



Stock watch

Grin and Bear It (You gotta grin while the bears have their way)

Pete Sokoloff, MD, Peter A. Sokoloff & Co gives his take on the market performance of billing stock this month.

Despite hopeful signs of revival in April and May (31 percent increase), June, July and August saw the billing and OSS Index drop by 27.6 percent, its lowest point all year. The industry's revenue growth continues to slow down as evidenced by Q2 data. With reports now in from all of the companies listed in the Index, a steady 18 month slide has brought average growth in the sector down to less than 6 percent. Much service provider spending remains in the deep freeze. Twelve of the companies in the Index reported revenue decreases from the same period last year (Q2, 2000). Five of the companies had anaemic growth below the 6 percent

average.

While almost half of the companies on the Index continue to show respectable double digit revenue growth levels, billing and OSS executives remain very cautious. Not too long ago analysts could depend on most of these companies to "make their numbers" each quarter. Analysts heeded estimates of earnings and revenue; the companies delivered. Now, mid-term "revised forward guidances" have become quite the norm as corporate execs scramble to minimise stock value damage resulting from not meeting analyst expectations.

On July 18th, fault management and service assurance leader Micromuse

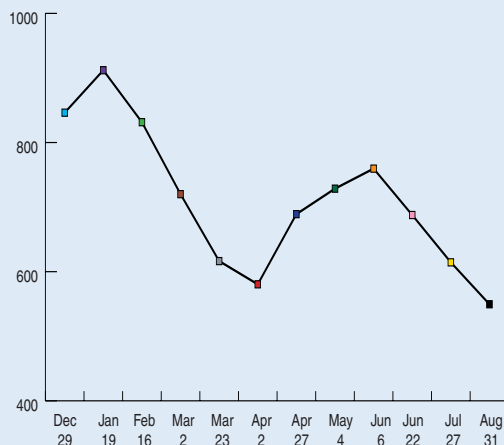
released Q2 numbers, showing an incredible 92 percent quarterly revenue increase. Later that same day they issued a guidance to the market that Q3 revenue would drop off by 24 percent – 27 percent from the Q2 level. Reasons cited are a 40 percent decrease in average deal size, lower closure rates and a struggling European market. This will be Micromuse's first consecutive quarterly revenue decrease. After a flat fourth quarter, Micromuse expects a modest upturn in revenues during Q1 2002.

While a number of analysts immediately downgraded Micromuse, it is interesting to note that by the end of August, some of those very analysts had turned

bullish and recommended buying the stock. Micromuse executives have convinced them that belt-tightening measures, a strong channel partner program (97 channel partners have sold MUSE products this year), and a push into the Asian and Latin American markets will make the difference in 2002.

Long term, there seem to be lots of good buys for investors who have the stomach to sit through another few quarters. Frightened service providers and their financial backers need to figure out that the sky isn't falling - or that the fortunes of software companies are not directly tied to the glut of equipment and cable that are the bane of the →

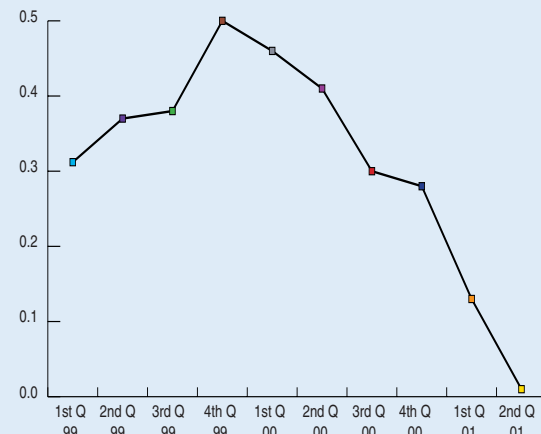
Index of Billing/OSS Stocks



Source: Sokoloff & Co

BACC/OSS Industry Revenue Growth

(Average of public companies over same quarter, year earlier)



Top five companies based upon Price to Sales

Company	Symbol	Price to Sales P/S	Price to Earnings P/E	Price to Earnings Before Interest, Taxes, Depreciation & Amortisation P/EBITDA
Ulticom	ULCM	7.79	33.38	23.46
Peregrine Systems	PRGN	7.78	N/A	N/A
Illuminet Holdings	ILUM	6.22	28.95	14.90
Amdocs Ltd	DOX	5.92	143.19	24.39
CSG Systems	CSGS	5.49	23.51	13.51

telecom manufacturers.

Who are the companies that show good signs of building long term shareholder value? Here's how the market answers this question...the table above shows the top 5 companies, based on Price to Sales (P/S) multiples as of 31 August.

P/EBITDA is used in the table

because P/E can be deceiving. As an example, Amdocs has a high P/E, but a much lower P/EBITDA. Non-cash amortisation of goodwill from past acquisitions impacts Amdocs' earnings. But, write-off of goodwill is usually not indicative of the forward financial health of a company. Unless a company has a heavy debt load, causing large interest expense, EBITDA

is usually a better hallmark for evaluating a software company's financial strength.

Peregrine closes on Remedy

On Monday, August 27th, Peregrine Systems closed its

acquisition of Remedy Corp. The market applauded the bold initiative by pushing PRGN stock up by 10 percent the next day. This is because the combined companies promise to rapidly develop economies that will boost earnings per share over the next four quarters. Furthermore, while Remedy's help desk products

compete with Peregrine, the companies' customer bases are neatly divided by size - large enterprises to Peregrine and mid-sized enterprises to Remedy. This clearly establishes market dominance in certain niches and enables the combined company to compete on a more even playing field with giants like SAP and Computer Associates.

Remember when Enterprise was considered stodgy and tired? The soaring service provider sector eclipsed the 20 percent growth rate for the sale of enterprise OSS products during 1999 and 2000. Now in 2001, enterprise is still chugging along at about 20 percent, which makes companies like Peregrine look like champions. ■

Index of public billing and OSS companies

Company	Ticker	-----Price \$-----		YTD % Change	52 Week High	Mkt Cap (000s)
		27 July 2001	29 Dec 2000			
Ace Comm	ACEC	1.53	2.31	-33.8%	10.5	14,145
Affiliated Comp Services	ACS	81.77	60.69	34.7%	86.87	4,136,090
ADC Telecom	ADCT	4.37	18.13	-75.9%	39.37	3,415,583
American Mgmt. Sys.	AMSY	17.66	19.81	-10.9%	25.04	736,104
Alltel Corp.	AT	58	62.38	-7.0%	68.68	17,993,862
Astea International	ATEA	1.05	0.88	20.0%	1.43	15,566
Boston Comm.	BCGI	17.05	27.88	-38.8%	29.87	290,924
Converse Technology Inc	CMVT	25.14	108.63	-76.9%	124.75	4,308,669
CSG Systems	CSGS	45.9	46.94	-2.2%	64.7	2,442,614
Cellular Tech Serv	CTSC	2.502	2.81	-11.0%	11.37	5,735
Convergys Corp.	CVG	28.07	45.31	-38.1%	52.25	4,799,858
Daleen Technologies	DALN	0.66	4.00	-83.5%	16.06	14,436
AMDOCS Corp.	DOX	38.3	66.25	-42.2%	80.5	8,470,619
DSET Corporation*	DSETD	1.55	7.18	-78.4%	115.75	4,506
DST Systems	DST	47.85	67.00	-28.6%	74.93	5,885,598
Evolving Systems Inc	EVOL	2.78	2.16	28.9%	8.68	36,646
HNC Software, Inc.	HNCS	21.11	29.69	-28.9%	82.25	739,251
Illuminet Holdings	ILUM	33.2	22.94	44.7%	38	1,082,154
Lightbridge	LTBG	11.7	13.13	-10.9%	19.43	337,042
MDSI Mobile Data Solutions Inc	MDSI	2.76	7.88	-65.0%	16	22,690
Mind CTI**	MNDO	2.17	6.69	-67.6%	13	43,652
MetaSolv Software	MSLV	5.9	9.13	-35.3%	47.12	212,677
Micromuse	MUSE	11.84	60.38	-80.4%	108.37	872,265
Portal Software Inc.	PRSF	1.86	7.88	-76.4%	57.75	321,583
Siebel Systems	SEBL	21.6	67.63	-68.1%	119.87	9,943,560
TCSI	TCSI	0.98	1.38	-28.7%	2.12	22,740
Management Network	TMNG	6	11.88	-49.5%	23.5	177,390
T-Netix Inc.	TNTX	2.35	2.06	13.9%	5	35,325
TTI Team Telecom	TTIL	13.77	15.00	-8.2%	28	137,590
Ulticom**	ULCM	12	34.06	-64.8%	61	490,608
Veremark Tech	VERA	0.9	0.63	44.0%	3.75	7,465
Vertel Corp.	VRTL	1.05	2.38	-55.8%	14.37	34,537
Total Index		523.37	835.02	-37.3%		

Highlighted stocks were up for the year as of August 31, 2001. RMDY was acquired by PRGN 27 Aug 01. RMDY has been eliminated from the list and PRGN has been added. *Adjusted to reflect a reverse 4:1 stock split on 22 August 01.

Source: Peter A. Sokoloff & Co.