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OneClickHR

BUY

FORECASTS

Year to December	1999A	2000A	2001F	2002F
Sales (£m)	2.1	4.1	8.1	12.5
Sales growth (%)	101	98	98	56
EBITDA margin (%)	3	-61	-11	12
EBITDA (£m)	0.1	-2.5	-0.9	1.5
PBT (£m)	0.0	-2.7	-1.4	1.0
EPS (p)	0.0	-5.9	-2.8	2.0
Cash/(debt) (£m)	0.0	3.2	1.4	2.0

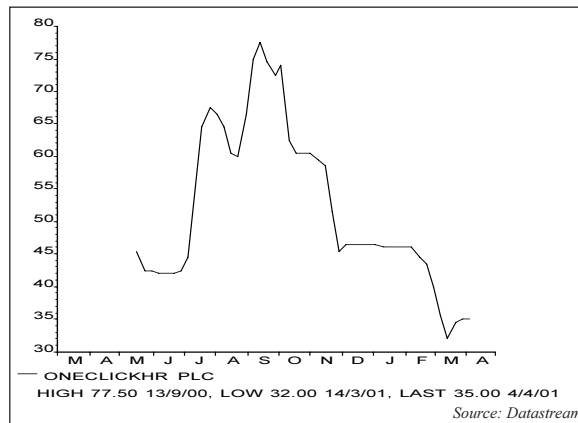
ACTIVITIES

OneClickHR designs, develops, markets and sells Human Resources (HR) software and maintains the UK's only web based HR reference and services site. Delivery of HR solutions is available both "out of the box" and via the web on an application service provider (ASP) basis. The majority of sales are currently from the 26 boxed products sold through both direct and indirect channels under the Vizual brand.

RATIOS

Year to December	1999A	2000A	2001F	2002F
EV/Sales (£m)	8.3	3.5	2.0	1.2
EV/EBITDA (x)	nm	nm	nm	10.2
P/E (x)	nm	nm	nm	17.4

SHARE PRICE PERFORMANCE



STOCK DATA

Price:	35p	12 mth High:	77p
Mkt Cap:	£17.5m	12 mth Low:	34p

Summary

OneClickHR, the human resources software company, looks set to continue its impressive sales growth and return from losses (incurred while expanding the business) to profits next year.

OneClickHR floated in May and recently released full year results in line with expectations (before write-off of software development costs). Turnover grew by 100% for the second year in succession. We expect strong sales growth again this year as the company (having localised its software for nine markets) continues its expansion into Europe via third party sales channels. Further growth will come from OneClickHR.com, its HR reference and ASP services site and through increased volume and price in the core UK business: acquisitions could also be a possibility. The AGM statement indicates that overheads would be reduced this year due to increased software development in India and the potential to run customer support from the sub-continent. This combined with the anticipated sales growth gives us confidence that OneClickHR will be profitable next year. We forecast PBT of £1.0m to December 2002, giving EPS of 2.0p and a P/E of 17.4; not expensive for a stock growing turnover at this rate on a controlled cost base. Once profitable OneClickHR could be a bid target for the likes of Sage or Peoplesoft. **BUY.**

Collins Stewart Ltd. is broker to OneClickHR.

Brief Business Description

OneClickHR designs, develops, markets and sells Human Resources (HR) software and maintains the UK's only web-based HR reference and services site. Delivery of HR solutions is available both "out of the box" and via the web on an application service provider (ASP) basis.

The majority of sales are currently from the 26 boxed products sold through both direct and indirect channels under the Vizual brand. However, an increasing percentage of sales is coming from the delivery of the software on an ASP basis and from the OneClickHR.com website.

Companies need to manage their employees as efficiently as possible to retain staff in a tight labour market, the ever-present need to control costs and increasing employee legislation should continue to drive the market for the software in the medium term.

Background

OneClickHR was formed in September 1996 by Frank Beechinor-Collins and Peter Sedman to provide HR software for the SME market. It has c.26k users of its boxed software products, both blue chip and SMEs, in 26 countries and has fully localised products for nine markets. Turnover has grown at 100% pa and OneClickHR recently reported sales of £4.1m and a loss of £2.6m to December 2000, in line with expectations before the write-off of development costs of £0.3m.

The company floated in May 2000 raising a net £5m primarily for marketing OneClickHR.com and for further development of its ASP delivered services. The price rose from 40p at float to hit 77p and is currently 35p, capitalising the company at £17.5m.

Products and Services

Having begun by primarily targeting SMEs the company now offers products and services to all types of businesses. The product range is designed to allow companies to seamlessly upgrade between packages as their requirements increase. These two factors are driving a continually rising average order value.

Boxed products***Product Range***

OneClickHR currently has a product range of 34 HR software packages. Retail prices are in a broad range from £99 to £60,000 and trending upwards. An annual maintenance fee is charged at 25% of the retail price. The biggest sellers are Personnel Manager and Personnel Director, both of which are highly functional customisable employee databases. Other packages are aimed at managing recruitment, payroll, car fleets, membership schemes, employee time records and health and safety issues. Around 80% of the product range has been developed in house with the balance bought in on a royalty basis from other developers, then re-branded under OneClickHR's Vizual brand. OneClickHR also derives revenue from running training courses on its products.

Sales Territories

Historically the UK has accounted for the majority of sales, 82% in 2000. However, the product range has been localised for nine territories (mainly Europe) and in the current year significant sales are expected in France, Germany, South Africa, Holland, Eire, Spain and the Middle East. We forecast about 25% of boxed sales from outside the UK in 2001 rising to 33% in 2002.

Sales Channels

OneClickHR has about 45 staff involved directly in sales in the UK. In addition, the company has built a national network of dealerships, known as Alliance Partners, trained to sell and install the Vizual product range typically for a 30% revenue share. The UK dealerships total 155 and include the majority of Sage's best selling re-sellers. Product is also sold through software retailers and mail order catalogues.

Overseas OneClick use a network of specifically selected local distributors again working on a revenue share basis.

OneClickHR.com

Launched in March 2000, the OneClickHR.com website offers

1. A business to business HR e-commerce site. Offerings include the opportunity to buy standard HR documents, e.g. maternity policies, employment contracts or to arrange health checks or psychometric tests.
2. An ASP allowing both the rental, or one-off use, of HR software. For example the use of an employee database for £2 per record per month.

Applications cover employee administration, employment law, payroll, health & safety, recruitment, time recording. The infrastructure will be provided and hosted by BT Ignite Content Hosting; which will take a 15% revenue share. Promotional deals have been signed with Freeserve.

We forecast that the website will generate sales of around £0.8m in 2001 and with ASP customers likely to have high barriers to switching once reliant upon the service, this revenue could be perceived as recurring.

Market & Competitors

The principal driver of the HR software market is ever increasing employment legislation. Recent examples include Working Time Regulations, National Minimum Wage Act and the Employment Relations Act. Such legislation increases the need for organisations to maintain adequate employee records. At the same time the general trend towards electronic rather than manual records further drives uptake. The overseas markets are driven by the same macro factors although the specific legislative drivers obviously vary between countries.

The UK HR software market is fragmented with over 40 HR software suppliers and no clear leader. However, OneClickHR has made a strong impression in the high volume, lower price segment and currently has the largest installed base of users (26k). The majority of competitors operate in the low volume, high price market for example Peoplesoft (US), Oracle (US), Rebus (UK), PWA (UK) and Compel (UK).

Customers

Whilst the majority of customers are SMEs, OneClickHR is building an increasing blue chip customer list. Some of the larger customers are BBC, Carphone Warehouse, Citibank International, Hilton Hotels, Holiday Inn, Met Police and the Ministry of Defence. OneClickHR.com has just won a material contract with Hedley Purvis.

Key Directors

Frank Beechinor-Collins – Founded Vizual (now OneClickHR) in 1996 as MD and was previously marketing and sales strategy advisor for Paladin Solutions, a Human Resources software development company.

Peter Sedman – Co-founder of Vizual having previously been programming team leader at Parity Solutions and e-developer for HR-systems at Paladin Solutions.

Angus Dent – Joined as FD in 1999, from Kiril Mischeff Group a food trading and confectionery manufacturing business, where he held both the FD and MD positions. He was previously a Chartered Accountant with Price Waterhouse.

Lord Sheppard of Didgemere – Appointed non-executive chairman in May 1999, he has held various positions including Group Chairman and Group CEO of Grand Metropolitan Plc. He is currently Chairman of GB Railways Plc, McBride Plc, the Unipart Group of Companies, Group Trust Plc and London First.

Risks

The company believes that there are c.200k businesses in the UK which are potential customers. Whilst this still offers the scope for growth through increasing penetration, this will not be possible indefinitely. Thus growth in OneClickHR's turnover must increasingly be driven by shipping higher priced product and by expansion into Europe.

Given the dynamic nature of the software industry, the possibility exists that a cheaper and/or superior product could be released by a competitor. Further, large organisations in related markets could enter the HR software market.

Forecasts

We set out our P&L and cash flow forecasts below. We have conservatively assumed 40% growth in the UK this year and 20% next, note this business has historically shown nearer 100% growth, although this must slow. We expect the raft of distribution agreements in Europe to raise turnover from £0.7m last year to £1.8m in the current year; we are anticipating 70% growth next year. Sales from OneClickHR.com are harder to estimate but we forecast £0.8m this year and £2.0m next year.

Costs are unlikely to increase significantly not least because of the increased proportion of software development to be undertaken by the recently formed Indian division. Relocating the support function to India could act as an additional brake to the cost line.

Staff numbers will increase but not significantly in the context of the anticipated turnover increases. Consequently as turnover increases the company should move towards break even on a monthly basis during the current year and profits by 2002.

OneClickHR P&L Account

<i>£m</i>	<i>1999A</i>	<i>2000A</i>	<i>2001F</i>	<i>2002F</i>
Turnover	2.1	4.1	8.1	12.5
Cost of Sales	1.3	3.0	4.2	5.4
Gross Profit	0.8	1.1	3.9	7.2
Admin expenses	0.8	3.9	5.4	6.3
Operating Profit	0.0	-2.8	-1.5	0.9
Net Interest	0.0	0.2	0.1	0.1
Profit before tax	0.0	-2.7	-1.4	1.0
Tax	0.0	0.0	0.0	0.0
Profit after Tax	0.0	-2.6	-1.4	1.0
EPS	0.0	-5.9	-2.8	2.0
P/E				17.4

OneClickHR Cash Flow

	<i>1999A</i>	<i>2000A</i>	<i>2001F</i>	<i>2002F</i>
Operating Loss	0.0	-2.8	-1.5	0.9
Depn. & Amort.	0.1	0.4	0.6	0.6
Other	-0.2	0.2	-0.5	-0.5
Operating Profit	-0.1	-2.3	-1.4	1.0
Net Interest	0.0	0.2	0.1	0.1
Tax	0.0	0.0	0.0	0.0
Capex	-0.3	-0.5	-0.5	-0.5
Other	0.0	0.0	0.0	0.0
Issue of Equity	1.0	5.3	0.0	0.0
Increase in cash	0.5	2.7	-1.8	0.6
Cash b/f	0.0	0.5	3.2	1.4
Cash c/f	0.5	3.2	1.4	2.0