

In Focus

Earnings Revision

March 27, 2007

**Second Half Key**

Following last week's in line trading update, we are issuing a FY 2008 forecast for the first time. Achievability very much depends on both ONSPEED Mobile and OnShare gaining market traction, and delivering revenue, in the second half. We retain our Hold recommendation.

Year End	Revenue (GBPm)	EBIT Margin (%)	PBT adj (GBPm)	Tax (%)	Net profit (GBPm)	EPS adj (GBPp)	PE	EV/Sales	EV/EBITDA	DPS (GBPp)	Div. Yield (%)
Feb 28											
2004A	0.6	-32.4	-0.2	1.2	-0.2	-1.2	na	na	na	na	na
2005A	2.8	20.8	0.6	19.5	0.5	2.9	16.4	2.9	12.9	0.0	0.0
2006A	4.9	20.7	1.1	30.0	0.8	4.3	11.3	2.2	9.7	0.0	0.0
2007E	2.6	-30.4	-0.7	0.0	-1.1	-3.0	-16.0	3.5	-8.5	0.0	0.0
2008E	2.7	-6.0	-0.1	0.0	-0.6	-0.5	-97.6	3.7	-328.0	0.0	0.0

Source: Teather & Greenwood

Key Points

- **FY 2007 Numbers Expected To Be In Line**

The trading update issued on 19 March indicated that results for the year ended February 2007 would be in line with our forecasts – we are anticipating revenue of £2.6m and an adjusted pre-tax loss of c700k – and this reassurance has prompted us to raise our target price to 50p. This outcome reflects the delays experienced in releasing the full version of OnShare, and in the closing of contracts with mobile operators for the ONSPEED Mobile product, as highlighted in the note of 30 January.

- **Current Year Forecasts Predicated On Market Traction In H2 2008**

For the current year, we are now forecasting revenue of £2.7m, which we expect will result in an adjusted loss before tax (excluding amortisation and non-cash share option charges) of c£100k. Achievability of these targets very much depends on both core products gaining market traction in the second half. Broadly, we are forecasting OnShare registrations to increase by a monthly rate of 3,500 registrations for the first three months of this financial year, and then for these monthly additions to increase by 50% each month. Revenue conversion is projected to commence in September at an estimated conversion rate of 10%, resulting in a full year revenue contribution of c£780k. We are forecasting ONSPEED Mobile, from June, to build up a subscriber base of 225,000 by the end of FY 2008. A monthly average of 92,000 users, paying 50p a month over nine months, translates into c£415k in revenue.

Investment Conclusion

- **Visibility of Revenue Traction Remains Poor... But Cash Not a Concern**

We continue to caution that there remains little visibility in terms of timing of revenue conversion, but investors should nevertheless take comfort in the fact that cash (T&G FY 2007 forecast £2.2m) is not a concern. We also remain optimistic that the enhanced user experience offered by the latest version of OnShare, together with a strong sales pipeline for ONSPEED Mobile, will ultimately deliver the revenue traction required to stimulate positive share price momentum longer term.



• Forecasts

Table 1: Profit & Loss Forecasts – Abridged

Year end Feb (£m)	FY 2006	FY 2007E	FY 2008E
Turnover	4.9	2.6	2.7
EBITA adj.	1.0	-0.8	-0.2
Margin (%)	20.7	(30.4)	(6.0)
Amortisation	0.0	-0.1	-0.4
Share option expense	0.0	-0.3	0.0
Exceptionals	0.0	0.0	0.0
Net interest	0.1	0.1	0.0
PBT FRS3	1.1	-1.1	-0.6
PBT T&G	1.1	-0.7	-0.1
Tax	-0.3	0.0	0.0
Tax rate (%)	30	0	0
Net profit	0.8	-1.1	-0.6
T&G earnings adj.	0.8	-0.7	-0.1
No. dil. shares (m)	19.4	23.3	25.4
FRS3 EPS (p)	4.4	(5.0)	(2.3)
T&G EPS (p)	4.3	(3.0)	(0.5)
Growth rate (%)	-	-170	-84
DPS (p)	-	-	-

Source: Teather & Greenwood

Table 2: Cash Flow Forecasts – Abridged

Year end Feb (£m)	FY 2006	FY 2007E	FY 2008E
EBITA adj.	1.0	-0.8	-0.2
Depreciation	0.1	0.0	0.2
Working capital	-0.9	0.1	0.1
Net interest	0.1	0.1	0.0
Tax paid	-0.1	0.0	0.0
Gross cash flow	0.2	-0.6	0.1
Capex	-1.1	-1.3	-0.9
Use of prvs, other	0.0	0.0	0.0
Free cash flow	-0.9	-1.9	-0.7
Dividends	0.0	0.0	0.0
Acq.ns & Invest's	0.0	0.0	0.0
Disposals	0.0	0.0	0.0
Shares issued	2.5	0.0	0.0
Other	0.0	0.0	0.0
Change: net debt	1.6	-1.9	-0.7
End net cash (debt)	4.1	2.2	1.5

Source: Teather & Greenwood



Disclosure Checklist - Potential Conflict of Interests

Stock	ISIN	Disclosure (See Below)	Currency	Price
Z Group	GB00B09LQS34	5, 7, 9	GBP	48.00

Source: Factset closing prices of 26/03/2007

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Source: Kepler Equities

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Rating Ratio Landsbanki Q4 2006

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Total	100.0%	0.0%

Source: Merrion Stockbrokers Limited

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Hold	27.0%	12.0%
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Offices

Amsterdam

Kepler Equities Nederland
Herengracht 466
1017 CA Amsterdam
Telephone +31 20 563 2365
Fax +31 20 564 1700

Dublin

Merrion Capital Group
Block C
The Sweepstakes Centre
Ballsbridge, Dublin 4
Telephone +353 1 240 4100
Fax +353 1 240 4101

Edinburgh

Teather & Greenwood
Level 5
Napier House
27 Thistle Street
Telephone +44 20 7426 9000
Fax +44 20 7426 3235

Frankfurt

Kepler Equities Germany
Taunusanlage 19
60325 Frankfurt
Telephone +49 69 756 960
Fax +49 69 7 43 25 11

London

Teather & Greenwood Limited
Beaufort House
15 St Botolph Street
London EC3A 7QR
Telephone +44 20 7426 9000
Fax +44 20 7426 9595

Geneva

Kepler Equities (Suisse) SA
Chemin du Midi,8
1260 Nyon
Switzerland
Telephone +41 22 361 5151
Fax +41 22 365 4532

Madrid

Kepler Equities España
Alcalá 95
28009 Madrid
Telephone +34 91 436 5100
Fax +34 91 436 51 51

Milan

Kepler Equities Italia
Corso Europa 2
20122 Milano
Telephone +39 02 855 071
Fax +39 02 855 07 500

New York

Kepler Equities Inc.
600 Lexington Avenue
10022 New York, NY USA
Telephone +1 212 710 7600

Paris

Kepler Equities France
112, Avenue Kléber
75016 Paris
Telephone +33 1 5365 3500
Fax +33 1 5365 3521

Reykjavik

Landsbanki
Hafnarstræti 5
101 Reykjavík
Tel: +354 410 4000
Fax: +354 410 3006

Zurich

Kepler Equities Switzerland
Stadelhoferstrasse 22
Postfach
8024 Zürich
Telephone +41 43 333 6666
Fax +41 43 333 6652

Websites

Kepler Equities
www.kepler-equities.com

Landsbanki
www.landsbanki.com

Merrion Capital Group
www.merrion-capital.com

Teather & Greenwood
www.teathers.com

