Edison investment research

24 November 2006

K3 Business Technology Group

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
12/04	8.5	0.5	4.5	0.0	25.1	N/A
12/05	22.0	2.1	10.9	0.0	10.4	N/A
12/06e	25.4	2.8	11.6	0.0	9.7	N/A
12/07e	27.5	3.3	13.2	0.0	8.6	N/A

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items

Investment summary: A cut above the rest

K3's focus on reselling Microsoft-based Enterprise Resource Planning (ERP) solutions to the related sectors of manufacturing, retail and distribution makes the company stand out from other IT service companies. In particular, Microsoft Dynamics is taking an increasing share of the ERP market for SMEs, and we believe that K3's position as the largest Dynamics reseller in the UK will result in higher than average earnings for the sector, driving a valuation towards 150p.

Investment case: Focused growth

The group has a well-balanced business model of predictable, recurring licence income in the manufacturing sector combined with high growth opportunities in the retail and distribution sectors. There are opportunities to add businesses within the core divisions and to broaden the offering into infrastructure and managed services. The growth strategy is to build organically towards £30m of sales by FY08 and to add a further £20m through acquisition to reach a turnover of towards £50m during 2008 with EBIT approaching £7m.

Forecasts: Revenue growth of 12%

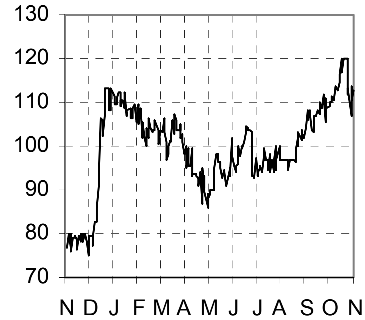
We forecast revenue of £25.4m in FY06 and £27.5m in FY07 representing an average growth rate of 12% per annum over the two years. With an EBITA margin of 12%, we forecast EPS will rise by 14% from 11.6p in FY06 to 13.2p in FY07 and we forecast end 2006 net cash of £1.3m.

Valuation: Towards 150p

We believe that K3's focused growth strategy will deliver earnings that are higher than the industry average over the longer term. We believe that K3's shares should trade up towards the top end of the sector range (compared industry average of c. 10x – range c. 8x to 12x) which implies a share price in the range 130p-160p.

Price	113p
Market Cap	22m

Share price graph



Share details

Code	KBT
Listing	AIM
Sector	Software & Computer Services
Shares in issue	19.3m

Price

52 week	High	Low
	120p	76p

Balance Sheet at 31 Dec 2006e

Debt/Equity (%)	N/A
NAV per share (p)	56.2
Net cash (£m)	1.3

Business

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

Valuation

	2004	2005e	2006e
P/E relative	73%	74%	79%
P/CF	4.0	7.5	7.5
EV/Sales	0.8	0.8	0.8
ROE	15%	19%	19%

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

Investment summary: A cut above the rest

Company description: Microsoft channel partner

K3 is a value-added, Microsoft channel partner. It designs and implements supply chain software solutions based on Microsoft technologies, targeting three related industry sectors within the UK, retail, distribution and manufacturing. The group has a well-balanced business model of predictable, recurring licence income in the manufacturing sector combined with high growth opportunities in the retail and distribution sectors.

Investment case and valuation: Opportunity to accelerate growth

K3's sector and technology focus makes it stand 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 K3 has a major opportunity to leverage its core market position as the UK's number one Microsoft Dynamics partner. In addition, there are opportunities to add a 'Managed Services' division, through acquisition, that will exploit the strong customer relationships existing within the Retail 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. We conclude that K3 should be valued at a multiple of 10x-12x earnings compared with the industry average of 10x. This implies a valuation of 130p-160p per share based on forecast earnings for FY07 of 13.2p per share.

Sensitivities: Cultural challenge

The main sensitivities or risks to our forecasts are: 1) a significant increase in interest rates could impact consumer spending and the IT budgets of retailers, 2) organic growth in all divisions will depend on the ability to hire and retain skilled staff and, 3) the move into managed services will require successful adoption of a new division with a different culture to systems development.

Financials: Operating margin above 10%

We forecast revenue of £25.4m in FY06 and £27.5m in FY07 with expected on-going annual growth of 10% in the sectors of retail and distribution and 5% in manufacturing. Management is confident that it can maintain an operating margin of c.10% in retail and distribution and c. 15% in manufacturing. The business is expected to require working capital in the first half of each year and then generate cash in the second half as a large proportion of annual licence renewals are billed in October. The company recently raised £1.6m through the issuing of new shares, and we forecast year-end net cash of £1.3m.

Company description: Microsoft channel partner

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History

K3 started life in 2000 as the result of a buyout of the UK Manufacturing ERP business of Kewill Systems. Its two business units had nearly 1,500 customers between them, representing a predictable maintenance revenue stream. In 2001 K3 joined AIM through a reverse acquisition by RAP Group, a DIY products supplier.

The first few years of the new company were characterised by slow growth as the DIY products divisions were sold off in order to turn the former RAP Group into an IT services company. In addition, one of the IT business units was sold in March 2004 since its technology did not fit with the group's strategy of becoming a Microsoft channel partner.

Since then the company has broadened its ERP offering with 3 acquisitions at a total cost of £14m.

- Elucid, acquired in April 2004, provides ERP solutions to the mail order and catalogue market. During 2005 development of the product was extended to include an integrated web front end. Such e-commerce solutions are expected to provide growth from both the catalogue and mail order companies as well as being cross-sold into retail customers.
- In October 2004, K3 acquired Alpha Landsteinar, Microsoft's largest Dynamics reseller 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 division as well as an upgrade path for existing customers.

Management:

Andy Makeham (CEO) and David Bolton (CFO) have been running K3 since its beginnings. 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 (Chairman) was appointed to the board in May 2006. Tom has a wealth of experience in developing successful retail software companies, including Riva Group and Metabet.

Group strategy: Sector and technology focus

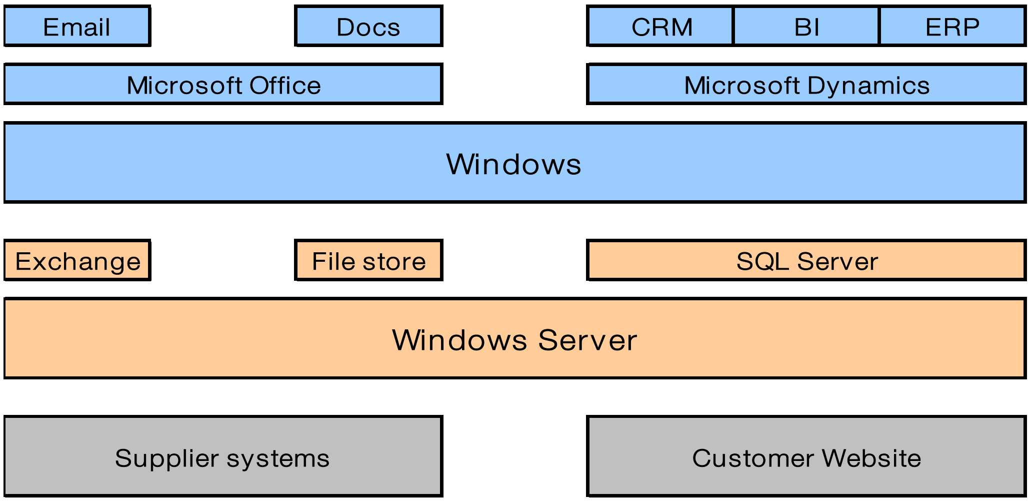
We believe K3's position as Microsoft's largest Dynamics partner in the UK and its focus on three core and overlapping market sectors underpin our premium growth expectations for the company.

- Technology - Enterprise software is consolidating around global brands as smaller software companies find it increasingly difficult to keep up with the changing pace of development. K3 has moved from developing proprietary code to becoming a channel partner, basing all its solutions on Microsoft technologies. Development of solutions from a single technology platform improves the inter-operability of software, shares investment in R&D across all divisions and increases the transferability of staff across projects.
- Business model – as a value added reseller of other companies' software, K3's revenues are derived from both the resale of software licences and the consultancy services necessary for their implementation. Projects are typically split 50:50 between software and consultancy (with a 50% cost of sales for the software) with annual licence renewals and maintenance revenue thereafter. This results in an appealing business model of high growth opportunities in the retail and distribution divisions where there are lots of new projects to be won, balanced by predictable recurring revenues in the manufacturing division where there are lots of existing customers paying recurring licence fees.
- Organic growth – In addition to the retail business unit which generates more than 50% of K3's turnover, there is also a small 'general systems' business unit that sells and supports Microsoft Dynamics to customers in other (non-retail) sectors. Both business units are to be expanded to exploit K3's position as Microsoft's largest Dynamics partner in the UK.
- Acquisitions - The growth strategy is to reach turnover of £50m by 2008 with EBIT approaching £7m. We forecast organic growth to achieve £30m with the remaining £20m coming from acquisitions. We expect that the purchase of a managed services company will be one part of this strategy, with acquisitions of complementary ERP providers also considered.

Growth drivers: Microsoft a rising force in ERP

The ERP market for SMEs is consolidating and Microsoft is emerging as a rising force through its 'Dynamics' suite of software solutions. As more manufacturing moves offshore and sales to consumers are split between both traditional stores and online outlets, the integration of manufacturing, distribution and retail systems is becoming increasingly important. The wide-spread use of Microsoft-based ERP systems increases the appeal of one supplier managing all the Microsoft based systems which are typically used by SMEs.

Exhibit 1: Microsoft-based IT infrastructure for SMEs



Source: Edison Research

Microsoft Dynamics is a software suite aimed at retailers, manufacturers, distributors and service companies conducting business at home and abroad. The software is modular, allowing more or less functionality to be included as needed, but with all data residing in a SQL Server database. This single repository for all data enables data entered in one area of the business to be made available throughout the enterprise.

According to figures released in Microsoft's most recent quarterly statement, revenue from Dynamics, is growing at 15% per annum which is significantly higher than the 5-6% growth rates achieved by the UK IT service sector as a whole.

Exhibit 1 above demonstrates how an ERP system based on Dynamics lies at the heart of a Microsoft-based network infrastructure for an SME. The key component is the SQL Server database which acts as a single repository for the company's business data. ERP and Customer Relationship Management (CRM) data is entered by users through a desktop PC or an EPOS till running Dynamics. Management can gain a high level overview of the data using the embedded Business Intelligence (BI) functionality. Both the customer website and supplier systems can be integrated with the same SQL Server database to create a seamless flow of supply chain information.

Global supply chains between manufacturing plants, distribution networks and retailers are becoming increasingly integrated. The trend for UK manufacturers to move production offshore is long established and the economic liberalisation within China has reinforced its commercial rationale. Manufacturers, distributors and retailers need visibility of information across the supply chain and integrated ERP systems linked over the Internet make this possible.

E-commerce is becoming an important channel for both traditional retailers and catalogue companies, with demand growing for systems that integrate traditional retail models with an online outlet. Retailers need to have all front-end systems integrated with a common back office so that orders from one channel are made visible to another. For example, retail staff need access to orders placed via the website, in cases where online purchases are picked up from a store.

ERP projects typically generate revenues split 50% between initial licence fees and 50% consultancy fees. The change surrounding such implementations involves a significant upheaval for customers so that once a system is deemed to be working well, customers have little incentive to change it for a lengthy period of time. Thus successful implementations lead to strong customer relationships that generate predictable renewals of licence fees.

Managed services. For manufacturers and retailers, ERP forms the core of a company's IT system. Infrastructure support and administration involve looking after the networks of servers and desktop/EPOS PCs on which these ERP systems are run. In the past, systems development and infrastructure administration have been dealt with by separate companies with separate skill sets. Where both the ERP system and the network are based on Microsoft technology, there is an opportunity for one company to provide a managed service for a customer's entire IT system. The systems developer will be well placed to win this sort of work due to the higher skills associated with their work and their better understanding of the customer's business process. In addition, companies the size of K3 can offer national coverage together with the assurance given to customers that there are plenty of resources at their disposal.

Structure – One platform, overlapping sector focus

Retail: Dynamics (formerly Navision)

K3 resells Microsoft Dynamics ERP software, and adds to it a customised 'wrap round' that turns it into a retail solution. K3 is the UK's largest Dynamics reseller and is a member of Microsoft's 'Inner Circle' of top 50 partners worldwide.

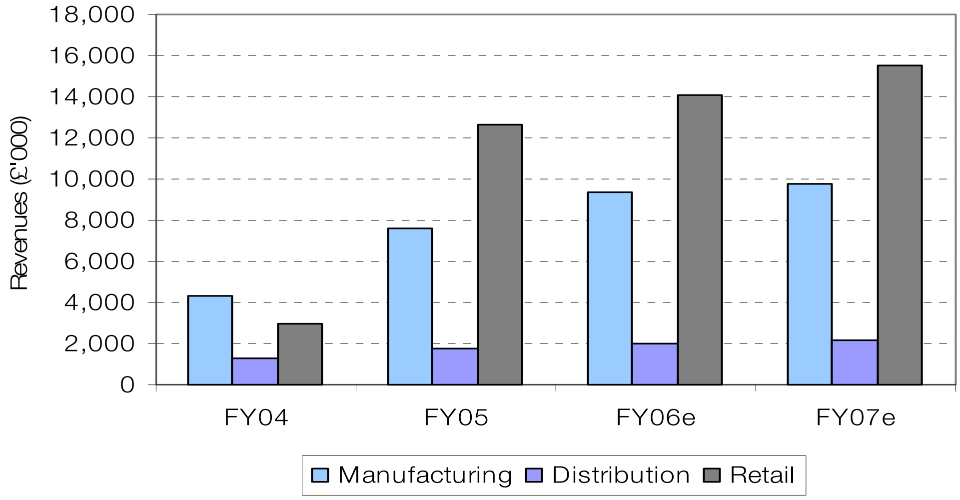
The solution provides retailers with a complete 'end-to-end' solution. This means that the same software is running at head office, in the warehouse, and on the individual EPOS (Electronic Point of Sale) tills within the stores. The solution therefore typically delivers lower cost of ownership than traditional retail solutions that involve separate systems for each of the three retail operations. This seamless architecture provides retailers with greater data accuracy and improved sales analysis as well as being easier for K3 to support.

Revenues at the retail division have been growing at 25% per annum, from £7m at acquisition in 2004 to a forecast £14m in 2006. Carpetright has been the largest deal to date, providing revenues totalling £4.5m (£3m of consultancy and £1.5m of licences) split across FY05 and FY06. Carpetright is an unusually large contract with Retail deals more typically expected to be £1-2m in size with 10% growth of revenue for the division over the longer term. The order pipeline is currently £25m and the conversion rate is historically 25%.

Leveraging the Dynamics expertise gained from working with retail customers will help K3 expand the smaller, 'general systems' business unit that resells Dynamics to customers in other (non-retail) sectors.

We expect other improvements in organic growth to come from a focus on vertical markets within retail. K3 has invested significant amounts in marketing, sales and development in order to create sub-divisions for Fashion, Brewery/Drinks, Food, Big Ticket, and General Retail.

Exhibit 2: Divisional revenue



Source: Edison Investment Research

Distribution: Elucid

Elucid provides ERP solutions to the mail order, catalogue, and now on-line markets. The division had a slow start after acquisition in April 2004, but has begun to improve since the appointment of a new Sales Director on 1st Jan 2006. A number of new contracts have been won and the order pipeline is currently £3m.

Customers in this sector increasingly want to use the Internet as an additional sales channel so during 2005 development of the product was extended to include an integrated web front end. This has repositioned Elucid as a premium product in a sector that is increasing its spending on ERP by 20% per annum.

Mail order and on-line retailers are also opening shops so the company has responded by developing an integrated EPOS model. Mirroring this trend is the desire of high street retailers to embrace multi-channel, so the Elucid catalogue and mail order functionality is being built into the Dynamics retail module.

Manufacturing: IEG

Future growth within the Manufacturing division is expected to come from IEG, acquired in June 2005, rather than the existing business unit, which nevertheless continues to generate predictable renewal revenues.

IEG resells Syspro, a South African ERP software solution, based on Microsoft technologies, that is also aimed at the manufacturing sector. IEG has predictable recurring revenues from its customer base, but it also has a good pipeline of future deals (currently £2m) and as a consequence the Manufacturing division is growing at c. 5% overall.

Syspro is seen as an upgrade path for the division’s existing customer base.

Sensitivities

Our growth forecasts are based on a number of assumptions, the most important being:

- Interest rates – the retail sector is very sensitive to the housing market. A significant increase in interest rates could cause a reversal in the housing market with an associated fall in consumer spending. Although the case could be argued that such a scenario would strengthen the case for retailers to invest in improved supply chain automation, in practice, the reaction of most companies is to put investment projects on hold.
- Staff – more skilled consultants will need to be hired to meet the forecast growth projections. In the past K3 has managed to find many skilled people from South Africa. Eastern Europe may well be another good place to hire from in future.
- Managed services – the provision of infrastructure services is an opportunity to grow revenues from existing customers. However, the culture of systems development and infrastructure management are very different and much attention would need to be paid to maintaining good lines of communication between the different teams.

Valuation: Focused growth should drive higher earnings

K3's focus on specific sectors of the market with an offering based on a common technology platform is in marked contrast to many other comparative companies. We believe that this strategy will drive higher growth in earnings than is average for this sector, leading to a valuation above the industry average of 10x earnings.

On this basis, K3's current market capitalisation of £22m looks low when compared to the earnings forecast for FY07 of 13.2p (P/E of 8.5). We believe that as the group delivers on its strategy, K3 should trade up towards the top end of its peers implying a share price range of 130p to 160p.

Exhibit 3: Comparative company valuations

	IT Service Companies	Price (p)	Mkt Cap (£m)	Sales (£m)	EPS (p)	P/E	Price/Sales
CHR	Chelford	214	15	20.6	23.7	9.0	0.7
CSW	Computer Software	117	70	49.3	11.2	10.4	1.4
KWL	Kewill	77	60	47.2	6.4	12.0	1.3
MXM	Maxima	199	35	31.6	24.9	8.0	1.1
MCGN	Microgen	56	57	43.8	4.1	13.6	1.3
TIK	Tikit	233	29	28.4	21.5	10.8	1.0
TSE	Touchstone	187	21	29.9	21.3	8.7	0.7
RAS	XKO	118	50	26.6	11.7	10.0	1.9
	Average					10.3	1.2
KBT	K3	113	22	27.5	13.2	8.5	0.8

Source: Bloomberg, Yahoo Finance, Edison estimates (prices at 23 November 2006 and Sales based on consensus forecasts for FY07)

Management target: £50m of sales and £7m EBIT by end FY08

In exhibit 4 we highlight on an annualised basis management's stated strategy to build the business towards £50m of sales and approaching £7m of EBIT by the end of FY08. We show an estimate of potential FY08 earnings for the current K3 business (we assume 10% sales growth in FY08 and a 50 Bpts improvement in margins) and an illustration of acquired target companies (we assume margins of 14% in-line with management's estimate of the typical margins of managed service players). We reach annualised EBITA of £6.5m. We assume that K3 pays a price of 0.7x sales for these businesses (equates to c. 7x earnings which seems reasonable for private sector targets). While we appreciate the simplicity of this analysis and the risk to finding and buying these businesses it does highlight management's understanding of the need to quickly scale the business and also the potential earnings enhancement as they look to scale-up. This analysis is based upon the issue of 7.5m shares at 120p (£9m) and the addition of £5m of debt at a rate of 6.5%

Exhibit 4: Illustrative "Annualised" FY08 P&L

	2007e	Organic	Acquired	Proforma 2008e
Sales	27,500	30,250	20,000	50,250
EBITA	3,194	3,673	2,800	6,473
Margin	12%	12%	14%	13%
Interest	100	110	(325)	(215)
PBT	3,294	3,783	2,475	6,258
Tax	(750)	(946)	(743)	(1,688)
Rate		25%	30%	27%
PAT	2,544	2,837	1,733	4,569
No.Shrs	19.3	19.3	-	26.8
EPS	13.2	14.7	-	17.0

Source: Edison Investment Research

Financials

Revenues and margins

The recent announcements of contract wins totalling in excess of £4m lends support to our revenue forecast of £25.4m in FY06 (+15%) and £27.5m in FY07 (+8%). The high growth rate in FY06 of 15% is due to the inclusion of IEG for the first full year following its acquisition (Jun 2005).

Revenue in H1 FY06 was £12.7m with particularly strong sales figures for Retail due to the rollout of licences at Carpetright. The forecast for Retail in H2 FY06 is £6.3m reflecting uncertainty over the completion of some deals before the year end. Revenue for Manufacturing will be much higher in the second half of FY06 since 40% of IEG annual revenue is recurring licence fees, all of which is invoiced in October of each year.

Margins for Retail were high in H1 FY06 (13%) due to the rollout of licences at Carpetright. We expect Retail margins to fall in H2 FY06 (8%) as staff are hired in preparation for new deals. We forecast a high margin for Manufacturing in H2 FY06 (20%) on account of licence fees, all of which are invoiced in October.

Exhibit 5: Revenue and margin assumptions

	FY 05 A	H1 06 A	H2 06 E	FY 06 E	% change	FY 07 E	% change
Revenues							
Retail	12,660	7,780	6,300	14,080	11%	15,500	10%
Distribution	1,800	1,000	1,000	2,000	11%	2,200	10%
Manufacturing	7,570	3,950	5,400	9,350	24%	9,800	5%
	22,030	12,730	12,700	25,430	15%	27,500	8%
Cost of sales							
Retail				(3,520)		(3,875)	
Distribution				(500)		(550)	
Manufacturing				(3,740)		(3,920)	
				(7,760)		(8,345)	
Gross Profit							
Retail				10,560		11,625	
Distribution				1,500		1,650	
Manufacturing				5,610		5,880	
				17,670		19,155	
Gross Margin							
Retail				75%		75%	
Distribution				75%		75%	
Manufacturing				60%		60%	
				69%		70%	
EBITA							
Retail	1,220	1000	504	1,504	23%	1,504	0%
Distribution	(80)	10	100	110	N/A	220	100%
Manufacturing	1,260	300	1080	1,380	10%	1,470	7%
	2,400	1,310	1,684	2,994	25%	3,194	7%
EBITA Margins							
Retail	10%	13%	8%	11%		10%	
Distribution	N/A	1%	10%	6%		10%	
Manufacturing	17%	8%	20%	15%		15%	
	11%	10%	13%	12%		12%	
Goodwill Amortisation				(2,200)		(2,100)	
EBIT				794		1,094	

Source: Edison Investment Research

Cash flow and net debt

2006 will see deals closing late in the year with a consequent rise in working capital requirements. In addition there will be c. £600k payment of VAT, earlier than previously scheduled, due to the tightening of payment dates. £500k of loans will also be repaid before the year end and £1.6m was raised on 6th October 2006 via a placement of shares in order to strengthen the balance sheet in readiness for future acquisitions. Our forecast for year end net cash is £1.3m.

We forecast a similar rise in working capital in FY07 (equivalent to c.10% of sales growth) and there will be a further £500k of loans repaid. K3 is expected to pay tax on account in FY07, resulting in both the tax for FY06 and 75% of the tax for FY07 hitting the cash flow in the same year.

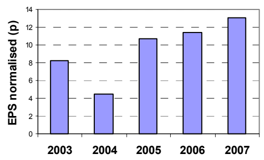
IEG is still undergoing an earn-out due to complete in November 2007. Up to £1.6m will be payable if the business generates PBT of £0.75m in each of the twelve months ending May 2006 and May 2007, and on account of this we have included a payment of £1m in our forecasts for FY07.

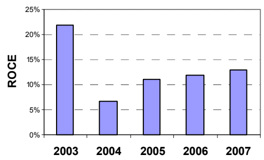
Exhibit 1: Financials

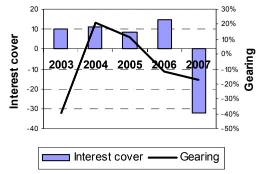
£'000s	2002	2003	2004	2005	2006e	2007e
Year-ending Dec						
PROFIT & LOSS						
Revenue	8,088	7,002	8,529	22,029	25,430	27,500
Cost of Sales	(1,469)	(958)	(1,727)	(8,136)	(7,760)	(8,345)
Gross Profit	6,619	6,044	6,802	13,893	17,670	19,155
EBITDA	1,181	1,256	818	2,749	3,194	3,394
Operating Profit (before GW and except.)	975	1,074	603	2,408	2,994	3,194
Goodwill Amortisation	(463)	(463)	(636)	(1,752)	(2,200)	(2,100)
Exceptionals	(173)	(705)	1,248	(90)	0	0
Other	0	0	0	0	0	0
Operating Profit	339	(94)	1,215	566	794	1,094
Net Interest	(73)	(105)	(55)	(287)	(200)	100
Profit Before Tax (norm)	902	969	548	2,121	2,794	3,294
Profit Before Tax (FRS 3)	266	(199)	1,160	279	594	1,194
Tax	108	(130)	(59)	(493)	(700)	(750)
Profit After Tax (norm)	1,010	839	489	1,628	2,094	2,544
Profit After Tax (FRS3)	374	(329)	1,101	(214)	(106)	444
Average Number of Shares Outstanding (m)	10.2	10.2	11.0	15.0	18.1	19.3
EPS - normalised (p)	9.9	8.2	4.5	10.9	11.6	13.2
EPS - FRS 3 (p)	3.7	(3.2)	10.0	(1.4)	(0.6)	2.3
Gross Margin (%)	81.8%	86.3%	79.8%	63.1%	69.5%	69.7%
EBITDA Margin (%)	14.6%	17.9%	9.6%	12.5%	12.6%	12.3%
Operating Margin (before GW and except.) (%)	12.1%	15.3%	7.1%	10.9%	11.8%	11.6%
BALANCE SHEET						
Fixed Assets	4,243	3,886	10,506	16,352	14,252	12,152
Intangible Assets	3,817	3,354	9,919	15,844	13,644	11,544
Tangible Assets	426	342	570	508	608	608
Investment in associates	0	0	0	0	0	0
Unquoted investments	0	190	17	0	0	0
Current Assets	4,021	3,784	6,671	7,470	10,403	11,358
Stocks	0	0	0	0	0	0
Debtors	3,868	2,558	6,268	6,596	7,585	8,951
Cash	123	1,226	403	874	2,818	2,408
Other	30	0	0	0	0	0
Current Liabilities	(4,869)	(4,706)	(9,345)	(10,583)	(11,694)	(12,432)
Creditors	(4,835)	(3,128)	(5,881)	(7,703)	(8,242)	(9,066)
Other creditors	0	(1,527)	(1,831)	(1,961)	(2,833)	(3,047)
Short term borrowings	(34)	(51)	(1,633)	(919)	(619)	(319)
Minority interests	0	0	0	0	0	0
Long Term Liabilities	(51)	0	(337)	(2,439)	(2,139)	(1,739)
Long term borrowings	(51)	0	(337)	(1,202)	(902)	(502)
Other long term liabilities	0	0	0	(1,237)	(1,237)	(1,237)
Net Assets	3,344	2,964	7,495	10,800	10,822	9,339
CASH FLOW						
Operating Cash Flow	471	1,365	1,244	4,267	2,744	2,852
Net Interest	(35)	(23)	(99)	(279)	(200)	100
Tax	0	(11)	(76)	(80)	(1,000)	(1,263)
Capex	(66)	(99)	(12)	(106)	(300)	(200)
Acquisitions/disposals	(105)	(95)	(2,344)	(5,153)	(200)	(1,000)
Financing	0	0	0	1,350	1,600	0
Dividends	0	0	0	0	0	0
Other	0	0	464	472	0	0
Net Cash Flow	265	1,137	(823)	471	2,644	490
Opening net debt/(cash)	227	(38)	(1,175)	1,567	1,247	(1,297)
HP finance leases initiated	0	0	(106)	(88)	(100)	(200)
Other	0	0	(1,813)	(63)	0	0
Closing net debt/(cash)	(38)	(1,175)	1,567	1,247	(1,297)	(1,587)

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 03-07e	12.1	ROCE 06e	11.9	Gearing 06e	N/A	Address:	
EPS CAGR 05-07e	10.0	Avg ROCE 03-07e	14.7	Interest cover 06e	15.0	Linden Business Centre, Linden Rd, Colne Lancashire BB8 9BA	
EBITDA CAGR 03-07e	28.2	ROE 06e	19.3	CA/CL 06e	0.9		
EBITDA CAGR 05-07e	11.1	Gross margin 06e	69.5	Stock turn 06e	N/A	Phone	01282 864111
Sales CAGR 03-07e	40.8	Operating margin 06e	11.8	Debtor days 06e	109	Fax	01282 867055
Sales CAGR 05-07e	11.7	Gr mgn / Op mgn 06e	5.9	Creditor days 06e	118	www.k3btg.com	

Principal shareholders	%
P J Claesson	20.5
Merill 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	30th May 2007
Final results	15th March 2007
*Note: * = estimated*	

Management team
CEO: Andy Makeham (52)
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 (54)
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 (59)
Tom was appointed as Chairman of the Board in May 2006. Tom has a wealth of experience in developing successful retail software companies.

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