ovum

October 2007

Available by Subscription Only

ISSN 0967-2583

SYSTEMHOUSE

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

THE RISING TEMPERATURE OF GREEN IT

By Ian Brown

Ian Brown
Senior Analyst

2007 looks set to go down as the year of 'green IT'. Hardly a week passes without a vendor announcing new eco-friendly products and services or its commitment to CO2 reduction and saving the planet. But this is surely just cynical marketing? IT isn't green and CIOs have more pressing concerns than saving the planet.

That may be true, but behind the hype there's one very real issue that is a pressing concern for CIOs and the environment—energy consumption. It's just that for most CIOs, energy consumption is not an environmental issue; it's a cost issue.

The cost of inefficiency

Look at a list of any CIO's priorities and cost reduction will almost certainly be at or near the top. Rising demand for server and storage capacity driven by the need for new applications and the need to store more data is putting pressure on IT budgets, even though hardware is getting cheaper. The prevalence of small servers, the network equipment required to link them to together, and the storage arrays attached to them are increasing energy consumption exponentially.

Most data centres weren't designed for the density of servers, storage and network equipment now being imposed on them. As the equipment becomes more densely packed in the data centre, more heat is generated and more energy is required for air conditioning to take that heat away. In many data centres, for every kilowatt of electricity it takes to power a rack full of servers, it takes another kilowatt to cool the rack down. Many city-based data centres put a limit on the amount of power that can be delivered per square foot (typically around 5 kilowatts). While this limits density, the data centre then runs up against space constraints.

CIOs need help. They need help to reduce their energy costs; they need help to improve the efficiency of their data centres. That inefficiency exists, because in the non-mainframe world, low-cost single servers tend to run single workloads. In a typical Windows server environment such workloads may only be using 10%or less of the server's processing power, even though the server is still consuming 90% of the power it would consume running at full capacity.

Solutions

The most prevalent solutions for improving system resource usage are consolidation and virtualisation. Virtualisation enables multiple software stacks or workloads to share a single set of physical resources (i.e., a server) or a pool of resources (multiple clustered servers). Virtualisation is one way of consolidating applications onto fewer servers and making better use of server resources. Instead of running one server with one workload at, say, 8 percent utilisation, virtualisation software running on the server can enable the same hardware resource to run four or five

[continued on page two]

Contents

ARTICLES

Facebook	2
Innovation sourcing strategies	3
LogicaCMG updates analysts	4
Computacenter	5
Xchanging's partnership model	6

COMPANY RESULTS

Accenture	10
Ascribe	11
Axon	8
Bond	15
Chelford	14
Dell	7
Gresham	15
Harvey Nash	9
Horizon	13
K3	8
Macro 4	12
Misys	14
Morse	11
nCipher	10
Netcall	13
Parity	9
Tikit	12

REGULAR FEATURES

This month's M&A activity	16
Share prices in September	18

INDICES
(changes in September 2007)

Ovum S/ITS Index	**-2.8%**	**6164**
FTSE IT (SCS)	**0.64%**	**601**
techMARK 100	**0.01%**	**1691**

[continued from front page]

workloads at 50-60% resource utilisation.

Other consolidation techniques, such as standardising on certain prescribed software, reducing duplicate servers and databases, centralising servers and consolidating distributed applications onto fewer more powerful servers, can also be used to reduce duplication of resources and to improve resource usage and efficiency.

Consolidation and virtualisation require a good deal of planning and may involve re-architecting the data-centre infrastructure to ensure that availability, manageability and service levels are not compromised in any way. That's where the opportunities lie for IT services players. It's not a green strategy as such, but it's predicated upon principles of reduction, improved efficiency and the sharing of resources.

In pure marketing terms, the green IT movement has been led by hardware vendors keen to sell the benefits of their latest power-efficient products. But the issues of improving resource usage, reducing energy consumption and managing data centres for efficiency represent a potential shift in IT spending away from product to services—away from the 'what should I buy?' to the 'how should I use what I've got?'

The role for IT services

What does it mean for IT services vendors? Firstly, IT services providers themselves often face power, cooling and energy issues in their own data centres. It's especially important for them to address the issue, because their returns and operating margins are so dependent upon their ability to squeeze out costs. Increasing energy and resources costs impact these margins adversely.

As a service to clients, there's a continuum of opportunities from consulting to outsourcing and application hosting in virtualised data centres. All play on the need to reduce power, space and cooling requirements.

If the real drivers for 'green IT' for the majority of CIOs are cost reduction and energy efficiency in the data centre, rather than saving the planet, the 'softer' issues of corporate and social responsibility (CSR) shouldn't be entirely dismissed. Whether it's hosting services, application development and maintenance services, or BPO, IT services providers are providing shared resources. Sharing is good environmental practice and that can be a selling point for customers with strong CSR policies or organisations that have to be seen to act responsibly, such as public sector clients.

The threat of the imposition of future legislation or taxation in order to slow down energy consumption is another potential selling point for the 'green' data-centre strategies of reduction, reuse and sharing. UK businesses already pay a Climate Change Levy on their electricity consumption and there are incentives in place to encourage them to reduce consumption. The Levy was put in place to ensure that the UK meets its carbon emissions targets. But if it fails, or if the government sees that the UK is likely to miss its commitments, then further higher taxation is almost certain to be imposed.

The marketing war between the hardware vendors has heated up during the course of 2007. Vendors want to be seen to be green for many of the same CSR reasons as their customers. They also want to tap into a powerful global influence. But behind the hype, there are some very real reasons why CIOs should be interested in following green principles. Waste and inefficient use of resources lie at the heart of rising data-centre costs. But this is not a problem that will be solved simply by buying more product, however energy efficient it may be. CIOs will need help in how they transform their IT infrastructure into something more efficient and that's a job for the IT services vendors.

FACEBOOK, BUBBLE 2.0 AND MICROSOFT'S MILLIONS

David Bradshaw
Principal Analyst

Rumours recently surfaced that Microsoft is negotiating to take a 5% stake in web-based social network Facebook for somewhere between $300m and $500m. Google is also rumoured as a suitor. This would value Facebook at up to $10bn, putting it in the same league as business internet player salesforce.com, which in pre-market trading on Monday 1st October, had a market capitalisation of $6.0bn.

The price being offered reminds us of prices in Bubble 1.0, the boom in tech stocks that was followed by a protracted bust. One of the characteristics of Bubble 1.0 was over-ambitious business plans based on two elements: 'hockey

[continued on page three]

[continued from page two]

stick' user adoption and over-ambitious revenue-per-customer projections.

Growing both customers and revenue per customer at the same time is entirely possible. What distinguishes successful technology companies from the rest is their ability to plan and do just this. But there are do-able plans, challenging plans, and downright improbable plans – and in the run up to the tech bust, far too many of the last sort received millions from gullible investors. So let's look at the two sides to Facebook's plan – growing the user base and growing revenue per user.

Facebook itself says that it currently has 43m active users, with more than 6m in Canada and 5m in the UK (Australia is the next largest user base, but Facebook doesn't give any numbers). So yes, there is room for user base growth worldwide, but with 18% of Canadians as regular users and just over 8% of Brits, there is limited upside in Canada, and the UK is not that far behind – and we suspect it is similar in the US and Australia. This means that to grow the user base rapidly, Facebook has to rapidly grow its penetration of large countries where English is not the first language – quite a challenge.

To extend its portfolio, Facebook has taken one of the smartest moves in the web portal business (indeed, it has copied salesforce.com here). It is allowing third parties to build their applications on its infrastructure. It says that there are over 3000 applications on its platform, with 100 being added every day. The most popular is photo sharing, one of Facebook's own applications, but there's nothing to stop an application from someone else overtaking this – and either way, Facebook wins.

In summary, growing revenue per user by extending the portfolio looks entirely achievable, while growing the user base at the current level may be more of a challenge.

This brings us to the issue of the price. Facebook is private, and it does not publish revenue or profit numbers. We've seen revenue estimates of around $50m to $100m for 2006. $500m for 5% values Facebook at around 1000x revenue. This compares to salesforce.com's market cap of around 8.5 x revenue, Yahoo's of 12.3x, and Google's of 38.7x. (We have used a slightly non-standard way of calculating these multiples to try and make them directly comparable, for example taking out traffic acquisition costs, so they may differ from other multiples you might see.)

We're not stock analysts so we can't advise anyone on whether a price of $300m or $500m for 5% makes any sense. But the numbers involved are awfully reminiscent of Bubble 1.0. However, a key factor to consider is who is paying the price, the risk they are taking and the benefit they hope to get out of it.

To Microsoft (market cap: $276bn), the risk of giving $500m to Facebook and it all going up in smoke is no problem. It has paid more in fines to the EU over the last year, and that has barely dented its profits or stock price. Google (market cap: $177bn) would also not really miss the odd $500m. If I were to be cruel, I'd say that both companies have more cash than they know what to do with. But that's not the point – they are engaged in a duel to the death over Web 2.0 and what comes after it. What matters most to each is keeping the other from getting hold of Facebook. And for that, the price could well go higher. And if I were the Facebook founders, I'd offer them both equal minority stakes at the highest price I could get on a "take it or leave it" basis.

INNOVATION SOURCING STRATEGIES

Angel Dobardziev
Practice Leader, IT Services

Innovation remains the mantra of a number of IT services vendors, and indeed, we find many organisations take the outsourcing route with the aim of improving performance and driving innovation. Yet once the contract is signed, a lot of clients find it difficult to achieve the performance improvements and to generate innovation for their business, often because they have not structured the outsourcing relationship to achieve this. We recently teamed up with colleagues from Ovum Orbys, the sourcing advisors, to produce a roadmap for clients around sourcing innovation.

Clients have an unsurprisingly broad view as to what innovation is to them, including incremental or breakthrough improvements in their use of technology, business processes or strategy driven by new ideas. But the common denominator to all client views is that ultimately innovation needs to lead to increased revenues, reduced costs or both.

Before embarking on innovation and transformation, clients need to be clear on why and where exactly

[continued on page four]

[continued from page three]

on this continuum they need innovation, and how important it is compared to everything else. With this clarity, we advise enterprises to consider the following three-stage framework when it comes to sourcing innovation:

- **Stage one:** examine the credibility of vendor marketing by testing their innovation quotient (IQ). Clients here need to understand whether it has the capacity and is organised well enough to deliver innovation. This includes both its internal organisation, which we call its innovation value chain, but also its external organisation with clients, academia and partners, which forms its broader innovation ecosystem.
- **Stage two:** set up the contractual framework to provide a fertile ground for innovation. Many innovation-led outsourcing initiatives fail at this stage as, despite selecting a vendor that can deliver the ideas and improvements they require, clients fail to specify obligations, measures, rewards related to their definition of what the required 'innovation' is, within the contract.
- **Stage three:** manage the outsourcing relationship for innovation. This part is about elevating the relationship to a level where there is a closer alignment of strategic and operational objectives between the vendor and client, which is a precursor for the vendor delivering 'innovation that matters'.

All said, innovation remains intangible and difficult to precisely define, mandate, capture and deliver. Clients cannot specify how and from which part of the vendor organisation ideas and improvements will be delivered, nor should they try to. Only by establishing the right relationships, contractual framework, incentives and measures can clients expect to reap innovation (read business benefits) from their IT vendors.

See the *Innovation sourcing strategies* report for further detail.

LOGICACMG UPDATES ANALYSTS ON ITS OUTSOURCING BUSINESS

Ian Brown
Senior Analyst

In mid-September 2007, LogicaCMG gave an update on its outsourcing business and strategy. The company as a whole has annual revenues of around £3 billion, employs around 38,500 people and operates in 41 countries worldwide. Much of its focus in the last 12-18 months has been on five European geographies: the UK, the Netherlands, France, the Nordics and Germany. These are its largest geographical markets, France, the Nordics and Germany having been built up over the last 18 months primarily through acquisition.

LogicaCMG concentrates its services offerings in five vertical sectors—Public Sector; Industry, Distribution and Transport (IDT); Financial Services; Energy and Utilities; and Telecoms and Media. Public Sector, IDT and Financial Services are the largest of these businesses. Outsourcing is a significant contributor to the company's overall revenues, contributing around 30% of revenues in the current financial year.

The vendor has grown by acquisition in recent years. Its primary strategic objective has been to establish at least four profitable European business units. It has also looked for businesses which are complementary to its existing businesses. In acquiring Unilog in 2005, LogicaCMG not only significantly increased its footprint in France, but also added a strong customer base within the pharmaceutical industry. It also looks for opportunities to cross-sell repeatable propositions. In acquiring WM-Data, which focuses on the Nordics region, it has achieved around €30 million in cross-selling since the end of 2006.

Global Service Delivery

The acquisitions have also expanded LogicaCMG's Global Service Delivery capability, though this was initially established as far back as 1997, when Logica opened its first facility in India. The acquisition of Unilog added French-speaking service centres in Morocco, while LogicaCMG has also added extra capabilities in Eastern Europe. Unlike some other service providers, however, LogicaCMG hasn't radically expanded its operations in India - less than 10% of its workforce is located offshore.

The company believes that its 'global blended sourcing' model serves the needs of its customers in terms of value for money better than an uncompromising adherence to offshoring. It enables it to deliver the right skills from the most cost effective source at the appropriate time: at the start of a project when

[continued on page five]

[continued from page four]

the emphasis is on understanding the customer's needs, demonstrating its expertise, and winning the customer's acceptance, an on-site or near-shore presence is required; as the project progresses and there's less requirement for on-site interaction with the customer, tasks such as software testing can be done off-shore.

The other key elements in the blended sourcing model are the common tools, processes and standards, which allow projects to be migrated between delivery centres. Where possible, LogicaCMG has also automated as much of its service management toolset and processes as possible. Its virtualised support structure and common view of the systems under its control mean that it can offer end-to-end, 'follow-the-sun' support from multiple global locations.

Progress so far

Offshore outsourcers present a challenge to European IT services vendors and no doubt because of this, LogicaCMG is keen to stress its customer-centric approach. As a European vendor, it believes it has a strong cultural affinity and knowledge of its customers' businesses. It has made a conscious decision to invest in automation, skills (both domain expertise and operational skills such as ITIL) and repeatable processes around its global network rather than funnelling investment into low-cost offshore skills factories.

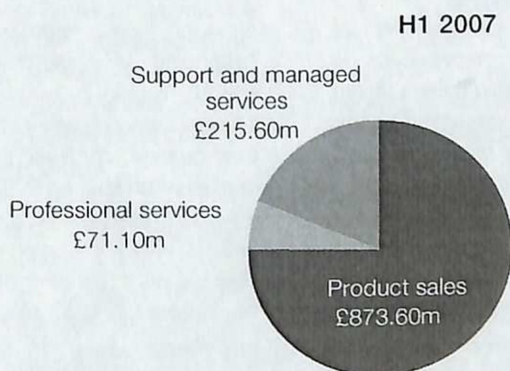
LogicaCMG made good progress in the Nordics, France, the Netherlands and Germany in FY2006 and the first half of FY2007. Revenues were up 10% in France and Germany in H107, 8% in the Netherlands and 7% in the Nordics. The main disappointment was the UK commercial sector, where the termination of an IDT contract resulted in a 9% reduction in UK revenues. Overall, LogicaCMG's first half revenues for FY2007 were up 3.3% on a pro forma currency basis.

LogicaCMG is not yet a truly global player, but it now has a solid foundation in Europe. The fundamentals of its global service delivery model are good and it's well integrated with repeatable processes and good sharing of domain expertise. We'd like to see more evidence of its ability to partner with other IT services vendors. LogicaCMG admits it can't do everything and its ability to take over and run data centres and infrastructure, for example, is limited compared with the likes of HP, IBM and EDS. We think its next task is to work on partnerships to fill the gaps in its full-service portfolio.

COMPUTACENTER HAS A LACKLUSTRE H1

Computacenter has had a tough first half. Group revenues were £1.16bn - up 4.1% year-on-year, while the operating margin was 1.1% (compared with 1% last year). Accounting for 57% of CC's total business, the UK division struggled in an increasingly tough market. Services revenues declined 3.7% in the UK - masking a significant decline in the managed services business but healthy growth in the technology solutions business.

Figure 1 **Computacenter Revenue breakout H1 2007**



Source: Computacenter

Longer-term prospects

Computacenter retained its existing (and key) contract with BT, which was renewed in March 2007 and sees CC provide desktop services and product supply to BT across 54 countries. This was a crucial win as it is a flagship contract and one CC wants to use to demonstrate its capability for large scale delivery; without it revenues would be seriously dented.

While the company can breathe a huge sigh of relief having retained the BT deal, more generally, life is tough. With support services accounting for a large portion of its services business (see Figure 1), commoditisation is something CC cannot ignore. It is struggling to find growth in these lower value services - for example, desktop support. The fact remains that this market is not going to get any easier, which means CC needs to continue to adapt if it is to weather these conditions in the longer term.

And part of that will be about how those services are delivered.

[continued on page six]

[continued from page five]

Computacenter is seeing the way clients buy its services starting to change. Generally speaking, there are two camps emerging: those deals that are larger and more complex (such as the four-year/£20m Reuters deal) and those that are smaller and made up of commoditised packaged services. The way in which IT services suppliers deal with these increasingly polarising needs will determine success at the bottom line. In other words, the winners will be the suppliers who develop the most efficient delivery processes on the one hand, with the best approach to consulting, innovation and engagement on the other.

Mid-market

We see there being an opportunity for Computacenter to further exploit its position as a supplier to the mid-market and to position itself (in managed services and technology solutions) as a specialist provider. We believe there is something of a sweet-spot in outsourcing in the mid-market, where customers are outsourcing for the first time. The larger outsourcers want to push down into the mid-market to enjoy the more favourable growth rates, but often they lack the flexibility and agility to engage with smaller end user companies. In addition, it is essential that CC's strategy to address this part of the market is 'watertight', to avoid the risk of the larger players 'cherry picking' the bigger deals as and when they come along.

Also during the first half, Computacenter acquired Digica. The acquisition not only brings an increased mid-market focus but also data centre capability. However, the Digica business didn't perform (in terms of profitability) as was hoped (partly due to integration and contract start-up costs). Into H2 and beyond, Computacenter will come under increasing pressure to make Digica perform well and prove it can make services acquisitions work.

While CC's first half performance was overall pretty lacklustre, we do expect H2 to be a bit better - but still not stellar. The growth trends (i.e. double digit growth in the Technology Solutions business, but low single digit growth in support and managed services) look set to continue. Outpacing the market will be dependent upon Computacenter's ability to combine increased efficiency of delivery with successful targeting of better growth areas.

Jessica Hawkins & Kate Hanaghan

XCHANGING'S PARTNERSHIP MODEL

Samad Masood
Analyst

Partnership in BPO was a theme I discussed in the July issue of SystemHouse, saying that BPO is entering "a new era where the flexibility of partnerships is preferred over relationships driven by the letter of a contract". To date, however, only a few companies have made the partnership model work. One of these is Xchanging, perhaps one of the biggest proponents of the approach in the European BPO industry.

Xchanging started life in 1999, and has spent the past eight years building its business around a few key partnerships – starting with BAE Systems, then adding Lloyds of London, Deutsche Bank, AON and most recently Allianz. These deals typically involve Xchanging forming a jointly owned company with its client, with the aim of eventually buying the client out. Indeed, Xchanging bought out its first partnership client, BAE, earlier this year for £57m, proving that the model is workable.

Although still relatively young, Xchanging is now reaching a critical mass in its business. And investors are certainly confident in their outlook. Xchanging's market capitalisation shot up to £600m by the end of September 2007, from £490m when it floated in April. This values Xchanging as one of the largest UK BPO players after Capita.

Making partnerships work

Large outsourcing contracts, let alone partnerships and joint ventures, are difficult beasts to control. Over the duration of the relationship, requirements can change significantly and political and cultural issues can stymie transformation, making it very difficult challenge to manage the relationship to the equal benefit of both client and supplier. But Xchanging has made its first few partnerships work, and is convincing more large institutions to trust it to do the same. So what's the trick?

According to Xchanging's Hugh Morris, executive director of UK sales, and Chris Main, head of outsourcing and products, it is important not to focus on service level agreements. But instead, to measure delivery so that there is as much flexibility built in as possible. Morris describes it as akin to a credits system. So, for example, if a customer changes the work that it wants Xchanging to deliver, they just change their processes and deliverables in line with that, using

[continued on page seven]

[continued from page six]

a measure of the equivalent effort used to work out how this changes the cost of the service.

Morris and Main claim that this sort of change can be done without revising the contract. Of course to do this there has to be a high level of trust between the client and supplier – which is where the partnership model comes to bear. As profits from the partnership are shared, a change in cost profile affects both the client and supplier. This makes the client that much keener to work with the supplier in any changes in requirements, so that they can be done seamlessly, but also with an eye on the budgets originally intended for the contract.

This potential for a buy-out acts as an added incentive to the client to work closely with Xchanging to achieve the aims of the 'Enterprise Partnership'. It also gives the client an additional financial reward on top of the process cost savings that Xchanging commits to as part of the deal. Importantly, Xchanging takes full responsibility for the management of the EP, avoiding so-called "joint venture paralysis" - where a client loses interest in a JV resulting in a lack of decision-making and progress.

Communication links are of course crucial to maintaining this flexible relationship. According to Main, "Continuous and effective dialogue is critical to making it work. The point is that we avoid enshrining the day one service delivery in the contract and therefore we don't have to call the lawyers back every time the customer needs a new service or no longer requires an existing one."

Today this model seems to be working very well for Xchanging. Is it replicable? We think so. But it requires significant long-term investment from both the client and suppliers. Building trust and strategic alignment between both sides is of paramount importance. For many of the more established BPO and IT outsourcers in Europe adopting this sort of approach could mean a massive shift in their business development and contract management culture. But we believe that suppliers that don't begin to take this model seriously will not be long-term players in a future where large business process outsourcing partnerships such as those created by Xchanging are commonplace.

DELL REPORTS PRELIMINARY Q2 RESULTS

Dell reported preliminary results for its second quarter, fiscal year 2008, with revenue of $14.8bn and operating income of $896m. The company noted that strength in enterprise products and services, improved average selling prices and favourable component costs drove profitability in the quarter.

Comment: These are preliminary results and need to be viewed with caution given that Dell intends to restate four years' worth of previous financial statements in the light of an internal investigation prompted by an ongoing US Securities and Exchange Commission investigation. Dell has said it intends to file the restatements in early November.

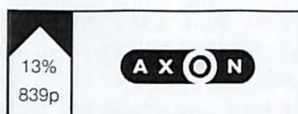
In the light of that caution, it seems that Dell is making steady progress in its attempt to get back to its winning ways of the first half of the decade, when it was taking market share from HP and IBM left, right and centre. It looks to us as if server sales have been the primary driver of growth this quarter. As a percentage of net revenues, servers were up from 9% of total net revenues in Q2 FY 2007 to 11 percent of total net revenues in Q2 2008.

But Dell is still in the early stages of implementing a transformation programme designed ultimately to reduce its operating expenses. And as it implements that programme, its operating profit has been impacted by higher expenses in Q2, including higher headcount and associated costs relating to investments in sales and customer support. Customers increasingly want to buy solutions rather than boxes and to boost its ability to provide solutions, Dell is having to invest in software (it announced agreements to acquire three software companies in Q2), services, and partnerships with indirect distribution channels.

We think Dell still has more investments to make on the services side. It has introduced consultation and deployment services around Microsoft servers and messaging, server consolidation and virtualisation, and storage, including a number of new consulting services in EMEA in the first half of 2007. But services are people-intensive and the people Dell needs - solutions architects, technical consultants, project managers, etc. - don't come cheap. To get some of these people and skills it will need to hire and acquire. This is likely to mean there will be a further impact on Dell's operating profit in the remaining quarters of FY 2008.

Dell's transformation from box shifter to solutions supplier is not only going to take time and money, but also trust on the part of its enterprise customers that it has the skills and expertise to be their solutions supplier of choice.

Kate Hanaghan



AXON STRIKES GOLD AGAIN AND ACQUIRES IN ASIA PACIFIC

Axon, the UK based SAP specialist, has grown revenue by 56% to £96.7m in the first half ended June 2007. Profit before tax grew by 93% to £13.4m. Excluding amortisation of intangibles and share-based payments, operating profit was £16m, resulting in a 16.6% margin, up from 14.2% in the previous year's first half. Axon's share price was up more than 5% in morning trading to £7.94.

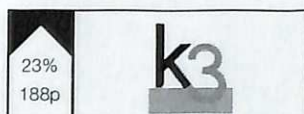
Comment: Axon's model continues to work wonders - delivering the sort of growth levels that normally only Indian offshore firms can boast about. Even without its recent US acquisitions (Zytalis and PremierHR) we estimate its organic growth was circa 40% - impressive indeed.

Axon has become the poster child for the "focused" buy & build strategy. Like K3 (with Microsoft), Axon has put its stake in the ground behind a single software vendor's platform (SAP), differentiating itself as a specialist in that technical field. The benefit is that these services companies can ride any adoption wave that is affecting the software product that they've backed. Axon has done just this, benefiting from a revival in demand for SAP projects in the UK and US. The UK public sector has been a particularly strong market, with large programmes such as that at Birmingham City Council helping to boost Axon's UK business consulting revenue by 70%.

On the acquisition side, Axon spent 2005 and 2006 building up its US business through purchases of vertical-focused SAP consultancies. This verticalisation will be increasingly important to Axon as it goes forward. Sticking behind SAP is one thing, but to retain a competitive edge as it grows, Axon needs to get deeper into understanding the specific vertical industry issues that affect its clients. We expect the vertical model built in the US to be migrated across to the UK. But this will take time and management attention. Meanwhile Axon is in the process of acquiring in the Far East, having begun to buy JSPC-I, a SAP consulting organisation with 150 consultants in China, Malaysia, and Singapore. This purchase will no doubt boost Axon's existing Malaysian offshore capabilities, but also give it more opportunity to sell into the emerging Asia Pacific market.

So, a lot of things to keep Axon's management busy as it rapidly reaches the £200m annual revenue mark. We think it is doing a great job so far, but the challenge will be to keep evolving the strategy and not let acquisitive growth run ahead of management's ability to invest time in doing it properly.

Samad Masood



K3 SHAPING UP WELL FOR FURTHER GROWTH

K3, an IT services firm focused on the supply chain industry, has reported its results for the six months to end June 2007. Revenue increased 7% to £13.6m. The operating margin reduced from 8.8% to 7.7%, due to investments made in the retail business, reorganisation costs, and the costs associated with the aborted acquisition of SiRVis IT.

Comment: K3's sound strategy is enabling it to shape-up nicely into what we consider to be a well-focused and well-positioned business. The retail and manufacturing businesses are each growing, but via quite different strategies. On the manufacturing side, K3's acquisition of rival McGuffie Brunton means it is now the UK's sole distributor of SYSPRO and has a customer base of some 450 firms. The combined firms will give K3 the scale to go after larger contracts, previously out of its reach, once integration completes in H2.

The retail software business (64% of total revenues) has benefited from investment and the establishment of niche vertical businesses. Following the disposal of Elucid (to Sanderson Group) in February, the retail business is now looking very focused. Given that the retail industry has a tendency to be global, K3's acquisition last week in the Netherlands of Landsteinar makes absolute sense. Indeed, it will need to push its geographical spread even further in order to create additional opportunities.

In the meantime, we'd credit the firm with having established two increasingly focused divisions, each with good pipelines. All the indications are that K3 is ramping up for a strengthened financial position with more acquisitions along the way.

Kate Hanaghan

HARVEY NASH IMPROVES UK MARGINS

Harvey Nash has released its results for the six months to end July 2007. Revenue increased 19% £143.9m, while operating profit increased 12% to £3.5m (producing a margin of 2.4%, down slightly from 2.5% in the previous year).

Comment: Harvey Nash has benefited from the double whammy of strong demand for permanent staff placements alongside the growing demand for its offshore services. Revenue in the UK increased 12% to £49.6m, while the margin improved from 2.9% to 3.6%.

Harvey Nash has been able to gain ground in staffing because of its focus on the upper end of the market (i.e. CIOs and IT executives). Demand here is strong (compare with Parity, which is similarly-placed and also experienced double digit growth in resourcing in H1), driven partly by the need for experience in specific verticals. Harvey Nash is riding this wave, and looking to capitalise on it further by adding more recruitment consultants.

The company's growth strategy is partly based around achieving organic growth in the offshore and executive recruitment businesses, and partly around acquisitions. Earlier this year it bought SilkRoad, a Vietnam-based firm acquired to bulkup its offshore capability. We understand that this business has performed well since the acquisition.

In all, we like Harvey Nash's strategy. It's positioned well in recruitment and its offshore software development capability gives it another strand for revenue growth and margin improvement. Likewise, its balance of organic and acquisitive growth is sensible and of course fuels its geographical expansion strategy. Recent acquisitions in Vietnam, Sweden and Ireland demonstrate just how broadly it is casting the net.

Kate Hanaghan

PARITY SEES STRONG GROWTH IN SOLUTIONS IN H1

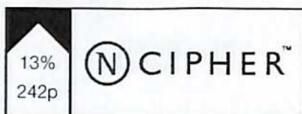
Parity has released its results for the six months to end June 2007. Revenue from continuing operations was up 15% to £84m. Adjusted operating margin from continuing operations was 2.4% (up from 0.3%), with the Resourcing and Solutions businesses both strong contributors.

Comment: Parity provides services in staffing, training and IT solutions. The training business, which is being re-aligned, had a flat year in terms of revenues, but is profitable. The story is different in the Solutions business where it is encouraging to see Parity making some very notable improvements (revenues increased 60%, operating margin hit 9%). Indeed, it was the biggest contributor to the company's profits. Driving the improvement of the numbers is better management of customers, specifically in 'farming' existing accounts. It has also been focusing on Microsoft SharePoint opportunities; and while this is not a huge business, it does provide a route into the client and the chance to sell other work - almost all of the SharePoint business is concentrated in the public sector.

The solutions business more generally is benefiting from good market conditions and Parity - because of the size of contract it focuses on - is managing to avoid immediate competition from suppliers such as Accenture who are moving further down into the mid-tier space. For the time being, Parity's most significant competitors here are regional consultancies. We predict that the market for public sector project services will toughen significantly in the next few years, while utilities (Parity's other vertical focus) will slow but remain more stable. Given this, Parity may need to consider moving into additional sectors in order to sustain growth. If it can maintain the current utilisation rates and cost structures, it has a fair chance of keeping profits healthy.

In the resourcing business (where revenues increased 10%, and operating margin was 2%), Parity continues to rebalance, by moving away from lower-margin contracts. It is focusing on project and programme managers, for example, and trying to move to a 'candidate push' model, whereby it has the staff on its 'books' to take to the client, rather than responding to ad hoc demands for staff. If Parity can manage to attract project and programme managers with experience of offshore management, we think it will be a particularly attractive supplier of skills.

Kate Hanaghan



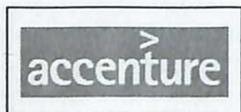
NCIPHER REPORTS GOOD PROGRESS IN H1 2007

nCipher, a provider of security solutions, has announced its results for the six months to end June 2007. The company continues to make good progress, reporting revenue growth of 15.5% (to £12.1 million) and an operating profit of £1 million, compared with a loss last year. The revenue growth was considerably better in both EMEA and North America, but revenue declined in Asia Pacific. £34 million was returned to shareholders as promised.

nCipher achieved major contract wins for its KeyAuthority product with a New York-based global financial institution, and for security systems for biometric data at three large airports. Its security modules have been validated as conforming to Common Criteria security standards. There is also some relief in the financial problems at identity management vendor Abridean, where it is the majority shareholder and where it has been committed to providing financial support. nCipher is embarking on a cautious increase in sales and marketing and R&D activity.

Comment: nCipher is a survivor from the dot com days with a solid and respected technology base, but it has a much more modest financial track record. Having raised substantial cash initially, it returned most of it to its investors preferring a more cautious approach to growth. It is, however, one of the largest UK based pure-play security companies and its success rate in the North American market is heartening - probably only surpassed by Sophos. Its recent success in the financial services sector, and in biometric border control systems, positions it well for further growth. However, one potential cause for anxiety is the impending departure of its CEO Alex van Someren, who has been the major inspiration behind the company since its inception.

Graham Titterington



ACCENTURE REPORTS RECORD REVENUES - SO WHAT COMES NEXT?

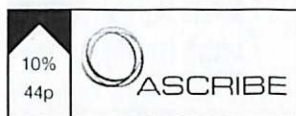
Accenture has reported record revenues for both its fourth quarter and fiscal year, capping off another stellar streak of growth. Net revenue for the quarter increased to $5.11bn, a 29% year-over-year increase (up 23% in local currency) - the firm's highest revenue quarter in its history. For the fiscal year ended 31 August, revenues hit $19.7bn, an 18% increase (or 13% in local currency). Operating income for the year was $2.49bn, or 12.7% of net revenues, compared to $1.84bn or 11.1% of net revenues a year earlier.

Comment: The strong growth in consulting (+38%) and the fact that it is outpacing its outsourcing business should not come as a complete surprise. We've detailed in recent reports how Accenture is relying on consulting as the company's primary growth driver, making significant investments such as doubling the size of its management consulting group and adding to its roster of technology consultants.

Considering the continuing impact of the sub-prime mortgage and credit markets, and the questionable direction of the US economy, Accenture is bullish going into the new fiscal year. Pressed to explain the rationale behind such strong guidance, CEO Bill Green said his leadership team looked at the continued growth in all of the firm's service lines, and feel that ongoing demand, combined with its strong efforts in internal cost management and global delivery efficiency (leveraging its 70,000-person global delivery network spread out across India, the Philippines and other locations) will allow the firm to hit its targets.

With two-thirds of Accenture's business coming from outside the US, according to Green, Accenture may be better positioned than most to weather the current economic turbulence (the firm's quarterly growth was strongest in EMEA and Asia-Pacific). We agree with Green that customers still need to make investments in consulting, SI and outsourcing in order to remain competitive, regardless of what's happening in the world financial markets. The real question is whether there will be an impact on the size of those investments - we note that Accenture's Financial Services segment growth at 14% in local currency was one of the slowest growing verticals for Accenture. The next few quarters will be indicative of changes in sentiment, and we'll be watching how well Accenture - and all global SIs - are able to deliver on financial targets in the midst of such unsettling economic times.

John Madden



ASCRIBE POSTS STRONG REVENUE GROWTH IN FULL YEAR

Healthcare software and services provider Ascribe has reported 55% growth in its full year revenue for the twelve months to 30 June 2007. Revenue for the period was £15.3m, compared to £9.9m in 2006, of which just 3% was organic. Adjusted operating profit was up 55% to £3.5m, meanwhile pre-tax profits were up 11% to £1.7m.

Comment: This is a strong set of results from Ascribe, which sells its software products and services directly to NHS Trusts outside of the National Programme for IT. Ascribe is benefiting from the continuing delays and uncertainty in the NPfIT.

In July, Ascribe warned that turnover and profits for the year ended 30 June 2007 would be slightly below market expectations as a result of buyer uncertainty over the introduction of new procurement frameworks into the NPfIT such as the Additional Supply Capability and Capacity (ASCC) and Local Ownership Programme (NLOP).

What is clear now is that Ascribe is further benefiting from the shift towards more local ownership of IT systems under the Local Ownership Programme - this began on 1 April, and gives local Trusts more say over the specification of NPfIT systems and their implementation. This puts Ascribe in a strong position to continue growing market share, although the company needs to convince that it can deliver stronger organic growth going forward.

John O'Brien

HAS MORSE SAID GOODBYE TO NEGATIVE GROWTH?

Morse has announced its full results for the year ended 30 June 2007. During the year, Morse demerged its Monitise secure mobile banking applications business. Revenue from continuing operations was £256.5 million compared with £296.5 million in FY2006. Operating profit was up 16% at £12.2 million compared with £10.6 million in FY2006. Operating margin from continuing operations before exceptional items was 4.8%.

Comment: Morse CEO Kevin Alcock says he is indifferent to turnover, but focused on building a profitable services business. That's a good job, because the past three years have seen Morse cut away at its revenues as it disposes of elements of its business that it no longer considers core. Perhaps the last of those elements was the Monitise business, which it floated on AIM in June 2007.

Alcock may be indifferent to turnover, but IT companies rarely find it easy to reverse negative growth. That said, Morse had to find an alternative to the pressures of the reseller business and the transformation of this into a higher margin services business has made good progress during the year. It now has a single Morse brand focused on three main activities: Management Consulting, Applications Consulting, and Infrastructure Consulting.

Infrastructure Consulting remains the largest of these three activities - not surprising given Morse's reseller heritage - accounting for around 38% of continuing revenues, while Applications and Management Consulting account for 30% and 7% respectively. Europe (primarily Spain and Ireland), which is treated as a separate Business Segment, accounts for the remaining 25% of continuing revenues.

Morse's intention is to get its three consulting segments to the same level - each contributing a third in profitability. Nevertheless, Morse will have to start looking for revenue growth in the Management segment if it is to achieve its goal. That won't come easy. It'll need to increase its management consultant headcount and such people don't come cheap.

Morse now looks a leaner more focused entity. It's looking for more balance across its industry verticals, but its strength in financial services and the commercial sector should stand it in good stead as it builds up its rather lightweight public sector business. But credit where credit's due: Alcock set out to increase operating margins by 0.5-1 percentage points per year and they're up 1.2 percentage points this year (from 3.6 to 4.8%). Headcount is up 30% year-on-year and operating profit was up 16%. The shareholders will be happy. We just hope this year marks an end to shrinking revenues.

Ian Brown

MACRO4 STAYS IN PROFIT BUT NEEDS TO GROW

Macro4 has reported its fifth year of underlying profit on a like-for-like basis. It posted a profit of £7.9m for FY2007 (£7.2m after foreign exchange effects) compared with £7.1m for FY2006. Revenues were down slightly at £30.3m, compared with £31.7m for FY2006, although Macro4 says that £1.1m of that was due to currency weakness, primarily against the US dollar.

Comment: Macro4 earned around 32% of its FY2007 revenues in US dollars, so the impact of the weakness of the dollar against the pound sterling not surprisingly made itself felt. Good housekeeping and cost reduction helped the business stay in profit, but it needs to grow revenues more, particularly in the document management side of its business. It has a solid base of customers for its document management solutions (DMS division), but slippages in a number of large deals and elongated sales cycles meant that it didn't pull in enough new deals and new business revenues fell from £7.4m in FY2006 to £5.4m in FY2007. However, deals with Dell, Computacenter and Xerox Corporation augur well for the future.

The system management side of the business soldiers on, buoyed up by the irrepressible success of IBM's mainframe systems. No one talks of the death of the mainframe any longer and Macro4's optimisation and performance management tools fit in well with customers adding capacity and new workloads to their mainframes. Macro4's strategy of modernising existing products for the Internet and acquiring additional products to broaden its offerings in its chosen markets seems to be paying off. New business revenue for the SMS division grew by 18% to £7.3m (2006 £6.2m), achieved through growth in direct sales revenue and from its IBM OEM relationship.

Going forward, Macro4 must concentrate on growing revenues particularly in the DMS side of the business. It has some very strong partnerships with key players, including Xerox, the dominant player in document management services and solutions. It must now focus on developing new business associated with it.

Ian Brown

TIKIT CONTINUES GROWTH AND PROFIT IMPROVEMENT

Tikit, IT services provider to the legal sector, has today released its results for the six months to end June 2007. Revenue increased 16% to £13.2m, while the operating margin improved from 11.7% to 12.1%. Cash generated from operations was £950k, compared with £1.75m in 2006.

Comment: Tikit continues to benefit from its strong positioning as a provider of software and services to the legal sector. The operating margin is up with the management team predicting more room for improvement.

We would point out a couple of interesting emerging themes where we consider Tikit to have further opportunities to grow and increase profitability. Firstly, the company is starting to trail some of its software vendor partners who are pushing subscription-based models in favour of the traditional up-front licence investment. Short-term, this could well impact Tikit's revenue growth in new business (it is not as yet migrating existing customers to the new model), but the attraction of a subscription-based model to CIOs and other IT buyers, especially those in the mid-market, means Tikit could benefit in the longer term.

Secondly, Tikit has created templates for certain services in order to simplify the buying process and make pricing more transparent for customers. For example, it has created best practice processes around the implementation of CRM systems. The bottom line for the customer is a more condensed choice of services, but a clearer definition of what will be offered and how much it will cost. This approach plays particularly well to the mid-market buyer (who is not always an IT director) who is looking for cost-effective and simplified choices.

In all, we think Tikit maintains a good balance between keeping the business turning over nicely, while considering its options for future growth. Some of that future growth will come from acquisitions, although we suspect any activity in this regard is most likely to happen in 2008.

Kate Hanaghan

MOVE TO SERVICES BOOSTS HORIZON'S PERFORMANCE

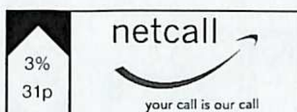
Horizon Technology Group, a reseller and services firm operating in the UK and Ireland, has released its results for the six months to end June 2007. Revenue increased 11% to €146.3m. Gross margin improved from 14.3% to 18.5% and EBIT margin improved from 2.8% to 3.2%.

Comment: The good revenue growth and solid improvement in margins reflect the growth Horizon is seeing in its services business. The company has also seen "earnings ahead of expectations" in the three businesses it acquired during 2006: EquIP, EPC and WBT.

The company operates in the UK and Ireland, with the two businesses having rather different profiles. In the UK, the focus is on the resale of enterprise infrastructure and services around that. This business accounts for 81% of total revenues, but only 55% of gross profit. Revenue growth has been good (22%), primarily because of the development of partnerships with vendors such as EMC, Oracle and IBM. We don't expect this to be the typical rate of growth going forward, but Horizon should benefit from the trend that is seeing many larger IT services firms outsource a greater degree of work to their subcontracting partners.

The company's strategy is to continue to develop new revenue streams to improve the profitability of the UK business, but it is in Ireland where the real profitability lies. Gross margins improved from 28% to 44%. And the reason for this is clear: its consulting business is focused on areas such as Business Intelligence, application development and ERP. This business is the profit machine, but if Horizon can continue to grow and improve profits in the UK (albeit at a much slower rate than in Ireland), it will continue to make these overall solid financial improvements.

Kate Hanaghan



NETCALL DELIVERS 30% GROWTH AND STRONG MARGINS

Netcall, the call centre "call back" technology company, has grown revenue by 31% to £4m in the full year ended June 2007. Operating profit has grown by 125% to £680k, with margins improving to 16.5% from 9.6%.

Comment: Another strong performance from this niche vendor that sells indirectly to call centres through partners such as BT and Cable & Wireless. Over the past two years CEO Henrik Bang has turned the business around, increasing recurring revenues by growing hosted services business to almost 50% of turnover today, and reducing sales costs by focusing purely on the indirect channel. Interestingly, the company also signed a partnership in August for C&W to provide hosting of Netcall's products for C&W customers - neatly handing over part of the risk of data centre hosting price fluctuation over to its distributor. We expect Netcall will be looking to do the same with other partners in future.

Netcall's product enables call centres to improve customer service by reducing queuing or holding times - without the need to invest in more staff. This service improvement / cost reduction double whammy is clearly winning customers' hearts, minds and wallets. And given the ongoing growth in call centres in the UK (despite the ever present threat of cheaper, albeit limited quality offshore services), Netcall seems to be on to a winner.

But there is still work to do. Netcall needs to expand the number of distributors it has as it is far too reliant on only a handful of partners. For instance, one of its customers accounts for around 20% of its sales in 2007 - not an ideal situation from a risk management point of view. The company also needs to start investing in new product development. So far the management's view is to hold back on new investment until there is clear customer demand. But we feel that while the going is so good for Netcall, it should start laying the foundations of a more diversified product set. This will ensure that it is not reliant on what is ostensibly one small product, and hopefully protect it from any potential disruptions that could affect its niche.

Samad Masood

CHELFORD IMPROVES PROFITABILITY

The results from Chelford Group for the first six months of 2007 show a modest increase in revenue - just 2% to £9.34m - but an increase of 103% in operating profit to £439,000 (or £630,000 before amortisation, a 44% increase on the equivalent figure for 2006). Net income was up 163% at £268,000. Cash from operations was down 51% to £361,000.

Chelford has two operating groups: Chelford Solutions and SAP Solutions. The first of these saw its revenue fall by 2% to £5.15m while its operating profit (before amortisation) fell 35% to £330,000. In contrast, SAP solutions grew its revenue by 8% to £4.19m and turned an operating loss (before amortisation) of £66,000 into a profit of £300,000.

Comment: Chelford is in the process of re-orienting the Microsoft business within its solutions business around Microsoft's Dynamics CRM and Sharepoint products, as well as the web content management system sold by Sitecore. From what we've heard informally, the Microsoft CRM is doing well in the UK - our concern is that Chelford may be a little late to the game.

There were mixed results in other areas of the solutions business, with contract delays in some parts while others saw good growth. However, it also added that order intake overall improved by 43% over last year, so the solutions business should improve on the 6.4% operating margin (pre-amortisation) it achieved in the first half.

In the SAP business, Chelford previously had some issues with cost overruns on fixed price contracts. The results show that it has put these issues behind it, and this group is running at an operating margin of 7.2% before amortisation. For a project services company, this is a reasonable figure, but long term it should be aiming a little higher.

David Bradshaw

MISYS RELIES ON BANKING AND SERVICES TO DRIVE GROWTH

Misys' has announced an increase in like-for-like first-quarter revenues of 6% to £104m. Of its three key lines of business, Banking was the star performer, with revenues up 19% to £31m; Treasury and Capital Markets performed ahead of target with revenues up 6% at £27m; Healthcare revenues were down 2% at £46m. CEO Mike Lawrie commented that the company is 'pleased with [its] performance, but there is still work to do'.

Comment: We've previously commented that Misys is not fulfilling its potential and as far as Healthcare is concerned that still seems to be the case. However, Misys has taken actions to rebalance the business and showed it is prepared to take decisive action to turn the underperforming healthcare unit around. It expects to complete the sale of two of its healthcare businesses in October.

CEO Mike Lawrie has adopted a three-pronged strategy to get Misys back on track: it's moving to a solution orientation, partnering to fill gaps in its product line and ramping up its global services business. That seems the right way to go and Global Services grew 18% to £16m in the quarter. Misys has also signed a strategic partnership with SAP to integrate SAP components into its BankFusion product and will integrate SAP's CRM solution into its retail banking solutions. Such partnerships are crucial in the vendor's move to present itself as a solutions provider.

The most important thing for Misys's next quarter is to start firing on all cylinders. A partnership with iMedica will enable Misys to fill gaps in its Healthcare product line, but offerings won't be in the marketplace until the end of November, so it's too early this time round to see any impact on revenue growth. The sale of the Diagnostic Information Business and CPR Business should result in gross proceeds of approximately $415m. We think Misys would do well to plough some of that back into developing its solutions and services focus and expanding its global markets.

Ian Brown

BOND DELIVERS STRONG ORGANIC AND ACQUISITIVE GROWTH

Recruitment and HR software and services vendor, Bond International Software, has reported revenue growth of 87% to £13.9m in the six months ended 30 June 2007. Excluding the acquisitions of Gowi Group and Strictly Education, organic growth was 14%. Operating profit rose by 63% to £2.9m, resulting in a 20.8% margin.

Comment: Another example of a software company that is delivering strong results by focusing on a specific niche, but using complementary acquisitions to build out in a focused manner around its core. In Bond's case, the recruitment software business core (61% of revenue, growing at an impressive 14% organically) has been built on with the Gowi and Strictly Education acquisitions, both of which broaden the focus of the company into the related areas of HR and payroll.

Of particular interest is the purchase of Strictly Education, a services/BPO business, which brings a strong (19%) margin. Strictly Education is interesting because it spreads Bond into the services arena. And if the company can successfully market a combination of its software assets with these back office services, it should be able to significantly grow its recurring revenue base (currently standing at 44% of group revenue).

Bond has raised £5m on the stock exchange to pay off the loans that funded its two recent purchases. This should leave it with a bit of extra cash to invest in more acquisitions. But before buying anything more, we think Bond should focus on the integration of what it has first. The company has the ingredients for a very powerful package of software and services - getting the basic recipe right should be the priority before more ingredients are added.

Samad Masood

GRESHAM'S FIRST HALF REVENUE FALLS

Gresham Computing, the financial solutions and storage specialist, has reported its interim results. Revenue for the six months ended 30 June 2007 fell by 10.6% to £6.4m. Losses before tax reduced to £433,000 from £1.5m last year. Gresham also raised £2.75m through a new share issue at £1.10.

Comment: Gresham is still failing to inspire almost a year after coming back to market with a re-branding, a few new products and a tighter rein on its troublesome partnership with Cable & Wireless for the Real-Time Nostro solution (now called the Clareti Cash Reporting Service). As ever, the company cites some progress in the form of growing interest and volumes on its Cash Reporting service. And it can now also boast a new partnership with an Asian telecommunications company to support the Software-as-a-Service (SaaS) delivery of its new Payables Financing solution. However, these are painfully slow and small steps forward, resulting in a top line that fails to deliver consistent growth, and a bottom line that, while improved, remains in the red.

Part of this is to do with the nature of Gresham's business, which relies on scale and volume of throughput on its transactional networks. Not only does this mean that profit takes time to achieve, but a lot of investment in sales and marketing is needed to gain the volumes required. That's why Gresham has turned back to investors for more money today - to fund further growth. The company has already spent the last 12 months doubling its sales and marketing team, and the good news is that these staff should now be trained and ready to start selling in the second half. But given how long it has taken Gresham to get this far, we wouldn't expect any significant change to Gresham's fortunes from this investment or the new cash raised for another year.

Samad Masood

Mergers and Acquisitions – September 2007

Buyer	**Capita**
Seller	**Higham Dunnett Shaw**
Seller Description	Pensions consultancy and outsourcer
Acquiring	100%
Price	£15m
Comment	Yet another classic Capita purchase meeting the company's key acquisition requirements. First, HDS is complementary to an existing business, and adds its own independent stream of revenue through its consulting capabilities. Second, HDS's profit margins (at 9%) will not be too dilutive to Capita's 12% operating margins. Indeed, we expect that once integrated, HDS's margin will grow even closer to Capita's due to the economies of scale provided by Capita Hartshead. Capita has always been an acquisitive company, focusing on small 'bolt-ons' like HDS. But this year the business seems to be focusing on M&A much more than before. Given that Capita started this financial year with 95% visibility of its full year revenue, and is very cash rich, management have the luxury to spend time building up the business through acquisition. And this is just what they are doing. HDS will be Capita's ninth acquisition of 2007, and at this rate we can probably expect a few more before the year is out.

Buyer	**Sage**
Seller	**XRT**
Seller Description	Treasury management and payment software supplier
Acquiring	70%
Price	£30m
Comment	XRT's portfolio of products in the credit and collection, cash and treasury, and payments domains looks a very good fit with the top-end of Sage's existing portfolio of accounting solutions. Indeed, we suspect that marquee XRT customers such as the Valenciaport (the Port Authority of Valencia, Spain), Bosch, Clarins, Saint-Gobain and Toshiba will lift the top - end of Sage's customer base a little higher. It may help Sage edge a little higher in the so-called mid market, consisting of user organisations (in very round terms) of €80m to €800m (or £50m to £500m), the layer of companies below the global 1000 very large enterprises. As we've said before, this market is being hotly competed over. There are too many existing competitors in this sector to list them all (though Infor has made life easier for us by vacuuming a large number of them up!). However, the market dynamics have altered radically over the last few years because two of the software industry's largest companies have decided that the mid market is a strong area for growth, and matched this with their ability to spend whatever it takes to succeed. The two companies are, of course, Microsoft with its Dynamics business and SAP with is All-in-One and A1S products. Oracle has been less vocal about the mid market but can never be ruled out, as its JDE Edwards product range is particularly strong here. The impact on Sage is that it will see increasingly strong competitive pressure from these three and others at the top end of its market. We expect that Sage will defend itself vigorously, but it will do so on its own terms - notably the "local products for local markets" strategy it has pursued in accounting systems. This is of course both a weakness (it's not that good for companies that operate in multiple geographies) and a strength (cultural and business fit will be stronger). The battleground is set to get bloodier.

Buyer	**Morse**
Seller	**Xayce**
Seller Description	Consultancy services in retail banking, insurance and local government markets
Acquiring	100%
Price	Morse will pay £2.35m of the initial payment in cash, with the remaining £1.25m in shares
Comment	Xayce is a small UK-based business and its prime interest for Morse is its financial services and public sector focus. Morse is transforming itself from a reseller to a fully services-led business and for that it needs more consultants in its chosen vertical-industry markets. Financial services and the public sector are two of those key verticals. Financial services is currently Morse's largest vertical by revenue, accounting for approximately 45% of its total FY2007 revenues of £256.5m; the public sector is its smallest, at approximately 7% of FY2007 revenues. Xayce focuses on back-office business process change and regulatory compliance in the retail banking and insurance sectors, whereas Morse's main focus is in investment management and capital markets. But Morse is also an established provider of infrastructure services to life, pensions and retail banking customers, so Xayce will provide a complementary consulting layer to this business. As for the public sector, Morse recognises that it is currently under-represented and needs to boost its revenues in the sector. Xayce will provide sorely needed back-office transformation skills - again a good fit for Morse's infrastructure skills. Xayce won't transform the balance of Morse's business over night - it's too small to do that. But the carrot of a further share payment if Xayce reaches agreed targets is surely the message for its consultants to get stuck in.

Mergers and Acquisitions – September 2007

Buyer	Management Consulting Group (MCG)
Seller	Kurt Salmon Associates
Seller Description	Management consulting firm headquartered in Atlanta, US
Acquiring	Merger
Price	N/A
Comment	This is MCG's largest US acquisition and comes a little over a year after the UK-based consulting group purchased Ineum Consulting, the former French consulting operations of Deloitte. Having digested Ineum, MCG now wants to rebalance the Group's mix of revenues in favour of the US, the world's largest consulting market. In the first 6 months of FY2007, 27% of the Group's revenue was attributable to the Americas, compared with 53% in the first six months of FY 2006, prior to the Ineum acquisition. The proposed acquisition fits well with the Group's strategy of acquiring consultancies to diversify its range of offerings. MCG is not currently strong in industry-led consulting offerings in the retail and healthcare sectors and KSA brings with it a roster of big-name US clients, including Wal-Mart, The Home Deport and Sarah Lee in consumer and retail and John Hopkins Hospital and the Mayo Clinic in healthcare. European retail clients include Carrefour and J Sainsbury. We think the proposed acquisition will complement MCG's existing US and European businesses in terms of industry and geographic coverage. There's little overlap between KSA's consulting offerings and MCG's existing offerings particularly in North America. That should offer good opportunities to cross-sell its consulting services. The US Healthcare market is also growing well and is not subject to cyclical downturns in the way that commercial markets are.

Buyer	BT
Seller	Lynx Technology
Seller Description	Consulting and managed ICT services to SMEs
Acquiring	100%
Price	N/A
Comment	Coming on the back of the chain of acquisitions (INS in September, Basilica in August, CS Communications in July) BT is starting to average one IT Services acquisition per month in the last few months. There is no change in the pattern: BT is determined to both 'buy' revenue growth and establish a firm position as a provider of choice for converged ICT solutions to SMEs. In this respect, Lynx adds a healthy balance of local expertise, consulting, integration and managed services skills to its UK pool, in addition to those of recently acquired Basilica Computing. BT has three challenges in making its acquisition strategy work. First, it has to convince the key people of its acquired companies to stay, which is always a challenge for any acquirer. Second, it has to keep and reassure the customers of its acquisitions that levels of service will stay the same, let alone improve, as integration necessarily diverts part of the energies inwards. Finally, it has to make money out of it - adding top line growth is not enough in the long run. Small integrators such as Lynx and Basilica are generally able to do this with low overheads and an entrepreneurial culture - BT needs to preserve both.

Buyer	Xploite
Seller	Red Squared
Seller Description	Hosting and managed services
Acquiring	Offer made
Price	£2.84m
Comment	Xploite's M&A bandwagon rolls on - but for how much longer? The company is now purely focused on storage solutions and services, having sold off the mobile content technology business Fujin Technologies in early September. Red Squared will add a managed services back end (bringing in recurring revenue streams), plugging into the previous acquisitions of Anix (storage solutions) and Posetiv (hardware resell). So, once it owns these three foundation pieces of the storage value chain, where can it go from here? We see three potential acquisition routes - none of which are mutually exclusive. The easiest route in terms of the risk involved would be to buy more of the same, bulking up to reach more clients and build economies of scale. Xploite could also buy complementary businesses (perhaps in business continuity or broader infrastructure services) to broaden its remit. Or it could move up the value chain, targeting the application layer above storage and enabling it to provide more bespoke and added value services to clients. This last route could be the riskiest due to the difficulties in generating cross-sales and synergies between businesses that have been acquired in this way. We don't know which route the company will take, but we're pretty sure that the management's ultimate aim is to re-package Xploite and sell it off for a profit - as they did with their previous business, Matrix Communications. But before they do this, Xploite will need to build a growing an profitable business out of these constituent parts. We don't doubt that more acquisitions are planned. But given the need for management to focus on integration to make the "buy and build" model work, and the ongoing concerns on the credit markets, it might be best that Xploite focuses inwardly for the next few months.

UK software and IT services share prices and market capitalisation - September 2007

	SCS Cat.	Share Price 30-Sep-07	Capitalisation 30-Sep-07	Historic P/E	PSR Ratio Cap./Rev.	S/ITS Index 30-Sep-07	Share price move since 31-Aug-07	Share price % move in 2007	Capitalisation move since 31-Aug-07
@UK plc	SP	0.07	2.74	NA	1.88	106.87	-30%	-61%	-£0.85m
Alphameric	SP	0.11	14.25	3.9	0.22	50.46	-66%	-77%	-£27.52m
Alterian	SP	1.26	53.02	1.3	3.79	630.00	-14%	11%	-£8.66m
Anite Group	CS	0.72	252.75	14.4	1.47	421.05	-10%	-12%	-£29.79m
Ascribe	SP	0.44	50.61	NA	9.46	2,289.47	10%	12%	£4.65m
Atelis plc	SP	0.05	1.13	NA	NA	209.30	-5%	-33%	-£0.06m
Atlantic Global	SP	0.17	3.78	72.7	1.77	576.27	0%	26%	-£0.11m
Autonomy Corporation	SP	8.61	1811.30	90.2	14.12	262.82	-7%	68%	-£137.79m
Aveva Group	SP	9.18	618.43	34.9	9.38	4,590.00	-1%	13%	-£7.07m
Axon Group	CS	8.39	517.16	34.0	3.76	4,794.29	13%	37%	£59.83m
Belgravium Technologies Plc.	SP	0.13	12.85	NA	2.46	850.00	-15%	-2%	-£0.05m
Bond International	SP	1.83	55.67	13.7	3.24	2,815.38	-13%	6%	-£8.54m
Brady	SP	0.39	10.52	16.1	4.33	481.48	-30%	7%	-£4.08m
Business Control Solutions	CS	0.03	7.46	NA	0.93	440.00	-27%	-56%	-£2.71m
Business Systems	CS	0.12	10.10	NA	0.29	100.84	0%	-4%	£0.00m
Cantono	CS	0.07	21.17	NA	2.95	1,327.27	-19%	33%	-£5.37m
Capita Group	CS	7.24	4493.20	31.8	2.64	195,711.85	-4%	19%	-£150.11m
Centrom	CS	0.01	1.57	NA	0.25	166.67	0%	-33%	£0.00m
Charteris	CS	0.16	6.78	15.4	0.76	177.78	-11%	0%	-£0.86m
Chelford Group	CS	1.43	10.21	139.5	0.55	248.70	-7%	-15%	-£0.72m
Civica	CS	2.07	130.33	13.1	1.23	1,182.54	5%	-25%	£6.42m
Clarity Commerce	SP	0.33	8.10	NA	0.61	264.00	-8%	-38%	-£0.74m
Clinical Computing	SP	0.04	1.32	NA	0.80	32.26	0%	-43%	-£0.13m
CODA Plc.	SP	1.87	143.94	NA	2.69	1,154.32	6%	15%	£8.08m
Compel Group	CS	1.49	50.42	22.6	0.80	1,192.00	0%	26%	£0.00m
Computacenter	R	2.01	320.45	16.0	0.14	300.00	12%	-25%	£33.17m
Computer Software Group	SP	1.50	85.19	19.3	6.05	1,276.59	0%	23%	£0.00m
Corero	SP	0.11	4.79	NA	176.68	140.00	-7%	-28%	-£0.34m
Corpora	SP	0.07	15.47	NA	5.95	184.21	17%	25%	£3.15m
Dealogic	SP	1.83	123.93	NA	3.08	795.65	-1%	16%	-£4.84m
Delcam	SP	3.75	28.39	NA	1.18	1,442.31	-2%	20%	£4.77m
Detica	CS	3.11	360.27	31.2	2.31	3,887.50	-1%	-15%	-£4.05m
Dicom Group	R	1.85	157.90	15.8	0.99	567.14	8%	-21%	£6.04m
Dillistone Group	SP	3.03	16.34	NA	NA	2,216.12	2%	106%	£0.27m
Dimension Data	R	0.60	916.41	46.3	0.66	106.57	7%	40%	£53.91m
DRS Data & Research	SP	0.31	10.22	61.3	0.82	281.82	3%	-16%	£0.41m
eg Solutions	SP	0.38	5.36	NA	0.99	255.10	-15%	-54%	-£0.93m
ELCOM	CS	0.02	8.28	NA	23.91	400.00	0%	-52%	£1.74m
Electronic Data Processing	SP	0.67	16.27	37.7	2.33	2,051.44	0%	4%	-£0.12m
FDM Group	A	1.32	30.65	14.7	0.69	1,619.63	6%	41%	£1.62m
Ffastfill	SP	0.08	23.34	NA	8.80	66.67	14%	33%	£1.48m
Financial Objects	CS	0.46	20.43	6.2	1.03	200.00	-23%	-16%	-£6.22m
Flomerics Group	SP	0.50	10.82	12.3	0.76	1,923.08	-4%	-33%	-£0.32m
Focus Solutions Group	CS	0.46	13.40	8.1	1.35	235.90	-4%	-5%	-£0.59m
GB Group	CS	0.24	20.24	NA	1.35	154.80	-11%	-48%	-£2.58m
Gladstone	SP	0.23	11.28	8.7	1.47	575.00	0%	-10%	-£0.59m
Glotel	A	0.69	26.81	20.3	0.30	358.44	0%	10%	£0.00m
Gresham Computing	CS	1.08	56.82	130.3	4.06	1,161.29	-14%	-27%	-£6.24m
Group NBT	CS	2.39	60.09	NA	7.15	1,195.00	-16%	15%	-£11.82m
Harvey Nash Group	A	0.72	52.16	11.0	0.21	411.43	0%	-1%	£0.23m
Highams Systems Services	A	0.07	2.19	NA	0.16	194.44	17%	51%	£0.28m
Horizon Technology	CS	0.71	81.50	14.0	0.43	261.11	13%	3%	£29.17m
I S Solutions	CS	0.23	5.60	NA	1.02	857.10	0%	46%	-£0.04m
IBS OPENSystems	CS	1.91	76.40	NA	4.89	1,252.46	-1%	5%	-£0.40m
ICM Computer Group	CS	5.43	115.74	34.6	1.53	3,016.67	0%	88%	£0.00m
IDOX	SP	0.10	33.77	NA	2.39	12.83	0%	57%	-£1.28m
Imaginatik	SP	0.06	7.43	NA	5.31	750.59	-14%	-25%	-£1.13m
In Technology	CS	0.30	42.57	NA	0.23	1,200.00	-3%	-30%	-£0.71m
Innovation Group	SP	0.30	193.95	NA	3.18	131.00	-6%	-4%	-£12.08m
Intelligent Environments	SP	0.09	15.06	25.9	4.83	95.74	0%	44%	£0.40m
Intercede Group	SP	0.34	12.27	NA	6.79	566.67	-15%	-43%	-£2.17m
InterQuest Group	A	1.07	32.00	NA	1.16	1,860.87	10%	22%	£2.98m
Invu	SP	0.28	22.94	NA	3.53	2,894.71	-1%	-8%	-£8.64m
iSOFT Group	SP	0.68	158.67	36.6	0.91	618.18	-1%	20%	-£0.58m
iTrain	SP	0.02	2.11	NA	1.15	26.47	-10%	0%	£0.00m
K3 Business Technology	SP	1.88	40.75	17.9	1.49	1,436.44	23%	62%	£7.50m
Kewill	SP	0.85	68.58	46.6	0.98	1,679.84	-1%	8%	-£0.81m
Knowledge Technology Solutions	SP	0.01	5.13	NA	54.84	200.00	0%	-38%	£1.47m
LogicaCMG	CS	1.51	2251.69	19.0	0.00	2,067.92	-7%	-19%	-£188.41m
Lorien	A	0.99	18.44	41.5	14.98	990.00	0%	133%	£0.00m

UK software and IT services share prices and market capitalisation - September 2007

	SCS Cat.	Share Price 30-Sep-07	Capitalisation 30-Sep-07	Historic P/E	PSR Ratio Cap./Rev.	S/ITS Index 30-Sep-07	Share price move since 31-Aug-07	Share price % move in 2007	Capitalisation move since 31-Aug-07
Macro 4	SP	1.75	40.18	6.0	0.56	705.65	-12%	-17%	-£3.71m
Manpower Software	SP	0.59	26.28	26.8	9.27	608.25	11%	127%	£2.67m
Maxima Holdings	CS	3.09	76.99	16.2	0.83	2,247.27	-3%	34%	-£0.82m
Mediasurface	SP	0.19	19.19	NA	7.96	1,415.44	-7%	13%	-£1.08m
Micro Focus	SP	2.98	597.03	26.3	0.25	0.00	2%	43%	£14.52m
Microgen	CS	0.48	48.76	12.4	15.88	205.13	2%	-12%	£0.51m
Minorplanet Systems	SP	0.26	7.50	6.3	2.05	530.94	-7%	-54%	-£0.57m
Misys	SP	2.21	1113.06	26.5	0.01	2,749.50	-4%	2%	-£47.77m
Monitise	CS	0.18	44.52	NA	0.01	116.67	30%	-19%	£11.42m
Morse	R	0.89	140.84	NA	0.12	356.00	-6%	-18%	-£8.23m
NCC Group	CS	3.79	123.44	23.9	5.54	2,269.46	5%	36%	£6.03m
Ncipher	SP	2.42	40.59	NA	7.10	968.00	13%	-5%	-£20.79m
Netcall	SP	0.31	20.15	0.3	12.25	626.26	3%	82%	£0.50m
Netstore	CS	0.27	33.54	11.7	1.01	180.00	4%	-10%	£1.25m
Networkers International	A	0.38	34.54	NA	1.76	1,171.88	-3%	7%	-£0.92m
Northgate Information Solutions	CS	0.71	412.04	11.7	0.10	273.08	-3%	-17%	-£10.15m
NSB Retail Systems	SP	0.26	108.97	11.6	8.52	2,260.87	-4%	-24%	-£1.04m
OneclickHR	SP	0.05	6.88	NA	18.41	125.00	0%	25%	-£0.56m
OPD Group	A	2.99	79.28	NA	0.16	1,356.82	-21%	-39%	-£20.72m
Parity	A	0.82	31.10	NA	0.51	759.26	-1%	4%	-£0.38m
Patsystems	SP	0.27	44.99	35.5	2.03	252.34	-4%	57%	-£0.39m
Phoenix IT	CS	3.83	284.76	17.2	0.36	1,418.52	-10%	26%	-£31.58m
Pilat Media Global	SP	0.45	26.35	11.0	21.90	2,250.00	-10%	-45%	-£3.25m
Pixology	SP	0.41	8.26	NA	5.84	293.75	0%	44%	£0.00m
Portrait Software	CS	0.18	17.70	NA	0.57	118.18	-5%	20%	-£0.72m
Proactis Holdings	SP	0.62	18.56	NA	9.32	1,268.04	-4%	-3%	-£0.75m
Prologic	CS	0.90	9.00	10.5	2.68	1,084.34	0%	6%	£0.00m
QinetiQ Group	CS	1.75	1157.49	17.6	0.01	797.27	-2%	-9%	-£18.16m
Qonnectis	CS	0.01	1.97	NA	10577.93	240.00	-25%	20%	-£0.66m
Quantica	A	0.47	32.16	10.2	0.05	379.03	2%	54%	£0.34m
Red Squared	CS	0.10	2.76	NA	13.10	535.71	3%	50%	£0.07m
Revenue Assurance Services Plc	SP	1.95	83.23	26.9	0.06	1,300.00	2%	59%	£1.71m
RM	SP	1.92	177.40	16.6	0.32	5,485.71	-1%	-1%	-£1.39m
Royalblue Group	SP	9.90	342.35	32.0	1.88	5,823.53	-3%	-5%	-£11.76m
Sage Group	SP	2.49	3245.57	21.2	0.37	95,769.23	6%	-8%	£169.28m
Sanderson Group	SP	0.51	21.56	NA	200.98	1,020.00	6%	4%	£1.49m
SciSys	CS	0.39	10.97	NA	0.85	298.45	-37%	-56%	-£4.62m
SDL	CS	3.34	250.04	35.1	0.12	2,226.67	-16%	42%	-£44.67m
ServicePower	SP	0.18	15.60	NA	31.50	180.00	20%	9%	£2.00m
Sirius Financial	SP	2.25	39.64	21.8	0.72	1,500.00	0%	53%	£0.00m
SiRViS IT plc	CS	2.05	6.77	10.3	4.96	1,782.61	41%	5190%	£1.98m
smartFOCUS plc	SP	0.18	16.70	30.5	0.74	1,945.95	6%	18%	£0.69m
Sopheon	SP	0.18	25.84	NA	2.78	258.99	0%	-20%	£0.36m
Spring Group	A	0.67	109.98	21.8	0.06	744.44	-6%	-3%	-£5.74m
SSP Holdings	SP	1.47	121.41	NA	6.15	1,386.79	1%	22%	£0.83m
StatPro Group	SP	0.90	47.48	15.6	9.56	1,125.00	-12%	-13%	-£6.07m
SThree Group plc	A	2.93	405.74	14.3	0.20	1,422.33	-15%	-24%	-£72.70m
Stilo International	SP	0.02	1.50	NA	176.41	40.00	0%	-16%	-£0.25m
Strategic Thought	CS	0.58	15.09	NA	0.13	424.35	-2%	-43%	-£0.26m
SurfControl	SP	6.90	198.50	NA	0.26	3,450.00	0%	33%	-£0.57m
Tadpole Technology	SP	0.03	12.93	NA	41.09	78.46	-35%	225%	-£4.97m
Tikit Group	CS	3.04	38.85	18.9	0.55	2,643.48	-4%	19%	-£1.95m
Total Systems	SP	0.29	3.05	NA	11.14	547.17	-6%	-19%	-£0.16m
Touchstone Group	SP	1.70	20.94	62.2	0.10	1,619.05	6%	-5%	£1.23m
Trace Group	SP	1.55	22.09	17.4	1.46	1,240.00	-1%	56%	-£0.07m
Triad Group	CS	0.27	4.09	NA	0.52	200.00	-4%	8%	-£0.08m
Ubiquity Software	SP	0.37	75.39	NA	0.55	929.65	0%	85%	£0.00m
Ultima Networks	R	0.01	13.30	NA	39.55	24.39	0%	14%	£11.00m
Ultrasis Group	SP	0.01	8.75	NA	10.70	16.33	-20%	-44%	-£5.88m
Universe Group	SP	0.08	1.54	19.2	0.20	338.67	-15%	-46%	-£8.64m
Vega Group	CS	2.08	42.24	11.7	0.02	1,704.92	-12%	-2%	-£5.80m
VI group	SP	0.17	6.24	8.4	4.36	340.00	6%	19%	£0.37m
Xansa	CS	1.29	448.50	30.8	0.02	3,307.69	1%	49%	£2.61m
Xchanging	CS	2.81	594.35	NA	NA	919.80	-1%	-8%	-£4.23m
Xpertise Group	CS	1.27	6.71	21.8	37.15	5,080.00	10%	214%	£0.61m
XploITe	CS	0.44	17.39	NA	0.23	1,353.85	13%	33%	£2.98m

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 Ovum 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 Staffing Agency

MARKET JITTERS – TIME TO WORRY?

Samad Masood
Analyst

September was a pretty unspectacular month for S/ITS stocks on average. The techMARK 100 and FTSE IT SCS declined only very slightly, by 0.01% and 0.64% respectively. This may not be seen as too bad a performance given the jitters still in the market from the sub-prime mortgage crisis. Indeed, the FTSE All Share only rose by 1% in September.

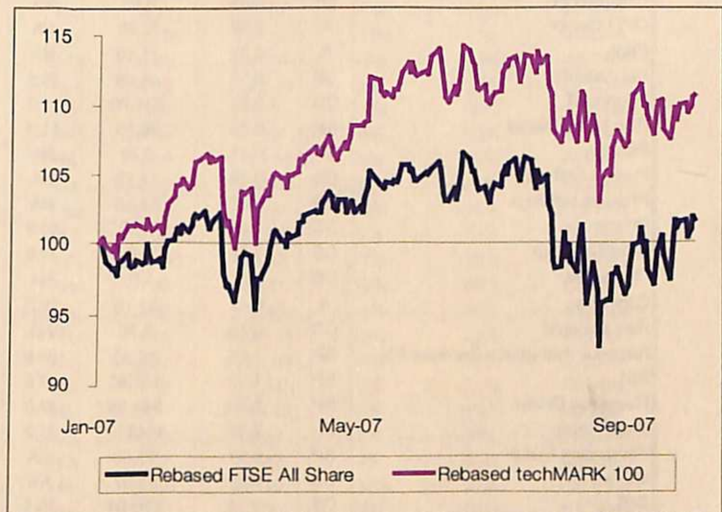
Confidence does seem to be returning to the markets somewhat, at least in the largest listed businesses. For instance, the FTSE 100 rose by 2.59% over September. The issue is that this early sign of confidence does not seem to be spreading into the UK S/ITS industry - yet. In fact, the Ovum S/ITS index, which is un-weighted and tracks a broader range of listed companies in the UK (large and small) than the techMARK 100 or FTSE IT SCS, fell by 2.83% on average.

And at the end of September the S/ITS market received another blow in the form of the postponement of SmartStream's IPO, originally planned for October. SmartStream was expected to be the largest software company float on the LSE since 2001. It was expected to raise between £250m and £300m from the float, raising £100m in cash in the process. However, "market conditions" have spoiled these plans

The sub-prime mortgage-related jitters running through the banking industry, and the related increased cost and decreased availability of capital, have clearly had a big influence on the decision to postpone. But this doesn't mean that all UK S/ITS companies considering a float in the coming months need to start panicking.

Unlike the average S/ITS company, SmartStream has more than just stock market jitters against it. The fact that it relies on the financial services market for its business also counts against it at a time when banks are starting to become a bit more cautious in the current climate.

FTSE All Share vs. techMark 100, Jan 2nd to September 28th 2007 (rebased at 100)



It's also worth noting that while the sub-prime crisis has had an effect on S/ITS stocks, it has been far less marked in the IT sector than in the rest of the market. Overall, S/ITS stocks have outperformed the average. For instance, the techMARK 100 has performed 9% better than the FTSE All Share index between the start of 2007 and end of September (see Figure 1). The Ovum S/ITS index has also performed just as well, showing that it is not just the biggest S/ITS companies benefiting from a better outlook in our sector. Indeed, the FTSE 100 is only 4% up on the start of the year, and therefore has a lot of ground to claw back before it can compare to the growth in IT indices.

Overall then, the S/ITS sector has been a good place to invest over 2007 so far. Of course, past performance is not a guarantee for future results! We're not suggesting that the S/ITS industry is, or will continue to be, immune to the market jitters. But each upcoming S/ITS flotation and investment needs to be looked at on its own merits, and in its own context. That said, when and if the market turns, there's very little that can be done to stop it – regardless of the merits of your particular S/ITS company.

SYSTEMHOUSE

With a track record stretching back many years, Ovum is widely acknowledged as the leading commentator on UK Software & IT Services (S/ITS). Through the Holway@Ovum service, which builds on the success of the original Holway Report, our team of experts provides unrivalled analysis of both the market and the players. To find out how you can gain access to the service, including SYSTEMHOUSE and Hotnews, please contact Suzana Murshid on +44 20 7551 9071 or sum@ovum.com.

© 2007 **Ovum Europe Limited.** The information contained in this publication may not be reproduced without the written permission of the publishers. Whilst every care has been taken to ensure the accuracy of the information contained in this document, the publishers cannot be held responsible for any errors or any consequences thereof. Subscribers are advised to take independent advice before taking any action. **SYSTEMHOUSE®** is a registered trademark of Ovum Europe Limited. Ovum analysts might hold stock in the companies featured.