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SYSTEMHOUSE

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

ITSAs: MAKING PROFITS THE PRIORITY

The traditional ITSA (IT Staffing Agency) model that sees staff supplied on a transactional basis, providers compete heavily on price and respond reactively rather than proactively to clients' needs, is under pressure. One of the key problems ITSAs face is improving profit margins on what is considered by customers to be a commoditised service. The trouble is that some ITSAs have worked themselves into a difficult situation here. In competing very, very heavily on price for some of the more commoditised services (including the provision of staff via a managed service), suppliers have lowered customer expectations of the value of such contracts.

One way to deal with this situation is for ITSAs to show their clients that they can add value. In being more pro-active about clients' business needs, ITSAs stand a chance of being able to charge a premium for their services. Being respected as business advisors with strategic insight moves them away from the transactional activities that are so tied to the economic climate and competitive pressures.

Spring, the UK's largest ITSA, has found itself at the sharp end. It announced in August that its long-time CEO (Richard Barfield) is to resign. Spring has been through a rough time financially - although it's not the only ITSA to have struggled (see Parity, MSB International, Glotel for example). But equally, there are other ITSAs that are not turning in a similarly bad performance.

The market is undoubtedly tough. We think that the key to doing well in the current climate is to look for growing and profitable niches/sectors and be disciplined about not taking on too many lower margin contracts. That may sound straightforward, but for some it has proved very difficult. And you don't have to look much further than Spring to see an example of this. It might be the biggest, but it's certainly not the best when it comes to profit-making - and now it faces the very difficult challenge of getting both growth and profits back on-track.

Where's growth coming from?

So what are Spring's chances of not only retaining its crown as the largest ITSA, but improving its profits? Our top ten table (see Figure 1) shows overall growth of the leading players in 2005 at 13%. This is above the rate of growth for the market as a whole. In fact, given that the S/ITS market is set to grow at 6.1% in 2006, it is not unrealistic to suggest the ITSA market is also growing in single digits. Spring, therefore, will have to go hunting hard for growth.

The double digit growth rates we see in the top ten are coming from market share gains, and also from where ITSAs have

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INDICES
(changes in August 2006)

Ovum S/ITS Index	**+2.2%**	**4987**
FTSE IT (SCS)	**+1.2%**	**512.2**
techMARK 100	**+3.0%**	**1379.6**

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been able to zone in on specific hot areas to take advantage of mini-booms. So for example, we would highlight ERP skills and onshore skills associated with the management of offshore projects as areas where demand is currently high.

Another factor that gives the impression of growth, but is not actually a bone fide increase in revenues, is the pay-rolling of contractors under managed services arrangements. This happens where an ITSA 'inherits' contractors from an incumbent and then passes their salaries through their own books. It is very difficult to break this out from individual company revenues, but given the strong presence of managed services in today's market, we can assume that many players are likely to be 'benefiting' from this phenomenon.

We would emphasise that huge revenue growth is not the be-all and end-all - especially given the above. The mindset of the modern ITSA must be geared towards understanding the best opportunities for profitable growth.

Market trends

In our latest *MarketTrends* research (available now to subscribers), we set out some of the key trends we think will impact UK ITSAs in the near future. We believe ITSAs can strengthen their prospects by considering the following:

• Concentrate on the provision of higher-value, lower-volume skills (such as hot niche skills). The prevalence of managed services contracts has helped create a competitive environment that has squeezed and squeezed margins. ITSAs that are suffering (including Spring), must re-focus around more profitable areas of growth, while having the courage to terminate less profitable contracts.

• Consider selective RPO contracts, perhaps by partnering with HR consultancies and outsourcers that do not consider it to be a core competence. This puts ITSAs in a good position from where they can get closer to the customer and prove their strategic worth. Like managed services, good margins are not a given, which makes the balance between RPO and other types of business an important point to consider.

The power of customers

ITSA customers are typically in a strong position in today's market. They are in the driver's seat on many occasions, partly because their demands for suppliers to fight it out to the death over contract values are being met. But client power stretches even further than this. IT staffing is now appearing on the radar of some cost-conscious procurement departments. As well as pressurising agencies to fight it out amongst themselves to produce the lowest cost on a managed service contract, they will sometimes add a pre-condition to the arrangement under which agencies must give up their rights to their contractors. The upshot of this when the contract is next up for renewal is that those contractors can simply be moved to another agency's payroll. The downside for the original agency is that it has done all the work (and made all the investment) to acquire the contractors in the first place, only to see them handed over to a competitor.

Figure 1 Leading IT staffing agencies in the UK

Rank	Company	ITSA revenues (£ million)		Change
		2005	2004	
1	Spring	403	415	-3%
2	Computer People	310	260	19%
3	Hays	291	246	18%
4	Elan Computing	235	180	31%
5	SThree	219	173	27%
6	Modis International	150	132	14%
7	Parity	91	82	12%
8	Abraxas	115	101	14%
9	Lorien	107	101	6%
10	Harvey Nash	79	80	-1%
	Total	**2,001**	**1,770**	**13%**

Source: Ovum and company results

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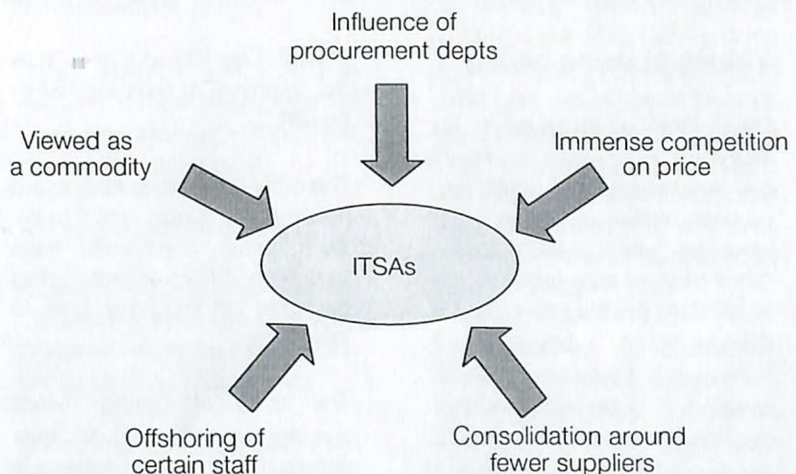
Some will fall

It's hard to see how ITSAs who do not focus on any particular niche area, and who have a large amount of business involving lower-valued workers (e.g. helpdesk) will tackle long-term survival. Witness the recent announcement regarding MSB International and its change of ownership. The company failed in its search to find a suitable candidate for either merger or acquisition in order to gain the kind of scale it was looking for. For the past couple of years it's been trying to diversify its non-IT business, but progress here hasn't been quick enough. Fellow ITSAs should take this as a warning of what the future could also hold for them.

Figure 2 The pressure is on ITSAs from all angles



Source Ovum

So what about Spring? Now it's got a new skipper at the helm will things start to look up? There's a very big job to be done and it's going to take quite some time. The question is whether shareholders will give Spring the luxury of that time.

(Kate Hanaghan)

Disruption and disintegration: change and opportunity in the UK software and IT services market

An Ovum Event, 11th October 2006

The IT market in the UK may be mature, but it's changing more than ever. Join Ovum for the evening to explore and debate some of the key disruptions impacting the IT industry today and in the near future.

The evening is an annual event held by the Holway@Ovum team. Richard Holway (Director, Ovum) will chair the evening and will be joined by Senior Analysts at Ovum to present on the latest topics driving the industry. The presentations will be followed by a Q&A session with a panel of Ovum analysts specialising in the UK software and IT services market.

For more information on the evening and how to purchase tickets please contact: Suzana Murshid, Account Manager, +44 20 7551 9071 or email suzana.murshid@ovum.com

Holway Comment

Virtues of being boring

David Frost often asked in his interviews *'How would you like to be remembered?'* I think my, probably rather unoriginal, reply would be *'I don't care. I'd just be rather pleased to be remembered at all!'* If my postbag over the last decade or so is any guide, if Holway is to be remembered for anything, it is his redefinition of the word 'boring'. Even in the last month, Patrick Hosking headed his Tempus comment in *The Times* (22nd July 2006) *'Runaway winner makes a virtue of being boring'.* This was all about Capita - one of our two current Boring Award holders - being the best performing FTSE100 company of all time.

Our redefinition of the word boring started back in 1992 when I was asked by Alan Cane - then technology correspondent for the *Financial Times* - for my views on Admiral's results. I actually said *'Admiral is boringly consistent'* but the FT reported this as *'Holway says Admiral is boring'.* We then received messages from companies saying *'but we are just as boring as Admiral'*, which in turn gave birth to our Boring Awards.

Companies can get a Boring Award only if:

- they are quoted companies
- they have a consistent, unbroken record of ten or more years of earnings per share growth.

Admiral was the first winner. We actually had a trophy produced and presented it to Clay Brendish at our annual presentation. Admiral held the award until it was acquired by CMG in 2000. Indeed, Clay told us that he took the trophy as a memento when he left!

The other (and still current) award holders are Sage and Capita. Both these companies have unbroken EPS records going back not ten years but back to the 1980s.

The rarity of Boring Award winners is testimony to how difficult this kind of consistency is to achieve. It is also testimony to how highly consistency is held in the esteem of investors. Capita's share price has grown nearly 150-times since its 1989 IPO at 3.5p - not only the best return of any UK company in our S/ITS index in the period but the best of any FTSE100 company too! Sage is in second place. A £1,000 investment in its 1989 IPO would now be worth a 'mere' £90,000! Admiral, when acquired by CMG in 2000, would have returned around £60,000 to its IPO investors.

So 'boring' - as in consistency of financial performance - is quite demonstrably 'good'. But what

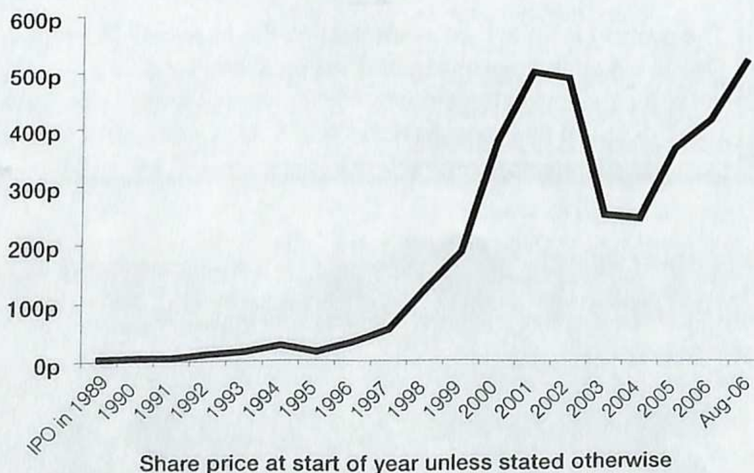
Richard Holway

are the other characteristics which make a boring company? Indeed, are these characteristics which others might emulate if they too strive to be boring?

Easy to understand

Analysts have short attention spans. In my view, the very best companies are those where I can easily and quickly understand what they do. Where their business model can be summed up in a sentence or two. Ask almost anyone what Sage or Capita do and they will tell you 'accounting systems for SMEs' or 'BPO, particularly for the public sector'. Conversely, in my time as an analyst, I've been confronted with companies that have

Capita's Share Price has grown nearly 150 times since its IPO at 3.5p in 1989 and now exceeds its dot.com peak



Share price at start of year unless stated otherwise

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required 50+ PowerPoint slides to describe their business. I remember the 'old' Sanderson, in the 1990s, having 47 different business streams!

Some will argue that big technology companies will always tend to get complex. I would argue that when this happens that's when the problems start. HP's business model was hugely complex under Carly. BT needs to take great care in concentrating on its simple-to-understand networked IT core and not get sucked into peripheral areas like SI and BPO. Many of Microsoft's current problems relate to the complexity of its new business offerings. If it is not careful, the wonderful initial simplicity of the Google model will get infected by going in too many directions too quickly.

Consistent management

The CEOs of Sage and Capita - Paul Walker and Paul Pindar - have both been with their companies for over 20 years. Conversely some of the worst performers seem to go through CEOs at a rate of knots.

Of course, we all get old - or worse may happen. So succession planning should be a key agenda item for every responsible board. As an analyst, I like to see strong teams. I like to be able to identify one (or more) likely candidates for the CEO role from within the company long before they are required. To be fair to Bill Gates at Microsoft, he realised that long before he decided to retire and had a number of very strong candidates in waiting.

Boring companies led by accountants

It would be highly insulting to describe the past or current CEOs of our Boring Award holders as boring people. But it is interesting that Walker, Aldridge and Pindar are all accountants by training.

As an analyst it is very easy to succumb to the high profile 'all sizzle, no sausage' CEO. They rarely deliver the goods!

Eat small meals regularly

Readers may also remember our 'Acquisition indigestion - the after-effects of eating big meals of the wrong type too often' theme.

Both Capita and Sage have been very active in M&A. Indeed, we have long suggested that in a low-growth market the 'blended' approach to business development - ie both organic and inorganic - is the only real route to success. But neither company has ever attempted a 'mega' acquisition (in our definition that involves taking over a company >50% your current size or market value). Instead they have both 'stuck to the knitting' with small/medium-sized acquisitions taking their existing core business into new geographies or industry sectors. How different this has been to, say, the strategy of Misys, which has undertaken a number of acquisitions which break our golden rule both by being too big or being outside what we understood was its core business. Its acquisition of Medic in 1997 was 1) big 2) in healthcare, which was a brand new sector for it, and 3) in the US. The contrast in returns to Misys shareholders (no share price appreciation in the last ten years) and those of Capita and Sage (see above) could not be more stark!

Predictable revenue streams

I spent my first 20 years at Hoskyns - the then UK outsourcing leader. When we did our business planning each year, something like 80% of the base revenue for the coming year was 'in the bag'. The first advisory contract I got when I left Hoskyns to form Richard Holway Limited in 1986 was with Apple. It involved me interviewing its top dealers. I was foolish enough to ask at the first interview to look at the order book for the next year, only to be told that there were no firm orders past this Friday!

I've been in love with contractual, predictable revenue streams ever since. (Indeed, here at Ovum we moved our business model away from the 'one-off' reports we sold in the 1990s to long-term contractual advisory services.)

Both Sage and Capita have long term predictable revenue streams. They are quite different though. Capita gets them from five- to ten-year outsourcing deals. Sage gets its from getting customers hooked on its SageCover support - a model which it then replicates in every new geography and every new acquisition.

Conversely, ITSAs have very short predictability, which has made their share prices so vulnerable and their valuation metrics so low. A similar fate has befallen those who relied on big SI projects alone without the predictability of follow-on support contracts. One of the main reasons why I like software-as-a-service (SaaS) so much is that it provides much higher revenue predictability for software products companies; albeit at the expense of the 'excitement' of big end-of-quarter licence sales!

Boring companies for a boring world?

Yet another theme we introduced was *'IT's all over now?'* in 2002 when we suggested that the days of ICT growing at its historically

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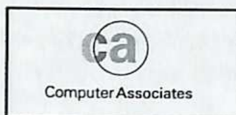
normal rates of 2, 3 or 4× the rate of GDP were over and that from now on we would be lucky to keep pace with GDP growth. (This was highly controversial then. I guess the fact that IT now occupies a lower % share of GDP than it did back then has brought most to their senses! Almost every forecaster now agrees with us that IT growth will be, at best, low to mid single digits for the foreseeable future.)

This new low-growth IT world is little different to the world that most other industrial sectors have had to live with for decades. The big companies in those other sectors have to act, well, like big companies. And big companies tend to be pretty boring! They do things like pay dividends, have CSR policies, spend a lot of time on corporate governance issues. Both Sage and Capita have moved decisively in that direction - and that's not all bad!

The top line ICT market growth may well be modest but there is huge diversity within. This creates equally huge opportunities. Personally I believe that the opportunities to create and build new ICT companies today are at least equal to those that faced Capita and Sage in the 1980s when they both started.

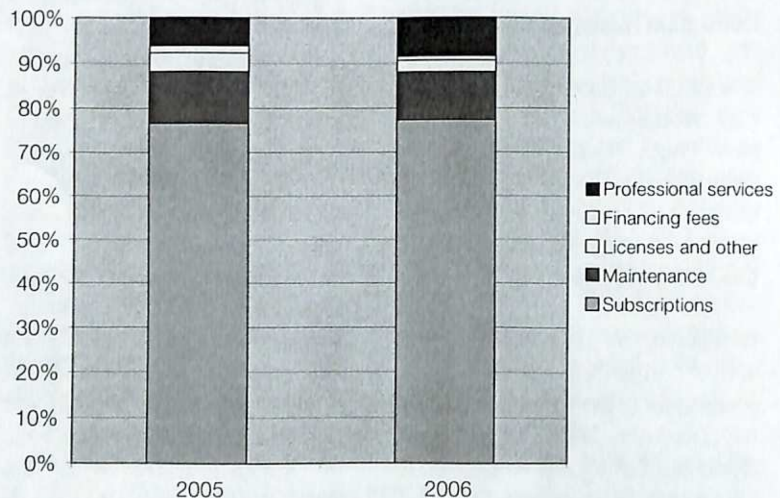
Of course, no new company setting up today is likely to have 'being boring' as its objective. But remembering the 'virtues of being boring' and learning from the lessons of our Boring Award holders would not be a bad routemap to follow.



CA REPORTS DISAPPOINTING Q1 RESULTS

On 13 August, CA reported a small increase in revenue but a fall in profits for the quarter to 30 June, Q1 of its fiscal 2007. Revenue rose 3% to $956m compared to $927m a year ago. (CA's numbers for a year ago have been re-stated so there may be some differences with our previous comments on CA). The company said that the overall growth was largely driven by its acquisitions, notably Wily Technology, acquired earlier this year, and Niku, acquired in 2005.

Where CA's money comes from...



Operating costs rose by over 9% to $905m compared to $827m a year ago. The biggest single contributor was a rise of just under 12% in selling, general and administrative costs which were $434m compared to $389m. $35m of this increase was due to additional personnel costs from the acquisitions. Operating profit fell 49% to $51m compared to $100m, reducing operating margin to 5.3% from 10.8%. Net income was down 64% at $35m compared to $97m.

Geographically, CA reported that its US revenue rose by 7% to $518m. However, its non-US operations fell by 1% to $438m. CA did not publish any further breakdown of the revenues. CA closed the quarter with a little over $1.5bn in cash.

CA's president and chief executive officer John Swainson said "...we are not satisfied with our cost structure and we are implementing an expense reduction plan to improve the Company's efficiency and competitive position. These are the first steps in a long-term program to achieve a best-of-breed cost structure." He announced that the company was launching a cost-reduction programme that would see around 1,700 staff leave and global facilities rationalised. The company put the cost of this plan at around $200m before tax.

We are always a bit worried when

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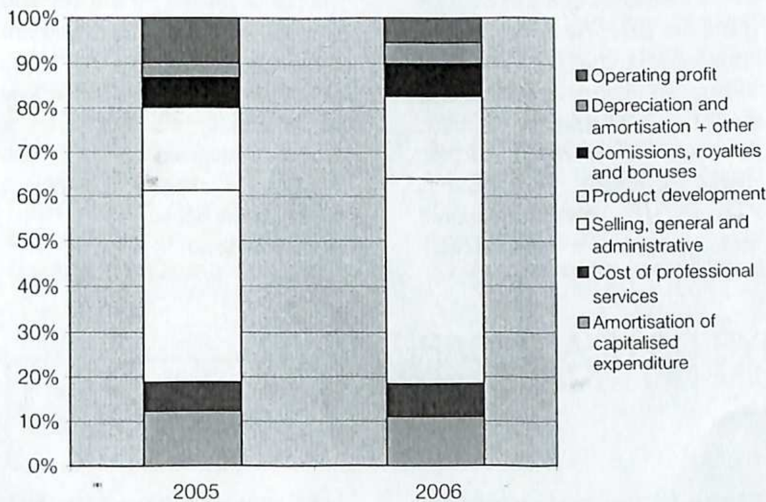
a CEO announces a top-line figure for reductions after a disappointing quarter's results, wondering just how much thought has gone into the cost reduction numbers.

We trust that the first task that Swainson handed to incoming CFO Nancy Cooper, who joined later in the same week that these results were announced, will be to conduct a detailed root-and-branch examination of CA's cost structure. Her appointment and Swainson's depth of experience reassure us that the cost cutting programme will be an orderly, closely considered programme, than a 'slash and burn' approach we have seen elsewhere.

CA's problem with costs is not new, there was clearly a problem in the previous quarter's results, which it published only two weeks earlier. We suspect that the management has had its hands too full with governance issues to take a look at the cost structures following the mergers.

...and where it goes



CA's main issue is that it faces fierce price competition around the shrinking, mature segments of the mainframe infrastructure software market, where CA gets most of its revenue. Except for the virtualisation software vendors, where EMC is having a very good run, almost everyone in this sector is experiencing tough times. Its customers, the CIOs, are reducing infrastructure costs in order to free up some cash for innovation. Indeed, part of CA's marketing thrust is helping customers to optimise and control costs.

So while the fall in profits is discouraging, the low rise in revenue is part of a serious long term problem. CA didn't disclose what the organic growth was, but our estimate is that it would be around -1%. That said, things could have been worse. Indeed the financial analysts were actually expecting worse, so CA's stock price rose after the results were announced.

(David Bradshaw)

XCHANGING STARTS EXTENDING ITS REACH

Xchanging, the privately-owned UK BPO player, broke its characteristic silence in early August to announce an acquisition and a major new contract.

First, Xchanging extended its HR abilities through the acquisition of Ferguson Snell & Associates (FS&A), a specialist helping foreign nationals to live and work in the UK. Founding directors Paul Ferguson and John Snell, and their team of 15 will continue in their current roles and responsibilities within Xchanging.

We spoke with Xchanging CEO and founder David Andrews at the time of the deal. He explained that FS&A discrete HR services will complement its HR outsourcing business, which is currently dominated by the large £600m+ outsourcing relationships it has with BAE Systems and United Biscuits.

A week later Xchanging announced a £230m, ten-year back-office insurance processing deal with the UK arm of US-based conglomerate Aon. This is a significant contract for Xchanging, adding to its other £100m+ insurance processing deal with Lloyds. It's also the largest single deal the company has signed in the insurance sector so far and a major step in its strategy to provide back-office services to the London market.

We understand that Accenture was also in the running for the contract. If so, it is an impressive feat for UK-based Xchanging, ranked tenth in the UK BPO market, to beat the fourth ranked UK BPO player, the US-based Accenture. Under the deal,

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Xchanging will handle insurance claims, accounting and settlement, with 500 Aon employees transferring to the outsourcer.

Comment: Xchanging is beginning to piece together a much more diverse business now and this is a good thing. Clearly the Aon deal helps it expand further into claims processing, adding to its existing expertise in finance & accounting, procurement and HR outsourcing. The expertise within FS&A - as with the insurance sector consultancy Landmark it bought in January - should also enable Xchanging to sell more discrete services at a higher volume. In turn this should protect the company from the lumpy BPO sector, where only a handful of large deals emerge for tender each year.

It's a strategy that works well for market leader Capita, which targets the mid-market with distinct software, consultancy and transactional services, but that can also bring all this expertise together to take on some of the UK's biggest BPO deals. Capita generates a 13% operating margin on the back of this model.

Xchanging, which we estimate generated around £140m in UK BPO revenue last year, and says it "aims for a 10% EBIT margin", should in principle be able to mirror Capita's performance as it gains in size. However, a key difference is that Xchanging is already an international business (in 14 countries). Indeed, Andrews is planning further global expansion, perhaps into Asia Pacific. This multinational strategy means it faces a very different set of opportunities and risks to the domestically focused Capita.

Nonetheless, David Andrews believes that the combination of global reach and a keen focus on process management expertise, could ultimately give Xchanging the opportunity to be a global *"Microsoft-like player in BPO"*. We're not convinced that there is a requirement for such a player, or even that a company such as Xchanging could fulfil that role if there was. But we would not discount Xchanging's abilities. The BPO market (in the UK and globally) still offers a significant opportunity for growth, and Xchanging has proved so far that its smallsize has not been a barrier to signing some of the market's most prominent multinational deals.
(Samad Masood)

SAGE BUYS US HEALTHCARE PLAYER

Earlier this month, Sage agreed to buy Emdeon Practice Services, Inc. (EPS) from its parent company Emdeon Corporation (formerly and better known as WebMD) for an enterprise value of approximately £297 million to be paid in cash. Sage expects the acquisition to complete in September, and EPS will become the basis for a new doctors' practices division, which according to Paul Walker, Chief Executive, Sage aims *"to grow both organically and through further acquisitions."*

EPS sells software and services to doctors' practices in the US. It has 20,000 customers, around 10% of the total doctors' practices in the US. It is based in the US in Tampa, Florida, and had revenue of £160m for the year to 31 December, and £156m for the previous year (all the price, revenue and other figures relating to EPS are converted to £s at the rate of £1=$1.90). EBITDA was £11.4 million, compared to £3.7 million.

EPS software, which contributed 53% of its 2005 revenue, is used in practice management (appointment scheduling, prescriptions and billing) and in the maintenance of patient data. EPS also provides network services, in particular claims to healthcare insurers, and this contributed 37% of its revenue in 2005.

Though most opinion on this deal has been positive, I am not so convinced. My main concern is that this is a business that Sage does not know, so the price looks rather high considering the risk involved.

Let's start with the positive first. Surprisingly, this is Sage's largest acquisition to date in terms of the cost, but it is actually quite a small acquisition in comparison to the overall size of Sage. It is well under our 'rule of thumb' that acquisitions should be no more than 50% of the acquirer's size.

Sage also says that there is an opportunity to sell an integrated Sage solution, coupling the financial side of the business to the practice management. We agree that there is the potential to sell an integrated suite. Doctor's practices are generally quite small organisations, so having the transactional side ready linked to the accounts looks like a good offer for the future.

However, the price seems on the high side for a business that is not

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performing very well. The EDITDA margin is only 7.1% and Sage is paying 26x EBITDA for the company.

EPS's growth rate is also rather low, at only 2.6% year-on-year. This compares badly with US healthcare software market leader Cerner which grew its US revenue by 22% to $1.05bn. Cerner is at the opposite end of the healthcare market, supplying systems for large organisations like hospitals not individual doctor's practices, but it does indicate the strength of the market. This strength is because the US is also pushing towards electronic patient records, though along a different path to the UK, and this affects all parts of the market.

Sage would argue that its intention is to 'Sageify' the company, focussing strongly on cost management and other financial metrics, and thereby make EPS a far slicker operation. Indeed it has a track record of doing exactly this in the accounting businesses it has bought.

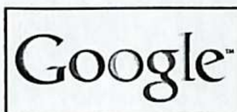
Sage's operating margin in North America was 23% in the year to 30 September 2005, and if it could achieve this with EPS, that would imply an operating profit of £36.8m, and a somewhat more comfortable price multiple of 8.1x.

However, healthcare is not a business that Sage has any direct experience in, beyond selling accounting systems. Sage therefore has to rely on keeping the existing management to run the company, but teaching them the 'Sage way' of increasing margin. This is the obvious way to go. But this is the management team that has been producing the low EBITDA and growth numbers. Is that due to the strictures that its current parent has been placing on it, or is there some other reason? From the outside, we cannot tell.

One tantalising point is Walker's notice of the potential for further acquisitions in this area. There is of course another UK company that is up for sale, Misys, and one that has a healthcare arm that competes with EPS. However, it would be a bridge too far to buy anything substantial before Sage has its knees under the table at EPS.

In summary, at some point Sage has to diversify out of its existing markets, so this could be the right path for Sage. That said, I have doubts about the wisdom of entering the healthcare market via the purchase of EPS.

(David Bradshaw)



GOOGLE'S ASSAULT ON MICROSOFT BEGINS?

Google has launched a suite of on-line applications called "Google Apps for Your Domain" which currently offers three applications: e-mail, calendar, and chat. It also offers web hosting plus a tool for building your website, Page Creator. Google will also host your website, though it will not register the domain on your behalf - you'll have to get someone else to do that for you.

The services are free to small businesses. Google says it will charge medium and large businesses, though it does not have a mechanism to do so yet. In an interview with CNET, Matt Glotzbach, head of enterprise products for Google, said that the company was looking at providing the same applications on a server for organisations that had legal issues with using software-as-a-service.

As a competitor to Microsoft Office, there are three glaring omissions from this offering: it includes neither Google's Writely online word processor nor the Google Spreadsheets application, nor does Google have a presentation/graphics application to rival PowerPoint.

Google describes Google Apps as 'hosted communications services' in its press release - though virtually no one else is referring to it in this way. Everyone else (us included) is viewing this as the opening shot in an assault on Microsoft's near-monopoly of the desktop. This is probably because Glotzbach made it clear that Google will carry on expanding the offering by adding the other capabilities. Beyond this, there's quite a lot of wishful thinking over Google's ability to take on Microsoft.

We believe that Microsoft is now vulnerable on the corporate desktop. The reason is that, because of its complexity, the typical corporate desktop costs

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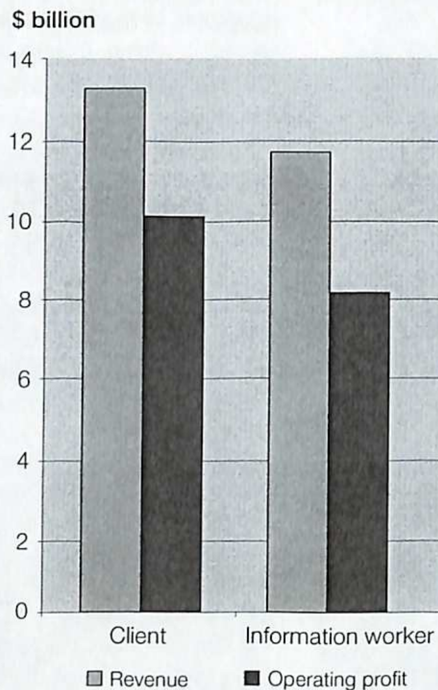
several times its purchase price every year to keep going and to provide support. Increasing levels of security threat don't help either. Moving all the desktop applications on the desktop off onto a server, whether in the corporate data centre or outside the corporation, has the potential to drastically reduce IT operating costs while increasing security.

There's a lot of money at stake here, as the chart shows. In case you immediately think that I've somehow confused percentages with dollars, the client business really did make over $10bn in operating profit, and information worker over £8bn (both of these exclude Microsoft's $5bn of corporate overheads). Only one company (IBM) has more software revenue than Microsoft's client division, and only two companies (IBM and Oracle) have more software revenue than Microsoft's Information Worker division.

Google's target - Microsoft's Information Worker and Client business lines



Lucrative though these targets may be, Microsoft's position is so strong that it would be suicidal for anyone to try to go head-to-head, but a well-funded competitor coming form a different direction rather than making a fully frontal assault might stand a chance. I'm sure the comparison has been drawn before with the market entry strategy of Honda into the UK motorbike market with 50cc mopeds, when the market was dominated by folks like BSA and Triumph with 250ccs or more.

My worry is that by offering 'hosted communications services' first, Google is starting from the wrong point, because it's very easy for Microsoft to defend this particular stronghold. In particular, Microsoft has a good online version of Outlook that offers virtually the same functionality and interface as the 'thick client' desktops.

Google's first wave is aimed not at the large enterprise market, but at the small business market, where this offer is potentially very attractive to technophiles who are not too risk averse. However, one element of this package would be an instant win for corporate e-mail users - up to 2GB of e-mail storage per user! Theoretically there's no restriction on the size of a mailbox in Exchange, but practicalities mean that most Exchange users are forced to put up with just a hundred or so megabytes of storage. A handful of chunky attachments can quickly take you over this limit.

Microsoft will fight back strongly. We expect that it will offer server-based versions of its Office suite and we'd be very surprised if it hadn't already made contingency plans to do this. Indeed, there have long been rumours that Microsoft had a server-based Office substitute that was put on ice. Microsoft will also try to reduce the management burden of 'thick' desktop computers, though a world full of increasingly sophisticated hackers will be doing its level best to make things worse for it. But should an organisation decides to go 'thin client' at the desktop, it will soon find that Microsoft itself is offering a good choice of 'low maintenance' desktop operating systems.
(David Bradshaw)

MORE POSITIVES FROM EDS IN Q2

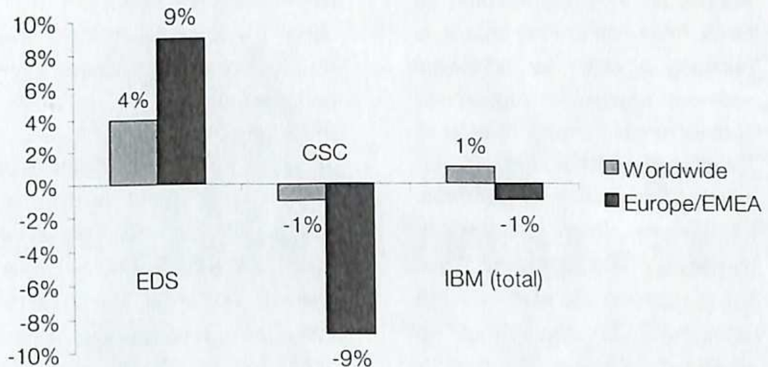
EDS unveiled Q2 results showing total revenue of $5.2bn. That was towards the high end of guidance and represented growth of 4% against the same period last year. Organic, constant currency growth was 5%. The Q2 operating profit rose from £85m to £155m, which took the operating margin from 1.7% to 3.0%. Earnings per share quadrupled to 20 cents.

Revenues in EMEA grew by 9% to $1.6bn. The ramp-up on the DII contract with the MoD was the key driver here, although CFO Ron Varga confirmed that EMEA grew by *"a few percentage points"* if we exclude the DII effect.

Comment: This was another positive quarter for EDS and it's not hard to see why Jordan, the architect of the company's turnaround over the past three years, told analysts he was "very happy with it". The topline growth is hardly stellar but EDS is doing well enough at the halfway stage to raise 2006 revenue guidance by a billion dollars (from $20-20.5bn up to $21-21.5bn). Such a move must be especially satisfying following the disappointing showing from rivals IBM Global Services (in its Q2) and CSC (Q1).

Contract signings, the key driver of EDS's topline, were encouraging at $5.4bn in the quarter - higher than expected and 103% up on Q2 last year. The biggest new deals came from the private sector, notably Kraft, Bank of America and Commonwealth Bank of Australia. Overall, Jordan said that 80% of the total signed value came from new customer wins and contract add-ons, with the remainder from renewals of existing deals. That's a healthy balance and one that EDS says is reflected in its current pipeline.

EDS Q2 revenue growth vs IBM and CSC



As for profits, Jordan was able to reiterate the goal of reporting 7% operating margins for 2007. (For those interested in the detail, this figure excludes the impact of expensing stock options and performance-based stock units - if we include these, as in the operating margin figures quoted earlier in this article, the 2007 target is 6.3%). The stable topline is helping margins inch up, but a lot rests on EDS' ongoing efficiency plans. Indeed, the company is anticipating as many as 4,000 headcount reductions in higher-cost locations in the second half alone, compared to around 1,000 in H1. We can expect *"a heavier emphasis in Europe"*.

Two key factors are enabling such reductions: offshoring (where the completion of the Mphasis acquisition in the quarter has provided a major boost) and investment in productivity through automation/standardisation. On the latter point, EDS says the sorts of ITIL-based tools, billing and asset management processes it is implementing at General Motors will become a standard for large enterprise customers.

Can the operating margin go much beyond 7%? Jordan says that 7.5-8.5% is the best we can expect with the current business mix. The impediment here is EDS' current bias towards infrastructure outsourcing, which accounts for 58% of all revenue. If the company can deliver on plans to boost applications and business process services, it may be in a position to aim higher. But for now, EDS remains on track in its recovery and continues to confound those that were writing it off in 2003 and 2004.

(Phil Codling)

TOREX HIT BY EARN-OUT DISPUTE

Shares in Torex Retail fell in August as investors reacted to news from Alphameric that it is pursuing a claim for additional earn-out payments. Alphameric agreed to sell its retail division to Torex in November 2004 for an initial £15m, plus a potential £15m in performance-dependent earn-outs. Torex has paid £2m, but is resisting the claim for the remaining £13m, stating that "no additional payments are due to Alphameric Plc in respect of the acquisition and [we] will resist strongly the claim being made".

Meanwhile, Torex's interim results did little to counter the negative sentiment. Total revenue for the six months to June rose by 151% to £131.9m, and operating profit before goodwill amortisation and employee share schemes was up 128% to £18.2m. But Torex made a loss before tax of £3.7m (H1 FY05: profit before tax of £2.1m). Loss per share was 1.5p (H1 FY05: earnings per share of 0.4p). The company proposed an interim dividend of 0.137p, up 10% from last year's 0.125p.

Comment: It's perhaps surprising that disputes like this don't occur more often, given the popularity of earn-out agreements and the difficulties of assessing the financial performance of an acquired operation once it is integrated into its new parent. That said, it's unusual to see a proportion as high as 50% of the total potential acquisition price, as in this case, bound up in the earn-out payment.

Independent accountants have been brought in to help settle the matter, as Alphameric and Torex have clearly reached a stand-off. Given the dramatic effect of this dispute on its share price, Torex perhaps stands to gain or lose the most from the outcome. It cannot afford to lose the confidence of investors or pay out much more (the original earn-out agreement was 50% cash, 50% Torex shares), not least because its acquisition spree has put £150m of net debt on its balance sheet.

As for Torex's interim results, the bottom line loss is not a surprise and reflects a big increase in goodwill amortisation (from £2.4m last year to £9.4m). Exceptional items (i.e. reorganisation costs arising from the integration of acquisitions) were also up sharply, from £1.8m to £4.9m. Strip out these costs and, at the operating level, the company is making a reasonable profit. The operating margin, however, fell from 15.2% to 13.8%, reflecting an increased proportion of business coming from hardware sales. Going forward, Torex Retail will be seeking to shift its acquired overseas businesses to the more software and services-centric model of the UK, where software and services (including maintenance) represent 72% of turnover. If effective, this strategy will provide some room to raise the operating margin in the coming periods.

Getting the most from its existing operations and ensuring cross-selling through integration is now the clear priority for Torex Retail. Indeed, management underlined categorically its commitment to an organic future when it released its interims: "Going forward, we will have a total focus on organic growth ... there will be no more acquisitions for the foreseeable future", said FD Mark Pearman to analysts. This change of tack isn't a knee-jerk reaction to the Alphameric dispute, but something the company has been promising for a while. It also means that the organic rate of growth should be watched closely. On this measure the first half was slightly disappointing, with organic growth at 8%. The company is forecasting "low double digit organic growth" for 2006 as a whole, nonetheless, which is just below the level seen in 2005.

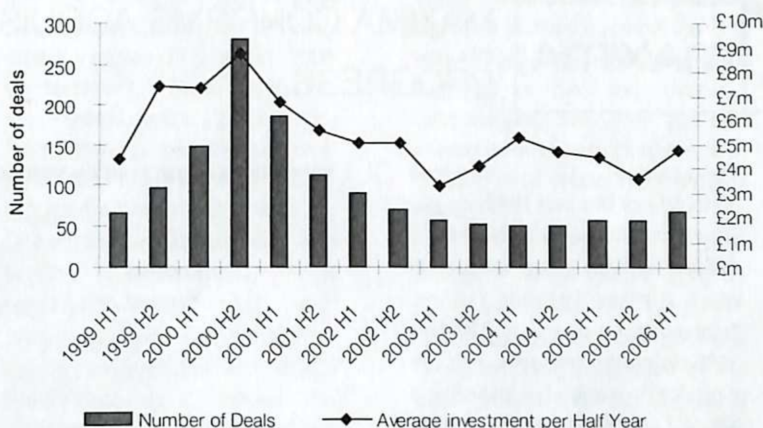
All of which suggests that, while the current earn-out-related mess may have had a short-term negative effect on sentiment towards Torex Retail, there's probably a more fundamental challenge here. The company's bold acquisition spree and consequent rapid growth over the past two years have created a lot of expectation around its prospects. With only organic means at its disposal from now on, Torex's performance may not be exciting as some had hoped. After all, the retail sector, despite a welcome cycle of legacy renewal, is not increasing its rate of S/ITS spending at the same rate as, for example, parts of the much larger financial services sector. It's little wonder that Chairman and CEO Chris Moore, the architect of the company's acquisitive growth, is now spending most of his time focusing on customers and sales.

(Phil Codling)

"WEB 2.0" DRIVES NEW ENERGY INTO VC INVESTMENT

Cobalt Corporate Finance, the London-based technology funding and M&A advisor, has released data on H1 06 venture capital investment in the UK and Ireland. Cobalt tracked 66 deals and £315m worth of VC investment into the technology sector over the first half of 2006, representing a 28% increase in value and 20% growth in the number of deals over the same period last year.

Number of deals and average value of investment 1H99 - 1H06



Source: Cobalt Corporate Finance

According to Cobalt, the value invested into wireless and Internet technology companies has grown by 76% on H1 05, and these companies now account for 53% of the total value invested in the half. First-half investments into wireless and Internet technology companies have been heading upwards in volume and value since 2004. Of this, the Internet-sector investment has been driven by funding for "Web 2.0" companies that support social networks and interactive user-generated content, often using P2P (peer-to-peer) models.

The number of first-round investments are at their highest level since 2001, and now represent 43% of all deals. Total first round investment has also grown by 19% to £87m. But the average value of disclosed first-round investments has fallen to around £3m, down from around £8m in the peak of 2001, and £1m below the average first-round investment between 1999 and 2006.

Although the number of syndicated deals (with more than one investor) has stabilised at around 64% of the total, the value invested by syndicates continues to go upwards, representing 78% of the total value of VC investment. According to Cobalt, deal sizes seem to be increasing, and the first half of 2006 has seen a significantly higher number of large deals than previous years.

Comment: VC tech investment is definitely getting interesting again, and new opportunities in the industry have clearly enticed private investors to spend more of their money on more companies.

"Web 2.0", with its multiple connotations, is perhaps not the most useful term when identifying this trend - its connotations are simply too numerous. Nonetheless new Internet sector investments are clearly leaning towards companies that use collaboration and/or user-generated content to drive business.

Notable examples in H1 include: Zopa, the P2P lending and borrowing exchange that raised two rounds worth more than £11m; Bebo, a Skype-aligned social network targeting schools and universities in the UK, Ireland and New Zealand and, which raised $15m in May; and ricall, a music marketplace for users to trade songs and, which received an undisclosed investment from Benchmark. And these aren't all - Cobalt has tracked at least 10 investments (15% of the total) in such companies over the first half.

The fall in average value of first round investments can be interpreted in a couple of ways - one of which is also related to the growth in Web 2.0 investments. Arguably, Web 2.0 companies may require less start up cash than their former iterations, as their technology tends to piggy-back on existing infrastructure and use free viral marketing.

But the fall in investment value can also be interpreted as a sign that investor confidence is returning. Smaller, early-stage companies

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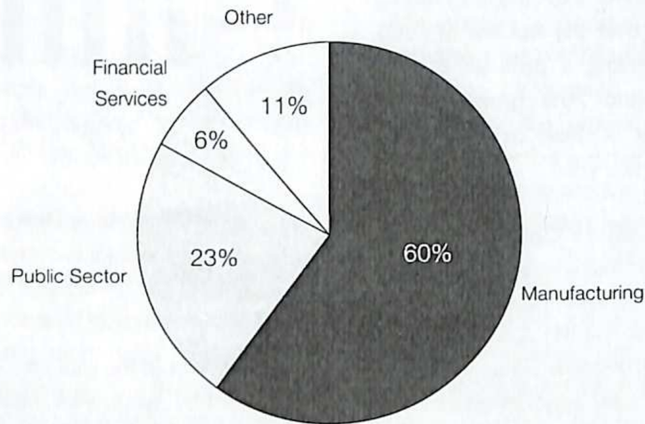
are not only riskier propositions, but typically require a lower level of investment than more established businesses, and it seems that investors are now including more of these early stage companies on their radar. As Edward Martin-Sperry of Cobalt explains, "this suggests a more significant shift in attitude than just an increase of 1st round fundings would - it shows a willingness to invest in companies that are riskier individually as they are more unproven."
(Samad Masood)

MAXIMA CONFIRMS ACQUISITION-LED PROGRESS

AIM-listed IT services consolidator Maxima Holdings plc announced its results for the 12 months to May 2006, a year in which it made four acquisitions. Total revenue came in at £19.1m, 36% up on the previous year (on a pro forma basis - i.e. including a full 12 months of the Azur business that formed the core of the company when acquired in November 2004). Operating profit was up 54% on the same basis to £3.4m, taking the operating margin from 15.5% to 17.6%. PBT was up 47% to £1.5m but a tax charge meant earnings per share fell from 8.8p to 5.9p. Maxima proposed a 2.5p final dividend, compared to last year's 1.5p.

Maxima revenue split by vertical, FY06



Comment: Maxima is an ambitious consolidator, but these results also underline its solid operational progress. The margin improvement is especially encouraging, and suggests that the company is delivering on its strategy of integrating earnings-enhancing acquisitions into an efficient management and process model. Another positive signal is the increase in recurring revenues (from 48% to 56% of total turnover) as the company shifts away from technology sales and becomes a predominantly services-oriented business. Indeed, services accounted for almost 90% of revenue in FY06, compared to 77% in the previous year.

Further acquisitions are of course planned. CEO Kelvin Harrison and FD Linda Andrews told us that there is no shortage of options but that finding the right "fit" - especially in a cultural sense - is more of a challenge. They are mostly interested in £5-10m turnover businesses but would also consider a larger player up to £20m in revenue. They claim that the company's simple organisational structure (which comprises a "Solutions" division that develops and integrates enterprise software and a "Managed Services" division delivering applications management services) is helpful to post-acquisition integration. Given the troubles currently afflicting another mid-market consolidator, Torex Retail, it's pleasing to hear confirmation that Maxima is no fan of earn-outs and has only a small earn-out liability on its books.

Acquisitions are the key to Maxima delivering on its promise - as made when it IPO'd in late 2004 - of £50-100m in turnover and over £10m in profit by FY08. The company also needs to show it can grow organically. In FY06, all of the growth came from the acquired businesses, rather than the core Azur operation. But going forward, Maxima says it is comfortable with analysts' estimates of 8% organic growth in FY07 (and 40% topline growth). The key here is the potential for growth in the more recently acquired operations, notably the two that make up the Managed Services division - that is, Hanston (acquired in September 2005) and QED (May 2006). Maxima also needs to continue increasing its exposure to opportunities in the public sector and financial services if it is to boost organic growth. At present, 60% of its revenue comes from manufacturing, which as we confirmed in Market Trends 2006, offers a shrinking addressable market for UK S/ITS suppliers.
(Phil Codling)

STERIA PREDICTS "SUBSTANTIAL GROWTH" IN H2

French-headquartered IT services firm, Steria, has released revenue data for the first half of 2006. The company registered 4.0% growth to euro607.2m. France led the charge with growth of 8.9%, ahead of the UK with 5.7% growth. The story was different elsewhere with just 0.6% growth in Germany and a decline of 5.2% in the Rest of Europe.

By business lines, Steria saw its outsourcing revenues grow 6.0% organically while consulting and systems integration grew 2.5%.

Comment: Germany had been performing well in Q1, and certainly the company's decision to withdraw from certain activities will have affected the revenue numbers. However, Steria says new orders have picked up "*significantly*" in Q2, which bodes well for the second half.

In fact, this story rings true across the other geographies too. France saw a 29% rise in orders in June (year-on-year), while the UK saw orders increase 77% in H1 2006 versus H1 2005. Given that the UK saw revenue decline 1.5% in FY05, 2006 really is shaping up well. Notable contracts in the UK include a euro44m/five-year deal with the Department for Communities and Local Government, a euro17m/five-year deal with Wiltshire County Council and a euro9m/five-year deal with Bristol International Airport. Indeed, the company is indicating that the second half of the year could see quite a significant rise in revenue. If this is indeed the case, the year as a whole will turn out to be considerably better than last year.

Steria is a relatively small player in the UK IT services market (ranked 29th by revenue), and certainly much smaller than other key European players, such as Atos Origin, Capgemini and SBS. As well as being quite small, revenue performance in the UK over the past five years (i.e. since the Bull acquisition) has been very poor with flat or declining revenues over the past five years. If it can indeed return to significant growth in 2006, that would be a notable milestone.

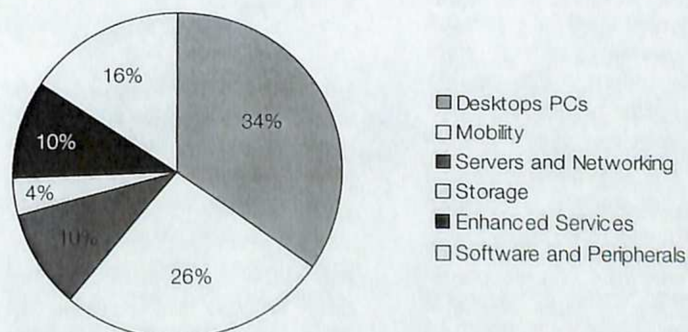
At group level, Steria says its pipeline is up by 20% compared with December 2005. It puts this down to being positioned in the best growth markets (including financial services and public sector) and to the reorganisation work carried out in each geography last year.

The news is also good on the profits front. Although there were no real details in the announcement, we do know that profitability improved in H1 and that Steria remains on target to hit an operating margin of 7.0% for FY06. *(Kate Hanaghan)*

DELL MARGINS SQUEEZED IN Q2

Against a backdrop of mass media coverage relating to a recall on notebook batteries, Dell released its Q2 FY07 financial results. Revenue was up 5.0% year-on-year (but down 1% quarter-on-quarter) to $14.1bn. Operating income was $605m, producing an operating margin of 4.3%. The company generated almost $700m in cash flow from operations, compared with $900m last year. Desktop PC revenue declined 4.0%, while mobility grew 8.0%, servers grew

Dell worldwide revenue split Q2 07



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1.0%, storage grew 36% and services grew 21%.

Comment: We attended the Dell analyst briefing shortly after the Q2 results were announced. The company could not ignore either the notebook battery recall issue that has hit the headlines or the informal investigation by the Securities and Exchange Commission (into certain accounting practices, including revenue recognition policies). This is unfortunate timing - given that Dell also had to announce a decrease in margin for Q2 FY07 over the previous year. However, we think the company has probably handled the recall situation as best it could; go to dell.com and you'll still see the issue highlighted very clearly on the home page. We understand the SEC investigation has been going on for some time, and that so far it "hasn't found anything that indicates a restatement is needed", according to EMEA head, Paul Bell. We wait to see how this progresses.

As for the financial results, the emerging markets (Asia Pac but also Eastern Europe) are clearly where the strong growth is. Looking more generally at the company's performance, revenue growth was just 5.0% in Q2 07, down from 17% in Q2 last year. On top of this, profitability has taken a knock, with the operating margin slipping from 8.7% last year to 4.3%. More specifically, Dell's services business (called Enhanced Services) also saw revenue growth slow. It registered 21% worldwide, as opposed to 41% in Q2 last year. Quarter-on-quarter growth was only 2.0%, however. Furthermore, we know that Europe didn't manages to match the 21% growth rate of the services business worldwide - although we understand that it wasn't too far off this.

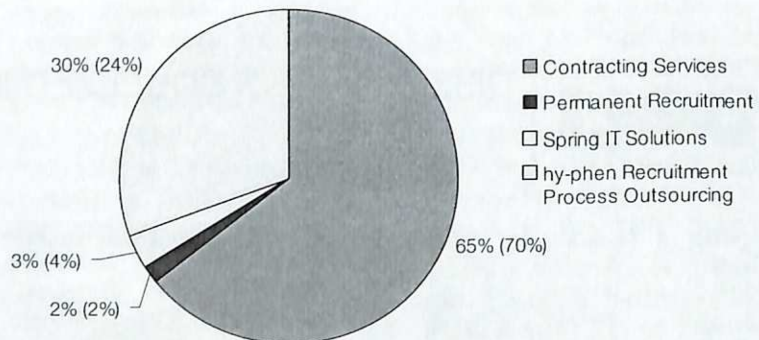
Dell continues to build its services capabilities (in addition to subcontracting large amounts of work to Getronics and Unisys). For example, it is building up its own teams of solutions architects and project managers. It's absolutely crucial that Dell keeps evolving its services capability and maintains the momentum because alongside certain geographies, Enhanced Services will be a key growth area for the company more broadly going forward.

(Kate Hanaghan)

SPRING SHOWS ENCOURAGING SIGNS IN H1

Spring, the UK's largest IT staffing agency, has released its results for the six months to end June. The company's restructuring plan, initiated back in February, is starting to pay off. It is back in the black, to the tune of £1.8m (operating profit) having recovered from last year's loss of £1.5m. That produces an operating margin of 0.86%. IT staffing accounted for 91% of total revenues (see chart for break-out of this revenue), which were £207.9m (down 4.9% on H1 2005). Profit before tax was £2.0m, from last year's loss of £4.6m. The company produced earnings per share of 1.16p, from last year's loss of 2.71p.

Split of Spring's IT staffing revenues in H106



Comment: Some encouraging signs here, notably the return to operating profit across all segments of the IT staffing business. Overall, this has produced an operating margin for IT staffing of 2.2%. The largest slab of the IT business is in contracting services (65%), which saw revenues fall but returned to profit. In certain cases, Spring has bitten the bullet and exited contracts that are just not economical. However, one can't help thinking this should have been done some time ago. Combined with a refocus on higher margin work, in particular around "niche markets", we think there is reason to feel optimistic.

One other area of focus - and quite rightly - has been growing the permanent IT business. Although it's back in the black, it's failed to find growth - despite the creation of specialist teams around more profitable areas. We do, however, believe that we need to give the business more time

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before we can judge its performance. Once again, the early indicators are encouraging.

During the reorganisation of the IT business, hy-phen (which was only a £700k business as at the last interim results) has become a £57.7m business. It now contains a range of managed service and RPO-type contracts, which previously sat in other divisions of the IT business. We are pleased to see that Spring's strategy to drill deeper into clients is paying off - in revenue terms, at least. However, it currently has overall operating margins of just 0.52%, and we'd like to see improvements within the next year.

The final point we would make on the results is the departure of Richard Barfield. The longstanding CEO and FD is leaving for family reasons. We think Peter Searle (ex MD Computer People) is a good choice as a replacement as he brings many years of industry experience. It could be that he is just what Spring needs to take its recovery and development to the next level.

(Kate Hanaghan)

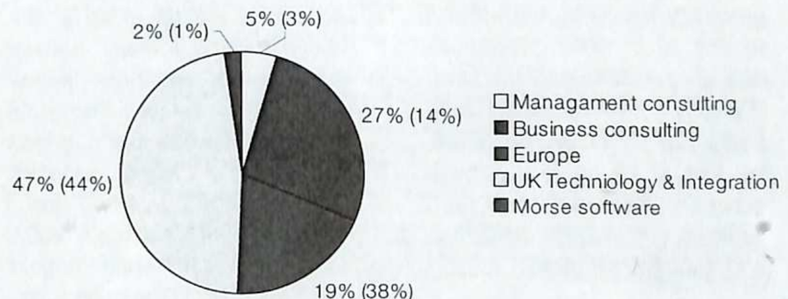
See this month's cover story for more on the ITSA market

MORSE SETS STAGE FOR THE FUTURE

Morse, the reseller and services company, has announced its results for the year to end June 2006. Revenues from continuing operations declined 4.0% to £296.9m. The operating margin (before exceptional restructuring costs and trading balance release) on continuing operations improved from 2.0% to 2.6%. Profit before tax (which includes a £13.1m exceptional trading balance release) was £16.9m, up from £1.3m. Diluted EPS improved to 9.5p from a loss of 0.2p. Net funds balance was £25.7m at year end, down from £36.3m.

Morse also announced a new corporate structure, which will consist of two operating businesses. The company is to split out its mobile banking applications business (which saw losses deepen during the year to £3.2m from £2.1m) from its core activities, which include resale and consulting. The two units will each have their own CEO, while Duncan McIntyre will become CEO of the holding company.

Split of Morse revenues FY06 Total revenues = £297m (£429.5m)



Comment: Over the years we have watched as Morse has steered away from the bog-standard reseller model with little or no services. For example, in FY06 it reduced resale revenues by £47m and at the same time increased revenue from what was the Diagonal business by £16m. Over the years, it has accelerated this strategy via acquisitions (such as Diagonal and CSTIM) and disposals (of resale-heavy divisions).

While Morse faces numerous specific challenges as it evolves its services business (e.g. improving services margins, growing services revenues organically and executing better on its SAP business), it also has to address the broader (and fundamental) issue of bringing together the numerous parts of the organisation so that it is much greater than the sum of its parts. In other words, it must create an organisation (having made a fair number of acquisitions) that has an integrated set of solutions under one brand. Work is underway here.

By February next year, Morse will have ditched the Diagonal brand and all the other (and there are quite a number!) brands that collectively could confuse the outside observer. For example, you might know Diagonal, but do you also know SkillsHub (staffing services) or Marshall-Wilkins (also recruitment) or Delphis (consulting)? We think the company must also pay special attention to clarifying with customers the range of services it offers. It is no longer 'just' a reseller, and it needs to shout about that.

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So does its decision to split the company into two operating businesses aid or impede its services strategy? On the one hand, bringing the Monitise (mobile banking applications) business out into the open before it's really got off the ground (in terms of revenue generation) feels a little premature. Could unveiling this product, which is very different to the services business Morse has been building, confuse customers? On the other hand, bringing Monitise into the light at this stage demonstrates quite overtly that there is much more to Morse than resale alone.

The Monitise business is actually quite interesting. It is based on Morse's own IPR that allows users to perform simple banking tasks from their mobile phones. Morse is quick to emphasise that this is not some gimmicky tool. It merely complements the other channels banks already use, such as the internet and phone. "It's more analogous to smile.co.uk than the Crazy Frog," says Monitise CEO Alistair Lukies.

Without question there is still work to be done at Morse in order for it to complete its journey into services. But if it really can make the cultural leap we refer to and at the same time get the separate services offerings motoring as one, it could become a financially strong services company. These will, however, be tricky accomplishments to achieve.
(Kate Hanaghan)

LORIEN GROWS IN H1: TIME TO CONCENTRATE ON IT STAFFING

IT staffing agency Lorien has posted its results for the first half to 28 May 2006. Revenues increased by 16% to £71m during H1, while pre-tax profit turned positive at £0.2m (versus a pre-tax loss of £0.2m in H1 2005), although this excludes non-recurring administrative expenses and discontinued items.

Earnings per share were 0.6p, versus a loss of 1.2p in H1 2005. Cash outflow was £0.5m, versus breakeven in H1 2005, but this was after repaying £1.4m of Lorien's invoice-discounting facility.

Turnover and gross margins grew in the core Resourcing business, with revenues up 16% to £61.6m and gross margin up 8% to 5.7m, giving a gross margin of 9.3%, versus 10% in H1 2005. Gross margin dipped slightly because the revenue mix moved towards key-account work (revenues up 18%), which supplies more regular revenue but at lower margins than the 'spot' recruitment market (revenues up 4%).

Resourcing orders increased by 12% (versus year-end 2005) during the half, generating an annualised growth of 25%. But Lorien suffered a major contract loss in its separate Market Research business, losing its contract with the unit's largest customer (Ford Motor, on which Lorien has a 30-person team) with effect from 1 January 2007. Lorien said it remained "hopeful that we will retain the printing and mailing functions of the contract" as a subcontractor.

Excluding pass-through revenues, the Specialist Services division (which includes Market Research) was broadly flat in revenue and grew margins slightly.

Executive chairman Bert Morris said in a statement that he sees "no reason for us to adjust our expectations for the profit outlook in the next financial year".

Comment: The core recruitment business delivered a good performance, despite losing a key customer (IBM, which rolled its IT recruitment into a broader recruitment contract that Lorien couldn't deliver). Two new contracts starting at the end of H2 should help compensate for the IBM and Ford revenue losses. Excluding Ford, weekly gross margin is rising and looks set to continue doing so.

We like the emphasis on key account work, and on RPO work. Lorien's management and staffing changes in these areas last year seem to be paying off. From what we can see, Morris and FD Chris Hinton are doing a good job returning Lorien to sustainable growth.

The Specialist Services businesses theoretically have great potential (we think some aspects of the Digital Colour Printing service are genuinely exciting, for example), and they helped get Lorien through the dark days of the IT staffing downturn. But it's time for Lorien to sell these disparate bits and pieces, despite their quality. They still lack critical mass, even if they do a good job focusing on a tightly defined niche or customer set.

Lorien is delivering organic growth, but ultimately we think that the non-organic route - consolidation - is the way forward for Lorien, as it is for many of its competitors.
(Douglas Hayward)

Mergers & Acquisitions

Buyer	Seller	Seller Description	Acquiring	Price	Comment
AT Communications	Rocom Group Limited	Provider of comms equipment and support services	100%	£17.6m	Since December 2005, AT Communications has made four acquisitions, including the purchase of Rocom. That's got to have kept management busy in H1! What has been encouraging, though, is the level of organic growth it has been able to drive. Partly through cross-selling to the newly-acquired customer bases, the company managed to notch-up growth of 13%. That's impressive work alongside the integration activities it would have been running (as well as closing the deal on Rocom). However, the sheer size of the Rocom deal puts it in a different league to the previous purchases. At £17.8 million it is worth more than all of the other acquisitions this year put together. This purchase signifies a major change in the scale of AT Communications (Rocom generated revenues of £43 million in FY 2006) and therefore a real challenge for management. We hope it can rise to this challenge while maintaining the good work that has been done to create cross-sell opportunities in other parts of the business and taking advantage of what looks to be a strong pipeline. No mean feat.
Capita	Abbey National AESOP Trustees Limited	Abbey's employee share plan business	100%	n/a	Capita has been an arch exponent of the "string of pearls" approach to acquisitions. It has consistently bought small operations that it can easily bolt onto its existing business. In this way it has used acquisitions to extend its capabilities and customer base while minimising risk. If anything, this week's acquisition is even less risky than usual, since Capita's existing outsourcing arrangement with Abbey's share plan business means it knows the operation well. It is also avoiding the need to transfer service delivery staff, which should help service continuity. And while the acquisition doesn't give Capita anything especially new to offer its customers, it does boost the sales and delivery capability of its existing share plan interests.
Detica	m.a. International Limited	London-based consulting firm	100%	£20.5m initially, plus up to £11.8 dependent on the performance	The acquisition of m.a. fits the bill with the focus on capital markets; it slots in well with the acquisition of Evolution made in Jan 06, which took Detica into this vertical for the first time. The move gives Detica a step up in the US commercial market with m.a. active on both sides of the Atlantic. The acquisition also boosts the company's high level business consulting capability (complementing the strong technical skills of the existing capital markets team). Detica recently told us that business consulting is one area that, driven by the demands of its clients, it is keen to strengthen. We now expect Detica to use its deeper knowledge of the capital markets sector to consider tailoring its fraud detection solution (Netreveal), which enables the analysis of large amounts of complex data using fast hardware, to cater to the financial services market.
Group NBT	Exalia Ltd	Privately-held managed hosting services business	100%	An initial £2m in cash, plus two tranches of up to £600k each	This is an expensive but entirely logical move for NBT. Paying 6x historic revenue for Exalia is undoubtedly a relatively high price, even considering the company's PBT margin of 13% and low level of debt (total creditors in the most recently filed accounts were £200k). So NBT will need to keep Exalia growing if it's to make the most of its investment - indeed the second, share-based earn-out will depend on the acquired operation achieving an annual revenue run rate of £2m by January 2008.
Horizon Technology	WBT Systems Limited	A provider of learning management solutions in the enterprise applications market	100%	An initial €1.15m in cash, with up to one million in shares deferred until February 2007	This purchase is bang in line with Horizon's strategy to expand out of its low margin (and declining) reseller business by adding on more services business. Indeed, it comes only four months after Horizon bought Dublin-based Enterprise Process Consulting Group Limited (EPC), which claims to be the largest indigenous Irish SAP Consultancy - and should add significantly to Horizon's services plans. WBT Systems comes to Horizon at a very reasonable price, and should be a good fit given that it is also Dublin based. However, it will be interesting to see what Horizon chooses to do with WBT's offices in the US, Canada, Germany and Netherlands, as we don't believe Horizon currently has a presence in these geographies. Overall though this seems a good bolt-on purchase that should take Horizon further down the path towards higher-margin services delivery.
IBM	ISS	Provider of security services and software	100%	$1.3bn cash	There seems to be no stopping IBM at the moment on the acquisition trail. Either it's seriously worried about organic growth or has ambitious expansion plans; we suspect it's a bit of both as IBM's traditional mainframe software market continues to decline. This one is more interesting than most as it's a mixed services and software acquisition with the services part of ISS going into IGS and its products going into the Tivoli group of IBM Software. We are sure that this fits in very well with IGS's strategy of going for more repeatable service revenues based on IBM product offerings.
IBM	FileNet	ECM software	100%	$1.6bn cash	So is this just an opportunity to buy market share? To improve up/cross-sell opportunities for IBM salespeople? Or as the public statement says, does it support IBM's Information on Demand strategy? Well, yes to all of those and more. FileNet has effectively been 'available' for a number of years. It was reported that it was approached in 2003 by Oracle, just after EMC had acquired Documentum, but asked for an exorbitant $2 billion. Many analysts have argued that Oracle should have tried again with FileNet to bolster it Content Services 10g offering and to give it some market share outside its current base. With this purchase, IBM has effectively stopped that too.
Infor	Extensity	VC-owned business software vendor	100%	n/a	If we were to list all the individual companies that the Infor, SSA, Extensity and Systems Union have bought over the years, the list would run to several pages - so you will just have to trust us when we say that it is a lot! The list of products that Infor now has would be even longer. What is staggering is to see a company of Infor's size assembled with VC funds. However, it could be a case of 'ain't seen nothing yet'. Thanks to the lack of a 'next big thing', technology stocks are languishing on both sides of the Atlantic while VC funds are stuffed with cash that would have been spent on start-ups chasing the next big thing. With interest rates still low, VCs seem to think that buying undervalued and, in some cases, sub-optimally managed companies is a better use than holding onto the cash.
Keyman	MSB International	Recruitment	100%	65p in cash for each Scheme Share	Based on the quoted 39p, the offer seems reasonable. Although shares have traded much higher than this low point in the past - for example, in August 2005 shares were 62p. In March, however, the asset valuation of the company was higher than the market valuation. As the offer details suggest, MSB has been in discussion for some time regarding the acquisition of the remaining shares by Flaherty. We also know that MSB was in talks with other parties during the period from February. MSB has failed in its search to find a suitable candidate for either a merger or acquisition, in order to gain the kind of scale it was looking for. It has for the past couple of years been trying to diversify its non-IT business, but progress here hasn't been rapid.
Sage	Emdeon Practice Services	Provider of software and services to doctors' practices in the US	100%	c£297 million in cash	Opinion is divided on whether this is a good move for Sage or not. The price at not far off 2x revenue and 26x EBITDA seems on the high side. Sage will clearly have to work on the margin, which it reports is already moving upwards this year. But imposing financial discipline is something Sage is used to. Although the largest Sage acquisition to date in terms of the price paid, EPS is actually quite small – and thus digestible - in comparison to Sage's overall size. There also seems to be a cross-sell opportunity. Indeed, Sage's key argument is that there is an opportunity to sell an integrated Sage solution, coupling the financial side of the business to the practice management.
Xchanging	Ferguson Snell & Associates	A specialist in helping foreign nationals to live and work in the UK	100%	n/a	Xchanging is beginning to piece together a much more diverse business now and this is a good thing. The expertise within FS&A - as with the insurance sector consultancy Landmark it bought in January - should enable it to sell more discrete services at a higher volume. In turn this should protect the company from the lumpy BPO sector, where only a handful of large deals emerge for tender each year. It's a strategy that works well for market leader Capita, which targets the mid-market with distinct software, consultancy and transactional services, but that can also bring all this expertise together to take on some of the UK's biggest BPO deals.

Recent IPOs

Name	Activity	Index Class	Market	Issue Price	Market Cap.	IPO Date	Price end Aug 06	Change since IPO
Kenetics group	RFID technology specialists	SP	AIM	32p	£9m	18-Aug-06	34p	4.7%
Probability Plc	Mobile gambling payments service	SP	AIM	76p	£14m	24-Aug-06	82p	7.9%

Forthcoming IPOs

Name	Activity	Index Class	Market	Est Issue Price	Est Mkt Cap.	IPO Date
Rubicon software group	CRM software	SP	AIM	n/a	n/a	06-Sep-06
Brulines (Holdings) Plc	Retail technology	SP	AIM	n/a	n/a	n/a

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

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@UK plc	SP	0.55	20.47	-	14.08	832.06	0%	-17%	-£0.03m
Alphameric	SP	0.73	87.38	13.8	1.19	332.57	16%	-19%	£8.34m
Alterian	SP	1.09	44.34	32.1	4.17	545.00	10%	-18%	£2.61m
Anite Group	CS	0.74	256.18	73.5	1.35	429.82	1%	8%	-£0.09m
Ascribe	SP	0.33	34.75	50.0	6.50	1,710.53	0%	-7%	-£2.36m
Atelis plc	SP	0.18	4.50	-		837.21	-16%	-16%	-£0.50m
Atlantic Global	SP	0.16	3.53	-	1.65	525.42	0%	-28%	-£0.00m
Autonomy Corporation	SP	3.90	699.52	74.1	12.76	118.89	-6%	0%	-£67.26m
Aveva Group	SP	3.74	249.57	30.8	3.79	1,870.00	7%	-60%	£15.89m
Axon Group	CS	4.01	232.17	35.9	2.53	2,292.86	7%	47%	£37.24m
Bond International	SP	1.46	40.50	18.2	2.91	2,238.46	14%	47%	£4.71m
Brady	SP	0.28	7.23	-	2.97	345.68	2%	-11%	£0.25m
Business Systems	CS	0.11	8.32	11.2	0.28	90.34	7%	-37%	£0.58m
Capita Group	CS	5.47	3368.53	29.9	2.35	147,865.17	5%	31%	£197.53m
Centrom	CS	0.02	3.05	-	0.48	333.33	0%	-56%	-£1.13m
Charteris	CS	0.15	6.45	11.5	0.33	166.67	-3%	-58%	-£0.22m
Chelford Group	CS	1.83	12.97	10.2	1.09	31,739.07	-2%	-25%	-£0.43m
Civica	CS	2.32	144.55	201.9	1.36	1,326.79	3%	-7%	£29.15m
Clarity Commerce	SP	0.65	10.29	11.1	0.77	516.00	10%	-15%	-£1.02m
Clinical Computing	SP	0.07	2.28	-	1.38	58.47	2%	-28%	-£0.08m
CODASciSys	CS	4.96	126.22	20.1	1.73	3,846.90	-1%	19%	-£2.34m
Compel Group	CS	0.89	30.02	46.6	0.47	708.00	11%	-1%	£2.79m
Computacenter	R	2.62	417.14	20.1	0.18	391.42	9%	3%	-£41.96m
Computer Software Group	SP	1.09	59.98	37.5	4.26	927.65	13%	63%	£4.74m
Cornwell Management Consultants	CS	0.43	7.49	6.6	0.42	305.21	-4%	-43%	-£0.35m
Corpora	SP	0.08	10.31	-	20.65	207.37	-12%	-36%	£5.00m
Dealogic	SP	1.33	94.49	-	3.05	576.08	-2%	-10%	-£1.51m
Delcam	SP	3.19	19.22	9.9	0.80	1,225.00	2%	-4%	£0.26m
Detica	CS	3.02	337.53	34.4	4.81	755.00	17%	-75%	£106.63m
Dicom Group	R	2.53	220.31	36.7	1.05	774.83	15%	22%	£22.26m
Dillistone Group	SP	1.37	7.37	-		1,000.00	0%	0%	-£0.11m
Dimension Data	R	0.36	491.50	25.1	0.35	63.94	7%	-10%	-£22.52m
DRS Data & Research	SP	0.34	11.59	-	0.93	304.55	2%	-11%	£0.79m
Electronic Data Processing	SP	0.61	14.76	59.9	2.12	1,852.42	6%	-9%	£0.83m
FDM Group	A	0.76	17.65	18.5	0.54	932.52	1%	-10%	£0.24m
Ffastfill	SP	0.03	7.58	-	2.86	26.04	-11%	-19%	-£0.91m
Financial Objects	CS	0.41	19.43	-	1.40	178.26	1%	4%	£1.65m
Flomerics Group	SP	0.88	12.94	14.0	1.13	3,384.62	-10%	1%	-£1.40m
Focus Solutions Group	CS	0.16	4.57	35.6	0.84	82.05	14%	-24%	£0.56m
GB Group	CS	0.35	28.89	-	2.57	222.53	-3%	1%	-£0.62m
Gladstone	SP	0.23	11.64	56.3	1.52	562.50	0%	-4%	-£1.73m
Glotel	A	0.61	23.50	9.4	0.26	316.88	-20%	-26%	-£5.77m
Gresham Computing	CS	1.12	55.99	-	4.00	1,201.61	8%	38%	£4.21m
Group NBT	CS	1.40	27.33	15.7	2.42	700.00	8%	22%	£0.73m
Harvey Nash Group	A	0.61	39.86	10.9	0.20	348.57	3%	37%	£2.63m
Highams Systems Services	A	0.05	1.47	-	0.11	128.47	0%	48%	£0.57m
Horizon Technology	CS	0.60	48.73	11.9	0.26	220.66	6%	-28%	£4.32m
IBS OPENSystems	CS	1.88	75.00	-	4.80	1,229.51	9%	17%	£6.00m
I S Solutions	CS	0.20	5.06	54.7	0.92	754.62	13%	50%	£0.60m
ICM Computer Group	CS	2.64	55.72	17.3	0.72	1,463.89	-5%	-21%	-£3.28m
IDOX	SP	0.07	12.37	7.4	0.87	8.50	2%	-54%	-£0.29m
In Technology	CS	0.37	51.45	-	0.18	1,460.00	-1%	14%	-£0.63m
InterQuest Group	A	0.88	22.17	12.5	0.80	1,521.74	-3%	103%	-£0.66m
Innovation Group	SP	0.29	131.94	-	2.16	127.73	-3%	-3%	-£4.52m
Intelligent Environments	SP	0.05	7.47	-	2.39	49.20	-10%	42%	-£1.01m
Intercede Group	SP	0.29	9.76	-	5.41	479.17	1%	-15%	£0.08m
Invu	SP	0.28	30.11	22.4	9.56	2,947.34	12%	33%	£3.52m
iSOFT Group	SP	0.52	118.79	-	0.45	470.45	-17%	-87%	-£25.61m
iTrain	SP	0.03	2.56	14.8	1.40	38.24	0%	-40%	£0.32m
IX Europe	CS	0.33	56.09	-	2.49	1,065.57	7%	7%	£4.75m
K3 Business Technology	SP	0.97	16.62	-	0.75	741.14	2%	18%	-£0.32m
Kewill	SP	0.59	46.34	16.9	1.74	1,166.01	-7%	-18%	-£4.45m
Knowledge Technology Solutions	SP	0.01	1.47	-	1.18	200.00	0%	-43%	-£0.01m
LogicaCMG	CS	1.56	1788.35	30.0	0.98	2,132.97	-8%	-12%	-£131.85m
Lorien	A	0.39	7.55	-	0.06	385.00	12%	-3%	£1.12m
Macro 4	SP	2.33	51.94	77.5	1.57	937.50	4%	-11%	£3.39m
Manpower Software	SP	0.19	8.19	-	1.59	190.72	2%	-36%	£0.11m
Maxima Holdings	CS	1.55	24.81	25.8	2.00	1,127.27	4%	0%	£1.16m
Mediasurface	SP	0.14	11.01	-	2.04	1,047.79	12%	21%	£1.16m
Micro Focus	SP	1.08	215.30	24.9	2.65	0.00	3%	-8%	£4.99m

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Microgen	CS	0.46	46.73	11.0	1.15	196.58	-19%	-37%	-£11.65m
Minorplanet Systems	SP	0.46	13.26	-	0.60	939.35	23%	5%	£2.45m
Misys	SP	2.47	1235.00	47.6	1.30	3,076.08	2%	4%	£18.00m
Mondas	SP	0.14	4.90	-	2.34	186.67	-20%	8%	-£1.22m
Morse	R	0.94	141.95	9.7	0.36	376.00	12%	-2%	£12.95m
MSB International	A	0.63	12.97	-	0.14	332.89	8%	76%	£0.98m
NCC Group	CS	2.43	79.07	17.3	3.81	1,452.10	-9%	5%	-£7.30m
Ncipher	SP	2.20	61.97	15.5	3.57	880.00	0%	6%	£7.07m
Netcall	SP	0.15	9.56	72.5	3.96	292.93	16%	12%	£1.31m
Netstore	CS	0.36	44.96	24.7	2.10	240.00	-1%	-6%	-£0.31m
Networkers International	A	0.39	2.93	65.0	0.15	1,218.75	22%	22%	£2.93m
Nexus Management	CS	0.01	2.35	-	2.03	227.27	1%	14%	-£0.00m
Northgate Information Solutions	CS	0.73	388.88	18.1	1.17	280.77	4%	-15%	£16.18m
NSB Retail Systems	SP	0.29	107.83	7.0	2.23	2,543.48	4%	-10%	£6.89m
OneclickHR	SP	0.04	6.32	-	1.32	106.25	10%	-3%	£0.56m
OPD Group (was PSD Group)	A	3.65	96.90	26.3	2.22	1,659.09	9%	46%	£8.01m
Parity	A	0.51	19.28	-	0.14	8,499.97	2%	467%	£0.38m
Patsystems	SP	0.15	24.36	-	1.58	142.52	-6%	13%	-£2.22m
Phoenix IT	CS	2.80	164.91	13.2	1.87	1,037.04	0%	4%	£1.26m
Pilat Media Global	SP	0.56	29.05	16.4	2.23	2,775.00	6%	25%	-£1.37m
Pixology	SP	0.29	5.78	-	1.28	204.19	0%	-48%	-£0.00m
Planit Holdings	SP	0.26	23.58	18.4	0.84	1,072.92	-3%	1%	-£0.84m
Portrait Software (was AIT)	CS	0.18	15.54	-	1.09	118.18	-10%	-32%	-£1.75m
Proactis Holdings	SP	0.47	14.01	-		958.76	-4%	-4%	£0.00m
Prologic	CS	0.70	7.00	15.6	1.01	843.37	-18%	14%	-£1.50m
QinetiQ Group	CS	1.66	1081.56	-	1.03	757.40	0%	-24%	-£7.66m
Qonnectis	CS	0.02	3.83	-	63.75	466.67	0%	-18%	£1.07m
Quantica	A	0.52	33.94	12.8	0.87	415.32	-13%	-12%	-£5.13m
Red Squared	CS	0.05	1.01	-	0.41	274.73	18%	-25%	£0.15m
Retail Decisions	SP	1.68	131.21	18.5	2.40	2,269.23	-5%	26%	-£7.05m
RM	SP	1.80	165.28	-	0.63	5,150.00	3%	14%	£6.05m
Royalblue Group	SP	8.75	287.12	27.7	3.87	5,144.12	16%	22%	£41.21m
Sage Group	SP	2.39	3094.19	20.3	3.98	92,019.23	3%	-7%	£95.80m
Sanderson Group	SP	0.47	19.44	-	1.34	930.00	1%	-11%	£0.21m
SDL	CS	2.05	127.70	42.1	1.63	1,366.67	-2%	-5%	£3.19m
ServicePower	SP	0.23	18.50	-	2.33	230.00	5%	-26%	£2.17m
Sirius Financial	SP	1.32	23.27	264.0	1.07	880.00	-3%	-9%	-£0.63m
SiRViS IT plc	CS	0.03	3.85	37.5	1.19	29.35	23%	13%	£0.71m
smartFOCUS plc	SP	0.16	11.93	119.2	1.97	1,675.68	0%	3%	-£0.00m
Sopheon	SP	0.20	27.59	-	5.91	291.37	4%	4%	£1.75m
Spring Group	A	0.55	88.51	82.2	0.19	611.11	29%	-11%	£20.18m
StatPro Group	SP	0.96	37.53	20.8	3.48	1,193.75	15%	45%	£4.88m
SThree Group plc	A	3.24	447.02	20.0	1.84	1,572.82	6%	50%	£26.21m
Stilo International	SP	0.03	2.48	-	1.20	55.00	30%	5%	£0.56m
Strategic Thought	CS	1.83	47.59	18.6	4.15	1,346.86	1%	35%	£0.26m
SurfControl (was JSB)	SP	4.17	130.94	107.7	2.49	2,083.75	0%	-21%	£15.67m
Tadpole Technology	SP	0.02	6.96	-	1.44	42.25	0%	-52%	-£0.00m
Tikit Group	CS	2.01	25.25	117.9	1.25	1,743.48	-3%	14%	-£0.69m
Torex Retail	SP	0.52	186.17	-	1.11	1,287.50	-13%	-52%	-£42.17m
Total Systems	SP	0.35	3.68	16.3	1.06	660.38	-4%	-13%	-£0.14m
Touchstone Group	SP	1.67	19.02	66.8	1.10	1,590.48	10%	23%	£1.16m
Trace Group	SP	0.98	14.50	16.5	0.94	780.00	0%	2%	£0.33m
Triad Group	CS	0.25	3.79	-	0.08	185.19	6%	-51%	£0.23m
Ubiquity Software	SP	0.21	37.46	-	5.02	515.08	-2%	-45%	-£0.95m
Ultima Networks	R	0.01	1.53	5.4	0.80	18.29	0%	-54%	-£0.01m
Ultrasis Group	SP	0.02	20.64	-	13.45	31.63	-3%	-23%	-£3.01m
Universe Group	SP	0.13	7.92	31.9	0.18	566.67	-11%	-33%	-£1.33m
Vega Group	CS	2.36	48.04	15.5	0.77	1,934.43	6%	16%	£6.95m
VI group	SP	0.10	3.54	-	0.37	190.00	6%	15%	£0.19m
Xansa	CS	0.78	268.58	32.5	0.71	1,993.59	16%	-14%	£39.13m
XKO Group	SP	0.92	25.44	18.4	0.57	613.33	-4%	-9%	-£0.97m
Xpertise Group	CS	0.43	2.25	-	0.17	1,720.00	-9%	-48%	-£0.24m

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

Quoted Companies - Results Service

Note: Highlighted Names indicate results announced this month.

@UK plc

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

Alphameric plc

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

Alterian plc

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

Anite Group plc

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

Ascribe plc

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

Atlantic Global plc

	Final - Dec 04	Final - Dec 05	Comparison
REV	£2,146,000	£2,137,000	-0.4%
PBT	£188,000	-£631,000	Profit to loss
EPS	0.50p	-2.63p	Profit to loss

Autonomy Corporation plc

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

Aveva Group plc

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

Axon Group plc

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

Bond International Software plc

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

Brady plc

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

Business Systems Group Holdings plc

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

Capita Group plc

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

Charteris plc

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

Chelford Group plc

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

Civica plc

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

Clarity Commerce plc

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

Clinical Computing plc

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

CODASciSys plc

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

Compel Group plc

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

Computacenter plc

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

Computer Software Group plc

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

Cornwell Management Consultants plc

	Final - Dec 04	Final - Dec 05	Comparison
REV	£17,738,285	£20,720,174	+16.8%
PBT	£1,257,282	£1,579,353	+25.7%
EPS	7.70p	6.40p	-16.9%

Corpora plc

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

DCS Group plc

	Final - Dec 04	Final - Dec 05	Comparison
REV	£42,200,000	£35,100,000	-16.8%
PBT	£2,100,000	-£3,400,000	Profit to loss
EPS	10.38p	-4.13p	Profit to loss

Dealogic Holdings plc

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

Delcam plc

	Interim - Jun 05	Final - Dec 05	Interim - Jun 06	Comparison
REV	£11,835,000	£24,011,000	£13,466,000	+13.8%
PBT	£1,084,000	£2,337,000	£1,208,000	+11.4%
EPS	15.60p	32.30p	16.40p	+5.1%

Detica Group plc

	Final - Mar 05	Final - Mar 06	Comparison
REV	£71,027,000	£101,504,000	+42.9%
PBT	£8,781,000	£11,413,000	+30.0%
EPS	31.30p	42.70p	+36.4%

Dicom Group plc

	Final - Jun 05	Final - Jun 06	Comparison
REV	£179,795,000	£209,219,000	+16.4%
PBT	£10,479,000	£12,055,000	+15.0%
EPS	9.10p	8.40p	-7.7%

Dimension Data Holdings plc

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

DRS Data & Research Services plc

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

Electronic Data Processing plc

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

FDM Group plc

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

Ffastfill Plc

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

Financial Objects plc

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

Flomerics Group plc

	Interim - Jun 05	Final - Dec 05	Interim - Jun 06	Comparison
REV	£5,256,000	£11,424,000	£5,677,000	+8.0%
PBT	£295,000	£966,000	£91,000	-69.2%
EPS	1.49p	6.01p	0.46p	-69.1%

Focus Solutions Group plc

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

GB Group plc

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

Gladstone Plc

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

Glotel plc

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

Gresham Computing plc

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

Group NBT plc

	Interims - Dec 04	Final - Jun 05	Interims - Dec 05	Comparison
REV	£5,413,000	£11,280,000	£6,164,000	+13.9%
PBT	£676,000	£1,680,000	£967,000	+43.0%
EPS	3.29p	8.30p	3.07p	-6.7%

Harvey Nash Group plc

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

Highams Systems Services Group plc

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

Horizon Technology Group plc

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

IBS OPENSystems plc

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

ICM Computer Group plc

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

IDOX plc

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

Innovation Group plc (The)

	Interim - Mar 05	Final - Sep 05	Interim - Mar 06	Comparison
REV	£28,772,000	£60,916,000	£38,543,000	+34.0%
PBT	£1,078,000	-£11,344,000	£4,293,000	+298.2%
EPS	0.16p	-2.34p	0.75p	+368.8%

InTechnology plc

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

Intelligent Environments Group plc

	Final - Dec 04	Final - Dec 05	Comparison
REV	£3,074,928	£3,120,506	+1.5%
PBT	-£452,796	-£231,667	Loss both
EPS	-0.23p	-0.15p	Loss both

Intercede Group plc

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

InterQuest Group plc

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

INVU plc

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

ISOFT Group plc

	Final - Apr 04	Final - Apr 05	Comparison
REV	£149,260,000	£261,932,000	+75.5%
PBT	£17,593,000	£44,524,000	+153.1%
EPS	6.57p	10.97p	+67.0%

I S Solutions plc

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

ITrain plc

	Final - Dec 04	Final - Dec 05	Comparison
REV	£1,094,097	£1,829,645	+67.2%
PBT	£70,076	£203,255	+190.0%
EPS	0.10p	0.22p	+120.0%

K3 Business Technology Group plc

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

Kewill Systems plc

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

Knowledge Technology Solutions Plc

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

LogicaCMG plc

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

Lorien plc

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

Macro 4 plc

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

Manpower SoftWare plc

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

Quoted Companies - Results Service

Note: Highlighted Names indicate results announced this month.

Maxima Holdings plc

	Final - May 05		Final - May 06	Comparison
REV	£8,078,167		£19,132,000	+136.9%
PBT	£1,039,016		£1,524,000	+46.8%
EPS	8.30p		5.90p	-28.9%

Mediasurface plc

	Interim - Mar 05	Final - Sep 05	Interim - Mar 06	Comparison
REV	£3,661,081	£6,796,433	£4,438,840	+21.2%
PBT	£139,747	-£811,609	£350,342	+152.5%
EPS	0.20p	-1.00p	0.40p	+100.0%

Micro Focus International plc

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

Microgen plc

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

Minorplanet Systems Plc

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

Misys plc

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

Mondas plc

	Final - Apr 05		Final - Dec 05	Comparison
REV	£4,592,675		£2,031,456	n/a
PBT	-£1,384,081		-£1,446,579	Loss both
EPS	-5.30p		-5.40p	Loss both

Morse plc

	Interims - Dec 04	Final - Jun 05	Interims - Dec 05	Comparison
REV	£216,532,000	£429,531,000	£187,496,000	-13.4%
PBT	£2,538,000	£18,332,000	£6,112,000	+135.3%
EPS	0.60p	-14.10p	1.10p	+83.3%

MSB International plc

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

NCC Group plc

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

Ncipher Plc

	Final - Dec 04		Final - Dec 05	Comparison
REV	£14,244,000		£17,380,000	+22.0%
PBT	£2,236,000		£3,739,000	+67.2%
EPS	8.49p		10.62p	+25.1%

Netcall plc

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

Netstore plc

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

Nexus Management plc

	Interim - Sep 04	Final - Mar 05	Interim - Sep 05	Comparison
REV	£1,231,134	£2,468,862	£1,233,412	+0.2%
PBT	-£19,143	-£186,945	£48,187	Loss to profit
EPS	0.00p	0.00p	0.00p	Loss to profit

Northgate Information Solutions plc

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

NSB Retail Systems plc

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

OneclickHR plc

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

OPD Group plc

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

Parity Group plc

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

Patsystems plc

	Interim - Jun 05	Final - Dec 05	Interim - Jun 06	Comparison
REV	£7,708,000	£15,457,000	£7,125,000	-7.6%
PBT	-£284,000	-£777,000	£408,000	Loss to profit
EPS	-0.10p	-0.50p	0.20p	Loss to profit

Phoenix IT Group plc

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

Pilat Media Global plc

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

Pixology plc

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

Planit Holdings plc

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

Portrait Software plc

	Final - Mar 05		Final - Mar 06	Comparison
REV	£14,289,000		£11,572,000	-19.0%
PBT	£1,433,000		-£1,344,000	Profit to loss
EPS	2.49p		-2.11p	Profit to loss

Prologic plc

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

QA plc

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

Qonnectis plc

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

Quantica plc

	Interim - May 05	Final - Nov 05	Interim - May 06	Comparison
REV	£17,019,000	£38,922,000	£22,798,000	+34.0%
PBT	£1,160,000	£2,560,000	£1,141,000	-1.6%
EPS	1.92p	3.86p	1.09p	-43.2%

Qinetiq Group plc

	Final - Mar 05		Final - Mar 06	Comparison
REV	£858,900,000		£1,053,100,000	+22.6%
PBT	£78,000,000		£72,500,000	-7.1%
EPS	11.70p		9.80p	-16.2%

Red Squared plc

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

Retail Decisions plc

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

RM plc

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

royalblue group plc

	Interim - Jun 05	Final - Dec 05	Interim - Jun 06	Comparison
REV	£34,082,000	£74,234,000	£44,397,000	+30.3%
PBT	£4,754,000	£11,336,000	£6,074,000	+27.8%
EPS	10.80p	31.00p	13.20p	+22.2%

Sage Group plc

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

Sanderson Group plc

	Final - Sep 04		Final - Sep 05	Comparison
REV	£11,880,000		£15,460,000	+30.1%
PBT	-£329,000		-£482,000	Loss both
EPS	-1.00p		-1.29p	Loss both

SDL plc

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

ServicePower Technologies plc

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

Sirius Financial Solutions plc

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

Sirvis IT plc

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

smartFOCUS Group plc

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

Sopheon plc

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

Spring Group plc

	Interim - Jun 05	Final - Dec 05	Interim - Jun 06	Comparison
REV	£218,584,000	£454,725,000	£207,894,000	-4.9%
PBT	-£4,627,000	-£7,485,000	£2,017,000	Loss to profit
EPS	-3.06p	-4.89p	1.16p	Loss to profit

StatPro Group plc

	Interim - Jun 05	Final - Dec 05	Interim - Jun 06	Comparison
REV	£5,017,000	£10,786,000	£6,330,000	+26.2%
PBT	£554,000	£1,639,000	£822,000	+48.4%
EPS	1.40p	4.50p	2.00p	+42.9%

Sthree plc

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

Strategic Thought Group plc

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

Stilo International Plc

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

SurfControl plc

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

Systems Union Group plc

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

Tadpole Technology plc

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

Tikit Group plc

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

Torex Retail plc

	Interim - Jun 05	Final - Dec 05	Interim - Jun 06	Comparison
REV	£52,466,000	£167,366,000	£131,906,000	+151.4%
PBT	£2,087,000	-£13,620,000	-£3,686,000	Profit to loss
EPS	0.40p	-5.40p	-1.50p	Profit to loss

Total Systems plc

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

Touchstone Group plc

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

Trace Group plc

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

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

Ubiquity Software Corporation plc

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

Ultima Networks plc

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

Ultrasis plc

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

Universe Group plc

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

Vega Group plc

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

VI Group plc

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

Xansa plc

	Final - Apr 05		Final - Apr 06	Comparison
REV	£376,400,000		£357,300,000	-5.1%
PBT	£15,500,000		£9,000,000	-41.9%
EPS	4.05p		2.32p	-42.7%

XKO Group plc

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

Xpertise Group plc

	Interim - Jun 05	Final - Dec 05	Interim - Jun 06	Comparison
REV	£7,658,000	£15,274,000	£7,845,000	+2.4%
PBT	-£60,000	-£245,000	-£11,000	Loss both
EPS	-1.16p	-0.06p	-0.22p	Loss both

RESELLERS AND ITSAs FIGHT BACK

UK S/ITS stocks market started to return to growth in August, with growth across all the UK IT indices that we track. The techMARK 100 grew by just over 3%, while our own Ovum S/ITS index achieved a 2.2% growth rate, and the FTSE IT SCS managed a 1% upswing. It has provided some relief from the downturn we've experienced across most of the indices for the past few months, but its effects shouldn't overestimated either. All three of the aforementioned indices are still below their starting points in January 2006, with the FTSE IT SCS almost 10% lower.

All our industry sub-segments grew over August - but the surprise was that the normally low-growth staffing agencies and reseller segments rose right to the top. In fact, not one reseller that we track suffered a share price decline over August (Ultima Networks, the worst performer, was flat). The reseller market is a tough place to do business, with many vendors trying to re-model their business to grow services or focus on specific niches. As such, this month's top reseller performers, Dicom and Morse, benefited from being able to reveal some progress in this area, through acquisition for Dicom and an internal restructuring for Morse. As a result, these companies saw their share prices grow by 15% and 12% respectively.

Amongst the staffing agencies it was Spring that really shone, with its share price up by 29% to reach 55 pence at the end of August. Spring's financial results at the start of the month showed some encouraging signs, notably the return to operating profit across all segments of the IT staffing business. Overall, this has produced an operating margin for IT staffing of 2.2%. To achieve this, Spring has bitten the bullet in certain cases and exited contracts that are just too uneconomical. Combined with a refocus on higher margin work, in particular around "niche markets", we think there is reason to feel optimistic about the company.

31-Aug-06		
	S/ITS Index	**4987.34**
	FTSE IT (SCS) Index	**512.17**
	techMARK 100	**1379.58**
	FTSE 100	5906.10
	FTSE AIM	1046.39
	FTSE SmallCap	3447.36

Changes in Indices	S/ITS Index	FTSE 100	techMARK 100	FTSE IT SCS Index	FTSE AIM Index	FTSE Small Cap
Month (01/08/06 to 31/08/06)	+2.22%	-0.37%	+3.01%	+1.04%	+0.02%	+1.88%
From 15th Apr 89	+398.73%	+187.60%				
From 1st Jan 90	+442.04%	+150.05%				
From 1st Jan 91	+604.56%	+173.38%				
From 1st Jan 92	+377.32%	+136.90%				
From 1st Jan 93	+212.96%	+107.49%				+148.49%
From 1st Jan 94	+198.72%	+72.77%				+84.48%
From 1st Jan 95	+232.67%	+92.66%				+97.40%
From 1st Jan 96	+120.83%	+60.09%	+74.80%		+9.75%	+77.56%
From 1st Jan 97	+86.27%	+43.40%	+50.83%		+7.20%	+57.91%
From 1st Jan 98	+64.33%	+15.01%	+44.61%	-48.78%	+5.48%	+49.03%
From 1st Jan 99	+26.53%	+0.40%	-5.25%	-64.58%	+30.54%	+66.47%
From 1st Jan 00	-56.52%	-14.78%	-63.50%	-86.22%	-45.86%	+11.28%
From 1st Jan 01	-40.43%	-5.08%	-46.23%	-73.72%	-27.22%	+8.30%
From 1st Jan 02	+3.94%	+13.20%	-6.32%	-39.34%	+16.55%	+33.66%
From 1st Jan 03	+83.84%	+49.89%	+112.64%	+50.54%	+73.56%	+89.36%
From 1st Jan 04	+6.65%	+31.92%	+35.92%	+1.70%	+25.26%	+39.28%
From 1st Jan 05	+1.26%	+22.68%	+15.31%	+5.43%	+4.04%	+24.99%
From 1st Jan 06	-1.79%	+5.11%	-3.64%	-9.92%	+0.03%	+4.29%

End August 06	Move since 1/1/99	Move since 1/1/00	Move since 1/1/01	Move since 1/1/02	Move since 1/1/03	Move since 1/1/04	Move since 1/1/05	Move since 1/1/06	Move in August 06
IT Services (CS)	18.4%	-53.9%	-37.9%	11.8%	122.8%	16.1%	5.8%	0.5%	2.2%
IT Staff Agencies	-69.3%	-73.3%	-57.4%	-23.2%	15.5%	-24.2%	-4.2%	16.5%	4.3%
Resellers	71.6%	-17.4%	9.3%	21.7%	64.6%	-14.1%	-5.4%	-9.1%	8.7%
Software Products	67.8%	-59.6%	-70.7%	-5.6%	56.4%	-3.6%	-1.0%	-5.2%	1.4%
Holway S/ITS Index	26.5%	-56.5%	-40.4%	3.9%	83.8%	6.6%	1.2%	-1.8%	2.2%

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

Supplying skilled expat labour to these emerging or developing markets enables Networkers to command an "attractive" margin - the company made a pre tax profit margin of c12% last year. Its network of offices (which includes China and South Africa) also gives it access to low-cost resources. Three months after its admission to AIM, investors are clearly still very interested in this business proposition: the company's shares were up 22% to 39 pence in August. Who says resellers and ITSAs are boring? *(Samad Masood)*

SYSTEMHOUSE

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