

10 March 2008

SQS Software Quality Systems AG

Year End	Revenue (€m)	PBT* (€m)	EPS* ** (p)	DPS (p)	PE (x)	Yield (%)
12/06	78.9	5.3	21.3	0.0	12.7	N/A
12/07	121.1	10.5	31.7	15.3	8.5	5.7
12/08e	135.3	12.3	30.2	9.2	9.0	3.4
12/09e	145.0	13.9	31.6	10.0	8.6	3.7

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items.

** Historic EPS are adjusted to reflect actual tax and interest rates rather than reported and an exchange rate £0.77/euro as at 6 March 2008.

Investment summary: Flight to quality

Annual results are every bit as good as predicted in November's trading update; in fact sales, margins and the maiden dividend were ahead of forecasts. Although some negative sentiment is possible given concerns over the outlook for IT spending in general, the case for independent software testing remains a compelling one. Higher forecasts and an attractive valuation underpin a positive investment case.

Annual results

Increased pricing power and new business wins in the principal UK and German markets have sustained the momentum behind organic growth, which accelerated to 27% for the whole of 2007. Aided by the contribution from recent acquisitions, pre-tax profits virtually doubled to €10.5m and given tight control of working capital, net cash totalled €6.9m at the year end. A maiden 'double' dividend of €0.20 included the delayed payment for 2006 and was again ahead of expectations. From the higher base established, we have edged up forecasts again across the board.

Growth market

Empirical evidence clearly supports the view that the majority of global IT projects either fail or do not meet original budget and time expectations. This is fundamental to the positive prospects for the independent testing sector and helps explain a rate of organic growth for SQS in 2007 of more than 5x that of the European IT Services market. Almost 50% of all companies in the DAX 30 and FTSE 100 are now customers, and market leadership in both the UK and Germany leaves the group well placed to exploit organic and acquisition opportunities.

Outlook and valuation

A P/E below 10x in each of the next two years and a dividend yield of over 3% are strong attractions in their own right. Taking into account the discount rating to a selection of IT Services peers offers further support and the DCF still suggests a value approaching the 400p mark. Although EPS progression is somewhat restrained over the next two years by a return to a normal tax charge and share-based deferred payments, SQS remains a cheap stock with a high quality investment case.

Price 270.5p
Market Cap £58m

Share price graph



Share details

Code SQS
Listing AIM
Sector Software & IT Services
Shares in issue 21.6m

Price

52 week High 301.5p Low 211.5p

Balance Sheet as at 31 December 2007

Debt/Equity (%) N/A
NAV per share (€) 2.56
Net cash (€m) 6.9

Business

SQS is Europe's largest provider of independent software testing and quality management. The majority of the group's revenues are derived from consultancy services to a client base including a long list of blue chip customers.

Valuation

	2006	2007e	2008e
P/E Relative	61%	73%	75%
P/CF	5.1	6.7	5.2
EV/Sales	0.5	0.6	0.5
ROE	16%	17%	18%

Geography based on revenues FY07

	UK	Europe	US	Other
40%	60%	0%	0%	

Analysts

Jason Holden 020 7190 1755
jholden@edisoninvestmentresearch.co.uk
Andrew Bryant 020 7190 1755
abryant@edisoninvestmentresearch.co.uk

Investment summary: Flight to quality

Company description

SQS is Europe's largest provider of independent software testing and quality management. The vast majority of the group's revenues are derived from consultancy services to a client base that now includes almost 50% of the companies in the FTSE 100 and the DAX 30. SQS also generates revenues from its training and conference business and the development of specialised software tools. The company was founded 25 years ago in Germany by the current CEO and former COO, and although Germany remains the largest market, the UK has become increasingly important. There are operations in a number of other European markets as well as South Africa.

Valuation

The investment case for SQS is supported by a valuation which has both relative and absolute attractions. A single digit P/E in each of the next two years compares favourably with a more typical IT Services multiple of 10x and in addition, also represents a discount to a selective peer group. Our DCF analysis suggests an intrinsic value around the 400p mark is not unrealistic, which to a significant degree reflects the strongly cash generative nature of the business. In the short term, the double dividend payment is offering a yield of 5%+ and moving forward, a desire to achieve around a 30% payout ratio will further broaden the appeal.

Sensitivities

When assessing the potential factors which can impact the investment case, the following sensitivities should be considered:

- **Cyclicality:** Despite its advantages — and potentially positive impact on ROIs, external testing does represent an initial 'cost' and could therefore be vulnerable in a general economic downturn.
- **Financial Services:** This sector represents over 30% of turnover and recent industry turmoil may affect budgets for new software implementation and testing.
- **Acquisition risks:** The management's strategy is to continue to make in-fill acquisitions in a fragmented market although this does mean a heightened risk profile particularly if the company was to access the so far uncharted waters of Asia, the US and France.
- **IT services market growth:** Growth in the testing market is linked to overall growth in the IT market and any secular decline here would have a knock-on effect.
- **Offshoring:** Growth in this trend could present a threat, although the company's own South African operations enable SQS to offer an in-house alternative.

Financials

In essence, SQS is a strongly cash generative business with a robust balance sheet and low capital requirements. At the end of the financial year there was €6.9m of net cash on the balance sheet as evidence of the ability to grow profits and manage working capital. In addition, robust pricing power and high levels of utilisation for consultants bode well for future margin growth. Once adjustments have been made to the IFRS treatment of tax and interest, the underlying earnings picture is one of healthy growth against the backdrop of a market with excellent prospects.

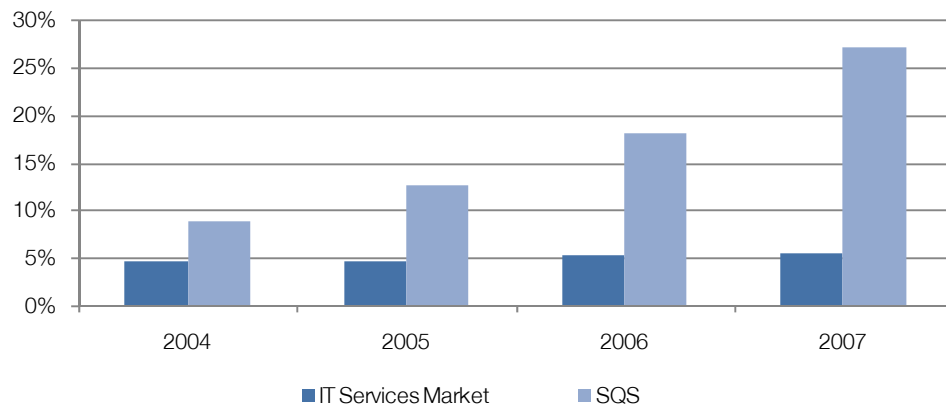
Independent software testing

Growth market

The evidence from the most recent studies conducted by IDC and EITO (European Information Technology Observatory), estimates that the IT Services Market in general has grown by approximately 5% pa in each of the last four years and is likely to grow at a similar rate in 2008.

Against this backdrop, the organic growth achieved by SQS commands a substantial premium and an average of 16% over the last four years is more than 3x that of the market as a whole. The acceleration to the 27% underlying turnover progression achieved by SQS in 2007 represents a major step forward in group scale. As the analysis of new business wins demonstrates in subsequent sections, this progress has been achieved across an increasingly broad spectrum of industry sectors.

Exhibit 1: Market growth v SQS organic revenue growth rate 2004-2007



Source: EITO 2005, IDC 2006

Although it is unlikely that such a high rate of internally generated growth can be maintained, nonetheless the structural attractions of the market for independent software testing indicate that SQS should continue to outstrip expansion in the wider IT industry.

Market drivers: Software testing and quality management

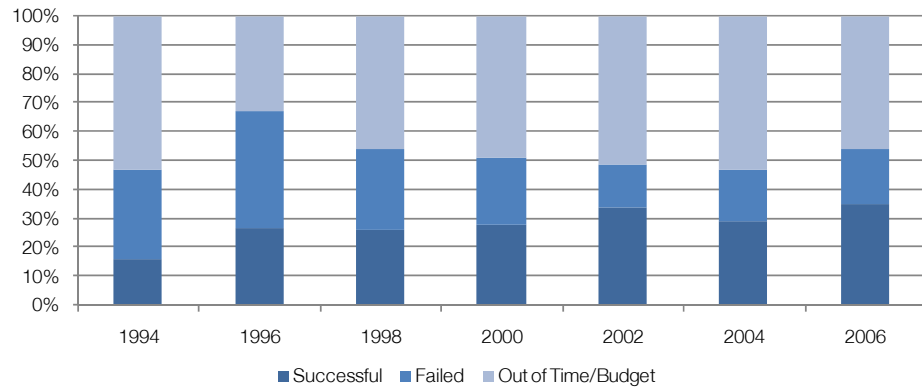
The most recent survey by the Standish Group — a US-based organisation dedicated to assessing risk, cost, return and value in IT — incorporating 2006 figures, still finds that only about one-third of IT projects deliver a successful outcome, on time and within budget. Although the trend for the successful implementation of projects has been on a generally upwards trajectory since 1994, the two-thirds 'failure' rate is still pretty dismal.

In essence, this provides the core rationale behind the demand for independent software testing and quality management which can aid the success rate of major IT projects and deliver real economic benefits to customers.

Despite the organic growth exhibited by market leader SQS, independent testing is still a small fraction of an overall testing market worth in excess of €13bn. Approximately 90% of testing is carried out in-house leaving a growing independent segment currently worth c €1.3bn. Given the failure rates of projects described above and highlighted in Exhibit 2, there is a strong case for the

'second opinion' which an independent voice can deliver, and the rationale and potential for future growth in this market remains compelling. With only about a 10% share of independent sector revenues in Europe, SQS also has the opportunity for market share gains.

Exhibit 2: IT projects: Success v failure 1994–2006



Source: SQS

Recent research commissioned by SQS and conducted by Pierre Audouin Consultants supports the positive outlook for the independent testing market. Some 1,000 IT decision makers were questioned across 13 European countries and among other supportive findings, reported that two-thirds of respondents considered the independence of the testing team to be an important factor.

Other drivers to growth in the testing market include the greater demands on IT Systems as a consequence of the increasing complexity of the regulatory environment. This for instance can be seen in the Financial Services Sector firstly with the Sarbanes-Oxley Act in 2002 in the US and more recently the introduction of the Markets in Financial Instruments Directive (MiFID) in Europe. Finally, the ongoing pressures for increasing returns on investment (ROI) and the industrialisation of the software engineering process also support the positive outlook for the outsourcing of testing.

New business wins

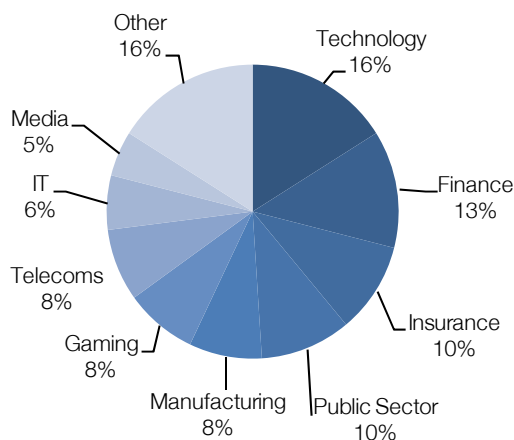
Historically, the bedrock of SQS's customer base has been the Financial Services sector (30%+ of group turnover) which, given the nature and complexity of IT projects in this field, is not surprising. On the flip side, however, is the potential impact of recent events – subprime lending difficulties in the US, falls in equity markets, worries over recession etc – which have affected the financial performance of this industry and potentially its capacity to invest.

However, despite the turmoil in financial markets, SQS – in common with a number of other IT Services companies – has so far not witnessed a significant impact on business. Nonetheless, our forecasts are prudently based to absorb a likely slowdown in the fairly dramatic rate of underlying growth seen in 2007.

In addition, as Exhibit 3 demonstrates, new customer wins are coming from an increasingly broader range of industry sectors which enhances both the quality of earnings and the defensive characteristics of revenues. Finance and Insurance still provided a significant proportion of new business wins (23%) in the first three quarters of 2007 but Technology, the Public Sector and Manufacturing, along with a range of other industry sub-sets, also made a significant contribution. The risk profile of the customer base is further enhanced by the fact that SQS is not overly

dependent on any one contract; the group's single largest customer represented only 7% of total sales during 2007.

Exhibit 3: New business wins by sector Q1–Q3 2007



Source: SQS

Customer base

We have frequently made reference to the blue chip quality of the SQS customer base, and the company currently has in excess of 400 active clients which include almost 50% of DAX 30 and FTSE 100 companies. The group now has a firm base in two equally strong markets in Germany and the UK and an increasing presence in other territories. One-hundred new client wins were recorded during 2006 and this total was comfortably surpassed with 140 additions in FY2007. Going forward, however, the focus will shift slightly from new wins to extending and broadening the relationships with existing clients. This in turn should further enhance earnings quality through making revenue streams more dependable and, as discussed later, it is also likely to involve longer term contracts.

Annual results 2007

Exhibit 4: Summary of annual results for the 12 months to 30 December 2007

€m	2006	2007	%
	12 mths to 31 Dec	12 mths to 31 Dec	
Turnover	78.9	121.1	+53
Gross margin (%)	34%	35%	
Operating profit	5.7	10.5	+84
Profit/(loss) before tax (norm)	5.3	10.5	+98
EPS normalised (c)	0.28	0.41	+46
Cash/(net debt)	-3.2	6.9	++

Source: SQS

Financial review: Sales, margins, cash flow and dividends

An excellent set of annual results – once again above expectations – confirms strong underlying growth and the successful integration of acquisitions. Of the 53% growth in turnover, 27% was organic and provides confirmation of the appeal of the SQS business proposition and the growth in demand for independent software testing.

The vast majority of sales are derived from 'IT Professional Services' which contributed 95% of group sales followed by 'IT Training and Events' at 3.5% and 'Tool Licences and Maintenance' at

less than 2%. On the costs side, admin expenses were a broadly similar percentage of sales (15.7%) to 2006 as were sales and marketing at 7.1%.

Group profitability increased with an EBIT margin of 8.5% v 7.3% in 2006 aided by improved pricing power and the ongoing high rate of utilisation for consultants. The average number of billed days per consultant rose to 187 in 2007 up from 185 in 2006 and practically speaking is now approaching a maximum level of utilisation. Along with the impact of acquisitions – H1 from the inclusion of the previous year's purchase of Cresta and H2 by the €15.5m acquisition of Triton in Q3 – this led to a doubling of operating profits to €10.5m.

Cash flow from operations was particularly strong during the year on the back of both a significant uplift in profits, and better management of working capital. Net cash at the year end had risen to €6.9m compared to net debt in 2006 of €3.2m.

SQS had hoped to pay a maiden dividend for the 2006 financial year but the legal formalities in Germany were not completed in time. However, having now reorganised its net asset base this restriction has been lifted and the company is proposing to pay a double dividend to cover both 2006 and 2007 of €20c. This is also well above our forecast of €15.5c and moving forward, the group expects to have a pay-out ratio around the 30% mark and to grow dividends broadly in line with earnings.

Operational review

SQS now has clear market leadership in the independent software industry in Germany, the UK and Switzerland, and 2007 witnessed a further significant expansion in the number of consultants. During FY2007 there were 246 additions – many with strong software engineering backgrounds and senior project management skills – and by the year end SQS had a total of 809 fee earning consultants. The depth of coverage across a range of industry verticals has also increased significantly and, from a negligible base in 2005, growth in areas such as utilities and technology has been particularly strong; each of these industries generated about 6% of group turnover in 2007.

As highlighted in Exhibit 3, new client wins are now spread across a broad range of industry verticals (17 in total in 2007) which as well as the traditionally important Finance Sector, now include the sectors above in addition to the Public Sector, Manufacturing and Media.

However, despite the high rate of organic growth achieved, this has not been at the expense of profitability due to improved pricing power, sustained high levels of utilisation and a reduction in overheads.

Geographic analysis

The UK and Germany remain the major territories and each exhibited strong growth in 2007. Sales growth of 33% to €55.7m in Germany – which remains the largest market at 46% of group sales – was purely organic and partly reflects a similar growth in new consultants. Margins progressed a little slower than expected and were broadly flat at just over 6% compared to 2006. This was mainly due to the German centre acting as the holding company for the group and operating profits still managed to grow by 39% to €3.5m.

The UK market remains the largest for IT Services in Europe and within this division, which also incorporates South Africa and Ireland, the UK business dominates sales and profits. On a like for

like basis – excluding the impact of Cresta – revenues grew 34% while including the impact of the acquisition reveals the group's highest profit margin of 11.5% (10.4% in FY2006). This reflects operating profits up 130% to €5.6m and sales of €48.7m, ie 40% of group turnover.

Top line growth in Switzerland of 27.9% was also strong and all organic, reflecting both high repeat business and some significant new business wins. In the other European countries – representing only 3.4% of total group sales – the impact of margin improvement and cost reductions marked a return to profitability and the full year consolidation of Triton in 2008 will significantly boost results.

Forecasts

The 2008 financial year has started strongly with top line growth rates still 3x greater than those projected for the IT Services market as a whole. Consequently, given the higher base established in 2007, we have raised our estimates as per the table below. At around 15%–20%, sales growth is a little below the organic expansion witnessed in 2007 but nonetheless higher than our previously conservative estimates for progression in FY2008 and FY2009:

Exhibit 5: Revision of forecasts

€m	2008		2009	
	Previous est.	New forecast	Previous est.	New forecast
Revenue	128.8	135.3	138.0	145.0
PBT	12.0	12.3	13.2	13.9
EPS (c)	38.3	39.4	39.1	41.2

Source: Edison Investment Research

Particularly encouraging is the fact that 51% of the group's projected revenue for 2008 is already 'contracted' in the form of either having been billed or being part of a fixed order backlog. This represents the highest ever proportion for the group at this point in the financial year and is again testament to the high quality of earnings that SQS now generates.

Strategic outlook

Longer term contracts

Although new client wins are clearly a significant driver to the business, it is the high level of repeat business – around the 75% mark – which reinforces the quality of the earnings stream. However, although a majority of the group's 20 largest customers were also clients five years ago, SQS is seeking to strengthen ties even further by putting into place more long-term contracts. These 'long term' agreements are strictly defined and must be of a binding nature that extends for periods longer than 12 months. During 2007 the proportion of revenue derived from these longer-term contracts rose from 8% to 11%.

Organic and acquisition led growth

The acquisition of Triton – a private Austrian company specialising in consultancy services to the insurance industry with clients in Germany, Austria and Switzerland – is an important bolt-on move. Essentially it enhances the prospects for organic growth as it lends scale to expand the management consultancy practice established in 2006. Triton specialises in helping its customers improve the efficiency of processing in their back-office operations and is independent of software producers in this respect. Not only does it augment the consulting business, but it provides SQS with opportunities to cross-sell the services of its core software testing business.

The overall key to the organic and acquisition strategy is to strengthen the market leadership position the company has in its main territories and to continue to drive revenue growth at a significant premium to that of the overall IT Services market. The criteria for acquisitions will remain based around this premise but could also include a strategy to gain a toehold in new regions and more rapidly scale up presence in other European markets, including perhaps Scandinavia and France. The group is even considering opportunities in the Asia/Oceanic region from the point of view of outsourcing, but also from the perspective of growing the local market as well. Whatever the strategic importance, however, from a returns standpoint, potential targets must also be capable of making a positive contribution to EPS.

Offshoring

Offshoring can provoke much debate in the field of IT Services as, on the one hand, it offers a lower cost option to customers within a company's suite of services and, on the other, it can have quality and delivery implications. However, it is important to be able to offer clients the widest range of options possible and to this end, SQS is looking at the possibility of sourcing such facilities in other locations than the current base in South Africa. Given the importance of the German market, one of the new initiatives is the creation of an offshore test centre – focused on the provision of German speaking consultants – in Egypt. The facility in Cairo has now been established and is tapping into a vast student base where German is a popular choice of second or third language. The unit labour costs are attractive – even relative to markets such as India – and the centre already houses 20 employees.

Impact of economic slowdown

Although all IT service companies would feel the impact from a material economic slowdown, SQS does have a very broadly based business across different industry sectors. Evidence of the growing spread of the business can be seen in Exhibit 3 and in Q3, for example, 90% of client wins were outside of the financial services sector. There were 43 client wins in this period and these were across 10 market verticals, including its largest ever contract win of €2.5m from a telecoms provider.

Although management has seen little evidence yet of the impact of the turmoil in equity markets and the banking sector, there is a cautious view of the level of new business wins likely in 2008. In the finance arena, the current slowdown in activity in investment banking has had little impact on SQS since it is relatively under-represented in this field. This prudent approach is reflected in our forecast of relatively modest top-line growth of 12% across the whole group in 2008.

Valuation and conclusion

There are three key attractions to the valuation case for SQS: an underrated earnings stream, an appealing dividend yield and a DCF which indicates considerable intrinsic worth. Although there are wider concerns over the outlook for IT expenditure, independent software testing is a niche which is likely to grow in relative importance. SQS continues to generate premium growth and has consistently delivered strong results; we believe this momentum underpins a fundamentally attractive investment case.

Rating attractions

A more typical P/E multiple within the IT Services sector would normally be around the 10x mark although given recent volatility in the equity market, a number of valuations have, in our view, 'disconnected'. This has created a wide spread of multiple based measures and an 'average' rating has therefore to be treated cautiously as a consequence.

Nevertheless, a P/E based on what is now a full and more 'normal' tax charge over the next two years, leaves SQS trading on a fundamentally appealing c 9x in each of FY2008 and FY2009. Given the strength of the business case and the secular growth apparent in the testing market, this is attractive in its own right. On the other hand, earnings per share are actually forecast to be fairly static over this period, although this is partly due to the unwinding of the tax charge to a more normal level and the impact of deferred share-based payments. Normalised pre-tax profits are still forecast to grow by 18% in 2008 and 13% in 2009 and if the company remains true to recent form, there is every prospect that conservative assumptions can be exceeded.

Given SQS's unique niche as a quoted pure software testing business, any peer group is only going to offer a very broad guide to benchmark valuations. However, even with these caveats, Exhibit 6, which takes a sample of IT Services companies, does suggest that SQS may have an unwarranted discount in both 2008 and 2009, albeit the gap has narrowed in the immediate wake of the results:

Exhibit 6: Peer group comparisons based on forecast earnings

IT Service companies	Yr End	Price (p)	Mkt Cap £m	EPS 2007	EPS YR 1	EPS YR2	P/E H	P/E YR1	P/E YR2
Anite	April	44	149	5.1	5.3	6.2	8.6	8.2	7.0
Aveva	March	965	648	26.3	46.2	51.5	36.7	20.9	18.7
Civica	Sept	198	123	19.3	21.2	23.4	10.2	9.3	8.4
Detica	Sept	249	286	4.9	14.0	17.5	50.8	17.8	14.3
Kewill Systems	March	84	68	1.1	8.5	9.5	n/a	9.8	8.8
Logica CMG	June	89	1309	2.3	10.6	11.7	38.4	8.4	7.6
Microgen	Dec	49	48	4.5	4.5	5.1	10.8	10.7	9.5
Average							22.2	10.6	9.3
SQS 12/07	Dec	270	58	31.8	30.2	31.6	8.5	8.9	8.5
P/E Rel.							38	84	92

Source: Edison Investment Research, Hemscott, Yahoo

Yield support

Yield support is not a feature normally associated with fast growing 'tech' related businesses but, in the case of SQS, it is something that adds further weight to a positive valuation case. The 2006 dividend was delayed by the need to reorganise net assets to comply with the German legal framework and having completed this, the company is now proposing a 'double' payment of €20. In itself this generates a yield of over 5% and will undoubtedly provide further near-term share price support.

Even on a more normalised pay-out ratio of approximately 30%, this is likely to result in a yield in excess of 3% for the next two years and in tandem with the earnings based assessment above, should continue to attract investor interest.

Absolute value

Since we began coverage of SQS in early 2007, our DCF analysis has proved a useful tool in judging the potential upside in the share price and, following the latest revision to forecasts, the current model is no exception. While this type of analysis is hardly an exact science, it does give a pointer towards potential value even when using a conservative discount rate.

Exhibit 7: DCF Valuation based on WACC of 15%

Discount Rate	15%
NPV Forecast Period €m	57.8
Growth rate in perpetuity	5%
NPV Terminal Value €m	51.0
Net cash 2007 €m	6.9
Equity Value per share (pence)	410p

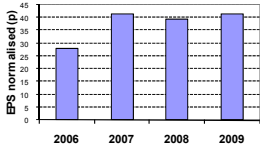
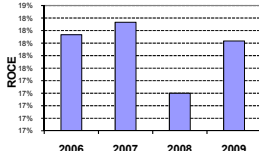
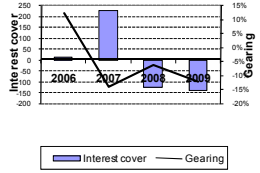
Source: Edison Investment Research

In summary, we believe that SQS possesses one of the strongest investment cases among the smaller quoted players in the IT Services space given its market leadership position in a growth industry. Allied to an attractive valuation and a management building a reputation for delivering, the outlook remains a positive one.

Exhibit 8: Financials

	€'000s	2005	2006	2007	2008e	2009e
Year-end 31st December						
PROFIT & LOSS						
Revenue		54,737	78,933	121,059	135,250	145,000
Cost of Sales		(35,563)	(51,997)	(79,307)	(87,236)	(92,800)
Gross Profit		19,174	26,936	41,752	48,014	52,200
EBITDA		6,847	8,506	14,124	15,842	17,395
Operating Profit (before GW and except.)		4,486	5,734	10,513	12,231	13,784
Goodwill Amortisation		0	0	(241)	(740)	(740)
Exceptionals		0	(276)	(561)	(500)	(250)
Other		0	0	0	0	0
Operating Profit		4,486	5,458	9,711	10,991	12,794
Net Interest		(773)	(390)	(46)	100	100
Profit Before Tax (norm)		3,713	5,344	10,467	12,331	13,884
Profit Before Tax (IFRS)		3,713	5,068	9,665	11,091	12,894
Tax		(1,319)	(383)	(2,932)	(3,576)	(4,026)
Profit After Tax (norm)		3,475	4,573	7,535	8,755	9,857
Profit After Tax (IFRS)		2,394	4,685	6,733	7,515	8,867
Average Number of Shares Outstanding (m)						
		11.7	16.5	19.1	22.2	23.9
EPS - normalised (c)		20.5	27.8	41.5	39.4	41.2
EPS - IFRS (c)		20.5	28.4	35.3	33.8	37.1
Dividend per share (c)		0.0	0.0	20.0	12.0	13.0
Gross Margin (%)						
		35.0%	34.1%	34.5%	35.5%	36.0%
EBITDA Margin (%)						
		12.5%	10.8%	11.7%	11.7%	12.0%
Operating Margin (before GW and except.) (%)						
		8.2%	7.3%	8.7%	9.0%	9.5%
BALANCE SHEET						
Fixed Assets		16,747	36,033	56,598	57,000	57,000
Intangible Assets		13,984	31,669	51,976	52,000	52,000
Tangible Assets		2,763	4,364	4,622	5,000	5,000
Investment in associates		0	0	0	0	0
Current Assets		18,857	26,432	35,689	34,037	38,622
Stocks		135	314	139	200	200
Debtors		11,951	23,289	28,173	30,000	31,000
Cash		6,465	2,565	7,220	3,387	6,922
Current Liabilities		(13,123)	(27,530)	(33,930)	(31,700)	(31,700)
Creditors & other liabilities		(9,347)	(22,200)	(33,739)	(31,500)	(31,500)
Short term borrowings		(3,776)	(5,330)	(191)	(200)	(200)
Long Term Liabilities		(4,286)	(8,436)	(9,339)	(9,000)	(9,000)
Long term borrowings		(2,971)	(465)	(105)	0	0
Other long term liabilities		(1,315)	(7,971)	(9,234)	(9,000)	(9,000)
Net Assets		18,195	26,499	49,018	50,337	54,922
CASH FLOW						
Operating Cash Flow		4,106	2,909	13,291	11,715	16,395
Net Interest*		(833)	(492)	(497)	100	100
Tax		(509)	(841)	(1,440)	(2,932)	(3,576)
Capex		(2,961)	(3,199)	(2,930)	(4,000)	(4,000)
Acquisitions/disposals		95	(4,080)	(3,578)	(11,720)	(2,720)
Financing		14,120	2,755	5,308	7,300	0
Dividends		0	0	0	(4,200)	(2,664)
Net Cash Flow		14,018	(2,948)	10,154	(3,737)	3,535
Opening net debt/(cash)		14,300	282	3,230	(6,924)	(3,187)
HP finance leases initiated		0	0	0	0	0
Other		0	0	0	0	0
Closing net debt/(cash)		282	3,230	(6,924)	(3,187)	(6,722)

Source: Company accounts/Edison Investment Research

Growth	Profitability	Balance sheet strength	Sensitivities evaluation	
			Litigation/regulatory	◐
			Pensions	○
			Currency	◐
			Stock overhang	●
			Interest rates	◐
			Oil/commodity prices	○

Growth metrics	%	Profitability metrics	%	Balance sheet metrics	Company details		
EPS CAGR 05-09e	15.0	ROCE 08e	17.2	Gearing 08e	N/A	Address:	
EPS CAGR 07-09e	N/A	Avg ROCE 05-09e	18.5	Interest cover 08e	N/A	Stollwerckstr. 11, D – 51149 Cologne	
EBITDA CAGR 05-09e	20.5	ROE 08e	17.4	CA/CL 08e	N/A		
EBITDA CAGR 07-09e	7.2	Gross margin 08e	14.3	Stock turn 08e	1.1	Phone	+49 22 03 91 540
Sales CAGR 07-09e	21.5	Operating margin 08e	9.0	Debtor days 08e	0.5	Fax	+49 22 0391 5415
Sales CAGR 07-09e	6.2	Gr mgn / Op mgn 08e	1.6	Creditor days 08e	81.0	www.sqs-uk.com	

Principal shareholders	%	Management team
Directors & Related	17.2	CEO: Rudolf van Megen
Morley Fund Managers	6.8	Graduated from the University of Cologne with a degree in Business Administration focusing on informatics and then completed a number of R&D projects in software testing and efficiency. Joint founder of SQS in 1982 with former COO Heinz Bons.
Herald Investment Management	5.5	
Killik Asset Management	5.3	
Legal & General Investment Management	4.9	
Berenberg Bank	3.5	
INVESCO Asset Management Ltd	2.5	CFO: Rene Gawron
		Rene Gawron joined SQS in 2001 having previously worked for Siemens. While at Siemens he had various roles including head of business development for mobile telecom networks.
Forthcoming announcements/catalysts	Date *	
AGM	May 28 2008*	
Interim results	Sep 2008*	
<i>Note: * = estimated</i>		

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Bracton House, 34-36 High Holborn, London, WC1V 6AE ■ tel: +44 (0)20 7190 1760 ■ fax: +44 (0)20 7190 1759 ■ www.edisoninvestmentresearch.co.uk
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