

AUSTRALIAN

RESEARCH



Contents

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Allied Technologies Group (ATZ)



Company Overview

ATZ consists of three business units: Allied Technologies Australia ('ATA'), TUSC Computer Systems ('TUSC') and Servicepoint. ATA, the group's core business, specialises in the installation and maintenance of the cable and software infrastructure integral to data, voice and video networks. ATA has a high quality and long-standing customer base, consisting of large Federal Gov't Depts, including Defence and DFAT. TUSC specialises in software integration services for network management applications targeting the telco, 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.

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 deferred its acquisition strategy while it focuses on completing the full integration of the three business units and returning ATA to a position of profitability.

Key Executives

ATZ has made a number of management changes recently, specifically the appointment of Michael Addison to Managing Director, the appointment of a new group CFO and new ATA divisional CEO. We believe these appointments along with management initiatives will redress the reporting, transparency and operating efficiency issues that have impacted ATZ during FY05.

Business Model

ATZ has a medium risk business model. A large percentage of ATA's revenues derive from repeat business, with a dominant percentage of revenue generated through long-term contracts with Defence and Federal Gov't Depts. Non-government related work is, however, 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 (ATA) and Telstra (TUSC) contracts. Both the ATA and TUSC business units have predominantly variable, headcount related cost models.

Catalysts

Two FY05 earnings downgrades over the last six months have adversely affected ATZ's share price. The downgrades relate principally to the ATA business, with TUSC and Servicepoint performing to expectations. ATA's underperformance relates to: losses on three projects, an underperforming professional/consulting services division, and a revenue shortfall. The three projects have been completed, the underperforming division has been discontinued, and ATZ has rationalised ATA's fixed cost base and anticipates FY06 revenue growth. For these reasons we expected ATA to return to profitability FY06 and, consequently, ATZ to report a material improvement in FY06 earnings. The market may require tangible evidence of this anticipated return to profitability, which is not likely to be until 1HFY06.

Key investment information

Market Cap (\$M): \$7.4M

Capital Structure

Ord shares on issue (M): 53.1M

Options ('in-the-money'): 0.0M

Convertible notes/oth (M): 0.0M

Fully diluted capital (M): 53.1M

Price as at 22 Jun 05: \$0.14

12 month H/L: \$0.12-\$0.53

Share Turnover (\$M pa): \$10.9M

Official re-listing date: Apr '04

Substantial shareholders (%)

Ray Doak 22.3

Neviltt Nominees 10.2

Michael Addison 3.9

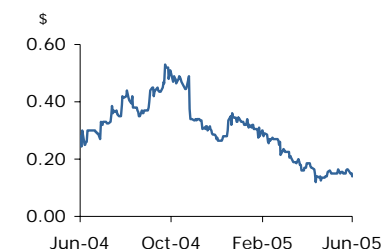
Balance sheet data

Net Cash
as at 31 Dec 04 (\$M): (\$0.2M)

Working capital ratios: 1.4x

Gearing: 1%

Share price performance



Source: IRESS

Company contact

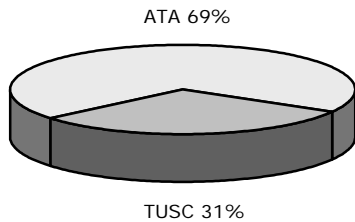


Michael Addison

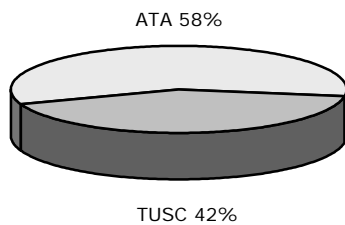
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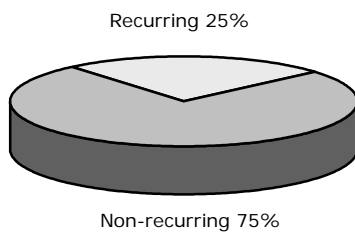
Revenue by Division



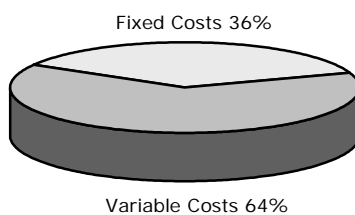
Earnings by Division



Revenue Profile



Operating Leverage



Industry Fundamentals

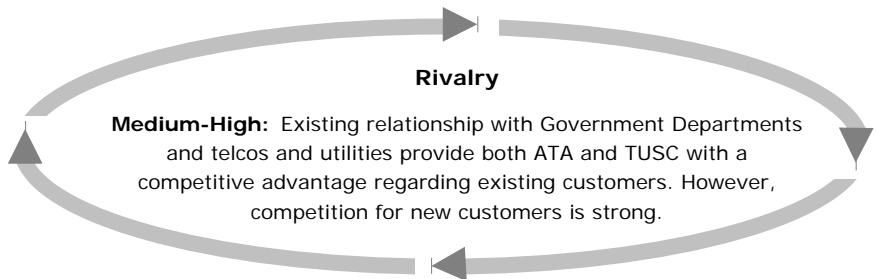
The Australian network integration market has experienced a solid improvement in demand over the last 12-18 months. Combined with the consolidation in supply side that occurred during an industry downturn from FY01-03, pricing pressures have generally eased and margins improved. As a relatively small player in the context of the overall domestic market, ATA 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.

Power of Suppliers

Low: ATA and TUSC rely on qualified IT personnel and 3rd-party technology vendors. Neither exercise significant power with the possible exception of HP given TUSC's reliance on HP applications.

New Entrants

Medium: For ATA and TUSC the importance of existing relationships and client trust are barriers to entry. Key customers emphasise quality and will stick with proven service providers, particularly in TUSC's service market.



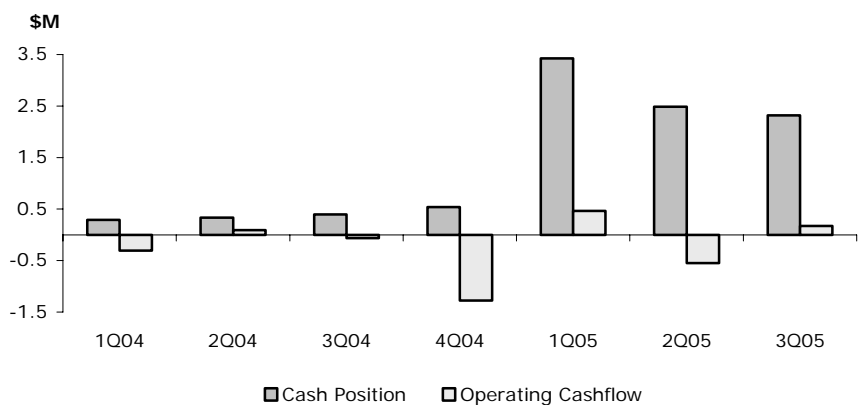
Substitute Products

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 ATA's minimise the risk.

Power of Customers

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

Quarterly Cash Flow and Cash Position





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