

**OneClickHR# (OCR)**  
**Software and Services / Aim**

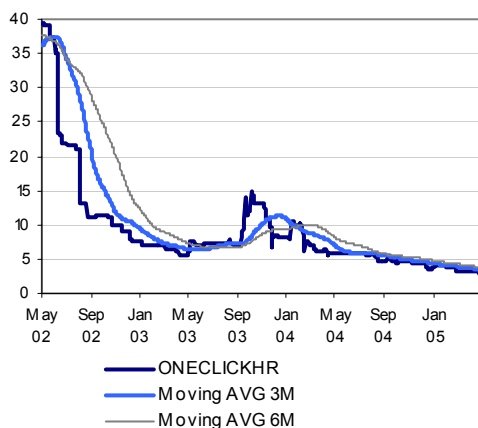
Year	Sales	EBITDA	Pre-Tax	Tax**	EPS	DPS	EV / Sales	EV / EBITDA	PER	Yield	FCF Yield
31-Dec	£m	£m	£m	(%)	(p)	(p)	(x)	(x)	(x)	(%)	(%)*
2003	4.8	-0.5	(0.9)	0%	(1.45)	0.0	1.10	-9.9	(2.2)	0.0%	-17.5%
2004	4.8	-1.5	(1.7)	0%	(1.25)	0.0	0.77	-2.5	(2.6)	0.0%	-30.7%
2005E	6.3	0.4	0.2	0%	0.14	0.0	0.65	11.6	22.5	0.0%	-11.2%
2006E	7.3	0.7	0.5	0%	0.33	0.0	0.55	6.1	9.7	0.0%	-0.2%

\* Operating cashflow less finance costs, tax and maintenance capex expressed as a % of the market capitalisation

\*\* The group has £11m of offsettable tax losses: R&D tax credits will continue to result in positive cash inflow from taxation

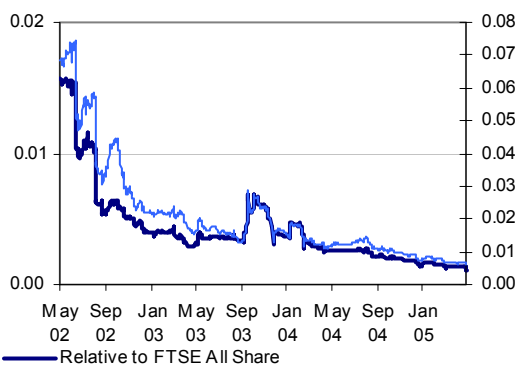
Source: Company Accounts, KBC Peel Hunt estimates

**Recent Price** 3.5p  
**Market Cap** £5.2m  
**No. of Shares** 148.76



----- %+/- Absolute -----

	1 Month	3 Month	12 Month
Price	-15	-33	-52



----- %+/- Relative -----

	1 Month	3 Month	12 Month
Rel FT All	-14	-32	-56
Rel to sector	-9	-29	-50

Source: Perfect information

**9 May 2005**  
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The positive news from 2004 that sales of HR.Net started strongly (following the product's launch in September) has been dampened by the disappointment that revenues from other client server products declined faster than expected. In addition to keeping costs under control, the challenge is now to grow HR.Net sales faster than client server products decline. The early evidence in 2005 is that this is being achieved, and we forecast that the profitable first quarter can be maintained over the year, but risks associated with the sales team adapting to a new market and large contracts resulting in uneven revenues should be considered.

**2004 Results**

- Revenue was flat at £4.8m, but licence sales were up to £1.62m (from £1.37m in 2003), as the £0.21m (15%) decline in client server products was exceeded by the £0.46m contribution from the ten HR.Net contract wins. Services revenues were down, however, as preferential prices were given to these early HR.Net adopters.
- Total costs (excluding amortisation) increased from £5.3m to £6.2m, largely as the costs of hiring additional developers and a team of 14 professional HR.Net consultants exceeded savings from the closure of 2 offices (Salford and Edgware) and transferring of support staff to India.

**Outlook**

- HR.net:** 2005 has started well and the quoted sales pipeline has doubled from £2m in January to £4m today. These trends, aided by first mover advantage (i.e. only .Net product in the market at present) and expected to be bolstered by channel partners, prompt us to expect a total contribution (including services and support) from HR.Net of £3.6m this year, increasing to £5.3m in 2006.
- Client Server products:** we have cautiously budgeted for a drop off in licence sales from £1.2m to £0.9m this year, and £0.5m next.
- Recurring maintenance streams,** currently £2.2m, should increase, with 90% retention on maintenance contracts added to by new HR.Net customers, and steady VHR service revenues.
- Gross margins** should improve from 34% to 50% as the HR.Net service team becomes profitable after the concessions in 2004.
- Administration expenses** should be lower in 2005 due to some further outsourcing to India and substantial property savings.
- Cashflow** will be impeded this year by a £0.75m working capital requirement, as HR.Net customers demand tougher terms of trade.
- Net Cash balance** was £1.2m in December: we expect it to trough at £0.6m in June, ending 2005 at £0.7m.

## Results and Forecasts

Year End : December	2003	2004	-----2005E-----			2006E
Figures in £m	Yr.	Yr.	1	2	Yr.	Yr.
<b>Turnover</b>	<b>4.8</b>	<b>4.8</b>	<b>3.0</b>	<b>3.3</b>	<b>6.3</b>	<b>7.3</b>
%+/-	2.3%	-0.7%			32.2%	15.9%
<b>Gross Profit</b>	<b>2.5</b>	<b>1.6</b>	<b>1.4</b>	<b>1.7</b>	<b>3.1</b>	<b>3.9</b>
Gross Margin	52.7%	34.4%	46.7%	51.5%	49.2%	53.4%
Administrative Expenses	(3.9)	(3.4)	(1.5)	(1.5)	(3.0)	(3.5)
<b>EBITDA</b>	<b>(0.5)</b>	<b>(1.5)</b>	<b>(0.0)</b>	<b>0.4</b>	<b>0.4</b>	<b>0.7</b>
Margin (%)	-11.2%	-30.8%	-0.1%	10.8%	5.6%	9.0%
Depreciation	(0.3)	(0.2)	(0.1)	(0.1)	(0.2)	(0.2)
<b>Group EBITA</b>	<b>(0.8)</b>	<b>(1.7)</b>	<b>(0.1)</b>	<b>0.3</b>	<b>0.2</b>	<b>0.5</b>
Margin (%)	(17.1%)	(34.9%)	(3.3%)	7.9%	2.5%	6.3%
Net Interest	(0.1)	(0.0)	0.0	0.0	0.0	0.0
<b>Trading Pre-Tax Profit</b>	<b>(0.9)</b>	<b>(1.7)</b>	<b>(0.1)</b>	<b>0.3</b>	<b>0.2</b>	<b>0.5</b>
Margin (%)	-17.1%	-34.9%	-3.3%	7.9%	2.5%	6.3%
Amortisation	(0.5)	(0.1)	0.0	(0.1)	(0.1)	(0.1)
<b>Group Pre-Tax Profit</b>	<b>(1.4)</b>	<b>(1.7)</b>	<b>(0.1)</b>	<b>0.2</b>	<b>0.1</b>	<b>0.4</b>
Taxation	0.1	0.2	0.0	0.0	0.0	0.0
Tax Rate Trading %	12.9%	9.3%	0.0%	0.0%	0.0%	0.0%
<b>Earned for Ordinary</b>	<b>(1.3)</b>	<b>(1.6)</b>	<b>(0.1)</b>	<b>0.2</b>	<b>0.2</b>	<b>0.4</b>
Ordinary Dividends	0.0	0.0	0.0	0.0	0.0	0.0
<b>Retained Profit</b>	<b>(1.3)</b>	<b>(1.6)</b>	<b>(0.1)</b>	<b>0.2</b>	<b>0.2</b>	<b>0.4</b>

estimates

Source: Company Accounts, KBC Peel Hunt

## BALANCE SHEET DATA

Year End December	2003	2004	-----2005E-----		2006E
	Yr.	Yr.	H1	Yr.	Yr.
<b>Ord. Funds (£m)</b>					
Tangible	(0.4)	1.2	1.1	1.4	1.9
Goodwill - on balance sheet	0.1	0.0	0.0	(0.0)	(0.1)
- written off	0.0	0.0	0.0	0.0	0.0
<b>Funds. Inc Goodwill</b>	<b>(0.3)</b>	<b>1.2</b>	<b>1.1</b>	<b>1.4</b>	<b>1.8</b>
<b>Debt (net) (£m)</b>					
Over 1 Yr	(1.0)	0.0	0.0	0.0	0.0
Under 1 Yr (net)	0.5	1.2	0.6	0.7	0.8
<b>Total (Net)</b>	<b>(0.5)</b>	<b>1.2</b>	<b>0.6</b>	<b>0.7</b>	<b>0.8</b>

Source: Company Accounts, KBC Peel Hunt estimates

**CASHFLOW STATEMENT**

Year End Figures in £m	2004	-----2005E-----		2006E	2007E	
	Yr.	H1E	H2E	Yr.E	Yr.E	
Operating profit	(1.7)	(0.1)	0.2	0.1	0.4	1.7
Adjustments	0.0	0.0	0.0	0.0	0.0	0.0
Change in provisions	(0.0)	0.0	(0.0)	(0.0)	(0.0)	(0.0)
Depreciation	0.2	0.1	0.1	0.2	0.2	0.2
Amortisation	0.1	0.0	0.1	0.1	0.1	0.1
Working Capital	0.0	(0.5)	(0.3)	(0.8)	(0.5)	0.0
<b>Operating Cash Flow</b>	<b>(1.4)</b>	<b>(0.5)</b>	<b>0.1</b>	<b>(0.4)</b>	<b>0.1</b>	<b>1.9</b>
Financing	(0.0)	0.0	0.0	0.0	0.0	0.1
Other Income	0.0	0.0	0.0	0.0	0.0	0.0
Tax paid	0.2	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0
<b>Gross cash flow</b>	<b>(1.3)</b>	<b>(0.5)</b>	<b>0.2</b>	<b>(0.3)</b>	<b>0.2</b>	<b>2.0</b>
Ordinary Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net cash flow</b>	<b>(1.3)</b>	<b>(0.5)</b>	<b>0.2</b>	<b>(0.3)</b>	<b>0.2</b>	<b>2.0</b>
<b>INVESTMENT ACTIVITIES</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Purchase of tangible assets	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Purchase of businesses (net of cash)	0.0	0.0	0.0	0.0	0.0	0.0
<b>Gross Capital Expenditure</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>(0.1)</b>
Disposals of fixed assets	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net Capital Expenditure</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>(0.1)</b>
Investments (net)	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total Investment</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>(0.1)</b>
<b>CASH INFLOW / (OUTFLOW)</b>	<b>(1.4)</b>	<b>(0.6)</b>	<b>0.1</b>	<b>(0.4)</b>	<b>0.1</b>	<b>1.9</b>
<b>Financed By:</b>						
New equity (net of expenses)	2.2	0.0	0.0	0.0	0.0	0.0
Debt Over One Year	(0.2)	0.0	0.0	0.0	0.0	0.0
Finance Leases (net)	0.0	0.0	0.0	0.0	0.0	0.0
<b>External Financing</b>	<b>2.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Management of liquid resources	(0.5)	0.0	0.0	0.0	0.0	0.0
<b>Surplus / Deficit</b>	<b>(1.4)</b>	<b>(0.6)</b>	<b>0.1</b>	<b>(0.4)</b>	<b>0.1</b>	<b>1.9</b>
<b>Inc / (Dec) in Net Cash</b>	<b>0.1</b>	<b>(0.6)</b>	<b>0.1</b>	<b>(0.4)</b>	<b>0.1</b>	<b>1.9</b>

Source: Company Accounts, KBC Peel Hunt estimates

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