

Z Group (Software & Computer Services, Hold) – Adjusting full-year forecasts

After this week's trading statement we are adjusting full year forecasts as follows. We have removed forecast sales of OnShare from FY2008 forecasts, which we were previously estimating at £800k. This means our group revenue forecast for FY2008 goes from £2.7m to £1.9m. We are downgrading gross profit from £1.7m to £1.2m. EBITDA goes from a forecast of breakeven to a loss of £1m. We estimate the writedown of OnShare to be some £6.2m which takes the group to a stated loss before tax of £7.2m. As discussed previously the monthly average cash burn rate has improved from last year's £160k to £115k and further action is being taken to reduce cash burn further. The net cash position is £1.6m. The company is trading on an EV/Sales ratio of 0.48x but clearly has to show further progress in commercialising its technologies for this to change.

Although the lack of traction gained by OnShare as a consumer product is disappointing, we do believe that potentially there is inherent value in the underlying technology. The Board is currently looking at alternative ways to monetise the investment made in OnShare and is particularly focusing on its potential as a low cost remote file access solution. While this represents a significant departure from the current business model, the accompanying decision to write off sunk investment at least removes the uncertainties of market traction and timing from the Z Group investment profile. In addition, initial indications suggest that the ShrinkMyTunes compression product could surpass internal expectations in terms of revenue generation.

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Unless expressed otherwise, the named authors of the contributions to our Early Morning Comments are Landsbanki research analysts.

Disclosure table of relationships and other material interests

As at 13 September 2007

Zergo	4	iSOFT Group	1,4,5
Abbot Group	4	ITE Group	4
Aberdeen Asian Smaller Companies IT plc	1,4	JJB Sports	4
Aberdeen Asset Management	1,4,5	Johnston Press	4
Acambis	4	Kier Group	1,4,5
Accident Exchange Group	4	Laird Group	4
AcenciA	1,2,4	Leadcom Integrated Solutions	4
Adamind	1,3,4,5,7	Liontrust Asset Management	4
AdEPT Telecom	1,4,5,6	Lok'n Store	4
Advanced Medical Solutions Group	1,3,4,5	London & St. Lawrence Investment Trust plc	1,4
Aegis	4	M J Gleeson	1,4,5
Aggreko	4	Majedie Investments	1,2,4,5
Akers Biosciences	1,3,4,5	Majestic Wine	1,3,4,5
Alizyme Plc	4	Marshalls	1,4,5
Allergy Therapeutics	1,3,4,5,6	Matrix Income & Growth VCT 4 plc	1,4
Alphameric	4	Matrix Income & Growth VCT plc	1,4
Alpha Strategic	1,4,5,6	Mecom	4
Andor	2,4,5	Metnor Group	1,3,4
Angus & Ross	1,3,4,5,6,12	Micap	1,3,4
Anite Group	4	Michael Page	4
Antisoma	4	Micro Focus	4
Antofagasta	4	MITIE Group Plc	4
ARC International	1,2,4	Mobile Streams	1,3,4,5
Arena Leisure	4	Morgan Crucible	4
Ark Therapeutics	4	Morson Group	4
Artemis Alpha	1,4	Moss Bros	1,4,5
ASOS Plc	4	Mothercare	4
Augean	1,3,4,5	Mouchel Parkman	4
AVEVA Group	4	Mulberry Group	1,3,4,5
BBI Holdings	1,3,4,5,6	N Brown	4
Belgravium Technologies	1,4,5,6	Nanoscience Inc	1,4,5,6
Bellway	1,4,5	NCC Group	4
Berkeley Group Holdings	4	Neptune Calculus Income & Growth Vct	1,4
Biffa	4	NetDimensions	4
BioProgress	4,5,6	Netplay TV	1,3,4
Blacks Leisure	4	New Star Asset Management	4
Block Shield	1,4,5	Next Fifteen Communications	1,3,4,5
Bloomsbury Publishing	4	Nipson Digital Printing	1,3,4,5
Bovis Homes Group	4	Northgate Info	4
Brainjuicer	1,3,4,5,6	NXT	1,2,4,5
Brazilian Diamonds	1,4,5,6	office2office	4
Brewin Dolphin Holdings	1,2,4,5	OHM	4
British Smaller Tech Companies VCT 2 plc	1,4	Osmetech Plc	4
BSS Group	4	Paragon Group of Companies	4
BTG	4	Penna Consulting	1,3,4,5,6
Cambium Global Timberland	1,3,4	Phytopharm	1,2,4,5,12
Cambrian Mining	1,3,4,5,6,12	Pipex Communications Plc	4
Canaccord Capital	1,3,4,5	Polar Capital	1,3,4
Canadian General Investments Ltd	1,4	Portrait Software	4
Capital & Regional Plc	4	Premier Oil	4
Carillion	4	Premier UK Dual Return Trust PLC	1
Carluccio's	4	Proactis Holdings	1,3,4,5,6
Carpetright	4	Prodesse Investment Ltd	1,4
Cattles	4	Proteome Sciences	1,3,4
Cello	4	Psion	4
Centaur Media	4	Punch Graphix	4
Chamberlin plc	1,3,4,5,6	Quantica	1,3,4,5
Charles Stanley Group	1,2,4,5	Rathbone Brothers	1,4,5
Charter	4	Redrow	4
Charterhouse Communications	1,3,4,5,6	Renova	4
Chime Communications	4	Rensburg Sheppards	4
ChoicesUK	1,3,4	Restaurant Group	4

Chrysalis	4	Revenue Assurance Services	4,5
City Of London Investment Group	1,3,4,5,6	Robert Walters	4
Clapham House	4	Rockhopper	1,3,4,5,12
Clinton Cards	4	Rotork	4
CODA	1,3,4,5	Saltus	5
Coffee Republic	1,3,4,5,6,12	SatCom Group	1,4,5,6
Cookson Group	4	Schroder Income Growth Fund Plc	1,4
Corero	1,4,5,6	Schroder Japan Growth Fund	1,4
Corin Group	4	SciSys	1,3,4,5
Corporate Services	1,2,4,5	SDL	4
Cosalt	1,4,5	Senior	4
CryptoLogic	1,2,4	Serco Group	4
CSR	4	Severfield-Rowen	4
CSS Stellar	1,3,4,5	Shanks Group	4
Datong	1,3,4,5	Shed Productions	1,3,4,5
Davenham	4	SIG Group	4
Debenhams	4	Sinclair Pharma	1,4,5
Detica	4	SkyePharma	4
DIC Entertainment	1,3,4,5	SMG	4
DICOM Group	1,2,4,5	SOCO International	4
Dimension Data Holdings	4	Sondex	4
Dominion Energy Plc	4	South African Property Opportunities plc	1,3,4
Domino Printing Sciences	4	SovGem	1,3,4
Dunelm Mill	1,4,6	Spectris	4
Dyson Group	4	Speedy Hire	4
EMI	4	Spice	4
Entertainment Rights	4	Spirax Sarco	4
EPIC Securities plc	1,4	Spiritel	1,3,4
Epistem Holdings	4	Sports Cafe	1,3,4,5
European Goldfields	4	Spring Group	4
Eurovestech	1,4,5	St Modwen	1,4
Expro Group	4	Stanelco	1,2,4,5,6
F & C Asset Management Group	4,10	Stonemartin Plc	1,3,4,5
Felix Group	1,3,4,5,6	Surface Transforms	1,4,5
Fenner	4	Synairgen	1,3,4,5
Fidessa	4	Syndicate Asset Management	4
Flying Brands	1,2,4,5	Synergy Health	4
Foseco	4	Telent	4
French Connection	4	Telephonetics	1,3,4
Future	4	Tesco Plc	12
Galliford Try	4	Tescom Software Systems	1,3,4,5,6,12
Game Group	4	The Local Radio Company	1,3,4,5
Gatekeeper Systems	1,3,4	Thomas Cook Group	4
GCap Media	1,2,4,5	Thomson Intermedia	1,3,4,5
Genus	1,3,4,5,13	Thorntons	4
Getech	1,3,4,5,6	ToLuna	4
Global Energy Development	1,4,5	Topps Tiles	4
Glotel	1,4,5	Trafficmaster	1,4,5
Gulfands Petroleum	1,3,4,5	Travis Perkins	4,13
Gyrus Group	4	Tribal Group	4
Halfords	4	Tristel	4
Halma	4	TriVest VCT	1,4
Hargreaves Lansdown	4	TT electronics	1,4
Harvey Nash	4	UK Coal	1,4,6
Hays	4	Unite Group	4
Healthcare Locums	4	Vanco	4
Helphire	4	Vantis	4
Hidefield Gold	1,4,5,6,12	Vastox Plc	4
Hightex	1,3,4,5,6	Vectura Group	4
HMV	4	Vernalis	4
Holidaybreak	4,5	Vividas	1,3,4
Hunting	4	Vp	4
Huntsworth	2,4,5	Warner Estates	1,2,4,5,6
IBS OPENSsystems Plc	4	Weir	4
Ideal Shopping Direct	1,3,4,5,6	Wogen	4
Imagination Technologies	4	Wolfson Micro	4
Immunodiagnostic Systems	1,3	Wood Group	4
ImmuPharma	1,3,4	Woolworths	4
Impax Asset Management	1,3,4,5	Workspace	4,5
Imprint	4	WPP	4
Independent Media Distribution	1,2,4,5	Xaar	4
Informa	4	Xansa	4

Ingenious Media Active Capital	1,3,4,5,6	Xchanging	4
Innovation Group	4	Z Group	1,3,4,5
Inspicio	1,4,5,6	ZENERGY POWER	1,3,4,5,6
Intec Telecom	4,5	Zetex	4
Intertek	4		
ISG	3,4,5		

Recommendation history graphs will be in the Morning Meeting note.

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