p	5.40p	+63.6%

Brady plc

	Interim - Jun 04	Final - Dec 04	Interim - Jun 05	Comparison
REV	£1,940,299	£4,832,440	£1,530,585	-21.1%
PBT	£823,300	£1,914,789	-£268,537	Profit to loss
EPS	2.73p	5.80p	-0.80p	Profit to loss

Bond International Software plc

	Final - Dec 03	Final - Dec 04	Comparison
REV	£7,037,000	£9,578,000	+36.1%
PBT	£451,000	£1,881,000	+317.1%
EPS	2.19p	6.63p	+202.7%

Business Systems Group Holdings plc

	Final - Mar 04	Final - Mar 05	Comparison
REV	£22,643,000	£29,485,000	+30.2%
PBT	-£117,000	£576,000	Loss to profit
EPS	-0.15p	0.90p	Loss to profit

Capita Group plc

	Interim - Jun 04	Final - Dec 04	Interim - Jun 05	Comparison
REV	£617,300,000	£1,285,100,000	£687,300,000	+11.3%
PBT	£63,300,000	£117,000,000	£70,100,000	+10.7%
EPS	6.31p	11.21p	7.46p	+18.2%

Charteris plc

	Interim - Jan 04	Final - Jul 04	Interim - Jan 05	Comparison
REV	£5,893,000	£13,822,000	£8,866,000	+50.4%
PBT	£34,000	£541,000	£438,000	+1188.2%
EPS	0.00p	0.81p	0.63p	n/a

Chelford Group plc

	Final - Dec 03	Final - Dec 04	Comparison
REV	£9,877,000	£11,852,000	+20.0%
PBT	-£373,000	£282,000	Loss to profit
EPS	-3.22p	3.72p	Loss to profit

Civica plc

	Interim - Mar 04	Final - Sep 04	Interim - Mar 05	Comparison
REV	£52,474,000	£104,100,000	£49,576,000	-5.5%
PBT	£3,764,000	£8,300,000	£4,250,000	+12.9%
EPS	5.20p	11.50p	5.70p	+9.6%

Clarity Commerce plc

	Final - Mar 04	Final - Mar 05	Comparison
REV	£13,325,000	£16,310,000	+22.4%
PBT	£511,000	£513,000	+0.4%
EPS	2.49p	2.36p	-5.2%

Clinical Computing plc

	Final - Dec 03	Final - Dec 04	Comparison
REV	£1,858,828	£1,757,997	-5.4%
PBT	-£1,236,892	-£1,087,741	Loss both
EPS	-4.50p	-2.40p	Loss both

CODASciSys plc

	Interim - Jun 04	Final - Dec 04	Interim - Jun 05	Comparison
REV	£34,039,000	£67,830,000	£35,306,000	+3.7%
PBT	£1,904,000	£3,914,000	£3,433,000	+80.3%
EPS	4.50p	8.90p	9.40p	+108.9%

Comino Group plc

	Final - Mar 04	Final - Mar 05	Comparison
REV	£24,507,000	£25,533,000	+4.2%
PBT	£1,713,000	£1,946,000	+13.6%
EPS	6.90p	8.60p	+24.6%

Compel Group plc

	Final - Jun 04	Final - Jun 05	Comparison
REV	£63,335,000	£79,103,000	+24.9%
PBT	-£327,000	£812,000	Loss to profit
EPS	-0.90p	1.60p	Loss to profit

Computacenter plc

	Interim - Jun 04	Final - Dec 04	Interim - Jun 05	Comparison
REV	£1,228,941,000	£2,410,590,000	£1,151,553,000	-6.3%
PBT	£30,062,000	£67,928,000	£8,221,000	-72.7%
EPS	10.50p	23.50p	1.20p	-88.6%

Computer Software Group plc

	Final - Feb 04	Final - Feb 05	Comparison
REV	£6,253,000	£14,072,000	+125.0%
PBT	-£343,000	£928,000	Loss to profit
EPS	0.47p	3.19p	+578.7%

Cornwell Management Consultants plc

	Interim - Jun 04	Final - Dec 04	Interim - Jun 05	Comparison
REV	£8,898,000	£17,738,000	£10,001,000	+12.4%
PBT	£719,000	£1,257,000	£969,000	+34.8%
EPS	4.60p	7.70p	4.10p	Loss both

Corpora plc

	Final - Jun 04	Interim - Dec 04	Comparison
REV	£499,381	£806,151	N/a
PBT	-£2,649,553	-£2,356,084	Loss both
EPS	-16.10p	-6.50p	Loss both

DCS Group plc

	Interim - Jun 03	Final - Dec 03	Interim - Jun 04	Comparison
REV	£30,200,000	£52,800,000	£19,500,000	+12.4%
PBT	-£4,000,000	-£7,000,000	£2,800,000	Loss to profit
EPS	-17.16p	-31.07p	10.78p	Loss to profit

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

	Interim - Jun 04	Final - Dec 04	Interim - Jun 05	Comparison
REV	£10,554,000	£21,503,000	£11,835,000	+12.1%
PBT	£662,000	£1,196,000	£803,000	+21.3%
EPS	8.60p	18.81p	11.00p	+27.9%

Detica Group plc

	Final - Mar 04	Final - Mar 05	Comparison
REV	£53,523,000	£71,027,000	+32.7%
PBT	£8,775,000	£8,781,000	+0.1%
EPS	35.30p	31.30p	-11.3%

Dicom Group plc

	Interim - Dec 03	Final - Jun 04	Interim - Dec 04	Comparison
REV	£77,121,000	£156,197,000	£86,908,000	+12.7%
PBT	£2,775,000	£7,757,000	£5,866,000	+111.4%
EPS	4.00p	18.20p	15.70p	+292.5%

Dimension Data plc

	Final - Sep 03	Final - Sep 04	Comparison
REV	£1,287,248,741	£1,386,910,700	+7.7%
PBT	-£244,385,906	-£2,449,390	Loss both
EPS	-17.68p	-1.56p	Loss both

DRS Data & Research Services plc

	Interim - Jul 04	Final - Dec 04	Interim - Jul 05	Comparison
REV	£9,728,000	£14,408,000	£6,325,000	-35.0%
PBT	£1,126,000	£452,000	-£277,000	Profit to loss
EPS	2.36p	1.35p	-0.68p	Profit to loss

Electronic Data Processing plc

	Interim - Mar 04	Final - Sep 04	Interim - Mar 05	Comparison
REV	£4,323,000	£8,319,000	£3,472,000	-19.7%
PBT	£549,000	£1,032,000	£193,000	-64.8%
EPS	1.93p	2.61p	0.44p	-77.2%

Epic Group plc

	Final - May 04	Final - May 05	Comparison
REV	£7,296,000	£8,104,000	+11.1%
PBT	£1,364,000	£2,085,000	+52.9%
EPS	3.90p	6.20p	+59.0%

FDM Group

	Interim - Jun 04	Final - Dec 04	Interim - Jun 05	Comparison
REV	£15,778,000	£32,971,000	£16,438,000	+4.2%
PBT	£819,000	£1,805,000	£400,000	-51.2%
EPS	2.30p	5.00p	0.50p	N/a

Ffastfill Plc

	Final - Mar 04	Final - Mar 05	Comparison
REV	£2,651,000	£4,327,000	+63.2%
PBT	-£2,547,000	-£2,879,000	Loss both
EPS	-3.43p	-1.60p	Loss both

Financial Objects plc

	Interim - Jun 04	Final - Dec 04	Interim - Jun 05	Comparison
REV	£4,589,000	£9,509,000	£5,589,000	+21.8%
PBT	£125,000	-£45,000	-£144,000	Profit to loss
EPS	0.45p	-0.16p	-0.47p	Profit to loss

Flomerics Group plc

	Interim - Jun 04	Final - Dec 04	Interim - Jun 05	Comparison
REV	£4,430,000	£10,241,000	£5,256,000	+18.6%
PBT	-£106,000	£671,000	£321,000	Loss to profit
EPS	-0.71p	3.85p	1.66p	Loss to profit

Focus Solutions Group plc

	Final - Mar 04	Final - Mar 05	Comparison
REV	£5,388,000	£5,431,000	+0.8%
PBT	-£382,000	£26,000	Loss to profit
EPS	-1.00p	0.10p	Loss to profit

GB Group plc

	Final - Mar 04	Final - Mar 05	Comparison
REV	£11,916,000	£11,231,000	-5.7%
PBT	-£10,000	-£283,000	Loss both
EPS	0.00p	-0.20p	Loss both

Gladstone Plc

	Interim - Feb 04	Final - Aug 04	Interim - Feb 05	Comparison
REV	£3,569,144	£7,649,463	£3,912,157	+9.6%
PBT	£231,620	£498,926	£130,925	-43.5%
EPS	0.54p	1.19p	0.28p	-48.1%

Glotel plc

	Final - Mar 04	Final - Mar 05	Comparison
REV	£90,499,000	£119,496,000	+32.0%
PBT	£754,000	£2,571,000	+241.0%
EPS	1.20p	4.70p	+291.7%

Group NBT plc

	Final - Jun 04	Final - Jun 05	Comparison
REV	£7,675,000	£11,280,000	+47.0%
PBT	£412,000	£1,690,000	Loss to Profit
EPS	3.40p	8.30p	Loss to Profit

Gresham Computing plc

	Interim - Jun 04	Final - Dec 04	Interim - Jun 05	Comparison
REV	£6,136,000	£12,398,000	£6,634,000	+8.1%
PBT	-£559,000	-£1,067,000	-£742,000	Loss both
EPS	-1.13p	-1.54p	-1.27p	Loss both

Harvey Nash Group plc

	Final - Jan 04	Final - Jan 05	Comparison
REV	£130,911,000	£163,374,000	+24.8%
PBT	-£4,536,000	£1,640,000	Loss to profit
EPS	-8.75p	0.51p	Loss to profit

Highams Systems Services Group plc

	Final - Mar 04	Final - Mar 05	Comparison
REV	£8,559,000	£13,512,000	+57.9%
PBT	-£293,000	-£523,000	Loss both
EPS	-1.51p	-1.90p	Loss both

Horizon Technology Group plc

	Interim - Jun 04	Final Dec 04	Interim - Jun 05	Comparison
REV	£101,488,400	£190,777,237	£101,094,460	-.4%
PBT	£1,839,310	£3,864,736	£2,730,280	+48.4%
EPS	1.97p	4.00p	3.06p	+55.3%

IBS OPENSystems plc

	Jun-05	Comparison
REV	£5,216,000	N/a
PBT	£999,000	N/a
EPS	1.20p	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

	Interim - April 04	Final - Oct 04	Interim - April 05	Comparison
REV	£3,284,000	£9,555,000	£7,024,000	+113.9%
PBT	-£193,000	£89,000	£214,000	Loss to Profit
EPS	0.03p	0.23p	0.12p	Loss to Profit

INCAT International

	Final - Aug 03	Final - Aug 04	Comparison
REV	£64,024,991	£65,261,424	+1.9%
PBT	£2,288,242	£2,465,000	+7.7%
EPS	n/a	n/a	n/a

Innovation Group plc (The)

	Interim - Mar 04	Final - Sep 04	Interim - Mar 05	Comparison
REV	£27,355,000	£58,051,000	£28,772,000	+5.2%
PBT	-£3,451,000	-£7,349,000	-£5,029,000	Loss both
EPS	-0.97p	-1.98p	-1.23p	Loss both

InTechnology plc

	Final - Mar 04	Final - Mar 05	Comparison
REV	£221,868,000	£283,522,000	+27.8%
PBT	-£4,080,000	-£2,465,000	Loss both
EPS	-3.54p	-1.84p	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

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

INVU plc

	Interim - Jul 04	Final - Jan 05	Interim - Jul 05	Comparison
REV	£1,016,000	£3,149,000	£1,680,000	+65.5%
PBT	-£576,000	£608,000	£70,000	Loss to profit
EPS	-0.61p	0.64p	0.07p	Loss to profit

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 03	Final - Dec 04	Comparison
REV	£5,985,000	£5,514,000	-7.9%
PBT	-£188,000	-£317,000	Loss both
EPS	-0.89p	-0.13p	Loss both

K3 Business Technology Group plc

	Interim - Jun 04	Final - Dec 04	Interim - Jun 05	Comparison
REV	£2,790,000	£8,529,000	£9,344,000	+234.9%
PBT	£1,174,000	£1,160,000	£72,000	-93.9%
EPS	9.00p	10.00p	-1.10p	Profit to loss

Kewill Systems plc

	Final - Mar 04	Final - Mar 05	Comparison
REV	£22,147,000	£26,680,000	+20.5%
PBT	£1,529,000	£2,443,000	+59.8%
EPS	2.70p	4.70p	+74.1%

Knowledge Technology Solutions Plc

	Interim - Dec 03	Final - Jun 04	Interim - Dec 04	Comparison
REV	£298,323	£770,185	£572,283	+91.8%
PBT	-£432,656	-£904,161	-£419,898	Loss both
EPS	-0.38p	-0.71p	-0.28p	Loss both

LogicaCMG plc

	Interim - Jun 04	Final - Dec 04	Interim - Jun 05	Comparison
REV	£804,100,000	£1,669,800,000	£891,700,000	+10.9%
PBT	£25,800,000	£42,400,000	£37,700,000	+46.1%
EPS	1.90p	1.90p	2.90p	+52.6%

Lorien plc

	Interim - May 04	Final - Nov 04	Interim - May 05	Comparison
REV	£56,552,000	£122,598,000	£61,266,000	+8.3%
PBT	£340,000	£1,152,000	-£369,000	Profit to loss
EPS	1.00p	6.90p	-1.60p	Profit to loss

Macro 4 plc

	Final - Jun 04	Final - Jun 05	Comparison
REV	£31,240,000	£33,103,000	+6.0%
PBT	£1,042,000	£790,000	-24.2%
EPS	1.90p	2.90p	+52.6%

Quoted Companies - Results Service

Note: Highlighted Names indicate results announced this month.

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

Matrix Communications

	Final - Oct 03		Final - Oct 04	Comparison
REV	£1,452,048		£11,134,827	+666.8%
PBT	-£563,450		£1,212,423	Loss to profit
EPS	-3.58p		3.81p	Loss to profit

Maxima Holdings plc

		Interim - Nov 04	Final - 31 May 05	Comparison
REV		£6,194,000	£8,076,167	N/a
PBT		£800,000	£1,038,018	N/a
EPS		4.34p	8.30p	N/a

Mediasurface plc

	Interim - Mar 04	Final - Sep 04	Interim - Mar 05	Comparison
REV	£2,839,562	£5,403,482	£3,661,081	+28.9%
PBT	-£153,466	-£737,394	£138,747	Loss to profit
EPS	0.10p	-0.60p	0.20p	+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 03		Final - Dec 04	Comparison
REV	£26,416,000		£42,444,000	+60.7%
PBT	-£2,356,000		£1,118,000	Loss to profit
EPS	-3.20p		0.20p	Loss to profit

Minorplanet Systems Plc

	Interim - Feb 04	Final - Aug 04	Interim - Feb 05	Comparison
REV	£19,100,000	£33,800,000	£11,400,000	-40.3%
PBT	-£2,900,000	-£17,400,000	-£3,100,000	Loss both
EPS	-11.35p	-22.23p	-2.01p	Loss both

Misys plc

	Final - May 04		Final - May 05	Comparison
REV	£899,900,000		£888,400,000	-1.3%
PBT	£23,100,000		£27,600,000	+19.5%
EPS	4.30p		2.80p	-34.9%

Mondas plc

	Final - Apr 04		Final - Apr 05	Comparison
REV	£3,974,732		£4,592,675	+15.5%
PBT	-£1,779,554		-£1,384,081	Loss both
EPS	-6.60p		-5.30p	Loss both

Morse plc

	Final - Jun 04		Final - Jun 05	Comparison
REV	£390,008,000		£429,531,000	+10.1%
PBT	-£12,431,000		£18,332,000	Loss both
EPS	-11.90p		-14.10p	Loss both

MSB International plc

	Final - Jan 04		Final - Jan 05	Comparison
REV	£67,297,000		£92,321,000	+37.2%
PBT	£311,000		£825,000	+165.3%
EPS	0.76p		2.57p	+238.2%

NCC Group plc

	Final - May 04		Final - May 05	Comparison
REV	£15,310,000		£18,786,000	+22.7%
PBT	£1,403,000		£3,368,000	+140.1%
EPS	2.60p		6.00p	+130.8%

Ncipher Plc

	Final - Dec 03		Final - Dec 04	Comparison
REV	£12,988,000		£14,244,000	+9.7%
PBT	-£585,000		£2,333,000	Loss to profit
EPS	-2.80p		8.78p	Loss to profit

Netcall plc

	Final - Jun 03		Final - Jun 04	Comparison
REV	£2,387,203		£2,414,211	+1.1%
PBT	-£331,777		-£827,931	Loss both
EPS	-0.60p		-1.30p	Loss both

Netstore plc

	Final - Jun 04		Final - Jun 05	Comparison
REV	£20,681,000		£21,397,000	+3.5%
PBT	-£687,000		£653,000	Loss to profit
EPS	-0.14p		1.43p	Loss to profit

Nexus Management plc

	Final - Mar 04		Final - Mar 05	Comparison
REV	£1,160,363		£1,157,000	-.3%
PBT	-£134,991		-£106,257	Loss both
EPS	-0.04p		-0.04p	Loss both

Northgate Information Solutions plc

	Final - Apr 04		Final - Apr 05	Comparison
REV	£136,464,000		£205,692,000	+50.7%
PBT	-£10,086,000		£3,889,000	Loss to profit
EPS	-2.94p		0.79p	Loss to profit

NSB Retail Systems plc

	Interim - Jun 04	Final - Dec 04	Interim - Jun 05	Comparison
REV	£21,632,000	£45,399,000	£22,202,000	+2.6%
PBT	£2,445,000	£6,343,000	£3,546,000	+45.0%
EPS	3.02p	3.99p	0.81p	-73.2%

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

Parity Group plc

	Interim - Jun 04	Final - Dec 04	Interim - Jun 05	Comparison
REV	£82,931,000	£159,860,000	£88,790,000	+7.1%
PBT	-£700,000	-£6,914,000	-£949,000	Loss both
EPS	0.05p	-2.24p	-0.64p	Loss both

Patsystems plc

	Interim - Jun 04	Final - Dec 04	Interim - Jun 05	Comparison
REV	£5,329,000	£11,775,000	£7,708,000	+44.6%
PBT	-£1,808,000	-£2,929,000	-£558,000	Loss both
EPS	-1.10p	-1.40p	-0.30p	Loss both

Phoenix IT Group plc

	Final - Mar 04		Final - Mar 05	Comparison
REV	£58,311,590		£88,331,000	+51.5%
PBT	£9,317,065		£10,070,000	+8.1%
EPS	15.00p		13.30p	N/a

Pilat Media Global plc

	Interim - Jun 04	Final - Dec 04	Interim - Jun 05	Comparison
REV	£5,607,249	£12,052,232	£4,694,490	-16.3%
PBT	£434,918	£1,834,969	£739,678	+70.1%
EPS	0.65p	2.49p	-0.97p	Profit to loss

Pixology plc

	Final - Dec 03		Final - Dec 04	Comparison
REV	£2,528,038		£4,514,729	+78.6%
PBT	-£1,919,177		-£2,163,393	Loss both
EPS	-12.70p		-9.79p	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

	Final - Mar 04		Final - Mar 05	Comparison
REV	£19,648,000		£14,288,000	-27.3%
PBT	£2,018,000		£1,433,000	-29.0%
EPS	7.49p		2.49p	-66.8%

Prologic plc

	Final - Mar 04		Final - Mar 05	Comparison
REV	£7,542,000		£6,928,000	-8.1%
PBT	£676,000		£421,000	-37.7%
EPS	N/a		2.76p	Profit to Loss

PSD Group plc

	Final - Dec 03		Final - Dec 04	Comparison
REV	£37,622,000		£43,714,000	+16.2%
PBT	£333,000		£2,856,000	+757.7%
EPS	-1.20p		7.20p	Loss to profit

QA plc

	Final - Nov 03		Final - Nov 04	Comparison
REV	£29,158,000		£30,153,000	+3.4%
PBT	-£3,220,000		-£2,386,000	Loss both
EPS	-2.50p		-1.40p	Loss both

Quantica plc

	Interim - May 04	Final - Nov 04	Interim - May 05	Comparison
REV	£13,789,000	£30,848,000	£17,019,000	+23.4%
PBT	£763,000	£1,957,000	£1,018,000	+33.4%
EPS	1.15p	3.32p	1.57p	+36.5%

Raft International plc

	Interim - Apr 04	Final - Oct 04	Interim - Apr 05	Comparison
REV	£3,164,000	£7,261,000	£4,161,000	+31.5%
PBT	-£969,000	-£991,000	-£566,000	Loss both
EPS	-1.48p	-1.45p	-0.87p	Loss both

Red Squared plc

	Interim - March 04	Final - Sep 04	Interim - March 05	Comparison
REV	£955,074	£1,696,513	£1,040,122	+8.9%
PBT	-£97,155	-£466,614	-£181,928	Loss both
EPS	-0.48p	-2.32p	-0.67p	Loss both

Retail Decisions plc

	Interim - Jun 04	Final - Dec 04	Interim - Jun 05	Comparison
REV	£15,430,000	£31,737,000	£14,705,000	-4.7%
PBT	£2,998,000	£6,144,000	£3,522,000	+17.5%
EPS	0.69p	1.39p	0.80p	+15.9%

RM plc

	Interim - Mar 04	Final - Sep 04	Interim - Mar 05	Comparison
REV	£108,944,000	£263,264,000	£109,211,000	+0.2%
PBT	£766,000	£7,054,000	-£4,788,000	Profit to Loss
EPS	0.00p	4.30p	-5.30p	Profit to loss

Royalblue Group plc

	Interim - Jun 04	Final - Dec 04	Interim - Jun 05	Comparison
REV	£28,459,000	£59,768,000	£34,082,000	+19.8%
PBT	£4,090,000	-£859,000	£4,754,000	Profit to loss
EPS	8.80p	23.40p	10.80p	+22.7%

Sage Group plc

	Interim - Mar 04	Final - Sep 04	Interim - Mar 05	Comparison
REV	£332,501,000	£687,585,000	£381,616,000	+14.8%
PBT	£86,673,000	£181,144,000	£100,617,000	+16.1%
EPS	4.65p	9.85p	5.46p	+17.5%

Sanderson Group plc

		Final - Sep 04	Interim - Mar 05	Comparison
REV		£11,880,000	£7,897,000	n/a
PBT		-£328,000	£1,001,000	n/a
EPS		-1.00p	-2.30p	n/a

SDL plc

	Interim - Jun 04	Final - Dec 04	Interim - Jun 05	Comparison
REV	£30,670,000	£62,690,000	£34,080,000	+11.1%
PBT	£1,622,000	£457,000	£3,103,000	+91.3%
EPS	2.07p	-1.77p	3.21p	+55.1%

ServicePower Technologies plc

	Interim - Jun 04	Final - Dec 04	Interim - Jun 06	Comparison
REV	£1,490,000	£4,114,000	£3,444,000	+131.1%
PBT	-£1,435,000	-£3,743,000	-£1,078,000	Loss both
EPS	-2.16p	-5.34p	-1.54p	Loss both

Sirius Financial Solutions plc

	Final - Dec 03		Final - Dec 04	Comparison
REV	£20,523,966		£21,704,052	+5.7%
PBT	-£581,160		£385,444	Loss to profit
EPS	-3.90p		1.40p	Loss to profit

Sirvis IT plc

	Final - May 04		Final - May 05	Comparison
REV	£3,230,000		£8,083,000	+150.2%
PBT	£321,000		-£2,432,000	Profit to loss
EPS	0.60p		-2.45p	Profit to loss

smartFOCUS plc

	Interim - Jun 04	Final - Dec 04	Interim - Jun 05	Comparison
REV	£1,283,775	£2,850,101	£2,183,779	+70.1%
PBT	-£16,242	-£324,052	£64,926	Loss to profit
EPS	0.10p	-0.30p	0.10p	+0.0%

Sopheon plc

	Interim - Jun 04	Final - Dec 04	Interim - Jun 05	Comparison
REV	£2,083,000	£4,323,000	£1,909,000	-8.4%
PBT	-£1,261,000	-£1,964,000	-£894,000	Loss both
EPS	-1.20p	-1.60p	-1.60p	Loss both

Spring Group plc

	Interim - Jun 04	Final - Dec 04	Interim - Jun 05	Comparison
REV	£229,048,000	£476,429,000	£219,908,000	-4.0%
PBT	-£712,000	£859,000	-£5,170,000	Loss both
EPS	-0.04p	4.91p	-3.06p	Loss both

StatPro Group plc

	Interim - Jun 04	Final - Dec 04	Interim - Jun 05	Comparison
REV	£4,258,000	£9,072,000	£5,017,000	+17.8%
PBT	£263,000	£162,000	£554,000	+110.6%
EPS	1.10p	5.30p	1.40p	Loss both

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

Superscape plc

	Final - Jan 04		Final - Jan 05	Comparison
REV	£1,100,000		£4,050,000	+268.2%
PBT	-£6,969,000		-£5,475,000	Loss both
EPS	-7.10p		-4.20p	Loss both

SurfControl plc

	Final - Jun 03		Final - Jun 04	Comparison
REV	£46,209,392		£47,859,580	+3.6%
PBT	£5,602,649		£7,890,650	+40.8%
EPS	13.12p		19.73p	+50.3%

Systems Union Group plc

	Interim - Jun 04	Final - Dec 04	Interim - Jun 05	Comparison
REV	£51,016,000	£104,230,000	£53,666,000	+5.2%
PBT	£1,464,000	£4,614,000	£2,697,000	+84.2%
EPS	1.20p	3.90p	2.20p	+83.3%

Tadpole Technology plc

	Interim - Mar 04	Final - Sep 04	Interim - Mar 05	Comparison
REV	£1,476,000	£4,831,000	£4,439,000	+200.7%
PBT	-£1,515,000	-£2,767,000	-£1,411,000	Loss both
EPS	-0.60p	-1.00p	-0.40p	Loss both

Telecity plc

	Interim - Jun 04	Final - Dec 04	Interim - Jun 05	Comparison
REV	£12,235,000	£25,837,000	£14,390,000	+17.6%
PBT	-£2,745,000	-£6,804,000	-£1,637,000	Loss both
EPS	-1.20p	-2.70p	-0.60p	Loss both

Tikit Group plc

	Final - Dec 03		Final - Dec 04	Comparison
REV	£9,558,000		£11,903,000	+24.5%
PBT	£713,000		£859,000	+20.5%
EPS	2.90p		4.50p	+55.2%

Torex Retail plc

	Interim - Jun 04	Final - Dec 04	Interim - Jun 05	Comparison
REV	£25,118,000	£67,935,000	£52,466,000	+108.9%
PBT	£2,496,000	£7,711,000	£2,086,000	-16.4%
EPS	0.70p	2.90p	0.40p	-42.9%

Total Systems plc

	Final - Mar 04		Final - Mar 05	Comparison
REV	£3,843,856		£3,451,633	-10.2%
PBT	£715,938		£496,098	-30.7%
EPS	4.94p		3.56p	-27.9%

Touchstone Group plc

	Final - Mar 04		Final - Mar 05	Comparison
REV	£14,901,000		£17,269,000	+15.9%
PBT	£555,000		-£82,000	Profit to loss
EPS	1.50p		-3.20p	Profit to loss

Trace Group plc

	Final - May 04		Final - May 05	Comparison
REV	£15,472,000		£16,112,000	+4.1%
PBT	£822,000		£1,224,000	+48.9%
EPS	4.69p		5.92p	+26.2%

Triad Group plc

	Final - Mar 04		Final - Mar 05	Comparison
REV	£36,534,000		£46,200,000	+26.5%
PBT	-£759,000		£150,000	Loss to profit
EPS	-5.20p		0.77p	Loss to profit

Tribal Group plc

	Final - Mar 04		Final - Mar 05	Comparison
REV	£185,744,000		£229,470,000	+23.5%
PBT	£5,322,000		-£212,000	-104.0%
EPS	-1.40p		-8.20p	Profit to loss

Ubiquity Software Corporation plc

	Interim - Jun 04	Final - Dec 04	Interim - Jun 05	Comparison
REV	£2,522,200	£5,314,776	£3,507,000	+39.0%
PBT	-£2,564,000	-£6,407,328	-£4,157,000	Loss both
EPS	-19.00p	-44.00p	-6.00p	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 Group plc

	Final - Jul 03		Final - Jul 04	Comparison
REV	£548,000		£1,535,000	+180.1%
PBT	-£12,864,000		-£364,000	Loss both
EPS	-0.53p		-0.02p	Loss both

Universe Group plc

	Interim - Jun 04	Final - Dec 04	Interim - Jun 05	Comparison
REV	£20,349,000	£43,992,000	£22,302,000	+9.6%
PBT	-£224,000	-£74,000	£175,000	Loss to profit
EPS	-0.38p	-0.10p	0.23p	Loss to profit

Vega Group plc

	Final - Apr 04		Final - Apr 05	Comparison
REV	£44,127,000		£52,602,000	+19.2%
PBT	£1,918,000		£2,907,000	+51.6%
EPS	5.74p		8.61p	+50.0%

VI Group plc

	Interim - Jun 04	Final - Dec 04	Interim - Jun 05	Comparison
REV	£5,053,000	£9,698,000	£5,417,000	+7.2%
PBT	-£99,000	-£259,000	£189,000	Loss to profit
EPS	-0.60p	-0.84p	0.02p	Loss to profit

Xansa plc

	Final - Apr 04		Final - Apr 05	Comparison
REV	£419,500,000		£376,400,000	-10.3%
PBT	-£29,000,000		£10,800,000	Loss to profit
EPS	-11.92p		2.58p	Loss to profit

XKO Group plc

	Final - Mar 04		Final - Mar 05	Comparison
REV	£45,400,000		£44,853,000	-1.2%
PBT	-£2,323,000		£10,013,000	Loss to profit
EPS	-9.70p		34.60p	Loss to profit

XN Checkout Holdings plc

	Final - Dec 03		Final - Dec 04	Comparison
REV	£14,315,000		£18,298,000	+27.8%
PBT	-£2,242,000		£1,734,000	Loss to profit
EPS	-9.40p		10.80p	Loss to profit

Xpertise Group plc

	Final - Dec 03		Final - Dec 04	Comparison
REV	£10,767,000		£13,170,000	+22.3%
PBT	-£2,140,000		-£668,000	Loss both
EPS	-0.70p		0.16p	Loss both

SEPTEMBER WARNINGS: JUST THE START OF THE STORY

Four weeks ago, on 7 September, we wrote in *Hotnews* about the increasing number of companies we heard saying that July and August had been even more quiet than usual. Not only was the general activity level lower but clients were increasingly delaying decisions to kick off new projects citing general uncertainty in the economic outlook. There was a sense of unease. This article was occasioned by a warning from Micro Focus, which has since seen its share price fall by 42% in September.

But since then we have had warnings of one sort or another in the UK from Misys (–11%), Spring (–7%), Parity (–26%), Brady (–27%), The Innovation Group (TiG) (–7%), Gresham (–40%) and Pixology (–16%). Overall, the Ovum Index of software and IT services companies was down 1.15%.

30-Sep-05	
S/ITS Index	**5307.77**
FTSE IT (SCS) Index	**518.32**
techMARK 100	**1281.13**
FTSE 100	5477.70
FTSE AIM	1093.80
FTSE SmallCap	3158.36

SCSI Index =1000 on 15th April 1989

Changes in Indices	S/ITS Index	FTSE 100	techMARK 100	FTSE IT SCS Index	FTSE AIM Index	FTSE Small Cap
Month (01/09/05 to 30/09/05)	-1.15%	+3.41%	+0.54%	-1.90%	-0.44%	+1.79%
From 15th Apr 89	+430.78%	+166.74%				
From 1st Jan 90	+476.87%	+131.91%				
From 1st Jan 91	+649.82%	+153.55%				
From 1st Jan 92	+407.99%	+119.71%				
From 1st Jan 93	+233.07%	+92.44%				+127.65%
From 1st Jan 94	+217.91%	+60.24%				+69.02%
From 1st Jan 95	+254.04%	+78.69%				+80.85%
From 1st Jan 96	+135.01%	+48.48%	+62.32%		+14.72%	+62.67%
From 1st Jan 97	+98.24%	+33.00%	+40.06%		+12.06%	+44.67%
From 1st Jan 98	+74.88%	+6.66%	+34.29%	-48.17%	+10.26%	+36.53%
From 1st Jan 99	+34.66%	-6.88%	-12.01%	-64.15%	+36.45%	+52.51%
From 1st Jan 00	-53.73%	-20.96%	-66.10%	-86.06%	-43.41%	+1.95%
From 1st Jan 01	-36.60%	-11.97%	-50.06%	-73.41%	-23.93%	-0.78%
From 1st Jan 02	+10.62%	+4.99%	-13.01%	-38.61%	+21.83%	+22.46%
From 1st Jan 03	+95.66%	+39.01%	+97.47%	+52.35%	+81.42%	+73.48%
From 1st Jan 04	+13.50%	+22.35%	+26.22%	+2.92%	+30.93%	+27.61%
From 1st Jan 05	+7.76%	+13.78%	+7.08%	+6.70%	+8.75%	+14.51%

End Sep 05	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 in Sep 05
System Houses	24.9%	-51.3%	-34.6%	17.9%	134.9%	22.5%	11.6%	-0.7%
IT Staff Agencies	-72.0%	-75.6%	-61.2%	-29.9%	5.4%	-30.9%	-12.5%	-2.2%
Resellers	93.3%	-6.9%	23.2%	37.1%	85.4%	-3.3%	6.6%	-1.9%
Software Products	83.2%	-55.9%	-68.0%	3.1%	70.7%	5.2%	8.1%	-1.3%
Holway S/ITS Index	34.7%	-53.7%	-36.6%	10.6%	95.7%	13.5%	7.8%	-1.2%

Add to that some lack-lustre figures from Oracle on new licence sales and you start to get the picture. Oracle fell 7% in September and is now back to where it was in September 2004. Well, actually back to where it was on September 2003, September 2002 and September 2001 and less than a third of its level in September 2000. So all its frenetic acquisition activity in the last year has contributed not a jot for shareholders.

The market is getting even more volatile. Good bottom line performance achieved by consolidation and/or cost cutting is taken for granted. If you can't hack even that, then of course you will be severely punished as we have seen. Even assuming you make the bottom line expectations, investors will be looking at your top line revenue growth outlook. Any weakness or uncertainty here will again be punished severely. Which leaves a small group of companies performing both at the bottom and top line - such as Autonomy, Axon and Torex Retail – to get the rewards. All these companies have registered gains between +75% and +100% in their share price in the last 12 months.

We ended our 7 September *Hotnews* piece with the warning: *"Overall, there is a feeling of increased caution in the air which could manifest in further revenue warnings, volatile stock prices and a less certain IPO outlook."*

We have already seen this come to pass in the four weeks since. But rather than the end of the story, we suspect this is only the start.
(Richard Holway)

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