

UK – Smaller Companies

Sector: Software and Computer Services, Full List

20 June 2007

Company Note: KWL.L

Kewill Systems

86p

Initiation of coverage

12 Month

Market Cap

Buy

£69.3m

Posting strong growth in an attractive niche

Kewill is benefiting from growth in its markets due to increasing world trade and regulatory compliance just as it is poised to expand both geographically and by increasing its strategic value to clients. We consider that, despite growth rates above the sector average, Kewill's historic performance has been under reported due to a fall in legacy revenue and the strength of Sterling against the Dollar. Following three acquisitions in the past year Kewill now has the product set and geographic reach it requires and it has considerable scope for organic growth in large, global markets. Despite its recent record and the growth potential the shares trade on just 14.7x prospective earnings. We initiate with a Buy rating and a 120p target price.

12m Range	59p-86p
Net Cash	£5.3m
12 month target	120p
Confidence in estimates	High
Nav per sh.	37.5p
NMS (shares)	5,000
Year End	31 March
Basic Shares	80.8m

Activities

Kewill Systems is a provider of supply management systems for enterprises, including international trade, shipping and order management. It operates in the US, Europe and Asia.

Year to March	2006A	2007A	2008E	2009E	2010E
Revenues, £m	31.6	41.6	51.5	56.0	60.9
Pre-tax profit, £m	3.5	5.0	6.9	8.3	9.6
EPS p	5.8	6.7	8.3	9.7	10.9
Tax norm EPS p	3.1	4.4	5.8	7.0	8.2
PER x	27.4	19.6	14.7	12.2	10.5
EV/EBITDA x	15.9	11.6	8.0	6.7	5.9
Return on Equity %	17.2	18.1	21.5	22.7	22.7
Dividend Yield %	-	0.6	1.2	1.8	2.4

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- **Kewill's recent full year results showed good growth.** Revenues increased by 31%, the operating margin rose by 230 basis points and earnings grew 43%. Cash generation was ahead of expectations at 114% of operating profit while year-end cash was £5.3m despite £12m expended on three acquisitions. The acquisitions have provided Kewill with the product set and geographic reach to stimulate further organic growth in the medium term.
- **We expect Kewill to focus on organic growth this year.** Having completed the acquisitions of Innovate, IPACS and CSF in the past year, providing an expanded product set and presence in Asia, we expect the current year to focus on integration and cross selling. The 'One Kewill' initiative is tasked with realising synergies between geographies and products. We expect that this will pave the way for the development of an integrated product suite that will appeal to large enterprises looking for visibility across their supply chain.
- **We believe there is upside risk to our forecasts.** Our estimates are based on Kewill achieving growth in line with its markets whereas we believe there is potential for Kewill to win market share by cross selling its product set into all its geographic markets, by achieving cost savings through synergies and through the development of an integrated product suite that provides customers with greater visibility of their supply chain.
- **Price target of 120p offers 40% upside.** Kewill's US peer group trades at a 30% premium on a prospective EV/EBITDA basis and 71% on a p/e multiple. In the UK there are no direct comparators but despite Kewill's higher than sector average growth rates it trades at a 51% discount on a prospective p/e basis, based on Kewill's earnings after a nominal 30% tax charge. In our view this discount is unwarranted, despite Kewill's relatively smaller size. We therefore initiate coverage with a Buy recommendation and 120p price target which equates to a 10% discount to the sector average p/e rating together with the value of Kewill's tax assets.

Investment case

Our buy recommendation for Kewill Systems is based on our view that:

- **It operates in a market with good growth drivers.** World merchandise trade grew by 13% in 2005 to over \$10 trillion, fuelling demand for software and services to help logistics service providers (LSPs) and multi national companies make their supply chain more cost efficient while providing greater visibility of assets in transit. The rising number of regulations, from national customs clearance to Sarbanes Oxley, is adding to the demand for software and recurring professional services. We estimate the market for software and services in which Kewill competes to be over \$2bn, giving Kewill a c5% market share at its current revenue run rate.
- **Kewill is well placed to benefit from this growth in demand.** The complexity of the business processes involved in the markets in which Kewill competes, as well as its blue chip customer base (eg FedEx, DHL, UPS, TNT, General Motors and Sainsbury's) and its relationships with major ERP vendors such as SAP and Oracle (with which Kewill products integrate) provide high barriers to entry.
- **Organic growth is under reported and good opportunities exist.** Over the last two years Kewill has seen revenues in some parts of its business fall as, for example, UK retailers concentrated on other IT projects such as chip and pin and through the loss of a number of its larger EDI-based retailers who entered administration (such as Alders and Littlewoods). In addition, Kewill is winning an increasing number of software as a service (SaaS) contracts rather than license plus maintenance deals. This results in lower revenues in year one but higher revenues through the remainder of the life of the relationship. Finally, the strength of the £:\$ lowered operating profit by £0.4m in the year to March 2007 and in the current year we expect reported growth to be constrained again by the exchange rate – our forecasts assume £1:\$2.
- **Increased product range and geographic reach provide opportunities.** Following three acquisitions in the last year in Europe and Asia, Kewill now has one of the widest product ranges of its competitors (with 21 products) and operates in all of the key markets except Latin America. By taking its strengths in each of its particular niches and exporting them to all its geographic markets Kewill has the potential to take market share. By integrating a number of its products over the next two/three years Kewill also has the potential to extend its strategic value to customers.
- **Potential for acquisitive growth.** With three acquisitions in the last year and seven since the current management team was appointed in 2002, Kewill has proved itself capable of making and integrating acquisitions. While we expect a pause to focus on organic growth, the fragmented nature of Kewill's markets provides the potential for further earnings enhancing acquisitions for scale, product and geographic reach.
- **Good visibility in the business.** We expect the company to have over 50% of its revenue in the current year (growing to 54% by 2010) come from recurring sources such as software maintenance and the growth in SaaS contracts. All parts of the business also have high levels of repeat business from existing customers, further increasing visibility.
- **Potential for margin improvement.** Over the past four years Kewill has improved its operating margin from 4.7% to 11.3% and we consider that its growth path in higher margin business can help it reach 20% over the medium term. Our forecasts assume a more modest operating margin of 15.2% is achieved in the year to March 2010.
- **No premium for Kewill to be acquired.** While Kewill is recognised as a participant in the markets in which it competes, we consider that if it executes on its strategy of increasing its geographic presence and integrating and extending the functionality of its products it will become both a greater threat to the market leaders and a more attractive acquisition target.

Kewill's underlying growth has been held back by the loss of legacy revenues, Software as a Service growth and exchange rates

We expect recurring revenue to grow by 68% over the next three years

Our target price is 120p, representing 40% upside

In our view Kewill has the potential to benefit from both the growth in the market for supply chain software and services, which is higher than that of the IT sector generally, as well as the potential to take market share through its geographic and product expansion. Our forecasts are conservative, however, taking a more prudent approach until we see evidence of the potential synergies from recent acquisitions. We initiate our coverage with a Buy recommendation and a 120p price target.

Investor concerns

We consider that the major risks to our investment case are as follows:

- **Execution risk** – Kewill now has 18 offices in three continents with over 600 staff. We consider that integrating the recent acquisitions of Innovate, IPACS and CSF as well as delivering the strategic goals that Kewill has set will require high levels of skill and diligence from the company's senior management team. We believe the team is motivated to achieve these goals.
- **Competition from SAP and Oracle** – SAP and Oracle offer competing solutions to Kewill products as add-on modules to their Enterprise Application suites. According to industry analysts Forrester, enterprises are split equally between those that plan to harmonise on their ERP providers' applications and those that will opt for best of breed such as Kewill. The main loser will be custom built applications, which account for c40% of the market depending on the particular application, but where only 16% of enterprises surveyed by Forrester expect to focus on custom development in future.

Custom built applications are likely to suffer from increasing use of packaged software from ERP vendors and specialist vendors such as Kewill

Valuation

We consider price/earnings and EV/EBITDA to be the preferred valuation metrics for the sector and have looked at the range of competitors in the US for comparative valuation purposes. A valuation table can be found below.

Figure 1: Comparative valuation of peer group

	Mkt cap £m	2006A			2007E			2008E		
		Rev growth (%)	EV/EBITDA (x)	P/E (x)	Rev growth (%)	EV/EBITDA (x)	P/E (x)	Rev growth (%)	EV/EBITDA (x)	P/E (x)
i2 Technologies	194	NEG	4.8	141.0	2.9	8.3	33.6	9.4	5.6	14.4
Descartes*	103	13.8	16.0	41.0	12.3	13.0	20.0	12.0	9.9	18.3
Manhattan Ass.	378	17.5	14.7	33.8	13.5	10.0	21.9	8.5	8.1	19.9
JDA	299	NEG	49.8	29.3	28.0	42.2	24.2	32.0	34.7	18.9
Kewill*	69	31.4	11.6	19.6	23.8	8.0	14.7	8.8	6.7	12.2
Average (ex Kewill)	244	15.7	11.8	71.9	9.6	10.4	25.2	10.0	7.9	17.5
Kewill discount			2.2%	267.0%		29.6%	71.0%		16.8%	43.8%

Source: JCF, Charles Stanley Securities estimates *Descartes 2006 is year to January 2007; Kewill 2006 is year to March 2007

Kewill trades at a discount to its peer group on all prospective measures

In our opinion the most appropriate valuation metric to concentrate on is prospective EV/EBITDA, where Kewill trades at a 30% discount to its quoted peers.

In the UK we do not consider there are any directly comparable quoted competitors and have therefore looked at the sector as a whole. Kewill's good visibility and forecast earnings growth of 36% in the current year, followed by 21% in the year to March 2009 are sufficiently high to suggest a premium rating to the sector is justified. However this is balanced by the fact that Kewill's current market capitalisation is only £69m and its shares are less liquid than many.

In addition we remind investors that we are using fully taxed earnings for valuation purposes, despite our expectation that Kewill will not pay a full tax rate during the period under forecast. We understand that the company has c£5m of deferred tax assets available, worth 6p per share.

We therefore consider that a suitable short term target price for Kewill is 120p, which represents 20x prospective, tax normalised earnings (representing a 10% discount to the sector average multiple of 22x) plus the value of Kewill's tax assets. The achievement of this price target would bring Kewill into line with the EV/EBITDA rating of its US quoted peers.

Overview

Kewill represents a successful turnaround story under its current management team

Kewill is a software and IT services business focussed on helping organisations manage their supply chains. As a former dotcom 'rags-to-riches-and-back-again' story it retains a certain level of baggage in terms of sentiment, but a change of senior management in 2002 and a refocusing of the business on a profitable niche has turned around an operating loss of £5.7m in the year to March 2003 to an operating profit of £4.7m in the year to March 2007. We expect Kewill to be able to sustain double digit organic revenue growth.

In March 2000, Kewill shares reached £30.62, valuing the business at £2.3bn. The share price reflected optimism that Kewill's business to business (B2B) software would benefit from the growth in ecommerce, particularly in the US. Since then, Kewill has disposed of its German Computer Aided Design division in April 2000 (to Lantano GMBH, for £1.7m), its UK ERP division in December 2000 (to K3 Business Technology, for £1.3m including assumed liabilities) and its US ERP division in May 2002 (to Exact Software, for \$19m).

The appointment of a new senior management team in 2002 marked the beginning of a revival in Kewill's fortunes. In July 2002 Paul Nichols, formerly CEO of Logica Inc, was appointed Chief Executive of Kewill and in November 2002 Guy Millward was promoted to Finance Director on the resignation of the former FD.

Figure 2: Kewill's acquisitions 2002-present

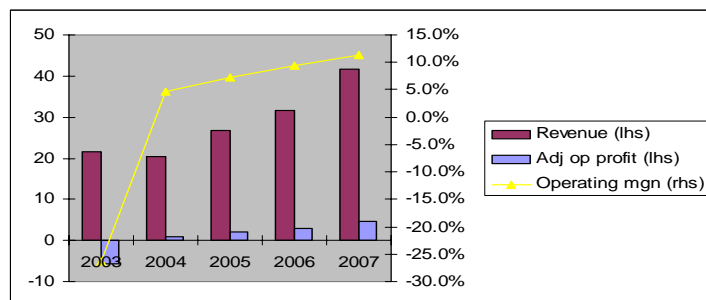
Company	Date	Value (initial/deferred)	Sales multiple	P/E multiple	Comments
Innovate	Mar-07	£7.1m / £5.7m	2.8x	NM	Dutch-based business providing software on a hosted basis that handles the process of returning goods from the buyer to supplier for repair/ replace. Bought to extend Kewill's capabilities.
IPACS	Feb-07	£1.9m / £1.5m	-	-	Far East-based business that has developed freight forwarding software using the latest technology that will eventually replace Kewill's other products in this area.
CSF	Jun-06	£3.0m / £2.9m	1.3x	-	German-based provider of systems for LSPs (Logistics Service Providers). Extends Kewill's capabilities in freight forwarding and customs clearance, particularly in Europe.
Interchain	Nov-05	£6.8m / £2.4m	1.6x	24.5x	Dutch-based provider of international trade software particularly for larger organisations. Increases Kewill's scale in this market and provides access to the US for the Chainware software.
Perwill	Jul-05	£1.7m	1.0x	10x	UK-based software provider of EDI and collaborative commerce software. Extends Kewill's capabilities in order management into insurance and financial services markets.
ShipNow	Apr-04	£1.7m / £5.1m	-	-	India-based provider of shipping management product ShipNow, which adds additional functionality and geographical capability to Kewill's portfolio of multi-carrier parcel shipping products.
Tradepoint	Jan-04	£6.8m / £1m	1.0x	18.1x	US-based provider of software that facilitates international freight forwarding and customs clearance. Adds cross-border capabilities to Kewill's solution portfolio.
Total		£29m / £18.6m			

Source: Company data, Charles Stanley Securities

The current management team have completed seven acquisitions in the last four years

Following the acquisition programme, Kewill has a product suite that encompasses order management, warehouse and freight forwarding systems and customs clearance, with links into the major ERP systems including SAP and Oracle. The business is global, with the CEO located in the US, headquarters in the UK, research and development in India and more than 600 employees located in 18 offices across Europe, Asia and the US. The success of the turnaround can be gauged from the five year record below.

Figure 3: Kewill's five year record



Revenues and operating margins have both grown strongly since 2003

Source: Company data, Charles Stanley Securities

The Market for Supply Chain Software and Services

Kewill operates in a fragmented market with high barriers to entry for new participants

Kewill operates in a fragmented market that crosses a number of business disciplines, from the exchange of orders between buyers and suppliers, the management of inventory, the planning of consignments, labelling and tracking, customs clearance, receipt of goods and management of return consignments. The common theme running between them is that the business processes it seeks to automate are complex and require the software author to have a significant understanding of the logistics industry. This provides barriers to entry that are raised further by the need for these systems to integrate with numerous other enterprise systems and to exchange data between customers, suppliers, logistics providers and customs authorities around the world.

According to industry analysts Arc Advisory Group, the transportation management systems market, which represents Kewill's largest target market, is growing at 7% per annum and will reach \$1.4bn by 2010. Within this spend, Arc Advisory estimates that sales to Logistics Service Providers (LSPs) such as TNT, UPS and DHL (which is a focus for Kewill) grew at 11.5% in 2005, while another key area, global trade management, rose 12.7%. Overall, the supply chain software market is expected to be worth \$5bn to \$7bn by 2010, according to one of Kewill's competitors.

The market for supply chain solutions is global, with Arc Advisory estimating the US and Europe will account for 84% of total revenues in 2007 and Asia and Latin America 16%, but growing more quickly such that by 2010 the split is 80%:20%. This explains Kewill's acquisition of IPACS earlier this year which provides offices and staff in key ports in Singapore, Hong Kong and Shanghai.

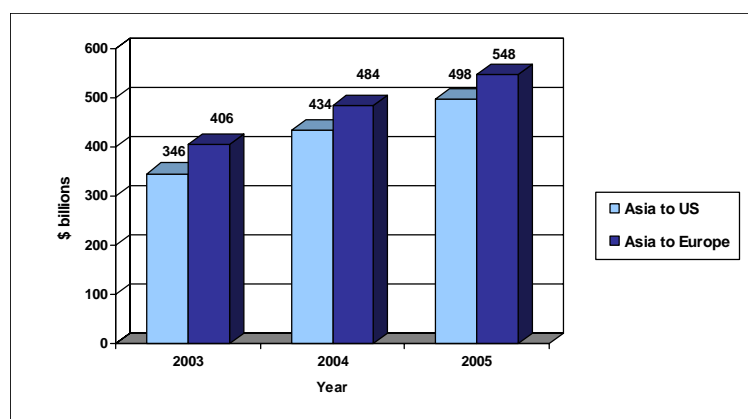
Market drivers

The factors driving the forecast increase in spending on supply chain systems include:

Kewill is benefiting from the rapid growth in the movement of goods around the world

- **Continued growth in world trade.** According to the WTO, global merchandise trade rose by 13% to \$10.2 trillion in 2005, with each of the last three years showing double digit growth. This reflects increased global sourcing of raw materials and components as well as an increase in free trade agreements and the outsourcing of manufacturing to low-cost countries such as China. This last point is increasingly applying to smaller manufacturers as well as large. Figure 4 below shows that growth in trade between Asia and the US was 20% per annum from 2003 to 2005, while growth between Asia and Europe was 16%.

Figure 4: Growth in merchandise trade from Asia to Europe and US



Source: World Trade Organisation statistics

- **Cost and service level pressures.** The cost of transportation in terms of fuel, taxes, labour, shipping and customs continues to rise but competition in global markets makes it difficult to pass this on to the customer. In addition, customers increasingly expect short delivery times when they order goods online, which places additional demands on supply chains. These twin pressures make improving the efficiency of the supply chain a priority for investment – and technology is the key enabler for such efficiency gains.

Regulatory pressures are driving good growth in Kewill's international trade activities

- **Increased regulatory requirements.** The major trade blocks such as the US and Europe frequently amend the detail of regulations with which logistics companies must comply and this information is commonly held electronically rather than being paper based. For example, US Customs is currently introducing ACE (Automated Commercial Environment), a new electronic system to handle the import and export of goods, as a replacement for a number of older systems. A similar initiative for mandatory electronic filing of export documentation is expected in Europe in 2009 and Kewill is well placed to benefit through the expertise acquired with CSF last year.

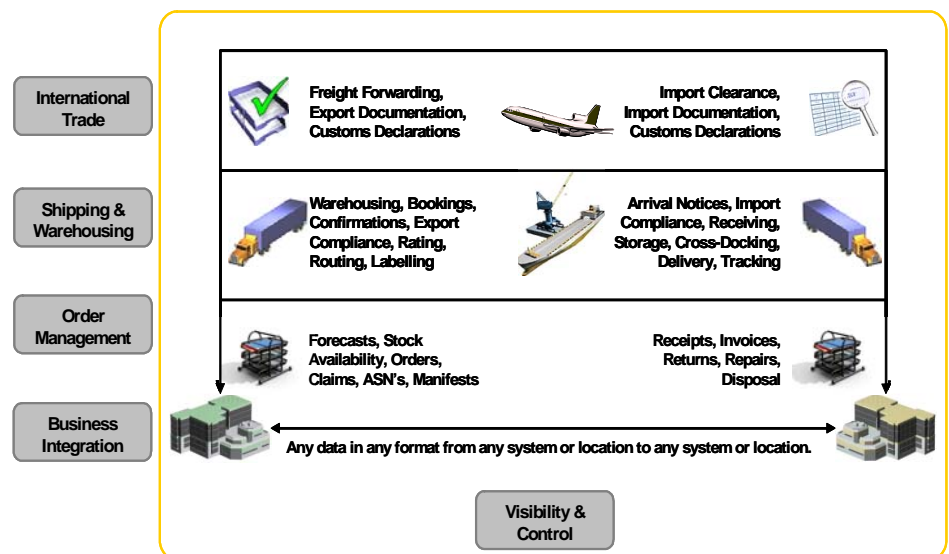
As a result of these factors, 60% of shippers surveyed by trade publication *Logistics Management* are planning to purchase or upgrade their supply chain software in 2007, while according to industry analysts Aberdeen Group, organisations are looking to partner with a vendor with specialist knowledge about their vertical industry as well as transport management. Both these trends play to Kewill's strengths.

Kewill's Operations

Over the last three years Kewill has operated in three divisions – order management (based primarily in the UK), Shipping Management (primarily US) and International Trade, which has been built through acquisition and organic growth to produce revenues of £20m in the year to March 2007.

Figure 5 below explains how Kewill's product set builds to cover the range of activities that manage the flow of goods from supplier to customer.

Figure 5: Kewill's Dynamic Supply Network



We look at each division in turn below, but point out that the three acquisitions in the last year provide strategic advantages that should enable Kewill to increase market share.

The 'One Kewill' programme is crucial to delivering the synergies and cross sell opportunities available to the company

Firstly, the 'One Kewill' programme introduced by the company will, through external initiatives such as rebranding and internal reorganisation to focus and strengthen management, present a single face to customers and partners. This will assist Kewill's drive to sell all of its products in each of its markets, rather than focusing on its historic strengths in particular geographies.

This geographic expansion of Kewill's capabilities is in preparation, in our view, for the integration of its product suite that would enable Kewill to offer organisations the ability to control and have visibility of their entire supply chain system. An integrated suite of products covering order management, shipping, customs and regulatory compliance with the addition of business intelligence tools would provide real time visibility over the supply chain. We believe this approach has the potential to increase Kewill's strategic value to its customers.

Kewill has significantly expanded its geographic sales capability during the year to March 2007

International Trade (48% of revenue/ 42% of operating profit in 2007)

This division has been built from 2004 through the acquisitions of CSF, Tradepoint and Interchain and, in February 2007, IPACS. Acquisitions have been assisted by double digit organic growth to make this the largest of Kewill's divisions, as well as the most global, with strong presence in the UK, the rest of Europe, the US and now Asia. In the year to March 2007 Kewill added direct sales staff in China, Germany, Hong Kong, Switzerland and Singapore and increased its partner sales network by an additional 11 countries, including France, Spain, Japan and Korea.

This division provides both logistics and compliance systems for enterprises and LSPs. Including import and export clearance, bonded warehouse systems and ocean and air freight forwarding systems.

Shipping Management (27%/ 18% in 2007)

This division has its strongest presence in the US, where Kewill provides systems that simplify and reduce the cost of the process of shipping goods to customers, from weighing and routing packages with the most efficient LSP, to producing labels that comply with the LSP's systems, to tracking assets on the move, managing the receipt of consignments and, through the acquisition of Innovate in March 2007, handles the returns process.

Kewill has two major products in this division, Clippership (for smaller enterprises) and Flagship (for large enterprises). While Clippership's market has become competitive and growth in new licences has stalled, the more complex requirements of larger enterprises has helped Flagship continue to post strong growth, with revenues up 13% in the year to March 2007. This growth has been assisted by a multi-year, multi-million dollar contract signed in October 2006 with Purolator, Canada's largest courier company.

Order Management (25%/ 40% in 2007)

This division has its roots in the UK, where it helps large retailers manage their supplier base, initially through the use of EDI but in recent years through internet-based systems. It typically charges customers such as Sainsbury's and Debenhams an initial license fee to set up a hub and then a subscription fee to the retailer's suppliers (which are compelled to participate by the retailer). In recent years a number of failures of large retailers (such as Allders and Littlewoods) and a focus by retailers' IT departments on other projects has limited growth, but in the year to March 2007 underlying profits increased by 29% helped by improving margins and new business wins.

Kewill is delivering growth by entering new markets such as insurance and financial services

As well as seeking geographic expansion of the order management business, Kewill is seeking new market opportunities. Through the acquisition of Perwill in 2005 it acquired expertise in the insurance and financial services sectors and launched the Kewill InsuranceXchange (KIX) to help brokers exchange documents with product providers. Earlier this year Kewill won a flagship three year contract with Towergate, a fast growing broker with over £1.5bn of gross written premium in 2006.

Competition

Kewill faces a range of competitors but few compete in more than one of Kewill's markets and none compete across all of them. Aside from the competitors detailed in this section, custom development by the end user accounts for c16% of the market, according to industry analysts Forrester.

Transport Management Solutions represents Kewill's largest target market

In Transport Management Solutions, Arc Advisory estimates that Kewill was the sixth largest market participant with just under 4% market share in 2005. The market leader was Pitney Bowes (8.1%), followed by i2 Technologies (5.9%), SAP (5.4%), Descartes Systems (4.6%) and Oracle (4.0%). Just behind Kewill was Manugistics (3.6%), while Manhattan Associates, which is included in our comparator valuation, had 2.7% of the market. The top 10 vendors accounted for 44% of the market.

We review these competitors in more detail below:

- **Pitney Bowes** is listed on the New York Stock Exchange with a market capitalisation of over \$10bn. It was founded 87 years ago and is the world's largest provider of mailstream technology, from franking machinery up to and including outsourcing of enterprise mailrooms. Pitney Bowes has a range of automated shipping products and a large installed base that compete with Kewill's products but although it is present in 130 countries worldwide, Arc Advisory comments that it needs to strengthen its presence in Europe and Asia.
- **i2 Technologies (Nasdaq: ITWO)** was founded in Dallas in 1988 and in recent years has suffered declining market share despite re-engineering its transport management software. It has had a difficult time over the past few years with declining revenues, financial problems, an SEC investigation and a class action taken against it which it settled for \$85m. The company is particularly strong in freight planning and execution solutions, where Kewill does not compete. It has a strong direct sales presence in Europe and resellers in areas it does not have a direct presence such as Eastern Europe.
- **SAP** competes against Kewill through its Global Trade Management product, which it introduced in November 2002. Since then it has acquired over 250 clients in 15 countries. Most of its customer base and pipeline are existing users of SAP's ERP software. According to Arc Advisory, SAP's product lacks the functional depth of more mature competitors, and although it continues to add capabilities it is likely to continue to have to play catch-up.
- **Descartes Systems (Nasdaq: DSGX)** is based in Ontario, Canada and posted revenue growth of 14% in 2006 following the launch of several new products in 2005. It was founded in 1981 and has over 3,000 customers in more than 60 countries. Descartes Systems is closely matched to Kewill in terms of profile and product set, including a focus on regulatory compliance.
- **Oracle's** position in this market is largely due to the acquisition of G-Log in November 2005 for an undisclosed sum. Since then Oracle has integrated G-Log's technology into its Oracle Transportation Management module, which is part of Oracle Fusion, the next generation of Oracle enterprise applications.
- **Manhattan Associates (Nasdaq: MANH)** was founded in 1990 and is based in Atlanta, Georgia, with more than 20 offices and 1,200 staff in the US, Europe and Asia, which bears similarities to Kewill's profile. In 2006 it posted revenue up 18% to £147m and it is particularly strong among Megastore customers and in the food and beverages vertical market.

Descartes Systems closely resembles Kewill in terms of profile and product set

Financials

Kewill recently reported year to March 2007 results that were in line with market forecasts, despite the effect of the £:\$ exchange rate that had a £0.4m negative impact on operating profit. In 2007, revenue increased by 31%, mainly due to acquisitions although there was a return to organic revenue growth.

Kewill's operating margins continue to improve with the potential to reach 20% over time

Kewill improved its operating margin in the year by 230 basis points as a result of the acquisition of CSF and operational efficiencies. However, the 11.3% operating margin still provides scope for growth to reach up to 20% over time as the benefits of scale in its geographic markets delivers further efficiencies.

Kewill continues to benefit from the tax benefit of historic trading losses and asset write-offs, with £15.5m available to write off against future profits. Our tax normalised forecasts and valuation are based on earnings after a 30% notional tax charge to allow investors to more easily compare Kewill with the rest of the sector. We attach a value of £4.6m or 6p per share to these deferred tax assets.

During the year Kewill converted 114% of operating profit to operating cash flow, providing a year-end balance of £5.3m after £12m spent on acquisitions. We expect up to £11.3m of deferred consideration to be paid to the vendors of Interchain, CSF, IPACS and Innovate over the next three years but the terms of these earn outs are such that the cash will only be paid if it is generated in profit from the individual acquisitions.

Kewill is expected to return a yield of 2.4% by 2010 at the current share price

A welcome development was the reintroduction of a dividend, of 0.5p, the first in eight years. While the yield is low, the cover is high and we expect by the year to March 2010 a cover of 4x will deliver a dividend of 2p per share, or 2.4% at the current share price.

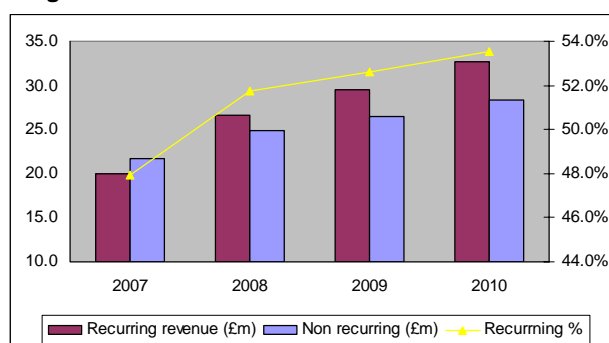
Forecasts

Kewill represents an attractive investment on our current forecasts and achievement of its strategic goals will lead to upgrades

Our forecasts are based on Kewill growing its revenues organically, at constant currency, at the same rate as the market in which it operates, ie maintaining its market share. We have outlined earlier in this note the ways in which we believe it is possible for Kewill to grow at a faster rate, for example through expansion of its existing products into additional geographies and through the launch of new, integrated products that provide enterprises and LSPs with a greater degree of control and visibility over their supply chains.

We believe that Kewill's level of contracted, recurring revenue will increase by 68% over the next three years, moving from 48% of revenue in the year to March 2007 to nearly 54% in the year to March 2010. This represents an increase in the quality of revenue and reflects the substitution of license fees with Software as a Service revenues.

Figure 6: Revenue growth 2007-2010



In our forecasts we include share based payment charges as a normal operating cost but exclude notional interest on deferred consideration, which we treat as an exceptional item. We quote both forecast reported eps and an eps figure normalised for a 30% tax charge, which we use for valuation purposes.

Our forecasts show 33% earnings growth in the current year followed by 21% in the year to March 2008, both of which are ahead of the sector average. We expect dividend growth to run ahead of earnings growth so that a dividend cover of 4x is achieved by March 2008.

Finally, we expect cash of £10m by the year to March 2008, despite £11.3m of deferred consideration, which provides scope for further earnings-enhancing acquisitions.

Profit & Loss forecasts				
Year to Mar, £m	2007A	2008E	2009E	2010E
Revenue				
- International trade	20.10	23.60	25.50	27.90
- Shipping management	11.30	11.89	13.09	14.35
- Order management	10.20	16.00	17.42	18.70
Revenue	41.60	51.49	56.01	60.95
% Change	31%	24%	9%	9%
EBITDA	5.52	7.75	9.26	10.60
EBITDA margin %	13.3%	15.0%	16.5%	17.4%
Operating profit	4.68	6.75	8.03	9.25
Margin %	11.3%	13.1%	14.3%	15.2%
Amortisation	(3.67)	(4.60)	(4.60)	(4.60)
Exceptional	(0.24)	(0.45)	(0.20)	-
Net interest	0.36	0.12	0.25	0.35
CS PBT	5.04	6.87	8.28	9.60
FRS3 PBT	1.14	1.82	3.48	5.00
Tax rate %	NM	NM	4%	6%
Tax	0.33	-	(0.30)	(0.60)
CS PAT	5.37	6.87	7.98	9.00
No. shares m ¹	79.01	80.80	80.80	80.80
No. of shares m (dil.) ¹	80.69	82.47	82.47	82.47
CS EPS p	6.66	8.32	9.68	10.92
CS EPS (tax norm) p	4.38	5.83	7.03	8.15
CS EPS Growth %	42.6	33.2	20.7	15.9
DPS	0.50	1.00	1.50	2.00
Div. Cover	8.75	5.83	4.69	4.08

¹ Weighted average

Cash flow forecasts				
Year to Mar, £m	2007A	2008E	2009E	2010E
Operating profit	4.68	6.75	8.03	9.25
Depn	0.72	0.80	0.95	1.00
Working capital	(0.21)	(0.30)	(0.30)	(0.30)
Op. cash flow	5.19	7.25	8.68	9.95
Net interest	0.36	0.12	0.25	0.35
Tax paid	(0.39)	(1.00)	(1.30)	(1.60)
Gross cash flow	5.16	6.37	7.63	8.70
Net Capex	(0.53)	(1.00)	(1.00)	(1.00)
Other	0.09	-	-	-
Free cash flow	4.71	5.37	6.63	7.70
Dividends	-	(0.67)	(1.21)	(1.77)
Cash Flow aft div.	4.71	4.69	5.43	5.93
Acqn & Inv	(11.99)	(3.00)	(3.30)	(5.00)
Disposals	-	-	-	-
Shares issued	-	-	-	-
Financing	-	-	-	-
Other	(0.43)	-	-	-
Change net funds	(7.70)	1.69	2.13	0.93
End net cash (debt)	5.26	6.95	9.08	10.01

Balance sheet & Other ratios				
As at 31 Mar	2007A	2008E	2009E	2010E
Shareholders Equity	£29.60m	£31.87m	£35.25m	£39.65m
Gearing	0%	0%	0%	0%
NAV per share, p	37.5	39.4	43.6	49.1
ROE	18.1%	21.5%	22.7%	22.7%

Share price performance



Source: Datastream

Growth	2007A	2008E	2009E	2010E
Revenues	31%	24%	9%	9%
EBITDA	60%	40%	20%	15%
CS PBT	43%	36%	21%	16%
CS EPS	43%	33%	21%	16%
DPS	N/a	100%	50%	33%

Valuation	2007A	2008E	2009E	2010E
Enterprise Value	£64.0m	£62.3m	£60.2m	£59.3m
PER	19.6	14.7	12.2	10.5
Div yield	0.6%	1.2%	1.7%	2.3%
FCF yield	7.0%	7.7%	9.6%	11.1%
EV/EBITA	13.7	9.2	7.8	6.7
EV/EBITDA	11.6	8.0	6.7	5.9
PEG		0.82		

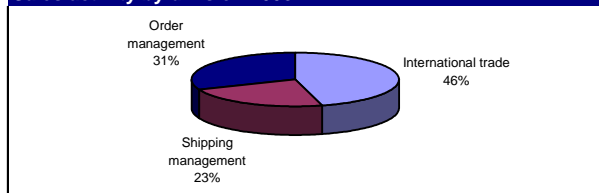
Next event

Jul-07 AGM

Major Shareholders

	%
Framlington	9.3
Gartmore	8.4
Blackrock	7.9
Schroders	4.9

Sales activity by division 2008E



Kewill at a glance

Locations

Head office: London

Other locations:

Europe

UK (four offices)
Netherlands (two offices)
Germany (three offices)
Switzerland
Belgium

US

Massachusetts
New Hampshire
California

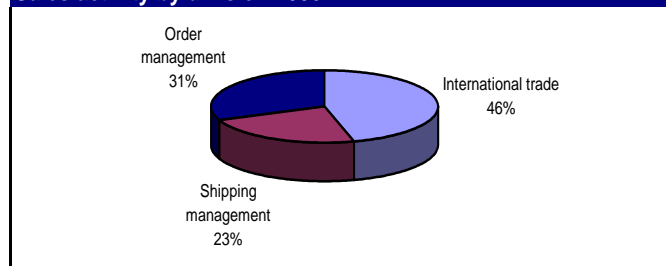
Asia

Singapore
Hong Kong
Shanghai
Australia

Employees: 600+

Revenue split:

Sales activity by division 2008E



Executive directors

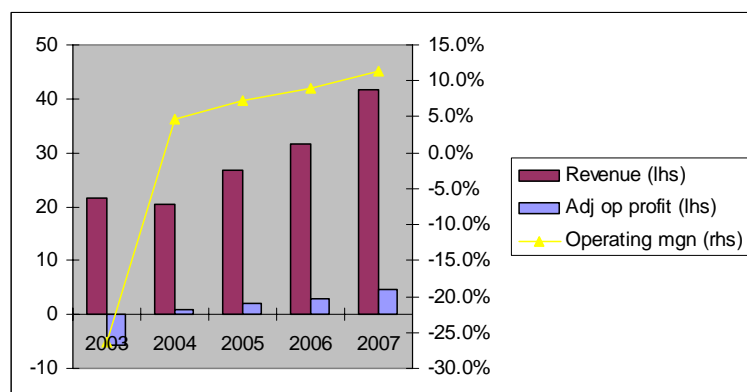
Paul Nichols, Chief Executive Officer

Paul has held a variety of sales and management roles in IT companies in both Europe and the US. Following periods at ICL and DEC, he was Executive General Manager of Data Sciences' Commercial and Financial Services business and following its acquisition by IBM, a director of IBM Global Services in EMEA. In 1999 he was appointed President and CEO of Logica Inc. He joined Kewill in August 2002 as Chief Executive Officer.

Guy Millward, Finance Director

Guy is a chartered accountant who qualified with Ernst & Young before joining GE Information Services, a division of General Electric, in 1993. He joined Kewill in January 2000 as Group Financial Controller and was appointed Finance Director in November 2002.

Five year record



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