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SYSTEMHOUSE

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

2008: KEY TRENDS IN INFRASTRUCTURE OUTSOURCING

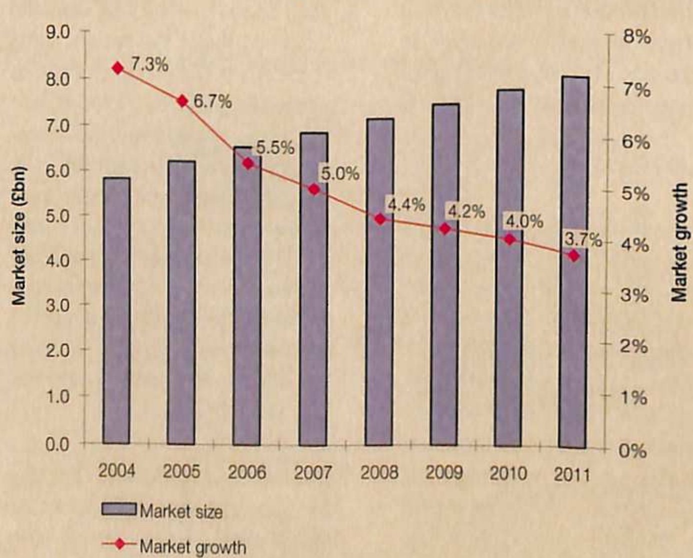
Kate Hanaghan
Senior Analyst

While the UK economy might not fall into a recession in 2008, the scene will certainly be gloomier than last year. And the CIO, like any other buyer, will start to think more carefully about how to spend their budget. So how will this affect the infrastructure-led outsourcing (ILO) market? Broadly speaking, those IT services that offer the opportunity for savings benefit in this environment. Those services that are likely to suffer, on the other hand, are projects that require investment but do not necessarily offer immediate savings. In light of this, our view is that the infrastructure outsourcing market is likely to remain firm as buyers look to outsource to save precious pounds of their IT budgets. Even still, we would still advise suppliers to prepare for the worst and to proactively search out new opportunities within the customer organisation.

The vertical view

So what are we seeing 'on the ground'? Outsourcing remains an important driver of investment by the financial services sector (although we see the lion's share of growth being concentrated in BPO, rather than ILO deals). Specifically within the financial services sector, we continue to see notable ILO activity in the insurance markets (general and life) – particularly in data centres - for example, T-Systems' contract with Royal and Sun Alliance (announced

Figure 1 **Infrastructure-led outsourcing market size and growth**



Source: Ovum

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in November 2007). But some customers are becoming more cautious about spending in large chunks, choosing instead to break work into smaller pieces. This makes the CIO's job a little easier in trying to get budget sign-off.

Suppliers to UK government customers will have to re-think their approach over the coming five years. Government customers account for a significant proportion of the ILO market – up to 30% of annual IT services spend during our forecast period to 2011. This is clearly a very important segment of the market. However, it too is looking to invest in services that will generate savings. Efficiency programmes and the budget restraints of the UK government's CSR07 (Comprehensive Spending Review 2007) will exert considerable pressure on the market. In addition, initiatives such as the Strategic Supply Board target of a 20% reduction in ICT costs across the public sector will increase the demand on suppliers to deliver more for less.

Public sector organisations will specifically look to reduce spend on large-scale ILO projects. More specifically, central government will switch to focusing on investment in the systems and infrastructure it has spent huge sums on in recent years - to extract the optimum value from them. In education, as another example, there will be a drive to invest in managed services – as seen through the Building Schools for the Future initiative.

Moving beyond "your mess for less"

But in the current climate, the buyer's strategy is not just about cost-cutting. CIOs, more than ever, understand the need to align IT to support the business in reaching its objectives (whether CIOs are acting upon this en masse is a different matter). They need infrastructure services providers who can help them achieve this. The simple "your-mess-for-less" stance is increasingly not enough in itself. The challenge for CIOs is the improvement of performance/ service levels, alongside addressing issues relating to legacy and complexity. And of course, this all has to be done against the backdrop of the need for greater flexibility and lower costs. Customers, therefore, want transformational infrastructure services that come with the best in global delivery options. Suppliers who can offer all of this will be the longer-term winners.

There is another element too. Many infrastructure services are horizontal – meaning that regardless of which specific industry the customer is in, the service is essentially the same. However, buyers of outsourcing services are increasingly demanding that their services are customised to suit the complexities of their IT systems (which have been built up over the years). This can mean additional complexities in the bidding process (not to mention expense) and it will almost certainly require suppliers to enlist more senior experts. For the larger IT services providers and for the more proactive vendors, it also offers an opportunity to sell consulting or professional services.

Survival tactics

Our view is that in 2007 more businesses than ever before accepted the role IT must play in helping the business achieve its objectives. But many of them are still struggling to apply this. There is a great opportunity for suppliers (regardless of their size) to step up to the plate and bring ideas to the customers about how this can be done. A key priority will of course be how IT can be used to bring overall operating costs down.

Customer organisations are increasingly experienced buyers who know what to expect from an infrastructure outsourcing relationship. However, against a backdrop of general maturation, conditions for suppliers have not necessarily improved. Indeed, suppliers are under pressure to produce increasingly complex bids for customers who want more customised outsourcing services.

But the deal has to work both ways and we'd encourage suppliers to show strength by walking away from contracts where profits are harder to achieve and where there is little room for increasing the TCV. This might sound like common sense (while actually being quite difficult to achieve), but we still think suppliers need to think more closely about what their differentiating characteristics are and to stick to focusing on the deals that suit those characteristics.

In addition, suppliers need to think closely about how they interact with Third Party Advisors (TPAs) - for example, TPI, EquaTerra. These advisors are now a prominent fixture on the outsourcing scene. Their input is often useful; they can help greatly to focus the requirements of the buyer. But suppliers need to understand fully how they fit into the whole process and how they can benefit from being part of it. We have heard complaints from suppliers who say the criteria used by TPAs are too restrictive and not entirely realistic. We believe that by working more closely, suppliers and TPAs can create a situation that is increasingly beneficial to the buy and sell sides.

See Ovum's *Market Trends: infrastructure-led outsourcing* for much more on key trends and forecasts for this market.

OFFSHORE DELIVERY – COMPARING OPERATING MODELS

Samad Masood
Analyst

As any services professional will tell you, setting client expectations, and making sure you can meet them, is key to success. And to do this, sales and delivery must be on the same page at all times. But getting this right across multiple geographies can be challenging - and getting it wrong can be disastrous. It's a key challenge for any vendor of "globally sourced" or "offshored" IT services.

Most vendors are still feeling their way through this challenge, and have yet to define a best practice operational model for tying distributed sales and delivery teams together. However, Ovum has identified two general models - "Account-led" and "Matrix" - that help illustrate the types of structures vendors are developing today.

Account-led model

This structure takes a silo approach to managing offshore delivery, with a pool of offshore resources dedicated to an account team. This account team could be based on regional, industry vertical, or service line specialism (see *Figure 1*). Although not always the case, the delivery team can also often be split by delivery centre or country so that specific delivery centres/ locations are associated with specific industry vertical or regional silos. A firm, for example, could utilize Morocco as a location for servicing French clients, or have a delivery centre in India dedicated to financial services clients.

Companies that favour this approach tend to do so for two main reasons: either they already have a strong client relationship team that they do not want to risk changing, or they (and/or their clients) are new to offshore delivery and they require straight lines of control between the client, account manager, and delivery manager.

Matrix model

This structure is different from the account-led approach in that it uses a combination of touch points with the client in order to manage delivery. In general, vendors that use this approach have three roles that touch base with both the client and delivery sides: Account manager; Project director; and Delivery director. The specific responsibilities of these three roles vary between vendors, and some vendors may have more roles than this, and some may have fewer. The important point is, as shown in *Figure 1*, that all of these roles report into each other and can also report directly into the client in the course of their work.

Vendors that use this approach also tend to utilise large pools of shared offshore resources that can be dipped into by project and delivery directors. As such this approach tends to favour those vendors that already have large established benches of offshore resources, such as TCS, Infosys, or Accenture - all of which use this approach.

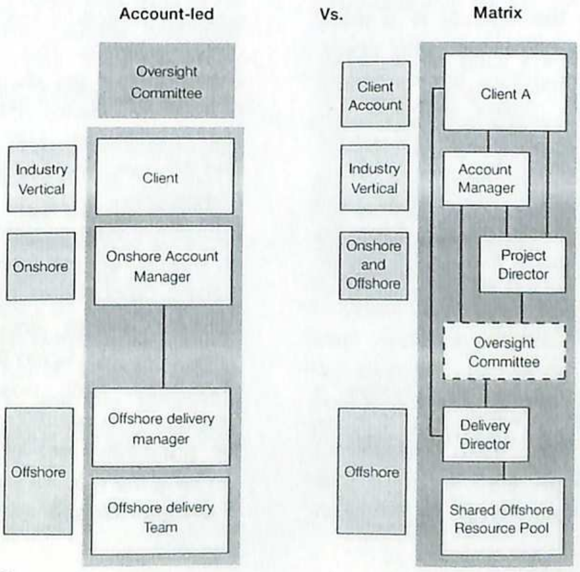
Choosing a model

When choosing a model it's important to note that these are not rigid structures - they are general frameworks that can be manipulated to fit the maturity of a client relationship, region or service. Indeed, many vendors utilise both models simultaneously. Ultimately, these structures are continuously in flux, and we expect IT services vendors to continue to evolve them over the coming years.

Indeed, the fact that these models are so fluid underlines the nascent stage that most vendors are at in choosing a delivery model for offshore. Therefore, when evaluating a vendor's offshore delivery model in today's market, one should look not so much at formalisation of its structure, but instead the way in which it has implemented its model to best suit its current and future goals and requirements.

This comment is based on the findings of the Ovum's recent offshore delivery strategies report "global delivery strategies: It's not just size that matters".

Figure 1 **Account-led vs. Matrix operating structures**



Source:Ovum

CSC AIMS TO GET PROACTIVE

Phil Codling
Principal Analyst

The theme running through this year's CSC analyst conference in London was the drive for more *proactivity*. CSC's European boss Guy Hains and his team underlined how the US-based outsourcer is aiming to go from a largely reactive, follow-the-customer model (which, to be fair to them, is typical of many large IT services players) to better anticipation of customers' needs. This evolution applies to account development, lead generation, delivery locations and service propositions.

The context for this change of tone is a corporate-wide change programme called Project Accelerate and an underlying improvement in business performance. Having weathered private equity takeover interest and low growth in FY07, the business has rediscovered an ability to grow and win new business in FY08. Nowhere has that been more evident than in Europe, where revenue declines last year have been turned into improving growth (9% in constant currency in Q3, most recently). The company's massive NHS commitments are not the sole catalyst here. Some previously problematic territories have finally become providers of growth, not least France and, under new management, Germany.

The point is that CSC has some business momentum to build on as it attempts to evolve the way it operates towards a more proactive model. It also has a solid reputation for delivery. It's noticeable how CSC, perennially the quiet man among the global outsourcing giants, has become less shy about trumpeting this. And given our experience of the market, we would tend to agree that its reputation for service delivery is as good as any of its main competitors.

Solid delivery is an essential basis for doing business. But it's no longer enough for a firm that wants to grow in the IT services market. As anyone who has attended an Ovum IT services presentation recently will know, we believe the real winners will be those firms that can go beyond simply "delivering to SLAs" to deliver something extra – namely real innovation - to the customer. Problem is, a lot of customers are too busy fighting fires and balancing budgets to spot the opportunities for innovation that could really benefit them. Hence the emphasis on vendor proactivity that CSC – and a number of its competitors – are currently, and rightly, pushing.

For CSC, the push for proactivity means a number of changes. It means taking the experience of bidding for client-generated RFPs (which still account for the majority of its revenues and sales effort) and being prepared to take unsolicited propositions directly to the customer. It means vertical focus (initially on financial services, healthcare and government in Europe) so that it becomes more possible to get close to clients' businesses and therefore uncover their unmet needs.

Also on the agenda is a more proactive global sourcing policy, where capabilities are developed ahead of market demand, not just in line with customers' service requirements. The recent move into Vietnam, via CSC's FCG acquisition, could be seen as an example of this, as well as its plans to open in Prague to support growth in Europe.

Finally, the company signals a move from what one speaker termed the "hero" model of IT services (i.e. smart people doing smart things for particular customers) to a greater use of products and repeatable solutions. As examples, it highlighted CSC solutions in areas like collaboration, unified messaging and geographic information systems.

In all of the above, CSC is in tune with market needs and is recognising the need to change. The business has been too passive, particularly in its go-to-market tactics, for too long, and that could hurt it badly as the market shifts away from the types of monolithic outsourcing deals that were once its bread and butter. But to achieve its goals, it faces a couple of challenges. Firstly, in all the areas highlighted above – sales, sourcing and solutions – CSC is essentially in a race with its major competitors, all of whom are following similar paths.

The winners of this race will be determined by the ability of the vendor to change not just its processes and offerings, but critically, the culture and behaviour of the business. This is the real challenge that lies ahead for the IT services industry, which retains vast workforces, both onshore and offshore, and has the added complication of a lot of staff transferred from customers. CSC is kicking off extensive internal training programmes to help the business evolve and become more proactive. Given the cultural challenges, such exercises will be key in supporting the push for proactivity and ultimately in deciding the winners and losers in IT services this year and beyond.

-6%
173p

MISYS

MISYS MAKES PROGRESS IN H1

Misys put in an encouraging set of results for the six months to November 2007. Total revenue was £230m, a slight decrease from £233m a year ago, but an increase on the £223m like-for-like revenue a year ago. Operating profit was £25m compared to £21m (or £35m vs. £27m like-for-like). Misys saw growth in its banking and capital markets divisions, and although healthcare revenues fell in reported terms, they grew like-for-like.

Comment: The good-though-modest change in the right direction of these numbers belies a year of considerable change at Misys. CEO Mike Lawrie has been in the post for just over a year, and during that time he has given the business a far sharper sense of purpose than it had under the previous regime. He has re-structured many of the business units, targeting sectors that offer the company better long term prospects. And he's loosened up the business model, getting more involved in software as a service, ASP and transaction services. The half-year has also seen significant partnerships with SAP, HCL, and just last week Digital China Financial Software (DCFS).

So this has been a time of great change, and we can see the numbers moving in the right direction, albeit as yet only modestly. Now that the foundations have been laid, we would hope and expect to see even better results in the rest of the year and beyond. We'd like to see operating profit grow from the low teens towards the higher teens, and growth heading towards double digits, rather than low single digits.

There is of course the sub-prime crisis, and this may affect some of Misys's banking customers. The company says it has seen no sign of problems yet, and let's hope it stays that way.

Kate Hanaghan

-12%
167p

Computacenter

COMPUTACENTER FY07: POSITIVE HINTS, ONGOING CHALLENGES

Computacenter issued a pre-close summary of its performance in 2007. Group profit before tax for the year is expected to be marginally ahead of consensus market expectations of £41.2m. A number of new contractual services wins (i.e. managed services and support services) and extensions meant Computacenter was able to 'fully recover from previously reported lost contracts'.

Comment: There are some hints of positivity in this pre-close statement, but we are reluctant to get over-enthusiastic about it. The UK business in all 'hasn't had a stellar year', to use the words of CEO Mike Norris. Things were, however, better in the second half of 2007 than the equivalent period in 2006. Towards the end of the year, CC won a number of contracts meaning its services contract base is now bigger than a year ago. The services margin has been hit due to certain contract losses, but the company is pleased with the profit performance of the significantly-sized deal with BT.

Taking a step back from financial specifics, we've been keen to know how the integration and performance of acquired services firm, Digica, continued in the latter half of the year. Computacenter made no bones about the fact it was disappointed with the initial progress. While it seems there has been some improvement here, management are still not of the view that this is great enough to justify the price paid.

Cross sale between the Computacenter Services customer base and Digica's customer base is a key metric of how well things are going; so too is how many contracts the two are able to win together where previously they would not have won on an individual basis (an example is the joint win with logistics firm, Gist). But the bottom line is that Computacenter is some way off really making the Digica acquisition motor. We understand that Mark Howling (ex-CEO of Digica) is now running CC's managed services business. A key task for him will of course be exploiting the combined Digica and CC capabilities and offerings for maximum effect in the market.

Kate Hanaghan

-5%
155p

BOND

BOND UPDATES ON TRADING AND MAJOR CONTRACT

Recruitment software firm Bond International said trading for the year to December 2007 was "in line with market forecasts". Just before Christmas, the company announced a three-year deal with an unnamed recruitment firm for a roll-out of its Adapt software. In late January, it revealed that the customer in question is Michael Page and confirmed that the contract includes the licencing and implementation of Bond's Adapt Recruitment package, as well as training and support services for users.

Comment: The trading update suggests the firm is keeping up a good rate of growth (H1 saw 87% growth overall, helped by acquisitions, and a healthy 14% organically). The Michael Page contract should be a further boost in 2008. That said, we'll need to see how the recruitment sector (which provides most of Bond's business) fares in the changing macroeconomic times expected this year. Bond's clear focus on, and growing reputation in, the sector should give it a good chance of weathering any storm.

As an aside, we note the mini-trend of software firms putting more emphasis on their product brands as opposed to their corporate brand. Last week Dicom announced a name change to Kofax, and Bond is clearly making the Adapt brandname more prominent in its marketing. No doubt readers will be able to think of other examples. Such moves can make a lot of sense for smaller product-led companies - why not focus marketing budgets on a single brand that relates directly to what the company actually provides?

Phil Codling

L!BERATA

LIBERATA LOOKS TO A POSITIVE FUTURE

Liberata, the privately-held UK BPO player, released results for the year to August 2007. Revenue fell by 12% to £206.7m, with operating profits (before goodwill amortisation and impairment) up by 150% to £8m. After amortisation and impairment, operating profit was £6.9m, up from a £572k loss last year.

Comment: Liberata is now past the worst of its troubles and the challenge for CEO Bob Gogel and FD Richard Webster is to shift gears from consolidation and profitability into new business development and revenue expansion. The signs are certainly good, with the order book up 50% to £1.2bn, and the bid pipeline up by 86% to £1.3bn.

But Liberata is rightly cautious of rushing into new markets or investments. We're happy that Gogel and Webster seem to have a realistic view of Liberata's capabilities and positioning in the market. The result is that the company is keener on working with partners (particularly from an IT background) on specific bids in the public sector. This can help it win shares of larger deals, and leverage its BPO-focused capabilities. Liberata is also looking more opportunistically at expanding its role in shared services (on the back of existing client back office operations) and exploring the possibility of offering seasonal BPO services to local government agencies facing sporadically high work loads.

In life & pensions, the story is slightly different. Liberata is increasingly at risk of being squashed between market leader Capita and TCS's Diligenta. Partnering is not really an option in this sector, however, given that outside of these three players there are few real challengers for L&P BPO work, Liberata may still have some opportunities to win new BPO work here.

Gogel is also opening up to offshore services in the private sector. He is looking to move up to 30% - 40% of financial services processes offshore in the next three years. The company will use partners to do this however, and is currently looking for a suitable relationship.

Overall then, Liberata is well and truly back in the game after a long period of injury time. The challenge now is for the company to start scoring some big deals to prove it is real challenger in the market.

Samad Masood

system C

SYSTEM C HEALTHCARE MOVES INTO PROFITS

System C Healthcare, a UK-based supplier of healthcare applications and services, moved from losses of £44k to an operating profit of £1.08m. Revenue during the six months to end November 2007 increased 29% to £8.4m. Cash generation improved notably from £600k last year to £2.5m.

The company says full-year profits are "expected to be at or around the top end of market expectations".

Comment: System C has had a good H1, which is in marked contrast to how things were going in 2006. The firm trebled turnover during 2004/2005 as the NHS programme ramped-up. But delays to the rollout hit System C hard causing its topline to shrink significantly. Looking at the results, the picture is brighter. It has improved its operating position, including its ability to generate cash. In addition, it now has a broader client base (i.e. outside of the NHS programme) and has acquired to strengthen this position.

Indeed, during January it added another purchase, buying Care Records Limited, a clinical systems developer, from Huntleigh Healthcare Ltd for £2.6m in cash. The acquisition adds a number of clinical applications to System C's portfolio and allows it to fast-track its development programme. It's an understandable move because broader clinical functionality is in demand from hospitals and niche clinical applications are more likely than System C's traditional EPR product to be purchased by NHS hospitals outside England's National Programme for IT.

For the rest of the year, the focus will be on improving organic growth, making further acquisitions and investing in its own products and services. Yes, System C is going to be reliant on ups and downs of the NHS project, but it is also doing what it can outside of that to protect itself and strengthen its competitive position.

Kate Hanaghan / Tola Sargeant

-7%
355p

ncc group
assure secure advise

NCC CONTINUES TO DRIVE GROWTH

NCC, a provider of escrow solutions and testing and consultancy services, has announced its interim results for the six months to end November 2007. Group revenue increased 42% to £16.4m (£11.5m in 2006). Group Escrow Solutions revenue (the largest part of the business) increased 15% to £8.4m. Assurance Testing revenue increased 193% to £5.8m, while Consultancy revenue declined 5% to £2.1m. Group adjusted operating profits (before charges for share option schemes) increased 42% to £5.0m (£3.5m in 2006). Group adjusted operating margins were maintained at 28.5% (28.6% in 2006).

The company also announced the acquisition of Escrow Europe Holdings B.V.

Comment: Overall, this is a good set of results. NCC's core business in escrow continues to benefit from favourable market dynamics. In particular, the UK business is performing strongly. The situation is different in the US and Germany, where the businesses have been "satisfactory" and "downscaled", respectively. The acquisition of Escrow Europe (for a maximum consideration of €10.5m in cash), is a sensible move. It is only a small firm (10 people), but that's a nicely-manageable size for NCC. It's based in Amsterdam with a subsidiary in Munich, with franchised sales operations in Switzerland, Belgium, Sweden, South Africa and Israel. There is therefore good potential for the development of European business across several countries. Furthermore, we are confident NCC can offer strong leadership to its newly-acquired European business via its successful UK escrow business.

The only disappointing element we see in these results is the performance of the consultancy business (profits and revenue down). This is a highly competitive area - and some of that competition will come from much larger consulting firms. While NCC says the second half will be stronger, the firm needs to have an on-going 'answer' to the competitive environment that has had an impact in this first half. The solution may come through improved cross-sale with other parts of the business, or by playing better to its particular strengths in areas within the information security markets.

Kate Hanaghan

Mergers and Acquisitions – January 2008

Buyer	Oracle
Seller	BEA
Seller Description	Enterprise infrastructure software provider
Acquiring	100%
Price	$19.38 per share
Comment	This deal has gone through various phases of public posturing, with executives from both BEA and Oracle making statements on what would or would not be acceptable commercial terms. In reality it was always likely that the bid would go ahead and that negotiations would take place behind the scenes - unless, of course, the much speculated white knight bid from another industry giant emerged. The price paid is 'on the full side' and represents a good return for the BEA stock holders. The middleware market is one of the most significant markets within the technology industry, with competitors like Oracle, IBM, Microsoft and BEA vying with numerous niche technology providers. It is also a market that has been consolidating and will continue to consolidate further yet. It is a hot market, with strong growth and lots of interesting dynamics - new entrants, new technologies, integration with legacy, evolving standards, etc. Oracle has already amassed a range of middleware products from organic development and through other acquisitions, assembling these into Fusion Middleware. BEA products are likely to form a part of this domain, with its standards-based architecture allowing this to happen.

Buyer	Sun Microsystems
Seller	MySQL AB
Seller Description	Second largest independent open source software provider (after Red Hat)
Acquiring	100%
Price	$1bn in total consideration ($800m in cash and $200m in share options)
Comment	This is a bold, surprise move. It will take some time for the market to digest its implications. On the minus side, Sun's record when it comes to acquisition and overall software strategy is, at best, mixed. On the plus side, the company has recently pulled itself together and improved the way it interacts with the market. On the same day it announced the MySQL acquisition, it also preannounced that its second-quarter results, to be released next week, would beat financial analysts' predictions with about $3.6bn in sales and $230m to $265m profits.

Buyer	Microsoft
Seller	FAST
Seller Description	Norwegian high-end enterprise search provider
Acquiring	100%
Price	19.00 Norwegian kroner per share
Comment	While the timing of the announcement came as a bit of a shock to some - given that Microsoft only updated its enterprise search product range in November 2007 - the fact that Microsoft has made an offer is not a particular surprise for two reasons. Firstly, the November releases of Search Server and Search Server Express, while offering a powerful enterprise search product, did not offer the pre-built and specialist solutions that many organisations are seeking. In November, Microsoft executives were talking of entering the high-end search arena that is dominated by UK-based Autonomy, US-based Endeca and FAST, but this was expected to be at the time of the Office 14 release, i.e. approximately 2010. Secondly, FAST has had some well recorded financial and accounting difficulties, and only a large company such as Microsoft could afford to take on an organisation which may still have some undiscovered liabilities.

Mergers and Acquisitions – January 2008

Buyer	**ACS**
Seller	**Syan**
Seller Description	Reseller, support and outsourcing services
Acquiring	100%
Price	£30.5m in cash
Comment	This is the latest step back into Europe for ACS, a company that has been beleaguered by issues over the past year. First it emerged that its HR services business was not performing up to scratch, and then it received a buyout approach from Cerberus Capital Management, led by its own chairman Darwin Deason - which eventually failed to get approval. The acquisition of Syan is the first clear step that ACS has put both these distractions behind it and is focusing on the future.

Buyer	**Xchanging**
Seller	**Mercuris**
Seller Description	French procurement service provider majority-owned by French bank Groupe Caisse d'Epargne
Acquiring	100%
Price	Not disclosed
Comment	At the end of the last year we commented how the "more specialist side" of Xchanging's business in financial services would provide the best opportunities going forward. This acquisition fits that gap very well because Mercuris is focused on the financial services and banking verticals. Not only that, it also provides a horizontal service – procurement – in which Xchanging already has strong in-depth expertise from previous relationships in the UK and other parts of Europe. As the BPO market evolves, it's becoming clearer that more focused, vertical-specific services tend to work better for both customers and vendors. Therefore, by being so focused, Mercuris is in somewhat of a BPO sweet spot. The main challenge for Xchanging, beyond the normal acquisition integration risks, is to use this to further penetrate the French market, notorious for its lack of outsourcing activity. Ultimately though this looks a good buy. Mercuris provides Xchanging with an existing procurement contract, a small foothold to base an attack on the broader French financial services procurement market, and extra scale in procurement services across its European operations.

Buyer	**System C Healthcare**
Seller	**Care Records Limited**
Seller Description	Clinical systems developer
Acquiring	100%
Price	£850k in cash on completion, with up to a further £2.6m payable in cash over the next three financial years dependent on performance
Comment	This small, bolt-on acquisition makes a lot of sense for System C - it adds a number of clinical applications to its portfolio and allows it to fast-track its development programme. Broader clinical functionality is in demand from hospitals and niche clinical applications are more likely than System C's traditional EPR product to be purchased by NHS hospitals outside England's National Programme for IT. Care Records is a developer of clinical IT systems including the Eclipse maternity system and a diabetes management system, both of which have been installed in UK hospitals. What is more, Care Record's products have already been integrated with System C's electronic patient record system, MedWay, as part of its recent deployment on the Isle of Man. According to System C, further applications for the acute and community markets are under development and will be available soon. As part of the acquisition, System C will also maintain and extend Care Records' relationship with Huntleigh Healthcare. It is setting up joint distribution and collaboration agreements with Huntleigh for both the UK and overseas markets. This relationship could also prove fruitful for System C in due course.

UK software and IT services share prices and market capitalisation - January 2008

	SCS Cat.	Share Price 31-Jan-08	Capitalisation 31-Jan-08	Historic P/E	PSR Ratio Cap./Rev.	S/ITS Index 31-Jan-08	Share price move since 31-Dec-07	Share price % move in 2008
@UK plc	SP	0.06	2.27	NA	1.56	91.60	-25%	-25%
Alphameric	SP	0.25	56.92	11.9	0.86	114.68	-19%	-19%
Alterian	SP	1.25	54.09	22.5	3.86	625.00	8%	8%
Anite Group	CS	0.42	137.50	7.6	0.80	245.61	-21%	-21%
Ascribe	SP	0.30	35.25	NA	6.59	1,578.95	-3%	-3%
Atelis plc	SP	0.02	0.44	NA	NA	81.40	-7%	-7%
Atlantic Global	SP	0.13	2.98	57.3	1.39	440.68	-7%	-7%
Autonomy Corporation	SP	9.44	1935.96	58.2	15.09	288.16	7%	7%
Aveva Group	SP	9.95	671.08	37.8	10.18	4,975.00	3%	3%
Axon Group	CS	4.91	300.83	19.4	2.19	2,805.71	-7%	-7%
Belgravium Technologies Plc.	SP	0.09	8.57	7.9	1.64	600.00	-10%	-10%
Bond International	SP	1.55	45.93	11.2	2.67	2,384.62	-5%	-5%
Brady	SP	0.44	11.91	24.7	4.90	543.21	0%	0%
Business Control Solutions	CS	0.02	6.45	NA	0.81	320.00	-33%	-33%
Business Systems	CS	0.12	9.89	NA	0.29	100.84	0%	0%
Cantono	CS	0.04	12.76	NA	1.78	800.00	-28%	-28%
Capita Group	CS	6.44	3985.66	28.7	2.34	174,086.23	-8%	-8%
Centrom	CS	0.01	1.57	NA	0.25	166.67	0%	0%
Charteris	CS	0.21	8.82	30.6	0.99	233.33	-5%	-5%
Chelford Group	CS	1.60	11.39	155.6	0.61	278.26	14%	14%
Civica	CS	1.97	125.45	11.1	1.18	1,125.41	1%	1%
Clarity Commerce	SP	0.27	6.60	NA	0.50	216.00	0%	0%
Clinical Computing	SP	0.03	2.92	NA	1.76	24.19	0%	0%
CODA Plc.	SP	1.84	154.53	19.9	2.89	1,135.80	5%	5%
Computacenter	R	1.67	259.59	13.2	0.11	249.25	-12%	-12%
Corero	SP	0.06	2.62	26.3	0.42	80.00	0%	0%
Dealogic	SP	1.63	109.79	10.7	2.73	708.69	-7%	-7%
Delcam	SP	2.69	16.64	7.2	0.69	1,034.62	13%	13%
Detica	CS	2.21	248.77	21.6	1.59	2,762.50	0%	0%
Dicom Group	R	1.52	122.64	12.6	0.77	465.97	-13%	-13%
Dillistone Group	SP	1.73	9.32	NA	NA	1,263.74	-19%	-19%
Dimension Data	R	0.53	808.38	18.6	0.58	94.14	-15%	-15%
DRS Data & Research	SP	0.24	7.68	46.1	0.62	218.18	0%	0%
eg Solutions	SP	0.13	1.72	NA	0.32	88.44	-46%	-46%
ELCOM	CS	0.02	8.28	NA	23.91	400.00	0%	0%
Electronic Data Processing	SP	0.58	14.07	29.4	2.02	1,775.87	-2%	-2%
FDM Group	A	1.12	25.89	12.4	0.58	1,374.23	-10%	-10%
Ffastfill	SP	0.07	24.06	NA	9.08	58.33	0%	0%
Fidessa Group Plc.	SP	7.15	246.04	NA	2.60	4,205.88	-14%	-14%
Financial Objects	CS	0.47	20.67	7.5	1.04	204.35	-2%	-2%
Flomerics Group	SP	0.48	10.17	11.6	0.72	1,846.15	-13%	-13%
Focus Solutions Group	CS	0.27	7.96	4.8	0.80	138.46	-23%	-23%
GB Group	CS	0.23	19.42	NA	1.29	148.35	-8%	-8%
Gladstone	SP	0.19	9.91	7.3	1.30	475.00	0%	0%
Gresham Computing	CS	0.67	35.41	81.2	2.53	720.43	20%	20%
Group NBT	CS	2.11	53.06	17.2	6.32	1,055.00	3%	3%
Harvey Nash Group	A	0.52	37.67	8.0	0.15	297.14	-4%	-4%
Highams Systems Services	A	0.05	1.43	NA	0.11	138.89	0%	0%
Horizon Technology	CS	0.27	22.23	5.3	0.12	99.30	-64%	-64%
IBS OPENSystems	CS	1.15	45.20	9.2	2.89	754.10	-30%	-30%
I S Solutions	CS	0.24	5.65	NA	1.02	903.68	10%	10%
IDOX	SP	0.11	36.76	32.0	2.60	14.12	-8%	-8%
ILT Solutions	SP	0.03	2.35	NA	1.28	29.41	-5%	-5%
Imaginatik	SP	0.04	4.96	NA	3.54	500.00	10%	10%
In Technology	CS	0.28	40.44	NA	0.22	1,120.00	-13%	-13%
InterQuest Group	A	0.87	25.97	NA	0.94	1,504.35	1%	1%
Innovation Group	SP	0.30	199.59	27.1	3.27	131.00	-12%	-12%
Intelligent Environments	SP	0.08	12.83	22.1	4.11	85.11	-11%	-11%
Intercede Group	SP	0.25	9.02	NA	4.99	416.67	-29%	-29%
Invu	SP	0.24	25.00	12.3	3.85	2,526.29	-20%	-20%

UK software and IT services share prices and market capitalisation - January 2008

	SCS Cat.	Share Price 31-Jan-08	Capitalisation 31-Jan-08	Historic P/E	PSR Ratio Cap./Rev.	S/ITS Index 31-Jan-08	Share price move since 31-Dec-07	Share price % move in 2008
K3 Business Technology	SP	1.48	34.97	14.1	1.28	1,130.82	-8%	-8%
Kewill	SP	0.82	66.84	45.4	1.61	1,620.55	0%	0%
Knowledge Technology Solutions	SP	0.01	3.67	NA	2.93	200.00	0%	0%
LogicaCMG	CS	1.07	1569.54	13.5	0.59	1,465.35	-9%	-9%
Macro 4	SP	1.42	31.34	4.9	0.95	572.58	-3%	-3%
Manpower Software	SP	0.58	25.69	26.1	5.93	597.94	7%	7%
Maxima Holdings	CS	1.51	36.26	7.6	1.14	1,098.18	-38%	-38%
Mediasurface	SP	0.05	5.01	5.3	0.52	367.65	0%	0%
Micro Focus	SP	2.19	443.30	19.0	5.86	0.00	-14%	-14%
Microgen	CS	0.45	46.30	11.8	1.23	192.31	-4%	-4%
Minorplanet Systems	SP	0.23	7.74	5.6	0.33	469.68	-8%	-8%
Misys	SP	1.73	875.94	33.7	1.56	2,152.32	-6%	-6%
Monitise	CS	0.15	38.82	NA	0.08	101.67	11%	11%
Morse	R	0.57	72.22	4.0	0.20	228.00	-15%	-15%
NCC Group	CS	3.55	120.10	22.6	4.73	2,125.75	-7%	-7%
Ncipher	SP	2.11	35.46	NA	2.04	844.00	-3%	-3%
Netcall	SP	0.22	14.20	19.2	4.28	444.45	0%	0%
Netstore	CS	0.22	37.54	10.2	1.88	146.67	-12%	-12%
Networkers International	A	0.29	26.25	12.0	1.38	906.25	-6%	-6%
Northgate Information Solutions	CS	0.94	543.13	15.4	1.54	361.54	2%	2%
NSB Retail Systems	SP	0.38	144.84	16.3	2.99	3,304.35	0%	0%
OneclickHR	SP	0.04	5.58	NA	0.94	100.00	0%	0%
OPD Group	A	1.46	36.19	4.3	0.83	663.64	-22%	-22%
Parity	A	0.50	18.82	NA	0.12	462.96	-9%	-9%
Patsystems	SP	0.24	43.04	31.6	2.81	224.30	-11%	-11%
Phoenix IT	CS	2.52	186.31	11.3	1.47	933.33	-21%	-21%
Pilat Media Global	SP	0.40	23.98	10.0	1.84	2,000.00	-5%	-5%
Portrait Software	CS	0.11	10.67	27.6	0.74	72.22	-21%	-21%
Proactis Holdings	SP	0.58	17.69	NA	9.31	1,185.57	-15%	-15%
Prologic	CS	0.89	8.90	10.4	1.28	1,072.29	0%	0%
QinetiQ Group	CS	1.89	1264.81	19.2	1.10	861.05	-4%	-4%
Qonnectis	CS	0.02	4.76	NA	43.50	533.33	0%	0%
RM	SP	2.10	190.04	20.1	0.70	6,000.00	-5%	-5%
Sage Group	SP	2.14	2875.94	18.7	24.79	82,307.69	-7%	-7%
Sanderson Group	SP	0.41	17.12	13.5	1.06	820.00	-13%	-13%
SciSys	CS	0.33	9.47	6.8	0.37	255.81	-28%	-28%
SDL	CS	2.43	176.57	24.8	1.86	1,620.00	-11%	-11%
Serpower Technologies	SP	0.14	12.50	NA	1.57	140.00	0%	0%
SiRViS IT plc	CS	1.74	5.73	8.7	0.72	1,513.04	0%	0%
smartFOCUS plc	SP	0.11	10.21	18.6	1.11	1,189.19	-8%	-8%
Sopheon	SP	0.13	18.20	NA	3.03	187.05	-7%	-7%
Spring Group	A	0.49	88.65	17.6	0.22	544.44	0%	0%
SSP Holdings	SP	1.26	99.98	11.6	5.59	1,188.68	-9%	-9%
StatPro Group	SP	0.86	45.68	15.0	3.60	1,075.00	-1%	-1%
SThree Group plc	A	2.02	261.84	9.4	1.08	980.58	-9%	-9%
Stilo International	SP	0.01	1.44	NA	0.63	20.00	0%	0%
Strategic Thought	CS	0.37	9.61	NA	0.84	269.37	-10%	-10%
Tadpole Technology	SP	0.03	11.17	NA	2.31	72.42	0%	0%
Tikit Group	CS	2.37	30.35	14.5	1.29	2,060.87	-9%	-9%
Total Systems	SP	0.25	2.63	NA	0.75	471.70	6%	6%
Touchstone Group	SP	1.12	13.70	6.9	0.45	1,066.67	-19%	-19%
Triad Group	CS	0.27	4.02	NA	0.09	200.00	8%	8%
Ultima Networks	R	0.01	2.56	32.1	1.34	24.39	0%	0%
Ultrasis Group	SP	0.01	9.76	NA	7.85	20.41	0%	0%
Universe Group	SP	0.06	6.74	NA	0.15	266.67	0%	0%
Vega Group	CS	2.76	56.08	15.5	0.87	2,262.30	1%	1%
Vero Software Plc.	SP	0.17	6.33	NA	0.65	340.00	8%	8%
Xchanging	CS	2.60	552.18	36.1	NA	851.06	-7%	-7%
Xpertise Group	CS	1.15	6.48	19.8	0.41	4,600.00	1%	1%
XploITe	CS	0.55	21.73	2.1	0.74	1,692.31	-7%	-7%

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

JANUARY SALES – PRICES SLASHED!

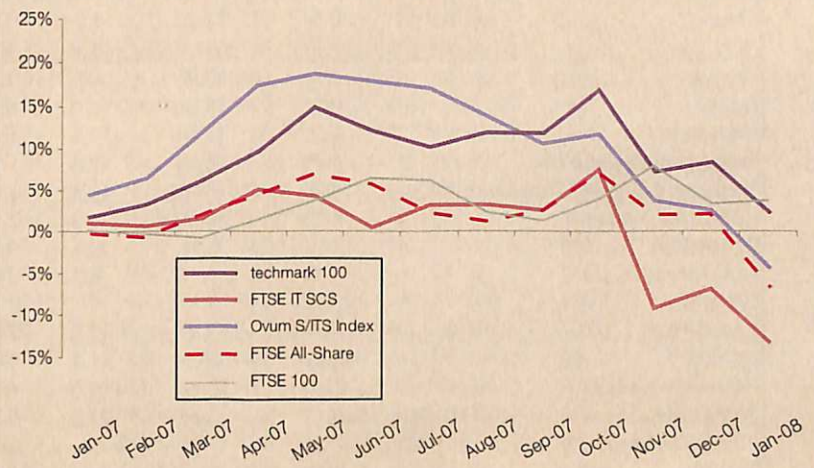
Samad Masood
Analyst

It's been a dark January on the stock exchange. One couldn't fail to miss all the discussions of possible recession sparked by the sub-prime crisis that flared up at the end of last year. A look at the figures shows that, in IT at least, things haven't been as bad as one might have assumed at first.

IT didn't seem to take the brunt of the January falls, given that the FTSE All-share was down 8.7%, and the FTSE 100 was down 8.9%. In comparison, the techMARK 100 was down 5.6%, the FTSE IT SCS was down 6.9%, Ovum's index was down 6.7%. And in the bigger picture, things aren't too bad either. All indices are still higher than they were three years ago at the start of 2005 – techMARK is up 31%, FTSE IT SCS 6%, and Ovum's index up 10%. That said, it is not much consolation for those that have seen their 2007 gains wiped out in the past few months.

So who were the winners and losers? Unsurprisingly, it was resellers who took the biggest hit over January, with average share prices falling by 11% over January. Average share prices for this category of companies (including Morse, DiData, Dicom and Computacenter) are now down 24% on the start of 2007. IT services firms were the next hardest hit, with average share prices falling by 8%. This is probably in line with fears that project services spending will start to dry up if a recession does occur.

Performance of selected UK indices from Jan-07 to Jan-08



Source: Ovum

Staffing firms didn't fair too badly considering the tendency to be a weak sector in terms of share prices generally. Share prices in staffing firms fell by only 7% on average, with Spring Group actually managing to keep its share price flat! We expect that fears over ongoing (and possibly growing) skills shortages are bolstering this segment to some extent. Software vendors, typically the most robust group in terms of weathering a bad market, experienced an average share price decline of only 5%.

On an individual company basis, those who managed to maintain share price declines lower than 7% were the lucky ones. Lucky because in today's mood a company can suffer by association – regardless of its performance. So for example Dicom, Misys, NCC, Aveva, Xchanging, K3 and RM all released various levels of good news during the month regarding performance, new contracts, acquisitions, or improved expectations, but all suffered share price declines of between 5% and 15%!

Some rules don't change though. The market still has its firm favourites, such as Autonomy, which maintained a solid flow of good news during the month and was rewarded with 7% share price growth. It still likes companies about to be bought, such as Coda, which was up 5% thanks to the approach by Agresso. And it still treats poor performance harshly. Though perhaps too harshly in the current climate. Just ask Maxima, which is down 38% on news of a client cancelling a contract – despite the company confirming it was still growing revenues and profits.