NINE (9) SECTOR STUDIES FOR THE SMALL AND MEDIUM SIZED ENTERPRISES

SECTOR ANALYSIS:

EXECUTIVE SUMMARY

SOFTWARE DEVELOPMENT & TRADE

October 2008

REMACO A.E.
ΣΥΜΒΟΥΛΟΙ ΕΠΙΧΕΙΡΗΣΕΩΝ

ΥΠΟΥΡΓΕΙΟ ΑΝΑΠΤΥΞΗΣ
ΓΕΝΙΚΗ ΓΡΑΜΜΑΤΕΙΑ
ΒΙΟΜΗΧΑΝΙΑΣ

Strategic Review

Major points of the sector:

- Domestic software development is in a growth trend due to the gradual penetration of computerized systems in most businesses, the increase in broadband connections and public sector projects in information technology field.
- According to a research of SEPE (Association of Greek Information & Communication Companies), it is estimated that there are 1600 companies which operate in software development field in 2008 in Greece. According to General Secretariat for Information Systems, the number of companies reach 844. The majority of them (68%) are individual companies, while personal companies (limited partnership – general partnership) comprises 10.7% of the total number. Societe anonyme companies and ltd companies occupy smaller shares (10% and 7.6% respectively)
- According to EITO (European Information Technology Observatory), the market value of the broader information sector for 2008 is estimated at €2,3 billion, a rise of 5.3% from 2007. This improvement was driven mainly by software market, which this year is forecast to increase by 4.3%, a rate that will accelerate to 5.3% in 2009
- Public expenditure affect positively the sector, whether in the form of financing public projects equipment with software or in private sector subsidies. Key areas of action compose also companies in the bank sector which seek to improve their internal operations as well as the broader finance industry.
- During 2007 many major projects in the public sector were achieved. For 2008, an increase in total turnover is expected due to the concentration of large contracts that were not performed in previous years. However, the projects are becoming scarce, as CSF is reaching the end. Thus, market is waiting for the new program «Digital Convergence» NSRF, worth € 2 billion (these funds will be absorbing next year)
- Sector development is attributed also to investments made in connection with Information Society: since the program initiation, contracts of total value €1,9 billion have been signed (about 71% of the total budget).
- Significant increase appears in computer projects for medium size companies (mainly in ERP and CRM systems), a trend that seems to establish during 2008. Large Greek companies are gradually shifting to a better utilization of their infrastructure, while banking and telecommunications sector strengthened the "regulatory compliance".
- Besides the fact that there is a continuous development in the use of information technology in our country, a significant delay in the readiness and in their use is observed. As a result of this gap, Greece is ranked in the Readiness Index for Using New Technologies of the World Economic Forum in the 56th position among 127 countries for 2006 and the 24th in the EU, following a downward spiral in the classification of NRI since 2005.
- Penetration of broadband internet in the first half of 2008 amounted to 11,15% (1.25million connections) that is about 1731 new connections per day. Thus, Greece is trying to converge with the EU-27 while continue to fall.
- Only large companies operate in international level and especially in Balkans where new technology infrastructure is being developed. Among companies active in these markets are INTRACOM IT Services and PROFILE.
- Subsidiaries of multinational groups hold major shares in the Greek market, using the expertise of their parent companies in providing specialized business solutions (e.g. SAP HELLAS attracted 38 new customers, including PPC and COSMOTE in the first half of 2008).
- Illegal software piracy is perhaps the most important problem that the sector faces. IDC estimates software piracy in Greece to 58% for 2007, reduced by 3 percentage points for a second consecutive year. Escape revenues are estimated at € 136 million, versus € 125 million in 2006.

Strategic Review

Strengths & Opportunities:

- The dynamic environment of the sector features the following aspects:

- Implementation of information projects that are financed by Information Society.
- Development of specialized computer applications for banks and telecommunications companies and retailers.
- Extension of companies activities in related areas such as PC and equipment trade, information technology consulting, telecommunications, etc.
- Allocation of funds for research and development by the largest groups of companies.
- Organizational and operational reorganization by companies is always supportedby new enhanced computer systems
- Growing demand for management information (costing, customer relationsmanagement for better positioning versus the competition)
- Significant improvement in turnover and Results
- High Gross Profits margins as well as Operating profit and Before Taxes profit.
- Very high liquidity and short trading cycle.

- The rising opportunities for the companies of the sector are summarised in the following:

- Increasing government expenditure for the implementation of e-governance and greater penetration of digital technologies in the Public Sector .
- Adoption of subsidized programs.
- Low penetration of information technology, particularly in software. Need for business restructure/improvements in business.
- Continuous technological convergence between telecommunications and information technology creates opportunities for partnerships with telecommunications groups.
- Limited but increasing expenditure per capita on information technology products and services.
- New regulations for financial intsitutions
- Upgrading ERP systems to private companies.
- Increasing internet penetration.
- Broadband internet and growth potential of new services
- Expansion into neighbouring countries that have large potential for development.

Strategic Review

Weaknesses & Threats:

The weak points of the sector are the following:

- Resistance to change mainly in smaller companies
- Small size of Greek enterprises leads to small software needs and correspondingly to low budgets.
- Difficulty in competing software development products to that of larger companies (lack of funds, resources etc.).
- Low ranking for Greece in NRI index compared with other European countries
- Low investment in R & D and innovation.
- Reduced investment attractiveness in new technologies for companies due to low penetration and use of Internet.
- Illegal use of software (58% in 2007)
- Reduced perception of services value and software in Greece.

The major threats of the sector are the following:

- Education does not follow evolution of new technologies
- Bureaucratic delays to absorb fourth CSF.
- Public sector is not a main client
- Competition from foreign companies.
- Possible reduction in public investment due to the global economic crisis and need to reduce the budget deficit.
- Further consolidation in certain sectors although increases demand in short term, it reduces the number of active major companies.
- The prospect of small enterprises failure due to competition intensity, market consolidation and economic crisis would limit small computer companies clientele.

Summary of financial indicators

- Turnover of 290 companies listed in this sample in 2007 stood at € 504,69 million, an increase of 10.4% compared to 2006. The average change 07/06 Sales formed in 11.3%, higher than the corresponding change of 06/05 (7.2%).
- Important improvement is marked also in gross, operating and pre-tax profits. The gross profit margin remained at a high level of 39,3%, while Earnings Before Taxes and Depreciation and Earnings Before Taxes Margins increased to 15.0% and 5.6% respectively.
- Return on capital rose further to 14.8%, as a direct result of improved profit margins.
- Also, capital leverage improved to a small extent (1.28 to 1), while industry traditionally operates at a high level of liquidity (1.44 last year).
- Trading cycle stood at only 13 days, as suppliers typically lend long enough.

Population:	**290**
Population per turnover size	
Above € 2,5 mn.	50
Between € 0,3 mn.and € 2,5 mn.	139
Between € 0 mn. and € 0,3 mn.	101

Profitable	**205**
Increase	*120*
Decrease	*66*
Loss reversal	*19*
Loss making	**47**
Increase	*10*
Decrease	*17*
Profit reversal	*20*

Key Statistics	Software 2007	Economy median 2007
Sales increase	167 - (68,2% of the sample)	*55,4%*
Sales reduction	78 - (31,8% of the sample)	*44,6%*
Median sales growth	11,3%	*4,3%*
Median earnings growth	15,1%	*6,4%*

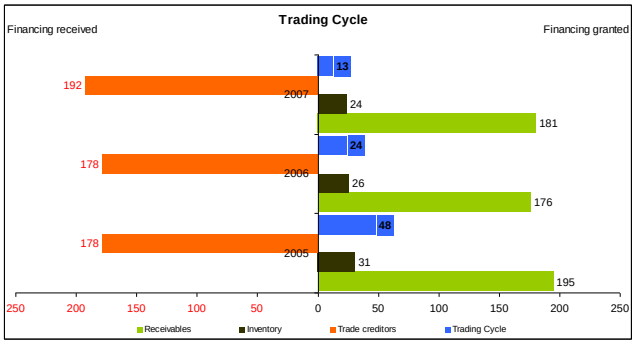
Key ratios	Software 2007	Software trend	Economy median 2007	Economy median trend
Debt to equity	1,28	+	*1,14*	-
Asset turnover	0,96	+	*0,62*	+
Quick ratio	1,44	+	*1,24*	+
EBITDA margin	15,0%	+	*9,4%*	+
Net margin	5,6%	+	*2,7%*	+
RoE	14,8%	+	*4,6%*	+

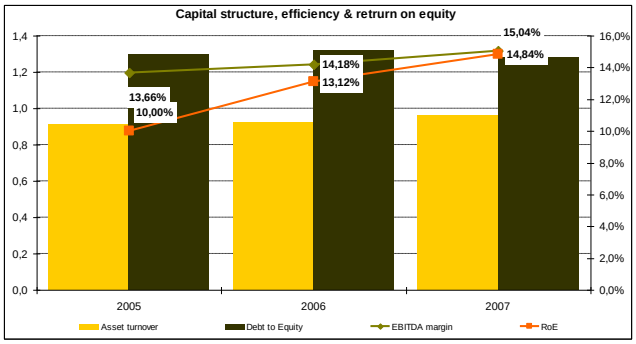
The major companies

TOP 50 Key Figures [2007]	Sales	Gross results	EBITDA	Earnings before taxes	Total Assets	Equity capital	Current liabilities
1 EUROPEAN DYNAMICS SA	22,81	6,04	4,15	2,04	19,53	9,43	7,83
2 REAL CONSULTING SA	16,11	4,68	1,79	0,27	15,67	2,62	10,06
3 INTRASOFT INTERNATIONAL SA INTRASOFT INTERNATIONAL SA	15,99	4,86	1,35	1,08	4,84	0,00	3,53
4 SINGULARLOGIC INTEGRATOR SA	15,80	3,37	0,16	-0,92	19,21	3,32	7,16
5 BETA CAE SYSTEMS SA	15,64	12,52	8,95	8,31	10,08	1,45	8,34
6 PROFILE SYSTEMS AND SOFTWARE SA	15,60	7,49	3,85	2,52	26,08	14,87	9,80
7 UPSTREAM SA	12,88	5,79	2,17	1,55	6,92	2,83	2,57
8 ATHENS TECHNOLOGY CENTER SA	12,73	3,67	1,61	0,71	6,49	4,17	2,09
9 VELTI SA	12,21	6,24	6,98	0,24	19,73	11,11	8,35
10 TEMENOS HELLAS SA	11,16	1,74	0,22	0,17	9,27	-0,21	9,36
11 GLOBO TECHNOLOGIES SA	10,92	5,00	5,45	2,09	24,86	10,46	10,93
12 Q &R SA	10,01	1,93	0,41	0,08	17,97	11,20	6,56
13 EXODUS SA	9,59	5,22	2,21	1,13	13,91	4,66	8,95
14 INTERNET Q SA	8,20	3,67	0,59	0,09	8,01	3,16	4,04
15 EPSILON NET SA	7,72	4,90	1,89	1,64	12,21	6,59	3,37
16 UNIXFOR SA	7,69	2,10	1,21	0,38	7,46	4,63	2,74
17 MLS SA	7,07	3,00	3,08	1,26	15,40	12,21	3,17
18 ILYDA S.A.	6,58	3,31	2,70	1,58	13,79	10,79	2,08
19 ARCHETYPON SA INFORMATION APPLICATIONS	6,26	1,13	0,44	0,01	5,41	1,65	3,42
20 KESTREL SA	6,24	0,74	0,69	0,26	2,84	0,56	2,29
21 REAL CONSULTING INTERGATION AND OPERATION SA	6,17	1,73	0,56	0,08	21,71	6,26	12,05
22 ALTEC GROUP SA	5,67	2,69	1,27	1,10	4,67	2,08	2,35
23 ENTERSOFT SA	5,62	3,64	1,41	1,11	5,70	3,23	1,89
24 LAVISOFT SA	5,31	0,87	0,82	0,12	7,01	2,96	4,04
25 PROFESSIONAL COMPUTER SERVICES SA	5,19	2,53	1,63	1,66	3,13	1,90	1,16
26 INNOVATIVE MICRO SOLUTIONS SA	5,07	1,35	1,04	0,62	4,96	0,91	4,05
27 COMPUTER PROJECT SA	4,95	0,81	-0,14	-0,27	5,05	0,92	2,48
28 SCAN SA	4,52	2,14	0,44	0,31	3,02	1,77	1,10
29 FORTH CRS SA	4,28	1,20	1,02	0,23	6,27	3,42	2,03
30 SYNERGY D.D. SYNERGY HELLAS SA	4,11	0,54	0,00	-0,30	3,42	0,98	2,41
31 ETHNOPLAN SA	3,97	0,51	0,48	0,36	1,60	0,77	0,66
32 SOFTONE TECHNOLOGIES SA	3,87	1,63	0,64	0,13	4,18	2,79	1,25
33 LOGISMOS SA	3,80	3,41	1,63	0,14	9,91	6,57	2,55
34 ALPHA INFORMATION SYSTEMS SA	3,79	1,93	0,32	0,13	3,56	0,55	3,01
35 ADVANCED CONSULTING SA	3,76	0,91	0,50	0,21	5,66	2,04	3,05
36 DATA COMMUNICATION SA	3,76	1,99	0,93	0,81	4,23	3,40	0,63
37 ATCOM SA	3,70	1,84	0,98	0,44	6,30	1,87	4,18
38 ISI HELLAS SA	3,61	1,89	1,22	0,10	10,66	5,33	4,81
39 AITIM SA	3,58	1,00	0,42	0,39	1,69	0,75	0,95
40 SDC SA	3,58	1,51	0,79	0,16	4,04	0,75	3,28

Industry financial ratios

Industry Financial Ratios	Median			Average excluding outliers			Economy median		
	2007	2006	2005	2007	2006	2005	2007	2006	2005
Capital Structure									
Current liabilities to sales	0,55	0,51	0,57	0,60	0,57	0,60	0,59	0,59	0,54
Short term bank debt to sales	21,0%	23,8%	22,9%	24,4%	26,2%	25,3%	25,7%	25,5%	23,5%
Debt to equity	1,28	1,32	1,30	1,75	1,68	1,60	1,14	1,09	1,04
Debt to total assets	57,4%	57,6%	56,7%	57,1%	55,3%	54,9%	57,3%	56,3%	54,4%
Interest coverage	10,95	9,78	9,13	27,73	30,03	26,02	3,14	3,09	3,57
Current liabilities to assets	54,0%	52,2%	53,3%	53,0%	51,6%	51,7%	46,3%	46,8%	45,6%
Operating current liabilities to assets	15,3%	15,3%	13,7%	17,4%	18,6%	18,1%	27,5%	28,3%	27,6%
Operating current liabilities to total current liabilities	34,4%	38,5%	35,2%	36,7%	38,9%	38,6%	90,9%	91,8%	92,5%
Liquidity									
Quick ratio	1,44	1,43	1,49	1,62	1,75	1,81	1,24	1,22	1,23
Acid test	1,34	1,35	1,38	1,53	1,64	1,68	0,99	0,98	0,98
Trading Cycle	13	25	48	33	41	59	46	42	37
Days sales outstanding	181	176	195	202	204	211	140	135	124
Days in inventory	24	26	31	43	40	47	72	71	67
Days in accounts payable	192	178	178	212	204	199	166	164	154
Inventory to current assets	4,4%	5,2%	6,0%	6,0%	6,4%	7,7%	21,1%	21,6%	21,9%
Inventory to assets	3,0%	3,9%	4,2%	4,7%	5,0%	5,8%	13,7%	13,7%	13,9%
Efficiency									
Receivables turnover	1,98	2,04	1,84	2,17	2,22	2,13	2,00	2,06	2,27
Inventory turnover	15,03	13,69	11,52	35,90	29,38	25,29	5,16	5,19	5,51
Assets turnover	0,96	0,93	0,91	0,99	0,96	0,96	0,62	0,62	0,65
Administration expenses to sales	15,1%	15,3%	17,1%	18,5%	19,8%	20,8%	9,7%	9,9%	9,7%
Selling expenses to sales	11,8%	10,2%	11,0%	13,2%	12,4%	13,0%	10,5%	10,6%	10,1%
Total operating expenses to sales	31,0%	31,8%	30,7%	34,2%	35,0%	37,3%	21,8%	22,2%	21,1%
Interest expenses to sales	1,15%	0,92%	0,75%	1,69%	1,47%	1,38%	1,72%	1,58%	1,47%
Extraordinary expenses to sales	0,37%	0,33%	0,35%	0,62%	0,54%	0,73%	-0,04%	-0,05%	-0,02%
Profitability & Return on capital									
Gross margin	39,3%	39,1%	36,5%	40,6%	39,3%	37,6%	27,8%	27,2%	26,7%
EBIT margin	8,9%	7,5%	4,9%	9,8%	8,6%	4,1%	5,2%	4,5%	4,9%
EBITDA margin	15,0%	14,2%	13,7%	16,5%	15,5%	11,8%	9,4%	8,9%	9,3%
EBT margin	5,6%	5,0%	3,8%	7,4%	6,7%	3,2%	2,7%	2,2%	2,6%
Return on assets	5,5%	5,0%	3,8%	7,4%	6,7%	5,2%	1,5%	1,1%	1,4%
Return on equity	14,8%	13,1%	10,0%	21,0%	18,0%	14,5%	4,6%	3,6%	4,1%





Industry financial statements

	Amounts in mn €			COMMON SIZE			TREND ANALYSIS		
Balance Sheet									
	2007	**2006**	**2005**	**2007**	**2006**	**2005**	**2007/2006**	**2006/2005**	**2007/2005**
Formation expenses	13,01	13,26	13,76	2,1%	2,3%	2,4%	-1,8%	-3,6%	-2,7%
Fixed assets	123,74	126,09	127,65	20,2%	21,5%	22,5%	-1,9%	-1,2%	-1,5%
Participations	39,95	24,49	22,10	6,5%	4,2%	3,9%	63,1%	10,8%	34,5%
Current Assets	426,66	414,45	397,46	69,5%	70,5%	70,1%	2,9%	4,3%	3,6%
Inventory	*27,90*	*26,53*	*27,57*	*4,5%*	*4,5%*	*4,9%*	*5,2%*	*-3,8%*	*0,6%*
Receivables	*295,64*	*291,56*	*277,87*	*48,1%*	*49,6%*	*49,0%*	*1,4%*	*4,9%*	*3,1%*
Cash & securities	*103,12*	*96,35*	*92,03*	*16,8%*	*16,4%*	*16,2%*	*7,0%*	*4,7%*	*5,9%*
Transitory accounts	10,73	9,46	6,11	1,7%	1,6%	1,1%	13,4%	54,7%	32,4%
Total Assets	**614,09**	**587,74**	**567,08**	**100,0%**	**100,0%**	**100,0%**	**4,5%**	**3,6%**	**4,1%**
Equity capital	246,18	243,93	243,53	40,1%	41,5%	42,9%	0,9%	0,2%	0,5%
Share capital	*213,53*	*223,71*	*231,85*	*34,8%*	*38,1%*	*40,9%*	*-4,6%*	*-3,5%*	*-4,0%*
Reserves & retained earnings	*32,65*	*20,22*	*11,69*	*5,3%*	*3,4%*	*2,1%*	*61,5%*	*73,0%*	*67,2%*
Provisions	3,61	3,67	4,99	0,6%	0,6%	0,9%	-1,7%	-26,4%	-15,0%
Long term liabilities	49,66	35,94	28,74	8,1%	6,1%	5,1%	38,2%	25,0%	31,4%
Reserves & retained earnings	*30,38*	*22,02*	*13,74*	*4,9%*	*3,7%*	*2,4%*	*38,0%*	*60,3%*	*48,7%*
Other	*19,28*	*13,92*	*15,01*	*3,1%*	*2,4%*	*2,6%*	*38,6%*	*-7,3%*	*13,4%*
Current liabilities	308,09	298,59	285,99	50,2%	50,8%	50,4%	3,2%	4,4%	3,8%
Suppliers	*67,53*	*61,21*	*61,57*	*11,0%*	*10,4%*	*10,9%*	*10,3%*	*-0,6%*	*4,7%*
Checks & notes payable	*30,26*	*28,14*	*30,59*	*4,9%*	*4,8%*	*5,4%*	*7,5%*	*-8,0%*	*-0,6%*
Short-term bank debt	*76,28*	*83,95*	*85,77*	*12,4%*	*14,3%*	*15,1%*	*-9,1%*	*-2,1%*	*-5,7%*
Taxes and social contibutions	*31,86*	*34,24*	*33,90*	*5,2%*	*5,8%*	*6,0%*	*-6,9%*	*1,0%*	*-3,0%*
Dividends payable	*16,66*	*13,37*	*10,88*	*2,7%*	*2,3%*	*1,9%*	*24,6%*	*22,9%*	*23,8%*
Intercompany liabilities	*21,48*	*10,27*	*6,17*	*3,5%*	*1,7%*	*1,1%*	*109,1%*	*66,5%*	*86,6%*
Other	*64,02*	*67,41*	*57,12*	*10,4%*	*11,5%*	*10,1%*	*-5,0%*	*18,0%*	*5,9%*
Transitory accounts	6,55	5,62	3,82	1,1%	1,0%	0,7%	16,5%	47,2%	31,0%
Total Equity & Liabilities	**614,09**	**587,74**	**567,08**	**100,0%**	**100,0%**	**100,0%**	**4,5%**	**3,6%**	**4,1%**
Off-balance sheet accounts	58,49	48,00	47,72	9,5%	8,2%	8,4%	21,9%	0,6%	10,7%
Profit & Loss Statement									
Sales	**504,69**	**457,05**	**419,57**	**100,0%**	**100,0%**	**100,0%**	**10,4%**	**8,9%**	**9,7%**
Gross results	**198,18**	**168,80**	**150,21**	**39,3%**	**36,9%**	**35,8%**	**17,4%**	**12,4%**	**14,9%**
Gross margin	*39,3%*	*36,9%*	*35,8%*						
Administration expenses	59,81	54,99	56,65	11,9%	12,0%	13,5%	8,8%	-2,9%	2,8%
Selling and distribution expenses	48,06	40,89	38,78	9,5%	8,9%	9,2%	17,5%	5,4%	11,3%
EBITDA	**96,62**	**72,53**	**59,54**	**19,1%**	**15,9%**	**14,2%**	**33,2%**	**21,8%**	**27,4%**
EBITDA margin	*19,1%*	*15,9%*	*14,2%*						
EBIT	**57,15**	**39,28**	**19,11**	**11,3%**	**8,6%**	**4,6%**	**45,5%**	**105,5%**	**72,9%**
EBIT margin	*11,3%*	*8,6%*	*4,6%*						
Earnings before taxes	**43,89**	**28,08**	**13,25**	**8,7%**	**6,1%**	**3,2%**	**56,3%**	**111,9%**	**82,0%**
EBT margin	*8,7%*	*6,1%*	*3,2%*						
Income taxes	13,68	11,12	9,69	2,7%	2,4%	2,3%	23,0%	14,8%	18,9%

Financial Statements under IFRS for fiscal years 2005-2004, either detailed or condensed, may not be comparable to 2003 Greek GAAP data