

# System House

The monthly review of the financial performance of the UK software and computing services industry

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## 1998 - "A Year of Two Halves"

*In many respects 1998 has been a peculiar year.*

**First Half** - It started full of promise. The launch of the FTSE IT Index created a buzz of excitement which translated into soaring share prices and a rush of UK IPOs. UK City institutions literally couldn't get enough of IT and the fires were stoked to such an extent that by April the alarm bells started to go off. Misys (with Sema soon to follow) joined the FTSE100 and were the first such SCS members of this exclusive club. By July, valuations - at an average historic P/E of around 60 - had severely overheated. The FTSE IT Index hit +88%.

**Second half** - Post the July highs, the sector went into melt-down - losing all of its 88% gain. Most of the IPOs for H2 were cancelled or postponed and many acquisitions were put on hold. As we have reported before, it was the IT staff agencies which bore the brunt of the downturn. But the City, in its infinite wisdom, also knocked the "quality" stocks like Admiral, Logica, Sage and Sema. By Dec., both Misys and Sema had lost so much of their market value (Misys had lost nearly 50% or £2 billion between July and Dec.) that they were removed from the FTSE 100.

### Extra time

- Having suffered so badly in the second half, the SCS sector put on a brave display in the dying month of the year. MSW and, more significantly, Financial Objects, managed to get their IPOs away successfully. The "dip" in the share prices of the "quality" stocks proved a great buying opportunity. Indeed five out of the Top Six FTSE250 "winners" of 1998 were SCS companies with RM (up 190%), London Bridge (up 153%), Logica (up 125%), CMG (up 100%) and FI Group (up 76%).

**What a way to end the year!**

(Note: Share Review of 1998 on p8)

January 1999

### Next Season?

The outlook, and our forecasts for the UK SCS industry, is very little different now than it was a year back. This makes the volatility in the market even more difficult to understand.

There have been surprisingly few "bad news" surprises - indeed most of the more significant companies have produced results ahead of expectation. *To recap our forecasts:*

- 1 - We have marginally *increased* our growth predictions for '98 to +24% and +22% in '99.
- 2 - As we predicted over the last several years (i.e. not a blinding piece of new research issued in Oct. 98!), we see growth reducing to c10% post Y2000. This is an extremely *positive* outlook, as it means not only that all Y2K and Euro spend will be replaced by new IT spend, but also that there will be further substantial growth on top of that. 10% growth is around four times the rate of inflation and probably 6+ times the rate of growth in the UK GDP. We know of few (if any) major industry sectors which could hold a candle to this.

- 3 - As we featured last month, quality companies will continue to thrive. *Dare we hope that perhaps the City is now starting*

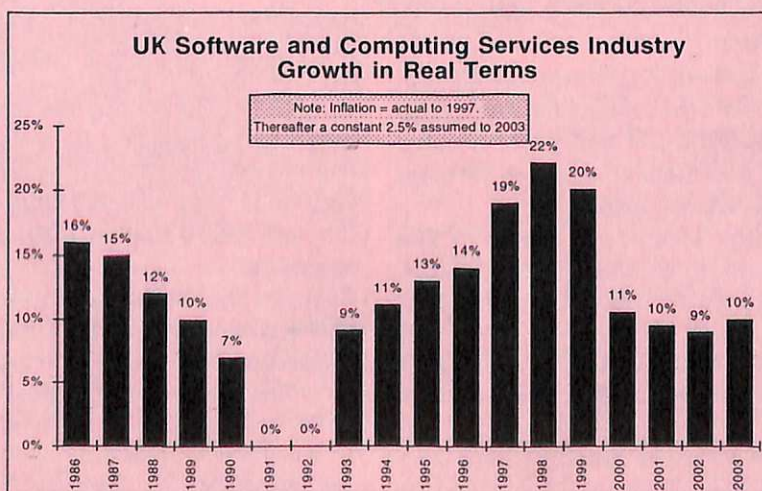
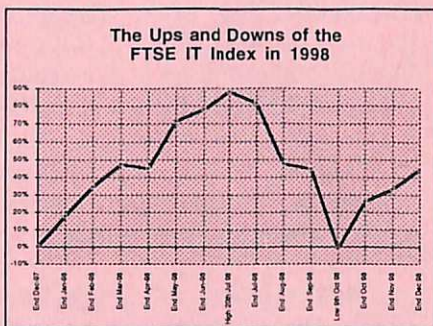
(see left) to understand this?

- 4 - There will be a short term boost to companies engaged in SME related activities in 1999 as PC and software replacement is used to overcome the Y2K issue. We see companies like Compel, Computerland, Computacenter as well as old favourites like Sage having a really bumper year.
- 5 - We see a resurgence in new IPOs in Q2 of 1999. If there is some stability in the market, then these should be well received, but we hope not with the unsubstantiated ecstasy and overheated prices of 1998.

- 6 - We see the balance of acquisitions continuing in favour of UK SCS companies.

- 7 - Earnings growth is likely to fall modestly from c31% in '99 to c26% in 2000. If it was a "fair" world the FTSE IT Index should track that in 1999.
- 8 - We hope that by end 1999, Misys and Sema will have re-entered the FTSE 100 - possibly joined by CMG and Logica.

*We hope for a steady and positive 1999 in a sector which is still forecast to outperform all others.*





## Siemens pips EDS at National Savings

So EDS doesn't win them all! Siemens Business Services (SBS) has turned up trumps as the preferred bidder for the £1 billion 15-year deal to manage all administrative and operational processes for National Savings, including IT support and "systems and process modernisation". The contract starts in Apr. 99 and some 3,800 staff will move to SBS – one of the biggest transfers of staff from the public to the private sector in the UK, and more than quadrupling SBS' current headcount. However, up to 1,500 staff may become surplus to requirements unless SBS, and parent company Siemens, can generate additional new business to keep them employed.

This blockbuster win for SBS comes on the back of Siemens plc recently announcing their full year results. In particular, their emerging UK services business was bubbling along nicely. Actually, four services businesses if you care to count them. SBS itself "achieved significant growth in the last year", turning over about £100m – but about a quarter of that was internal work for the parent company. Besides National Savings, SBS has some nice PFI contracts including the UK Passport Agency, the Immigration & Nationality Directorate and some local government business too. Not so well known is **Siemens IT Service**, originally break-fix, now climbing up the value chain like so many other hardware support companies such as Synstar and Sorbus (sorry - ICL Services). Then there's **Siemens Network Systems** "the UK's leading network integrator" (we wonder what Syntegra would have to say about that!), and finally the highly specialised **Siemens Medical Engineering**. Put the lot together - which Siemens chooses not to do ... yet - and you have a services business with 1997 turnover of c£355m. OK, this pales a bit against their £2.13 billion total UK revenues, but Siemens' new CEO Alan Wood sees this as the early stages of "a progressive move up the value chain ... to providing service competence and know-how management, solution integration, and facilities management".

**Comment.** The National Savings deal clearly puts Siemens on the UK outsourcing and BPO map, and may help allay concerns about EDS' dominant share of the government outsourcing market. SBS' success in the government sector is no small part due to the solid reputation and size of their parent company – and this should continue to give them access to larger deals than a £75m services company might otherwise rightfully expect. But we think – and hope – that it will only be a matter of time before Siemens gets its act together and integrates the mainstream IT services businesses into one organisation and brand – just as we had been moaning to ICL about for so many years.

## IT Market Researchers

We have long advised readers not to take any comfort from the misfortunes of others. "We all drink from the same soup dish" Philip Hughes once said. But this year we have already reported the very poor trading results at **Romtec** and, more recently, at **IDC UK** and **Input**.

This month we picked up the accounts for **Ovum** to 31st Dec. 97 which, although showing revenue up 11% at £9.0m, also showed a pretax loss of £339K compared with PBT of £612K in 1996.

On the other hand, **Gartner** announced revenue up 26% at \$642m and net profit up 34% at \$98.2m (a 15% margin) for year ending 30th Sep. 98.

It really does seem to be turning into Gartner + a bunch of very small niche players.

## System House

## Losses reduced at Proteus....

For the six months to 30th Sep. 98, **Proteus International** managed to increase revenue from £21K to a slightly more respectable £612K. At the same time losses reduced from £1.93m to £1.55m. Chairman David Gratton is delighted with progress and the new "exciting collaboration" with US ChemBridge Corp. "The alliance expects to generate a multi-million dollar business over the next few years". Quite frankly, we are still not sure whether Proteus, with its software products for the modelling of biomolecular structures, should really be in the SCSI sector. Many think they are more of a pharmaceutical company.

The shares ended the month down 4% at 36p.

## ...and at Phonelink

**Phonelink's** interim results for the six months ended 30th Sep. 98 have been influenced by their recent acquisitions of **GB Information Management** and **Seaforths Travel** in Jul. 98. Gross revenues increased from £1.8m to £9.9m but this includes amounts due to Seaforths before deduction of bought in services from airlines etc. The turnover we have quoted of £3.5m (up 88% from £1.85m) includes the net commission income of Seaforths only. Gross annualised group revenues are now c£50m. But at least losses have reduced slightly from £1.74m to £1.7m. The company has now been restructured into two divisions, Travel and Business Services.

CEO Graham Ramsey, commenting on the considerable changes within the company, said that "a platform for future growth has been created from which we can confidently take the business through to the next development stage". Phonelink was the *Wonderstock* of the early 1990s rising to a high of 424p based on their Tel-Me product. The internet made this look old hat. Having missed the internet opportunity once, the latest acquisitions try again.

We described Phonelink as a "very high risk investment" back in 1993. Our views are little different now!

## Does Financial Objects signal more IPOs?

As previewed last month, **Financial Objects** floated on the main market in Dec. at 230p - a valuation of £82m. The original listing particulars had set a price range of between 195p and 245p and so the price set was at the higher end of the scale. The offer was at least 4-times oversubscribed. Some £20m net new funds were raised. In addition, Goldman Sachs have been granted over-allotment options for up to 2.57m shares, exercisable for 30 days from the 9th Dec.

The float seemed fairly priced and well marketed. The shares went to an immediate premium of over 11p. They ended the month on 245p - a premium of 7%.

But will Financial Objects pave the way for a "mini gold rush" of new UK SCS IPOs? We know of about half a dozen UK SCS companies which had gone through the long form process and were waiting to float in Q3 - only to find the market crashed. As many of these had calendar year ends, they will now have to wait for audited results for 1998 before they go again. So the key period to watch is now Q2.

A lot can happen in three months. As we said in our page one review, what we pray for is a stable and consistently growing market - rather than the roller coaster ride of 1998. If companies and their advisers settle on fair (rather than inflated) valuations, then there ought to be scope for post IPO gains too. **A healthy IPO market in the UK should be for everyone's benefit.**



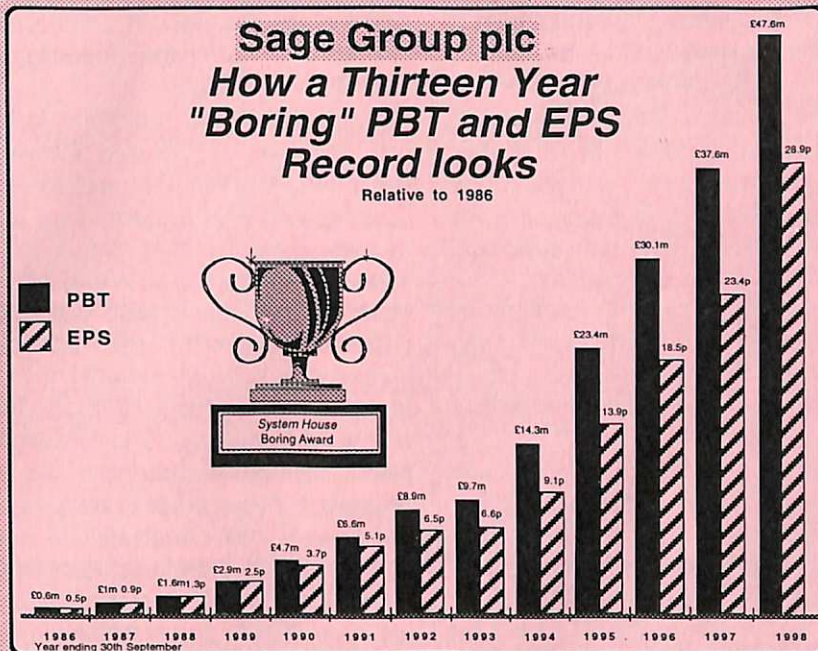
## More "Boring" results for Sage but problems looming in Germany?

Super Sage has announced another excellent set of results for the year ending 30th Sep. 98. Total revenue rose 26% to £191.5m helped, of course, by the contribution from US Sage Software Inc. (was State of the Art - acquired in Jan. 98 for \$263m). PBT increased 27% to £47.6m with EPS up 23%. No more than we expected from one of our four select *System House Boring Award* winners.

The UK operation was clearly the star and during the year they attracted 76,000 new customers to increase their market share. Support contracts rose by 44,000 to 154,000. UK revenue, at nearly £60m, was up 19% with operating profit increasing a higher 24% to £29.2m. Mainland Europe revenue increased from £70m to £78.8m but here profits actually fell from £11.8m to £11.2m.

But it is Germany (£25.7m sales and profits of just £800K) where the problems arise. Sage is making significant changes in their German business model, both in the organisation and also the way they do business. This is upsetting existing German clients and distributors. Only some two months ago, 38 distributors won an injunction against Sage forcing them to issue upgrades to existing products to make them Euro and Y2000 compatible. Now a new action is pending from 55 distributors against Sage KHK to prevent them distributing some of their best selling accountancy software within Germany. Sage's new approach to change the way they licence and price software has increased clients' costs by up to a claimed 300%. Of course Sage naturally needs to bring German gross margins (at c10%) more into line with those achieved elsewhere (the UK makes c46%), but this legal action could cost millions apart from the obvious loss of "goodwill". Sage admits that "there is still much work to do in Germany" but is confident that "an efficient business model will provide significant growth opportunities in the medium term". But the US has provided the most significant new

development in the financial year after the £160m acquisition of State of the Art. Sage now has an important strategic presence in the US market place with "strong turnover and profits" during the first seven months of ownership. US revenue has been boosted by £30.8m to nearly £50m with profits up from £3.9m to £10.2m (£6.1m extra from State of the Art).



Overall, new product sales increased 42% to £91.2m with sales of products and services to existing customers up 29% at £97.5m. Sage now has a total of 370,000 support contracts worldwide. It's this recurring revenue base which makes Sage so very special. And, for good measure, but for the strength of sterling, revenue would have been up another £5.2m and PBT by £800K. Chairman Michael Jackson said "the new year has started strongly and the Board is confident about

prospects for the full year". With more acquisitions planned according to CEO Paul Walker, even with the current problems in Germany, surely super Sage will be able to continue to prosper.

Despite these figures, anticipation combined with a measure of profit taking caused an initial drop of nearly 50p in the share price which seemed a bit unfair. But they recovered to end the month on £15.70 - up 11% this month and 89% in the year.

Some now argue that Sage will be hard pushed to maintain its current growth rate in the light of present worldwide economic problems. But that's the kind of pessimism we have read for the last ten years. PBT of c£64m is forecast for FY99, with an estimated EPS of 34.2p. Sure the prospective P/E of 43 is high - certainly above average - but then Sage is not your "average" company.

Put another way, given Sage's track record, its strong management, the expectations for its SME market (particularly in the run up to the Y2000), if you doubt that Sage will make it *God help the rest*.

### News from the "privates"

We have featured **Methods Application** (IT consultants mainly to improve the software development process) in previous editions and this month, MD Tony Webb has sent us their interim figures for the six months to 31st Oct. 98. Revenue was £8.2m with operating profit and PBT both £670K. Although we have no comparative interim figures, this does compare well with FY98 figures of £12.7m revenue and PBT of £1m.

### Good margins at AIT

**AIT Group** (systems for large retail financial organisations) has published a good set of interims for the six months to 30th Sep. 98. Revenue increased 26% to £8.43m, PBT went up 32% to £1.26m with EPS up 25%. That's a pretty impressive 15% margin. Floated at 150p in Jun. 97, the shares ended the month on 230p - a 53% premium.

### Computerland does well

When we last reviewed **Computerland** we headed our article "Computerland - Cowboy Outfit or Services Co.?" due to adverse press comment. They claim to be "one of the UK's leading providers of IT services and products to business users". At one time they were considered to be mainly a retail outlet, but for some time they have been building their services offerings. At the last FY end, services accounted for c23% of total revenues (higher than at Computacenter & Compel) and "sales have continued to increase" at the interim stage for the six months to 31st Oct. 98. Total revenue increased 89% to £19.4m with PBT up 27% to £507K. Due to a doubling the number of shares to fund acquisitions, EPS fell 37%. The board is "confident of the outcome for the year". They don't seem a cowboy outfit to us anymore.



## Jury still out at Anite

Anite has announced a "satisfactory" set of interim results for the six months ending 31st Oct. 98. Revenue from continuing operations rose 69% to £81.1m with overall total revenue (after last year's disposals) only marginally increased. But they did turn the previous loss of £526K into a PBT of £4m. Their four recently reconstructed loss making businesses, Space & Defence, Manufacturing & Distribution, together with the Australian and New Zealand subsidiaries "all traded profitably in the half year". Before the new acquisition (see below), Anite's four other acquisitions in the year have also all contributed to profits. Anite Systems is their largest trading subsidiary and had revenues up 38% at £54.4m although profits were virtually static at £2.1m. Within this division, Telecomms did well with higher margins and profits, and, following the disposal of Space & Defence's Bristol HQ in Jul. 98, the residual German business has "achieved strong profits". Finance Division made a loss but has since been restructured. The IT contracting side saw a strong sales increase of 44% and "a strong profit contribution".

Anite has also announced yet another acquisition. They have bought German **Beratungsgesellschaft fur Informationsverarbeitung** (BIV for short) for £19.8m (mostly cash with only £2.3m in shares) increasing the total cost of acquisitions in the year to £43m. BIV is a consultancy firm with some 235 staff and made profits of £1.8m on sales of £15m in 1997.

**Comment.** These results are satisfactory and have been achieved by returning loss makers to profit, disposing of other loss makers and non-core business and from the profitable staff agency side. The jury is still out as evidenced by the share price which fell 13% to 40p in the month. But new CEO, John Hawkins, seems to have a good grasp of the problems and the opportunities. Given time, he should be able to regain at least part of the credibility previously lost under the old regime.

## Not so rosy at Total

Let's be frank, **Total Systems** has rarely been on our list of favourite companies and at the current rate of "progress" is never likely to be. We have been rather scathing about them in the past and can find nothing to change our opinion from their latest set of interims for the six months to 30th Sep. 98. Revenue fell 12% to just £1.78m, and although PBT did rise 4% to £495K this was only because of the recovery of an £183K debt previously written off. Without this, PBT would have fallen some 34%. And Chairman Terry Bourne went on to say that H2 profits would be lower than that achieved in H1 and order intake was static. The shares have fallen 2% in the month to end on 59p. For those readers with long memories, Total came to the market in 1988 at 85p. *Need we say more.*

## More losses at Kalamazoo

**Kalamazoo's** results for the six months ending 30th Sep. 98, show revenues down 5% to £32m and losses before tax increased from £514K to £550K. But at least at the operating level, losses fell from £2.9m to £553K (the previous figures included net £2.9m exceptional profit from the sale of the print business). New CEO Malcolm Roberts (appointed June this year) is planning a radical programme of acquisitions and disposals before returning to profit in 2000/1. He has plans to expand the services side both in the UK and Europe.

## Spring loses some of its bounce

**Spring's** (nee CRT) results for the six months ending 31st Oct. 98 showed PBT more than halved to £3.2m with EPS down even more by over 74%. However total revenue increased 62% to £193.3m. According to CEO Karl Chapman, the drop in profitability was due to "huge investments" in the first half, including rebranding costs (incidentally, we notice that nearly always when companies change their name, their results suffer - must be a lesson here somewhere).

Spring's IT Services and Education divisions soared ahead with revenues up 35% and 38% respectively on a like for like basis. But the General Services division (general staffing and recruitment) was virtually flat. Similarly, operating profits in IT Services and Education (excl. investments) was up 25% and 30% with General Services again flat. Chapman also divulged some interesting IT contractors growth rate figures. In the last three consecutive half year periods, rates have fallen from +20% to +17% to just +8% in H198. But fee rates were up on an annualised basis by 19%, 18% and 18% (in H198).

Karl Chapman commented "As in previous years the Group's full year profit is likely to be heavily weighted to the second half". Analysts are now predicting full year figures of c£22/£23m excluding exceptionals.

**Comment.** Spring has also reined in the dividend payment by some 90% to a very nominal figure (retained because otherwise they could lose pension fund investments). A brave decision, as although this policy is more acceptable in the US, it is not so normal in the UK. It is OK to retain capital for expansion, but investors can hardly be happy to rely on capital appreciation in their share holding when the share price has been dropping like a stone since August. The shares ended the month level at 146p, but down 59% in the year.

## Highams plans move **HIGHAMS** to main market

AIM-quoted Highams **SYSTEMS SERVICES GROUP**

**Systems Services**, "a leading supplier of IT services to the insurance and financial sector", has announced an excellent set of interim results for the six months ended 30th Sep. 98. Revenue rose 43% to £16.2m, PBT increased 21% to £782K with EPS up 24%. CEO John Higham is pleased and "optimistic of further progress during the second half of the year". But whilst the number of contractors on site increased 14%, a relatively high "churn" ensured overall numbers of placements remained static. Indeed UK revenue from permanent placements fell. Highams "do not expect the prolific staff boom of the last five years to endure, but demand for IT staff remains strong".

Chairman Nigel Maw said that Highams intends to apply for a full listing in the summer of 1999. They joined AIM in Dec. 96 at 72p and the shares now stand at 85p.

## Asian problems hit Network Technology

The economic downturn in South-East Asia has affected computing networking company **Network Technology**. In its full year results to 30th Sep. 98, although revenue rose 8% to £18.2m, PBT fell 69% to just £1m with EPS down an even higher 85%. Combined with problems in Asia, changed R&D accounting has also depressed earnings. Now transferred from AIM (launched Jul. 96 at 114p) to the main market, NT shares ended the year on just 8p.



**Quoted Companies - Results Service**

Note: Shaded = Results announced this month.

Admiral plc					Eidos plc				
REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	REV	Interim - Sep 97	Final - Mar 98	Interim - Sep 98	Comparison
PBT	£ 54,118,000	£ 117,191,000	£ 65,805,000	+21.6%	PBT	£ 21,817,000	£ 137,234,000	£ 47,586,000	+118.1%
EPS	£ 7,200,000	£ 17,552,000	£ 10,329,000	+43.5%	EPS	£ 18,331,000	£ 16,507,000	£ 18,928,000	Loss both
	7.40p	17.80p	10.50p	+41.9%		-70.80p	59.80p	-80.63p	Loss both
AFA Systems plc					Electronic Data Processing plc				
REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	REV	Final - Sep 97	Final - Sep 98	Comparison	
PBT	£ 62,000	£ 226,000	£ 113,000	+82.3%	PBT	£ 12,565,000	£ 11,518,000	-8.3%	
EPS	-£ 855,000	-£ 1,801,000	-£ 1,064,000	Loss both	EPS	£ 1,741,000	£ 2,210,000	+26.9%	
	-8.56p	-16.80p	-8.88p	Loss both		4.50p	5.89p	+30.9%	
AIT Group plc					F.I. Group plc				
REV	Interim - Sep 97	Final - Mar 98	Interim - Sep 98	Comparison	REV	Final - Apr 97	Final - Apr 98	Comparison	
PBT	£ 5,710,000	£ 13,556,000	£ 8,430,000	+25.6%	PBT	£ 98,800,000	£ 161,595,000	+63.6%	
EPS	£ 958,000	£ 2,164,000	£ 1,262,000	+31.7%	EPS	£ 6,575,000	£ 10,670,000	+62.3%	
	3.33p	7.17p	4.17p	+25.2%		2.84p	4.46p	+57.0%	
Anite Group plc					Financial Objects plc				
REV	Interim - Oct 97	Final - Apr 98	Interim - Oct 98	Comparison	REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison
PBT	£ 78,948,000	£ 148,540,000	£ 81,101,000	+21.2%	PBT	£ 7,899,000	£ 15,937,000	£ 10,275,000	+30.1%
EPS	-£ 526,000	£ 29,347,000	£ 3,986,000	Loss to profit	EPS	£ 1,111,000	£ 2,015,000	£ 1,589,000	+43.0%
	n/a	6.00p	1.10p	Loss to profit		3.46p	7.31p	3.79p	+9.5%
Azlan Group plc					Flomerics Group plc				
REV	Interim - Sep 97	Final - Mar 98	Interim - Sep 98	Comparison	REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison
PBT	£ 140,990,000	£ 292,073,000	£ 153,711,000	+9.0%	PBT	£ 2,335,584	£ 5,786,456	£ 2,938,163	+25.8%
EPS	-£ 7,897,000	-£ 7,860,000	-£ 424,000	Loss both	EPS	-£ 416,188	£ 48,085	-£ 268,699	Loss both
	-14.20p	-12.20p	-0.80p	Loss both		n/a	0.30p	n/a	n/a
Bond International Software plc					Gresham Computing plc				
REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	REV	Interim - Apr 97	Final - Oct 97	Interim - Apr 98	Comparison
PBT	£ 2,865,000	£ 6,396,027	£ 4,320,000	+50.8%	PBT	£ 4,500,000	£ 8,689,000	£ 8,520,000	+89.3%
EPS	£ 179,000	£ 718,250	£ 284,000	+58.7%	EPS	£ 487,000	£ 667,000	£ 1,017,000	+108.8%
	0.88p	3.54p	1.37p	+55.7%		0.88p	1.17p	1.98p	+125.0%
Cadcentre Group plc					Guardian IT plc				
REV	Interim - Sep 97	Final - Mar 98	Interim - Sep 98	Comparison	REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison
PBT	£ 8,249,000	£ 17,727,000	£ 8,798,000	+6.7%	PBT	£ 10,888,000	£ 23,026,000	£ 13,705,000	+25.9%
EPS	£ 841,000	£ 2,754,000	£ 1,367,000	+62.5%	EPS	£ 1,914,000	£ 4,033,000	£ 2,959,000	+54.6%
	3.26p	10.06p	4.92p	+50.9%		2.70p	5.70p	4.00p	+48.1%
Capita Group plc					Harvey Nash Group plc				
REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	REV	Interim - Jul 97	Final - Jan 98	Interim - Jul 98	Comparison
PBT	£ 79,067,000	£ 172,904,000	£ 117,907,000	+49.1%	PBT	£ 23,767,000	£ 55,796,000	£ 44,861,000	+88.8%
EPS	£ 7,062,000	£ 18,312,000	£ 10,590,000	+50.0%	EPS	£ 2,111,000	£ 5,527,000	£ 4,074,000	+93.0%
	2.49p	6.51p	3.49p	+40.2%		5.26p	13.36p	9.79p	+86.1%
Cedar Group plc					Highams Systems Services Group plc				
REV	Interim - Sep 97	Final - Mar 98	Interim - Sep 98	Comparison	REV	Interim - Sep 97	Final - Mar 98	Interim - Sep 98	Comparison
PBT	£ 5,320,000	£ 12,506,000	£ 7,250,000	+36.3%	PBT	£ 11,318,000	£ 25,143,421	£ 16,163,000	+42.8%
EPS	£ 1,054,000	£ 2,564,000	-£ 971,000	Profit to loss	EPS	£ 647,000	£ 1,383,327	£ 782,000	+20.9%
	2.20p	5.30p	-2.30p	Profit to loss		2.45p	5.08p	3.05p	+24.5%
CFS Group plc					ICM Computer Group plc				
REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	REV	Final - Jun 97	Final - Jun 98	Comparison	
PBT	£ 3,702,000	£ 6,828,000	£ 3,155,000	-14.8%	PBT	£ 33,989,000	£ 35,881,000	+5.6%	
EPS	£ 276,000	£ 813,000	£ 161,000	-41.7%	EPS	£ 1,437,000	£ 2,702,000	+88.0%	
	2.07p	6.29p	1.23p	-40.6%		4.20p	8.70p	+107.1%	
Clinical Computing plc					ilion Group plc				
REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison
PBT	£ 1,376,000	£ 3,025,110	£ 1,664,000	+20.3%	PBT	£ 88,389,000	£ 203,134,000	£ 125,601,000	+42.1%
EPS	£ 78,000	£ 275,564	£ 205,000	+162.8%	EPS	£ 4,030,000	£ 6,100,000	£ 1,158,000	-71.3%
	0.30p	1.10p	0.80p	+166.7%		11.00p	15.10p	3.50p	-68.2%
CMG plc					Intelligent Environments Group plc				
REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison
PBT	£ 140,704,000	£ 302,992,000	£ 194,151,000	+38.0%	PBT	£ 2,074,000	£ 4,443,146	£ 2,627,000	+26.7%
EPS	£ 15,117,000	£ 38,645,000	£ 24,051,000	+59.1%	EPS	-£ 2,046,000	-£ 3,009,417	-£ 874,000	Loss both
	7.40p	19.30p	12.20p	+64.9%		-9.20p	-13.30p	-3.20p	Loss both
Comino plc					IS Solutions plc				
REV	Interim - Sep 97	Final - Mar 98	Interim - Sep 98	Comparison	REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison
PBT	£ 5,089,000	£ 13,151,000	£ 8,721,000	+71.4%	PBT	£ 4,086,000	£ 8,750,000	£ 4,198,000	+2.7%
EPS	£ 830,000	£ 1,950,000	£ 1,266,000	+52.5%	EPS	£ 247,000	£ 539,845	£ 404,000	+63.6%
	4.89p	11.46p	6.94p	+41.9%		4.40p	8.63p	5.68p	+29.1%
Compel Group plc					ITNET plc				
REV	Final - Jun 97	Final - Jun 98	Comparison	REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	
PBT	£ 111,792,000	£ 210,003,000	+87.9%	PBT	£ 37,596,000	£ 81,713,000	£ 50,172,000	+33.5%	
EPS	£ 5,057,000	£ 9,021,000	+78.4%	EPS	£ 2,033,000	£ 6,834,000	£ 2,208,000	+8.6%	
	16.20p	21.40p	+32.1%		1.40p	4.40p	1.70p	+21.4%	
Computacenter plc					JBA Holdings plc				
REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison
PBT	£ 558,917,000	£ 1,133,523,000	£ 775,748,000	+38.3%	PBT	£ 88,102,000	£ 221,737,000	£ 126,133,000	+43.2%
EPS	£ 22,095,000	£ 47,099,000	£ 31,332,000	+41.8%	EPS	-£ 1,297,000	£ 5,233,000	-£ 4,456,000	Loss both
	8.00p	17.40p	11.40p	+42.5%		-2.56p	10.12p	-8.35p	Loss both
DCS Group plc					JSB Software Technologies plc				
REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	REV	Final - May 97	Final - May 98	Comparison	
PBT	£ 23,742,000	£ 59,777,000	£ 46,480,000	+95.8%	PBT	£ 3,400,000	£ 3,362,000	-1.1%	
EPS	£ 2,036,000	£ 4,920,000	£ 3,053,000	+50.0%	EPS	-£ 53,000	£ 6,000	Loss to profit	
	6.48p	15.68p	9.34p	+44.1%		n/a	n/a	n/a	
DRS Data & Research Services plc					Kalamazoo Computer Group plc				
REV	Final - Dec 98	Final - Dec 97	Comparison	REV	Interim - Sep 97	Final - Mar 98	Interim - Sep 98	Comparison	
PBT	£ 4,822,000	£ 6,785,000	+40.3%	PBT	£ 33,801,000	£ 65,711,000	£ 32,018,000	+53.3%	
EPS	-£ 1,734,000	-£ 826,000	Loss both	EPS	-£ 514,000	-£ 2,329,000	£ 550,000	Loss both	
	-3.43p	-1.99p	Loss both		-1.00p	-3.00p	-1.14p	Loss both	
Delcam plc					Kewill Systems plc				
REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	REV	Interim - Sep 97	Final - Mar 98	Interim - Sep 98	Comparison
PBT	£ 7,085,514	£ 14,556,443	£ 6,479,637	-8.3%	PBT	£ 19,334,000	£ 45,088,000	£ 27,475,000	+42.1%
EPS	£ 372,410	£ 504,036	-£ 675,577	Profit to loss	EPS	£ 3,100,000	£ 6,813,000	£ 3,196,000	+3.1%
	4.40p	7.40p	-9.50p	Profit to loss		14.70p	30.30p	12.30p	-16.3%
Delphi Group plc					Logica plc				
REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	REV	Final - Jun 97	Final - Jun 98	Comparison	
PBT	£ 133,413,000	£ 276,914,000	£ 182,158,000	+21.5%	PBT	£ 338,485,000	£ 472,957,000	+39.7%	
EPS	£ 7,018,000	£ 12,853,000	£ 2,121,000	-69.8%	EPS	£ 28,148,000	£ 41,825,000	+48.6%	
	16.65p	28.79p	4.91p	-70.5%		6.06p	8.46p	+39.6%	
Diagonal plc					London Bridge Software Holdings plc				
REV	Interim - May 97	Final - Nov 97	Interim - May 98	Comparison	REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison
PBT	£ 17,847,000	£ 44,788,000	£ 31,860,000	+78.5%	PBT	£ 4,095,000	£ 11,320,000	£ 8,054,000	+86.7%
EPS	£ 1,072,000	£ 3,302,000	£ 3,053,000	+184.8%	EPS	£ 953,000	£ 3,701,000	£ 2,705,000	+183.8%
	5.38p	13.57p	10.57p	+96.5%		2.51p	10.03p	6.31p	+151.4%
Dialog Corporation plc					Lorien plc				
REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	REV	Interim - May 97	Final - Nov 97	Interim - May 98	Comparison
PBT	£ 14,037,000	£ 46,082,000	£ 88,752,000	+532.3%	PBT	£ 52,864,000	£ 116,930,000	£ 67,985,000	+28.8%
EPS	£ 2,013,000	-£ 20,432,000	£ 6,989,000	+247.2%	EPS	£ 889,000	£ 1,585,000	£ 2,488,000	+179.9%
	0.90p	-20.52p	4.10p	+355.6%		1.10p	4.50p	7.40p	+572.7%
Division Group plc					Lynx Group plc				
REV	Interim - Apr 97	Final - Oct 97	Interim - Apr 98	Comparison	REV	Final - Sep 97	Final - Sep 98	Comparison	
PBT	£ 2,387,000	£ 6,678,000	£ 2,193,000	-8.1%	PBT	£ 120,752,000	£ 180,870,000	+49.8%	
EPS	-£ 956,000	-£ 1,783,000	-£ 2,276,000	Loss both	EPS	£ 9,805,000	£ 13,252,000	+35.2%	
	-2.20p	-4.10p	-5.10p	Loss both		6.83p	8.67p	+26.9%	
Druid Group plc					MMT Computing plc				
REV	Final - Jun 97	Final - Jun 98	Comparison	REV	Final - Aug 97	Final - Aug 98	Comparison		
PBT	£ 22,066,000	£ 40,804,000	+84.0%	PBT	£ 24,639,075	£ 36,698,698	+48.9%		
EPS	£ 5,004,000	£ 8,044,000	+60.8%	EPS	£ 5,554,611	£ 10,005,754	+80.1%		
	13.94p	23.87p	+71.2%		29.80p	51.60p	+73.2%		
ECsoft Group plc					M-R Group plc				
REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	REV	Final - Jun 97	Final - Jun 98	Comparison	
PBT	£ 20,888,000	£ 44,235,000	£ 30,193,000	+48.1%	PBT	£ 39,430,000	£ 46,822,000	+18.7%	
EPS	£ 1,606,000	£ 4,111,000	£ 2,882,000	+79.5%	EPS	£ 5,604,000	£ 6,902,000	+23.2%	
	14.60p	35.60p	19.70p	+34.9%		7.30p	9.20p	+26.0%	



**Quoted Companies - Results Service**

Note: Shaded = Results announced this month.

MDIS Group plc					Romtec plc				
REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	REV	Interim - Jun 97	Final - Jan 98	Interim - Jul 98	Comparison
REV	£56,029,000	£115,925,000	£63,005,000	+12.5%	REV	£2,490,000	£4,217,440	£1,860,000	-25.9%
PBT	£3,910,000	£221,000	£387,000	Loss both	PBT	£130,000	£310,718	£30,000	+76.3%
EPS	-3.82p	0.22p	-0.16p	Loss both	EPS	1.90p	4.10p	-0.30p	Profit to loss
Macro 4 plc					Royalblue Group plc				
REV	Final - Jun 97	Final - Jun 98	Comparison	REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	
REV	£23,448,000	£24,234,000	+3.4%	REV	£8,892,000	£20,847,000	£13,312,000	+49.7%	
PBT	£10,300,000	£10,060,000	-2.3%	PBT	£221,000	£2,041,000	£1,815,000	+721.3%	
EPS	33.80p	33.70p	-0.3%	EPS	2.70p	6.10p	3.50p	+29.6%	
Micro Focus plc					Sage Group plc				
REV	Interim - Jul 97	Final - Jan 98	Interim - Jul 98	Comparison	REV	Final - Sep 97	Final - Sep 98	Comparison	
REV	£41,349,000	£97,015,000	£58,642,000	+41.8%	REV	£152,089,000	£191,547,000	+25.9%	
PBT	£5,171,000	£15,217,000	£10,057,000	+94.5%	PBT	£37,635,000	£47,635,000	+26.6%	
EPS	4.50p	13.00p	8.30p	+84.4%	EPS	23.43p	28.85p	+23.1%	
Microgen Holdings plc					Sanderson Group plc				
REV	Interim - Apr 97	Final - Oct 97	Interim - Apr 98	Comparison	REV	Final - Sep 97	Final - Sep 98	Comparison	
REV	£34,052,000	£66,398,000	£32,560,000	-4.4%	REV	£67,143,000	£73,589,000	+9.6%	
PBT	£4,211,000	£5,324,000	£1,285,000	-69.5%	PBT	£2,778,000	£8,592,000	+209.3%	
EPS	6.90p	8.80p	0.40p	-94.2%	EPS	4.70p	12.80p	+172.3%	
Misys plc					SBS Group plc				
REV	Final - May 97	Final - May 98	Comparison	REV	Final - Aug 97	Final - Aug 98	Comparison		
REV	£325,470,000	£447,700,000	+37.6%	REV	£17,914,000	£35,856,000	+100.2%		
PBT	£62,533,000	£51,700,000	-17.3%	PBT	£687,000	£1,485,000	+116.2%		
EPS	10.56p	5.82p	-44.9%	EPS	8.50p	11.80p	+38.8%		
Mondas plc					Science Systems plc				
REV	Interim - Oct 97	Final - Apr 98	Interim - Oct 98	Comparison	REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison
REV	£143,075	£297,169	£223,945	+56.5%	REV	£8,793,000	£18,601,000	£12,107,000	+37.7%
PBT	£250,795	£484,322	£208,004	Loss both	PBT	£1,155,000	£1,855,000	£1,245,000	+7.8%
EPS	-4.10p	-7.90p	-3.40p	Loss both	EPS	4.30p	6.80p	4.70p	+9.3%
Moorepay Group plc					Sema Group plc				
REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison
REV	£2,731,803	£5,283,379	£3,181,393	+16.5%	REV	£559,539,000	£1,130,086,000	£610,584,000	+9.1%
PBT	£886,148	£1,385,201	£1,141,281	+28.8%	PBT	£26,214,000	£64,073,000	£31,144,000	+18.8%
EPS	5.69p	9.04p	7.14p	+25.5%	EPS	4.01p	9.79p	4.83p	+20.4%
MSB International plc					Sherwood International plc				
REV	Interim - Jul 97	Final - Jan 98	Interim - Jul 98	Comparison	REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison
REV	£54,893,000	£128,793,000	£90,403,000	+64.7%	REV	£13,089,000	£30,036,000	£18,090,000	+38.4%
PBT	£3,714,000	£9,043,000	£5,474,000	+47.4%	PBT	£1,025,000	£3,095,000	£1,846,000	+80.1%
EPS	12.10p	29.00p	18.30p	+51.2%	EPS	7.90p	22.80p	13.20p	+67.1%
MSW Technology plc					Skillsgroup plc				
REV	Final - May 97	Final - May 98	Comparison	REV	Interim - May 97	Final - Nov 97	Interim - May 98	Comparison	
REV	£1,608,808	£2,909,951	+80.9%	REV	£181,600,000	£376,969,000	£115,000,000	+38.7%	
PBT	£133,629	£503,055	+276.5%	PBT	£6,500,000	£16,308,000	£6,600,000	+1.5%	
EPS	2.16p	6.54p	+202.8%	EPS	5.80p	-22.90p	5.80p	+0.0%	
NSB Retail Systems plc					Spring Group plc				
REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	REV	Interim - Oct 97	Final - Apr 98	Interim - Oct 98	Comparison
REV	£1,547,000	£3,284,484	£3,413,000	+120.6%	REV	£119,326,000	£279,231,000	£193,301,000	+62.0%
PBT	£454,000	£837,516	£749,000	+65.0%	PBT	£6,574,000	£18,109,000	£3,208,000	-61.2%
EPS	4.00p	6.90p	4.60p	+15.0%	EPS	3.05p	8.38p	0.78p	-74.4%
Oxford Molecular plc					Staffware plc				
REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison
REV	£8,168,000	£15,641,000	£7,383,000	+19.7%	REV	£7,701,000	£17,585,000	£9,641,000	+25.2%
PBT	£5,673,000	£256,000	£2,195,000	Loss both	PBT	£549,000	£1,772,000	£231,000	-57.9%
EPS	5.33p	0.20p	-	Loss both	EPS	3.30p	10.80p	1.30p	-60.6%
Parity plc					Superscape VR plc				
REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	REV	Final - Jul 97	Final - Jul 98	Comparison	
REV	£90,825,000	£202,078,000	£134,987,000	+49.0%	REV	£3,106,000	£4,220,000	+35.9%	
PBT	£5,678,000	£13,506,000	£8,754,000	+54.2%	PBT	£5,961,000	£3,516,000	Loss both	
EPS	8.90p	20.91p	11.90p	+33.7%	EPS	-69.60p	-37.30p	Loss both	
Pegasus Group plc					Systems Integrated Research plc				
REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	REV	Final - May 97	Final - May 98	Comparison	
REV	£5,567,000	£12,447,000	£7,410,000	+33.1%	REV	£1,450,000	£1,035,000	not comparable	
PBT	£810,000	£1,698,000	£632,000	-22.0%	PBT	£1,938,000	£493,000	Loss both	
EPS	12.80p	29.30p	6.80p	-46.9%	EPS	-14.70p	-4.00p	Loss both	
PhoneLink plc					Systems International Group plc				
REV	Interim - Sep 97	Final - Mar 98	Interim - Sep 98	Comparison	REV	Interim - Jun 97	Interim - Jun 98	Comparison	
REV	£1,850,000	£3,206,000	£3,479,000	+88.1%	REV	£6,350,000	£12,400,000	+95.3%	
PBT	£1,742,000	£3,746,000	£1,701,000	Loss both	PBT	£728,000	£1,570,000	+115.7%	
EPS	-3.60p	-7.80p	-3.00p	Loss both	EPS	n/a	n/a	n/a	
Policy Master plc					Tetra plc				
REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	REV	Final - May 97	Final - May 98	Comparison	
REV	£3,955,000	£8,745,000	£5,054,000	+27.8%	REV	£22,358,000	£30,286,000	+35.5%	
PBT	£204,000	£459,000	£164,000	-19.6%	PBT	£2,096,000	£558,000	Profit to loss	
EPS	1.65p	3.70p	1.32p	-20.0%	EPS	7.10p	-7.28p	Profit to loss	
Proteus International plc					Torex plc				
REV	Interim - Sep 97	Final - Mar 98	Interim - Sep 98	Comparison	REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison
REV	£21,000	£178,000	£812,000	+2814.3%	REV	£10,828,000	£21,029,000	£9,426,000	+12.9%
PBT	£1,931,000	£4,127,000	£1,552,000	Loss both	PBT	£1,453,000	£7,277,000	£1,603,000	+10.3%
EPS	-3.37p	-7.44p	-2.27p	Loss both	EPS	3.80p	16.20p	3.80p	+0.0%
Quality Software Products Holdings plc					Total Systems plc				
REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	REV	Interim - Sep 97	Final - Mar 98	Interim - Sep 98	Comparison
REV	£13,431,000	£28,016,991	£18,135,000	+35.0%	REV	£2,017,128	£4,134,866	£1,780,866	-11.7%
PBT	£180,000	£2,655,299	£1,285,000	+613.9%	PBT	£476,206	£1,019,675	£495,484	+4.0%
EPS	1.40p	20.20p	9.40p	+571.4%	EPS	3.19p	6.80p	3.32p	+4.0%
Quanta plc					Touchstone Group plc				
REV	Final - Nov 97	FF Interim - May 98	Comparison	REV	Interim - Sep 97	Final - Mar 98	Interim - Sep 98	Comparison	
REV	£5,835,000	£6,870,000	n/a	REV	£2,998,000	£6,154,000	£3,508,000	+17.0%	
PBT	£1,011,000	£1,871,000	n/a	PBT	n/a	£841,000	£460,000	n/a	
EPS	1.29p	3.41p	n/a	EPS	n/a	6.91p	3.30p	n/a	
RM plc					Trace Computers plc				
REV	Final - Sep 97	Final - Sep 98	Comparison	REV	Final - May 97	Final - May 98	Comparison		
REV	£110,170,000	£130,996,000	+18.9%	REV	£17,270,821	£14,658,825	-15.1%		
PBT	£8,018,000	£10,037,000	+25.2%	PBT	£634,601	£1,205,166	+89.9%		
EPS	6.20p	7.90p	+27.4%	EPS	3.35p	6.11p	+82.4%		
Rage Software plc					Triad Group plc				
REV	Final - Jun 97	Final - Jun 98	Comparison	REV	Final - Mar 97	Final - Mar 98	Comparison		
REV	£8,758,000	£3,823,000	-46.4%	REV	£18,827,000	£32,161,000	+70.8%		
PBT	£15,430,000	£860,000	Loss to profit	PBT	£2,656,000	£6,609,000	+148.8%		
EPS	-6.30p	0.35p	Loss to profit	EPS	7.25p	17.78p	+145.2%		
Real Time Control plc					Ultima Networks plc				
REV	Interim - Sep 97	Final - Mar 98	Interim - Sep 98	Comparison	REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison
REV	£7,181,000	£15,880,000	£8,590,000	+19.6%	REV	£20,892,000	£38,598,000	£28,866,000	-60.3%
PBT	£1,477,000	£3,163,000	£1,887,000	+27.8%	PBT	£424,000	£13,240,000	£833,000	Loss both
EPS	14.50p	30.80p	18.50p	+27.6%	EPS	0.10p	-16.20p	-0.99p	Loss both
Rebus Group plc					Vega Group plc				
REV	Interim - Sep 97	Final - Mar 98	Interim - Sep 98	Comparison	REV	Final - Apr 97	Final - Apr 98	Comparison	
REV	£40,676,000	£87,730,000	£48,230,000	+18.6%	REV	£17,977,000	£22,457,000	+24.9%	
PBT	£2,941,000	£8,390,000	£3,881,000	+32.0%	PBT	£3,261,000	£3,081,000	-5.5%	
EPS	1.96p	5.72p	2.69p	+37.2%	EPS	13.79p	13.75p	-0.3%	
Recognition Systems Group plc					Workplace Technologies plc				
REV	Interim - Mar 97	Final - Sep 97	Interim - Mar 98	Comparison	REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison
REV	£328,000	£773,000	£327,000	+0.3%	REV	£30,782,000	£65,938,000	£39,977,000	+30.0%
PBT	£1,128,000	£2,255,000	£1,333,000	Loss both	PBT	£986,000	£1,830,000	£1,317,000	+33.6%
EPS	-4.10p	-8.10p	-3.80p	Loss both	EPS	1.21p	2.17p	2.41p	+99.2%
Riva Group plc					Xavier Computer Group plc				
REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	REV	Interim - Sep 97	Final - Mar 98	Interim - Sep 98	Comparison
REV	£32,661,000	£70,208,000	£36,199,000	+10.8%	REV	£7,805,000	£16,252,000	£9,059,000	+16.1%
PBT	£190,000	£1,339,000	£349,000	+83.7%	PBT	£501,000	£743,000	£723,000	+44.3%
EPS	0.30p	2.00p	0.70p	+133.3%	EPS	0.38p	0.79p	0.52p	+36.8%
Rolfe & Nolan plc					Zergo Holdings plc				
REV	Interim - Aug 97	Final - Feb 98	Interim - Aug 98	Comparison	REV	Interim - Oct 97	Final - Apr 98	Interim - Oct 98	Comparison
REV	£9,692,000	£21,714,000	£9,544,000	-1.5%	REV	£5,400,000	£13,176,770	£7,700,000	+42.8%
PBT	£569,000	£894,000	£205,000	Loss to profit	PBT	£78,000	£296,664	£3,070,000	Profit to loss
EPS	-2.93p	-10.20p	-2.27p	Loss both	EPS	-0.23p	1.00p	-13.35p	Loss both



## UK M&A

Reseller **Druid Crown Technology** (no connection with quoted-Druid) has gone into administration.

VC **Apax Ventures** is to invest £11.6m for a 51% stake in **Crisp Computing** (PoS software for the life and pensions industry). Crisp had 1997 revenue of £8.2m but is evidently already ahead of its 1998 target of £14m.

US **Volt Information Services** has acquired IT staff agency **Gatton Consulting** for c\$35m in cash. Gatton had revenues of £27.4m but a PBT of just £267K in year to 30th Sep. 98. They have 1000 permanent staff and 600 contractors on site. A pity to lose yet another UK company to the US, but Gatton was probably wise to cash in now, rather than wait post 2000. We fondly remember Chairman & CEO AJ Norris writing in 1996 that their "Christmas lunch at the RAC Pall Mall is always considered as the inaugural event of the festive season. Our company philosophy is not only to succeed but also to enjoy ourselves along the way". This year's festive lunch should have quite an affair! Volt is a large US staffing operation with revenues of c\$1.7 billion. They join US operations like AccuStaff and Keane in their recent attacks on UK companies.

**Torex** has acquired **Computer Marketing Services Group** (CMS) for £3.3m. CMS provides TPM and FM and made a PBT of £471K on revenue of £6.7m in 1998. Torex have also acquired the business and some assets of **Medical Technologie** from **Brandt Computer Systems** for £600K.

**Planit Holdings** is buying US **Cabinet Vision** (software products) for \$9.82m (c£5.94m) cash. Planit are raising £2m before expenses in a placing at 24p per share towards the cost - the balance from their own cash resources.

NASDAQ quoted UK **4Front Technologies** has bought **I-NEA**, the on-site service unit of **Siemens Nixdorf** in France, for \$4.1m (c£2.5m). Apparently this will make 4Front "one of the top three" TPMs in France.

European VC **Kennet Capital** has participated in the £1.7m financing of Dutch software developer, **Consul Risk Management**.

**AT&T** has emerged as the purchaser of **IBM's** network operation for c\$5 billion.

**Sanderson** has acquired the remaining 20% shareholding in **Sanderson FCS** for c£59K by the issue of shares.

**Software AG UK** has sold its UK services support subsidiary for its Adabas database, **QVF**, to **Logical Holdings**. No consideration known.

**DCS Group** has bought Dutch **Logistics Application Software** (LOGAS) for NLG9.75m (£3.1m) with up to a maximum of NLG13.35m (£4.2m) deferred. LOGAS had 1997 sales of £2.1m and PBT of £400K and should be earnings enhancing in FY99.

**Abacus Recruitment** has acquired **Delta** (another IT staff agency) for £1m. Delta had PBT of £264K in year to 31st Mar. 98.

**KPMG** is said to be considering an IPO for its global management consulting operation which has revenue of c\$3 billion. KPMG's UK MC revenues increased by 51% to £216.9m in 1998. Total UK fees were up 21% at £867m.

**Guardian IT** has acquired the IBM mainframe disaster recovery business of **debis Systemhaus** for £5.1m. They have also bought out debis' 50% stake in **debis Systemhaus Guardian GmbH** for £345K. **Virtual Internet** has "reversed into" AIM shell **Charriol** in a deal valued at £15m.

## Three acquisitions this month

### by Logica



1) **Logica** has undertaken one of the largest ever acquisitions in the Czech IT sector with their purchase of the **FCC Folprecht** group for c£6.3m in cash. FCC undertakes SI in the utilities, financial and industrial sectors and also have a SAP implementation practice. FCC had 1997 revenues of £11m but only made profits of c£300K. Their 270 staff will add to Logica's existing 70-strong Czech operation (although with these sort of margins perhaps a little down-sizing is required!) This could well bring Logica's Czech business into the Top 5 in that country.

2) Logica's second buy this month was Dutch **DDV Group** "one of Europe's leading telecomms & new media consultancies" for NLG50m (£15.6m). DDV had 1997 revenues of £8.6m and a PBT of £800K. 1998 forecast revenues are £12.5m with PBT of £1.6m.

3) Finally Logica acquired **Aethos Communication Systems** for an initial £45m and up to a maximum of a further £2m depending on results as at Jun. 99. Aethos provide prepaid calling solutions for mobile phone operators and had 1998 revenues of £11.3m and profits of £540K. Forecast figures for FY99 are revenues of £23m and £2m profit.

**Note:** **Schroder Ventures**, **Atlas** and **Questor** were VC investors in Aethos. **Broadview** advised on the sale.

The acquisitions, and organic growth, during Read's five years at the helm at Logica, means that the telecom sector has grown from c7% to over 33% of Logica's revenues. Indeed it is now its largest sector. Since June this year, Logica has spent over £100m on seven acquisitions. They all seem to meet the Holway principles of "Stick to Knitting", "Develop depth" and "small bites, and as you get bigger you can tackle larger meals".

The market liked all this news and the shares rose another 21% to end the year on 523p. Logica's shares have been one of the best performers this year rising 125%. *Who knows? Perhaps, at this rate Read's ambition of taking Logica into the FTSE 100 might not be too far away.*

### Misys and Sema leave the FTSE 100...

As we feared, both **Misys** and **Sema's** entrée into the ranks of the FTSE 100 was short lived as they were "removed" on the 9th December. Interestingly, one replacement was **Dixons** whose share price has been buoyed by their new free Internet service.

If Sema gets its US acquisition off the ground, it would probably re-enter the FTSE100 on the associated fund raising. Misys could do the same. CMG and Logica are not too far way either. We hope SCS absences from the FTSE100 will be as short as Misys' stay.

### ...as Misys buys again...

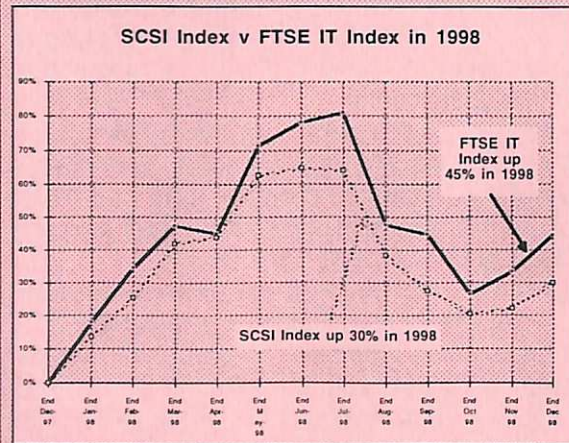
Misys has continued buying this month with the acquisition of NASDAQ quoted **C-ATS Software** for c£36m in cash. Assets acquired include net cash of £12.1m which brings down the net cost somewhat. C-ATS provides specialist risk management software for financial institutions and had revenues for the first nine months of 1998 of \$15.1m but made a loss of \$100K. The new purchase will be merged with MKI's existing risk management business with "excellent growth potential" according to Kevin Lomax. **Comment.** This seems a sensible "add depth" purchase for Misys - more in line with their financial software base.

**Note:** Further M&A News can be found on p11.



## Share price review of 1998

It really was the "larger" SCS companies - i.e. those featured in the FTSE IT Index - which outperformed the "smaller" companies in 1998. Indeed, as we showed in our analysis of share performance by sector in the Dec. edition, system houses (like Logica) on average increased their share price by a massive 55% in 1998. Product companies saw share prices rise by a more modest 17%. But, as a group, it was the resellers (down 6%) and IT staff agencies (down 23%) which really suffered. Indeed, **Computacenter** is now worth some £520m less than



at the time of its IPO in May 98. At the other end of the scale, **Logica** increased in value by over £1 billion (to £1.9b), **Sema** by £1b to £2.72b (but still lost their

FTSE100 place) and **CMG** by £976m (to £1.95b).

The new management team at **Gresham** boosted their share price by a massive 341% in 1998. Amongst the FTSE250 stocks, **RM** put on a superb 190% as the Govt. started to put some money into "education. education, education".

**JBA** (down 82%) got 1998's "wooden spoon".

Top Ten Best Performing SCS Shares in 1998		
1	Gresham	+341%
2	RM	+190%
3	Sherwood International	+156%
4	London Bridge Software	+153%
5	Logica	+125%
6	Kewill	+124%
7	Sanderson	+107%
8	CMG	+100%
9	Druid	+99%
10	Zergo	+98%

Worst Performing SCS Shares in 1998		
1	JBA Holdings	-82%
2	Oxford Molecular	-80%
3	Ultima	-79%
4	Micro Focus	-74%
5	Delcam	-72%
6	Lorien	-71%
7	Dialog	-61%
8	Spring	-59%
9	ilion	-53%
10	Recognition Systems	-53%

## BPO Watch

### WS Atkins – A Crackerful of Surprises

What's the surprise? Well, deep in the bowels of Atkins' Planning & Management Consultants division, there lurks an IT software and services business that is already invading the turf of the SCS "establishment", including the likes of Andersen Consulting, Capita and ITNET. What's more, they're set to move into business process outsourcing, and with the managed services capabilities of the parent company behind them, we think they might well become one of the formidable forces in the UK BPO market.

As we're sure you know, WS Atkins is the UK-based consulting engineering and facilities management group. They're part of the Transys consortium (along with EDS, ICL and Cubic) that won the £1.4 billion contract to develop the new London Transport ticketing system. Atkins was listed on the London Stock Exchange in Jul. 96 at 215p and peaked at 670p in Jul. 98 (like not a few other SCS companies!). The price is now bouncing around the 500p mark during Dec. 98, valuing the company at c£475m. Turnover for the year to 31<sup>st</sup> Mar. 98 was up a rather modest 12% to £366m (90% UK-sourced) and adjusted PBT (exc. amortisation of goodwill, flotation costs and employee benefit trusts) rose 14% to £30.5m. Total dividend for the year was 8.1p, up 17%. Interim results for the six months to 30<sup>th</sup> Sep. 98 were not much more sparkling – turnover up 15% to £201m and adjusted PBT rose 18% to £15m. Chairman Dr Alan W Rudge (ex-deputy chief executive of BT), "remain(s) confident that WS Atkins is well placed to deliver the performance its customers and shareholders expect".

But what of the SCS business? Atkins' IT Division turned over about £8m in 1997/98 and, like Serco we estimate that margins were in the 4-5% range - not much to shout about. But what they have to offer is rather interesting – a multi-discipline business with consulting, development, systems integration and managed services. In addition, Atkins has a nice little software products business, and they are also a VAR for some accounting and workflow packages.

So far Atkins has picked up some useful contracts in the government sector. They made their mark in 1994, winning a £3m deal as prime contractor to replace the accounting systems at the then Dept. of Environment. The ongoing support for these systems was worth another £1.5m. Atkins has similar contracts at National Savings and Dept. Education & Employment. In the latter deal, Atkins will be retained for up to 7 years to provide managed services for the IT systems. In 1998 Atkins formed a revenues, benefits and payroll section to stake a position in the local government BPO market and won preferred supplier status at London Borough of Sutton to run payroll processing. Atkins had previously won a £3m/5 year "pure" IT outsourcing deal at Havant Borough Council.

Atkins is targeting 40% annual growth for its SCS business over the next 5 years. To help get there, Atkins is on the lookout to acquire a small-to-medium SCS player (say around 100 staff) to complement existing services. They also want to move into the private sector, probably using their software products as a spearhead for follow-on services. Ultimately they are looking to get into "full" BPO, especially for accounting services. By the way, there is another gem under the pillow. Atkins claims to own one of the largest private voice and data networks in the UK!

**Comment.** As we said, full of surprises. We think Atkins has a lot of work to do if it wants to become a serious player in the SCS market in general and in BPO in particular. But some of the pieces are falling into place – credibility as a managed services company through its parent, growing experience in a broad range of IT services, some handy software products, and a national data network. For their size, their prime competitor must be Serco (1997 revenue £489m, PBT £22m, current market cap. £660m), who have already started on the IT services acquisition trail back in Feb. 98, buying Tecnodata Italia SRL and Tecnodata Computer Services (UK). We think there's plenty of space in the BPO market for these two players and more besides. *We will be keeping our eye on both.*



## Index ends on Bullish note

1998 ended with major gains in both the SCS Index (+6.4%) and the FTSE IT Index (+8.4%). The risers were headed by **Zergo** (+79%) (see p11) on its acquisition of Baltimore and **MSB** (+70%) on a very positive trading statement "rebutting" our views on the IT staff contractor market. *Mind you, MSB still ended the year down 46%.* **Ultima** (was Microvitec) was down another 35% on another poor trading statement and **Recognition Systems** (see p12) was off another 22% on news that founder David Bounds had stepped aside with 3i increasing their stake.

31-Dec-98	SCSI Index	3941.48			
	FTSE IT Index	1446.00			
	FTSE 100	5882.60			
	FTSE AIM	801.60			
	FTSE SmallCap	2070.90			
SCSI Index = 1000 on 15th April 1989					
Changes in indices	SCSI Index	FTSE 100	FTSE IT Index	FTSE AIM Index	FTSE Small Cap
Month (27/11/98 - 31/12/98)	+6.44%	+0.66%	8.40%	-1.54%	+0.00%
From 15th Apr 89	+294.15%	+186.45%			
From 1st Jan 90	+328.38%	+149.05%			
From 1st Jan 91	+456.81%	+172.29%			
From 1st Jan 92	+277.23%	+135.96%			
From 1st Jan 93	+147.33%	+106.66%			+49.27%
From 1st Jan 94	+136.08%	+72.09%			+10.82%
From 1st Jan 95	+162.91%	+91.90%			+18.58%
From 1st Jan 96	+74.52%	+59.45%		-15.92%	+6.66%
From 1st Jan 97	+47.21%	+42.83%		-17.88%	-5.14%
From 1st Jan 98	+29.87%	+14.55%	44.60%	-19.19%	-10.48%

## System House SCSI Share Prices and Capitalisation

	FTSE IT Index?	Share Price 31/12/98 (£p)	Capitalisation 31/12/98 (£m)	Historic P/E	PSR Ratio Cap./Rev.	SCSI Index 31/12/98	Share price % move since 27/11/98	Share price % move in 1998	Capitalisation move (£m) since 27/11/98	Capitalisation move (£m) in 1998
Admiral	Yes	£11.65	£738.60m	53.8	6.30	42107.19	20.10%	62.14%	£123.60m	£284.45m
AFA Systems		£1.09	£13.70m	Loss	60.62	904.17	-3.13%	0.93%	-£0.40m	£0.80m
AIT Group		£2.30	£46.70m	28.8	3.44	1533.33	-4.17%	34.90%	-£2.00m	£12.12m
Anite Group	Yes	£0.40	£98.30m	15.0	0.66	233.92	-13.04%	-14.89%	-£12.40m	-£13.35m
Azlan Group	Yes	£0.62	£65.90m	Loss	0.23	267.39	7.89%	10.69%	£4.90m	£6.76m
Bond International		£0.94	£12.80m	22.8	2.00	1446.15	-3.59%	44.62%	-£0.50m	£3.95m
Cadcentre Group		£2.54	£42.10m	21.0	2.37	1267.50	0.20%	-22.00%	£0.10m	-£11.83m
Capita Group		£5.56	£1,099.00m	75.2	6.36	50045.05	-3.98%	50.54%	-£37.00m	£392.32m
Cedar Group		£0.97	£32.30m	18.2	2.58	919.05	14.88%	-8.10%	£4.20m	-£0.99m
CFS Group		£1.00	£15.80m	23.3	2.31	1105.56	-16.74%	-4.78%	-£3.20m	£8.07m
Clinical Computing		£0.37	£9.16m	21.2	3.03	294.35	-12.05%	-14.12%	-£1.24m	-£1.51m
CMG	Yes	£15.25	£1,953.00m	62.8	6.45	10517.24	1.33%	100.00%	£26.00m	£975.51m
Compel Group	Yes	£3.98	£113.80m	18.3	0.54	3184.00	26.75%	30.49%	£24.00m	£26.57m
Computacenter		£4.40	£778.80m	18.8	0.69	656.72	-10.66%	-34.33%	-£92.90m	-£521.20m
Comino		£2.08	£27.60m	14.6	2.10	1596.15	-2.35%	69.39%	-£0.70m	£12.80m
DCS Group		£5.40	£124.70m	30.4	2.09	9000.00	6.72%	67.44%	£7.80m	£53.74m
Dalcam		£0.47	£2.74m	6.3	0.19	178.85	63.16%	-71.82%	£1.06m	-£6.96m
Delphi Group	Yes	£3.58	£105.10m	21.2	0.38	1471.19	28.83%	-46.64%	£23.50m	-£89.20m
Diagonal	Yes	£9.63	£193.50m	52.6	4.32	3500.00	1.32%	37.01%	£2.60m	£63.50m
Dialog Corporation		£0.58	£87.80m	Loss	1.91	527.27	-18.88%	-61.33%	-£20.00m	-£137.03m
Division Group		£0.24	£16.70m	Loss	2.50	600.00	-7.69%	-37.66%	-£1.40m	-£0.20m
DRS Data & Research		£0.13	£4.41m	Loss	0.65	115.91	-3.77%	-42.05%	-£0.17m	-£3.12m
Druid Group	Yes	£13.18	£301.70m	55.4	7.43	4790.91	10.25%	98.87%	£28.00m	£149.98m
ECSoft		£18.50	£201.70m	37.6	4.56	1023.80	26.50%	2.38%	£42.30m	£11.00m
Electronic Data Processing		£0.68	£17.70m	10.8	1.54	2066.75	-9.40%	23.85%	-£1.80m	£3.46m
Eidos	Yes	£9.40	£160.70m	9.7	1.17	9400.00	4.74%	40.30%	£7.20m	£47.46m
FI Group	Yes	£3.29	£659.60m	73.7	4.08	6989.36	6.83%	76.05%	£43.70m	£359.30m
Financial Objects		£2.45	£87.30m	26.8	5.48	1065.22	6.52%	6.52%	£5.30m	£5.30m
Flomerics Group		£1.55	£4.03m	25.6	0.70	1192.31	-3.13%	29.17%	-£0.13m	£0.91m
Gresham Computing		£1.02	£35.70m	36.5	4.11	1091.40	20.12%	341.30%	£6.00m	£28.18m
Guardian IT		£4.75	£243.20m	67.6	10.56	1862.75	-4.81%	86.27%	-£12.30m	£112.70m
Harvey Nash Group		£3.10	£87.40m	17.7	1.57	1771.43	29.17%	-8.01%	£19.70m	-£6.55m
Highams Systems Services		£0.85	£16.00m	14.3	0.64	2361.11	0.00%	8.97%	£0.00m	£2.18m
ICM Computer		£2.54	£48.30m	23.3	1.35	1408.33	9.03%	40.83%	£4.00m	£14.00m
ilon Group		£0.57	£14.20m	7.3	0.07	353.13	9.71%	-55.69%	£1.30m	-£17.82m
Intelligent Environments		£0.45	£13.80m	Loss	3.11	473.40	-11.00%	81.63%	-£1.60m	£8.04m
I S Solutions		£2.05	£9.84m	23.5	1.12	1529.85	2.50%	40.89%	£0.24m	£2.86m
ITNET		£4.73	£332.20m	105.9	4.07	1350.00	12.77%	35.00%	£37.60m	£86.10m
JBA Holdings	Yes	£1.85	£67.90m	42.0	0.31	1156.25	-2.63%	-82.01%	-£1.80m	-£308.55m
JSB Software		£2.05	£19.50m	n/a	5.80	1025.00	0.00%	2.50%	£0.00m	£0.60m
Kalamazoo Computer		£0.40	£16.90m	Loss	0.26	1128.57	-4.82%	-43.17%	-£0.90m	-£12.90m
Kawill Systems	Yes	£12.75	£170.80m	27.2	3.79	5039.53	7.59%	123.68%	£15.60m	£97.25m
Logica	Yes	£5.23	£1,929.00m	61.7	4.08	7155.55	20.81%	125.22%	£333.00m	£1,082.90m
London Bridge Software	Yes	£12.88	£381.10m	128.4	33.67	6437.50	8.65%	153.20%	£30.30m	£233.61m
Lorien		£1.47	£28.70m	7.1	0.25	1465.00	10.57%	-70.99%	£2.70m	-£57.68m
Lynx Holdings	Yes	£1.99	£212.20m	22.9	1.17	4962.50	7.88%	64.73%	£18.10m	£87.93m
M-R Group		£1.02	£56.60m	12.4	1.21	402.78	14.69%	-9.78%	£7.20m	-£6.16m
Macro 4	Yes	£3.40	£67.00m	10.1	2.77	1370.97	0.00%	0.00%	£0.00m	£0.00m
MDIS Group	Yes	£0.46	£97.90m	24.2	0.84	176.92	-5.15%	-2.13%	-£5.30m	-£0.61m
Micro Focus	Yes	£1.04	£148.60m	14.8	1.53	499.88	-15.51%	-74.06%	-£27.30m	-£222.28m
Microgen Holdings		£1.37	£59.60m	15.6	0.90	585.47	23.98%	95.71%	£11.50m	£31.88m
Misys	Yes	£4.37	£2,460.00m	33.0	5.49	5439.90	1.69%	19.47%	£44.00m	£416.80m
MMT Computing	Yes	£9.38	£112.50m	20.3	3.07	5580.36	-5.78%	11.67%	-£6.90m	£12.64m
Mondas		£0.51	£6.36m	Loss	21.41	673.33	24.69%	-27.34%	£3.89m	£2.12m
Moorepay Group		£2.30	£26.90m	22.2	5.09	3881.48	17.95%	-18.58%	£4.10m	-£3.65m
MSB International	Yes	£3.40	£69.40m	9.7	0.54	1789.47	70.00%	-45.60%	£28.60m	-£58.04m
MSW Technology		£1.07	£8.73m	16.1	3.00	1097.94	27.54%	9.79%	£1.88m	£0.73m
NSB Retail Systems		£1.70	£18.70m	19.8	5.69	1478.26	-0.58%	-11.23%	-£0.10m	£0.13m
Oxford Molecular		£0.49	£42.10m	Loss	2.69	606.25	-17.80%	-79.79%	-£9.20m	-£131.37m
Parity	Yes	£5.73	£282.20m	24.0	1.40	31805.44	18.04%	-9.98%	£43.10m	-£31.30m
Pegasus Group		£3.03	£21.20m	13.2	1.70	824.25	-9.02%	16.35%	-£2.10m	£3.03m
PhoneLink		£0.28	£18.90m	Loss	5.90	177.42	0.00%	-49.54%	£0.00m	-£7.36m
Polycmaster		£1.90	£26.70m	44.0	3.05	1263.33	0.00%	26.33%	£0.00m	£5.50m
Proteus International		£0.36	£26.30m	Loss	147.75	422.62	-4.05%	-19.32%	-£1.10m	£1.84m
Quality Software Products		£3.55	£48.30m	12.6	1.72	934.21	-4.05%	61.36%	-£2.00m	£18.34m
Quantica		£0.73	£28.40m	12.3	5.04	588.71	3.55%	-41.13%	£0.90m	-£19.60m
Rage Software		£0.08	£20.10m	59.7	5.55	317.31	-15.38%	94.12%	-£3.70m	£9.70m
Real Time Control		£4.83	£33.80m	13.9	2.13	9846.94	9.66%	50.31%	£3.00m	£11.37m
Rebus Group	Yes	£1.14	£105.50m	18.0	1.20	1295.45	-11.97%	44.30%	-£14.30m	£32.40m
Recognition Systems		£0.10	£3.69m	Loss	4.79	142.86	-21.57%	-53.49%	-£1.01m	-£4.22m
Riva Group		£0.34	£10.90m	13.1	0.16	241.64	3.03%	-19.05%	£0.30m	-£2.07m
RM Group	Yes	£4.64	£420.90m	58.0	3.21	13242.86	11.96%	189.69%	£45.00m	£278.94m
Rolle & Nolan		£1.75	£23.30m	Loss	1.07	2083.33	-16.67%	-48.91%	-£4.60m	-£22.25m
Romtec		£0.77	£4.05m	18.7	0.96	1224.00	0.00%	-26.79%	£0.00m	-£1.38m
Royalblue Group	Yes	£3.35	£93.10m	39.6	4.51	1970.59	27.62%	-2.19%	£20.10m	-£20.04m
Sage Group	Yes	£15.70	£1,821.00m	55.8	9.51	60384.62	11.35%	89.16%	£186.00m	£923.75m
Sanderson Group		£1.54	£73.10m	12.8	0.99	2612.77	4.42%	107.43%	£3.10m	£39.11m
SBS Group		£1.98	£17.40m	16.0	0.49	1975.00	36.21%	12.86%	£4.60m	£5.03m
Science Systems		£1.57	£26.60m	21.6	1.43	1213.18	-0.63%	-5.44%	-£0.20m	-£1.50m
Sema Group	Yes	£5.91	£2,724.00m	55.8	2.41	7433.96	18.20%	59.30%	£419.00m	£1,019.27m
Sherwood International		£13.55	£127.40m	46.6	4.24	11291.67	8.62%	155.66%	£10.10m	£81.81m
Skillsgroup	Yes	£1.82	£149.40m	16.6	0.40	813.90	4.31%	-0.55%	£6.90m	£1.08m
Spring		£1.46	£210.40m	16.1	0.75	1616.67	0.34%	-59.01%	£0.70m	-£297.98m
Staffware		£2.68	£34.00m	31.1	1.93	1188.89	5.94%	-24.33%	£1.90m	-£8.78m
Superscape VR		£1.94	£23.80m	Loss	5.64	977.27	44.40%	80.00%	£7.30m	£14.33m
Systems Integrated		£0.08	£1.04m	Loss	0.83	67.39	63.16%	-13.89%	£0.40m	-£0.17m
Tetra		£1.82	£45.70m	Loss	1.51	1134.38	-8.33%	3.13%	-£4.20m	£1.50m
Torex Group		£0.89	£28.70m	14.9	1.36	1718.45	-1.12%	1.72%	-£0.30m	£1.40m
Total Systems		£0.59	£6.14m	8.5	1.49	1113.21	-1.67%	-20.81%	-£0.10m	-£1.38m
Touchstone		£1.14	£11.10m	16.4	1.80	1080.95	-4.62%	8.10%	-£0.60m	£1.30m
Trace Computers		£1.23	£18.00m	20.3	1.23	980.00	-0.81%	87.02%	-£0.20m	£8.57m
Triad Group		£5.33	£134.20m	30.2	4.17	3944.44	29.88%	78.99%	£30.90m	£59.19m
Ultima		£0.04	£5.16m	17.9	0.08	91.46	-34.78%	-78.57%	-£2.75m	-£8.60m
Vega Group		£3.88	£62.40m	27.9	2.78	3176.23	-1.90%	70.33%	-£1.20m	£27.32m
Workplace Technologies		£1.97	£57.10m	27.8	0.87	1125.71	9.44%	1.29%	£4.90m	£0.91m
Xavier Computer Group		£0.15	£14.50m	14.1	0.89	1475.00	7.27%	89.71%	£0.90m	£9.84m
Zergo Holdings		£4.30	£78.00m	Loss	5.96	4410.26	79.17%	97.70%	£34.50m	£57.97m



## A sound performance from Sanderson

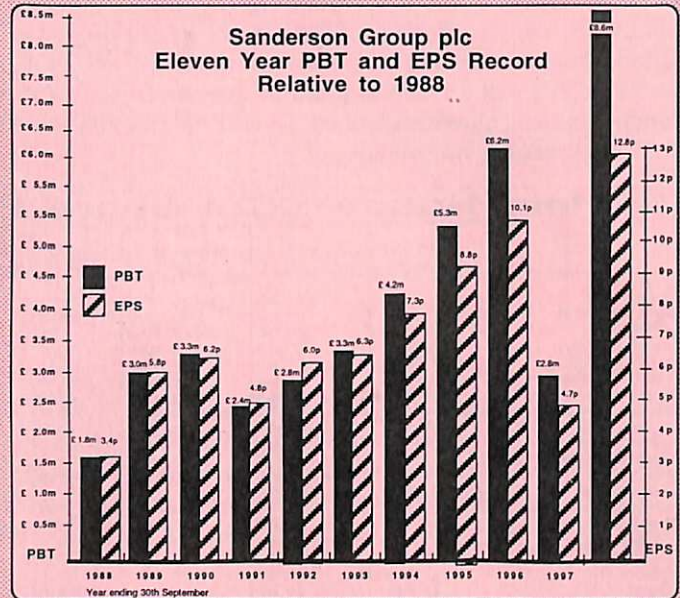
After the poor performance in FY97, **Sanderson Group's** results for the year to 30th Sep. 98 were *sound*. Revenue increased 10% to a record £73.6m, ongoing operating profit went up 18% at £8.5m with PBT more than trebled at £8.6m. EPS increased 172%.

The higher profit reflects the change towards a higher proportion of IT services and software. Using constant exchange rates, profits would have been £500K higher but this was offset by an exceptional gain of a similar amount from the sale and leaseback of their Sheffield premises. Sanderson is now running at an annualised run rate of c£91m taking into account their recent Management Software acquisition.

Both the UK Divisions (IT Systems, £37.5m revenue and profits of £5.1m), and IT Services (£17.4m revenue and profits of £1.4m) "performed well". The International Division "returned to more normal levels of profitability" with a 12% profit margin of A\$6m on revenues of A\$48m. Recurring revenues now totals some £29m with a high proportion of sales (79%) to existing customers. The Group now employs over 1,000 staff - up 12% in the year.

Chairman Paul Thompson is pleased "that in our fifteenth full year of trading we have achieved another record set of results". He went on to say that Sanderson "remains committed to expansion both by organic growth and by acquisition".

**Comment.** These results, at least, put Sanderson back on track. Whether they would have been even better if they were more focused on a smaller range of activities is open to debate. We have always thought that the present spread is too wide. The shares have recovered well from their low point a year ago and stood at 154p at the end of December - up more than double in 1998.



## Significant new contracts

As readers know, we always seem to get into trouble when we report contract wins. It's just that some are so important that they affect the outlook for the whole sector. That's why we reported EDS et al and the Benefits Agency deal (£7 billion) and the IBM/C&W £1.8b deals last month.

Of course that caused **CSC** to complain that we had not mentioned their mega 15 year outsourcing deal with the US Internal Revenue Service. CSC leads the alliance which additionally consists of IBM, KPMG, Northrup Grunman, Lucient, SAIC and Unisys. No financial terms disclosed but the deal is expected to be worth up to \$8 billion. It is also reported that CSC is likely to win the \$500m/\$1b deal with French telecom supplier Alcatel. *We hope CSC are happy now!*

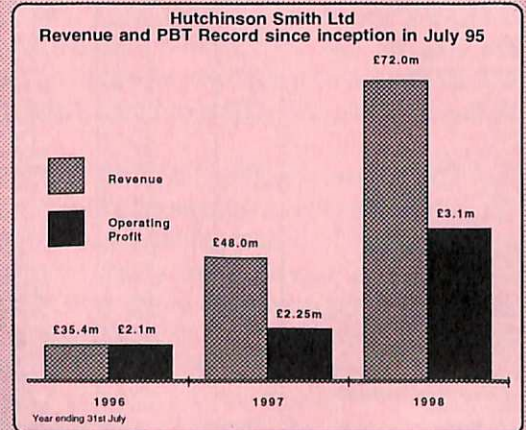
Alliance talks between **MCI WorldCom** and **EDS** have also emerged this month. Some speculated that EDS might acquire the 9,400 strong **MCI Systemhouse** as part of this. Whilst we are at it, we should mention that a consortium led by **Sema** has won a \$500m (c£300m) contract to supply IT services for the **Olympic Games** between 2001 and 2008. IBM has decided to end its 38 year relationship after the 2000 games. Sema will then become one of the lead sponsors.

In the way of things nowadays, we learnt that **Capita** had lost the contract to run the written part of the UK driving test on behalf of the Driving Standards Agency from a NASDAQ news report - rather than from London. The successful bidder from Jan. 2000 is NASDAQ quoted **Sylvan Learning Systems** who said the contract was worth \$125m over the six-year term. Joint house brokers HSBC Securities said it had not expected Capita to win the rebid and had, in any case, reduced their forecast earlier. MD Paul Pindar said that losing the contract did not constitute a profit warning and he was happy with analysts estimates of FY99 profit of c£32m. Despite this, Capita's share price has fallen 4% this month to end on 556p.

## Hutchinson Smith - Private for how much longer?

**Hutchinson Smith** is a private IT solutions business/IT staff agency which started trading in Jul. 95 - formed with the backing of Legal & General Ventures (70% of the equity) and management (30%) led by Peter Smith and Alan Hutchinson. In the first two years they acquired Esprit Systems, Computer Team, Macleod Group and Redfern Consultancy (the last in May 97).

Over 75% of the current £72m revenues come from the IT contractor operation with most of the rest from IT



consultancy (where Redfern has c65 fee earners - 25 permanent, rest contractors), £500K from permanent recruitment and an embryonic IT Training operation. c£7m comes from Esprit People - a non-IT/blue collar staffing operation.

Hutchinson Smith was one of the many companies which had done all the work in preparation for a Nov. 98 IPO. Now with "a much tougher market for contractors" and, of course, the significant reduction in valuations in that sector, such dreams have been put on hold.

We see HS using its consultancy operations to move "further up the value chain". But perhaps HS will itself become a consolidation target before the market recovers sufficiently for IPO plans to be actioned again.



## Compel buys Info' **COMPEL** Products

We visited Neville Davis (Chairman and CEO) at **Compel** this month. Like its bigger brother - Computacenter - Compel has always refused to break out its services revenues from its reseller revenues. Although Compel has well over 500 staff engaged in services, it would appear that no more than £20m of the £210m revenue to 30th Jun. 98 could be categorised as such.

But, just like Computacenter, we increasingly feel that this does not matter too much. Its strength is its ability to *integrate* the logistics of systems supply with software, consultancy, installation, project management, training, support, rental and desktop outsourcing. The "conventional outsourcers" can't do that and blue chip clients increasingly want a prime supplier to embrace all these activities. Compel has strong and long term relationships with its customers, and is one of a very small band of UK desktop organisations with the necessary size to support blue chip organisations.

Compel was a new issue in Sep. 94 at 125p which valued them at £19m. At the end of Dec. 98 the share price was 398p - up 30% in the year - and a market capitalisation of £114m. Growth has come from a combination of organic growth and acquisitions - the main ones being Hamilton Rentals (£14.5m in Jan. 97), Computer Microrentals (£1.6m in Aug. 97), and Abtex (£4.75m in Oct. 97).

But this month Compel has taken the biggest bite of all - with the acquisition of **Info' Products UK plc (IP)** for a nominal £1 (yes £1)... although they have "also agreed to procure the repayment of £10m of Info' Products' indebtedness". They get a guaranteed £28m of net assets in return. Compel is to raise £3m through a placing to fund the purchase. IP, with 475 staff, had 1997 revenues of £170m but reported a loss before tax of £24.8m. In the first seven months of 1998, they lost a further £7.4m on revenues of £93.3m. Compel reckons IP will add c£100m of revenue which should secure Compel's place as second largest desktop "one stop shop" in the UK.

Compel's brokers, SG Securities, have revised their forecasts upwards to EPS growth of 37% in the current year. PBT of £11.2m is forecast.

## Zergo "acquires" Baltimore Technologies

**Zergo Holdings** has confirmed that they have "acquired" Irish **Baltimore Technologies** for a combination of Zergo shares, loan notes and debt. The total consideration is in the region of \$55m (c£34m). Fran Rooney, CEO at Baltimore, is to become COO at Zergo. Zergo also disclosed that Baltimore have agreed to sell 1.7m shares of the enlarged capital (6.26%) to **Intel Corp.**

Chairman & CEO of Zergo, Henry Beker, said that the merger "will provide Zergo with a tremendous opportunity to increase shareholder value". Indeed this merger will "create a worldwide market leader in the provision of e-commerce and enterprise security systems". The combined operation will have c350 employees and annualised revenues of \$30m.

Zergo's results for the six months to 31st Oct. 98 showed revenue up 43% to £7.7m. But the previous small PBT of £78K was turned into a loss of £3.07m. The change in fortunes was put down to "the company's focus on the sale of its products to global markets". Beker admitted that "the ratio of overheads to sales is in line with expectations but is unsustainable in the long term".

January 1999

## Optimistic SBS

The results for IT staff agency **SBS Group** for the year ended 31st Aug. 98 reflect the Mar. 98 purchase of JCC for £4.5m and the smaller Quest Recruitment purchase in June. Total revenue has more than doubled to £35.9m but even organic growth was a healthy 44%. PBT also more than doubled to £1.5m with EPS up a lower, but still most acceptable, 39%. In their UK business, IT contractor rates increased by an average of 15% over 1997 and evidently this rate of increase has continued into the new FY. The UK, at some £21.6m, represents c60% of total revenue (and 70% of PBT), with 27% (£10m) from Europe and the remainder from the US. Chairman John Davies commented. "The new financial year has got off to a very encouraging start, with record numbers of contractors billing in September and October.... I am confident that 1999, our thirtieth year of business, will prove to be another excellent year".

Although SBS has taken steps to reduce its dependency on the UK IT contractor market, we find Davies' comments on the future outlook more interesting. "We do not share commentators' pessimism regarding the outlook for the IT contractor market... Commentators (and we suppose that includes RHL) have also highlighted the drop in volume of recruitment advertising in the trade press as being symptomatic of a downturn in our sector. In common with other IT staffing companies, SBS has in recent years reduced press advertising in favour of the Internet.... we consider that 95% of responses are for job vacancies displayed on the Internet". Of course the trade press is mainly for permanent jobs and SBS has only limited involvement with permanent recruitment.

Rosy outlook or not, in common with others in the sector, the SBS share price has been hit. Launched onto AIM in Jun. 97 at 100p, they reached a peak of 358p in March this year. They have since fallen to end the year on 198p.

## Mondas - revenue now greater than losses

**Mondas** (with their *Radica* business application development software) was a new AIM float in Dec. 96 at 75p. So far they have not made a profit. In their interims for the six months to 31st Oct. 98, revenue rose 57% to just £224K and losses fell from £251K to £208K. Most of the additional revenue is due to the acquisition of Reality last November for £1.8m; which effectively doubled their size. Chairman Tim Simon is optimistic over the future saying "Opportunities abound....we aim to consolidate in the UK and exploit opportunities in Europe and the US".

The shares ended the month on 51p - lower than the original float price.

## Hays acquires Axis

On the last day of 1998, **Hays Group** pulled off one of the larger M&A deals of the year - acquiring **Axis** for £35.3m now + £5m related to profits to Apr. 2001. Hays will also acquire Axis' £12m debt.

Axis started life as the internal IT dept. of **Rank Hovis McDougall** which was acquired by **Tomkins** in 1992. In Apr. 98 Axis undertook a **Lloyds Dev. Cap./NatWest Equity** (60% of the equity) backed MBO which at the time valued them at £13m. In the 18 months to 31st Oct. 98, Axis had "an adjusted profit of £3.1m on revenue of £26.1m".

Axis provides outsourcing services (where their old "parents" are key customers) plus payroll, HR management, billing and electronic printing services. We featured Hays in **BPO Watch** in Oct. 98 - so please don't say you weren't warned of a new competitor coming to "eat your lunch". Axis will become part of the Comm. Div. and makes Hays "one of the market leaders in the high-growth billing services market".



### People and company comments

Martin Walters has paid the price at **Micro Focus** after the publication of Q398 results. As pre-warned, revenue dropped from \$91.3m to \$87.2m and net income plunged from \$7.7m to \$1.1m. Gary Greenfield, former President and COO at recent acquisition Intersolv has taken his place. Walters will remain as a non-exec after his "amicable" departure.

Congratulations are due to Brian Gunn who has been appointed MD International Operations at **FI Group**. FI are also to be congratulated on their major catch - Gunn did superbly well at Bull's FM operation, Integris.

**EDS** has appointed Dick Brown (CEO at Cable & Wireless) as their new CEO to succeed Les Alberthal. He has been hailed as the sort of chap that EDS needs to give the company a "good shake up". Certainly the vacuum at the head of EDS badly needed filling. The announcement helped the share price of EDS (up 24% in London) but did the reverse for C&W which fell on the day some 29p. Observers are now speculating that EDS will acquire MCI Systemhouse.

Bryan Black (sales Director) has become the new CEO at **Recognition Systems** and when a new non-exec. Chairman is appointed, founder and ex-CEO David Bounds will resign. Present MD Paul Gregory now becomes Chief Technology Officer. At the same time, Recognition announced a 11/20 rights issue at 9p, which with 3i subscribing for 16.7m shares (also at 9p) will raise a net £3m. 3i will then hold 29.9% of the equity at a total cost of nearly £2m. Recognition was a new issue in May. 96 at 70p.

Chairman & CEO at **ilion**, Wayne Channon has now resigned. Serge van Gorkum has rejoined ilion as CEO with NED Michael Sayers taking over as Chairman. All sounds a bit too Azlan-like for comfort.

An upbeat trading statement from payroll processor **Moorepay** has meant that house brokers, Teather & Greenwood, have upgraded their FY98 profit forecast to £1.92m, FY99 to £2.15m and FY2000 to £2.56m.

**CFS Group** has said that current trading is meeting expectations and that it is beginning to benefit from the synergies arising from the LeaseTek acquisition in Jul. 98.

### Clean sweep at Macro 4 - and not before time!

We never got round to awarding **Macro 4** a "Boring Award" and, anyway, they would have lost it with their 1998 EPS reversal. We were both sad, and not a little angry, that they had missed so many opportunities. But now new management under CEO Ronnie Wilson (installed in June this year) and this month, new Chairman Phil Coussens has finally replaced all the "old guard".

A statement this month from Macro 4 said that current trading was "in line with expectations" and that they would "now be concentrating on OS/390 (rather than the mainframe sector) and the open systems segment where growth is likely to be stronger". We wish them well.

### Oracle beats Wall Street forecasts

**Oracle's** results for Q299 were better than anticipated with revenue up 27% to \$2.1b and net income up a much higher 46% to \$274m. Services now accounts for c63% of total revenues after a 33% increase. Sales were helped by an improved performance in the Asian market and solid performances in both the applications (up 19%) and the core database business (up 26%). CFO Jeff Henley enthused about "a terrific quarter" and commented "what a difference a year makes". Indeed this time last year the share price dived 29% after their disappointing Q298 figures.

COO Ray Lane expects excellent results from Europe once Release 11.5 is available with its more specific European content. Applications growth in the US alone was up a much higher 31% which should bode well for worldwide adoption rates.

### Here at last

We are delighted to report that the first sections of the latest (sixth edition) **Software and Computing Services Industry in Europe Report** (our co-production with PAC) is available for immediate despatch. It really is a massive work - undoubtedly the most respected analysis of the markets and players in Europe available. See ordering details below.

We hope that you have all taken a look at our completely revamped website - [www.holway.co.uk](http://www.holway.co.uk). The Archive search has proved a real hit. Users c4-times higher than last year!

**We wish all our readers a Very Happy and Prosperous 1999.**

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