AUSTRALIAN RESEARCH
EQUITIES ANALYSIS

Allied Technologies Group Ltd

ASX Code (ATZ)

December 2004

Aegis Measured by Performance

Contents

ASX: ATZ | Bloomberg: ATZ AU | Reuters: ATZ.AX | **1 December 2004**

Allied Technologies Group (ATZ) COMM* $0.34

Summary

Aegis Equities Research has undertaken a commissioned research report on Allied Technologies Group Limited (ATZ)

ATZ consists of three business units; Allied Group (Allied), TUSC Computer Systems (TUSC) and Servicepoint. Allied specializes in network infrastructure implementation and management. Allied has a high quality and long standing customer base, has a track record of strong and consistent revenue and earnings growth, and is well placed to grow future earnings by expanding further in the network facilities management space. TUSC specializes in software integration services for complex network management applications targeting the telecommunications, utilities, and enterprise sectors. TUSC has an excellent industry reputation, is in a strong competitive position, and is well placed to grow its business in the utilities and enterprise market segments. Servicepoint is a specialist provider of secure and non-secure 3rd-party videoconferencing solutions and occupies a solid position in the Federal Government segment of the market.

ATZ has strong organic and acquisition-related growth options. Organically, ATZ will pursue growth primarily by increasing its presence in the corporate segment, largely by expanding its product/service offering, and will endeavour to generate higher recurring revenues and operating margins by continuing to grow its maintenance services.

ATZ has signaled it will undertake further acquisitions, and will target companies that expand ATZ's product offering with convergent network capability and/or network security being identified as targeted areas.

We believe ATZ represents an attractive investment proposition. The company is trading at a material discount to our DCF and capitalization of earnings based valuation measures. ATZ was sold down heavily following the issue of an earnings downgrade on 16 November 2004. In our view, however the downgrade was largely attributable to a combination of timing issues (contract deferrals), extraordinary events (Federal Election), and contract delays and disruptions attributable to 3rd-parties and subject to ATZ claims.

Investment Opinion

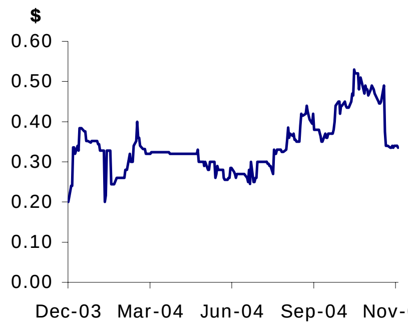
This report on Allied Technologies Group has been commissioned and as such Aegis has received a fee for undertaking a site visit, due diligence, research and analysis and creation of this report. Aegis believes it would be inappropriate to include a recommendation, investment opinion and share price target. However, Aegis has provided a valuation and earnings forecast as well as discussion of investment risks and rewards.

Share price target (12 months):	n/a
Valuation:	$0.75
Valuation Methodology:	DCF

Key Assumptions

Beta	1.5
Market risk premium (%)	5.5
Risk free rate (%)	6.0
WACC (%)	14.3
Forecast cashflow (years)	5
Residual Value of Valuation (%)	28.0
Nominal 15yr Growth Rate (%)	5.6

Share Price Risk n/a



Ethical rating: n/a

Performance against indices (%)

	1 Mth	2 Mths	3 Mths
ATZ	-28.0	-23.9	-20.2
Rel to Small Ind	-30.0	-30.3	-28.4
Rel to All Ind	-30.2	-28.8	-27.1

Source: IRESS

Yr to Jun	NPAT Rep $M	NPAT[1] Adj $M	EPS[1] c	EPS chg %	PER x	PER rel All Ords x	PER rel Sector x	DPS c	Yield %	Franking %	ROE %
2004A[2]	3.0	3.3	5.7	297.2	5.9	0.4	0.4	1.5	4.5	0.0	24.5
2005F	2.4	2.9	5.4	-4.6	6.2	0.4	0.5	2.0	6.0	0.0	14.1
2006F	2.8	3.3	6.3	15.8	5.3	0.4	0.4	2.5	7.5	0.0	15.4
2007F	3.8	4.3	8.1	28.9	4.1	0.4	0.4	3.0	9.0	0.0	18.6

[1] NPAT and EPS are adjusted by removing non-recurring items and goodwill. All the above statistics are derived from normalised earnings.
[2] Proforma results based on a 12-month contribution from Allied and TUSC.

Market cap: 18.1M | **Shares on issue:53.1M** | **0.0% of All Ordinaries** | **0.0% of Sector**

Recommendation[1]: COMM* 12M Target: N/A Company risk[2]: 3 Share Price risk[2]: 3 Ethical rating[3]: n/a

Year end Jun. All figures in A$M * Proforma results based on a 12-month contribution from Allied and TUSC.

Profit & loss summary	**2004A***	**2005F**	**2006F**	**2007F**
Operating revenue	44.6	46.2	52.4	57.9
Invest & Other Income	0.0	0.0	0.0	0.0
EBITDA	**4.2**	**3.7**	**4.9**	**6.3**
Depreciation / Amort	-0.5	-0.7	-0.7	-0.7
EBIT	**3.7**	**3.0**	**4.2**	**5.5**
Net Interest	-0.3	0.1	0.1	0.2
Pre-tax profit	**3.4**	**3.1**	**4.3**	**5.8**
Tax expense	-0.4	-0.7	-1.4	-1.9
Minorities	0.0	0.0	0.0	0.0
NPAT	**3.0**	**2.4**	**2.9**	**3.9**
Non recurring items	0.0	0.0	0.0	0.0
Reported profit	**3.0**	**2.4**	**2.9**	**3.9**
NPAT add Goodwill & Pref	0.3	0.5	0.5	0.5
Adjusted profit	**3.3**	**2.9**	**3.4**	**4.4**

Cashflow summary	**2004A**	**2005F**	**2006F**	**2007F**
uEBITDA	4.2	3.7	4.9	6.3
Working capital changes	-9.0	-0.2	-1.2	-1.1
Interest and tax	-0.3	-0.5	-1.0	-1.6
Other Operating items	0.0	0.0	0.0	0.0
Operating cashflow	-5.1	3.0	2.7	3.6
Required capex	-0.4	-1.2	-1.3	-1.5
Maintainable cashflow	-5.5	1.8	1.3	2.1
Dividends	0.0	-1.3	-1.1	-1.6
Acq / Disp	0.0	0.0	0.0	0.0
Free cashflow	-5.5	0.5	0.3	0.5
Equity	0.0	0.0	0.0	0.0
Debt increase/(reduction)	5.5	0.5	0.3	0.5

Yr to Jun ($M)	**2004A**	**2005F**	**2006F**	**2007F**
Cash & short term deposits	3.8	4.3	4.5	5.0
Inventories	2.7	2.8	3.1	3.5
Trade debtors	14.7	15.0	17.0	18.8
Other curr assets	0.9	0.9	0.9	0.9
Total current assets	22.0	22.9	25.5	28.2
Property, plant and equip.	1.9	2.9	4.0	5.3
Non-current intangibles	8.1	7.6	7.1	6.6
Non-current investments	0.1	0.1	0.1	0.1
Other non-curr assets	0.9	0.9	0.9	0.9
Total assets	33.0	34.4	37.7	41.1
Trade creditors	8.3	8.4	9.6	10.6
Curr borrowings	3.1	3.1	3.1	3.1
Other curr liabilities	5.2	5.4	5.7	5.9
Total current liabilities	16.6	16.9	18.4	19.6
Borrowings	0.0	0.0	0.0	0.0
Total liabilities	16.6	16.9	18.4	19.6
Total shareholders equity	16.5	17.5	19.3	21.5

Ratio analysis	**2004A**	**2005F**	**2006F**	**2007F**
Sales growth(%)	24.2	3.6	13.3	10.6
EBITDA growth(%)	202.3	-11.0	31.2	27.7
EPS growth(%)	297.2	-4.6	15.8	28.9
EBITDA margin(%)	9.4	8.1	9.4	10.8
EBIT margin(%)	8.3	6.6	8.0	9.6
Tax rate(%)	11.6	23.2	33.5	32.7
Net debt/equity(%)	-4.0	-6.5	-7.2	-8.9
Gearing (%)	-4.2	-7.0	-7.8	-9.8
Net interest cover(x)	14.2			
Payout ratio(%)	26.4	36.9	39.8	37.1
Capex/deprec'n(%)	138.3	569.6	577.3	617.4
NTA per share($)	0.2	0.2	0.2	0.3
ROA(%)	15.0	9.6	12.1	14.6
ROE(%)	24.5	14.1	15.4	18.6

Multiple analysis	**2004A**	**2005F**	**2006F**	**2007F**
Market cap($M)	18			
Net debt($M)	-1			
Peripheral assets	0			
Enterprise value($M)	**17**			
EV/EBIT(x)	4.1	4.6	3.5	
EV/EBITDA(x)	**4.1**	**4.6**	**3.5**	
EV/EBITDA All Ords	8.7	8.1	7.7	
EV/EBITDA rel All Ords)	0.5	0.6	0.5	
P/E(x)	**5.9**	**6.2**	**5.3**	
P/E All Ords	15.8	13.9	12.6	
P/E rel All Ords(x)	0.4	0.4	0.4	
P/E Sector(x)	14.4	13.0	12.0	
P/E rel Sector(x)	0.4	0.5	0.4	

Assumptions	**2004A**	**2005F**	**2006F**	**2007F**
GDP growth (%)	3.73	3.41	3.20	3.25
Interest Rates (%)	5.36	5.50	5.50	5.50
Inflation (%)	2.30	2.04	2.65	2.50

Notes: 1. The recommendation system rates stocks on a 12 month, absolute basis based on the total return (capital and dividends). BUY denotes an expectation of 15% or more total return; SELL 5% or less; HOLD within the range of 5-15%. ACCEPT OFFER relates to a situation where there is a public offer for shares and our view is to accept that offer. COMM means this research has been commissioned and Aegis has received a fee for publication and therefore it contains no recommendation. 2. The risk ratings are on a 12 month perspective, where five stars denotes low risk and one star denotes high risk. Company risk takes into account expected financial, strategic and execution risks associated with the company. Share price risk is a measure of the expected volatility of the price and other trading factors. 3. The Ethical rating rates a company on an ethical investment basis where five stars denote very good and one star a poor rating. The score is based on four key factors: areas of operating, environmental, corporate governance and social factors. For more information see www.aer.com.au

1. Investment Overview

Investment Positives

- Business Model – ATZ has a business model characterized by long term, repeat contracts and a low risk headcount related cost model. To a large degree, profit is underpinned by contracts and barriers to entry.
- Industry Reputation – ATZ's TUSC business unit 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.
- Attractive Business – TUSC has an extensive and loyal blue-chip customer base, it enjoys an extremely strong competitive position in its core markets, it has a long track record of profitable growth, and it is pursuing a range of relatively high growth, low risk growth strategies.
- Acquisition Benefits – The acquisition of TUSC is expected to deliver material synergy benefits, including customer cross-sell opportunities, geographic complementarities, and the ability to offer a more comprehensive and higher value add service offering. These benefits have not been factored into our forecasts.
- Management – All three business units are characterized by stable and highly experienced management teams, with the founders continuing to serve as business unit heads in Allied and Servicepoint and retaining an important managerial position in TUSC.
- Organisational Structure – ATZ intends to adopt a federation style operational structure, with the three business units to remain largely autonomous while exploring opportunities to work together, such as customer cross-sell opportunities and expanded product and service offerings. The operational structure should facilitate business unit accountability and limit integration risks.
- Financial Track Record – Allied and TUSC have financial histories generally characterized by solid and consistent revenue and earnings growth.
- Earnings Outlook – ATZ looks well poised for sustained growth in the FY05 period with Allied having commenced the period with in excess of 50% budgeted revenues in hand and TUSC's strong existing and prospective order book.
- Investment Proposition – ATZ is trading at a material discount to our DCF and our capitalization of earnings valuation measures. The company 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.

Investment Negatives

- Customer Concentration – Both Allied and TUSC have significant customer concentration, the former with Defence, the latter with Telstra. However, in both cases the actual risk is mitigated by several factors, including the fact that multiple separate contracts are held with both clients and high switching costs favour incumbent service providers.
- Vendor Concentration – TUSC has a significant earnings dependence upon the HP OpenView and Micromuse Netcool applications. While it is highly unlikely, if either vendor were to withdraw its support to TUSC or substantially change its business model this would present a definite risk to TUSC operations and earnings.
- Corporate Sector – Allied has limited exposure to the corporate segment. The acquisition of TUSC is partly intended to address this through cross-sell opportunities with TUSC's enterprise segment customer base.

2. Synopsis

Company Overview

Allied Technologies Group (ATZ) consists of three business units; Allied Group (Allied), TUSC Computer Systems (TUSC) and Servicepoint. Allied specializes in the design, integration, installation and maintenance of the cable and related hardware 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 and non-secure 3rd-party videoconferencing and video messaging systems and solutions and the provision of related managed services to the government and corporate sectors in Australia. ATZ was formed through the merger of Servicepoint and the Allied Group in March 2004 and the subsequent acquisition of TUSC in September 2004.

Strategy

ATZ intends to grow organically and through acquisition. While organic growth strategies differ, each business unit intends to 1) increase its presence in the corporate segment primarily by expanding its product/service offering and 2) 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 budgetary expenditure. The acquisition was also intended to generate a range of synergies, primarily 1) customer cross-sell opportunities between TUSC's corporate and Allied's Federal Government customer base, 2) geographic complementarities given TUSC's Victorian and South Australian presence and Allied's ACT, NSW and QLD presence, and 3) the ability to provide a more comprehensive service offering encompassing both software implementation and related physical infrastructure installation as well as extend managed services to TUSC's customer base. ATZ has signaled it will undertake further acquisitions, and will target companies that expand ATZ's product offering, with convergent network capability and network security being identified as targeted areas.

Competitive Position

Industry: Within the network infrastructure market, Allied states that the competitive environment has improved over the last 18-month period through increasing demand and supply side consolidation. However, the commodity end of the market remains price competitive and Allied has focused on niche segments that enable higher margins. The competitive environment in TUSC's traditional markets is relatively benign, with the company occupying a strong position in the Victorian and South Australian markets and a reasonably entrenched position with its telecommunications customer, Telstra.

Company: In a highly competitive industry, Allied has endeavoured to establish a competitive advantage and barriers to entry by providing an end-to-end service solution in the network infrastructure space and gaining staff security clearances and accreditations in relation to certain Federal Government contracts. Furthermore, in a customer segment that emphasizes service quality over price Allied's relationships with Federal Government clients represent a significant competitive advantage. TUSC is in a strong competitive position in the utilities segment, having established an unsurpassed software implementation track record. Within the telecommunications segment TUSC has a reasonably entrenched relationship with Telstra and, with an ongoing emphasis on service quality, this will continue to represent a significant barrier to entry.

Fig 1. Competitive Environment

Power of Suppliers

Low: Allied 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 Allied 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.

Rivalry

Medium-High: Existing relationships with government agencies and corporates provide Allied and TUSC with a competitive advantage w.r.t existing customers. However, competition for new customers is strong.

Substitute Products / Services

Low: 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.

Source: Aegis Equities Research

Strengths

- Experience, track record and reputation.
- High quality, long standing customer base.
- Low to moderate risk business model.
- Solid financial track record and outlook.

Weaknesses

- High customer and sector concentration.
- TUSC vendor concentration.
- Allied's limited corporate sector exposure.
- Limited experience as a public company.

Opportunities

- Allied-TUSC customer cross-sell synergies.
- Allied-TUSC product/service synergies.
- Further acquisition opportunities.

Threats

- Loss of Defence FM contract.
- Decrease in Defence technology budget.
- Telstra off-shoring TUSC contracts.

Business Model & Financial Outlook

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 Government agencies. 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. However, both business units have material customer concentration and contract risk through the Defence (Allied) and Telstra (TUSC) contracts. Both the Allied and TUSC business units have predominantly variable, headcount related cost models which are comparatively low risk for both companies.

Valuation and Catalyst

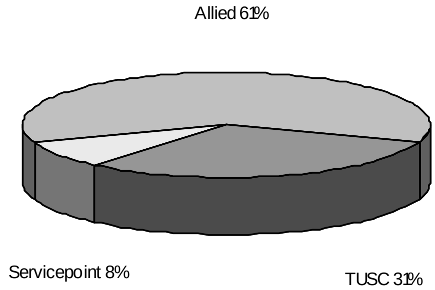
Our DCF valuation of ATZ is $0.75/shr. As a crosscheck, we have undertaken a capitalization of earnings based valuation based on a 30% discount to the All Industrials (Ex Banks) FY06F PE multiple. On this basis, we value ATZ at approximately $0.57. We view the latter measure as an appropriate determination of ATZ's value today, but view the DCF valuation of $0.75/shr as the appropriate reflection of the company's inherent value assuming ATZ can clear a number of hurdles over the next 12-months. Specifically, ATZ must prove its ability to meet or exceed its FY05 earnings guidance, particularly following the earnings downgrade in November 2004, and it must establish a track record of clear and open communication.

3. Company Overview

Business Summary

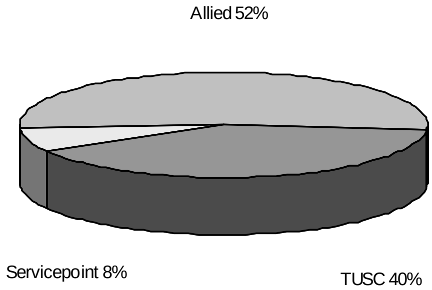
ATZ's revenue and EBITDA breakdown by business unit is presented below. The Allied and TUSC business units are the most significant, with TUSC generating higher operating margins than Allied.

Fig 2. Revenue by Business Unit



Source: ATZ, Aegis Equities Research

Fig 3. EBITDA by Business Unit



Source: ATZ, Aegis Equities Research

History

Operationally, the roots of ATZ lie with Allied. Allied was founded in 1991 and had an initial focus on secure IT network installations. As demand in the network communications sector grew, Allied broadened its product and service offering to include the provision of network integration and infrastructure professional services. In 1992, in partnership with IBM, Allied won its first Department of Defence installation contract, marking the commencement of what has been a long and relatively stable customer relationship. The company experienced a downturn in demand in the 2001-03 period due to a general reduction in Defence and IT related expenditure. Allied responded by downsizing its operations as a means of minimizing the adverse impact on earnings. With the exception of this period, Allied has a financial track record characterized by solid and consistent revenue and earnings growth.

TUSC was founded in 1981. The business originally offered support and software development for HP's range of scientific computers. By 1984 TUSC had developed and installed its first monitoring system for the CSIRO, marking the beginning of its expertise in real time monitoring systems. Since this time TUSC has progressively expanded its presence in the utilities, telecommunications and, more recently, enterprise segments of the market.

As an ASX-listed entity, the origins of ATZ stem from Servicepoint. In 2000, Servicepoint effectively undertook a 'back door' listing through Cambrian Resources NL. The company's intention was to re-establish itself in the Internet sector as an operator of an online business-to-business hub for small to medium sized enterprises. However, in 2002, due to a lack of market acceptance Servicepoint decided to curtail any further development of its technology platform and to refocus on its small but solid secure-videoconferencing business. Servicepoint however lacked the financial scale to commercially justify a stock exchange listing and, as a means of rebuilding shareholder value, conditional agreement was reached for the merger with Allied in November 2003. The acquisition consideration, which was scrip based, involved the issue of 17.76M newly consolidated shares to the Allied Technologies Group vendors and the appointment of Ray Doak, the founder and manager of Allied as the new Managing Director and CEO of the company. On 17 August 2004, ATZ announced the proposed acquisition of TUSC. The acquisition was concluded on 24 September 2004.

Capital Structure

There have been substantial changes in ATZ's capital structure over the last 12-months (see Fig 4). ATZ has, and will continue to utilize its share capital as the primary means of funding acquisitions. More notable recent developments include the capital raising to the fund the TUSC acquisition.

In August 2004, ATZ placed a total of 15.63M new ATZ shares at a price of $0.32 per share, to raise a total of $5.0M, before expenses. Of the $5.0M raised, $2.0M was used to fund the cash element of the first portion of the TUSC purchase consideration. The balance was applied primarily towards ATZ's ongoing working capital requirements. The placement was issued to various small cap funds and other professional investors, and was heavily oversubscribed. ATZ is of the view that the introduction of the small cap funds onto ATZ's share register will enhance the company's credibility and standing in the wider investment community.

At the company's AGM held in late November, ATZ sought approval from shareholders to authorize the repurchase of up to a maximum of 5.0M shares under an on-market buy-back program over the course of a 12-month period commencing on 26 November 2004. The company has advised that the repurchase of shares, if undertaken, will form an integral part of a broader capital management program. Under current legislation, companies are authorized to repurchase up to 10% of the minimum number of shares on issue at any time over the previous 12-month period. ATZ has stated that, as a direct consequence of the rapid growth of its capital base over the past year, its current capacity to buy back shares under current regulation is severely restricted, and that shareholder authority was sought principally to establish the company's capability to repurchase up to 10% of its expanded equity base. ATZ has stated that, if any, shares will only be repurchased in order to achieve the optimal debt gearing ratio. It is intended that any repurchase of shares will occur on an opportunistic basis over time and the company is not obliged to repurchase a specific number of shares.

Fig 4. ATZ Share Capital

	New Shares	**On Issue**	**Purpose**
At beginning of FY04 Period		90.7	
Shares issued during FY04			
- 15 July 2003	13.6	104.3	Placement for short-term WC requirements
- 28 July 2003	200.0	304.3	Placement for debt reduction and WC requirements
- 28 November 2003	(273.9)	30.4	1 for 10 share consolidation
- 8 March 2004	2.2	32.6	Placement for debt reduction and WC requirements
- 15 April 2004	(24.4)	8.1	1 for 4 share consolidation
- 15 April 2004	22.8	30.9	Allied acquisition and WC requirements
- Shares bought back	(0.2)	30.7	Share buy-back
At beginning of FY05 Period		30.7	
Shares issued during FY04			
- 25 August 2004	4.6	35.3	Placement for internal growth and investment
- 24 September 2004	17.0	52.3	TUSC acquisition, investment & WC requirements
- 1 October 2004	0.8	53.1	Dividend reinvestment plan
Ordinary Shares on Issue		53.1	
"In the money" Options		0.0	
Total Shares Fully Diluted		53.1	

Source: ATZ, Aegis Equities Research

Key Personnel

Ray Doak – CEO and Managing Director Allied Technologies Group

Ray Doak has in excess of 15 years experience in the IT&T industry, with a particular specialization in the areas of general and project management. He founded Allied and under his direction the company has successfully tendered for many Federal and State Government contracts. He is a member of both the Australian Institute of Company Directors and the Australian Institute of Management.

Andrew Berriman – CEO Servicepoint, Executive Director

Andrew Berriman has more than 30 years experience in the IT&T industry preceded by 6 years military service in secure telecommunications. His commercial IT&T experience has covered a range of corporate and management roles including technical, marketing, sales, consulting and finance with companies such as Wang, Solution 6, and Servicepoint. Andrew has an MBA and is a member of the Institute of Management Consultants.

Daryll Goodall – CEO TUSC

Daryll Goodall joined TUSC in 1997. He has over 20 years experience in the IT industry including business development and management consulting, gained in Europe and Australia. Prior to joining TUSC, he was the Australian General Manager of Azimuth Consulting, an independent business and information management consulting firm and also held a variety of senior positions at Unisys. Daryll is a member of the Australian Computing Society and the Institute of Company Directors.

Michael Addison – Executive Chairman

Michael Addison has considerable international corporate finance experience, particularly in the areas of IPOs, cross border mergers and acquisitions, due diligence studies and valuations and complex corporate restructuring. He has also held a number of senior executive positions on the Boards of both listed and unlisted companies. Michael is a former Rhodes Scholar, has an Oxford University postgraduate degree in Management Studies, and is a Committee Member of the Australian Employee Ownership Association.

Gary Allan – Chief Technology Officer

Gary Allan has approximately 30 years of military, government and commercial experience in the fields of senior management and information and communications technology (ICT). His ICT experience covers a broad range of activities ranging from technical strategy development, strategic policy and planning, project management, systems development, and ICT management. Gary has held various positions as a company director, is a Fellow of the Institute of Company Directors and a Chartered Professional Engineer. He completed his MBA (Technology Management) in 1985.

Rodney Barden – National Business Development Manager

Rod Barden has over 20 years experience in the area management of communications integrators and projects. He has been responsible for the successful project management of large overseas and domestic projects. Within Allied, Rod commenced and managed the national operation of a subsidiary and his experience includes the successful start-up and consolidation of branches within the Allied Technologies Group.

John Fletcher – Chief Financial Officer

John Fletcher has in excess of 30 years experience in the accounting profession, having spent a major part of his career as Chief Financial Controller (Asia-Pacific) with the Jaakko Poyry Group – an international engineering and consulting public company headquartered in Helsinki, Finland. John's expertise includes hands-on experience in the financial management of multi-disciplined companies with multi-location operations and the consolidations required in that process. In addition, he has in excess of 10 years experience advising corporate management. John is a Fellow of the Institute of Chartered Accountants and joined Allied as CFO in July 2002.

4. Business Unit Overview

Allied Overview

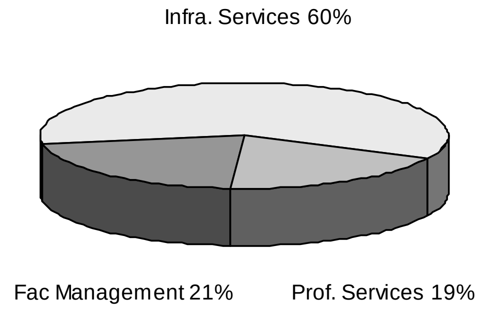
Allied specializes in the design, integration, installation and maintenance of the cable and related hardware and software infrastructure integral to data, voice, and video networks. The company has expertise in a wide range of network systems and communication technologies and provides a comprehensive range of integration, professional services and facilities management services for network infrastructure. As is typical with network integration companies, Allied relies on the technology of 3rd-party vendors, which it resells and implements on a non-exclusive basis. The company has a high quality and long standing customer base, principally consisting of several large Federal Government departments and has a high degree of recurring and repeat business. Allied was formed in 1991 by current Managing Director Ray Doak and has a 13-year track record of profitable growth and compound revenue growth of 17% per annum over the last six years. The company's headquarters are in Canberra and it operates branches in Sydney, Newcastle, Brisbane and Townsville.

Operational Overview

Allied provides the following services and solutions:

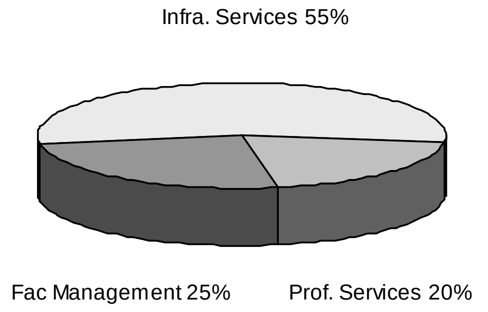
- Physical Network Infrastructure (cabling) – services include the design, installation, testing, and project management of cable infrastructure integral to data, voice, and video networks. Cabling activities, which are undertaken by the Infrastructure Services Division represent approximately 60% of company revenues.
- Network Professional Services – services include the design and optimization of communication networks (WAN, WLAN, LAN), the implementation of a convergent networks (IP), and network security risk assessment. Network professional services, which are undertaken by the Professional Services Division represent approximately 19% of company revenues.
- Facilities Management – relates to the maintenance of client network infrastructure, with specific services including fault management, moves, adds and changes (MACs), and performance and security management. Facilities management services represent approximately 21% of company revenue and a substantially larger share of earnings given the higher relative margins associated with the service.

Fig 5. Allied Revenues by Service



Source: ATZ, Aegis Equities Research

Fig 6. Allied Earnings by Service



Source: ATZ, Aegis Equities Research

Service & Product Overview

Infrastructure Services

The division's key services and solutions include:

- Physical infrastructure network design and audits - network design encompasses the design and engineering of voice, data, and video networks with reference to customer requirements, such as network security, technology requirements and the physical characteristics of the site and network. Network audits identify and document the existing network elements within a customer's site, with reference to infrastructure layout, hardware configuration and facility interconnections to identify network requirements in order to build and maintain a network and deliver services efficiently.
- Network implementation – services encompass the installation of the cable and related hardware and software infrastructure, the testing of the network to determine readiness, and the provision of related customer documentation.
- Project management – incorporates the development and management of a detailed project schedule and, as the project proceeds, change and financial management and customer liaison.

Professional Services

The Professional Services division's services and solutions include:

- Existing network trouble shooting and audits – relates to the identification of traffic bottlenecks, network safety concerns and vulnerabilities, and other potential trouble spots as well as the identification of opportunities to improve traffic and data flow by benchmarking network performance and undertaking WAN optimization (determination of how bandwidth is being consumed and how traffic is impacting the performance of business-critical applications).
- Network and technology consulting. Network evaluation and recommendations, design and documentation with particular reference to emerging convergent solutions such as IP networks.

Facilities Management

Facilities management (FM) includes fault management, moves, adds, and changes (MACs), configuration management and accounting, performance and security management. The service may be provided over the phone through a help-desk service or on-site by an Allied employee, depending on the nature of the problem and customer contract.

Customer Base

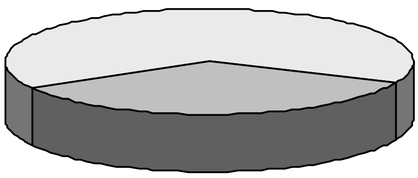
Allied's target market comprises medium to large-scale network infrastructure projects that require a comprehensive range of network integration and related professional services. The company has developed a particular expertise in the delivery and maintenance of network infrastructure for Federal Government agencies that have sophisticated and high security network requirements. Allied's ability to service this niche segment has required a depth of expertise in a wide range of network systems/technologies and a focus on quality of service.

Allied has an attractive customer and contract profile, characterized by large Federal Government departments and significant repeat business. The company's most significant customers are the Department of Defence (Defence) and Federal Government departments, which account for approximately 70% of Allied's revenue and a greater percentage of earnings. Allied has had long-standing relationships with these customers, including 13 years with Defence. The company has multiple contracts with its Federal Government customers, which typically consist of both long-term maintenance contracts and shorter term project based work, the latter of which is broadly of a repeat business nature.

While it's a high quality customer base, it is also highly concentrated. Multiple contracts with its two largest customers mitigates contract specific risks but, nevertheless Allied is highly exposed to Federal Government or departmental budgetary cuts, particularly in relation to Defence. This risk heavily impacted Allied's financial performance in the FY01 period.

Fig 7. Customer Concentration

Top 2 Customers 65%

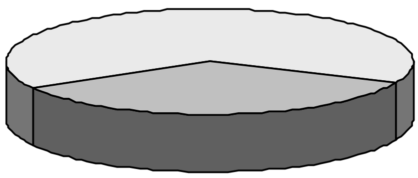


Other Customers 35%

Source: ATZ, Aegis Equities Research

Fig 8. Sector Concentration

Fed. Govt. Agencies 70%



Other 30%

Source: ATZ, Aegis Equities Research

Key Contracts

Allied's most significant contract with Defence is for the provision of voice facilities management services (MACs and fault rectifications) and voice cabling project work on approximately 530 defence establishments across Australia. To undertake the contract, Allied employs approximately 30 full time staff with equipped vehicles, 5 regional technical managers, and a branch manager. The contract is held by Telstra (the prime contractor), with Allied acting as a sub-contractor. The initial 3-year contract commenced in July 2002 with an option by the client to renew the contract for a further period of one plus one years. Allied's expectation is that the contract will be renewed for the further periods.

Under the Department of Foreign Affairs and Trade (DFAT) contract, Allied provides facilities management services covering DFAT's national voice infrastructure. Allied has held the DFAT contract for the past 5-years and the contract has recently been renewed for a further three years.

The Centrelink contract was signed in May 2001 and was recently renewed through to 2006. Under the contract ATZ undertakes cable infrastructure MACs to Centrelink offices in the Canberra region as well as undertaking regional office upgrades throughout Australia under individual purchase orders. The value of the contract is based on a predetermined schedule of rates with the volume of work determined on an as needed basis.

Strategic Direction

Allied's strategy has been designed largely to insulate the company from the strong competitive forces in the network infrastructure market. Allied has focused on developing a comprehensive and high quality service offering in order to target customers that have more sophisticated and higher security networking requirements. The company has successfully developed its professional services and facilities management services, both to lower the inherent risk profile of its business model and generate higher operating margins. Geographically, Allied has expanded its presence, predominantly in NSW and QLD, in an attempt to diversify its customer base and revenues and establish a national presence so as to better target the corporate segment.

Industry Overview

According to Allied, the network integration market has experienced a solid improvement in demand over the last 12-18 month period. This follows a marked downturn in the network integration market during the FY01-03 period on account of the issues that were adversely impacting the technology sector as a whole, specifically the post-Y2K slump in expenditure, the general reduction in business capital expenditure, and the poor return on past technology investment. Furthermore, and more specific to Allied, in FY01 Defence reduced its technology expenditure due to the release of the Defence White Paper and the financial requirements of the East Timor commitment. On the supply side, the industry underwent a process of consolidation as a number of service providers exited in response to lower sales volumes and heightened price competition. Allied's ability to survive during this period was partly due to a loyal customer base and a decision to downsize its business.

Over the last 12-18 month period Allied has witnessed a material increase in industry activity in both the government and corporate sectors. The company attributes the pickup to several factors, including upgrades and replacement of existing technology due to technology changes and end-of-life-cycle of existing technology (much of which dates from the Y2K period) as well as the generally stronger economic environment. Moving forward, future industry growth is expected to be stimulated by a number of product and technology developments including growth in wireless technology, which is reshaping and expanding the terminal and network access equipment market, strong potential growth in VOIP and fibre optic design, trends towards large multi-user complex networks, convergence of data and voice services over common transmission IP technologies, and the increasing adoption of secure communications.

Competitive Environment

With the recent improvement in demand and consolidation of the supply side, pricing pressures have generally eased and industry margins improved. Nevertheless, Allied state that the commodity end of the market, specifically the provision of physical network infrastructure services and the resale of associated products remains highly price competitive.

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. Furthermore, there are also areas with strong growth potential and with improved margins. These are outsourcing (facilities management), VOIP and enterprise network management. Allied is focusing its growth strategy on these product lines, while continuing to focus on its strong foundation in Defence and DFAT. The company is also leveraging existing expertise and reputation within these Federal Government departments to gain a foothold in other government departments such as Centrelink, ATO, and Customs.

Allied has a number of differentiating factors. Firstly, the company is an end-to-end solutions provider in the network infrastructure space, with its services incorporating the design and implementation of the physical infrastructure, the provision of related professional services (consulting, engineering, verification, etc), and the ongoing provision of network management services. In contrast, many organizations operating in the industry are either "cabling contractors" wanting to be involved in the communications industry or systems integrators wanting to provide a total solution which they are not able to do in their own right, i.e. either party has to sub-contract a part of the work or take on a partner.

Secondly, with respect to Defence and other Federal Government contracts Allied has a competitive advantage through staff security clearances and staff accreditations. According to Allied, in excess of 50 Allied staff are Defence security cleared. The company also has the following accreditations: 1) ISO 9001 Quality Assurance Accreditation; 2) Government endorsed supplier; 3) Whole of Government Telecommunications Agreement. These accreditations give Allied a strong competitive position and, coupled with its strong relationships, creates a barrier of entry to a certain extent. It's not a full barrier to entry, as other competitors will have similar accreditations to varying degrees.

SWOT Analysis

Strengths

- Key Customers – Allied has entrenched and long-standing relationships with its key customers, Defence and Federal Government Departments. Allied's commercial relationships with these customers are characterized by a high degree of relatively stable and recurring revenues and higher operating margins due to the generally more sophisticated nature of services.
- Service Offering – Allied is an end-to-end solutions provider, capable of providing a broad range of cabling, professional services and facilities management services. A focus on service quality through trained personnel and utilization of high quality 3rd-party technology has enabled Allied to service niche, higher margin segments of the market.
- Improving Financial Performance – Allied has recorded a marked improvement in financial performance since FY01. The improvement has been driven by a general improvement in market conditions, higher sales volumes, and the increasing provision of higher margin facilities management services.

Weaknesses

- Customer Concentration – Allied has a highly concentrated customer base, with Defence and Federal Government Departments representing approximately 70% of company earnings. This leaves the company highly exposed to a reduction in departmental technology related budgets, as occurred with Defence during the FY01 period.
- Corporate Sector – Allied has limited exposure to the corporate segment. The acquisition of TUSC is partly intended to address this through cross-sell opportunities with TUSC's enterprise segment customer base.

Opportunities

- Leverage Defence and Federal Government Departments – Given high service requirements, Defence and Federal Government Departments represent excellent "reference site" relationships for Allied and we would expect there is significant potential to leverage these relationships to expand into other government departments.
- Facilities Management - Obtain further facilities management contracts off the back of the Telstra/Defence FM contract and, in doing so continue to lower Allied's inherent business model risk and further improve operating margins.

Threats

- Defence FM Contract – The Defence FM contract represents Allied's most significant contract in terms of revenue and particularly earnings. Allied expects the contract to be rolled over to July 2007 but the potential contract loss presents material earnings risk;
- Decreased Defence Work – With approximately 50-55% of revenue from Defence Allied is highly exposed to a general reduction in Defence technology expenditure.

Financials

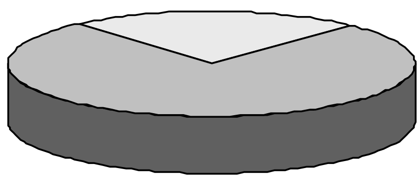
Business Model

Allied has a moderate risk business model, characterized by a significant proportion of recurring and repeat business, but high customer concentration levels, and a relatively flexible headcount related operating cost model.

While the bulk of Allied's services represent shorter-term project based work, a significant amount of such work represents repeat business with long-standing customers. Recurring revenues are derived from multi-year maintenance contracts, such as those with Defence. Approximately 23% of revenues represent repeat business or are recurring in nature (see Fig. 9). Non-recurring revenues are derived from one-off infrastructure and professional services related work.

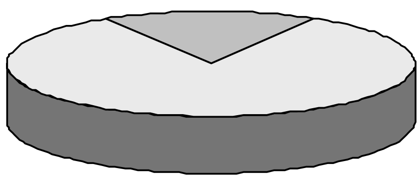
Predictably, Allied has a predominantly variable, head-count related operating cost model. Variable costs, comprising COGS and direct staffing costs, represent approximately 83% of total operating costs. As a headcount related business model, it provides Allied considerable cost flexibility over the medium to longer term. However, Allied's ability to realign staffing levels over the short-term in response to a sudden and unpredictable downturn in work (i.e. major contract loss) is limited.

Fig 9. Allied Revenue Profile



Source: ATZ, Aegis Equities Research

Fig 10. Allied Cost Structure



Source: ATZ, Aegis Equities Research

Financials

Allied's historic and forecast P&L is summarized in Fig. 11. Historically, the key features are:

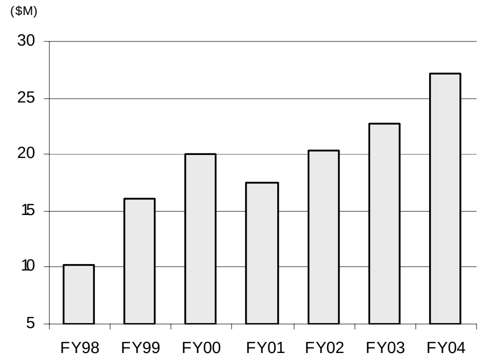
- Allied has recorded strong revenue and earnings growth since FY01. Over this period, revenues have increased at a CAGR of 16%. Revenue growth was particularly strong in the FY04 period, driven by the general recovery in the network integration market.
- EBITDA margins have expanded since FY01 from 1.3% to 8.8% in FY04. Allied recorded a particularly strong improvement in FY04 EBITDA margins, driven by the benefits of greater revenue scale, growth in higher margin facilities management services, and the ability to generate a return from recent business development initiatives.
- EBITDA margins remained abnormally low during the FY01-03 period as Allied incurred business development costs associated with re-growing the Professional Services unit.
- Allied recorded a significant reduction in revenue and EBITDA in FY01 due to several exogenous factors, including the release of the Defence White Paper in December 2000 which led to a delay in many projects identified in 2000, the East Timor commitment which led to a freeze in IT expenditure, and the reorganization of Defence procurement during 2000 which slowed the uptake of new projects.

Fig 11. Allied Profit & Loss Summary

($M)	**FY01A**	**FY02A**	**FY03A**	**FY04A**	**FY05F***	**FY06F**
Revenue	17.5	20.3	22.7	27.2	32.1	35.6
Revenue Growth	(13%)	16%	12%	20%	3%	11%
COGS	12.8	16.3	17.3	19.2	22.1	24.3
Other	4.5	3.4	4.7	5.7	7.3	7.8
Total Costs	17.2	19.7	22.0	24.8	29.5	32.1
EBITDA	0.2	0.6	0.7	2.4	2.7	3.5
EBITDA Margins	1.3%	2.9%	3.2%	8.8%	8.3%	9.7%

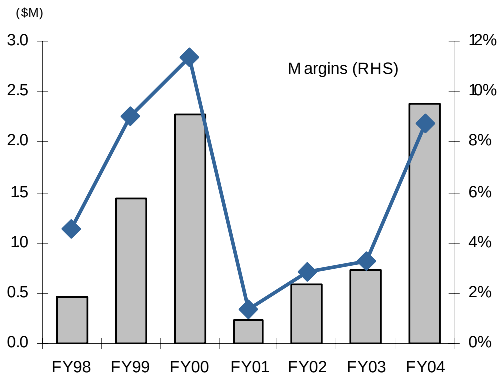
*The forecast (but not historic) earnings are inclusive of the Servicepoint business.
Source: Aegis

Fig 12. Allied Revenue Growth



Source: ATZ, Aegis Equities Research

Fig 13. Allied EBITDA & Margin Growth



Source: ATZ, Aegis Equities Research

Our earnings forecasts for Allied, which are inclusive of the Servicepoint business, are base on the following key assumptions:

- Approximately 70% of Allied's historic revenues derive from Defence and Federal Government agencies. These relationships are relatively stable and are often based on multi-year contracts. We assume that Allied retains a level of revenue from these clients at least comparable to the FY04 period;
- Allied recently announced a material new contract with the Australian Taxation Office (ATO). This contract will deliver a material degree of revenue growth over the next three year period;
- 1H05 earnings will be adversely impacted by delays in various Federal Government contract awards due to the recent Federal Election, as alluded to in ATZ's ASX release dated 16 November 2004. This, however is a timing issue and we anticipate strong growth in the 2H05 period;
- In ATZ's ASX release dated 16 November 2004 ATZ stated Allied faced cost over-runs on two large projects due to 3rd-party related issues over which Allied had no control. Claims for delays and disruptions will be submitted and Allied is confident that the claims will ultimately deliver a positive outcome for these projects. We agree with the company's assessment of the likely outcome of this situation, as the claims are in the normal course of Allied's business.

TUSC Overview

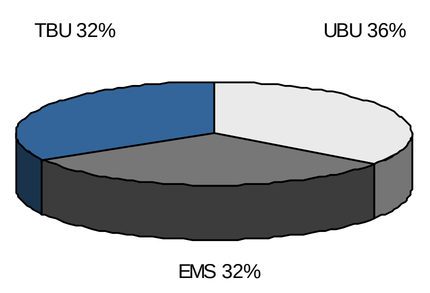
TUSC specializes in software integration services for complex network management applications targeting the telecommunications, utilities, and enterprise sectors. The company provides a comprehensive range of software implementation and maintenance services for 3rd-party software applications including consulting, project management, systems specification, analysis and design, systems integration, application programming, training, and support and maintenance. 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. The company has an extensive and loyal blue-chip customer base, it enjoys an extremely strong competitive position in its core markets, it has a long track record of profitable growth, and it is pursuing a range of relatively high growth, low risk growth strategies. TUSC employs approximately 70 people, it is head quartered in Melbourne and has branch offices in Sydney, Canberra, and Adelaide.

Operational Overview

TUSC's operational structure is based on three business units which relate to its sector focus:

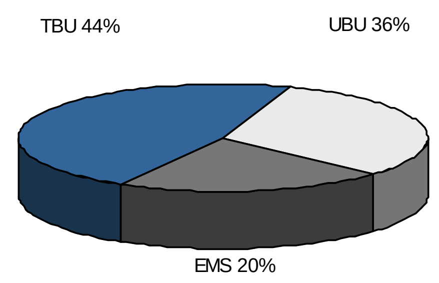
- The Utilities Business Unit (UBU) specializes in network management systems for utilities, including Supervisory Control and Data Acquisition (SCADA) applications, Distribution Management Systems (DMS), and Workforce Management Systems. The division's blue-chip customer base includes Alinta Australia, City West Water, Origin Energy, SA Water, Integral Energy, South East Water, TXU Networks, VENCorp, and Yarra Valley Water amongst many others. The division is very well established in the Victorian and South Australian markets and is seeking to expand into other state markets, particularly NSW. The division represents roughly 36% of TUSC revenue and EBITDA (see Fig 14, 15).
- The Telecommunications Business Unit (TBU) specializes in network management, IT service management, and event correlation software applications. The division's prime customer is Telstra, which has been a cornerstone customer for both the division and the company for many years. The division provides a balanced mix of software implementation and maintenance services to Telstra. While broader customer opportunities are limited, TUSC believes Telstra provides material growth opportunities. TBU represents approximately 32% of TUSC revenue but roughly 44% of EBITDA due to the higher margin nature of maintenance services.
- The Enterprise Management Solutions (EMS) unit was acquired in 2003 to expand TUSC's skill set and its addressable market to the broader enterprise sector. EMS specializes in IT Service Management applications which, broadly speaking are applications and systems that serve to align IT and business objectives. This is a relatively embryonic market that presents considerable growth potential for a well-positioned solutions provider such as EMS. The division represents 32% and 20% of TUSC revenue and EBITDA.

Fig 14. Revenue by Business Unit



Source: ATZ, Aegis Equities Research

Fig 15. EBITDA by Business Unit



Source: ATZ, Aegis Equities Research

Company History

TUSC was founded in 1981 by John Gwyther and Mike Woodham, both software engineers from Hewlett & Packard (HP). The business originally offered support and software development for HP's range of scientific computers. In 1984 TUSC developed and installed its first monitoring system for the CSIRO. This was the beginning of TUSC's expertise in real time monitoring systems and led to the development of an Alarm Monitoring System for Telstra in 1987 and later a Digital Performance Monitoring system. These two projects were highly successful and established TUSC as a leading real time software development house.

In 1997 TUSC was restructured into business groups to improve customer service and focus. The Utilities Business Unit was successful in winning several large tenders with customers such as City West Water and South East Water in the water industry. In 1999 TUSC commenced a major software integration project for Lucent Technologies and Telstra. In 2001 TUSC opened a Sydney office and became a reseller of the Netcool suite of network management products from Micromuse. TUSC also entered the South Australian market to implement a SCADA and telemetry upgrade for United Water. In 2002, TUSC commenced rolling out the Netcool product suite at Telstra, to improve end-to-end alarm management and to deliver improved service assurance to Telstra customers. In 2003, TUSC acquired Enterprise Management Solutions, as a key part of its strategy to become Australia's leading provider of infrastructure management solutions. In September 2004, TUSC was acquired by ATZ.

Strategy

Traditionally, the strategic focus in TUSC's core UBU and TBU divisions has been twofold: 1) ensure both divisions are providing a range of best-of-breed 3rd-party network management software applications and, 2) provide the highest quality integration and maintenance services to its customer base. Both divisions have pursued a fairly narrow application focus, typically adopting around three applications in each application segment. TUSC believes that this number of applications provides the right balance between strength through a diversity of applications and knowledge and expertise that is fostered by a narrow, focused product strategy. To ensure high service quality, staff are trained in leading application methodologies and there is a very strong managerial focus on client service and satisfaction.

To date, TUSC has generally been successful in pursuing this strategy. The company represents the largest partner in Australia for its key 3rd-party software applications, it has a dominant position in the Victorian and South Australian utilities segment, and is in a strong position with Telstra in the telecommunications space given its service quality.

Moving forward, within the utilities sector TUSC's strategic focus is inter-state expansion, specifically into the NSW utilities market. We believe TUSC is well positioned to pursue this strategy given its experience in the Victorian and South Australian markets. Over the past few years the implementation of network management systems in both these state markets has been driven by deregulation of the utilities sector in general and full retail contestability more specifically. The states of Victoria and South Australia have been fore-runners in this process and with other states to follow TUSC is in a strong position with regard to experience, existing customer reference sites, and a track record of implementing projects on-time and on-budget that is considerably above the industry norm.

Within telecommunications, TUSC's strategic focus is expanding its relationship with Telstra. There are identifiable and well progressed opportunities in this regard and, again we believe TUSC is well positioned to pursue this strategy given its existing reputation within Telstra.

The acquisition of EMS was designed to expand TUSC's skill set and addressable market to the enterprise segment. The enterprise segment of the network management software market is a highly prospective part of the market, with the adoption of such applications at an embryonic stage but gaining commercial traction. As this segment matures, there is likely to be significant growth potential for a well positioned service provider through increasingly large customer contracts and service provider consolidation opportunities.

The acquisition by and integration into the Allied Group provides TUSC with the ability to pursue a broader range of strategic options. Geographically, Allied has an established presence in the ACT, NSW and QLD, all of which are regional markets that TUSC's Utilities and EMS divisions would like to address. Allied's customer base, particularly its government sector clients provide cross-sell opportunities for TUSC's EMS division. Leveraging Allied's services would enable TUSC to provide a more comprehensive service offering encompassing both software implementation and related physical infrastructure installation as well as the possibility of providing managed services for the software implementation. More broadly, the acquisition by ATZ provides TUSC with a greater financial strength and flexibility in which to pursue and expedite various strategic initiatives.

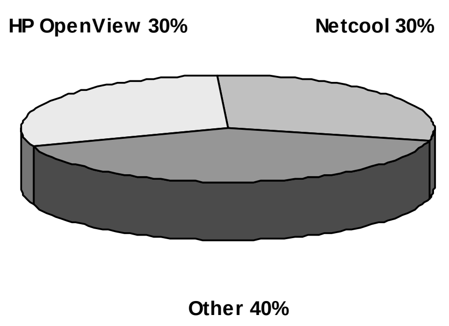
Product & Service Overview

As stated above, TUSC provides integration and maintenance services in relation to 3rd-party network management software applications. In relation to TUSC's choice and use of software applications, the company is an independent solutions provider, meaning it has the ability to adopt new software applications and discontinue existing ones based on its assessment of software product cycles and best-of-breed applications in each segment.

TUSC's key applications are HP OpenView in the enterprise management segment and Micromuse Netcool in the telecommunications space. The company has had a relatively long relationship with both applications/vendors and expects to maintain this relationship for the foreseeable future. In the utilities segment TUSC uses a broader range of applications.

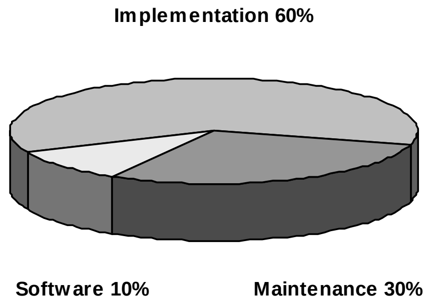
TUSC's approximate revenue exposure by application and service is displayed in Fig. 16 and 17, respectively. While Fig. 16 indicates a relatively high degree of application/vendor concentration through HP OpenView and Micromuse Netcool the potential inherent risks for TUSC are mitigated by several factors. Firstly, TUSC is the leading Australian partner for both applications, placing it in a relative strong position of power vis-à-vis the vendors. Secondly, TUSC has developed a high degree of expertise in relation to both applications, particularly HP OpenView.

Fig 16. Revenue by Application



Source: ATZ, Aegis Equities Research

Fig 17. Revenue by Product and Service



Source: ATZ, Aegis Equities Research

TUSC's current and/or recent key applications are detailed below. Given the complexity and relatively esoteric nature of these applications and market segment, a brief overview of the functional characteristics of TUSC's key software applications is given on Page 28.

Fig 18. TUSC's Key Applications

Vendor	Application	Application Type	Division
GE Fanuc	iFix	SCADA	Utilities
SNC Lavalin	GEN4	SCADA, DMS*, EMS*	Utilities
Telvent Automation	OASyS	SCADA	Utilities
OSISoft	OSI PI	Time Series Database	Utilities
e-wise Solutions	FOCUS	Workforce Management System	Utilities
Hewlett Packard	HP OpenView	IT Service Management	TBU, EMS
Micromuse	Netcool	Applications & Systems Mngmnt	TBU, EMS

* DMS: Distribution Management System. EMS: Energy Management System.
Source: ATZ, Aegis Equities

TUSC provides a comprehensive range of software implementation and maintenance services (see Fig 19). The company has an excellent reputation for reliable, on-time and on-budget delivery in a service sector which, given the complexity and scope of the applications, is characterized by serious time and budget blow-outs. Historically, TUSC has delivered approximately 80% of projects on-time and on-budget. This compares to the industry norm of approximately 30%.

To ensure high service quality TUSC ensures its staff are well trained, highly educated, and have vendor certifications. TUSC has invested in ensuring its staff is up-to-date with industry methodologies. In this regard, TUSC has in-house trained ITIL (IT Information Library) personnel. ITIL is the current framework methodology for categorizing the range of services which are able to be delivered to customers and has become a global defacto standard. TUSC is also knowledgeable in the area of Next Generation Operating Systems and Software (NGOSS). Both of these methodologies are considered either an area the industry is or has moved to, or in the case of NGOSS, will evolve over time.

Fig 19. TUSC's Service Skill Set

Service	Roles
Consulting	Technology strategies reviews, product/vendor selection, technology investments cost/benefit analysis, disaster recovery plans.
Project Management	Project feasibility and business analysis, product assessment, product support for projects, technical advice, custom development of interfaces, on-site project management, liaison with major vendors.
Software Development	Customised software development from conception to deployment, plus the on-going lifecycle support and retirement of any system.
Systems Integration	Integration of complex operational systems and software applications into cohesive and functioning solutions.
Systems specification, analysis and design	Specification of the objectives and scope of the operational technology and consideration of the costs and benefits.
Support Services	24 x 7 support, maintenance program management, system enhancements, performance management, system de-commissioning.
Legacy System Management	Outsourced management solutions for legacy systems, focus on achieving key performance indicators and cost reduction.

Source: ATZ, Aegis Equities Research

Customer Base

TUSC has an extensive, loyal and high quality customer base (see Fig 20). The company has had long standing relationships with most customers, reflecting the necessity for ongoing support and maintenance services, the quality of TUSC's services, and the inherent switching costs customers face with maintenance and support of existing applications.

TUSC has a particularly strong customer representation in the Victorian and South Australian utilities sector. This is a highly niche service segment, with a limited number of competing service providers. Customer retention rates are exceptionally high, with the utilities division having lost only one customer (who opted to take maintenance and support in-house). For all utilities implementations, TUSC continues to provide ongoing support/maintenance services.

Telstra represents TUSC's most significant customer by revenue, accounting for approximately 40% of total revenue in the FY04 period. TUSC is currently implementing and maintaining the Netcool suite of applications in the Network Products Group and the implementation and maintenance of the HP OpenView application in several Telstra divisions.

While there appears to be a high degree of customer concentration risk associated with Telstra, there are several factors that mitigate the actual risk. Firstly, TUSC provides separate services to various divisions within Telstra. Decisions regarding the ongoing status of these services are undertaken separately and independently by each division such that there is 'client' diversity within the Telstra account. Secondly, high switching costs favour incumbent service providers. Given the complexity of the applications, service providers generally have to give clients a reason to replace them. TUSC's service reputation and focus on the Telstra account should ensure that the risk of this occurring is very low.

Within the EMS division, implementations are of a smaller scale and customers more numerous. As the segment continues to gain commercial traction, potential customers and implementations are expected to get larger.

Fig 20. Current Implementation Projects

Client	**Purpose**
City West Water	SCADA & Communications Network Upgrade
Origin Energy	Telemetry & Reporting System Project
Yarra Valley Water	Mobile Computing Project
VENCorp	Upgrade of SCADA system
Telstra	Roll-out, Support, Maintenance Netcool products.
BT Ignite	Roll-out, Support, Maintenance of Netcool.
VENCorp	24x7 Support of Gas SCADA System
TXU	24x7 Support of Gas SCADA System
Integral Energy	Telemetry Infrastructure Enhancements
City West Water	24x7 support of SCADA system

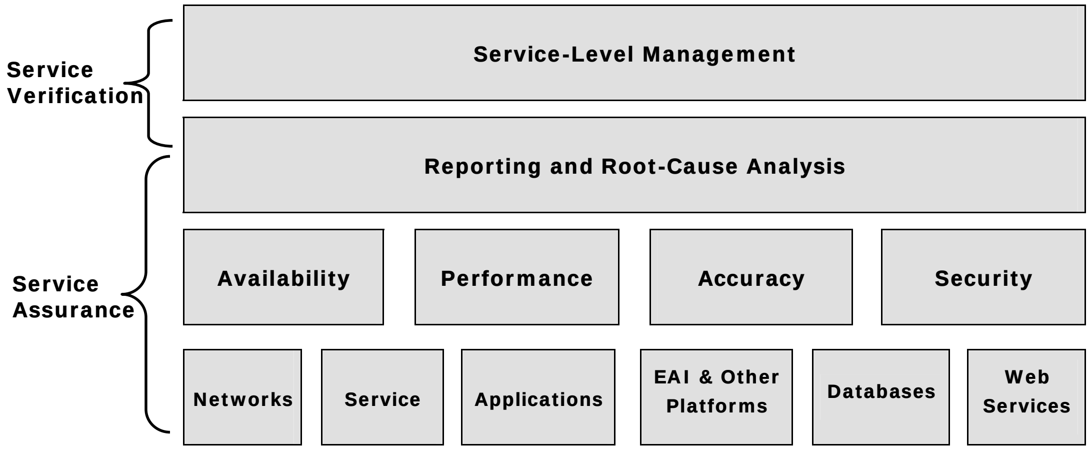
Source: ATZ, Aegis Equities Research

Industry Overview

Infrastructure management software applications are designed to keep infrastructure networks reliable, available, and scalable to enable organizations to guarantee quality of service to end-users/customers. The infrastructure network could encompass a network of computer systems, the fibre optic network of a telecommunications carrier, or the electricity distribution network of an electricity supplier. Existing and potential users of infrastructure management applications are large enterprises in a diverse range of industries. In fact, potential users of infrastructure management applications include any large enterprise whose network infrastructure is 1) critical to the operation of the core business, 2) is complex, 3) operates in real or quasi real-time, 4) is geographically dispersed, 5) represents significant investment/cost, and 6) crosses operational and IT boundaries.

TUSC's focus is on two categories of service management in the infrastructure management software space, specifically 1) service assurance, which consists of functions that deal with infrastructure problems generally in real time, and 2) service verification, which is the key layer in liaison between business and IT operations, where service levels are agreed on and specific performance targets are assigned. Infrastructure management applications are complex and relatively esoteric. There is a brief functional overview of TUSC's key application categories on Page 28.

Fig 21. Infrastructure Management Applications



Source: ATZ, Aegis Equities Research

Industry Growth & Drivers

The Australian market for systems and network management software is estimated to be worth A$320M-$480M per annum and is forecast to grow at around 14% per annum over the medium term. At a broad level, the market is being driven by 1) the ever-increasing infrastructure demands of large customers as businesses have become increasingly reliant upon their IT infrastructure, and 2) the fact that network management applications provide a readily discernible return on investment by predicting possible points of failure before they cause a business impact or minimize the duration of the failure and therefore business impact when failures do occur.

Within the utilities sector, state-based industry de-regulation generally and full retail contestability specifically has been a major driver for the adoption of network management applications. In this respect, the Victorian and South Australian markets have been at the forefront to date given their lead in the deregulation process. With other states such as NSW following there is expected to be solid growth in network management applications in these state markets.

Within the telecommunications sector, the adoption of network management applications is being driven by the general product evolution of the industry and the need for management platforms which monitor and measure these environments.

The enterprise segment is at a relatively embryonic stage of development. Growth momentum appears strong. The ITIL framework is gaining increased credibility. The market is probably being driven by two factors; the need for improved ROI on technology investments and the ongoing focus on improvement.

Competitive Environment

The competitive environment in TUSC's core traditional markets is relatively benign. The Utilities division occupies a very strong market position in the Victorian and South Australian utilities segment and this has been reinforced through the recent apparent withdrawal of its primary competitor, Logica. Moving forward, we would expect barriers to entry in the form of switching costs, experience curves, and UBU's high service quality to continue to protect the division's strong competitive position. For a number of reasons we would also expect competition to continue to manifest in the form of service quality as opposed to pricing pressures. In expanding inter-state, the division is likely to face greater competitive forces given it is not an incumbent operator. Nevertheless, the division's track-record and ability to point to successfully implemented reference sites will place the division in a solid position to win business.

The telecommunications segment is described as competitive with numerous service providers and a limited number of potential larger customers. TUSC, however is sheltered from certain competitive aspects of the segment through its long standing relationship with Telstra but is continually conscious of the need to deliver a very high level of service.

The enterprise segment is an embryonic market. Currently there are a lot of smaller consulting companies providing integration service in this segment. However, as the market matures and larger entities become increasingly interested in enterprise applications the installations are expected to become larger and require larger service providers with greater resources. The service provider part of the segment is expected to undergo consolidation. TUSC is well placed to actively participate in such a process. The company already has considerable project experience and has the resourcing and financial capability to acquire smaller players.

SWOT Analysis

Strengths

- Experience, Track Record and Reputation – TUSC is one of Australia's most experienced solutions providers in its areas of sector focus. It has a track record of delivering projects on-time, on-budget, and has developed a reputation for best-of-breed application and excellent service quality driven by highly trained and qualified consulting staff.
- Customer Base – TUSC has a high quality and long standing customer base that includes many of Australia's largest utilities and telecommunications companies. Customer retention rates are excellent and the company provides ongoing support and maintenance services to the vast majority of application customers.
- Competitive Position – TUSC's core UBU and TBU divisions enjoy strong competitive positions in their respective segments while EMS is well placed in an embryonic market. The company should continue to benefit from high barriers to entry and is well placed to win new business given the customer focus on service quality.
- Business Model – TUSC has an attractive business model characterized by limited revenue and operating cost downside risk. The company has high recurring revenue and high customer retention rates in an industry displaying solid growth. An inherently flexible headcount cost model combined with small project teams across a diversity of projects limits consulting utilization and, hence operating cost downside risk.
- Financial Track Record & Outlook – TUSC has a record of profitable growth and has a strong order book going forward.
- Growth Potential – TUSC has a number of high growth, low risk growth options, notably the utilities division expanding interstate, the telecommunications division expanding within Telstra, and the EMS division benefiting from general market growth opportunities.

Weaknesses

- Vendor Concentration – TUSC has a significant earnings dependence upon the HP OpenView and Micromuse Netcool applications. While it is highly unlikely, if either vendor were to withdraw its support to TUSC or substantially change its business model this would present a definite risk to TUSC operations and earnings.
- Customer Concentration – TUSC is highly dependent upon Telstra in relation to its earnings. While we believe TUSC's position with Telstra is strong and defensible the concentration nevertheless presents earnings risks.

Opportunities

- Allied Synergies – The integration into Allied provides potential operational synergies. There are strong geographic complementarities between the two businesses, significant customer cross-sell opportunities, and product/service synergies that will enable TUSC to provide a more comprehensive, end-to-end infrastructure management solution.
- Strategic Options - With the financial support of Allied, there are numerous expansion opportunities that open up, including the potential to develop IP in the EMS division, a faster expansion into Sydney if the Utilities division wins a NSW contract, and the ability for TBU to hire additional resources to take on a wider potential role in Telstra.
- Acquisition Opportunities - Smaller established players in Information Management.

Threats

- Telstra Off-shoring – While the technical complexity of TUSC's Telstra contract means the contract is unlikely to be sent offshore (e.g. India) there is, nevertheless the risk that such a business decision could be made.
- Low Cost Service Providers – In the utilities segment there is a risk low cost engineering companies may attempt to move up the value chain to software implementation.
- Vendors Establish Direct Operations – This is a credible risk in the enterprise management space.

Financials

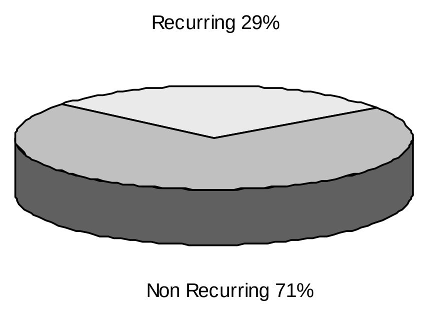
Business Model

TUSC has a comparatively low risk business model, characterized by a material degree of recurring revenues and an inherently flexible headcount related operating cost model.

Revenues are derived from a mix of non-recurring software implementation services and recurring maintenance and support services. Approximately 29% of revenues are recurring in nature (see Fig 22), although in essence the actual figure is higher given that many software implementation projects represent repeat business with existing customers.

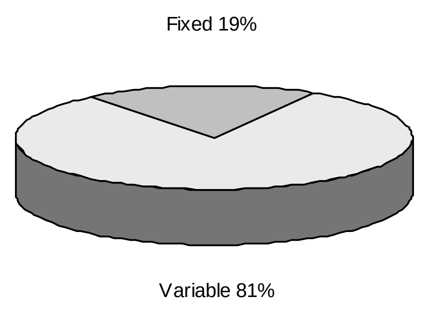
Software implementation services are typically structured on a fixed price basis. Given the company's ability to deliver on-time and on-budget, there is a low degree of inherent financial risk in this contracting structure. In fact, TUSC has never incurred a loss on a particular implementation project. Support services are typically structured on a time plus materials basis. The duration of the average software implementation project is approximately 12-months in the TBU and UBU divisions but is of a somewhat shorter duration in the EMS division. Support service contracts that flow from implementation projects range from 2-5 years and are invariably renewed after the initial period.

Fig 22. TUSC Revenue Profile



Source: ATZ, Aegis Equities Research

Fig 23. TUSC Cost Structure



Source: ATZ, Aegis Equities Research

As is typical of an IT services company, TUSC has a predominantly variable, head-count related operating cost model. Variable costs, comprising software COGS and direct consulting staff costs, represent approximately 81% of total operating costs. The company's cost model is inherently low risk and presents limited downside risks even over the shorter term given the company's track record of growth and its small project teams and diversity of projects.

Financials

TUSC's historical and forecast Profit & Loss (P&L) summary is presented in Fig 24. Historically, the key features are:

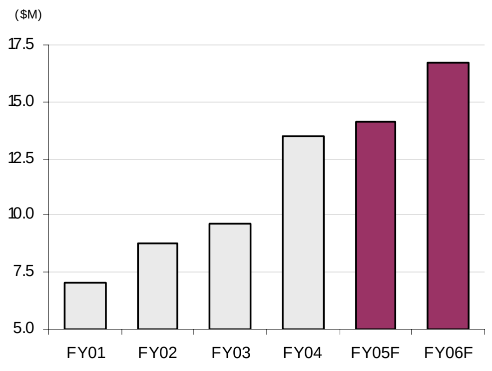
- Strong revenue growth with the company recording an organic CAGR of 24% over the last four years. The significant increase in FY04 revenue was primarily due to the acquisition of EMS, which contributed an additional $4M to the top line.
- A steady improvement in EBITDA based on the benefits of increased scale and tight control over operating costs. The slight contraction in FY04 EBITDA margins reflects the acquisition of the lower margin EMS business and various upfront costs associated with TUSC's expansion strategy (inter-state expansion costs, etc).
- TUSC's operating loss in the FY01 period reflects a change business direction, as the company moved from a software development company with a narrow and declining contract base to a software services operation.

Fig 24. TUSC Profit & Loss Summary

($M)	**FY01A**	**FY02A**	**FY03A**	**FY04A**	**FY05F**	**FY06F**
Revenue Growth	7.0	8.8	9.6	13.5	14.1	16.7
Revenue Growth	n/a	24%	10%	41%	4%	18%
COGS	1.0	1.3	1.8	4.2	3.6	4.3
Direct Costs	5.0	5.6	4.9	5.7	6.7	7.9
Overheads	1.4	1.6	1.6	2.1	2.3	2.6
Total Costs	7.4	8.5	8.3	12.0	12.6	14.7
EBITDA	(0.6)	0.2	1.1	1.5	1.5	2.0
EBITDA Margin	(8.1%)	2.6%	11.9%	11.4%	10.5%	11.7%

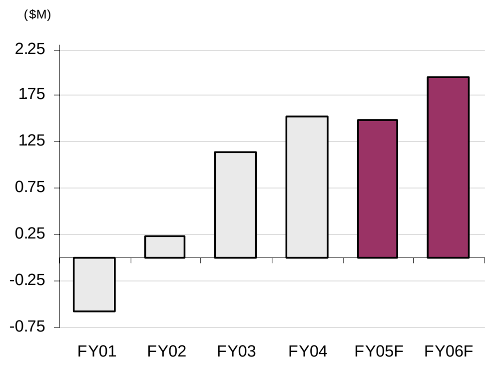
Source: ATZ, Aegis Equities Research

Fig 25. Revenue Growth Profile



Source: ATZ, Aegis Equities Research

Fig 26. EBITDA Growth Profile



Source: ATZ, Aegis Equities Research

Our earnings forecasts are based on the following key assumptions.

- The Utilities and Telecommunications businesses retain existing contracts, consistent with both units' historical track record;
- The Utilities division successfully expands into NSW by securing at least one outstanding tender while the Telecommunications division also secures an additional contract.
- EMS revenue growth reflects general expansion in the enterprise segment as well as the ability for the EMS division to cross-sell into several existing TUSC customers.
- We anticipate two opposing influences on FY05 EBITDA margins. Firstly, the absence of certain upfront expansion costs and the absence of acquisition related disruptions which effected EMS during FY04 will exert a positive influence. Conversely, as per ATZ's ASX release dated 16 November 2004, TUSC has experienced delays in the 1H05 period with two separate contracts. We view this as primarily a timing issue, however the delays, particularly in relation to the Telstra contract, will adversely impact margins in the 1H05 period. Overall, we see the net impact on margins being that FY05 EBITDA margins are likely to gravitate around those recorded in the FY04 period.

Appendix – Applications Overview

TUSC's key software applications

- **SCADA Solutions** are used to monitor and control a plant or equipment in industries such as electricity, water, telecommunications, and oil and gas refining. A SCADA (Supervisory Control And Data Acquisition) system gathers information, such as where a leak on a pipeline has occurred, transfers the information back to a central site, alerting the home station that the leak has occurred, carrying out necessary analysis and control, and displaying the information in a logical and organized fashion. SCADA systems can be relatively simple or extremely complex.
- **IT Service Management solutions**, such as HP OpenView, serve to align business and IT objectives. The applications are complex and may include the following components: an integrated service desk solution that consolidates change, configuration and service level management into an integrated desktop; a service-driven operations management solution that provides practical, defined approaches to improving performance of a specific business-critical IT service; an IT infrastructure management solution that enables operators to access the status of IT infrastructure and rapidly resolve problems across networks, systems, applications, and; a network services management solution that manages the availability and performance of the network.
- The **Micromuse Netcool** suite includes: an Applications and Systems Management system that provides monitoring of applications including SAP, Oracle applications, e-commerce applications, and IT resources in order to avoid costly unplanned outages and minimize the risk of application downtime; an Asset Management system provides a realtime view of a client's infrastructure so as to assist in achieving optimized network utilization; a Network Management solution that combines realtime monitoring and fault cause analysis to identify and resolve IT network faults quickly; a Security Management solution which simplifies the monitoring of disparate IT data, VPNs, firewalls, etc to improve time-to-resolution of IT security issues; and a VoIP management solution.
- **Distribution Management Systems (DMS)** integrate systems such as SCADA, Geographic Information Systems and SAP to produce a real time operations model of a utility's network. It provides access to the system to a range of users in an organization – such as operations, engineering support and management. DMS systems are designed to improve reliability of supply to customers by providing utilities with a consolidated real time view of their networks and, in doing so reduce overall capex and operational costs. DMS implementations are often large, organization-wide implementations that are carefully planned and undertaken in a phased manner to mitigate implementation risks.
- **Workforce Management Systems**, also referred to as Field Services Management and Mobile Computing, is a key growth area in industries that utilise a field workforce, such as the utilities and telecoms industries. The following represents the main drivers for such systems: 1) improved data integrity through data capture and validation at source; 2) improved planning/scheduling of work; 3) more efficient use of resources; 4) significant reduction in reliance on paperwork; 5) improved knowledge of work crew status and fault impact on customers; 6) improved customer service through real-time work information; 7) reduction in volume and cost of voice communications. Improvements in communications infrastructure, technology and mobile devices has lead to improvement in supporting large data transfer volumes and therefore an increased level of interest in the automation of workforce management. In addition, potential customers accept that there are enormous productivity benefits resulting from workforce automation.
- **IT Service Management (ITSM)** is a proven solution that transforms IT management from a reactive, component-level approach to a centrally managed service-oriented environment. It enables the alignment of IT and business objectives, and the assurance of specific performance and availability for business-critical services. The ITSM framework is based on the IT Infrastrucutre Library (ITIL), a comprehensive documentation of world best practice in this area. ITIL began in the 1980's as a UK government initiative to create a standard for IT processes, and has gradually evolved as the most widely accepted approach to IT infrastructure management. It consists of a set of best practices to enable the delivery of IT services that are reliable, consistent, and of the highest levels of quality. ITIL is comprised of 7 specialist documents, including service support, service delivery, application management, ICT infrastructure management, and security management.

Servicepoint Overview

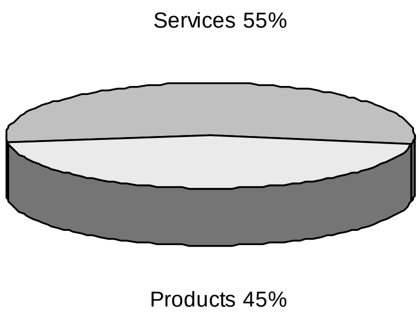
Servicepoint is a specialist provider of visual communication services and solutions to the government and corporate sectors in Australia. The company's principal activities are the implementation of secure and non-secure 3rd-party videoconferencing and video messaging systems and solutions and the provision of related managed services. Servicepoint has a high quality albeit relatively concentrated customer base drawn predominantly from the Federal Government. The company's strategic focus is on managed services for secure video-conferencing systems, a niche segment in which it enjoys a relatively strong competitive position and a business model characterized by recurring, stable revenues and relatively high margins. The company maintains a head office in Sydney with direct sales operations in Sydney and Canberra.

Servicepoint's operations can be classified under four principal business activities:

- Secure Videoconferencing – Servicepoint provides a secure end-to-end ISDN videoconferencing solution targeting government and corporate clients. The solution, named 'VidconSecure', is proprietary to Servicepoint but has been built from multiple 3rd-party systems. The service addresses security risks inherent in the use of an ISDN connection for videoconferencing transmission. The company provides consulting, implementation and managed services for the system, which has been successfully implemented with 12 Federal Government customers, including Defence.
- Managed & Bureau Services – Servicepoint provides a range of managed video conferencing services including help desk, equipment maintenance, and a hosted operator conducted video conferencing service. The provision of the service typically follows on from a system implementation undertaken by Servicepoint, such as VidconSecure. The company currently provides managed services to a number of large Federal Government departments, including Defence and Centrelink, the latter under a 5 year contract. Financially the service is attractive in that it is characterized by relatively low risk recurring revenues and high operating margins. Servicepoint also provides a videoconferencing bureau service, with services including public room bookings and organizing and running multipoint conferences.
- Consulting Services – Servicepoint provides consulting services to businesses considering the use of voice, video, data and web conferencing and video messaging. Key services include customer needs analysis, strategic options assessment and implementation services.

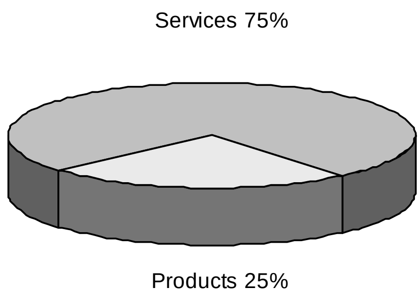
From an earnings perspective, Serivcepoint differentiates its offering by products and services (consulting, implementation, managed services). Services represent roughly 75% of earnings due to the considerably higher margins compared to the resale of 3rd-party products.

Fig 27. Servicepoint Revenue by Service



Source: ATZ, Aegis Equities Research

Fig 28. Servicepoint Earnings by Service



Source: ATZ, Aegis Equities Research

Customer Base

In FY04 Servicepoint generated approximately $4.5M in revenues, principally through outsourced contracts for videoconferencing network management with several Federal Government departments. The Australian Federal Government represents the primary target market for Servicepoint's VidconSecure and managed videoconferencing services products but secondary market opportunities exist in state government and the corporate sector. The company has a high quality customer base, generally characterized by stable and long-standing relationships. However, from an earnings perspective it is a concentrated customer base with roughly 50% of revenues (and a higher percentage of earnings) deriving from the Defence and Centerlink contracts.

Servicepoint's Key contracts are detailed below:

- Prime support contractor for the Defence Secure Videoconferencing Environment (DSVE). Servicepoint was appointed prime contractor for DSVE managed services in May 2001. The appointment built on the existing relationship between the two parties in which Servicepoint had maintained a continuous support relationship with Defence for video conferencing services since 1994. The financial value of the contract has increased significantly since commencement as the network has grown from 23 endpoints in 2000 to around 100 endpoints by the end of 2003. The DSVE contract will continue through to May 2005. During this time, Servicepoint expects that it will not only continue to generate revenues through ongoing new hardware sales and the provision of managed services but also through the potential to play an active role in the transitioning of the network from ISDN to IP. Defence has indicated that it will relet the contract from May 2005 for another three to five years. Given its expertise, reputation, and contract track-record and knowledge Servicepoint believes it is in a strong position to retain the contract.
- Provision of managed videoconferencing services to Centrelink for a five-year period to February 2008. The prime contractor is Singtel Optus. The contract will involve Servicepoint building and servicing a network of videoconferencing endpoints throughout Centrelink's national network of more than 300 offices. The growth prospects of the contract are somewhat uncertain, however Servicepoint expects that the number of videoconferencing endpoints will grow from around 130 to between 500 and 1,000 by the end of the 5-year contract period. Financially, the contract will not only generate significant revenue but the majority of revenue will derive from higher margin maintenance and bridging services income. As maintenance and bridging services income will be charged on a per endpoint basis revenues should progressively increase over the course of the contract as the number of endpoints increases.
- In conjunction with the launch of VidconSecure, ServicePoint concurrently launched a special program for Defence. The program, known as Defence Restricted/Unclassifed Videoconferencing Environment (DRUVE) provides secure managed videoconferencing services for all Defence secure requirements not catered for by DSVE. The DRUVE network commenced in 2003 and ramped up through 2004 and is expected to continue to do so during 2005. It is anticipated that DRUVE may cater for between 150 to 300 endpoints and will produce additional high margin services revenue.

Strategy

Over the last 18-months or so, Servicepoint's strategic focus has primarily been 1) a shift in emphasis towards higher margin and recurring managed services for secure video-conferencing systems and away from low margin hardware/product sales, and 2) a rationalization of costs to a level more closely aligned with revenues.

The rationale for the focus on managed services for secure video-conferencing systems is fairly obvious; this is a relatively niche, specialized segment in which Servicepoint enjoys a solid competitive position and is, therefore capable of generating higher margin and more stable revenues.

From a product perspective, Servicepoint has focused on broadening its product offering, through the adoption of the Interwise solution, and ensuring its existing solutions are "future-proofed" by being compatible with IP networks.

From a sales and marketing perspective, ServicePoint will continue to support a direct and indirect sales distribution model. Direct sales resources will primarily focus on government business and support for indirect sales distribution of managed services contracts. Indirect distribution through partnerships with Singtel Optus and other national resellers will be focused on business opportunities where the ServicePoint brand is not positioned to win prime contracts.

SWOT Analysis

Strengths

- Customer Base – Servicepoint has a high quality customer base generally characterized by stable, long-standing relationships and which typically emphasize service quality more so than price.
- Competitive Position – the provision of managed services for secure videoconferencing systems is a niche, specialized service offering in which Servicepoint enjoys a solid competitive position.
- Business Model – Servicepoint's strategic emphasis on the provision of managed services has led to the development of an increasingly attractive business model characterized by a higher degree of recurring revenues and higher operating margins.
- Growth Options – Existing contracts and the adoption of several new generation conferencing products provide low risk growth options for Servicepoint. Additionally, the increasing adoption of IP networks potentially provides a significant growth catalyst for the videoconferencing industry in general.

Weaknesses

- Customer Concentration – From an earnings perspective, Servicepoint has a high degree of customer concentration, with Defence and Centrelink contracts representing well in excess of 50% of earnings. The Defence contract will be relet in 2005 and, while we believe Servicepoint is in a strong position to retain the contract anticipated strong competition presents contract renewal and pricing risk.

Opportunities

- IP Networks – The increasing adoption of IP networks is expected to generate significant new and existing customer growth opportunities. Servicepoint is well positioned for this market development general growth opportunities (existing and new customers).
- Corporate Sector – To date, Servicepoint has had limited success in the corporate segment. However, the establishment of marketing partnerships with companies with a considerable corporate customer base (Singtel Optus) and the lower operating costs of newer video-conferencing solutions provides real opportunities.

Threats

- Defence Contract Loss – Given the attractive nature of the Defence contract Servicepoint expects solid competition for the contract which will be relet in 2005.
- IP related Service Providers.

6. ATZ Financials

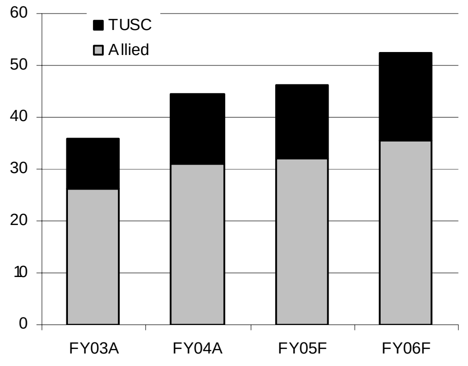
Aegis's financial forecasts for ATZ are presented in Fig 29 and represent a compilation of the divisional forecasts presented earlier in the report. There are several points to note. Firstly, in compiling the forecast, it has been assumed that ATZ has the financial benefit of the TUSC acquisition for the full FY05 period, despite the fact that the acquisition was only completed on 24 September 2004. Secondly, Aegis's forecasts for the FY05 period compare to ATZ's revised forecasts as per ATZ's trading update dated 16 November 2004 of revenues of circa $46M, an EBIT of $3.7M and NPAT (pre goodwill amortization) of $2.7M.

Fig 29. ATZ Profit & Loss Summary*

(A$M)	**FY03A**	**FY04A**	**FY05F**	**FY06F**
Allied	26.3	31.1	32.1	35.6
TUSC	9.6	13.5	14.1	16.8
Total Revenue	35.9	44.6	46.2	52.4
Total Costs	34.5	40.4	42.5	47.4
EBITDA	1.4	4.2	3.7	4.9
Depreciation	0.4	0.3	0.2	0.2
Gdwl Amort.	0.4	0.3	0.5	0.5
EBIT	0.6	3.7	3.0	4.2
Interest Exp.	0.3	0.3	(0.1)	(0.3)
PBT	0.4	3.4	3.1	4.5
Taxation Exp.	0.0	0.4	0.8	1.5
Minorities	0.0	0.0	0.0	0.0
NPAT	0.4	3.0	2.4	2.9
Sales Growth	n/a	24.2%	3.6%	13.3%
EBITDA Margin	3.9%	9.4%	8.1%	9.4%
Effective Tax Rate	0%	12%	27%	33%
EPS (cps)	0.7	5.7	4.3	5.6
EPS Growth	n/a	691%	-25%	31%

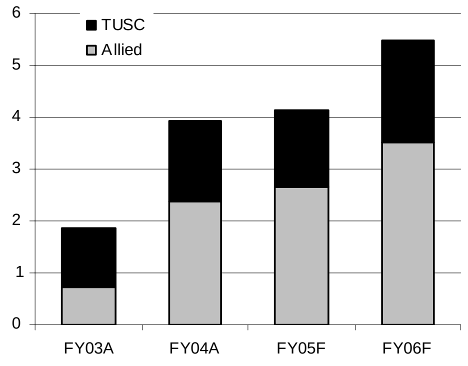
* Historic results represents proforma
Source: ATZ, Aegis Equities Research

Fig 30. ATZ Revenue Growth



Source: ATZ, Aegis Equities Research

Fig 31. ATZ EBITDA Growth



Source: ATZ, Aegis Equities Research

At a Group level, we have made the following assumptions. For the FY05 period, we expect the effective tax rate to be approximately 20%, due to tax losses within ATZ, before reverting to 30% in the FY06F period. ATZ's intangible balance of approximately $8M will be amortised over a 20-year period, generating an amortization amount of approximately $0.5M per annum. Depreciation is relatively immaterial, due to nature of the ATZ businesses and the general lack of equipment (Allied's vehicle fleet is utilized under an operating lease agreement, with the cost expensed). As a corollary, ATZ's capital expenditure levels are generally low. Over the next three year period, the only major item of expenditure is likely to be for an upgrade of ATZ's internal communications facilities, which is expected to amount to around $0.3M per year.

Balance Sheet

ATZ's proforma balance sheet as at 30 June 2004, post TUSC acquisition is presented in Fig 32. It is a relative clean balance sheet; the company is in a slight net cash position and the working capital ratio (AR/AP) exceeds 1.0x. In short, save in respect of an amount of approximately $3M required to be paid to the TUSC vendors following completion of the FY05 audit, on the basis of ATZ's balance sheet there are no onerous short term or long term liquidity demands upon the company and it is in a relatively strong position to continue to pursue its acquisition strategy.

Fig 32. ATZ Consolidated Balance Sheet

	Audited as at 30 Jun 04		**Combined**	**Adustments:**	**Combined**
	Allied Group	**TUSC Group**	**(1)**	**Raising + Acq.**	**(2)**
Cash	0.6	0.2	0.8	3.0	3.8
Receivables	10.2	4.5	14.7	0.0	14.7
Inventories	2.7	0.0	2.7	0.0	2.7
Other Current	0.6	0.3	0.9	0.0	0.9
Investments	0.1	0.0	0.1	0.0	0.1
Property, Plant & Equip	1.6	0.2	1.9	0.0	1.9
Intangibles	4.4	0.8	5.2	2.8	8.1
Other Non Current	0.3	0.6	0.9	0.0	0.9
Total Assets	20.5	6.7	27.2	5.8	33.0
Payables	4.2	4.1	8.3	0.0	8.3
Debt	2.5	0.6	3.1	0.0	3.1
Provisions	0.7	0.9	1.6	0.0	1.6
Other	3.5	0.1	3.6	0.0	3.6
Total Liabilities	10.9	5.7	16.6	0.0	16.6
Net Assets	9.7	1.0	10.6	5.8	16.5
Capital	17.8	3.9	21.7	6.8	24.6
Options Issued	0.0	0.1	0.1	0.0	0.0
Retained Profits	(8.1)	(3.1)	(11.2)	0.0	(8.1)
Total Equity	9.7	1.0	10.6	6.8	16.5

Source: ATZ, Aegis Equities Research

6. Valuation

Aegis estimates that ATZ's equity capital is worth $40M, or $0.75 per share. Our preferred methodology is Discount Cashflow (DCF) due to the difficulty in establishing an appropriate list of comparable companies in order to undertake a capitalization of earnings based valuation. Our key DCF inputs are listed in Fig 33. The beta of 1.5 is believed to capture the business, financial, and equities market related risks inherent in small companies.

Fig 33. Key DCF Assumptions & Valuation

Assumptions:		**Valuation:**	
Growth		NPV of Forecasts	$27M
Explicit Forecast Period:	FY05-10	Perpetuity [e/(r-g)]	$11M
Average Cashflow Growth FY05-10 (p.a.)	6.1%	Total Operational NPV	$38M
Long-Term Cashflow Growth 2010+ (p.a)	5.6%	Value of Debt	$2M
Perpetuity Value / Total	28%	**Total NPV**	**$40M**
		Val/Shr	
Discount Rate (Ke)		NPV of Forecasts	$0.51
Risk Free Rate (Rf):	6.0%	Perpetuity [e/(r-g)]	$0.21
+ Risk Premium (Re)	5.5%	Total Operational NPV	$0.72
x Beta	1.5	Value of Debt	$0.03
= Cost of Equity	14.3%	**Total NPV**	**$0.75**

Source: Aegis Equities Research

As a valuation crosscheck, we have assessed ATZ's forecast price-to-earnings ratio (PE) and enterprise value ratio (EV/EBITDA) relative to particular ASX indices, specifically the All Industrials (Ex Banks) and the Small Ordinaries index (see Fig 34).

Fig 34. Market Valuation Metrics

Sector / Company		**Price / Earnings (x)**			**EV / EBITDA (x)**	
	FY04A	**FY05F**	**FY06F**	**FY04A**	**FY05F**	**FY06F**
All Industrials (Ex Banks)	20.2	16.1	14.5	11.0	9.5	8.8
Small Ordinaries	19.2	15.7	13.6	9.6	8.5	7.8
ATZ *	5.9	6.2	5.3	4.5	4.6	3.5
Relative to All Inds (x)	0.30	0.39	0.37	0.41	0.48	0.40
Relative to Small Ords (x)	0.31	0.39	0.39	0.47	0.54	0.45

* Based on an ATZ share price of $0.34
Source: Aegis Equities Research

On a FY05F and FY06F PE, ATZ is currently trading at an approximate 60% discount to both the All Industrials and Small Ordinaries. In our view, as a determination of current value, we believe a 30% discount is more appropriate for ATZ, which would imply a 9.5-10x FY06F PE multiple. On this basis, our assessment of ATZ's current value is approximately $0.57/shr.

Clearly the choice of a 30% discount, and the consequent PE multiple is a matter of judgement. Factors which have been taken into consideration include 1) the relative small size of the business (which generally impacts factors such as market power, control over prices and costs, depth of management, diversity of customers, etc), 2) the competitive characteristics of ATZ's industry, and 3) the size of the 'free float' and liquidity of shares.

We view the $0.57/shr valuation as an appropriate measure of ATZ's value today. Over the next 12-months if ATZ successfully clears a number of hurdles then we believe our DCF valuation as the appropriate measure. Specifically, ATZ needs to prove its ability to meet or exceed its earnings targets particularly following the recent earnings downgrade which has damaged Management's credibility, it must establish a track record of communicating clearly and openly to the market, and the market needs to become more aware of the ATZ story.

Aegis Equities Research

Peter Leodaritsis
Managing Director
Phone: 61 2 8296 1100
peter.leodaritsis@aer.com.au

Vince Gordon
Chief Operating Officer
Phone: 61 2 8296 1155
vince.gordon@aer.com.au

David Brownie
Head of Business Development
Phone: 61 2 8296 1108
david.brownie@aer.com.au

Damien Klassen
Head of Retail Equities
Phone: 61 2 8296 1104
damien.klassen@aer.com.au

Johan Hedstrom
Head of Research
Phone: 61 2 8296 1157
johan.hedstrom@aer.com.au

RESEARCH

RESOURCES

Johan Hedstrom
Phone: 61 2 8296 1157
johan.hedstrom@aer.com.au

Peter Chapman
Phone: 61 2 8296 1132
peter.chapman@aer.com.au

Chris Sabin
Phone: 61 2 8296 1156
chris.sabin@aer.com.au

INDUSTRIALS

Anne Barnett
Phone: 61 2 8296 1100
anne.barnett@aer.com.au

Peter Chilton
Phone: 61 2 8296 1127
peter.chilton@aer.com.au

Anthony Farnham
Phone: 61 2 8296 1150
tony.farnham@aer.com.au

Danny Younis
Phone: 61 2 8296 1107
danny.younis@aer.com.au

TELECOMMUNICATIONS, MEDIA & TECHNOLOGY

Rodney Lay
Phone: 61 2 8296 1106
rodney.lay@aer.com.au

Eilidh Calderwood
Phone: 61 2 8296 1162
eilidh.calderwood@aer.com.au

Shanaz Cassim
Phone: 61 2 8296 1130
shanaz.cassim@aer.com.au

Sharon Loaiza
Phone: 61 2 8296 1131
sharon.loaiza@aer.com.au

MANAGED INVESTMENTS

Angela Ashton
Phone: 61 2 8296 1182
angela.ashton@aer.com.au

FINANCIALS

Peter Rae
Phone: 61 2 8296 1151
peter.rae@aer.com.au

Peter Leodaritsis
Phone: 61 2 8296 1101
peter.leodaritsis@aer.com.au

Ravi Reddy
Phone: 61 2 8296 1165
ravi.reddy@aer.com.au

PROPERTY TRUSTS

Paul Nielsen
Phone: 61 2 8296 1113
paul.nielsen@aer.com.au

Dinesh Pillutla
Phone: 61 2 8296 1163
dinesh.pillutla@aer.com.au

LIFE SCIENCES

John Kessell
Phone: 61 2 8296 1152
john.kessell@aer.com.au

DATA SERVICES

Radek Zeleny
Phone: 61 2 8296 1168
radek.zeleny@aer.com.au

INFORMATION TECHNOLOGY & RESEARCH PRODUCTION

Jeremy Ngo
Phone: 61 2 8296 1154
jeremy.ngo@aer.com.au

Evan Ferris
Phone: 61 2 8296 1116
evan.ferris@aer.com.au

Ian Kennedy
Phone: 61 2 8296 1122
ian.kennedy@aer.com.au

Renata Meleo
Phone: 61 2 8296 1129
renata.meleo@aer.com.au

SALES

David Brownie
Head of Business Development
Phone: 61 2 8296 1108
david.brownie@aer.com.au

Ian Gibson
Business Development Manager
Phone: 61 2 8296 1100
ian.gibson @aer.com.au

Felicity Peedom
Client Service Manager
Phone: 61 2 8296 1170
felicity.peedom@aer.com.au

Julia Hall
Business Development Manager
Phone: 61 2 8296 1100
julia.hall@aer.com.au

Ken Fleming
Business Development Manager
Phone: 61 2 8296 1100
ken.fleming@aer.com.au

Connie Sammut
General Enquiries
Phone: 61 2 8296 1100
connie.sammut@aer.com.au

Level 6, 33 York Street
Sydney NSW 2000 Australia
Locked Bag 7 Australia Square
Sydney NSW 1215
Phone 61 2 8296 1100
Fax 61 2 9299 3777
ABN 72 085 293 910
www.aer.com.au