



The small company specialists

COMPANY INFORMATION

Pennant International Group plc (LSE:PEN)

May 2007

Company Eye Ranking

38/50

EDITOR'S NOTE

Pennant International Group plc is an AIM listed supplier of technology solutions to the defence and industrial sectors, including simulation and training systems, technical data services and data management systems. The company has a strong list of major clients in important sectors such as aerospace and defence. Current trading in Pennant's traditional markets has been strong. In addition, Pennant has secured significant work in the naval sector where previously it had limited presence.

The year ending 31 December saw a strengthening of the balance sheet. Group turnover has increased by 7% and group operating profit by 38% compared to 2005. The company intends to pay a dividend, up 33% on last years figure, reflecting their confidence in the future. In our opinion the company has a promising future with contracts constantly being added and renewed, showing consumer loyalty to their services.

2 YEARS CHART/ RSI - 14



FUNDAMENTALS

Company Name	Pennant International Group PLC
Current Price	26
Status	AIM
Market Cap (m)	8.166 m.
Shares in Issue	31,407,000
Activities	Supplier of technology solutions to the defence and industrial sectors.
Sector	Software & Computer Services
Corporate advisor	W H Ireland Ltd
Registrar	Capita Registrars

HISTORY

Pennant can trace its origins back to the late 1950s when it was established to supply the RAF with training systems for aircraft maintenance engineers. In 1991 Pennant was acquired by a company controlled by Christopher Powell, the current Chairman and shortly afterwards Joe Thompson joined the Group as Chief Executive. Following this the Group underwent a period of consolidation, focussing on core strengths in military simulation and training systems.

In March 1998, Pennant was floated on AIM and raised funds to increase working capital as the company expanded its operations and invested in product development. In December 1999 Pennant acquired four businesses from the administrator of Solvera plc. The acquired businesses added capabilities in Data Services - the provision of electronic technical documentation, support products and computer based training - and Software Services - supportability engineering software, networks and e-business. As well as having some overlap

with Pennant's existing customers they also introduced a significant customer base outside the defence market as well as a North American business with operations in Los Angeles, USA, and Ottawa, Canada.

Since the acquisition, Pennant has developed an integrated electronic solution to encompass Logistics Support Analysis, Electronic Documentation and Computer Based Training. This approach has been developed in response to market needs and acquiring this capability was a key factor leading to the acquisition of the businesses to complement the core training systems capability.

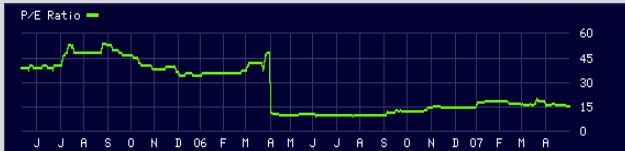
In 2002 Pennant formed a new company in Melbourne, Australia, following the acquisition of the defence business of Logistics Proprietary Ltd, to undertake a major new defence contract and to complement the supportability engineering software businesses in the UK, Canada and the USA.



The small company specialists

COMPANY INFORMATION

2 YEARS P/E RATIO



2 YEARS ROLLING EPS



THE BUSINESS

The Group operates as three trading divisions which have complementary capabilities and customer overlap:

Training Systems Provides and supports specialist training systems based on software emulation, hardware simulation and computer based training for engineer training.

Information Services Supplies electronic documentation,

e-learning products, electronic data, publicity and newsletters, parts catalogues and authoring in support of technical products and skills.

Software Services Provides and supports software tools used to support complex long-life assets. Owns the rights to the market leading OmegaPS suite of software.

ACTIVITIES

The principal activity of Group companies is delivery of integrated logistic support solutions. These comprise Logistic Support Analysis Report software, technical documentation, simulation and computer based training systems to customers world-wide; principally those in defence and aerospace, but also in rail transport, oil and gas, petro-chemical, power, customer goods retail, information technology and telecommunications industries.

The Group wins new business from:

* The introduction, by its customers, of new technology, new equipment or services that require training,

documentation and maintenance services to be in place at the point of sale and to be maintained thereafter.

* Updates and changes to existing equipment or software, driven by new technology and the replacement of obsolete hardware or software. These changes drive amendments to documentation, training and maintenance regimes.

* Expansion of the 'footprint' across customer organisations and market sectors.

* Extended support and maintenance contracts.

SERVICES

Cartographic and Draughting Services

Pennant provides Cartographic solutions to Major operators and Survey and Service companies both in the North Sea and Internationally from their well-equipped offices in Aberdeen.

The company offers total outsource facilities for the production of Geological and Geophysical presentation information from ad-hoc one off jobbing work through to the production of government reports, to a one stop support service for all CAD, Graphics, Cartographics, Reprographics and Printing requirements.

The needs of the industry are diverse and Pennant provides suitably qualified draughtsman, both trained in Autocad and Microstation, both onshore and offshore on secondment worldwide for digital positioning surveys offshore to CAD onshore.

Pennant's well equipped studios in Aberdeen offer full digitising, scanning and reproduction facilities providing companies with a facility that can be provided on-line or as Computer based Deliverables. Training courses in CAD and GIS are also offered tailored to clients requirements, which Pennant satisfies through experienced staff working

from its offices in Southampton and Aberdeen.

Consultancy and Analysis

Pennant has extensive experience in examining legacy systems with a view to establishing accurate and consistent data sets on which integrated applications can be based. These highly skilled services are delivered by experienced consultants, conversant with long established military, defence and civil standards for Logistics information, as well as contemporary standards such as XML and the emergent PLCS standard for Product Life Cycle Support.

Information Systems

Many industries are beset by problems caused by practices that encouraged process optimisation within separate silos. This led to sub-optimisation of the overall business, and to the creation of similar but not identical data in separate divisions of many businesses.

Pennant has participated in many such exercises, helping to create solutions that integrate processes rather than keeping them apart. The group consultants and software engineers work closely with its clients designing, building and implementing solutions which reflect the real needs of



The small company specialists

COMPANY INFORMATION

businesses today.

Supportability Engineering Software

Pennant is a leading supplier of Supportability Engineering Software. The commercial, packaged solutions conform to recognised international standards, and its experienced development teams in the UK, USA, Canada and Australia have the knowledge and capability to provide tailored and bespoke solutions.

With the growth of enterprise wide solutions the Company have developed a strong capability to integrate its software with other solutions. The technical and team playing capabilities have been essential elements in many successful projects involving corporate client systems or joint solutions with other systems houses.

The products are supported via a dedicated support network through its offices in the United Kingdom, the United States, Canada and Australia. In addition, distributors operate in South Africa, the Czech Republic, Israel, Turkey and Taiwan.

OmegaPS

The OmegaPS Suite is the most advanced LSAR software in the world. Its open architecture meets the needs of today's organisations for modern integrated software solutions.

Technical Data Services

Pennant is a major independent provider of technical

documentation and support products, which enhance its customers' competitive advantage through high quality, innovative technical information solutions

Training Services

Pennant provides full scope training services for the defence, government and industrial sectors. Services include; Training needs analysis, Training design, Training implementation plans, Training delivery, Training system specification, development manufacture and support, Training audit and validation.

Current programmes include training for the British Army operators and maintainers of field generators, training materials and instruction on rail traction units.

Training Systems

Pennant is a leading provider of simulation training systems for both operators and engineers in specialist applications. The Company has an extensive knowledge and skill base with a proven record of innovation, creativity and originality.

CBT and Emulation Division is a world leader in the design production and delivery of training solutions for specialist engineering companies. The Company offer a unique combination of resources to produce a range of computer based training products and services to meet the needs of its clients.

LIST OF CLIENTS AND CONTRACTS

Ministry of Defence

* A support contract for equipment previously supplied to the MOD. This contract has been running for many years and the current extension runs until 2011 with an option to extend for a further 2 years. This contract has a significant basic value and generates further revenues as additional tasks are identified.

* Continued production of computer based training for the MOD under a contract running into 2009 with options to extend for a further 2 years.

* Graphic design and multimedia Services for the MOD under a framework agreement that has been extended to run through into 2009.

Department of Work and Pensions

* E learning packages supplied to the Department of Work and Pensions including high-fidelity emulation exercises on the customer's main processing systems and on-the-job knowledge refreshment.

BAE Systems

*A support contract for training equipment supplied to the Royal Australian Air Force, through BAE Systems. This contract has just been renewed to run to 2011 with a basic value in excess of £1 million and includes options to extend to a total term of 20 years. The contract also has potential to generate significant additional revenues.

* Two multi-million pound contracts to supply BAE Systems with training equipment associated with their delivery of aircraft. These contracts run into 2008.

Kawasaki

* Documentation and training for Kawasaki for rail projects in China and USA.

City of Bristol College

Australian Defence Force

Two orders have recently been won with Siemens in Germany, a new customer, for technical documentation in respect of two rail projects in the USA.

Australian Aerospace

British Energy

Weir Strachan and Henshaw

Contel

The market-leading OmegaPS suite of software is sold world-wide and is used by many major defence contractors including, Boeing, Lockheed Martin, Northrop Grumman, BAE Systems, Thales, Australian Aerospace, Honeywell Aerospace and VT Group. It is also used by the Defence Authorities in both Canada and Australia.

The Joint Venture with Sonovision – ITEP SAS was set up to provide technical documentation and engineering services to Airbus UK.

DIRECTORS

Christopher Powell - Chairman
Chris Snook - Chief Executive

John Waller - Finance Director
S M Pearce - Non-executive director



The small company specialists

COMPANY INFORMATION

SHAREHOLDINGS

	Number	%
Christopher Powell	10,301,533	32.67
Rathbone Brothers	3,453,201	9.97

	Number	%
Eaglet Investment Trust	2,256,929	7.09
Close Ventures Limited	1,741,850	5.51

FINANCIAL HISTORY

Group Profit and Loss Account For the year ended 31 December 2006

£'000	31 Dec 2006	Year Ended 31 Dec 2005
Turnover: Group and Share of Joint Venture.	11,451,977	10,784,644
Less: Share of Joint Venture turnover	(189,655)	(222,896)
Group Turnover	11,262,322	10,561,748
Cost of sales	(7,204,381)	(6,372,538)
Gross profit	4,057,941	4,189,210
Administration expenses	(3,368,818)	(3,692,359)
Group Operating Profit	689,123	496,851
Share of operating profit in joint venture	(63,410)	4,836
	625,713	501,687
Interest receivable and similar income (Group)	7,258	1,137
Interest payable - Group	(75,237)	(86,799)
-Joint Venture	(4,875)	(1,524)
Profit on ordinary activities before taxation	552,859	414,501
Tax on profit on ordinary activities- Group	(44,334)	(24,937)
-Joint Venture	1,166	1,166
Profit on ordinary activities after taxation for Group and its share of joint venture attributable to members of the parent undertaking	509,691	388,398
Earnings per share		
Basic	1.61	1.21
Diluted	1.51	1.12
Profit for the financial year	509,691	388,398
Currency translation differences on foreign currency net investments	(37,235)	34,609
Total gains and losses recognised since last annual report	472,456	423,007

Group Balance Sheet As at 31 December 2006

£'000	31 Dec 2006	31 Dec 2005
Fixed assets	3,443,578	3,432,548
Intangible assets	837,254	857,604
Tangible assets	2,600,189	2,561,663
Investments	6,135	6,135
Investment in joint venture - share of gross assets	-	155,346
Investment in joint venture - share of gross liabilities	-	(148,200)
Current assets	3,838,617	4,035,367
Stocks	518,034	750,884
Debtors	2,410,975	2,344,685
Cash at bank and in hand	909,608	939,798
Creditors: amounts falling due within one year	(2,120,463)	(2,521,168)
Net current assets	1,718,154	1,514,199
Total assets less current liabilities	5,161,732	4,946,747
Creditors: amounts falling due after more than one year	(766,338)	(919,918)
Interest in liabilities of joint venture		
Share of gross assets	124,345	-
Share of gross liabilities	(184,318)	-
	(59,973)	
Provisions for liabilities	-	(16,000)
	4,335,421	4,010,829
Capital and reserves		
Called up share capital	1,600,000	3,045,400
Share premium	3,582,329	3,563,504
Profit and loss account	(846,908)	(2,598,075)
Shareholders' funds	4,335,421	4,010,829



The small company specialists

COMPANY INFORMATION

CHAIRMANS STATEMENT

Group operating profit increased to £689,123 (2005 as restated: £496,851), an operating margin of 6.1% of turnover compared to 4.7% for 2005. Earnings were

£509,691 (2005 as restated: £388,398) giving basic earnings per share of 1.61p (2005 as restated: 1.21p) an increase of 33%.

RISK FACTORS

In addition to the other relevant information, the following specific factors should be considered carefully when evaluating whether to make an investment in the Company. The investment offered in this document may not be suitable for all of its recipients. Before making an investment decision, prospective Investors should consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities. A prospective Investor should consider carefully whether an investment in the Company is suitable for him/her in the light of his/her personal circumstances and the financial resources available to him/her. There are various risk and other factors associated with an investment of the type described in this document. In particular:

The value of an investment in the Company is largely dependent upon the expertise of the Directors and their ability to identify and acquire or invest in suitable companies or businesses. There can be no certainty that the Company will be able to identify suitable acquisition targets or complete the purchase of any identified targets at a price the Directors consider acceptable. In the event of an aborted acquisition it is likely that resources may have been expended on investigative work and due diligence, which cannot be recovered.

The acquisition of other businesses can involve significant commercial and financial risks and there can be no certainty that any acquired business will not have a material adverse effect on the operations, results or financial position of the Company.

CONTACT

Pennant Court,
Staverton Technology Park,
Cheltenham
GL51 6TL

RANKING

Ranking out of 50 (50 being highest)

	Ranking out of 50 (50 being highest)
Business model - competitive advantage	
Competition	39
Customers	42
Low cost	42
Management	
- corporate governance	37
- quality	38
- shareholding	39
Product	33
Sector	35
Financial evaluation	
Early and profitable exit potential	37
Financial strength	
- cash flow	38
- conservative accounting	37
- need for funding	
Growth at a reasonable price	39
Risk	38
Overall average rating	38



The small company specialists

COMPANY INFORMATION

FURTHER INFORMATION ABOUT THE RANKING

Competitive advantage

Companies are assessed according to their business model and how this translates into strong and sustainable competitive advantage. This can only be achieved with low cost activities and doing something different from the competition. This 'differentiation' must add value to the customer who is then prepared to pay a premium price. The differentiation is most obvious in the product but it can exist anywhere in the company's value chain of activities, such as

easy payment terms, convenient locations, superior management, and quality of suppliers. Companies that do not achieve competitive advantage because they have the same costs and/or do the same as the competition are marooned in a profitless zone. They helplessly try to compete with the one weapon left open to them, which is the disaster of cutting prices and typically leads to similar retaliation by competitors, with disastrous results.

THE FOLLOWING ELABORATES ON THE RANKING CRITERIA

Competition

How intense is the competition and are there barriers to entry?

Customers

Is the company controlling its customers and therefore its revenue streams? Are customers glued to the company and providing valuable and reliable recurring revenue or are they one-off, or 'transactional', providing shaky revenue? The company should ideally have weak and numerous customers.

Low costs

Has the company achieved low cost activities thus allowing more of the top line revenue to trickle down to the profit line?

Management

Is there good corporate governance? What is the quality of management, as this is crucial to any business? Are the directors' shareholdings significant but not so large that they control the company?

Product

Is the product different from the competition and adds value to the customer? Are there threatening substitutes? Does it have a powerful brand?

Sector

Is the company in an attractive sector that is profitable and adds value?

Services tend to be more protected than products from international competition. Does the sector ride the tailwind of multi-year mega trends? Is the business well positioned in the current stage of the economic cycle? What is its resistance to a recession?

Profitable exit potential

What is the potential for selling the share profitably? This is more applicable to pre-flotation investments.

Financial strength

Does the company have strong cash flow, the lifeblood of any business? Is the accounting conservative or is there 'accounting for growth'? Does it need more funding? Is the profit margin healthy and at least equal to its sector? What has been the track record in the growth rate of profits?

Growth at a reasonable price

Does the share offer growth at a reasonable price? This is commonly measured using the PEG. This is the price earnings ratio (PE) divided by the forecast growth rate in earnings per share (EPS). The lower the PEG the better and under 1.0 is considered good for a blue chip company and under 0.6 for a small growth company.

Risk

What is the risk rating of the share due to factors such as new markets, its business model and strategies?

This document must not be reproduced without the prior written consent of Company Eye.

Risk Warning: Should you have any doubts about the suitability of this investment please consult with a professional adviser in accordance with the Financial Services and Markets Act 2000 ("FSMA 2000"). This document is provided as information only and is not intended to act as a financial promotion without the approval in accordance with section 21 of the FSMA by an authorised and regulated company. Company Eye does not accept responsibility for the accuracy of the information contained in this document and investors should not rely on this document when contemplating an investment. The value of investments can go down as well as up and you may not get back the full amount originally invested. This document should not be reproduced without the prior consent of Company Eye.