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ovum

SYSTEMHOUSE

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

FROM KNOWLEDGE MANAGEMENT TO SOCIAL NETWORKING

By Christopher Harris-Jones and Mike Davis

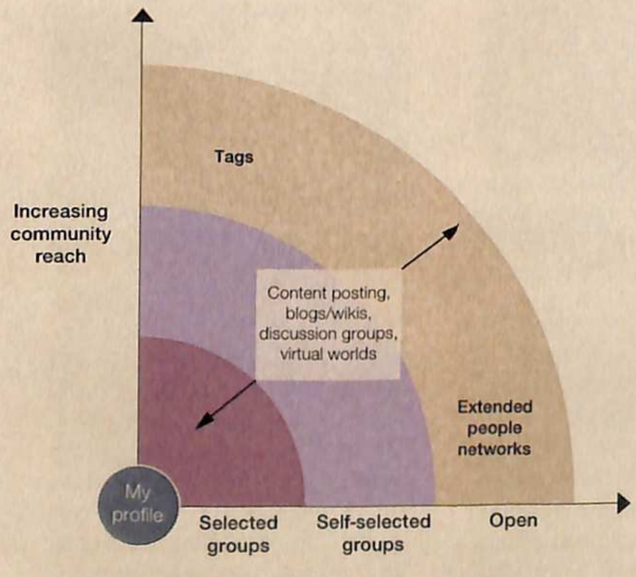
'Knowledge management' was a phrase you heard regularly during the 1990s, but it has become less popular in recent years. Does this mean that the whole idea was wrong and that the problems it was supposed to address have gone away? In fact, when we examine the need that drove the knowledge management movement, we find that it is alive and well - it has simply changed shape (and name).

Knowledge management was king

Throughout much of the 1990s, it seemed that the phrase 'knowledge management' was everywhere - conferences, the general press, as well as the IT press, and software vendors' publicity material to name just a few. The use of this phrase has dropped off significantly in the last few years, even though the core problems of how to manage the ever-expanding range of knowledge and information have just got worse. The Web has made the creation and delivery of information even easier, and in many cases has added to information overload rather than eased it.

One of the big problems with the idea of knowledge management is that it was very difficult to describe exactly what it was - which meant that everyone created their own definition, which made everything even less clear. Some defined it as just using the information and skills around you in a more effective way to get the job done; to others it meant capturing the expertise of key individuals in some way - usually through documentation or software.

Figure 1 **The increasing reach of collaboration tools**



Source: Ovum

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INDICES
(changes in February 2008)

Ovum S/ITS Index	**+1.74%**	**5422**
FTSE IT (SCS)	**+0.08%**	**494**
techMARK 100	**-0.10%**	**1547**

[continued from front page]

The bottom line in knowledge management was that it was (and still is) all about making the best use of all the information and skills available regardless of source, and of everything that you and everyone in your organisation knows but has not necessarily documented. This need has led to the growth of the term 'corporate memory', which is being increasingly used as a substitute for the phrase 'knowledge management'.

Evolving software for knowledge management

Many of the early pieces of software that used the label 'knowledge management' could deliver real value, but tended to be niche products and were not always well implemented. They very rarely integrated with other relevant pieces of software or shared the 'pieces of knowledge' that had been captured with other storage mechanisms (such as content management systems). Some organisations were able to gain benefits, but many failed to see any significant value.

The result was that knowledge management software got a bad name and we saw wholesale renaming of products. Some moved towards 'portals', which were becoming popular at the beginning of this decade, but have rapidly disappeared into more general infrastructure software.

Many more moved towards using names associated with the world of collaboration and/or content management. Collaboration tools help individuals to communicate through desktop channels such as VoIP, video conferencing and desktop sharing; they also help manage activities such as discussion groups, and provide project-based or topic-based workspaces. In short, they help with the mechanics of working together and managing information. Content management tools help you organise the 'stuff' that you are recording and provide support in the search and analysis processes. However, these tools are still regarded by most as 'work' rather than being fun to use.

Enter social networking

The latest technology craze is social networking. From small beginnings in the public domain, the technologies have rapidly gained huge popularity - often because they were regarded as fun to use. The key attribute of these technologies is that they permit easy sharing of information - which is one of the underlying goals of knowledge management. In the work environment this presents the opportunity to get employees to freely express those key 'nuggets' of corporate memory that would normally only be shared by the proverbial water cooler or in a telephone conversation, and which would be lost within seconds of being uttered.

Like all sharing technologies, a large number of the participants are concerned more with publishing their information and views than in truly sharing, but there is a significant percentage that genuinely want to share and build active communities. Social networking is an immature technology and needs to be integrated with other information management technologies to realise its full potential.

Not quite a knowledge management revolution

The big impact of social networking technologies on business is not so much dependent on the technologies themselves but on the perceptions of the users. One of the biggest problems with creating an effective knowledge management strategy has always been getting people to share their knowledge - the old adage of 'knowledge is power' is still strongly believed by many. The increasing use of social networking techniques by consumers is encouraging the concept of electronic sharing.

Organisations need to consider how best to exploit social networking technologies in business (in a safe and secure business environment - the so-called Enterprise 2.0) without killing the 'fun' aspects of them. The inevitable danger is that as soon as these 'social' technologies cross the line and become 'work' technologies, the users will lose interest. There is some evidence of this already in that many US students are objecting to their universities making use of sites such as MySpace and Facebook - the movement of these sites from the purely social is unpopular.

Social networking will not bring about a revolution in knowledge management - the tendency to hoard information/knowledge will remain - but it will encourage a gradual shift in mindset, as well as increased reach and scope for collaboration tools and the interaction they support. These technologies are just another step in the slow movement towards more effective sharing. Good knowledge management activities are principally people oriented, but can be considerably enhanced by the appropriate use of multiple technologies. Content management tools help to organise unstructured content and make it easier to find. Portals help to deliver diverse information sources and activities through a single access point. Collaboration tools support better communication and task-specific workspaces. Social networking technologies help the move towards proactive sharing. It is not a revolution - just another useful step on the road to the goal of exploiting corporate memory.

0%
45p
microgen

MICROGEN EKES OUT PROFIT GROWTH

Microgen's 2007 results came in slightly ahead of expectations. Revenue from continuing operations was up just 2% at £33.3m, but operating profits rose 26%. That gives Microgen an operating margin of 17.9% (compared to 14.4% in 2006). The firm returned a profit before tax of £2.6m, compared to a loss of £10.5m last year.

Comment: Microgen deserves recognition for eking an improved profit out of low growth. Overall, the business has displayed discipline during the year in order to achieve these results. It has put greater focus on its core Aptitude product (in terms of both sales/ marketing and development) and has seen its proportion of revenue from software rise partly as a consequence (from 65% in 2006 to 70%). That's one reason why its margins have risen. Another is its trimming of headcount (from 345 to 323 employees) during 2007.

Microgen saw growth from three of its four operating divisions, including its important Banking and Wealth/ Asset Management sectors. They grew 10% and 5% respectively in the year, with banking accelerating growth to 23% in the second half. At its size, Microgen is hardly an IT industry bellwether. Nonetheless, it joins a growing list of smaller vendors whose results suggest they are not suffering from any downturn in spending in the troubled finance sector. We still expect conditions to get tougher for many in the months ahead, but for now - on both the customer and supplier sides of the equation in the UK - it's hard to find evidence that IT investment decisions are yet being affected negatively by the sub-prime mess and its fallout.

Phil Codling

5%
58p
xploite

XPLOITE: BOUGHT, BUILT AND READY FOR SALE ALREADY?

Xploite, the mid-market IT services buy-and-build specialist, released its results for the year ended 31 October 2007. Revenue was up 5.7% to £31.2m, with operating losses of £877k compared with £7.5m last year.

Comment: Given that Xploite sold all its portfolio of acquired IT businesses at the end of 2006, and then bought a whole new set during 2007, year-on-year comparisons of financial performance are pretty useless here. What the company has revealed, however, is that billing for its managed services (99% of continuing operations) grew by 40% and new contract signings by 51% in the last 12 months. That's a pretty good performance given the amount of transition the business has been through in 2007.

So what has Xploite built now? During 2007 it spent £18.4m on storage and managed services companies Posetiv, Anix and Red Squared, consolidating them under the Anix brand. In October it also picked up network monitoring technology company Itheon for a maximum consideration of £6.8m. The strategy is to target mid-sized customers with managed services and storage solutions through Anix. It will also sell Itheon software through Anix (as well as independently), while developing it into a software as a service (SaaS) offering for clients who want to monitor storage allocation.

And what of the future? Xploite is such a fast moving business that we wouldn't be surprised if its portfolio had switched around once again by next year. Indeed, the company has been in discussions since December that may lead to an offer for its businesses. Of course, Xploite's stated aim is to make money consolidating and then selling off its businesses, so it's not a case of "if", but "when".

Xploite is certainly not the only mid-market services provider looking for buyers. But we feel that the company's focus on hosted managed services, rather than a broader swathe of ICT services, makes it a bit more attractive than most. The mid-market definitely has a lot of potential for growth but if Xploite can sell its storage-focused managed services business for a profit within the next six months it will be a remarkable turnaround.

Samad Masood

0%
5p
MEDIASURFACE

MEDIASURFACE TUMBLES INTO LOSSES

Web content management specialist, Mediasurface, released its financial results for the year to end September 2007. Overall revenue increased 17% to £11.3m (or 5% organically). EBITDA loss (before FRS20 Share Option charges) was £1.3m versus a profit of almost £1m in the previous year.

Alongside the preliminary results, the company announced a proposed placing of 15 million new ordinary shares to raise approximately £750k and augment the company's working capital.

Comment: News of the £1.3m loss was first announced to the market back in October. At the time, shares were hit heavily and they have not recovered since (as of end February). So where have the losses come from? The firm spent £1m on investment in its Pepperio product but the results have not been positive. While Mediasurface has managed to establish a channel, sales have been disappointing. In addition, licence sales of the Morello product were hit by prolonged sales cycles following the launch of MOSS 2007 (Microsoft Office SharePoint Server). Moreover, the company has seen the postponement of sales as firms in the financial services market tighten their belts in response to the credit crunch. With 25% of revenues derived from this sector, Mediasurface is vulnerable to any significant changes in sentiment.

From what we have seen for the current financial year, business performance has not changed significantly. Going forward, the strategy is to re-invest earnings to buttress growth and fund the firm's acquisition strategy. While we support this strategy, it does mean no dividend for shareholders (again). Difficult times are ahead, but Mediasurface still remains confident that its "prospects are much improved", following a cost-cutting exercise.

Kate Hanaghan

2%
50p
Spring

SPRING RESULTS UNDERLINE THE BENEFITS OF DISCIPLINE

Total revenue grew from £407.3m to £432.8m in 2007 at staffing provider Spring Group. If we strip out the effect of the Glotel acquisition in July revenue was down by 6% to £384.7m. Spring's gross profit (or net fee income as staff agencies prefer to call it) rose by 23% to £56.1m, meaning the gross profit margin improved from 11.2% to 13.0%. PBT was up 31% at £7.1m.

Comment: These results confirm the solid performance signalled in January's trading statement. We're not too worried about the drop in like-for-like revenue, as Spring has deliberately exited around £60m of low margin business over the past couple of years. Such discipline has clearly helped the key profit indicators in the business.

In addition to continuing the contract-exit policy introduced by his predecessor, CEO Peter Searle has clearly drawn on his years of experience as a salesman in the staffing business and brought a new drive to the sales teams at Spring. He talks of a more disciplined, 'hard sales culture' at the firm, which, in the street-fighting world of staffing, is of course what's needed. The emphasis on sales can be seen in the rapid change in staff ratios. In December 2006, Spring had roughly 425 sales people and 250 support staff. Just one year later, those numbers were 680 and 260 respectively, following the integration of Glotel.

Searle claims he hasn't yet seen signs of customers lowering their staffing requirements. So there's no bad news here for the staffing market, or indeed for the IT industry more generally. As a large provider of IT personnel with some major financial services clients (Barclays, Prudential, RBS etc - albeit most of them outside capital markets), Spring might be expected to feel the brunt of any downturn before most vendors. Nonetheless, Spring is right to continue to diversify its geographic base and to reduce its reliance on the UK market. Whether or not we are in for a tougher year (and all the indicators still say we are), it's sensible for a firm of Spring's scale and growing operational/financial stability to push into those markets where opportunities for growth remain higher. Not surprisingly, of its five new office openings scheduled for 2008, four are in Asia-Pac.

Phil Codling

-5%
109p

IBS FULL YEAR HIGHLIGHTS TOUGHER CONDITIONS IN LOCAL GOVERNMENT

Local government and social housing software and services provider IBS Opensystems reported its full year 2007 results. The company made a profit before tax of £7.6m, up 6% on 2006, on revenue that grew 6% to £21m.

Comment: This is a modest rise in revenue from IBS, which admitted its results have been achieved "in spite of some slowing in the fourth quarter in local authorities' IT spending and of the additional costs associated with the change of CEO".

IBS sits in a relative sweet spot in the local government and housing market sectors with its software applications OpenHousing, OpenFinancials, OpenRevenues and OpenContractor, which target individual departments within local authority and social housing organisations.

Indeed the company has continued to see success winning new business, and expanding its reach into existing accounts, with 70% of customers buying further products such as its OpenMobile and OpenExec modules. However, it is on the new contract wins that things look more challenging. IBS won a healthy 18 new contracts during the year, although the majority of success has been with housing associations where it has signed new deals with the likes of Sandwell Homes, United Welsh HA, Villages HA, Cadwyn HA, ISOS Group and Aragon HA. Among the new local authority wins are High Peak Borough Council, Wycombe District Council and Bridgend Council.

IBS is in a healthy position thanks to its niche focus and well respected product set. However, we expect further pressure on its local government business in 2008 as budgets become even tighter and system enhancements become less of a necessity. Fortunately for IBS its social housing business continues to do well, and the signs are that this will continue. This should help counterbalance any shortfalls from local government, and ensure IBS continues delivering satisfactory organic growth.

John O'Brien

-4%
55p

MORSE MOVES STEADILY TOWARDS MARGIN TARGET

Morse, the consulting-focused services and resale firm, announced revenues for the six month to end December 2007 of £123.8m (down from £131.6m in the comparable period in 2006). Operating profit from continuing operations increased 10% to £6.9 million (before amortisation). Operating margin from continuing operations increased 0.8% points to 5.6% (2006: 4.8%).

Comment: Morse has a clear, rational strategy and is executing well against this. Over the years, like several resellers, we have seen it move further and further away from its roots in resale, with acquisition and disposal playing a central role.

What we like particularly about the Morse strategy is the way it is aligning itself around specific verticals (namely Financial Services, Media-Comms, Commercial and Public Sector). It's building out focused expertise in each of these areas - giving it the specific sector knowledge it will need to create and deepen customer relationships in consulting work.

Morse's medium-term aim is an operating margin of 7.2%. This doesn't seem an unreasonable target to us, given its progress to date and margin levels more generally in the IT services industry (where few firms can yet match the double digit returns of, say, Accenture). While Morse's financial services business is its most profitable vertical (9.4% operating margin pre-central costs), it clearly needs to make improvements in the public sector area, which delivered a much more modest 2.7%.

Morse has managed to keep a pretty tight rein on costs across the board. We would hope to see additional opportunities arise in its Media-Comms practice, which has recently gained a new head. In addition, Morse is seeing an increasing number of advisory-led consultancy projects in its Commercial Sector and is developing a particular specialisation in retail.

The deeper Morse's expertise becomes and the more experience it gets under its belt, the more opportunities there will be to increase profitability. And of course, it needs - in parallel - to grow the overall topline, reversing the trend of the past few years where revenue has dropped off as Morse has made strategic disposals.

Kate Hanaghan

5%
274p
Xchanging

STRONG MAIDEN PERFORMANCE FOR XCHANGING

BPO vendor Xchanging grew its revenue by 19% to £468m in 2007. Operating profit grew 31% to £31.7m, producing a 6.8% margin. Revenue from horizontal BPO services grew 22.5% to £215.8m; from Insurance services revenue grew 21.4% to £164.7m; and from the financial markets it was up by 7% to £102.9m.

Comment: Xchanging has had a very strong first year as a listed company (on the LSE). Growth has come across the board and revenue & profit growth performance are in line with the (much larger) market leader Capita. That is important because it suggests that Xchanging's business has matured enough to avoid most of the pitfalls of BPO, including a lumpy pipeline and very heavy front-end costs in contracts.

And like Capita, it is the mix of business (including large and small relationships, and transactional as well as knowledge-driven or decision-based services) that has helped balance the books. This sort of balance within a business is the BPO holy-grail, and in our view only Capita and Xchanging have reached such a state in the UK.

But we have even higher expectations for Xchanging in the future. This is because it combines internal business balance with a pan-European outlook - something that no other pure-play BPO (not even Capita) has managed to achieve. And while the UK remains a source of growth for Xchanging, its acquisition of assets in Germany in 2007 (through a contract with Allianz Global Investors), and in France in January 2008 (procurement services firm Mercuris) provide it with a growing footprint on the continent. This footprint will make Xchanging an increasingly tough competitor for both IT and BPO players in the horizontal and financial services BPO markets going forward.

Samad Masood

-13%
93p
logica

LOGICA CONFIRMS UNIMPRESSIVE 2007 RESULTS

In Logica's 2007 results, pro forma revenue was up 3% to £3.07bn. The operating margin was 6.8%, compared to 8.4% in 2006. CEO Andy Green says that "everyone at Logica understands the need to improve on our 2007 performance". We will have to wait until May to hear the plan that comes out of his current strategic review of the company.

Comment: These are the first results since Green took over the helm and the first under the reinstated Logica name. It's been clear for some time that Logica's 2007 performance would not be impressive, and these numbers are generally no better or worse than expected.

The part of the business - UK commercial - largely responsible for the low growth and partly responsible for the margin drop is also no surprise. Worringly, the UK saw major revenue falls in not just an isolated part of its non-government interests, but in financial services (-29%), industry, distribution and transport (-35%) and telecoms and media (-34%). This needs urgent attention, although we acknowledge that a couple of recent announcements of UK mid-sized deals (BAA and Taylor Wimpey) are (albeit small and isolated) signs that business can do better.

We agree with Green's stated priorities for his strategic review, namely "increasing customer focus, accelerating integration across the group, building on the current global delivery capability and establishing a more competitive cost structure". We don't under estimate his challenge in putting in place whatever plan he comes up, however, given the year the firm has just experienced.

Amid the uninspiring overall performance, four of Logica's five principal geographic/country markets in Europe showed growth (topped by France at 11%). The largest of these, the Nordic operation, boosted margins from 8.6% to 9.2%. In other words, areas of Logica's business are performing well. Indeed, one of the opportunities available to Green is to take examples of best practice across the group and disseminate them more broadly. After all, that's one of the ways to get the most out of acquisitions.

Phil Codling

19%
288p

SDL CONFIDENT AS EARNINGS BEAT EXPECTATIONS

SDL announced its full-year results for 2007. Profits before tax and amortisation of intangible assets were up 39% at £17.0m, with earnings per share of 13.07 pence. Revenues were £117.4m, a 24% rise, with 8% organic growth.

Comment: As expected, these results were better than analysts' original estimates, and indicate that the company's operational and acquisition strategy is paying off.

SDL has made two significant acquisitions this year. The first was web content management specialist Tridion for £47m, with the second acquisition Passolo, a German software localisation specialist, bought for a relatively negligible €2m. While back in May 2007 we considered the purchase price of Tridion to be 'handsome', the investment appears to have paid off with a reported triple-digit growth in the US, and more than 50% of licence revenues coming from new customers.

SDL as a whole has also gained an impressive range of new customers across its portfolio of products and services including TomTom, Deloitte and Fujitsu-Siemens.

In his statement Chairman and CEO Mark Lancaster stated that the company sees Asian markets as important, and believes that SDL will be protected from some of the current volatility in world economics as approximately 70% of revenues come from its localisation services. The logic here is that as companies experience problems in home markets they will look to global markets to make up for shortfalls in revenues, and this of course requires documentation and web communication in local languages.

Latterly, although not yet reflected in the 2007 figures, SDL has expanded its range of offerings through the acquisition of software as a service provider Idiom and its WorldServer Globalisation Management System (GMS). Given its experience in 2007, SDL will be hoping that, as with the purchase of Tridion, this will bring a steady stream of new revenues throughout 2008.

Mike Davis

11%
225p

STHREE STILL SHOWING AGGRESSIVE AND ROBUST GROWTH

Staffing firm SThree released its results for the 12 months to December 2007. Overall revenue grew 32.9% to £522.7m, while gross margin improved from 34.5% to 34.9%. Operating margin declined slightly from 10.4% to 10.0% - impacted by investments made during the financial year. The UK ICT business delivered "very healthy growth".

Comment: The SThree model is an excellent example of how a staffing firm should be run. The company's strategy is bold yet eminently sensible. It is a federation of brands, each with strong recognition in its given segment. The company's heritage is in the UK ICT market, where it continued to perform well during 2007. Despite the maturity of this market, SThree grew gross profit by 24%. This is a reflection of the company's focus on niche markets and the fact that it's been able to increase average fee rates for permanent placements and day rates for contractors. Unlike many other IT staffing firms, SThree has steered clear of the high volume/low margin managed services segment in the IT market, where suppliers have been relentlessly beaten down on price.

We also continue to be impressed by the internal workings of the firm. In 2007, it made substantial investment: increasing sales staff by 40%, opening numerous new international offices and rolling-out new ERP and CRM systems. Meanwhile, organic growth has continued apace; signs that SThree is more than capable of preparing for future growth while maintaining current growth.

SThree's geographical expansion strategy and plan to move beyond ICT (non-ICT business now accounts for 47% of gross profit) has proved to be very successful. We don't foresee why this fortune should change, given that the model has proved to be very workable for the past few years. Of course, the spanner in the works could very well be the changing economic environment. But even against this backdrop, SThree is confident it will still be able to grow - partly due to the fact that it is spread across various verticals in numerous countries, which should provide a cushioning effect.

Kate Hanaghan

Mergers and Acquisitions – February 2008

Buyer	SDL
Seller	Idiom
Seller Description	Translation software (US)
Acquiring	100%
Price	£13.6m
Comment	Idiom provides the WorldServer Globalization Management System (GMS), which overlaps in functionality with SDL's Global Information Management (GIM) solutions. Both are intended to simplify, accelerate and improve the processes organisations undertake when operating in multiple languages across different geographies. Both GMS and GIM aid the creation and translation of documentation, and provide processes and controls to ensure consistency and support compliance. Idiom will be run as a wholly-owned subsidiary of SDL, with the current CEO Mike Iacobucci remaining in his position. SDL states that it is going to support WorldServer, but it is looking in the future to create a single solution that both sets of existing customers can migrate to. This will be a new step for SDL as WorldServer is also available either as an On-premise deployment or as Software as a Service (SaaS). The latter could be an attractive proposition to existing SDL customers and also enable it to address the increasing number of smaller organisations that are now operating internationally. Ovum believes that this is a good deal for both parties. The companies' offerings are complementary, particularly with the integration of the Web Content Management functionality that SDL acquired in 2007 with the purchase of Tridion. Idiom also brings in more than 60 respected customers including Oracle, Motorola, eBay, Baxter Healthcare and Adobe, along with 30 partner organisations.

Buyer	Trend Micro
Seller	Identum
Seller Description	Spun out of Bristol University encrypted email software and services
Acquiring	100%
Price	n/a
Comment	The acquired firm will trade under the name Trend Micro (Bristol) Ltd. Identum's business model is based on selling annual licences on a 'per email address' basis. It only charges business users as the consumer market does not yet realise the value of this service. Businesses can therefore communicate with their customers without the customer incurring any expense. Trend Micro pursues a policy of only acquiring companies that have interesting technology that can complement Trend's existing capability. This is an interesting and smart move that fits this policy. The purchase by Trend Micro will reassure customers about the long term viability of the business. This is an important factor where emails may be stored for many years for contractual or regulatory purposes. Trend has not yet got into the email encryption business, although it is active in blocking email carried malware. Trend is planning to build a business in the growing data leakage prevention area where Identum can play a key role. Trend Micro also hopes that this acquisition will open up a research relationship with Bristol University.

Mergers and Acquisitions – February 2008

Buyer	Sun Microsystems
Seller	innotek
Seller Description	German-based producer of desktop virtualisation technology
Acquiring	100%
Price	n/a
Comment	Rich Green, executive vice president, Sun Software, sees VirtualBox as 'the perfect complement to [the] recently announced Sun xVM Server product'. xVM is for servers and VirtualBox is for laptop and desktop PCs so that makes sense. VirtualBox allows users to switch between different operating systems running side-by-side on a PC and we can see it having a use for software developers, clients in large enterprises with legacy applications, and power users who want to take advantage of applications not available on their base operating system of choice. It's also open source and Sun is very committed to its open source strategy. That strategy is very clearly aimed at increasing the number of potential customers Sun is able to touch. Open source downloads attract developers and CIOs looking for lower-cost software; developers initiate 'skunk works' projects that may or may not be taken up big-time by enterprises; enterprises that adopt open source platforms and the applications developed on them buy support services and, Sun hopes, hardware to run the applications. That's what makes Sun's pending acquisition of MySQL such a good move. But beyond developers and workstation users, where's the real market for VirtualBox and how will Sun make money out of it? Sure, innotek claims 4m downloads to date, but that figure includes every geek and his dog looking for free software. And Sun isn't what you'd call a major desktop PC player: it doesn't sell desktop PCs and laptops; OpenSolaris isn't exactly a key desktop operating system; and we're not sure where the services opportunity lies with a product that seems to have its most obvious audience among developers. To cap it all, Sun already has a virtualised thin-client desktop and laptop environment that runs Windows and Linux applications and already fits very well with Sun's server and enterprise systems focus - Sun Ray. So why buy innotek? Perhaps it's for the skills and experience in PC virtualisation that the company obviously has? However, VirtualBox is a hosted virtual environment rather than the 'bare metal' Xen-based environment that forms the core of xVM, so there's no direct relationship there. We believe there's a place for virtualised desktops in the enterprise, but for reasons of performance, security and robustness, it's more likely to be with a bare-metal hypervisor rather than a hosted environment. Maybe Sun is getting innotek at a price which makes access to the software developers and paying enterprise customers that innotek already has look like good value? No details of the terms of the deal have been disclosed, so we can't make a judgment as yet. Or maybe Sun just wants to cement its position as the leading open source software player? Vendors have been known to make acquisitions for less and we're not sure of the business case for a product that seems primarily targeted at developers. But at least it'll keep developers happy and that's who Sun is out to please.

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

	SCS Cat.	Share Price 29-Feb-08	Capitalisation 29-Feb-08	Historic P/E	PSR Ratio Cap./Rev.	S/ITS Index 29-Feb-08	Share price move since 31-Jan-08	Share price % move in 2008
@UK plc	SP	0.04	1.51	NA	1.04	61.07	-33%	-50%
Alphameric	SP	0.23	50.72	NA	0.77	105.50	-8%	-26%
Alterian	SP	1.25	54.09	22.5	3.86	625.00	0%	8%
Anite Group	CS	0.43	147.79	8.3	0.86	251.46	2%	-19%
Ascribe	SP	0.26	30.86	NA	5.77	1,381.58	-13%	-15%
Atelis plc	SP	0.01	0.28	NA	NA	52.33	-36%	-40%
Atlantic Global	SP	0.16	3.55	68.3	1.66	542.37	23%	14%
Autonomy Corporation	SP	9.46	2014.81	65.2	15.70	288.77	0%	7%
Aveva Group	SP	9.87	666.01	37.5	10.10	4,935.00	-1%	2%
Axon Group	CS	5.60	352.85	22.7	2.57	3,200.00	14%	6%
Belgravium Technologies Plc.	SP	0.11	10.59	9.8	2.03	733.33	22%	10%
Bond International	SP	1.19	39.00	8.9	2.27	1,830.77	-23%	-27%
Brady	SP	0.45	12.18	25.3	5.01	555.56	2%	2%
Business Control Solutions	CS	0.03	8.48	NA	1.06	480.00	50%	0%
Business Systems	CS	0.15	12.21	NA	0.35	126.05	25%	25%
Cantono	CS	0.04	11.31	NA	1.57	709.09	-11%	-36%
Capita Group	CS	6.56	3995.77	28.8	2.35	177,330.08	2%	-6%
Centrom	CS	0.01	1.46	NA	0.23	166.67	0%	0%
Charteris	CS	0.20	8.60	29.8	0.97	222.22	-5%	-9%
Chelford Group	CS	1.70	12.14	165.9	0.65	295.66	6%	21%
Civica	CS	1.98	124.82	11.1	1.18	1,131.13	1%	2%
Clarity Commerce	SP	0.27	8.49	NA	0.64	216.00	0%	0%
Clinical Computing	SP	0.03	3.19	NA	1.93	24.19	0%	0%
CODA Plc.	SP	2.05	157.41	20.3	2.94	1,265.43	11%	17%
Computacenter	R	1.80	279.67	14.3	0.12	268.66	8%	-5%
Corero	SP	0.06	2.85	28.5	0.45	80.00	0%	0%
Dealogic	SP	1.58	106.42	10.4	2.65	686.95	-3%	-10%
Delcam	SP	3.28	20.22	8.8	0.84	1,261.54	22%	38%
Detica	CS	2.49	288.16	25.0	1.85	3,112.50	13%	13%
Dicom Group	R	1.89	156.18	16.1	0.97	579.40	24%	8%
Dillistone Group	SP	1.78	9.59	NA	NA	1,300.37	3%	-16%
Dimension Data	R	0.52	805.20	18.5	0.58	92.36	-2%	-16%
DRS Data & Research	SP	0.24	7.68	46.1	0.62	218.18	0%	0%
eg Solutions	SP	0.12	1.72	NA	0.32	81.63	-8%	-50%
ELCOM	CS	0.02	8.28	NA	23.91	400.00	0%	0%
Electronic Data Processing	SP	0.58	14.10	29.4	2.02	1,775.87	0%	-2%
FDM Group	A	1.12	25.89	12.4	0.58	1,374.23	0%	-10%
Ffastfill	SP	0.08	28.69	NA	10.82	66.67	14%	14%
Fidessa Group Plc.	SP	9.26	320.84	NA	3.39	5,447.06	30%	12%
Financial Objects	CS	0.45	20.00	7.3	1.01	195.65	-4%	-6%
Flomerics Group	SP	0.57	12.22	13.9	0.86	2,192.31	19%	4%
Focus Solutions Group	CS	0.34	10.02	6.0	1.01	174.36	26%	-3%
GB Group	CS	0.23	19.42	NA	1.29	148.35	0%	-8%
Gladstone	SP	0.20	10.30	7.6	1.35	500.00	5%	5%
Gresham Computing	CS	0.61	32.24	73.9	2.31	655.91	-9%	9%
Group NBT	CS	2.28	57.20	18.6	6.81	1,140.00	8%	12%
Harvey Nash Group	A	0.52	37.67	8.0	0.15	297.14	0%	-4%
Highams Systems Services	A	0.04	1.36	NA	0.10	111.11	-20%	-20%
Horizon Technology	CS	0.31	26.14	6.0	0.14	114.01	15%	-58%
IBS OPENSystems	CS	1.09	42.29	8.3	2.71	714.75	-5%	-34%
I S Solutions	CS	0.23	5.64	19.7	1.02	857.10	-5%	5%
IDOX	SP	0.11	38.47	33.5	2.72	14.12	0%	-8%
ILT Solutions	SP	0.02	1.78	NA	0.97	22.35	-24%	-27%
Imaginatik	SP	0.05	6.27	NA	4.48	632.94	27%	39%
In Technology	CS	0.29	40.59	NA	0.22	1,160.00	4%	-9%
InterQuest Group	A	0.87	25.97	NA	0.94	1,504.35	0%	1%
Innovation Group	SP	0.32	207.70	26.2	3.40	139.74	7%	-6%
Intelligent Environments	SP	0.08	13.44	23.1	4.31	85.11	0%	-11%
Intercede Group	SP	0.34	12.09	NA	6.69	566.67	36%	-3%
Invu	SP	0.24	26.30	12.3	4.05	2,526.29	0%	-20%

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

	SCS Cat.	Share Price 29-Feb-08	Capitalisation 29-Feb-08	Historic P/E	PSR Ratio Cap./Rev.	S/ITS Index 29-Feb-08	Share price move since 31-Jan-08	Share price % move in 2008
K3 Business Technology	SP	1.39	32.95	13.3	1.21	1,062.05	-6%	-14%
Kewill	SP	0.82	66.84	45.4	1.61	1,620.55	0%	0%
Knowledge Technology Solutions	SP	0.01	2.69	NA	2.15	200.00	0%	0%
LogicaCMG	CS	0.93	1359.39	13.8	0.51	1,273.62	-13%	-21%
Macro 4	SP	1.42	31.34	4.9	0.95	572.58	0%	-3%
Manpower Software	SP	0.57	25.25	25.7	5.83	587.63	-2%	6%
Maxima Holdings	CS	1.53	38.00	8.0	1.19	1,112.73	1%	-38%
Mediasurface	SP	0.05	5.37	NA	0.56	367.65	0%	0%
Micro Focus	SP	2.01	403.23	17.3	5.33	0.00	-8%	-21%
Microgen	CS	0.45	46.30	16.9	1.23	192.31	0%	-4%
Minorplanet Systems	SP	0.23	7.41	5.4	0.31	469.68	0%	-8%
Misys	SP	1.50	752.68	28.9	1.34	1,866.18	-13%	-19%
Monitise	CS	0.10	24.82	NA	0.05	65.00	-36%	-29%
Morse	R	0.55	70.29	3.9	0.19	220.00	-4%	-18%
NCC Group	CS	3.82	128.15	24.1	5.05	2,287.43	8%	1%
Ncipher	SP	2.11	35.46	NA	2.04	844.00	0%	-3%
Netcall	SP	0.22	14.70	19.9	4.44	444.45	0%	0%
Netstore	CS	0.24	40.56	11.0	2.03	160.00	9%	-4%
Networkers International	A	0.28	25.33	11.6	1.33	875.00	-3%	-10%
Northgate Information Solutions	CS	0.95	550.44	15.6	1.57	365.38	1%	3%
NSB Retail Systems	SP	0.38	142.74	16.1	2.95	3,304.35	0%	0%
OneclickHR	SP	0.04	5.58	NA	0.94	100.00	0%	0%
OPD Group	A	1.77	46.88	5.6	1.07	804.54	21%	-6%
Parity	A	0.50	18.82	NA	0.12	462.96	0%	-9%
Patsystems	SP	0.28	48.81	23.7	3.19	261.68	17%	4%
Phoenix IT	CS	2.63	196.53	11.9	1.55	974.07	4%	-18%
Pilat Media Global	SP	0.39	22.79	9.5	1.75	1,950.00	-3%	-7%
Portrait Software	CS	0.11	10.67	27.6	0.74	72.22	0%	-21%
Proactis Holdings	SP	0.52	15.85	NA	8.34	1,061.86	-10%	-24%
Prologic	CS	0.87	8.65	10.1	1.25	1,048.19	-2%	-2%
QinetiQ Group	CS	1.98	1309.39	19.9	1.14	902.05	5%	1%
Qonnectis	CS	0.02	4.65	NA	42.49	533.33	0%	0%
RM	SP	2.18	202.15	21.4	0.75	6,228.57	4%	-1%
Sage Group	SP	1.98	2575.96	16.8	22.21	76,153.85	-7%	-14%
Sanderson Group	SP	0.38	16.23	12.5	1.01	760.00	-7%	-19%
SciSys	CS	0.31	8.76	6.3	0.34	240.31	-6%	-33%
SDL	CS	2.88	216.13	22.5	2.28	1,920.00	19%	5%
Serpower Technologies	SP	0.14	12.50	NA	1.57	140.00	0%	0%
SiRViS IT plc	CS	1.58	5.21	7.9	0.65	1,373.91	-9%	-9%
smartFOCUS plc	SP	0.11	9.74	17.8	1.06	1,189.19	0%	-8%
Sopheon	SP	0.15	22.20	NA	3.70	215.83	15%	7%
Spring Group	A	0.50	82.09	13.4	0.20	555.56	2%	2%
SSP Holdings	SP	1.25	102.88	11.9	5.75	1,179.25	-1%	-9%
StatPro Group	SP	0.86	46.59	14.9	3.67	1,075.00	0%	-1%
SThree Group plc	A	2.25	302.03	9.4	1.25	1,092.23	11%	1%
Stilo International	SP	0.01	1.31	NA	0.57	20.00	0%	0%
Strategic Thought	CS	0.34	8.82	NA	0.77	247.23	-8%	-17%
Tadpole Technology	SP	0.02	6.09	NA	1.26	48.28	-33%	-33%
Tikit Group	CS	2.36	30.15	14.4	1.28	2,052.17	0%	-10%
Total Systems	SP	0.33	3.47	NA	1.00	622.64	32%	40%
Touchstone Group	SP	1.15	14.01	7.1	0.46	1,095.24	3%	-17%
Triad Group	CS	0.26	3.94	NA	0.09	192.59	-4%	4%
Ultima Networks	R	0.01	2.66	33.3	1.40	24.39	0%	0%
Ultrasis Group	SP	0.01	17.15	NA	13.80	20.41	0%	0%
Universe Group	SP	0.06	6.60	NA	0.15	266.67	0%	0%
Vega Group	CS	2.76	56.08	15.5	0.87	2,262.30	0%	1%
Vero Software Plc.	SP	0.19	7.17	NA	0.74	385.00	13%	22%
Xchanging	CS	2.74	588.70	28.3	NA	896.89	5%	-2%
Xpertise Group	CS	1.17	6.56	4.9	0.41	4,680.00	2%	3%
XploITe	CS	0.58	22.92	25.9	0.78	1,784.62	5%	-2%

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

S/ITS STOCKS GET A BREATHER FROM THE DECLINE

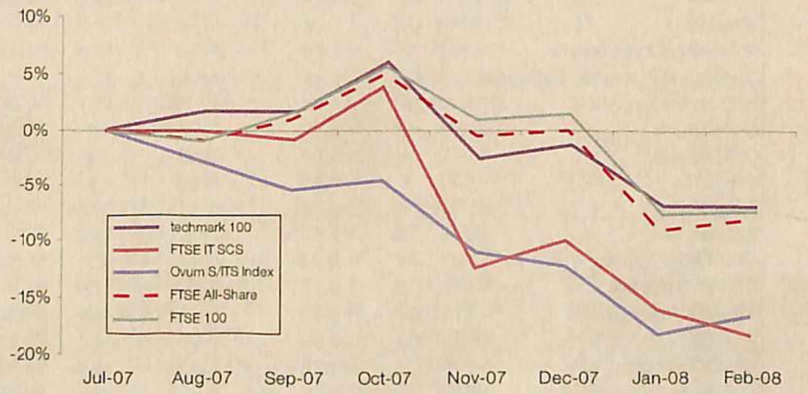
Samad Masood
Analyst

UK S/ITS stocks did not suffer too badly in February, considering the massive falls we've recorded over the past few months, and in the wake of the sub-prime mortgage crisis in the US. Ovum's S/ITS index, which is unweighted and comprises a higher proportion of smaller firms than other indices, had actually risen by 1.74% by the end of February. And the techMark 100 didn't suffer too badly, falling by only 0.1%. The FTSE IT SCS fell by 2.61% however.

As we can see from the chart below, the IT indices (except techMARK) have suffered significantly more than non-IT indices since October 2007, when the effects of the downturn really started to take hold in the UK. Indeed, the FTSE IT SCS is now in "bear" territory, having fallen more than 20% since its high in October. Only the techMARK did not fall as fast as the others - but given that most of its constituents are not actual technology companies, it is understandable.

Nonetheless, UK S/ITS players didn't have too tough a time of it in February in comparison to the previous three months. Resellers, usually the poorest performing category, actually rose by 5.3% - the highest of all categories of S/ITS player. This rise was primarily due to the positive guidance from Dicom Group (up 24% to £1.89), which was announced alongside a thorough restructuring plan designed by new CEO Reynolds Bish. Excluding Dicom, resellers' share prices would have remained flat on average.

Performance of selected UK indices from Jul-07 to Feb-08 (values taken on last day of month)



Source: Ovum

The next best performing group was in the services space, where average share prices rose by 2.5%. This category includes a wide range of players from systems integrators to BPO players, such as Capita and Xchanging. Outsourcing services providers are expected to benefit from the economic downturn, because outsourcing is a cost reduction mechanism.

But perhaps more tellingly, software vendors and staffing agencies were much flatter in their average share performance, rising by only 1.0% and 1.2% respectively. Both these segments of the market can be seen as bellwethers for the state of new investment into IT systems and projects. And while neither segment has produced any worrying signs of the effects of the downturn, clearly caution around the economy and its effects on IT spending have affected share price growth.

While the performance of shares in February reveals that there has been a slowing in the decline in stock prices since January, there is certainly not enough evidence to support the possibility of the end of the downturn.