

In Focus

Earnings Release

November 21, 2006

**Acquisition Value Enhancing**

While revenue traction with new products has taken a little longer than anticipated, an impressive pipeline, coupled with the long-term value deliverable through the OnShare minority stake acquisition, underpins our Buy recommendation.

Year End	Revenue GBPm	EBIT Margin	PBT adj GBPm	Tax %	Earnings adj (m)	EPS adj GBPp	PE x	EV/Sales x	EV/EBITDA x	DPS GBPp	Div. Yield %
Feb 28											
2003A	0.094	-97.9%	-0.092	0.0%	-0.092	-0.55	NA	NA	NA	NA	NA
2004A	0.641	-32.4%	-0.207	1.2%	-0.204	-1.22	NA	NA	NA	NA	NA
2005A	2.800	20.8%	0.585	19.5%	0.489	2.92	30.77	5.37	24.09	0.0	0.00%
2006A	4.942	20.7%	1.139	30.0%	0.828	4.26	21.12	4.18	18.72	0.0	0.00%
2007E	4.875	24.2%	1.270	30.0%	0.889	4.10	21.97	3.42	13.76	0.0	0.00%

Source: Teather & Greenwood. Priced as at 11.00 on Tuesday 21 November 2006.

Key Points

- **Top-Line Evolution Largely as Anticipated**

Revenue in H1 was £1.536m, compared with £2.572m in H1 2006, but this was, to a large extent, the anticipated result of a shift in product focus towards more recent additions to the portfolio. ONSPEED Mobile did fall short of its revenue target as volume deals with network operators are taking longer to negotiate than anticipated. However, an impressive prospect pipeline has now been built up and we are confident that revenue traction will accelerate as we move into H2 and beyond.

- **OnShare Launch and Acquisition**

The most significant event of the period was the launch of OnShare, the company's unique friend-to-friend file-sharing technology. It is still early days for the product, however, given that marketing only commenced in September. Nevertheless, we remain highly optimistic with regard to its commercial potential and therefore believe that the decision to acquire the 49% stake in OnShare held by the developers of the original technology – in an all-share deal valuing the stake at £3.8m – will ultimately deliver significant value to both the group and shareholders.

- **Revenue Forecast Tiered Down, but Profit Target Unchanged**

We are lowering our FY 2007 revenue target to reflect the extended negotiation cycle for ONSPEED Mobile, as well as factoring in conservative assumptions as to the rate of consumer take-up of OnShare, and timing of the introduction of the bandwidth cap. However, given that the bulk of cost projections in our original forecasts were linked to timing of market traction, our FY 2007 clean PBT target of £1.3m remains unchanged.

Investment Conclusion

- **Value Potential of OnShare and ONSPEED Mobile Remains Significant**

We have re-set our price target at 123p, reflecting a FY 2007 EV/sales multiple of 5x in line with our previous methodology, but remain highly optimistic about the long-term value potential of both OnShare and ONSPEED Mobile.



Disclosure Checklist - Potential Conflict of Interests

Stock	ISIN	Disclosure (See Below)	Currency	Price
Z Group	GB00B09LQS34	5, 7, 9	GBP	96.50

Source: Factset closing prices of 20/11/2006

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Source: Kepler Equities

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Rating Ratio Landsbanki Q3 2006

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Total	100.0%	0.0%

Source: Landsbanki

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Hold	35.0%	0.0%
Reduce	15.0%	0.0%
Not Rated/Under Review/Accept Offer	5.0%	0.0%
Total	100.0%	0.0%

Source: Merrion Stockbrokers Limited

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Total	100.0%	100.0%

Source: Teather & Greenwood Limited

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