Outlook

Edison investment research

3 April 2008

K3 Business Technology Group

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
12/06	27.3	2.7	10.5	0.00	12.7	N/A
12/07	34.1	4.7	16.8	0.50	7.9	0.4
12/08e	44.5	7.6	22.0	0.75	6.1	0.6
12/09e	48.0	9.1	26.0	1.00	5.1	0.7

*PBT and EPS (fully diluted) are normalised, excluding goodwill amortisation, exceptional items and FRS20.

Investment summary: Stand-out growth

Annual results reveal dramatic earnings growth, while the outlook for future progress will continue to benefit from a series of strategic acquisitons. In addition, there are still considerable opportunities for further M&A, and management has realistic aspirations to grow sales towards £100m over the next three years. EPS growth of 31% in FY08 and 18% in FY09 clearly warrants a re-rating given a PE of just 6x.

Annual results

The three acquisitions made in 2007 were all earnings enhancing but the timing of the deals meant only two made a significant contribution to the figures. Along with a strong underlying performance, normalised PBT advanced £2m to £4.7m (+78%) – underpinned by a 6% point rise in gross margins to 67% – and EPS came in a touch ahead of forecasts at 16.8p (+60%). Confirmation of a rising proportion of recurring revenue from licence fees lends more predictability to future growth.

Outlook

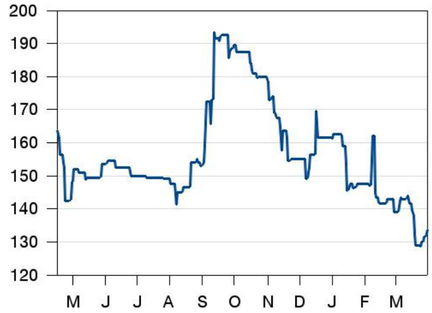
Despite some negative sentiment surrounding the outlook for IT spending, in reality, K3 – along with a number of other software/IT services companies we cover – has not yet seen any weakening of demand in its core markets. In fact, management is confident about the prospects for 2008 – as reflected in a maiden dividend payment of 0.5p – and our forecasts remain broadly unchanged.

Valuation: Broad appeal

A PE of 6x in the current year is appealing enough and, when taken in the context of forecast compound growth in earnings of c 30% between 2006 and 2010, suggests the shares are mispriced. In our view, K3 is an undervalued growth stock with a strong business niche, good organic growth prospects and an acquisition track record that bodes well for future strategic deals. A DCF value approaching the 200p mark and a substantial discount to the peer group reinforces this optimism.

Price	133.5p
Market Cap	£32m

Share price graph



Share details

Code	KBT
Listing	AIM
Sector	Software & Computer Services
Shares in issue	23.7m

Price

52 week	High	Low
	193.5p	128.5p

Balance Sheet as at 31 December 2007

Debt/Equity (%)	56.0
NAV per share (p)	102.2
Net borrowings (£m)	13.4

Business

K3 provides Microsoft-based supply chain management solutions to SMEs in the retail and manufacturing sectors.

Valuation

	2007	2008e	2009e
P/E relative	72%	63%	57%
P/CF	5.8	5.2	5.1
EV/Sales	1.4	1.1	1.0
ROE	15%	19%	20%

Geography based on revenues

UK	Europe	US	Other
74%	14%	11%	1%

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K3 Business Technology Group is a research client of Edison Investment Research Limited

Investment summary: Stand-out growth

Company description: Key Microsoft channel partner

K3 is a value-added Microsoft channel partner and owning the 'channel to market' is key to the business model. K3 designs and implements supply chain software solutions – generally based on Microsoft technologies – principally in two industry sectors, namely retail and manufacturing. The group has a well-balanced business model of predictable, recurring licence income in the manufacturing software sector combined with high growth opportunities in retail software. A series of acquisitions has scaled up the group since 2004 and the full benefits of the three purchases made in 2007 have yet to come through. Opportunities are also arising in other sectors and perhaps this could eventually lead to the provision of a wider suite of services.

Investment case and valuation: Opportunity to accelerate growth

K3's sector and technology focus makes it stand out from its competitors. K3 has successfully accelerated growth through acquisitions, providing strong management, cultivating synergies between them, and developing new business models and channels to market. We believe the company has a major opportunity to leverage its core market position as one of the UK's leading Microsoft Dynamics partners. In addition, there are opportunities to grow a 'Managed Services' division, organically and through acquisition, that will exploit the strong customer relationships existing within the Retail Software division.

We believe that K3's sector and technology focus, together with the careful leveraging of synergies between divisions, will drive earnings growth rates at a premium to the computer services sector. A prospective PE of just 6x significantly undervalues CAGR in EPS over the period of 2006–10 of 30%. This is reinforced by a DCF base case suggesting a value approaching the 200p mark and a substantial discount to the peer group.

Sensitivities: Macro, staff and acquisitions

The main sensitivities or risks to our forecasts are:

- Macro environment. A significant increase in interest rates could impact consumer spending and the IT budgets of retailers.
- Organic growth. In all divisions this depends on the ability to hire and retain skilled staff.
- Acquisitions. Deals have transformed the scale of the group and the record so far has been a good one. Potentially however, the inherent risks are greater in any strategy which has recourse to M&A.

Financials: Strong cash flow and growth

The growth and profitability drivers are different in the Manufacturing and Retail Software divisions. The former is a more mature market with a high proportion of recurring revenues, whereas the latter is a higher growth sector more dependent on new business wins. From a working capital perspective, the business predominantly generates cash in the second half of each financial year as a large proportion of annual licence renewals are billed in October.

Company description: Key Microsoft channel partner

K3 is a value-added Microsoft channel partner and owning the 'channel to market' is the fundamental bedrock of the company. K3's core activity is the design and implementation of supply chain software solutions based on MS technologies, principally in two industry sectors, namely retail and manufacturing. The group has a well-balanced business model of predictable, recurring licence income in the manufacturing software sector combined with high growth opportunities in retail software. Acquisitions have scaled up the group since 2004 and opportunities are also arising in other sectors and perhaps eventually to provide a wider suite of services.

Background

K3 started life in 2000 as the result of a buyout of the UK Manufacturing Enterprise Resource Planning (ERP) business of Kewill Systems comprising two business units and c 1,500 customers with a high proportion of recurring revenues. In 2001 K3 joined AIM through a reverse acquisition by RAP Group, a DIY products supplier, and the initial strategy was to hone the group down into a focused IT services company. Since then the company has broadened its ERP offering with a number of acquisitions, the most significant of which are highlighted below.

- In October 2004, K3 acquired Alpha Landsteinar, one of Microsoft's largest Dynamics resellers in the UK. Alpha Landsteinar develops a version of Dynamics that is targeted at retailers.
- IEG was acquired in June 2005. IEG resells SYSPRO, a Microsoft-based ERP solution for SME manufacturers. The acquisition added another business with high recurring revenues to the Manufacturing Software division as well as an upgrade path for existing customers. In March 2007, MBL was also acquired for £13.8m to significantly scale up the division.
- In September 2007, Landsteinar Nederland – the Dutch sister company of Alpha Landsteinar – was purchased for a maximum consideration of £13.6m (£9.9m plus a £3.7m earn-out). 50% of its revenue derives from the franchised outlets of IKEA. Finally, in December 2007, "Index" was acquired for £3m to boost growth in the Manufacturing Software division.

Management

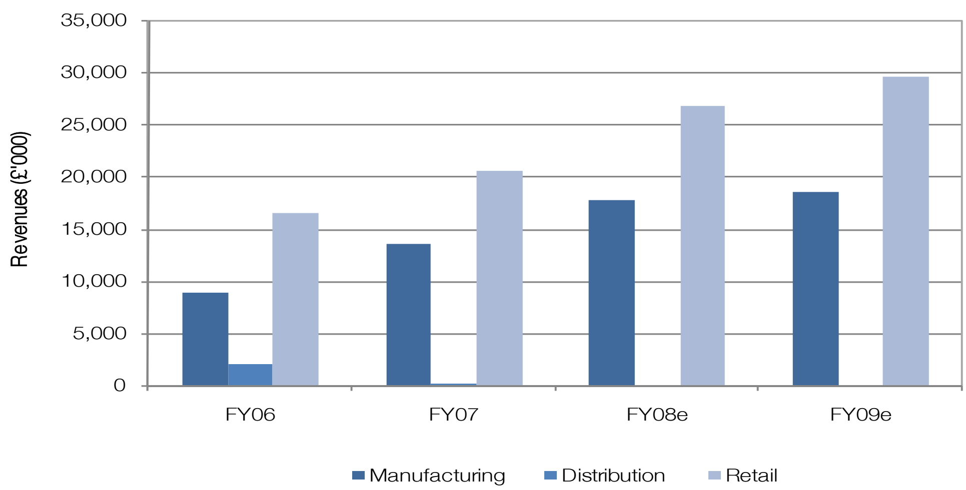
Andy Makeham (CEO) and David Bolton (CFO) have been running K3 since its creation. Their experience and close working relationship provides a strong core to the management team.

- Andy Makeham (CEO) has over 20 years of experience running or working in IT companies. Previously, he was Divisional Sales and Marketing Director at Kewill Systems.
- David Bolton FCA (CFO) qualified as a Chartered Accountant with Ernst & Young in the mid–1970s. He has held finance positions with both quoted and unquoted companies, most notably BTR, where he spent 12 years.
- Tom Milne was appointed Chairman in May 2006 and has considerable experience in developing successful retail software companies, including Riva Group and Metabet.

Divisional analysis

The core of the current K3 business model is the provision of ERP solutions to the retail and manufacturing industry sectors for SMEs in the UK and now Europe. This means delivering comprehensive end-to-end supply chain management with all the associated features of data capture, analysis and customer management. The software platforms are largely based on different variants of Microsoft based technology in both divisions and the recent addition of Axapta adds a potentially major growth driver to the historically more mature Manufacturing Software business.

Exhibit 1: Divisional revenue split 2006–09e



Source: Edison Investment Research

Industry background – what does ERP do?

Central to the activity of ERP is the goal of improving all aspects of the supply chain management process from point of sale (POS) to the very back-end of inventory management. Companies, in whatever industry sub-sector, can potentially gain a competitive edge through technology which delivers management tools for customer profiling, financial analysis, stock management etc. Operations and processes can be streamlined to optimise efficiency, enhance customer focus and provide comprehensive and accurate data reporting.

The company does not own or develop the proprietary technology since it would not be commercially sensible to write software that competed with Microsoft. Instead K3's strategy is to own the channel to market for global, market leading Microsoft based solutions and to develop key add-on modules. These tailor the generic Microsoft 'ERP' solution to K3's core markets of retail and manufacturing and help maintain a competitive edge over other MS partners.

K3 currently focuses on addressing customer requirements in two very distinct industry sectors, namely manufacturing and retail. The former is a more mature segment with long established customer relationships where the larger customer base creates greater opportunities for account management (although the competitive SYSPRO new business product range ensures some 20-30 new customer wins each year). Retail, on the other hand, is a rapidly growing sector with a greater emphasis on new sales and expansion for revenue generation.

Manufacturing Software

The Manufacturing Software division was at the original core of K3 and, having had an offering based on different platforms, it is now a Microsoft-only based solution. Up until just recently, this solution was only based around the exclusive distribution rights to SYSPRO in the UK – a world leading MS based ERP solution developed in South Africa. However, the recent acquisition of Index Computer Systems adds the potentially high growth MS Dynamics AX (Axapta) solution.

Top line growth in Manufacturing Software has been relatively steady at around the 5% mark but given the high proportion of recurring revenues of about 50% – deriving from long-standing maintenance contracts – margins have been historically higher than the Retail Software side. The client base is generally well established with repeat business coming from long-standing relationships, and the process of 'account management' is therefore central to the activities within this division.

Following the acquisition of MBL, K3 now has exclusive rights to distribute SYSPRO in the UK and this suite provides a software solution typically suited to mid-tier companies in the manufacturing industry sector which generate revenues for K3 in the £100k–500k bracket. There was a strong commercial logic to acquiring the MBL operation as it was in effect the 'sister company' to the (already acquired) IEG business. The complementary fit of the two businesses is obvious and the exclusivity over the distribution of SYSPRO leverages up the platform and prevents unnecessary competition. The combined entity has been rebranded as K3 Supply Chain Solutions (SCS) and during 2007, evidence of the successful integration can be seen in the steady increase in average order size.

The £3m acquisition of Index Computer Systems in December is an important strategic move for two reasons: first it takes K3 into the fast growing MS Dynamics AX (Axapta) marketplace; and secondly it opens up business opportunities in a new industry sector, ie Process Manufacturing.

Food and Process manufacturers could represent a target market of around 5,000 companies in the UK, which compares with the potential market for SYSPRO of about 9,000 enterprises. As well as the food sector, companies in this new segment could include chemical and pharmaceutical businesses.

In terms of the competitive environment, K3 generally doesn't compete in the sub-£100k contract market but in the £100k–500k arena, SYSPRO is a leading UK solution vying for business against the likes of SAGE, SAP1, Excel, IFS and AX will also take K3 into a space occupied by PeopleSoft and JD Edwards.

Retail Software

The purchase of Alpha Landsteinar in October 2004 – one of the largest MS Dynamics re-sellers in the UK – was a landmark deal as it transformed the scale and reach of the company. The acquisition took the group into the high growth market of retail software and provided the platform for K3 to become one of the 60 strong inner circle of Microsoft partners worldwide. K3 gained access to an industry-leading product which provided an end-to-end supply chain management solution across multi-channels, ie web/mail order and high street. In combination with an established channel to market, this has provided the basis for the strong growth witnessed in the Retail Software division.

K3 has adopted a very targeted approach in retail software to address the different vertical segments and to raise awareness of its expertise in each. The focus on vertical markets within the retail industry is something that helps set K3 apart from the competition and among others, the company now has 'sub-divisions' in fashion, food, drinks, household goods and so on.

The expansion witnessed in the retail software industry in recent years and the associated demand for increasingly more sophisticated supply chain management means that, historically, this sector has had very different characteristics to manufacturing software. For example, only around 22% of the revenue stream in Retail Software is recurring, with a much greater emphasis on new sales in the top line. However, partly as a result of the changing macro backdrop and the potential retreat of the consumer, K3 is likely to have a slightly different emphasis going forward.

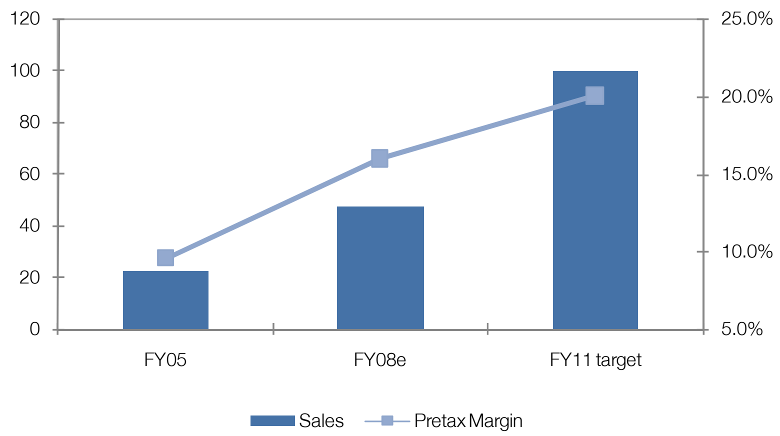
Within the retail software segment therefore, the company has highlighted four priorities:

- Account management. As in the Manufacturing Software division, successful new business sales have given rise to a larger user base and better account management is starting to generate a higher proportion of recurring earnings.
- Roll-out implementation. There are revenue opportunities being missed in the actual implementation of the software systems – for instance through the provision of more extensive helpdesk facilities.
- Reducing costs. After a period of rapid expansion, K3 undertook a cost reduction exercise in both Retail Software and Manufacturing Software (during 2007) to reduce costs and improve margins. The result of this can be seen in the 2007 results, and will further improve performance in 2008 and beyond.
- Multi-channel. As well as focusing on maximising the value within the existing client base and attacking overheads, the fundamentals for growth remain strong, particularly via the ongoing growth in multi-channel platforms discussed below.

Strategic ambitions: Organic and acquisition-led growth

K3 has a clear strategy for organic and acquisition-driven growth which will see the company focus on existing areas as well as exploring the potential for diversification and management has ambitions to move towards c £100m of revenues. This would effectively double the group's scale and largely be achieved through acquisitions.

Exhibit 2: Growth path



Source: Edison Investment Research

Multi-channel delivery in the retail industry

The retail industry has traditionally had a focus on the high street or dedicated retail park as its typical route to market. However, particularly via an ever increasing proportion of web-based transactions – as well as the growth in mail order – there has been a significant expansion of multi-channel retailers which in turn requires more complex supply chain management.

Retailers now require a more sophisticated solution to cope with the multi-channel element which integrates software at both the front and back end across the whole platform. A recent example of the success which K3 has had in this area can be seen in the £1.3m contract win from The White Company to supply an integrated solution across all distribution channels.

Datamonitor estimates that 8.6% of global retail spend in 2006 was via web-based transactions and that by 2012 this will have increased to c 13%. In addition, as well as being a vital channel to market in its own right, the research also revealed that 46% of online browsers go on to make a purchase in the actual store.

All of the above mean plenty of opportunities for organic growth as well as the potential for acquisitions and the addition of complementary businesses, eg a web development company. Moving forward, K3 will also seek to extend its verticalisation strategy to increase its specialism and expertise in targeted areas.

Manufacturing software: Growth re-ignited?

Traditionally, the Manufacturing Software division has provided the solid base of higher margin albeit slower growing revenues relative to the retail software business. As described above, account management has been a key focus for a division with long-established client relationships supported by 20-30 new name customer wins each year. However, the potential for growth has been improved with the acquisition of Index and the access to new markets which the AX platform could bring.

Management believes that the upside for AX is significant given its suitability to larger scale contracts as well as its exposure to different industry sub-sectors. A step-up in organic growth for this division could also be boosted as K3 attempts to target more sophisticated solutions for advanced warehouse management requirements.

Managed services, infrastructure, hosting

Although K3 has a clear divisional focus to its central activity of supply chain management solutions, there are related fields which could enable the company to use its core competencies to exploit further revenue opportunities. Managed services would represent a logical extension to the current supply chain emphasis through offering network infrastructure support and services beyond ERP and across the broadest range of customers' IT demands. Potentially this could also be further extended into the field of data hosting to provide a full suite of services from front to back office as well as the management of the data required. These examples of modest diversification could be achieved organically through developing existing customer relationships, although in the case of hosting, an acquisition may be more likely to achieve the scale required.

In 2007, the Manufacturing Division launched its Network Infrastructure Division, a managed service offering initially being aimed at the 450 SYSPRO manufacturing customers. Currently at pilot stage with six customers (delivering annual recurring revenues of around £100k) this will be rolled out across K3 in due course and is expected to make a significant contribution to increasing contracted recurring income in coming years.

Legacy user customer bases

The potential acquisition of legacy customer bases in the supply chain management environment could be another future means of boosting growth beyond the organic platform. Such customer bases are capable of generating recurring income streams from established customers, and they could further de-risk the K3 business model.

Potential constraints and risks

Finally, set against all the potential benefits of the corporate ambitions outlined above, there are risks and constraints in developing group strategy along some of these lines. In part these reflect not only the inherent risks in the acquisitive element of strategy, but also the implications of share price falls on the value of K3's paper currency (as well as the impact on the availability of capital following the tightening in the debt markets). Other possible sensitivities include the perennial problem of finding enough suitably qualified staff – although K3 is able to mitigate this with a pipeline of trainees from its well established training academies.

Annual results

Exhibit 3: Summary of annual results for the 12 months to 31 December 2007

£m	2006	2007	%
	12 mths to 31 Dec	12 mths to 31 Dec	
Turnover	27.3	34.1	+25
Gross margin (%)	61%	67%	+10
Operating profit (norm)	2.9	5.8	+97
Profit/(loss) before tax (norm)	2.7	4.7	+78
EPS normalised (p)	10.5	16.8	+60
Cash/(net debt)	0.7	(13.4)	++

Source: K3

Overview and operational highlights

Two of the three acquisitions made in 2007 have had a major impact on the results and all three contributed to an enhancement in earnings per share. At the EPS level, 16.8p represented a growth of 60% over the previous year and was in line with forecasts. The significant impact of the acquisitions and strong performance in the underlying business added £2m to normalised PBT (ie pre exceptionals, goodwill and share-based payments). A maiden dividend of 0.5p reflects management confidence in future growth prospects and a rising proportion of recurring income from licence fee renewals and support lends more predictability to revenue flows.

The **Retail Software** business showed strong underlying growth during the year with a 15% rise in sales in the core UK business and adjusted EBIT growth of 44% to £2.34m – a margin of 12.4%. This reflected both an expansion in the customer base but also the increased emphasis on account management; revenue from existing customers rose 24%. The **Manufacturing Software** business was transformed during the year as detailed above, with the acquisition of MBL, and total sales increased 53% to £13.5m and profits more than doubled to £3.42m – a margin of 25%.

Acquisitions

In summary, there were two acquisitions in the manufacturing software sector – MBL and Index – and one in Retail – Landsteinar Nederland. As discussed above, the overall impact is to add critical mass to the group within its principal market sectors and to open up significant future revenue opportunities. MBL made a nine-month contribution to the figures, Landsteinar four months and Index just a matter of weeks – in aggregate the three businesses added £7.23m to group turnover.

Forecasts and outlook

Gross margins increased by six percentage points during the year to 67% and the impact of acquisitions helped net cash flow from operations to increase 3x to £6.2m. Net debt also rose to £13.4m although, given inherently strong cash generation, we would expect this level to fall rapidly in the absence of further deals. Despite some negative sentiment surrounding the outlook for IT spending, in reality, K3 – along with a number of other software/IT services companies we cover – has not yet seen any weakening of demand. In fact, management is confident over the prospects for 2008 and our forecasts remain broadly unchanged.

Valuation and conclusion

Recent market sentiment has done few favours for small IT/Software stocks and yet despite this, K3 has been fairly resilient. Nonetheless, the valuation in both relative and absolute terms remains appealing and there is good potential for upside in the share price from current levels.

Earnings support

A prospective PE of 6x in the current year is attractive enough in its own right, especially when taken in the context of forecast compound growth in earnings of c 30% between 2006 and 2010. In our view, K3 is an undervalued growth stock with a strong business niche, good organic growth prospects and an acquisition track record that bodes well for future strategic deals. Although not particularly significant in its own right, the maiden dividend broadens the appeal of the stock to a wider circle of investors and reaffirms management prospects for 2008.

DCF and peer group analysis

The summary of our DCF analysis below lends some confidence to a fundamental support level for the shares. Using a fairly aggressive 15% discount rate – our standard barometer for these types of businesses – and a forecast growth in operating profits significantly below the current level, yields a value approaching the 200p mark.

Exhibit 4: DCF valuation based on WACC of 15%

Discount rate	15%
NPV cash flow £m	56.1
Growth rate in perpetuity	5%
Net debt 2007 £m	13.4
Equity value per share (pence)	184p

Source: Edison Investment Research

Finally, a comparison based on consensus forecast earnings for a peer group of businesses with varying levels of similarity to the K3 business case, reveals a significant discount for K3 of around half the average PE multiple in forecast years one and two:

Exhibit 5: Peer group comparisons based on forecast earnings

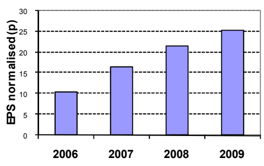
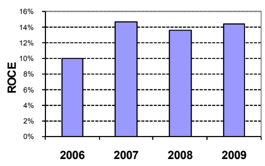
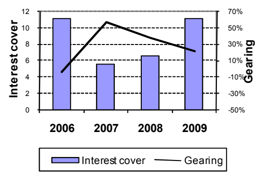
IT Service companies	Yr End	Price (p)	Mkt Cap £m	EPS 2007	EPS YR 1	EPS YR2	P/E H	P/E YR1	P/E YR2
Anite	April	40	137	5.1	5.2	6.2	7.9	7.7	6.4
Aveva	March	1144	769	26.3	46.2	51.2	43.5	24.8	22.3
Civica	Sept	266	168	19.3	21.2	23.4	13.8	12.5	11.4
Detica	Sept	249	289	4.9	14.0	17.5	50.7	17.8	14.2
Kewill Systems	March	83	67	1.1	8.5	9.5	n/a	9.7	8.7
Logica CMG	June	108	1543	2.3	10.6	11.6	46.3	10.2	9.2
Microgen	Dec	48	49	4.5	4.5	5.1	10.6	10.5	9.3
Touchstone	March	102	13	15.6	16.0	19.1	6.5	6.3	5.3
Average							25.6	12.4	10.9
KBT 12/07		134	31	16.8	22.0	26.0	7.9	6.1	5.1
P/E Rel.							31	49	47

Source: Edison Investment Research, Hemscott, Yahoo!

Exhibit 6: Financials

£'000s	2006	2007	2008e	2009e
Year end 31 December	IAS	IAS	IAS	IAS
PROFIT & LOSS				
Revenue	27,346	34,146	44,460	48,023
Cost of Sales	(10,641)	(11,415)	(14,226)	(13,927)
Gross Profit	16,705	22,731	30,234	34,096
EBITDA	3,247	6,068	9,408	10,520
Operating Profit (before GW and except.)	2,918	5,760	8,908	9,980
Goodwill Amortisation	0	(896)	(2,000)	(2,000)
IFRS 2 charges	(85)	(152)	(152)	(152)
Other	0	0	0	0
Operating Profit	2,833	4,712	6,756	7,828
Net Interest	(262)	(1,036)	(1,350)	(900)
Profit Before Tax (norm)	2,656	4,724	7,558	9,080
Profit Before Tax (FRS 3)	2,571	3,676	5,406	6,928
Tax	(846)	(761)	(2,267)	(2,724)
Profit After Tax (norm)	1,810	3,963	5,291	6,356
Profit After Tax (FRS3)	1,725	2,915	3,139	4,204
Average Number of Shares Outstanding (m)	18.1	21.7	24.0	24.4
EPS - normalised (p)	10.5	16.8	22.0	26.0
EPS - FRS 3 (p)	9.5	13.4	13.1	17.2
Dividend per share	0.0	0.5	0.8	1.0
Gross Margin (%)	61.1%	66.6%	68.0%	71.0%
EBITDA Margin (%)	11.9%	17.8%	21.2%	21.9%
Operating Margin (before GW and except.) (%)	10.7%	16.9%	20.0%	20.8%
BALANCE SHEET				
Fixed Assets	17,962	45,547	43,431	41,291
Intangible Assets	273	12,282	10,282	8,282
Tangible Assets	416	1,305	1,155	1,015
Goodwill	15,684	31,494	31,494	31,494
Other	1,589	466	500	500
Current Assets	10,889	14,069	16,718	19,850
Stocks	0	0	0	0
Debtors	8,622	10,984	13,730	16,476
Cash	2,267	3,085	2,988	3,374
Other	0	0	0	0
Current Liabilities	(13,712)	(19,386)	(19,794)	(20,142)
Creditors	(1,756)	(3,356)	(3,500)	(3,500)
Other creditors	(11,095)	(11,987)	(12,994)	(13,342)
Short term borrowings	(861)	(4,043)	(3,300)	(3,300)
Minority interests	0	0	0	0
Long Term Liabilities	(711)	(16,509)	(13,212)	(9,552)
Long term borrowings	(711)	(12,437)	(9,700)	(6,600)
Other long term liabilities	0	(4,072)	(3,512)	(2,952)
Net Assets	14,428	23,721	27,144	31,447
CASH FLOW				
Operating Cash Flow	2,208	6,228	7,661	7,970
Net Interest	(256)	(1,243)	(1,350)	(900)
Tax	21	(2,074)	(2,462)	(3,011)
Capex	(375)	(643)	(350)	(400)
Acquisitions/disposals	(1,395)	(16,493)	0	0
Financing	1,825	263	0	0
Dividends	0	0	(116)	(174)
Other	0	0	0	0
Net Cash Flow	2,028	(13,962)	3,383	3,486
Opening net debt/(cash)	1,247	(695)	13,395	10,012
HP finance leases initiated	0	0	0	0
Other	(86)	(128)	0	0
Closing net debt/(cash)	(695)	13,395	10,012	6,526

Source: Company accounts/Edison Investment Research

Growth	Profitability	Balance sheet strength	Sensitivities evaluation	
			Litigation/regulatory	○
			Pensions	○
			Currency	○
			Stock overhang	○
			Interest rates	●
			Oil/commodity prices	○

Growth metrics	%	Profitability metrics	%	Balance sheet metrics		Company details	
EPS CAGR 05-09e	25.7	ROCE 08e	13.5	Gearing 08e	36.9	Address:	
EPS CAGR 07-09e	24.5	Avg ROCE 05-09e	12.7	Interest cover 08e	6.6	Linden Business Centre, Linden Rd, Colne Lancashire BB8 9BA	
EBITDA CAGR 05-09e	39.9	ROE 08e	19.5	CA/CL 08e	0.8		
EBITDA CAGR 07-09e	31.7	Gross margin 08e	43.6	Stock turn 08e	0.0	Phone	01282 864111
Sales CAGR 05-09e	21.5	Operating margin 08e	20.0	Debtor days 08e	112.7	Fax	01282 867055
Sales CAGR 07-09e	18.6	Gr mgn/Op mgn 08e	2.2	Creditor days 08e	28.7	www.k3btg.com	

Principal shareholders	%
P J Claesson	20.5
Merrill Lynch	7.2
Hargreave Hale	4.4
Altenberg	4.4
Giab AG	4.1
D J Bolton	4.0
N A Makeham	3.9

Forthcoming announcements/catalysts	Date *
AGM	4 June 2008
Interim results	September 2008
*Note: * = estimated*	

Management team
CEO: Andy Makeham
Andy has over 20 years of experience running or working in IT companies. Previously, he was Divisional Sales and Marketing Director at Kewill Systems.
CFO: David Bolton
David qualified as a Chartered Accountant with Ernst & Young in the mid–1970s. He has held finance positions with both quoted and unquoted companies, most notably BTR, where he spent 12 years.
Chairman: Tom Milne
Tom was appointed as Chairman of the Board in May 2006. Tom has a wealth of experience in developing successful retail software companies.