

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 specializes 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 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: Danny Sargeant (Interim CEO) has considerable upper management and ICT experience; Michael Addison (Exec Chairman) 20 years corporate finance experience; Tony Simonsen (COO) 24 years ICT experience. Daryll Goodall (MD TUSC) 20 years IT industry experience. Gary Allan (CTO) 30 years of military, govt., snr management and ICT technology experience; Andrew Berriman and Rod Barden provide additional ICT industry expertise. John Gwyther (Non Exec Director) joined the ATZ Board with the TUSC acquisition.

## 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 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 (ATA) and Telstra (TUSC) contracts. Both the ATA and TUSC business units have predominantly variable, headcount related cost models.

## Catalysts

A 10-15% FY05 earnings downgrade in November 2004 and the subsequent release of uninspiring 1H05 results has adversely impacted ATZ's share price performance. However, as evident by \$5M in recent contract wins/resumptions the cause of the downgrade primarily related to contract timing issues. With these issues now largely behind ATZ combined with traditional 2H seasonal strength and the impact of a full period contribution from TUSC we anticipate a markedly improved revenue and profit result for ATZ in the 2H05 period.

## Key investment information

Market Cap (\$M): \$13.8M

### 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 17 Mar 05: \$0.26  
12 month H/L: \$0.53-\$0.25  
Share Turnover (\$M pa): \$10.5M  
Official re-listing date: Apr '04

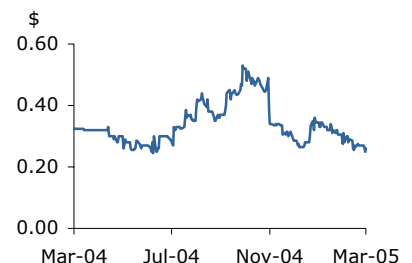
### Substantial shareholders (%)

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

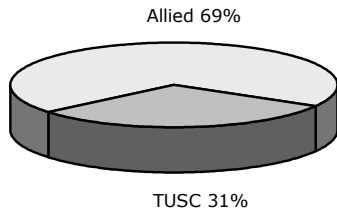


Michael Addison

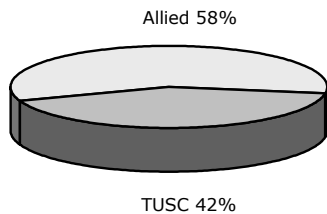
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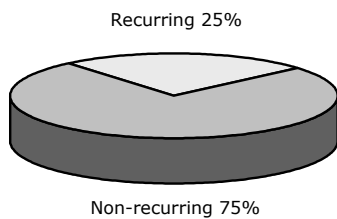
**Revenue by Division**



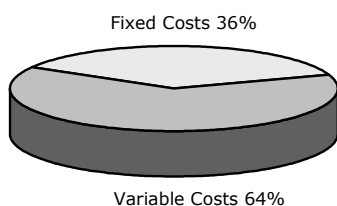
**Earnings by Division**



**Revenue Profile**



**Operating Leverage**



**Industry Fundamentals**

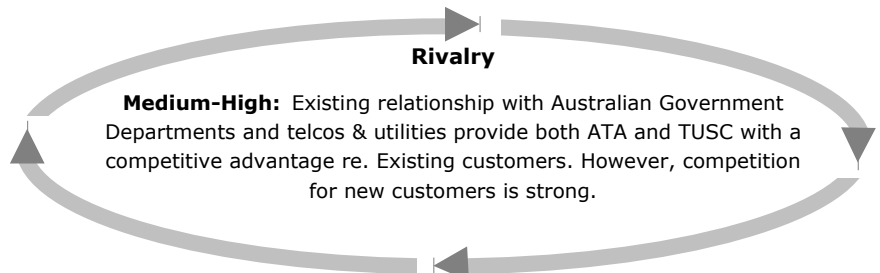
The Australian network integration market has experienced a solid improvement in demand over the last 12-18 months. Combined with the consolidation in supply side that occurred during an industry downturn from FY01-03, pricing pressures have generally eased and margins improved. As a relatively small 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 3<sup>rd</sup>-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 emphasize quality and will stick with proven service providers.



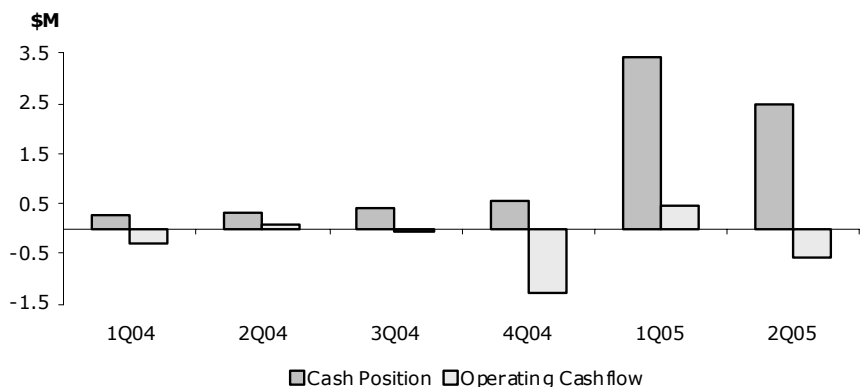
**Substitute Products**

**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 minimize the risk.

**Power of Customers**

**High:** ATA 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**



Source: ATZ / Aegis Equities Research



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