



Allied Technologies (ATZ)

Update Note

24th June, 05

Company Overview

Allied Technologies Limited (Allied) was formed through a backdoor listing of the privately owned Allied Technologies Group (ATG) into ServicePoint Limited in April 2004. TUSC was acquired effective 1 July 2004 as part of its acquisition based growth strategy.

ATG specialises in the design, integration, installation and maintenance of communication networks, primarily for the delivery of data and voice traffic. With ServicePoint's specialty in secure video communication, the merged entity has a broad capability across secure voice, data and video based communications services. TUSC is a provider of end-to-end software and service solutions in Infrastructure Management.

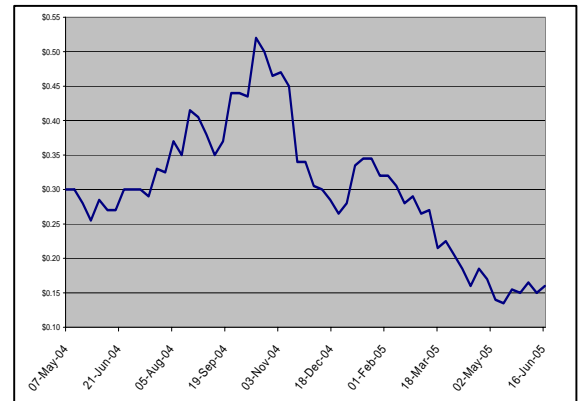
The Company services niche communication markets including the Department of Defence, the Department of Foreign Affairs and Trade and other Federal, State and Local Government Departments. Over half of Allied's revenue is generated by Department of Defence related work. This reliance on the government sector has typically resulted in 60% of earnings being generated in the second half as annual budgets come to an end.

In May 2005, the Company announced that it expected to report a loss before interest, tax and amortization of between \$1.8m and \$2.1m for the year to 30 June 2005. Group revenue is expected to be between \$33m and \$35m. In its FY04 Annual Report released in October 2004, Allied was targeting annual revenue of \$100 million by December 2005 underpinned by both organic and acquisitive growth.

Investment Comment

Given the travails of the company since October 2004 – major profit revision, the departure of the founder and MD, along with the CFO - there is unlikely to be any 'good news' emanating from the company for sometime. The FY05 result (end-August 2005) is when the forecast becomes reality and this is likely to further erode investor confidence in the absence of evidence to the contrary. Will this be the end of the restructuring and can it provide any assurances that the problems in its network infrastructure business have been fixed? In terms of its financial position, ATZ had cash-on-hand of \$2.5m at 31 December 2004 but interest bearing debt of \$2.6m. While the company has indicated that it is operating on a cash flow positive basis its financial position has probably not improved over the past 5-6 months. Additionally, the vendor of TUSC is still owed approximately \$2.5m as deferred consideration which is payable around the end of September 2005.

Price Performance



Financial Performance

- ATZ exceeded its FY04 prospectus profit forecast of \$1.54 million and paid a fully franked dividend of 1.5 cps, despite providing previous guidance that a dividend would not be paid in FY04. The change being the result of a better than expected financial performance.
- On 2 August 2004, ATZ announced projected revenues of \$35 million and projected profit after tax of \$1.9 million (excluding amortisation of goodwill arising on the AGPL acquisition) for the FY05. This represented improvements of 12.3% in revenue and 11.8% in PAT over the group pro forma result for FY04.
- In the Company's Concise Annual Report released in October 2004, the MD provided an updated FY05 forecast - expected revenues of \$50 million, EBIT of \$4.3 million EBIT and NPAT of \$3.22 million.
 - At this time the Company re-affirmed its commitment to its current acquisition programme - with a view to reaching an annualised revenue target of \$100 million by the end of December 2005.

This announcement coinciding with its share price peaking at around 50 cps compared to the current price of 14cps.

- On the 16 November 2004 trading update released to the market stated that it had been faced with a number of challenges in the first four months of the current financial year, with turnover and profits for the period being below budget projections (what about the updated guidance on 26th October 2004 of a \$3.22 NPAT?). As such the FY05 result will be within 10 to 15% of the Company's *original forecast* (Lonsec presumes this to be the EBITA forecast of \$1.9m). The Market reacted negatively with the ATZ share price declining approximately 30%.
 - The lower than budgeted figures for the first four months were directly attributed to; cost overrun problems associated with two large infrastructure projects, unanticipated delays in the commencement of three significant contracts; and the delay in various Federal Government contract awards, as well as a general slowing of the market and the stalling of project commencement dates, principally due to the impact of the recent Federal Election. Revenues generated through Federal Government contracts/business, represent 60% of Allied's revenue stream.
- Allied's reported revenue of \$16,085,704 for the 1H05 on the 28 February 2005, representing a significant increase over revenue of \$1,648,002 for the corresponding period. This was principally as a result of the contributions made following the acquisitions of Allied Group and TUSC Computer Services.
 - A loss before income tax of \$1,286,873 for the period was reported, compared to a net loss before income tax of \$179,514 for the corresponding six month period ended 31 December 2003.
 - The profit downgrades in early 2005 together with a capital write-off in the amount of \$193,164, the expensing of an of \$69,586 associated with due diligence costs incurred on a potential acquisition, where the directors chose not to proceed, and a non-recurring write-off of work in progress amounting to \$379,640 have contributed significantly to the loss.
- Shortly after the 1H05 result Mr. Ray Doak announced his decision to step aside and give up his position as Allied's founding CEO and Managing Director on the 18 March 2005.
- In May 2005, Allied announced that it expected to report a loss before interest, tax and amortisation of between \$1.8 million and \$2.1 million for the year to 30 June 2005. Group revenue was expected to be between \$33 million and \$35 million.
 - This loss is primarily due to Allied's network infrastructure business, Allied Technologies Australia Pty Limited (ATA). Whereby revenue was lower than budgeted and three major projects in conjunction with their professional services and consultancy divisions incurred significant losses. Furthermore, Allied's decision to close the service and consultancy divisions has resulted in further costs.

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