

K3 Business Technology Group*

Software
KBT (FTSE AIM ALL SHARE)

¹ Value-added customisation

Investment Case

- H1 FY'09 results provide sufficient good news to expect delivery of full year numbers. A key positive was the closure of significant new business wins - 24 new contracts, worth a total of £4.5m (1HFY08: 20 deals, worth £2.4m).
- 1H'09 revenues declined 6.8% (£15.94m) with adj. Operating profit at £1.54m (-34%YoY). Nevertheless we expect a strong, seasonal, 2H recovery to EBIT of £7.0m for the year, -5%YoY.
- K3 has developed an extensive library of additional Microsoft modules, resulting in improved margins and increased differentiation. Gartner Group reports the strength of Microsoft Dynamics solutions in the Tier-2 (SME) market and also highlights demand for such a customised approach.
- Ongoing cost reductions implemented in H1'09 cost £200k but will deliver £650k saving in the course of 2H'09 with a further £0.5m in FY2010.
- We conclude that K3 remains undervalued in the light of the emphasis on added value through product customisation, combined with growth through acquisition.

1HFY'09 Results

Buy Upside
63%

What's Changed

2009E EPS	Unchanged	18.2p
2010E EPS	Increased from	19.7p to 20.2p
Rating		BUY
Price Target	Unchanged	137p

Price 84p
Target Price 137p



Source: Proquote

Shares in issue	23.8m
Net Debt/(Cash)	£8.8m
Market Cap	£20.0m
Enterp. Value	£28.7m
NAV/Share	131.9p
Next Event	FY'09 Mar'10

Net Debt is current year estimated

*Daniel Stewart acts as Broker and NOMAD to K3 Business Technology Group

Forecasts (£m) 12/07A 12/08A 12/09E 12/10E

Turnover	34.1	37.6	36.5	37.6
EBITDA	6.1	7.7	7.2	7.6
PBT	4.7	5.9	6.0	6.6
Tax (%)	21	29	28	28
EPS (p)	16.3	17.9	18.2	20.2
DPS (p)	0.5	0.5	0.5	0.5

Ratios (x) 12/07A 12/08A 12/09E 12/10E

P/E	5.1	4.7	4.6	4.2
EV/EBITDA	4.7	3.7	4.0	3.8
Yield (%)	0.6	0.6	0.6	0.6
Price/NAV	0.8	0.7	0.6	0.6

Data is adjusted

Company Description

Largest UK Microsoft Dynamics software value-added provider; retail, manufacturing focus.
www.k3btg.com



2H Gathering Momentum

Improvement towards a “strong” 2H’09

K3 reported improvement into 2Q’09 following a muted start to FY’09, exacerbated by delays to the closure of orders in late 2008 which impacted on 1Q’09 service income; the company is now anticipating a “strong” second half.

In 1H’09 K3 delivered:

- Revenue of £15.94m, -6.8%YoY;
- EBIT (adj.) of £1.54m -33.6%YoY (DSC E £1.77m);
- EBITDA (adj.) at £1.69m -33.8%YoY.

Retail Business – UK stable / Holland impacted by recession

Retail Revenues: 1H £9.83m -6%YoY, Operating contribution £1.16m -28%YoY

Together the UK and Dutch operations generated revenues of £9.83m (-6% yoy) and an operating contribution of £1.16m (-28% yoy), with the UK responsible for 79% of revenues at £7.80m and an operating profit of £0.85m, (+10%). UK margins improved to 10.9% from 9.7%.

The UK Retail segment added £2.0m of new business contracts in 1H (2008: £1.2m), backed by demand for K3’s own multi-channel solutions and improved account management and resulting customer loyalty. K3 sees “strong pipelines going into 2H”.

The downturn that K3’s UK Retail operations experienced in 2008 hit K3’s European retail operations in 1H09 although 2 significant new contracts were signed in 1H which will benefit the second half. K3 notes that spending by IKEA slowed initially, but is now improving. K3 Netherlands registered revenues of £2.02m, -17%YoY, with an operating contribution of £0.31m -63%YoY.

Manufacturing core business “exceeded expectations”; £6.1m -8%YoY

The three discrete business units making up the Manufacturing Division, delivered combined revenues of £6.12m, -8.1% YoY and an operating contribution of £0.53m (1H’08 £1.02m).

K3SCS, K3’s core manufacturing business unit, won 14 new customer orders in 1H worth £2.1m, compared to a total of 10 orders in 2008 valued at £1.1m. Five of the new orders are worth over £175k, compared to one of the same scale in 2008, pushing the average order value up significantly. Importantly, the wins will support services income in the second half. H1 revenues at SCS were £4.05m (2008: £4.07m) and operating profit rose to £0.38m (2008: 0.28m) to the Division’s results.

1H results were in line with our outlook and indicate “resilience” in the face of the well-known downturn in demand which initiated in late 2008. We expect that the impact of delayed 2008 orders should be eliminated by 2H’09.

UK retail performed well, adding £2.0m in new contracts and improved margins, although revenues declined 3% overall YoY. K3 sees a “strong” 2H pipeline.

FY’09 EBITDA margin (E): 16.5%

Recessionary impact in the Netherlands lags the UK.

FY’09 EBITDA margin (E): 25.1%.

K3Walton that looks after smaller manufacturing customers registered revenues of £1.26m (1H'08 £1.45m); operating contribution £0.45m (1H'08 £0.56m);

K3Ax (previously Index Computing), which provides 'process' based manufacturing solutions saw slippage of contracts from H1 to H2 and as a result registered a £0.31m (adj.) loss (1H'08 £0.18m profit) on revenues of £0.80m (1H'08 £1.14m). The management and sales teams have now been refreshed, and a cost reduction exercise has been implemented. An improving pipeline, with some prospects at an advanced stage should underpin a second half recovery.

Full year outlook unchanged at £7.0m EBIT (adj.) supported by cost reduction

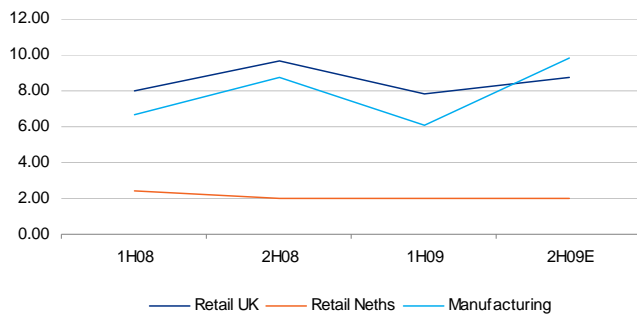
Following the impact of order delays in late 2008, we expected a shortfall in 1H performance, amplified by normal seasonality. Our full-year EBIT outlook of £7.0m is unchanged, indicating an operating contribution of £5.4m in 2H. Underpinning this outlook is an expected £0.65m in 2H cost reduction with a further £0.5m in FY2010.

Our FY'09 (adj.) EBIT outlook remains £7.0m.

1H'09 Performance

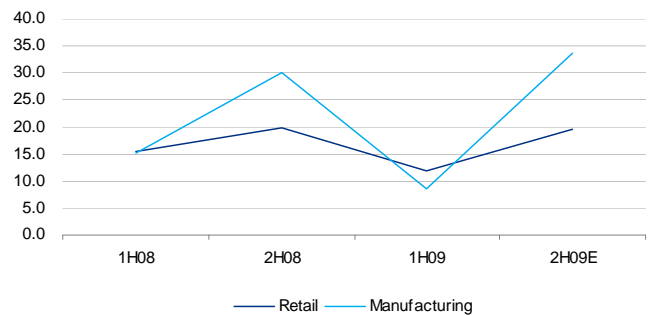
Charts 1 and 2 outline seasonality in revenue contribution and profitability.

Chart 1: Revenue by Division (£m) to 2H'09(E)



Source: Company Data

Chart 2: Operating Margin (%) to 2H'09 (E)



Source: Daniel Stewart

Table 1: Income Statement; 1H'09 results and FY'09(E) Outlook (£m)

Income Statement	1H08	2H08	1H09	2H09E	1H'09 YoY(%)	2007	2008	2009E	YoY(%)
Retail Revenues	10.45	11.73	9.83	10.76	(6.0)	20.5	22.2	20.6	(7.2)
Retail EBITDA	1.68	2.40	1.22	2.17	(27.3)	2.9	4.1	3.4	(17.2)
<i>Mrg (%)</i>	16.1	20.4	12.5	20.1		14.3	18.5	16.5	
Manufacturing Revenues	6.66	8.78	6.12	9.81	(8.1)	13.5	15.4	15.9	3.2
Manufacturing EBITDA	1.17	2.67	0.61	3.39	(48.2)	3.6	3.8	4.0	4.2
<i>Mrg (%)</i>	17.5	30.4	9.9	34.6		26.9	24.8	25.1	
Revenues	17.11	20.51	15.94	20.56	(6.8)	34.1	37.6	36.5	(3.0)
Gross	11.55	14.80	10.20	15.10	(11.6)	22.7	26.3	25.3	(3.9)
<i>Mrg (%)</i>	67.5	72.1	64.0	73.5		66.6	70.0	69.3	
COGS	(5.56)	(5.71)	(5.74)	(5.46)	3.1	(11.4)	(11.3)	(11.2)	(0.7)
SG&A	(9.00)	(9.67)	(8.52)	(9.55)	(5.3)	(16.7)	(18.7)	(18.1)	(3.2)
Dep.	(0.23)	(0.10)	(0.14)	(0.14)	(36.4)	(0.3)	(0.3)	(0.3)	(11.5)
Op (adj)	2.32	5.03	1.54	5.41	(33.6)	5.8	7.3	7.0	(5.4)
<i>Mrg (%)</i>	13.6	24.5	9.7	26.3		16.9	19.5	19.0	
Amortisation	(0.75)	(1.13)	(0.81)	(1.06)	8.3	(0.9)	(1.9)	(1.9)	0.0
Share-based payments	(0.06)	(0.04)	(0.06)	(0.05)	(9.8)	(0.2)	(0.1)	(0.1)	(2.9)
Op (rptd)	1.51	3.86	0.68	4.30	(55.3)	4.7	5.4	5.0	(7.3)
<i>Mrg (%)</i>	8.8	18.8	4.2	20.9		13.8	14.3	13.6	
EBITDA (adj)	2.55	5.12	1.69	5.55	(33.8)	6.1	7.7	7.2	(5.6)
<i>Mrg (%)</i>	14.9	25.0	10.6	27.0		17.8	20.4	19.8	
Disposals/Other	0.00	(0.01)	0.00	0.00		0.0	(0.0)	0.0	
Interest (net)	(0.60)	(0.81)	(0.54)	(0.44)		(1.0)	(1.4)	(1.0)	
PBT (rptd)	0.91	3.03	0.13	3.87	(85.6)	3.7	3.9	4.0	1.4
PBT (adj)	1.72	4.22	1.00	4.98	(41.9)	4.7	5.9	6.0	0.5
Tax	(0.17)	(0.97)	(0.02)	(1.65)		(0.8)	(1.1)	(1.7)	47.1
Tax rate	9.7	23.0	2.3	33.2		20.7	28.8	28.0	(2.9)
PAT (rptd)	0.74	2.06	0.11	2.22		2.9	2.8	2.3	(17.1)
PAT (adj)	1.34	3.25	0.98	3.33		3.7	4.3	4.3	(0.1)

Source: Daniel Stewart

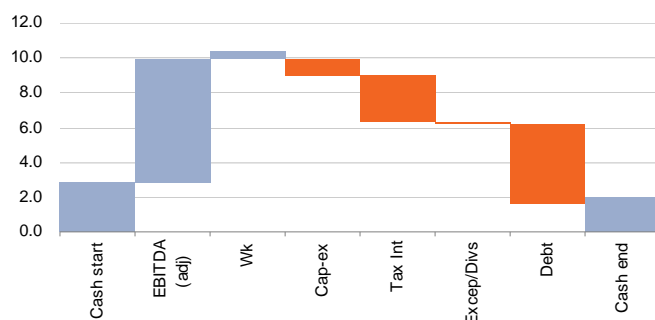
Cashflow, Net Debt Outlook

Cashflow and net debt

K3 has demonstrated strong management of working capital and has generated a 1H'09 cash inflow from operations of £0.475m in contrast to a 1H'08 £0.630m outflow. The net reduction in cash for the period was £3.33m, compared to a 1H'08 £4.0m reduction, inclusive of a £2.1m cut in borrowings compared to a £1.0m reduction a year earlier.

Our outlook for the full year is shown in Chart 3. We expect a FY'09 year-end cash position of £2.0m and net debt of £8.8m (1.2x EBITDA) compared to £13.5m at the interim. Our cashflow outlook, described in Chart 3, shows the impact of progressive cashflow entries, from starting cash position, the addition of (EBITDA) earnings contribution, and subsequent impact of changes in working capital, interest and tax and debt reduction.

Chart 3: FY'09 Cashflow Outlook (£m)



Source: Daniel Stewart

Debt to reduce to £0.4m by Dec'11 (E) (Gross Debt £3.8m)

Our outlook for gross and net debt reduction in 2009-11(E) is shown in Chart 4.

At 1H'09 debt principally comprised:

Bank loans: long-term £8.6m

Bank loans: short-term £4.3m

Other: £0.6m

Sum: £13.5m (1H'08 £16.7m)

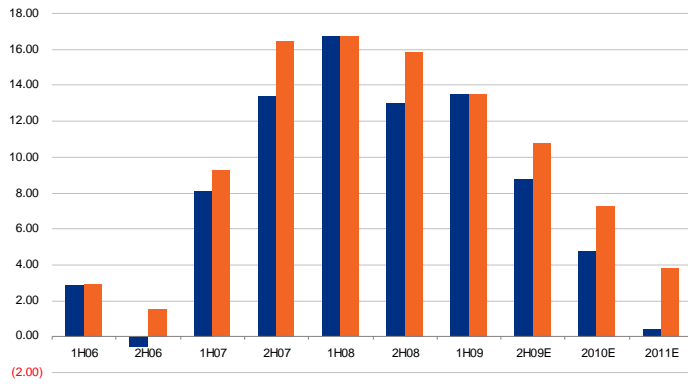
Tax:

K3 incurred 1H'09 tax of £23k, comprising UK corporation tax of £203k offset by prior-years adjustment (£31k) and a deferred tax benefit of £149k.

We expect a reduction in bank debt and resulting net debt position as follows:

- FY'09 -£4.5m, net debt £8.8m;
- FY'10 -£3.5m, net debt £4.8m;
- FY'11 -£3.5m, net debt £0.4m.

Chart 4: Gross Debt and Net Debt Outlook to 2011(E) (£m)



Source: Daniel Stewart

Emphasis on Customisation

K3's *Developing Dynamics* strategy involves building new modules for the Microsoft platform to improve margins and deliver a competitive edge

K3 remains Microsoft's leading MS Dynamics partner in the UK, (specialising in MS Dynamics NAV and MS Dynamics Ax) where desktop-based Dynamics solutions now compete effectively with SAP and Oracle for Tier-2 corporate business (i.e., SMEs in the 100-999 employee range). There is clear evidence that Microsoft's solutions have gained ground. For example, in its May '09 "Magic Quadrant" survey of Tier-2 ERP solutions Gartner Group sees the segment as having undergone a "changing of the guard," with established systems being displaced. Amongst key trends it highlights "industry-specific functionality".

Microsoft Dynamics "leader" in Tier-2 ERP

Gartner concludes that "only one offering qualifies as a leader in the market at this time: Microsoft Dynamics AX". It adds "users are dependent on both Microsoft and the implementation partner for support". It comments that "SAP Business All-in-One is one of the broadest and deepest solutions in the market", but notes that "challenges with solution complexity and cost prevent this offering from becoming a leader just yet".

K3 remains Microsoft's leading UK distributor of its Dynamics solution.

Gartner Group (4th June 2009) detects a "changing of the guard" in the Tier-2 market, to conclude "only one offering qualifies as a leader in the market at this time: Microsoft Dynamics AX".

Gartner Group survey; see: <http://mediaproducts.gartner.com/reprints/microsoft/vol4/article12/article12.html>

Figure 1: Gartner Group Tier-2 ERP Magic Quadrant, May 2009



Source: Daniel Stewart

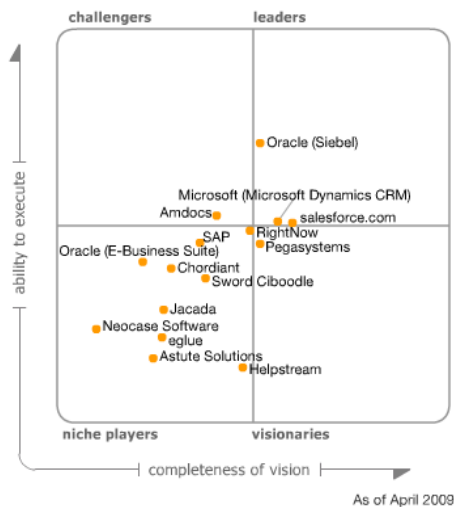
Microsoft Dynamics CRM

Gartner Group places Microsoft Dynamics CRM in relatively close proximity to Oracle's (Siebel) solutions, noting "the current generation of CRM application providers in the customer service contact centre space continues to lag behind users' needs", and highlights at the top of the list of the most-pressing requirements "multichannel capabilities (e-mail, chat, telephone, Short Message Service) delivered as a standard feature, rather than complex customisation".

Gartner Group CRM Magic Quadrant
April 2009:

<http://mediaproducts.gartner.com/reprints/microsoft/vol9/article3/article3.html>

Figure 2: Gartner Group CRM providers Magic Quadrant, April 2009



Source: Daniel Stewart

K3's Developing Dynamics strategy enhances margins

K3's *Developing Dynamics* strategy builds on the MS Dynamics core to offer a wrap-round IP customisation, for example the Multichannel Retail solution that has underpinned the majority of orders in 2008 and 2009. In our view this process can effectively increase margin on MS products by 70%+, whilst increasing barriers to entry. As a logical next step K3 is considering licensing self-developed IP to other major Microsoft partners, worldwide.

Closed Loop

Secondly, K3's "Closed Loop" model involves buying legacy user bases (and IP) which can be nurtured to maximise profitability, whilst offering an upgrade path to Microsoft based solutions for customers wishing to migrate to newer technology. This strategy has proved very successful in keeping customers loyal to K3.

Resilience: 45% of Revenue Contracted, 30% Account Mgt.

K3 reports some 1,500 customer accounts currently worldwide, including IKEA, Adidas, Carpetright and Alliance Boots.

We estimate that some 45% of revenue is derived from contracted recurring annual licence and maintenance income. In addition, approximately a further 25% could be anticipated in the form of existing customers either buying software upgrades or additional modules and

A three-part strategy involves:

- *Developing Dynamics*, emphasis on customised solutions;
- *Closed Loop*: acquisition of customer bases and upgrades;
- *Resilience*: recurring contracted income 45%, account management from existing customers 30%

services. Overall this supports the view that K3 has forward visibility on some 75% of its revenue base, a figure that compares to 60% in 2007 and 50% in 2006.

Valuation Unchanged: 137p

Table 2 summarises our updated DCF valuation.

The key features are:

- WACC: 13.7%;
- Terminal growth rate: 1.0%;
- Perpetuity as a percentage of EV: 59.0%;
- Net debt (FY'09E): £8.8m;
- Equity valuation: £32.4m;
- Per share valuation: 136.8p;
- Implied Dec'11 EV/EBITDA 5.2x.

DCF-implied valuation of 136.8p / share.

Peer-group average FY'11 EV/EBITDA valuation at 5.7x indicates 154p /share.

Table 2: Valuation

DCF	£m	Cashflows	2009E	2010E	2011E	2012E	2013E	2014E
		Operating Profit	4.98	5.31	5.60	6.23	6.66	7.12
Risk Free Rate	4.50%	Amortisation	(1.88)	(1.88)	(1.88)	(1.88)	(1.88)	(1.88)
Eq. risk premium	4.80%	EBITA	6.85	7.19	7.47	8.10	8.54	8.99
Beta unlevered	1.88	Depreciation	(0.29)	(0.29)	(0.29)	(0.29)	(0.29)	(0.29)
Debt/Equity	25%	EBITDA (adj)	7.14	7.47	7.76	8.39	8.82	9.28
Debt/EV	20.0%	Working capital	0.26	0.09	0.12	0.15	0.16	0.17
Cost of Debt		SBP	0.10	0.11	0.11	0.12	0.12	0.13
Debt Premium	4.5%	Net cap-ex	(1.00)	(1.00)	(1.00)	(1.00)	(1.00)	(1.00)
Pre-tax cost of debt	9.0%	Op CF	6.50	6.66	6.99	7.66	8.11	8.58
Corporate tax rate	28.0%	Taxation	(1.67)	(1.86)	(1.99)	(2.19)	(2.31)	(2.44)
Beta - Levered	2.15	Net interest	(0.98)	(0.65)	(0.48)	(0.41)	(0.40)	(0.40)
Levered Equity	14.8%	Free CF	3.85	4.15	4.52	5.06	5.39	5.73
WACC	13.7%							
WACC adj.	13.7%							
Cashflows			4.25	3.72	3.40	3.28	3.05	2.85
PV CF		Days	128	365	365	365	365	237
PV CF	16.8		1.49	3.72	3.40	3.28	3.05	1.85
Terminal growth rate	1.0%							
Perpetuity	24.4							
Sum	41.2	Implied EV/EBITDA (x)	5.7	5.4	5.2	4.8	4.6	4.4
Net debt	8.8							
Equity	32.4							
Per share (p)	136.8							

Source: Daniel Stewart

Comparison: EBITDA multiple-based valuation.

K3's immediate peers (Prologic, Sanderson, Clarity Commerce, Maxima, Charteris) trade on EV/EBITDA multiples of between 1.7x and 11.0x, with the average at 5.7x (+1 year consensus estimates).

Comparative Valuation

Table 3 summarises K3's comparative valuation versus its peers. The commentary included is taken from recent reported earnings updates.

Table 3: Peer group comparative valuation

Company	Y/E	Mkt cap (£m)	PE (x)	EV/EBITDA (x)	Net Debt (Cash)	Recurring Revenue (%)	Yield (%)	Price (p)
K3 [KBT]	Dec	20.0	4.6	4.0	8.8	75.0	0.6	84.0
Prologic [PGC]	Mar	3.9	8.1	1.7	(1.1)	53.0	<i>n.m.</i>	38.5
	March'09: "in line with expectations"							
Sanderson [SND]	Jun	7.8	4.9	8.1	10.7	49.0	2.5	18.0
	Interim '09: "goal of debt reduction "							
Clarity Commerce [CCS]	Mar	15.9	11.0	11.0	(0.5)	<i>n.a.</i>	<i>n.m.</i>	49.5
	Mar '09: "ahead of market expectations"							
Maxima [MXM]	Nov	23.2	5.6	4.7	15.5	56.0	4.3	92.0
	May '09: "difficult market conditions"							
Charteris [CAE]	Jul	4.8	16.4	3.0	(1.7)	<i>n.a.</i>	<i>n.m.</i>	11.5
	April '09 "recession ... continued to create difficult trading conditions"							

Source: Daniel Stewart

Table 4: Peer Multiple-Implied K3 Valuation

	EV/EBITDA (x)	K3 per share implied (p)	DCF implied WACC (%)
Clarity Commerce	11.0	329.7	7.5
Sanderson	8.1	235.2	9.5
Maxima	4.7	120.1	15.4
Charteris	3.0	63.5	22.0
Prologic	1.7	21.2	<i>n.m.</i>
Average	5.7	153.8	13.0

Source: Daniel Stewart



Financial Summary and Outlook

Table 5: Financial Summary and Outlook to FY'11(E) (£m)

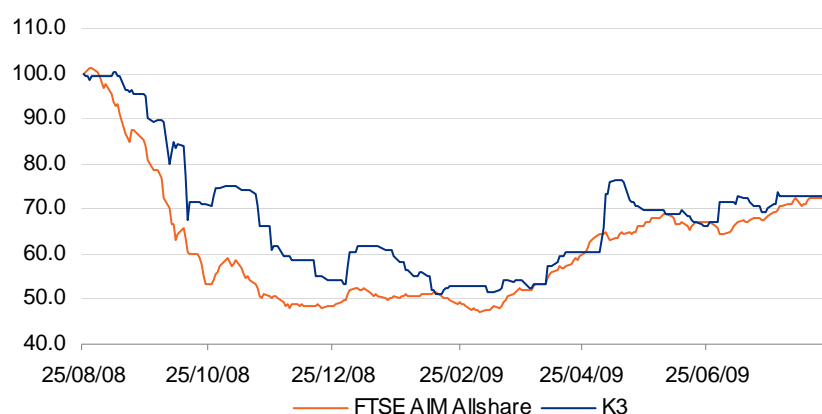
Income Statement (£m)	2006	2007	2008A	2009E	2010E	2011E
Revenues	27.3	34.1	37.6	36.5	37.6	39.2
Gross	16.7	22.7	26.3	25.3	26.1	27.4
	<i>Mrg (%)</i>	<i>61.1</i>	<i>66.6</i>	<i>70.0</i>	<i>69.3</i>	<i>69.9</i>
SG&A	(13.5)	(16.7)	(18.7)	(18.1)	(18.6)	(19.5)
	<i>Mrg (%)</i>	<i>(49.2)</i>	<i>(48.8)</i>	<i>(49.6)</i>	<i>(49.5)</i>	<i>(49.8)</i>
Dep	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Op (adj)	2.9	5.8	7.3	7.0	7.3	7.6
	<i>Mrg (%)</i>	<i>10.7</i>	<i>16.9</i>	<i>19.5</i>	<i>19.0</i>	<i>19.3</i>
Amortisation	0.0	(0.9)	(1.9)	(1.9)	(1.9)	(1.9)
Share-based payments	(0.1)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)
Op (rptd)	2.8	4.7	5.4	5.0	5.3	5.6
	<i>Mrg (%)</i>	<i>10.4</i>	<i>13.8</i>	<i>14.3</i>	<i>13.6</i>	<i>14.1</i>
EBITDA (adj)	3.2	6.1	7.7	7.2	7.6	7.9
	<i>Mrg (%)</i>	<i>11.9</i>	<i>17.8</i>	<i>20.4</i>	<i>19.8</i>	<i>20.1</i>
Interest (net)	(0.3)	(1.0)	(1.4)	(1.0)	(0.7)	(0.5)
PBT (rptd)	2.6	3.7	3.9	4.0	4.7	5.1
PBT (adj)	2.7	4.7	5.9	6.0	6.6	7.1
Tax	(0.8)	(0.8)	(1.1)	(1.7)	(1.9)	(2.0)
PAT (rptd)	1.7	2.9	2.8	2.3	2.8	3.1
PAT (adj)	1.8	3.7	4.3	4.3	4.8	5.1
Balance sheet (£m)	2006	2007	2008A	2009E	2010E	2011E
Cash	2.15	3.09	2.84	2.02	2.50	3.35
Accounts Receivable	8.62	10.98	10.69	10.50	10.83	11.27
Total Current Assets	10.77	14.07	13.52	12.52	13.33	14.63
Goodwill net	15.96	31.49	33.23	28.04	26.16	24.29
Net Fixed assets	0.42	1.31	1.33	2.61	3.33	4.04
Deferred tax, other	1.59	12.75	12.54	12.54	12.54	12.54
Fixed assets	17.96	45.55	47.10	43.19	42.03	40.87
Total Assets	28.73	59.62	60.62	58.99	58.24	58.10
Accounts Payable	11.85	14.70	13.23	13.30	13.72	14.28
Short-term debt	0.86	4.04	5.49	4.49	4.49	3.62
Tax, Provisions, Other	1.00	0.64	0.31	0.31	0.31	0.31
Total Current Liabilities	13.71	19.39	19.04	18.11	18.52	18.21
LTD	0.71	12.44	10.35	6.30	2.80	0.17
Total Liabilities	14.42	35.90	32.75	27.77	24.69	21.75
Share Capital	4.87	5.93	5.94	5.94	5.94	5.94
Share Premium	1.39	1.59	1.62	1.62	1.62	1.62
Adjustments, other	5.94	10.98	12.44	12.99	12.99	12.99
Profit/Loss	2.11	5.23	7.87	10.68	13.01	15.81
Total Equity	14.31	23.72	27.87	31.22	33.55	36.35
Total Liabilities & Shareholders' Equity	28.73	59.62	60.62	58.99	58.24	58.10
Cashflow (£m)	2006	2007	2008A	2009E	2010E	2011E
EBITDA (adj)	3.16	6.10	7.57	7.14	7.47	7.76
Working capital	(1.13)	(0.14)	(1.54)	0.26	0.09	0.12
Share-based payments	0.09	0.15	0.10	0.10	0.11	0.11
Net cap-ex	(0.38)	(0.64)	(1.33)	(1.00)	(1.00)	(1.00)
Op CF	1.74	5.47	4.79	6.50	6.66	6.99
Taxation	0.02	(2.07)	(1.14)	(1.67)	(1.86)	(1.99)
Net interest	(0.26)	(1.04)	(1.42)	(0.98)	(0.65)	(0.48)
Free CF	1.50	2.36	2.24	3.85	4.15	4.52
Acquisitions (incl. earnout)	(1.46)	(19.07)	(0.29)	0.00	0.00	0.00
Disposals	0.01	2.65	0.02	0.00	0.00	0.00
Exceptional Items	0.00	0.00	(0.12)	0.00	0.00	0.00
Dividends Paid	0.00	0.00	(0.12)	(0.12)	(0.12)	(0.12)
Net CF	0.06	(14.06)	1.73	3.73	4.04	4.40
Inc/Dec in Borrowings	(0.38)	14.67	(2.59)	(4.50)	(3.50)	(3.50)
Lease Capital	(0.26)	(0.13)	(0.04)	(0.05)	(0.05)	(0.05)
Issue/Purchase Shares	1.83	0.26	0.02	0.00	0.00	0.00
Eq FCF	1.25	0.75	(0.88)	(0.82)	0.49	0.85
Forex, other	0.03	(0.11)	0.63	0.00	0.00	0.00
Net Change in Cash	1.28	0.64	(0.25)	(0.82)	0.49	0.85

Source: Daniel Stewart

Share Price Performance

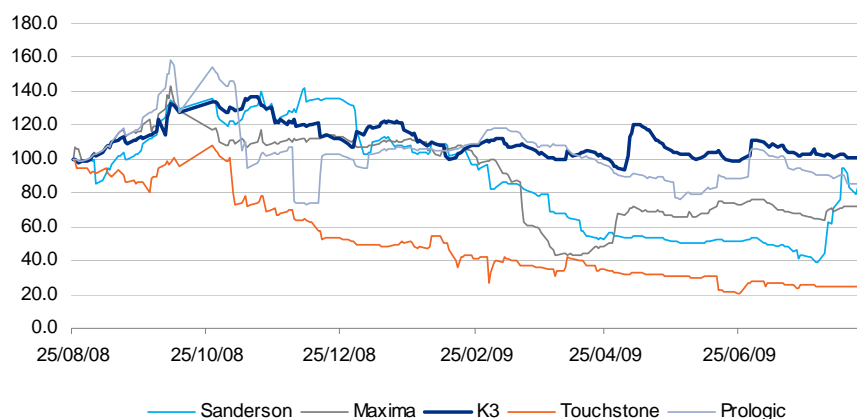
K3 has out-performed its peers over the past year and also, marginally, out-performed FTSE AIM Allshare (data rebased). Its recovery in the March 2009 rally has been less marked.

Chart 5: K3 Share Price Performance Rebased, FSTE AIM Allshare



Source: Daniel Stewart

Chart 6: K3 and Peers, Year-to-Date, Rebased



Source: Daniel Stewart

Comment.

Year-to-date:

- K3 -27.3%;
- FTSE AIM Allshare -27.6%;
- Prologic -38.4%;
- Sanderson -41.0%;
- Maxima -50.0%.

Recovery from March 2009:

- K3 +34.4%;
- FTSE AIM Allshare +44.9%;
- Prologic +10.0%;
- Sanderson +44.0%;
- Maxima 58.6%.



Disclosure Checklist

Company	Code	Disclosure
K3 Business Technology Group	KBT	2, 3, 6

Source: Daniel Stewart

1. Within the past twelve months Daniel Stewart & Co plc and/or its affiliates has managed or co-managed a public offering for this Company, for which it received fees or the promise of fees
2. Daniel Stewart & Co plc and/or its affiliates act as corporate broker or nominated advisor to this Company
3. Daniel Stewart & Co plc and/or its affiliates regularly hold/may hold in future trading positions (which may include options) in this Company
4. Daniel Stewart & Co plc and/or its affiliates holds more than 5% of the securities of this Company
5. The Company holds more than 5% of the securities of Daniel Stewart & Co plc and/or its affiliates
6. Daniel Stewart & Co plc and/or its affiliates may currently be providing, expects to provide within the next three months or may have provided within the previous twelve months, investment banking services to this Company, which have given rise to payment or the promise of payment
7. The author and/or an individual responsible for production of this report has direct ownership of stock in this Company
8. The author responsible for the production of this report received or purchased shares in the issuer, prior to a public offering of the shares.
9. Daniel Stewart and Company is party to an agreement with this company for the publication of research on it
10. This research note has been disclosed to the Company, with resulting amendments, prior to its dissemination
11. Daniel Stewart & Co and/or its affiliates act as financial advisor to this company

The Daniel Stewart recommendation structure is based on relative upside/downside to target price. The target price is set on a rolling 12 month view. Upside or downside of 10% or more is categorised as Buy or Sell respectively, and less than 10% a Hold.

Although reasonable care has been taken by Daniel Stewart & Co plc to ensure the facts stated and opinions given and projections made in this document are fair and accurate, Daniel Stewart & Co plc has not independently verified all the information given in this document.

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Distribution of Ratings

	All Companies	Of which are Investment Banking Clients in the last 12 months
Buy	67%	33%
Hold	25%	18%
Sell	8%	0%

data as of 31 March 2009

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Authorised and Regulated by the Financial Services Authority. July09

Key Assumptions

- 2H FY'09 recovery gathers momentum
- Strong cash generation available to reduce debt

Income (£m)	12/07A	12/08A	12/09E	12/10E
Turnover	34.1	37.6	36.5	37.6
Gross Profit	22.7	26.3	25.3	26.1
EBITDA	6.1	7.7	7.2	7.6
EBIT	5.8	7.3	7.0	7.3
PBT	4.7	5.9	6.0	6.6
EPS (Adj.) (p)	16.3	17.9	18.2	20.2
EPS (p)	13.4	11.7	9.8	11.8
DPS (p)	0.5	0.5	0.5	0.5

Ratios (x)	12/07A	12/08A	12/09E	12/10E
P/E	5.1	4.7	4.6	4.2
EV/EBITDA	4.7	3.7	4.0	3.8
Div. Yield (%)	0.6	0.6	0.6	0.6
P/NAV	0.8	0.7	0.6	0.6
EV/Gross profit	1.3	1.1	1.1	1.1
EV/EBIT	5.0	3.9	4.1	3.9
P/FCF	n/a	48.4	22.5	20.8
FCF Yield (%)	(16.7)	2.1	4.4	4.8
NAV (p)	109.3	117.7	131.9	141.7

Cash Flows (£m)	12/07A	12/08A	12/09E	12/10E
Op.CF	5.5	4.8	6.5	6.7
FCF	(14.1)	1.7	3.7	4.0
FCFPS (p)	(14.1)	1.7	3.7	4.0

Balance Sheet (£m)	12/07A	12/08A	12/09E	12/10E
Fixed Assets	45.5	47.1	43.2	42.0
Current Assets	14.1	13.5	12.5	13.3
Current Liabilities	(19.4)	(19.0)	(18.1)	(18.5)
Capital Employed	23.7	27.9	31.2	33.5
Long-term Liabilities	(16.5)	(13.7)	(9.7)	(6.2)
Net Assets	23.7	27.9	31.2	33.5
Net Debt/(Cash)	13.4	13.0	8.8	4.8

Data is adjusted
DSC EPS is fully diluted

Recent News / Events

1 July 2009 ~ FY'09 Trading Update

Management Team

Non-exec Chairman: Thomas Milne

CEO: Andy Makeham

CFO: David Bolton

Major Shareholders	% Held
Claesson PJ Esq.	21.78
Blackrock IM	8.38
Laxnes BV	6.74
Nordea Bank	6.73
Yfm Private Equity	4.75
Bluehone Inv.	4.43
Banque Invik (Lux)	3.76
Altenberg-Reval	3.54
Bolton DJ Esq.	3.29
Makeham NA Esq.	3.20
Hargreave Hale & Co	2.54
Nordea Bank Denmark	2.45
Brewin Dolphin Secs.	1.67
MD Barnard	1.49
Latham AA Esq.	1.38
Sum	76.13

Source: Argus Vickers 31st Jul'09

Consensus and DSC Estimates

	12/09E
PBT (£m)	6.0
DSC E	6.0
EPS (p)	17.8
DSC E	18.2
DPS (p)	0.5
DSC E	0.5

Source: Fidessa