

AUSTRALIAN

RESEARCH



This is an extract from the December edition of the Technology and Telecommunications Review.

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Allied Technologies Group (ATZ)



Company Overview

ATZ consists of three business units; Allied Group (Allied), TUSC Computer Systems (TUSC) and Servicepoint. Allied specializes in the installation and maintenance of the cable and software infrastructure integral to data, voice, and video networks. Allied has a high quality and long standing customer base, consisting of several large Federal Government departments, including Defence. TUSC specializes in software integration services for complex network management applications targeting the telecommunications, utilities, and enterprise sectors. TUSC is one of Australia's most experienced and highly regarded integrators of network monitoring applications in the utilities sector and the IT service management space and has a long and entrenched relationship with Telstra in the telecommunications segment. Servicepoint is a specialist provider of secure videoconferencing and video messaging systems and services to the government and corporate sectors in Australia.

Strategy

ATZ intends to grow organically and through acquisition. While organic growth strategies differ, each business unit intends to increase its presence in the corporate segment and generate higher recurring revenues and operating margins through the provision of ongoing maintenance services. The TUSC acquisition was intended to diversify earnings and reduce ATZ's exposure to government expenditure. It was also intended to generate various synergies, primarily customer cross-sell opportunities, geographic complementarities, and to provide a more comprehensive service offering. ATZ has signaled it will undertake further acquisitions, targeting companies that expand ATZ's product offering with convergent network capability and network security targeted.

Key Executives

ATZ has a highly experienced and stable management team. Key personnel are: Ray Doak (MD, Allied founder) 15 years IT&T management experience; Michael Addison (Exec Chairman) 20 years corporate finance experience; Gary Allan (CTO) 30 years of military, govt. and commercial experience in snr management and ICT technology; John Fletcher (CFO) 30 years accounting experience. Andrew Berriman, Rod Barden and Noel More provide additional ICT industry expertise. Daryll Goodall (MD TUSC) 20 years IT industry experience. John Gwyther (TUSC Chairman) has joined the ATZ Board.

Business Model

ATZ has a medium risk business model. A large percentage of Allied's revenues derive from repeat business, with a dominant percentage of revenue generated through long-term contracts with Defence and Federal Govt. Depts. Non-government related work, however is typically shorter-term and non-recurring in nature. TUSC's systems integration services are generally based on medium to long-term contracts, given the complex nature of such applications, and TUSC has a high degree of repeat business. Both business units have material customer concentration and contract risk through Defence (Allied) and Telstra (TUSC) contracts. Both the Allied and TUSC business units have predominantly variable, headcount related cost models.

Catalysts

ATZ was sold down significantly following the issue of a 10-15% FY05 earnings downgrade in November. We view the cause of the downgrade as largely a timing issue, attributable to several TUSC contract deferrals and Federal Election related contract delays. With ATZ's underlying earnings growth strong we would anticipate a return to solid earnings growth in the 2H05 period. However, given what is effectively ATZ's newly listed status the market may require tangible evidence of earnings growth before a material re-rating.

Key investment information

Market Cap (\$M):	\$16.7M
Capital Structure	
Ord shares on issue (M):	53.1M
Options ("in-the-money"):	0.0M
Convertible notes/oth (M):	Nil
Fully diluted capital (M):	53.1M
Price as at 14 Dec 04:	\$0.32
12 month H/L:	\$0.53-\$0.20
Share Turnover (\$M pa):	\$1.6M
Official listing date:	Jan '01

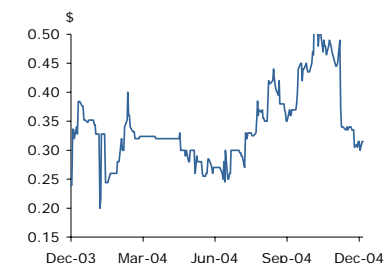
Substantial shareholders (%)

Ray Doak	41.8%
Con Stathis	8.6%
Michael Addison	6.5%

Balance sheet data

Net Cash as at 30 Sep 04 (\$M):	\$3.4M
Working capital ratios:	2.4x
Gearing:	0%

Share price performance



Source: IRESS

Company contact

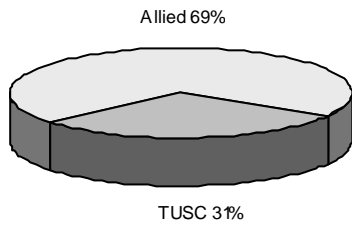


Ray Doak

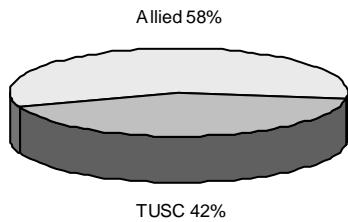
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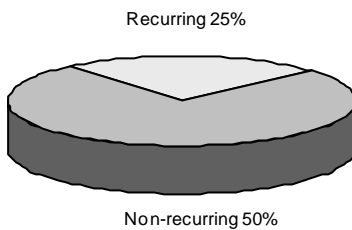
Revenue by Division



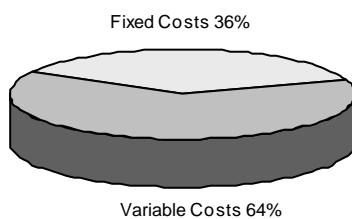
Earnings by Division



Revenue Profile

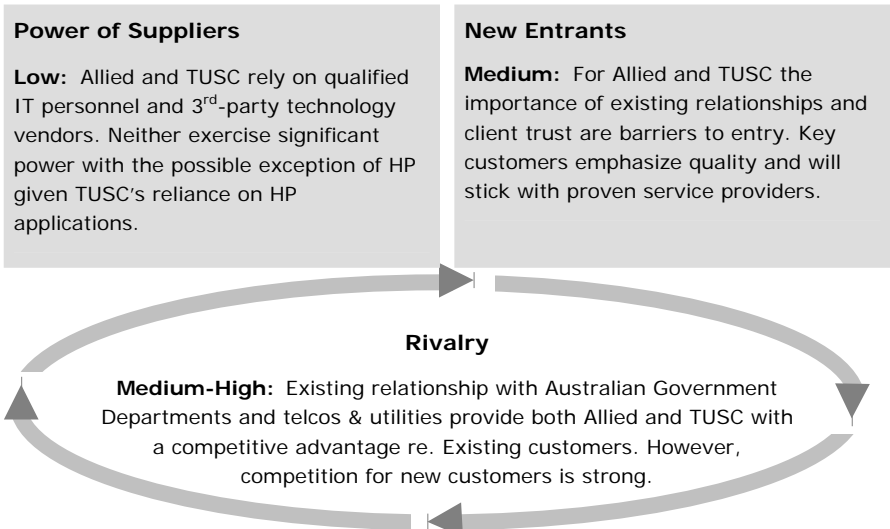


Operating Leverage



Industry Fundamentals

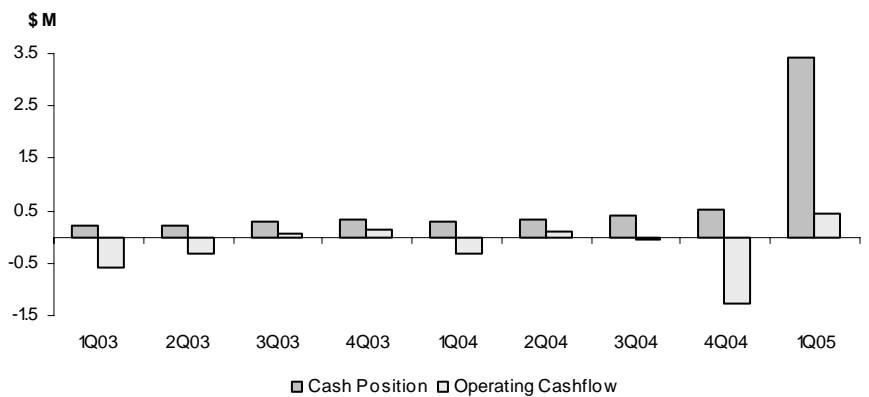
The Australian network integration market has experienced a solid improvement in demand over the last 12-18 months. Combined with the consolidation in supply side that occurred during an industry downturn from FY01-03, pricing pressures have generally eased and margins improved. As a relatively small player in the context of the overall domestic market, Allied has endeavoured to focus on niche service and market segments that enable it to establish some barriers to entry as a means of generating higher operating margins. The infrastructure management software segment is a large and growing market given the increasingly complexity and reliance upon networks. TUSC is in a strong competitive position within its core markets.



Substitute Products
Medium: ICT service needs are increasingly outsourced, with in-house management a low substitute risk. A greater risk is off-shoring, however the complexity of TUSC's services and the physical aspect of Allied's minimize the risk.

Power of Customers
High: Allied and TUSC operate in competitive markets. While large corporates + government bodies have intrinsic bargaining power it is rarely exercised given the emphasis on service quality over pricing.

Quarterly Cashflow & Cash Position





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