

System House

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Emperor's New Clothes

As you will read on p6, the Holway SCS Index - and indeed every other technology index - has seen unprecedented increases in 1999. As we have said repeatedly this year, we don't think that *general* re-rating of the sector is either out-of-line or overdone.

Afterall, "all the ducks are lined up":-

- the "Y2K microclimate" is coming to an end

- rapid growth of B2B e-commerce is fuelling the requirement for IT services

- growth in outsourcing, the core fuel of the 1990s, shows no sign of abating. Indeed, e-commerce is seen as a natural area in which to use external resources.

- the acceptance that, if IT was a bit of an optional extra in the last decade, it is an absolute necessity in the next

- the general UK economy seems to be booming. Europe, the most important market for UK SCS companies, is also set fair

- institutions are awash with money looking for good homes. Many are underweight in technology

- the private investor has also discovered the IT sector (see p8) which makes raising funds even for the smallest company easier.

We could go on... So why any conceivable note of caution?

All of the views expressed above relate to the "serious" side of the technology market. Companies like the FTSE100's CMG, Logica, Misys, Sage, Sema and many others that you read about every month in *System House*. In the B2B e-commerce IT services arena, we are just as confident about the prospects for the players here too...be they EDS, IBM Global Services, ICL et al or "smaller" players like Kewill, Microgen, NetBenefit and many others. Our real concern is with what, for lack of a better description, we will call the "dot.com" companies. They are characterised by having no track record, minuscule revenues and (usually) enormous losses.

As informed readers, you will have been overdosed with statistics about such companies. But almost all of the comment is US/NASDAQ-based. So let's put a UK twist on this.

- Freeserve and QXL.com would be the largest UK examples of the genre. On the LSE/AIM there are about another 20 such companies.

- these 20 quoted companies now have a combined market capitalisation approaching £15 billion. These companies have combined revenues of c£100m and losses in excess of that figure. Now let's put that into context. At the end of 1997, all the 100 SCS companies we follow - from Admiral to Zergo (now Baltimore) - were valued at <£15 billion. Even now, if we exclude the "dot.com" companies from our Index, the "serious" SCS companies are worth "only" around £40 billion. But these 100 companies have a significant track record, combined revenues of >£11b and profits of c£750m.

- there are no statistics to measure the number of new UK "dot.com" companies. Our "straw poll" of VCs would tend to indicate in excess of 2000 business plans received from "emerging" UK "dot.com" companies in 1999. We would be surprised if such requested funding did not exceed £1b.

- the new phenomenon is companies which set-up with the express objective of investing in "dot.com" companies. Jellyworks floated on AIM in Dec. 99 at 5p and ended 1999 up a quite staggering 22-fold at 112p.

We get inundated with business plans for "dot.com" companies. Our standard - some have said "boring" - question to each has been "How will you generate your revenues?" Note, by the way, that we are now so up-to-date that we don't even mention "profits"!

- *taking a share of the telecomms charges?*

Anyone who really thinks this is a viable model, with the advent of BT's Surftime and others, must really be living in the past.

- *from advertising?* Even the UK's most successful generators of internet advertising revenues - like Silicon.com - don't believe that any more. At the moment the most successful generators of internet

advertising are the "paper" media! In the US it is estimated that dot.com companies spent \$2.3 billion on "conventional" advertising in 1999. Most of the FT's advertising is now of the "visit www.x.com" type.

- *from "consumer" subscription?* The great white hope of many of the current content providers. *Forget it.* From personal experience, your average Joe Punter thinks all information on the net is free - as a right.

- *from B2C e-commerce?* When even Amazon.com currently loses \$5 on every book it ships, you can imagine the problems that all the others *currently* face. If our personal experience is anything to go by, Tesco's must be losing a fortune on their internet shopping service. Sure, it will happen. But it will take time and many will fail before a single penny of profits are recorded. In the end, successful B2C will more than likely be of the "clicks and mortar" variety.

- *rake-off from "third-party" e-commerce sales?* Possibly a possible. Currently being tried by many. We await the results with interest!

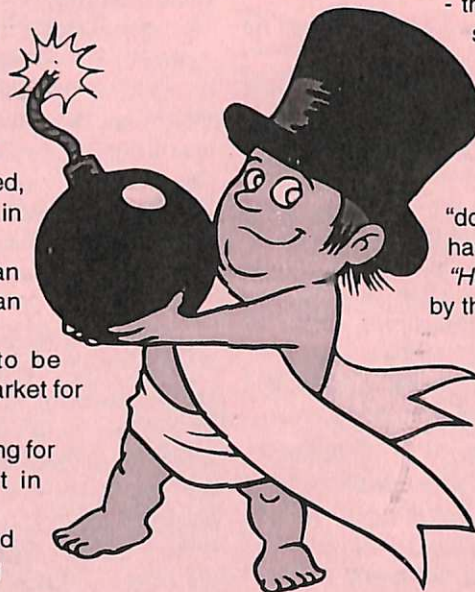
So there above covers most of the current "dot.coms" But surely there will be revenues from somewhere? Sure...

- *from new "net businesses".* Egg.com would be a good example of an excellent business which doesn't need a "portal"...it creates its own and goes directly to the market. We see many of these new internet brands succeeding.

- *from B2B e-commerce.* Dell.com would be a pretty good example. Kewill's activities with the FDX is another.

Emperor's New Clothes?

This month we were accused of being "out-of-touch" for asking



Continued from page 1

"Where are the revenues to come from?" The new paradigm for business development is...

- have "dot.com" idea. Let's make one up. "BuyRhododendron.com" - on-line catalogue and ordering etc.
- just having the idea is worth £5m...so VCs invest £1m at that level.
- business plan merely states objective as raising second/third level finance. Only "measurable" is eyeballs. So ads in Gardeners World etc. costing a fortune.
- "BuyRhododendron.com" now attracting 10K+ hits a day - say 300K over last 40 days. Someone does calculation based on average rhododendron costs and projections for 2010. That means the site is worth at least £15m. Not a single sale yet, of course. VCs delighted as investment appreciated 3-times in as many weeks.
- free links given to fertiliser, garden tool and photography companies thus giving the impression that the advertising model works. Wow!
- third round financing values company at £50m. Still no revenues but at least losses growing to >£5m.
- "BuyRhododendron.com" is now so "successful" that an IPO just cannot be put off any longer. Registered visitors to site are given priority in placing. Charlie Dimmock joins board. Even

Pegasus and Sage revisited

Relief for long suffering Pegasus shareholders has come this month from Australia in the form of **Solution 6** with a recommended bid at 430p per share in cash, valuing the company at £30m. Founded in 1981, Solution 6, which is quoted in Sydney, sells accounting software to the accounting profession and achieved revenues of A\$74.3m in 1998/99, of which around a third was from services.

The bid comes almost exactly three years after Sage approached Pegasus to discuss a bid at 425p per share (later increased to 475p) valuing Pegasus at £27m - a bid which the Pegasus board, led by Jonathan Hubbard-Ford, believed "seriously undervalued" the company. Whilst profitability has been mixed, Pegasus has doubled its revenues since then and yet the directors views on the value of the company seem to have altered somewhat. To quote "The directors of Pegasus, who have been advised by Warburg Dillon Read and RSM Robson Rhodes, consider the terms of the Offer to be fair and reasonable."

But Sage immediately put out a statement saying that it is thinking about making an all-cash bid for Pegasus. Then Diskel (a Pegasus VAR) asked the OFT to intervene to block any bid. In the FT, Pegasus' Hubbard-Ford quoted Romtec research showing Sage with a 70% share of the SME market in the UK which would rise to 75% with Pegasus. As most (well, Sage in particular) have doubted Romtec's figures on this sector, we wouldn't make too much of this. The FT article failed to point out that the vast majority of SMEs don't use any packages at all for their accounting. Even the computerised use just Excel and the rest use an old fashioned accounts book.

Anyway, it's interesting to note that if Pegasus shareholders had taken Sage stock in 1996 and held on to it, their investment would have grown more than 15-fold. We will say no more except that at 2 times revenue, there looks like plenty of room for a counter bid.

Bob Morton remains very much in the wings with his 12.7% stake in Pegasus but so far he has given no indications of his intentions.

However Enterprise Data Processing has realised its 7.2% Pegasus stake (only acquired in Sep. 99) and has made a reported profit of £560K on the transaction.

with an initial valuation of £100m, the shares go to a 300% premium on day one as day traders (and rhododendron lovers) pile in.

- VCs "pile out" and onto the next investment.

One of the other winners already out of all of this is the IT services company building the web site, powering the server etc. They have billed "BuyRhododendron.com" upwards of £1m for this already. Why should they care if in 2001/2002, "BuyRhododendron.com" folds?

If you think that's a stupid, vacuous example..Sorry, it ain't. Every part has its echo in real dot.com companies.

We happen to believe that the vast majority of the current "dot.com" companies will eventually be exposed as naked - just like the Emperor with his new clothes .

But does £15 billion riding on "fatally flawed" businesses matter anyway? If the ultimate collapse was ring fenced, then the answer would probably be "No". But we all know that the knock-on effect would bring even the soundest SCS company's share price crashing.

So, back to reality. We have oft-said that "Sage is the UK's best internet play". Although it's currently trading on an historic P/E of >180, if everyone else is naked, then Sage has a full wardrobe. But when they are all exposed, bet you any money you like that Sage will feel the cold winds around their nether regions too.

Weaker companies will fail, IPOs will grind to a halt and a replay of 1994/95 or Oct. 98 occur. Call us "Boring" if you wish but there is a time bomb ticking. **Take Great Care.**

The Parity e-volution continues

Parity has acquired Web consultancy Interactive Developments and training business Comtec for a total of £15.7m. Also the company has issued a trading update. Interactive Developments is a web architect consultancy employing some 50 staff with a client list including Chase Manhattan, Dixons, Merck and Tate & Lyle. In 1999 the company is forecast to achieve revenues of £1.9m, although no profit/loss figure is disclosed. Parity is paying £8.8m, around 4.5 times revenue, in cash, shares and loan notes. Comtec is a Microsoft and Lotus authorised training company, with a particular focus on Lotus Notes Domino. For the year to May 1999, Comtec achieved pre-tax profits of £0.7m on revenues of £7.5m and Parity is paying £6.9m, again in cash shares and loan notes.

Also in the statement Parity has said that profits before tax, goodwill amortisation and exceptionals, for H2 1999 will be higher than H1. The statement notes that whilst Solutions revenues have held up, the group's ITSA activities have had a difficult second half. Interim profits, on the same basis were £10.3m, so it looks like 1999 profits will be at least £20.6m against market consensus forecasts of about £23.5m. In other words, results will be there or thereabouts, which is all anyone should expect in current market conditions. There will be, however, a £2.5m exceptional charge for business reorganisation.

Comment. We have learnt over the years that when Philip Swinstead says that he is going to do something, it invariably happens. In Feb. 99, he said that the company would reposition itself as an e-commerce consultancy. Now we have heard this from many, many companies, but these acquisitions, especially Interactive Developments, is a major step to achieving that goal. Parity has proved before that it can take a small business and turn it into a major division of the company and we have little doubt that this will be the case with Interactive Developments. We would also expect to see more of these acquisitions in 2000.

Synstar leaves float behind with strong maiden results

Synstar's "maiden" results for the year to 30th Sept 99 are really rather good. Revenue up 30% at £214m, PBT quadrupled to £8.1m and diluted EPS up 117% from 1.7p to 3.7p. Of course, it's been the year when VC funding has been exchanged for equity, so interest payments have plummeted. But, even so, operating profits are up 35% at £12.8m and margins grew from 5.7% to 6.0%.

Revenue in the UK was up 20% at £115.7m - representing 54% of the total. UK, France, Belgium and Germany were the stars. Revenue from Cont. Europe was up 44%. Interestingly Italy "one of our disappointments" (privatisation was blamed) and Switzerland were the dogs. The order book was up 30% at £228m - >1-times revenue - and over half (c£125m) deliverable this year.

The core Computer Services business (we mustn't call it TPM) grew by 32% and represents c92% (£196m) of the total revenue. Margins were only 5.5% - also held back by wafer-thin profitability on contracts with ex-parent Granada Group - but these expire Sep. 00. Most of the growth came from desktop services - traditional data centre support revenues only grew c1%.

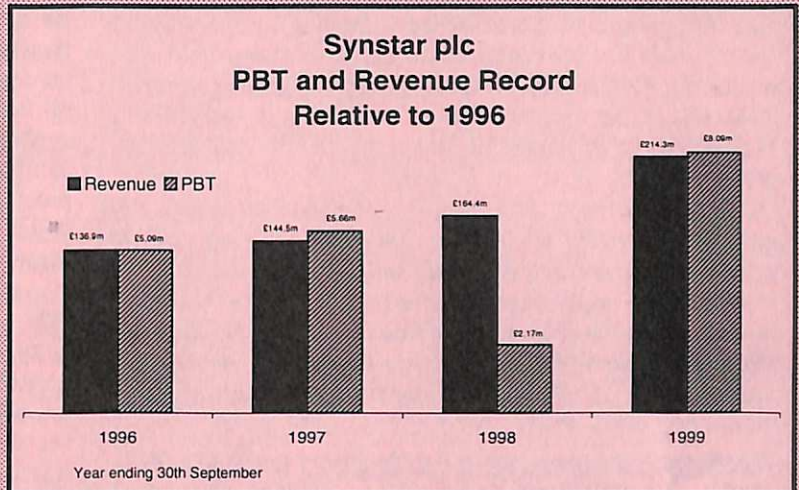
Business Continuity (disaster recovery to thee and me) grew by 15% to c£18m and maintained operating margins at c27%. There were new contracts from ITNET (also a Computer Services customer), Rover, Proximus and Volvo. BC enjoys contracts in the 3-5 year range (cf. 1-3 years for Computer Services) - i.e. more like outsourcing - which it is, in fact!

CEO Richard Ferre was pretty pleased with the results - as he should be. He sees the future as organic growth and further bolt-on acquisitions - which they will certainly need if they are to become "one of the five largest European IT service providers" within 5 years of the float. They could do another **Lancare** sized acquisition (Sep. 99 - max. consideration £12.5m) from their own resources. He sees the future selling more to the same clients. "More wood behind the one arrow" as one CEO once famously remarked.

Comment - Great results! We have had a very long association with Synstar - through bad, then awful, and now rather good times. We were greatly upset with the manner of the IPO in Feb. 99. We (like other analysts) actually wanted to help. But the "advisers" to the IPO acted, in our opinion, against Synstar's interests. That meant that the IPO share price of 165p went to a discount for a long while. But whereas our SCS Index has more than doubled this year since the IPO, Synstar closed the night before the results were announced on just 184p valuing them at about £280m or about 1.3-times revenues. Given the order book, the quality of earnings etc. that looks somewhat out of line! The rumours of Synstar being an acquisition target itself would only intensify if the price stayed at that level.

Synstar proves again the 'quality' of being in 'boring' IT services. OK, there's not a lot of 'glam' in system support or disaster recovery - but they are as much an integral part of the e-commerce phenomenon as any 'dot.com' company. After all, who do you call on when your e-commerce server goes down - or indeed if your office catches fire (as happened to MTV, one of Synstar's customers)? In the longer haul we do expect to see Synstar get into 'real' e-commerce services - perhaps as an ASP - but for the while they are rightly building on what they do best - and they do it very well indeed.

PS. Congratulations to Synstar - they published their annual report on the same day they announced their results. Now why can't other SCS companies do that?



Total Systems - how long must the saga continue?

We live in a strange world nowadays. In the six months to 30th Sept. 99, **Total Systems** announced revenue down over one-third to just £1.2m, and the previous PBT of £495K was turned into a loss of £128K. At least it was more or less as expected after the "Y2K microclimate" induced profit warning in October. But, yet again, Bourne sees a better future. "Interest in our products has continued at an exceptionally high level and we are now beginning to see these prospects placing orders....The Board looks forward to the coming year with optimism". Somehow feel we have heard all that before....

Total Systems was a USM IPO in 1988 at 85p. And until the 123% rise this month to 145p, the shares were trading at a discount for most of those 12 years. The similarity with 1988 is that Terry Bourne is still the Chairman and CEO. The difference is that he made PBT of £835K in 1988 but managed a loss of £128K in the last six months. Total is one of companies which either should never have gone public in the first place or should now do the decent thing and put its long-suffering shareholders out of their misery by accepting a bid or taking themselves private.

January 2000

Mondas - more revenue, higher losses

Mondas which now (of course) describes itself as an "e-commerce software house" announced results for the six months to 31st Oct. 99. Revenue almost trebled to £642K but losses went up from £208K to £390K. Mind you Mondas has never made a profit since their AIM float at 75p in Oct. 96 - so no change there. The company now plan to focus its UK efforts on the securities and banking sectors to capitalise upon their experiences in this sector. Chairman Tim Simon has hinted that the company might even eventually make a profit when he said "Had it not been for the one-off recruitment costs we incurred, we were almost at break-even point in the last three months of the period".

The shares ended the month up 71% on 109p - a market capitalisation of £13.7m. Mind you, given the valuations of other more imaginary e-commerce players...

Sorry

We made a mistake on our Capitalisation table last month where we showed the values as at end of Oct. not Nov. These have now been corrected in the table on p9. Sorry.

e-power at Cedar Group

For the six months to 30th Sep. 99, Cedar Group announced revenues up a massive 61% to £11.7m and managed to turn the previous loss of £971K into a PBT of just £55K (after amortisation of goodwill). Licence revenues rose 83% to £4.2m, Consultancy & Training was up 82% to £3.7m with Maintenance increasing a lower, but still creditable, 19% at £2.8m. Other revenues almost doubled at £919K. Last month's rights issue was a resounding success with a 98% take up which raised £26.7m for future growth.

MD Mike Harrison was "particularly excited about the establishment of e-Cedar - an ASP offering clients enterprise level applications without the set-up and maintenance costs associated with an in-house system". Surprise surprise, this e-commerce launch did wonders for the share price which immediately rose 42% - a tribute to the powers of "e". The shares continued to rise to end the month on 558p - more than doubled in the month.

NetBenefit to move to AIM (and techMARK)

NetBenefit was an AIM IPO in June 99 at 200p. We are a great fan. Firstly because they power our site for us (and, as you know, it almost never goes down!) and secondly it is in the "picks and shovels" sector of the internet; making real revenue, real profits.

This month they have acquired their main competitor in the internet domain name registration sector - **Netnames International** - for £1.1m cash + 2.9m shares (c£18.6m). This makes NetBenefit by far the lead player in the corporate domain name registration sector in the UK and provides a raft of opportunities to sell further "picks and shovels" to SMEs in particular. Netnames had revenue of £2.36m and a loss before tax of £762K in year to 31st Mar 99. Revenue of £902K/loss before tax of £144K in 3 months to 30th June 99. Conversely NetBenefit made revenue of £1.97m and PBT of £280K in year to 30th June 99 - so the opportunities for profit bringing the two together are significant.

NetBenefit is also moving from AIM to the full list (where they will enter techMARK too) and raising £3.3m (at a now lowly 530p per share) in a cash placing. The acquisition boosted their share price this month with a 63% rise to 890p.

Jasmin not blooming at interim stage

Another of our new additions to our SCS Index is **Jasmin** - design and production of products for the defence, transport and security markets. They were launched on AIM in Dec. 95 at 150p - a capitalisation of c£6m - but have since moved to the main market. At the interim stage for the six months ended 30th Sep. 99, they didn't fare too well with revenue down 5% at £3m with the previous PBT of £269K turned into a small loss of £94K. These results "reflect the continued change in business mix towards IT and SI and significantly increased cost of product development".

The shares ended the month up just 4% on 125p.

People...

Trevor Read, **Gresham's** MD, is leaving the company at the end of Jan. 00. Bill Simpson is to replace him with immediate effect. As we were rather involved with Trevor's original appointment, we will not comment further.

CMG's FD Chris Banks is to leave the main board but will remain a non-exec.

David Higgins is to become CEO of **Harvey Nash** and Tom Crawford Deputy Chairman from Feb. 00. They are currently joint MDs.

Company news....

...**Romtec's** shares shot up 56% this month after a considerable time when they have hardly moved at all. Well the 'power of e' (we ought to copyright this one too!) has raised its head yet again after Romtec said it "expected to be awarded a contract shortly through its e-Research business worth c£850K over 3 years". I.e <£300K p.a. This contract (note not yet signed) will only have a limited effect on the current year's trading.

... **Cap Gemini** is creating a 1,000 strong e-business unit to fight competition from specialist internet companies in providing web consultancy services. But of course the big news this month is their possible "merger" with **Ernst & Young's** IT consulting business. The merger will catapult Cap Gemini up the worldwide league table with total revenue c\$6.3 billion. UK revenue will increase from c£600m to c£756m (and these are based on 1998 figures!)

...**CMG** (now in the FTSE100) said that sales growth is expected to slow "but will remain above the market average". Further acquisitions (probably large and within Europe) are not ruled out by Chairman Cor Stutterheim. We were surprised that FD Chris Banks is to step down.

... **Logica** has confirmed at an analysts briefing that "current trading remains in line with expectations". Strong growth is expected in their mobile network business and in the Asia Pacific Middle East.

...**Exchange Holdings**, the third largest UK .com company has signed a co-branding deal with the UK arm of Yahoo! Their sites will merge by Mar. 00. The Exchange share price has now "caught up" with similar companies (Freeserve and QXL) rising 40% this month to end on 344p.

... we don't normally comment on US IPOs but **Va Linux Systems** saw its shares rise almost 700% in "a market infatuated with high tech. and internet stocks". This rise is a US (and worldwide?) all-time first day record!

...UK internet and software translation company **SDL** couldn't quite match Va Linux above. An IPO at 134p, the shares ended the first day's trading up nearly threefold and a market capitalisation of c£130m. They ended December on 406p - (cap. £136m). Not bad for a company with £10m revenue and PBT of £177K. Still that's the mad, mad world we live in nowadays....

...**Azlan** has moved ahead with its .com strategy with the launch of its on-line trading platform Azlan.com. The site was developed in conjunction with **Cambridge Technology Partners** and **BroadVision**. The market reacted well (not that this is a surprise nowadays) and the shares went up 62% this month.

... **Terence Chapman Group** has issued a quasi profit warning saying that interim profits will be more seriously affected by Y2K than previously thought. But results for the full year to June should be satisfactory. The market was totally unperturbed at the news and indeed they ended the month nearly double on 633p.

... **JSB Software** has decided to maintain its London quote (and move to the main market) as well as its recently acquired EASDAQ quote. JSB has said the reason for this decision is due to the success of the techMARK index. Great news....

... **Rage** has raised c£6.3m in a placing at 52p to provide resources to expand their title range.

- **Macro 4** has announced the appointment of two new non-execs in the form of Bert Morris and Peter Meader. Morris was until recently a non-exec at Regent Associates until its acquisition by Communications Equity Associates and is also a non-exec of Lorien and MetroLine. Meader is ex-Coopers and Lybrand. These appointments follow the sad news of the death of non-exec Chairman Lars Turndal.

Quoted Companies - Results Service

Note: Highlighted Names indicate results announced this month.

Admiral plc				Easynet Group plc				Lynx Group plc							
Interim - Jun 98	Final - Dec 98	Interim - Jun 99	Comparison	Final - Dec 97	Final - Dec 98	Comparison	Final - Sep 98	Final - Sep 99	Comparison	Final - Sep 98	Final - Sep 99	Comparison			
REV £65,805,000	£147,187,000	£94,927,000	+29.1%	£7,433,000	£16,978,000	+128.4%	REV £180,870,000	£212,541,000	+17.5%	REV £180,870,000	£212,541,000	+17.5%			
PBT £10,329,000	£23,479,000	£19,936,000	+5.9%	£-1,315,000	£143,000	Loss to profit	PBT £13,252,000	£11,017,000	-16.9%	PBT £13,252,000	£11,017,000	-16.9%			
EPS 10.20p	24.50p	11.20p	-9.2%	6.21p	0.53p	Loss to profit	EPS 8.67p	6.82p	-21.3%	EPS 8.67p	6.82p	-21.3%			
AFA Systems plc				ECsoft Group plc				MMT Computing plc							
Interim - Jun 98	Final - Dec 98	Interim - Jun 99	Comparison	Interim - Jun 98	Final - Dec 98	Interim - Jun 99	Comparison	Final - Aug 98	Final - Aug 99	Comparison	Final - Aug 98	Final - Aug 99	Comparison		
REV £113,000	£205,000	£386,000	+241.6%	REV £30,193,000	£62,211,000	£34,188,000	+13.2%	REV £36,698,698	£41,024,210	+11.8%	REV £36,698,698	£41,024,210	+11.8%		
PBT -£1,064,000	-£1,444,000	-£716,000	Loss both	PBT £2,882,000	£8,108,000	£2,840,000	-1.5%	PBT £10,005,754	£9,710,952	-2.9%	PBT £10,005,754	£9,710,952	-2.9%		
EPS -8.40p	-11.80p	-4.70p	Loss both	EPS 19.70p	49.90p	15.20p	-22.8%	EPS 50.60p	52.20p	-3.2%	EPS 50.60p	52.20p	-3.2%		
AIT Group plc				Eidos plc				MDIS Group plc							
Interim - Sep 98	Final - Mar 99	Interim - Sep 99	Comparison	Interim - Sep 98	Final - Mar 99	Interim - Sep 99	Comparison	Interim - Jun 98	Final - Dec 98	Interim - Jun 99	Comparison	Interim - Jun 98	Final - Dec 98	Interim - Jun 99	Comparison
REV £8,429,000	£17,460,000	£9,765,000	+15.9%	REV £47,586,000	£26,284,000	£44,050,000	-7.4%	REV £61,518,000	£31,014,000	£68,609,000	+11.5%	REV £61,518,000	£31,014,000	£68,609,000	+11.5%
PBT £1,262,000	£2,764,000	£1,530,000	+21.2%	PBT £-18,928,000	£37,920,000	£37,907,000	Loss both	PBT £-387,000	£3,966,000	£-8,116,000	Loss both	PBT £-387,000	£3,966,000	£-8,116,000	Loss both
EPS 4.11p	9.08p	5.06p	+23.1%	EPS -80.60p	141.50p	-146.20p	Loss both	EPS -0.16p	3.06p	-3.03p	Loss both	EPS -0.16p	3.06p	-3.03p	Loss both
Alphameric plc				Electronic Data Processing plc				Macro 4 plc							
Interims - May 98	Final - Nov 98	Interims - May 99	Comparison	Interim - Mar 98	Final - Sep 98	Interim - Mar 99	Comparison	Final - Jun 98	Final - Jun 99	Comparison	Final - Jun 98	Final - Jun 99	Comparison		
REV £6,183,000	£11,460,000	£11,161,000	+80.5%	REV £5,812,000	£11,518,000	£5,469,000	-5.9%	REV £24,234,000	£31,025,000	+28.0%	REV £24,234,000	£31,025,000	+28.0%		
PBT £-421,000	£900,000	£1,010,000	Loss to profit	PBT £1,235,000	£2,210,000	£1,225,000	-0.8%	PBT £10,060,000	£10,400,000	+3.4%	PBT £10,060,000	£10,400,000	+3.4%		
EPS -0.70p	1.20p	1.20p	Loss to profit	EPS 3.23p	5.89p	3.24p	+0.3%	EPS 33.70p	34.80p	+3.3%	EPS 33.70p	34.80p	+3.3%		
Anite Group plc				F.I. Group plc				MERANT plc							
Final - Apr 98	Final - Apr 99	Comparison	Final - Apr 98	Final - Apr 99	Comparison	Interim - Oct 98	Final - Apr 99	Interim - Oct 98	Final - Apr 99	Interim - Oct 99	Comparison	Interim - Oct 98	Final - Apr 99	Interim - Oct 99	Comparison
REV £149,540,000	£180,829,000	+20.9%	REV £161,595,000	£228,353,000	+41.3%	REV £69,411,000	£215,473,000	£111,925,000	+61.2%	REV £69,411,000	£215,473,000	£111,925,000	+61.2%		
PBT £29,049,000	£6,788,000	-76.6%	PBT £10,670,000	£17,025,000	+59.6%	PBT £-5,878,000	£11,572,000	£-1,593,000	Loss both	PBT £-5,878,000	£11,572,000	£-1,593,000	Loss both		
EPS 8.70p	1.50p	-82.8%	EPS 3.68p	5.80p	+57.6%	EPS -6.00p	-14.30p	-10.00p	Loss both	EPS -6.00p	-14.30p	-10.00p	Loss both		
Axon Group plc				Financial Objects plc				Microgen plc							
Interim - Jun 98	Final - Dec 98	Interim - Jun 99	Comparison	Interim - Jun 98	Final - Dec 98	Interim - Jun 99	Comparison	Interim - Jun 98	Final - Dec 98	Interim - Jun 99	Comparison	Interim - Jun 98	Final - Dec 98	Interim - Jun 99	Comparison
REV £7,488,000	£20,024,253	£11,744,000	+66.8%	REV £10,275,000	£21,662,000	£10,690,000	+4.0%	REV £32,560,000	£70,105,000	£15,472,000	+52.5%	REV £32,560,000	£70,105,000	£15,472,000	+52.5%
PBT £287,000	£1,824,401	£1,686,000	+487.5%	PBT £1,589,000	£3,438,000	£2,649,000	+66.7%	PBT £1,285,000	£8,492,000	£1,516,000	+18.0%	PBT £1,285,000	£8,492,000	£1,516,000	+18.0%
EPS 0.40p	2.80p	2.20p	+450.0%	EPS 4.13p	8.98p	6.20p	+25.9%	EPS 0.40p	2.20p	2.10p	+425.0%	EPS 0.40p	2.20p	2.10p	+425.0%
Azlan Group plc				Flomerics Group plc				Mispys plc							
Interim - Oct 98	Final - Mar 99	Interim - Oct 99	Comparison	Interim - Jun 98	Final - Dec 98	Interim - Jun 99	Comparison	Final - May 98	Final - May 99	Comparison	Final - May 98	Final - May 99	Comparison		
REV £153,711,000	£342,861,000	£193,984,000	+26.2%	REV £2,938,163	£6,910,106	£3,443,222	+17.2%	REV £447,700,000	£582,000,000	+30.0%	REV £447,700,000	£582,000,000	+30.0%		
PBT £-424,000	£3,835,000	£2,369,000	Loss to profit	PBT £-268,699	£384,123	£-149,606	Loss both	PBT £51,700,000	£91,400,000	+67.8%	PBT £51,700,000	£91,400,000	+67.8%		
EPS 0.80p	2.60p	1.60p	Loss to profit	EPS n/a	10.10p	n/a	Loss both	EPS 5.70p	10.60p	+86.0%	EPS 5.70p	10.60p	+86.0%		
Baltimore Technologies plc				Gresham Computing plc				Mondas plc							
Interim - Jun 98	Final - Dec 98	Interim - Jun 99	Comparison	Interim - Apr 98	Final - Oct 98	Interim - Apr 99	Comparison	Interim - Oct 98	Final - Apr 99	Interim - Oct 99	Comparison	Interim - Oct 98	Final - Apr 99	Interim - Oct 99	Comparison
REV £7,970,000	£9,883,512	£9,810,000	+23.1%	REV £8,522,000	£23,063,000	£16,301,000	+91.3%	REV £223,945	£955,301	£641,678	+186.5%	REV £223,945	£955,301	£641,678	+186.5%
PBT £-523,000	£-173,012	£16,000,000	Loss both	PBT £1,017,000	£3,003,000	£1,483,000	+45.8%	PBT £-208,004	£-520,770	£-390,900	Loss both	PBT £-208,004	£-520,770	£-390,900	Loss both
EPS -6.40p	-25.30p	57.40p	Loss both	EPS 1.91p	5.46p	2.35p	+23.0%	EPS 3.40p	-5.70p	-3.10p	Loss both	EPS 3.40p	-5.70p	-3.10p	Loss both
Baron Corporation plc				Guardian IT plc				Moorepay Group plc							
Final - Aug 97	Final - Aug 99	Comparison	Final - Aug 97	Final - Dec 98	Interim - Jun 99	Comparison	Interim - Jun 98	Final - Dec 98	Interim - Jun 99	Comparison	Interim - Jun 98	Final - Dec 98	Interim - Jun 99	Comparison	
REV £3,758,000	£1,513,000	£2,364,000	-37.1%	REV £13,706,000	£29,693,000	£19,647,000	+43.3%	REV £3,181,000	£8,365,688	£5,662,000	+78.0%	REV £3,181,000	£8,365,688	£5,662,000	+78.0%
PBT £85,000	£-84,000	£175,000	Profit to loss	PBT £2,959,000	£6,629,000	£3,614,000	+22.1%	PBT £1,141,000	£2,043,492	£1,617,000	+41.7%	PBT £1,141,000	£2,043,492	£1,617,000	+41.7%
EPS n/a	n/a	n/a	Profit to loss	EPS 3.94p	9.00p	4.79p	+21.6%	EPS 7.14p	12.39p	9.51p	+33.2%	EPS 7.14p	12.39p	9.51p	+33.2%
Bond International Software plc				Harvey Nash Group plc				Morse Holdings plc							
Interim - Jun 98	Final - Dec 98	Interim - Jun 99	Comparison	Interim - Jul 98	Final - Jan 99	Interim - Jul 99	Comparison	Final - Jun 98	Final - Jun 99	Comparison	Final - Jun 98	Final - Jun 99	Comparison		
REV £4,320,000	£8,807,697	£4,567,000	+6.7%	REV £44,861,000	£104,851,000	£71,899,000	+60.3%	REV £216,101,000	£283,943,000	+31.4%	REV £216,101,000	£283,943,000	+31.4%		
PBT £284,000	£285,378	£327,000	+15.1%	PBT £4,074,000	£8,869,000	£5,326,000	+30.7%	PBT £11,799,000	£18,853,000	+59.8%	PBT £11,799,000	£18,853,000	+59.8%		
EPS 1.37p	4.54p	1.68p	+15.3%	EPS 9.52p	19.29p	11.81p	+24.1%	EPS 19.60p	27.70p	+22.70p	EPS 19.60p	27.70p	+22.70p		
Cadcentre Group plc				Highams Systems Services Group plc				MSB International plc							
Interim - Sep 98	Final - Mar 99	Interim - Sep 99	Comparison	Interim - Sep 98	Final - Mar 99	Interim - Sep 99	Comparison	Interim - Jun 98	Final - Jan 99	Interim - Jun 99	Comparison	Interim - Jun 98	Final - Jan 99	Interim - Jun 99	Comparison
REV £8,798,000	£17,861,000	£10,929,000	+24.2%	REV £16,163,000	£34,069,990	£14,967,000	+7.4%	REV £90,403,000	£191,345,000	£99,869,000	+10.5%	REV £90,403,000	£191,345,000	£99,869,000	+10.5%
PBT £1,367,000	£3,001,000	£1,900,000	+39.0%	PBT £782,000	£1,524,855	£2,000	-99.7%	PBT £5,474,000	£8,088,000	£4,185,000	+23.5%	PBT £5,474,000	£8,088,000	£4,185,000	+23.5%
EPS 4.92p	11.21p	7.94p	+61.4%	EPS 0.70p	5.40p	0.07p	Profit to loss	EPS 17.90p	27.00p	16.00p	+10.6%	EPS 17.90p	27.00p	16.00p	+10.6%
Capita Group plc				ICM Computer Group plc				MSW Technology plc							
Interim - Jun 98	Final - Dec 98	Interim - Jun 99	Comparison	Final - Jun 98	Final - Jun 99	Comparison	Final - May 98	Final - May 99	Comparison	Final - May 98	Final - May 99	Comparison			
REV £117,907,000	£231,802,000	£150,227,000	+27.4%	REV £35,881,000	£40,047,000	£38,544,000	+1.6%	REV £2,909,951	£1,896,518	£1,896,518	-34.8%	REV £2,909,951	£1,896,518	£1,896,518	-34.8%
PBT £10,484,000	£27,019,000	£14,115,000	+34.6%	PBT £2,702,000	£4,335,000	£4,000	+60.4%	PBT £502,442	£1,641,522	Profit to loss	PBT £502,442	£1,641,522	Profit to loss		
EPS 3.85p	8.68p	4.59p	+37.0%	EPS 8.70p	14.90p	0.00p	+71.3%	EPS 7.05p	20.86p	Profit to loss	EPS 7.05p	20.86p	Profit to loss		
Cedar Group plc				Intelligent Environments Group plc				NetBenefit plc							
Interim - Sep 98	Final - Mar 99	Interim - Sep 99	Comparison	Interim - Jun 98	Final - Dec 98	Interim - Jun 99	Comparison	Period to Jun 98	Final - Jun 99	Comparison	Final - Jun 98	Final - Jun 99	Comparison		
REV £7,249,000	£23,045,000	£11,688,000	+61.2%	REV £2,627,000	£6,633,118	£4,050,000	+57.7%	REV £1,388,823	£1,969,751	+43.9%	REV £1,388,823	£1,969,751	+43.9%		
PBT £-271,000	£2,807,000	£55,000	Loss to profit	PBT £-874,000	£1,024,104	£-370,000	Loss both	PBT £-2,857	£279,862	Loss to Profit	PBT £-2,857	£279,862	Loss to Profit		
EPS -2.30p	5.50p	0.10p	Loss to profit	EPS 3.20p	3.42p	-1.20p	Loss both	EPS n/a	n/a	Loss to Profit	EPS n/a	n/a	Loss to Profit		
CFS Group plc				Internet Technology Group plc				NSB Retail Systems plc							
Interim - Jun 98	Final - Dec 98	Interim - Jun 99	Comparison	Interim - Apr 98	Final - Oct 98	Interim - Apr 99	Comparison	Interim - Jun 98	Final - Dec 98	Interim - Jun 99	Comparison	Interim - Jun 98	Final - Dec 98	Interim - Jun 99	Comparison
REV £3,160,000	£10,989,000	£6,090,000	+92.7%	REV £4,285,000	£11,012,000	£8,854,000	+106.6%	REV £3,413,000	£8,366,637	£5,214,000	+52.8%	REV £3,413,000	£8,366,637	£5,214,000	+52.8%
PBT £161,000	£1,223,000	£262,000	+62.7%	PBT £-164,000	£55,000	£-1,588,000	Loss both	PBT £749,000	£1,477,983	£73,000	+15.6%	PBT £749,000	£1,477,983	£73,000	+15.6%
EPS 1.23p	8.33p	1.29p	+4.9%	EPS -0.42p	0.12p	-3.43p	Loss both	EPS 4.30p	8.00p	4.50p	+4.7%	EPS 4.30p	8.00p	4.50p	+4.7%
Clinical Computing plc				IS Solutions plc				Oxford Molecular plc							
Interim - Jun 98	Final - Dec 98	Interim - Jun 99	Comparison	Interim - Jun 98	Final - Dec 98	Interim - Jun 99	Comparison	Interim - Jun 98	Final - Dec 98	Interim - Jun 99	Comparison	Interim - Jun 98	Final - Dec 98	Interim - Jun 99	Comparison
REV £1,664,000	£3,039,301	£1,561,000	-6.2%	REV £4,200,000	£8,745,633	£4,300,000	+2.4%	REV £7,737,000	£21,505,000	£10,161,000	+31.3%	REV £7,737,000	£21,505,000	£10,161,000	+31.3%
PBT £205,000	£276,584</														

Rage Software plc				Sema Group plc				Torex plc			
Final - Jun 98	Interim - Mar 99	Final - Jun 99	Comparison	Interim - Jun 98	Final - Dec 98	Interim - Jun 99	Comparison	Interim - Jun 98	Final - Dec 98	Interim - Jun 99	Comparison
REV £3,623,000		£8,845,000	+144.1%	REV £610,600,000	£1,250,400,000	£668,600,000	+9.5%	REV £9,426,000	£21,770,000	£18,532,000	+96.6%
PBT £860,000		£3,121,000	+262.9%	PBT £31,100,000	£97,800,000	£37,900,000	+21.9%	PBT £1,603,000	£2,982,000	£1,775,000	+10.7%
EPS 0.32p		1.03p	+221.9%	EPS 4.80p	14.60p	5.80p	+20.8%	EPS 3.80p	6.80p	3.90p	+2.6%
RDL Group plc				Sherwood International plc				Total Systems plc			
REV £10,615,000	£8,532,000	£15,692,000	+47.8%	REV £18,090,000	£42,591,000	£22,493,000	+24.3%	REV £1,780,866	£3,247,157	£1,180,727	-33.7%
PBT £298,000	£451,000	£1,154,000	+287.2%	PBT £1,846,000	£5,494,000	£2,881,000	+56.1%	PBT £495,484	£629,873	£128,216	Profit to loss
EPS n/a	n/a	n/a	n/a	EPS 3.00p	9.00p	4.30p	+43.3%	EPS 3.31p	4.29p	0.88p	Profit to loss
Real Time Control plc				SkillsGroup plc				Touchstone Group plc			
REV £8,590,000	£16,795,000	£9,319,000	-48.5%	REV £96,400,000	£208,400,000	£115,000,000	+19.3%	REV £3,508,000	£7,663,000	£4,812,000	+37.2%
PBT £1,887,000	£4,366,000	£2,189,000	+16.0%	PBT £6,600,000	£14,400,000	£6,400,000	-3.0%	PBT £460,000	£1,048,000	£678,000	+47.4%
EPS £18.50p	42.30p	21.80p	+17.8%	EPS 5.80p	12.30p	5.30p	-8.6%	EPS 3.34p	7.60p	4.75p	+42.2%
Recognition Systems Group plc				Sopheon plc				Trace Computers plc			
REV £788,000		£2,315,000	+193.8%	REV £440,000	£891,000	£506,000	+15.0%	REV £14,658,625	£17,073,000	£17,073,000	+16.5%
PBT £2,260,000		£1,609,000	Loss both	PBT £390,000	£981,000	£561,000	Loss both	PBT £1,205,166	£4,367,000	£4,367,000	+262.4%
EPS -6.30p		-2.30p	Loss both	EPS -2.00p	-5.20p	-3.00p	Loss both	EPS 6.11p	25.94p	25.94p	+324.5%
Rofle & Nolan plc				Spring Group plc				Triad Group plc			
REV £9,544,000	£21,000,000	£10,707,000	+12.2%	REV £18,109,000		£14,180,000	-21.7%	REV £32,161,000		£8,629,000	+53.3%
PBT £205,000	£1,600,000	£642,000	+213.2%	PBT £18,109,000		£14,180,000	-21.7%	PBT £6,609,000		£8,629,000	+30.6%
EPS -2.27p	7.90p	3.38p	Loss to profit	EPS 8.30p		6.09p	-26.6%	EPS 17.62p		22.74p	+29.1%
Romtec plc				Staffware plc				Ultima Networks plc			
REV £1,861,000	£3,900,572	£1,845,000	-0.9%	REV £9,641,000	£22,187,000	£11,223,000	+16.4%	REV £8,280,000	£14,437,000	£6,470,000	-21.9%
PBT £30,000	£273,934	£94,000	+213.3%	PBT £231,000	£250,000	£716,000	+210.0%	PBT £1,070,000	£5,093,000	£610,000	Loss both
EPS -0.30p	2.30p	0.50p	Loss to profit	EPS 1.20p	1.10p	3.50p	+191.7%	EPS -1.27p	-4.85p	-1.27p	Loss both
royalblue Group plc				Superscape VR plc				Vega Group plc			
REV £13,312,000	£29,514,000	£17,905,000	+34.5%	REV £4,220,000		£3,071,000	-27.2%	REV £22,457,000		£28,993,000	+29.1%
PBT £1,815,000	£4,543,000	£2,744,000	+51.2%	PBT £4,220,000		£2,765,000	Loss both	PBT £3,081,000		£4,292,000	+39.3%
EPS 3.70p	9.30p	5.50p	+48.6%	EPS -37.30p		-22.50p	Loss both	EPS 13.71p		17.42p	+27.1%
Sage Group plc				Synstar plc				VI Group plc			
REV £191,547,000		£307,041,000	+60.3%	REV £164,425,000		£214,289,000	+30.3%	REV £1,828,000	£4,117,000	£2,201,000	+20.4%
PBT £47,635,000		£74,313,000	+56.0%	PBT £2,169,000		£8,094,000	+273.2%	PBT £19,000	£333,000	£1,317,000	Loss to profit
EPS 2.85p		4.17p	+46.4%	EPS 1.70p		3.60p	+111.8%	EPS -0.17p	2.40p	0.37p	Loss to profit
Sanderson Group plc				Systems Integrated Research plc				Vocalis Group plc			
REV £34,743,000	£73,589,000	£54,366,000	+56.5%	REV £1,035,000		£1,405,000	+35.7%	REV £1,342,000	£4,820,000	£1,318,000	-1.8%
PBT £4,049,000	£8,592,000	£5,609,000	+38.5%	PBT £493,000		£140,000	Loss to profit	PBT £1,050,000	£1,098,000	£1,963,000	Loss both
EPS 6.20p	12.80p	7.20p	+16.1%	EPS -4.00p		0.71p	Loss to profit	EPS 3.22p	3.36p	4.84p	Loss both
SBS Group plc				Systems International Group plc - Pro Forma only				XKO Group plc - Pro-forma only			
REV £35,856,000		£53,305,000	+48.7%	REV £6,438,894		£12,371,337	+92.1%	REV £13,217,000	£28,428,000	£13,485,000	+2.0%
PBT £1,485,000		£2,219,000	+49.4%	PBT £728,120		£1,573,632	+116.1%	OP £1,195,000	£2,667,000	£1,313,000	+9.9%
EPS 11.70p		16.10p	+37.6%	EPS 1.40p		3.10p	+121.4%	EPS 3.50p	8.20p	3.90p	+11.4%
Science Systems plc				Terence Chapman Group plc				Congratulations to Steve Shirley, founder of FI Group, who was made a Dame in the New Year's Honours.			
REV £12,107,000	£24,319,000	£16,615,000	+37.2%	REV £20,866,000		£30,641,000	+46.8%				
PBT £1,245,000	£2,217,000	£1,511,000	+21.4%	PBT £3,390,000		£4,464,000	+31.7%				
EPS 4.70p	8.90p	6.30p	+34.0%	EPS 4.02p		5.45p	+35.6%				

Another Amazing Month...

Dec. 99 was almost as amazing as Nov. Our SCS Index put on another 33% making a 191% gain on the year. It beat both the techMARK 100 and the FTSE IT Index - showing that the smaller stocks were in most demand. The leaders were **EDP** (up 202%), **Baron** (up 140%), **JSB** (up 131%). Indeed 10 companies doubled in December. **Intelligent Environments** lost 20% on profit taking - it's still up 526% on the year!

End Dec 99	Move since 1st Jan 98	Move since 1st Jan 99	Move in Dec 99
System Houses	296.5%	155.8%	37.8%
IT Staff Agencies	-4.6%	14.9%	18.6%
Resellers	95.2%	107.6%	30.3%
Software Products	386.5%	315.8%	33.7%

31-Dec-99	SCSI Index	11471.00
	FTSE IT (SCS) Index	4303.70
	techMARK 100	3779.40
	FTSE 100	6930.20
	FTSE AIM	1932.70
	FTSE SmallCap	3097.80

Changes in Indices	SCSI Index	FTSE 100	techMARK 100	FTSE IT SCS Index	FTSE AIM Index	FTSE Small Cap
Month (30/11/99 to 31/12/99)	+32.57%	+5.05%	+23.32%	+29.79%	+17.96%	+7.82%
From 15th Apr 89	+1047.10%	+237.47%				
From 1st Jan 90	+1146.71%	+193.40%				
From 1st Jan 91	+1520.50%	+220.78%				
From 1st Jan 92	+997.85%	+177.98%				
From 1st Jan 93	+619.82%	+143.46%				+123.29%
From 1st Jan 94	+587.06%	+102.73%				+65.77%
From 1st Jan 95	+665.15%	+126.07%				+77.38%
From 1st Jan 96	+407.90%	+87.85%	+378.86%		+102.71%	+59.55%
From 1st Jan 97	+328.43%	+68.27%	+313.20%		+98.00%	+41.90%
From 1st Jan 98	+277.95%	+34.95%	+296.16%	+330.37%	+94.83%	+33.92%
From 1st Jan 99	+191.03%	+17.81%	+159.57%	+197.63%	+141.11%	+49.59%

YEAR IN REVIEW

...ending One Amazing Year

A 191% gain in our SCS Index is an all time record. **Recognition Systems** was the out-and-out clear leader this year but 62 companies managed to at least double their share price in the year. The smaller stocks dominated the leaders. **Sage** won the FTSE100 novices race - first with a 381% gain; now out of a field of five. Only 15 companies registered any decline - with **Gresham Computing** getting the wooden spoon and CEO Trevor Read quitting this month. Software products companies (up 316%) performed twice as well system houses (up 156%). Even much troubled ITSAs put on 15%!

Top Ten Share Price Moves in 1st Jan 1990 to 31st Dec 1999

Rank	Company	Move
1	Sage	28958%
2	Parity (Comac)	6133%
3	Capita	5847%
4	Eidos	5335%
5	Baltimore (Zergo)	5156%
6	Sherwood	4329%
7	Admiral	4062%
8	CMG	3043%
9	RM	2350%
10	Logica	2029%

Our SCS Index broke 11,000 in Dec. 99, making a 1147% gain in the 10 years since 1st Jan. 1990. Over those ten years, **Sage** is the undisputed leader - up nearly 290-fold since its IPO at today's equivalent of 2.6p. The total market cap. of our SCS Index companies now tops £65 billion - up from just £1.1 billion ten years ago. Mind you, average P/E's for the sector then were just 14 - in Dec. 99 they topped 60. Wonder where they will be in Dec. 2009?

Top Ten Share Price Moves in 1999

Rank	Company	Move
1	Recognition Systems	3390%
2	NSB Retail Systems	1128%
3	Baltimore Technologies	1092%
4	Rage Software	606%
5	Easynet	600%
6	Planit	596%
7	Torex Group	588%
8	AIT Group	557%
9	Intelligent Environments	526%
10	Kewill Systems	514%

Worst Share Performances in 1999

Rank	Company	Move
1	Gresham Computing	-39%
2	ECSOFT	-39%
3	Oxford Molecular	-38%
4	MDIS Group	-34%
5	Highams Systems Servs	-34%

Expertise Group is to buy **Direct Computer Training** and **DCT Resources** for an initial £5m and up to a further £2m on profits. Expertise also has plans to raise £1.75m via a placing at 30p and has been admitted onto AIM. Despite depressed H2 trading due to the Y2K situation, their results to Feb. 00 "will be in line with expectations".

365 Corp has acquired **e-Merchants Inc.** (owners of **RugbyRugby.com**) for \$1.65m.

Interactive Investor International plans a float in 2000 at a likely valuation of c£180m. They provide on-line investment information software for stockbrokers and will raise a net c£30m for expansion. Another potential very high multiple turnover float as revenue is only £2.6m (with losses of £6.3m).

Sherwood International has bought **ISS Re** and the remaining 51% of **Sherwood ISS** from JV partner **US Allenbrook** for \$4.6m. They will also receive \$4.9m from Allenbrook's parent **AMS** for taking on certain liabilities. Sherwood is selling its 12.65% interest in Allenbrook back to AMS for the book value of £5.4m. Sherwood has also agreed to buy **US Mattioda Associates Inc.** for an initial \$10.1m and up to a further \$9.5m more on performance. Mattioda provides systems to the US life, pension and annuity markets and had 1998 revenues of \$8.7m and profits of \$1.1m

Belfast based **ICS Unicomp** has been acquired by **W&R Barnett Ltd** - one of NI's oldest established companies but in the grain and animal feed business - for an undisclosed sum. Clearly a bit of diversification!

QXL.com has acquired Norway's largest on-line auction site with the purchase of **DinSide Auksjon** for £13.2m in shares. DinSide has no audited accounts and losses of £102K in the ten months to Oct. 99. QXL.com is also buying a 50% stake in Dutch **ibidlive N.V** (software for running on-line auctions) for £5.9m in shares.

Diagonal has bought **Eurostar Network Systems** for an initial £6.4m with up to a further £2m. Eurostar specialises in Cisco integration and had 1999 revenues of £6.5m and PBT of £800K.

Protek has acquired **Flagship** - customer care and billing specialist - for an undisclosed sum.

Reuters has bought Spanish systems house **Decision Support Services**. No financial details.

Anite Group has bought two software companies in the fields of tourism (Italian **Opentur SRL** for £3.2m) and local government (**ORBIS** from **Business Computer Technology** for £1.2m).

Irish-NASDAQer **Integrity Holdings** (IT services into the financial services market) has "merged" with UK **Jyris** in a deal worth \$120m. Jyris was formed via an MBO of IBIS in 1998 and had Q3 revenues of \$21.7m and PBT of \$1.8m. Separately, Integrity also acquired UK construction software supplier, **Computer Foundations Ltd**, for \$3m.

IT services group **Skillsgroup** has announced the sale of its Swedish training business- **QA Training AB**- which lost £200K last year. Also the statement confirms that trading for the year ending November has been in line with a recent profit warning. However, the company went on to say that there are clear signs of an upswing in demand and that trading is already improving. That's the first company that we've seen that has announced a post Y2K upswing. *Could there now be more?*

NVision (specialises in providing the IT services/consultancy/build side of e-commerce/web design etc.) have just secured a further £6.8m funding from **Warburg Pincus** plus further funds from **Schroder Ventures** who participated

Mergers and acquisitions - continued

in the first round in 1998.

Lynx has acquired Australian e-banking specialist **Domino On-Line** for an initial £814K plus up to a further £250K on sales. Domino had 99 revenues of £640K and PBT £217K. UK NASDAQer **4Front Technologies** has announced the sale of its storage product business - **Hammer Distribution** - in an MBO for \$13.4m. "Following the Hammer disposal 4Front becomes a company with an annualised revenue run rate of approx. \$240m of which over 90% is services based". They are also investing \$15m on extending e-business capabilities which they hope will represent 20% of revenue by 2003.

Cadcentre has bought the IPRs of **VANTAGE** (engineering data management systems) for £1.5m.

Staffware has placed 630K shares at 540p to raise c£3.4m for future expansion.

Text 100 has placed 17% of the equity at 170p which values them at £38.1m and moved to the main market. That's an historic P/E of 38 and a pretty modest 1.7-times revenues of £22.8m made in year to 31st July 99. In same year PBT rose 26% to £1.7m. Text 100 is one of the largest pure IT PR companies numbering Microsoft UK as their largest client. The shares ended December on 388p - a premium of 128%.

Netvest com. is to increase its share capital by issuing 25m shares at 5p. In their interims for the six months to 30th Nov. 99 they actually made a profit of £61K on revenue of just £95K!

VC **Schroder Ventures** has acquired 22% in **CHL**, Italy's leading on-line specialist for c£47m. CHL has £27m revenue.

Logica has sold its US commercial lending business "no material impact...it will involve a small goodwill write-off".

BT is to invest at least £20m in its Italian free internet venture **Infinito**.

Pilat Technologies has bought the broadcast management systems bit of **Rebus** for an initial £770K. Just to remind you that the whole of Rebus was taken private by Warburg Pincus/General Atlantic in Feb. 99 for c£172m.

NewMedia SPARK has invested £750K for a 8.83% stake in **crocus.co.uk** (web site offering horticultural products) - wonder whether 'pin-up' Charlie is involved, she's into everything else!

PricewaterhouseCoopers has taken a 50% stake in Belgium web design firm **Evisor**. The deal calls for Evisor to receive roughly \$10m over the next three years. This is the latest in a series in investments by PwC to increase their ability to deliver e-business solutions.

Energis has bought a 75% stake in German ISP **BusinessOnline** for DM14.1m.

Voice and data integration specialist **ML Integration** has acquired **ALLnet**. No financial details available.

Recently quoted on AIM **Medi@Invest** has acquired 55% **KZN Media** with an option to acquire the balance.

OFEX quoted **Knowledge Management Software** has raised a further £120K (after the £1.25m raised in Oct. 99 at 20p) in a placing at 60p.

AIM quoted **Pennant International** (support services) is paying £1m for three UK companies; **Solvera Information Services** (documentation), **SIS (Software)** and **SIS (Technologies)** as well as an 85% stake in US based **Omega Logistics International** all from parent **Solvera plc**, which is in administration.

Affinity Internet has bought **Taxi Interactive** (on-line shopping assistant - not anything useful like being able to call up a taxi from your laptop/mobile phone....now that's at least a £1billion IPO!) for up to £12m. Affinity stock has "soared" by 15% to £21 as a result.

Case Technology, an MBO from Anite (nee Cray) 3 years ago, has called in the receivers.

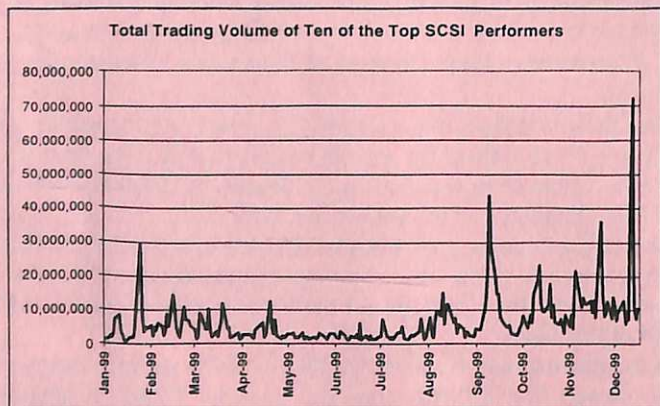
Even better margins at AIT

AIT Group (customer interaction software primarily for the banking industry) reported pre-tax profits up 21% to £1.5m on revenues up 16% to £9.9m for the six months to 30th Sep. 99. Operating margins improved from 14.6% to 15.5% as the mix of AIT's business continued to shift towards license income which represented 22% of revenue compared to 16% in 1998 and 13% in 1997. Earning per share were up 24% to 5.2p. AIT is moving into interactive TV as the next logical step for customer interaction and in the period won a significant contract with the Woolwich. The company sells its product and services both directly and through third parties and a year ago made a conscious decision to increase its alliance programme. Since then, CMG, Ernst and Young and KPMG have been added to the alliance partner list.

Comment: AIT came to the market in 1996. Since then, the company has been successful in staying ahead, but not in front of, the technology curve in a market growing dramatically. Why then, is AIT growing relatively slowly? 16% revenue growth means that AIT is losing market share and, whilst the management has proven itself able to deliver, year in, year out, we are concerned that AIT may be swamped by the larger competition in the CRM race. Having said that, this could make AIT a bid target, but on over 70 times forward earnings any bidder would have to have deep pockets. But the shares ended the month up 94% on £15.10p.

Behold! The Private Investor Cometh

Far be it for us to say "we told you so" ... but it does look like our warnings that "the private investor cometh" have indeed come to pass. It was back in the Mar. 99 issue of *System House* that we first highlighted the increasingly important role that private investors were likely to assume in determining the fortunes of many publicly quoted SCSI companies. At the time (and again in Jul. 99), we exhorted you to pay more attention to your Investor Relations (IR) programmes, and in particular to your web sites. Well as we all now know, there is a massive feeding frenzy on SCSI stocks which has resulted in some companies seeing a dramatic increase in share price over the year. Part of this new-found enthusiasm for SCSI stocks has been fuelled by the new techMARK indices launched in Nov. 99 - but interest in SCSI stocks has been noticeably greater since around the middle of 1999. You can get just a feel for this by looking at the



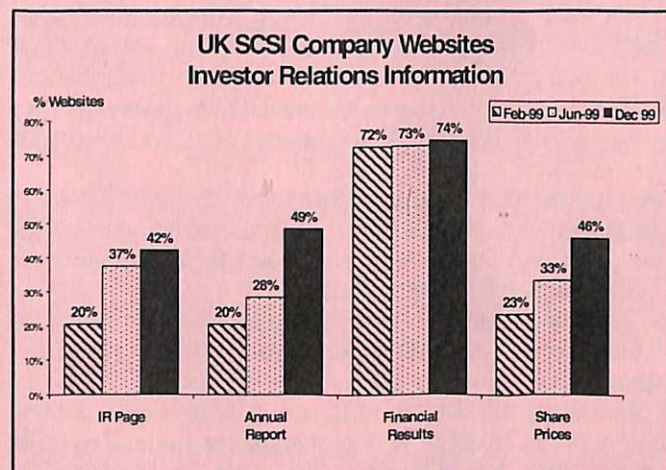
volume of shares traded in the top ten performing SCSI stocks of 1999 - from about July onwards, there is a very visible upwards trend.

The tricky bit is trying to determine how much of this activity comes from the private investor community. All we have at the moment is anecdotal evidence - for example *The Times* (13th Dec. 99) reckons that "private investors are preparing to pour a further £1bn into the stock market in a move that could sustain the current frenzy over high-tech. shares well into the new year". Meanwhile, the *FT* (21/12/99) reported that "Private retail investors were primarily responsible for UK-based technology funds receiving a record inflow of £220m in November ... a 200% rise in technology fund sales". With the growing number of internet-based, execution-only stockbrokers of the likes of Charles Schwab, E*Trade, and DLJ, we can only see this private investor activity increasing.

Which is why we believe even more strongly that publicly quoted SCSI companies need to smarten up their IR act, particularly when it comes to the private investor. Although some of the more savvy private investors will exploit the rapidly growing volume of 'free' research on the web (including, of course, at holway.com and techmarkresearch.com!), the first port of call is likely to be the company web site. We are very much of the opinion that the information you present - and the way that you present it - will be very influential in determining

whether or not the 'punter' will buy your shares.

So once again we have visited every single web site of the 109 SCSI companies currently quoted on the LSE and AIM to see how well you are catering for the private investor. And we are delighted to report continuing improvement compared to our earlier trawl through your web sites. As before, we have focused



on four key measures of a web site's IR 'goodness': Is there is a specific link to an IR section on the web site? Is at least the latest Annual Report available on-line? Are recent financial results available? Can you easily find the current share price? Since we started our campaign, the proportion of web sites with a specific link to an IR section has more than doubled to 42%. What's more, almost half of all your web sites now have at least the latest Annual Report on-line, and 46% are now showing your 'current' share price. However, there are still about a quarter of you who refuse to reveal any financial results at all. This has to be a real disappointment - and, we would think, a real turn-off to the private investor.

As before, there were some 'stars' and some 'turkeys' - unfortunately there were far, far more of the latter. But it was

IR Stars	
CMG	cmg.com
Computacenter	computacenter.com
Sage	sage.com
Torex	torex.co.uk
Just Some IR Turkeys	
Bond International	bondadapt.com
Clinical Computing	ccl.com
DRS	drs.co.uk
EDP	edprmk.demon.co.uk
MMT Computing	mmtplc.co.uk
Mondas	mondas.com
RDL	r-d-l.demon.co.uk

good to see Sage leap into one of the top positions - not before time. Their site also has excellent 'value add' information for private investors. Torex has also made very good use of data from Hemmington Scott. There were also great improvements at Merant, Misy's, Science Systems, Skillsgroup (slick navigation) and Superscape. And do look at Keystone (keystone-solutions.com) to see a natty news release section. And Morse is a contender for the 'Best Newbie IR Content' award. At the other end of the spectrum, RDL wins the 'Naffest Site' award hands down.

But this is not a time for even the 'stars' to rest on their laurels.

System House SCSI Share Prices and Capitalisation

	FTSE IT Index?	SCS Cat.	Share Price 31-Dec-99	Capitalisation 31-Dec-99	Historic P/E	PSR Ratio Cap./Rev.	SCSI Index 31-Dec-99	Share price move since 30-Nov-99	Share price % move in 1999	Capitalisation move since 30-Nov-99	Capitalisation move (£m) in 1999
Admiral	Yes	CS	£15.40	£985.60m	58.0	6.70	55661.01	13.86%	32.19%	£174.40m	£247.00m
AFA Systems		SP	£2.67	£48.50m	Loss	59.95	2220.83	8.78%	145.62%	£3.70m	£34.80m
AIT Group		CS	£15.10	£306.50m	166.9	17.55	10066.67	94.21%	556.52%	£150.90m	£259.80m
Alphameric		SP	£1.47	£113.20m	68.7	16.57	674.31	5.00%	250.00%	£44.90m	£89.00m
Anile Group	Yes	CS	£1.36	£335.10m	43.5	1.85	792.40	51.40%	238.75%	£117.90m	£236.80m
Axon		SP	£5.93	£289.10m	211.4	14.44	3385.71	60.79%	238.57%	£115.20m	£203.70m
Azlan Group	Yes	R	£1.44	£154.40m	29.4	0.45	626.09	61.80%	134.15%	£64.40m	£88.50m
Baltimore Technologies		SP	£51.25	£1,911.00m	Loss	193.36	52564.10	75.36%	1091.86%	£806.00m	£1,833.00m
Baron		SP	£4.30	£13.80m	n/a	5.85	4300.00	140.22%	330.00%	£8.65m	£10.60m
Bond International		SP	£0.74	£10.50m	15.5	1.19	1130.77	-3.29%	-21.81%	-£0.70m	-£2.30m
Cadocentra Group		SP	£3.23	£53.60m	22.3	3.00	1615.00	-2.12%	27.42%	-£3.10m	£11.50m
Capita Group		CS	£11.30	£2,359.00m	130.2	9.92	101801.80	-0.40%	103.42%	£90.00m	£1,260.00m
Cedar Group		SP	£5.58	£345.60m	61.2	15.00	5309.52	125.25%	477.72%	£186.70m	£313.30m
CFS Group		SP	£2.61	£41.50m	23.8	3.78	2900.00	24.88%	162.31%	£7.20m	£25.70m
Clinical Computing		SP	£0.63	£15.70m	48.2	5.17	504.03	-4.58%	71.23%	£0.90m	£6.54m
CMG	Yes	CS	£45.57	£5,833.00m	157.1	13.14	31427.59	37.72%	198.82%	£1,718.00m	£3,880.00m
Compel Group	Yes	R	£5.40	£171.00m	47.2	0.58	4316.00	41.05%	35.55%	£49.70m	£57.20m
Computacenter	Yes	R	£10.18	£1,825.00m	33.8	1.15	1518.66	14.58%	131.25%	£211.00m	£1,046.20m
Comino		CS	£6.08	£82.60m	38.0	4.44	4673.08	52.26%	192.77%	£29.90m	£55.00m
DCS Group	Yes	CS	£10.55	£255.30m	44.0	2.32	17583.33	15.93%	95.37%	£36.30m	£130.60m
Delcam		SP	£2.05	£12.10m	Loss	0.88	788.46	36.67%	340.86%	£1.50m	£9.36m
Diagonal	Yes	CS	£3.78	£305.00m	50.5	4.35	5488.37	24.38%	56.64%	£59.80m	£111.50m
Dialog Corporation		CS	£0.91	£140.90m	27.9	0.83	827.27	13.75%	56.90%	£12.60m	£53.10m
DRS Data & Research		SP	£0.23	£7.96m	16.9	1.17	209.09	17.95%	80.39%	£1.56m	£3.55m
Druid Group	Yes	CS	£19.25	£450.40m	57.9	7.53	7000.00	16.14%	46.11%	£81.80m	£148.70m
Easynet		CS	£17.43	£428.70m	n/a	25.25	17425.00	61.34%	599.80%	£199.90m	£377.80m
ECSoft	Yes	CS	£11.30	£123.20m	20.3	1.98	625.35	-2.80%	-38.92%	-£1.30m	-£78.50m
Electronic Data Proc		SP	£3.77	£98.60m	61.6	8.56	11527.86	202.41%	457.78%	£65.20m	£80.90m
Eidos		SP	£54.35	£1,114.00m	58.9	4.92	54350.00	-2.04%	478.19%	£106.00m	£953.30m
FI Group	Yes	CS	£7.68	£1,761.00m	132.2	7.71	19679.49	-2.83%	133.64%	£361.00m	£1,101.40m
Financial Objects		SP	£6.83	£243.00m	59.7	11.22	2967.39	19.74%	178.57%	£50.80m	£155.70m
Flometrics Group		SP	£4.45	£12.00m	30.2	1.74	3423.08	16.34%	187.10%	£1.70m	£7.97m
Freeserve		CS	£5.90	£5,943.00m	n/a	n/a	3933.33	100.00%	293.33%	£2,972.00m	£4,433.00m
Gresham Computing		CS	£0.62	£27.00m	9.2	1.17	661.29	30.85%	-39.41%	£7.00m	-£8.70m
Guardian IT	Yes	CS	£9.59	£490.80m	106.4	16.53	3758.82	26.95%	101.79%	£104.20m	£247.60m
Harvey Nash Group		A	£6.04	£172.00m	23.3	1.64	3448.57	25.73%	94.68%	£36.60m	£84.60m
Hightams Systems Servs		A	£0.57	£10.70m	18.1	0.31	1569.44	0.00%	-33.53%	-£1.60m	-£5.30m
ICM Computer		CS	£8.03	£152.50m	54.7	3.81	4458.33	87.50%	216.57%	£72.20m	£104.20m
Intelligent Environments		SP	£2.79	£117.50m	Loss	17.71	2962.77	-19.62%	525.84%	-£25.30m	£103.70m
Interrel Technology		CS	£2.77	£151.80m	n/a	13.79	13825.00	2.98%	64.58%	£11.90m	£109.10m
IS Solutions		CS	£4.00	£19.20m	29.9	2.20	2985.07	-12.09%	95.12%	-£2.90m	£9.36m
ITNET	Yes	CS	£6.83	£479.80m	72.6	4.54	1950.00	7.31%	44.44%	£64.30m	£147.60m
Jasmin		SP	£1.25	£5.88m	13.5	0.85	833.33	4.17%	-13.79%	£0.24m	-£0.50m
JSB Software		SP	£10.25	£258.30m	Loss	64.58	5125.00	131.12%	400.00%	£150.50m	£238.80m
Kalamazoo Computer		CS	£1.16	£49.50m	Loss	0.75	3300.00	52.98%	192.41%	£17.50m	£32.60m
Kewill Systems	Yes	SP	£15.65	£1,167.00m	287.7	19.42	30928.85	33.19%	513.73%	£278.50m	£996.20m
Keystone		SP	£0.99	£30.80m	Loss	19.43	1094.45	69.83%	447.22%	£11.20m	£28.82m
Laser-Scan		SP	£0.20	£6.54m	24.4	0.97	4000.00	11.11%	33.33%	£0.58m	£1.71m
Logica	Yes	CS	£15.97	£6,356.00m	147.9	9.64	21870.66	5.41%	205.65%	£858.00m	£4,427.00m
London Bridge Software	Yes	SP	£42.25	£1,390.00m	213.7	59.44	21125.00	-5.16%	228.16%	-£45.00m	£948.90m
Lorien		A	£1.27	£24.80m	15.8	0.18	1265.00	50.60%	-13.65%	£6.70m	-£3.90m
Lynx Holdings	Yes	SP	£1.65	£178.20m	22.4	0.84	4125.00	27.91%	-16.88%	£47.30m	-£34.00m
Macro 4	Yes	SP	£7.48	£147.30m	20.7	4.75	3014.11	4.55%	119.85%	£3.50m	£80.30m
MDIS Group	Yes	CS	£0.31	£70.90m	10.0	0.53	117.31	18.45%	-33.70%	£9.30m	-£27.00m
MERANT	Yes	SP	£4.03	£580.70m	56.6	2.70	1946.40	-10.44%	289.37%	-£45.40m	£432.10m
Microgen Holdings		CS	£6.68	£339.80m	303.2	4.85	2852.56	82.88%	387.23%	£179.80m	£280.20m
Misys	Yes	SP	£9.65	£5,471.00m	57.8	9.40	12005.74	41.91%	120.70%	£1,502.00m	£3,011.00m
MMT Computing	Yes	CS	£9.53	£115.30m	20.3	2.81	5669.64	18.69%	1.60%	£23.00m	£2.80m
Mondas		SP	£1.09	£13.70m	Loss	14.35	1446.67	70.87%	114.85%	£4.82m	£7.34m
Moorepay Group		CS	£2.63	£30.70m	16.9	3.67	4429.95	-2.78%	14.13%	-£0.90m	£3.80m
Morse		R	£3.60	£439.70m	10.9	1.55	1438.00	0.56%	43.80%	£15.90m	£134.00m
MSB International	Yes	A	£2.83	£57.60m	8.1	0.30	1486.84	8.86%	-16.91%	£5.10m	-£11.80m
MSW Technology		SP	£1.15	£14.10m	Loss	4.85	1180.41	30.86%	7.51%	£7.74m	£5.37m
NetBenefit		CS	£8.90	£111.20m	n/a	56.48	4450.00	63.30%	345.00%	£45.00m	£86.20m
NSB Retail Systems		SP	£20.88	£417.50m	260.9	49.90	18152.17	96.93%	1127.94%	£213.50m	£398.80m
Oxford Molecular		SP	£0.30	£26.10m	Loss	1.21	375.00	20.00%	-38.14%	-£3.50m	-£16.00m
Panly	Yes	A	£3.74	£566.20m	37.9	1.95	6233.10	39.29%	95.81%	£166.90m	£284.00m
Pegasus Group		SP	£5.44	£38.10m	31.6	2.54	1482.29	37.72%	79.83%	£10.10m	£16.90m
PhoneLink		CS	£1.00	£72.20m	Loss	7.21	645.16	115.05%	263.64%	£42.20m	£53.30m
Planet		SP	£1.67	£123.90m	59.8	12.80	6958.33	106.17%	595.83%	£61.10m	£108.20m
Polycymaster		SP	£4.98	£70.10m	58.3	6.18	3316.67	40.14%	162.53%	£20.40m	£43.40m
Primar-E (was Stordata)		CS	£0.09	£11.50m	16.2	1.02	729.17	75.00%	483.33%	£7.28m	£10.29m
Protharics		SP	£0.37	£59.90m	Loss	86.06	440.48	12.12%	4.23%	£7.30m	£33.60m
QSP		SP	£7.59	£136.60m	25.8	3.31	1997.37	15.44%	113.80%	£18.70m	£88.30m
Quantica		A	£0.53	£20.60m	8.5	1.36	423.39	1.94%	-28.08%	£0.40m	-£7.80m
Rage Software		SP	£0.58	£160.50m	55.3	18.15	2240.38	2.64%	606.06%	-£3.20m	£140.40m
RDL		CS	£0.96	£10.70m	10.9	0.68	1061.11	0.00%	6.11%	£0.00m	£0.60m
Real Time Control		SP	£9.75	£88.20m	21.4	4.06	1989.96	3.72%	102.07%	-£0.40m	£34.40m
Recognition Systems		SP	£3.49	£317.20m	Loss	137.02	4985.71	3.71%	3390.00%	£67.80m	£313.51m
RM Group	Yes	SP	£8.58	£788.90m	87.4	4.86	24500.00	13.35%	85.01%	£119.60m	£368.00m
Rolle & Nolan		SP	£3.85	£52.00m	27.2	2.48	4583.33	19.38%	120.00%	£10.10m	£28.70m
Romtec		CS	£1.05	£5.57m	37.2	1.43	1680.00	55.56%	37.25%	£1.99m	£1.52m
Royalblue Group	Yes	SP	£10.48	£306.90m	112.6	10.40	6161.76	35.16%	212.69%	£84.40m	£213.80m
Sage Group	Yes	SP	£7.56	£9,217.00m	181.1	30.02	290576.92	74.44%	381.21%	£4,219.00m	£7,396.00m
Sanderson Group	Yes	CS	£2.21	£112.90m	14.5	1.53	3761.70	5.74%	43.97%	£8.10m	£39.80m
SBS Group		A	£2.05	£18.00m	12.1	0.34	2050.00	17.14%	3.80%	£2.20m	£0.60m
Science Systems		CS	£3.64	£62.50m	35.6	2.57	2817.83	7.86%	132.27%	£4.50m	£35.90m
Serna Group	Yes	CS	£11.14	£5,157.00m	76.3	4.12	14012.58	3.82%	88.49%	£479.00m	£2,433.00m
Shanwood International	Yes	CS	£12.40	£499.70m	137.8	11.73	41310.57	49.40%	265.78%	£171.80m	£372.30m
Skillsgroup	Yes	CS	£3.01	£263.70m	26.3	0.70	1349.78	37.13%	65.84%	£69.20m	£114.30m
Sophon		SP	£3.28	£105.10m	Loss	117.96	4712.23	46.86%	122.03%	£32.10m	£75.30m
Spring		A	£1.71	£246.70m	23.6	0.61	1894.44	5.57%	17.18%	£28.20m	£36.30m
Staffware		SP	£8.13	£103.20m	n/a	4.65	3611.11	34.85%	203.74%	£35.90m	£69.20m
Superscape VR		SP	£3.42	£112.40m	Loss	36.61	1724.75	-2.01%	76.49%	£74.30m	£88.60m
Synstar		CS	£2.29	£371.30m	50.9	1.73	1384.85	42.81%	38.48%	£100.70m	£101.30m
Systems Integrated		SP	£0.38	£5.03m	47.4	3.58	326.09	0.67%	383.87%	£0.04m	£3.99m
Systems International		CS	£0.74	£25.30m	15.5	1.48	1286.96	108.45%	51.02%	£12.80m	£8.70m
Terence Chapman		CS	£6.33	£429.50m	116.0	14.02	4685.19	91.67%	368.52%	£180.00m	£337.80m
Torex Group		CS	£6.09	£210.50m	79.0	9.67	11815.53	49.69%	587.57%	£79.30m	£181.80m
Total Systems		CS	£1.45	£15.10m	33.8	4.65	2735.85	123.08%	145.76%	£10.21m	£8.96m
Touchstone		SP	£3.27	£32.00m	34.9						

Sanderson in MBO?

Sanderson has agreed a bid from an Alchemy-backed MBO vehicle **Sonarsend** (led by CEO Chris Winn - ex-of ACT) at 224.25p which values Sanderson at £114.5m. 34.5% acceptances have been received.

Sanderson increased PBT by 30% to £11.2m on revenue up 48% at £109.1m. Chairman Paul Thompson (who is selling his 12% stake and is not involved in the MBO) said that he was "pleased with the strong performance but believed the offer represents fair value". We beg to differ. A PSR of just over 1 and a P/E of around 15 is almost absurdly low in today's valuation climate. Should be considerably higher.

Anyway, Thompson (like MSB's Mark Goldberg) obviously thinks his future talents lie in football not IT. Thompson has this month taken over as Chairman of much-troubled West Brom FC (we have criticised Sanderson for their multiple football sponsorship over many years). Just like MSB's Mark Goldberg (Crystal Palace FC), clearly the trick is to make your millions the hard way over many years in IT and then pour it down an open drain at a FC.

Also, are all IT services MBO bosses crossword freaks? As in Sudiar being the MBO vehicle for Radius and Sonarsend for Sanderson!

...another MBO at Real Time ?

Retail software specialist **Real Time Control** issued its interim results to 30th Sept. 99 showing a modest 8% increase in revenues to £9.3m, but a stronger 16% increase in pre-tax profits to £2.2m. EPS increased 18%. New customers won in the period include First Quench (Threshers and Victoria Wine), Selfridges Oxford Street and Little Chef. The company also reports that discussion of a bid for RTC at 1050p continue. Speculation is, that the bidder is an MBO team.

A bid at 1050p would value RTC at £73.8m or 4.4 times historic revenues and 24.8 times historic earnings. However, if you remove the £14.1m of net cash currently sitting on the balance sheet, those number drop to 3.6 times revenue and 20.1 times earnings. RTC is a solid company and growth has never been spectacular. However, 20 times historic earnings looks like a low take-out price, relative to its peers.

KALAMAZOO COMPUTER GROUP

*back in the
black...*

For the six month to 30th Sep. 99, **Kalamazoo's** revenue rose slightly to £32.7m (but continuing total revenue was up a higher 4%). After their lengthy restructuring programme, they turned the previous loss of £550K into a PBT of £754K - but this does include a net exceptional profit on the sale of discontinued business of £604K. Professional Services saved the day (surprise, surprise). Kalamazoo sees "significantly increased demand for IT solutions in its Automotive sector" and expects "a continuing improvement in operating performance" in the second half. The Kalamazoo share price has been a bit of a disaster story for some time after hitting a high of 140p in 1996, then falling to c32p. But they ended the month on 116p.

... but Computerland goes into the red

PC reseller **Computerland** has made its first interim stage loss for 10 years when it announced a loss of £299K (PBT £507K last time) on revenues down 32% to £13.1m in the six months ended Oct. 99. Of course these results were not too much of a surprise after their second profit warning in 1999 given in October. The Y2K microclimate is blamed as well as a falling sales at KDL (acquired Apr. 98).

A new IPO in Sep. 97 at 100p, the shares ended the month on 69p.

Dot.com success stories

GlobalNet Financial.com floated on AIM this month at 170p - a market capital price of £238m. They raised £43.5m but the placing only represents c20% of the enlarged equity. The issue was "significantly oversubscribed" and the shares immediately went to a substantial premium - they ended the month on 239p.

The Times (10th Dec.) said "*GlobalNetFinancial.com shows awareness of the fact that to be on the web is not enough these days; quality content is required*".

But "*Investing in the internet is all about investing in the future and huge share prices can be justified if future profits seem likely to come through. But hang on. Should not phrases such as "to date the company has generated minimal revenues from its activities" - taken from GlobalNet's prospectus - count for something!*"

Shares in GlobalNet have risen astonishingly already. They may also continue to rise. But investors should be under no illusions they are playing with fire with stocks such as these - and there are many of them".

We will say no more....but private investors should note the FSA warning in Dec. 99 "of the danger of speculating in small high tech. stocks".

Cityjobs.com. The offer for **Cityjobs.com** (web recruiting) was over 4-times oversubscribed at the placing price of 50p on the OFEX market. It was so successful that the company issued a further 1.7m shares in addition to the original 3m.

Jellyworks. Internet investment company **Jellyworks** floated on AIM at 5p and rose 22-fold valuing them at almost £223m at the end of Dec. 99. Jellyworks raised £775K for 10% of the equity.

CEO Jonathan Rowland (we understand that the Rowland family own c70%) said they are looking to invest upwards of £1m in companies involved in the internet, telecomms and technology sectors.

Sports Internet, one of the strongest performing internet stocks this year, has announced a content sharing deal with Yahoo! as they reported a maiden interim figures. They lost £822K on revenue of £240K for the six months to Aug. 99. But the shares now stand at nearly £7 after the initial AIM float price of 25p in Mar. 99 and this gives them a market capitalisation of £268m, or to put it another way c1000 times turnover. "*Grossly undervalued*" according to CEO Jeremy Finn. House broker WestLB Panmure is forecasting a loss for the year of £1m on £26m revenues.

365 Corporation. Internet content provider 365 Corporation was floated on the main market early December at 160p, quickly rose to around 276p but then fell to end the month on 'only' a 56% premium at 250p. At a valuation now of £446m, this is a 'mere' c20 times forecast revenue after interim results to Sep. 99 showed H1 losses of £1.49m on revenue up from just £84K to £9.5m. CEO Dan Thompson is looking at potential acquisition targets both geographically and also across new distribution platforms such as mobile phones and digital TV.

Comment. 365 is a bit of a curiosity as although it sells itself as an internet company (obviously as its value then soars!) the bulk of its revenue actually comes from the more staid telephone business - only c£300K came from internet business at the interim stage. Still this is set to increase rapidly with unique users reaching almost 1m in November.

'Super Sage' delivers yet again



Sage's results for year to 30th Sep. 99 were impressive. At the headline level, revenue up 60% at £307m, PBT up 56% at £74.3m (a 26% PBT margin!) and EPS up 46% at 42.4p. Of course, it's been another year of acquisitions (Peachtree and Tetra made "valuable contributions") but even so underlying organic growth was up 26% in revenue and 46% in operating profit.

Defining our "product into services" argument, Sage now has 648,000 support contracts generating £100.5m revenue – yes, one-third of the total – up nearly 100% on last year). With the excitement of Sage's e-commerce activities, it looks like another good year which "has started strongly".

Sage's UK revenues grew 33% to £99.2m, of which 70% came from existing users (up 39%) – how's that for good customer relationships! Operating margins were maintained at a splendid 48%. France improved margins from 20% to 27% and saw a 38% increase in revenues to £73.5m. New business in France was up 47%. Meanwhile, 'problem child' Sage KHK (Germany) lost £1.8m (FY98: +£800K) on turnover of £20.7m – but they have now made the transition from the old "free licence" model and "should be profitable this year". In the US, Sage Software Inc. (ex-SOTA) saw revenues rise 32%, including a 44% growth from the existing customer base, but with 'only' 50K support contracts "there is more work to be done". Nonetheless, margins improved from 20% to 25%.

Sage shares ended the month up 74% on 756p (after a 9-for-1 bonus issue this month in order to increase marketability).

Comment: Pardon us while we gush! Yet again "Super Sage" delivers the goods with excellent results. Our only 'niggle' is that they have chosen not to amortise the goodwill from the acquisitions as it "is an inseparable part of the value of businesses acquired this year ... (and) it has an indefinite useful economic life". As a result, there is now a hefty £186m worth of Intangible Assets on the balance sheet (£0 for FY98 as prior years' acquisitions have been eliminated against P&L reserves). If they would have amortised the goodwill over, say, 20 years, this would have knocked c£19m off the profit line, leaving a PBT figure of some £55m.

But it's their e-commerce activities that really excite. They have a two-pronged strategy: to embed internet function in their existing products; and to offer 'apps on tap' through an ASP (application service provider) arrangement with IBM. The first cab off the ASP rank will come from US-based Peachtree (acquired Feb. 99) and will be launched in April 2000. The UK will see its first ASP offering (e-payroll) also around springtime, but prior to that they will be offering a free payroll calculator on their Sage.com website – where they already have a free website creator service for small business. Also, their Sageweb Trader e-commerce facility will be launched in the US in January – Europe to follow by March.

The potential for their e-services is huge – wisely Sage are taking things one step at a time – but their aim to become the e-commerce portal of choice for small and medium businesses is not an outrageous ambition. The challenge ahead, though is how to 'webbify' all of their products, which are individually developed (indeed, acquired) for each geographical market. It strikes us they will need to think about standardising development tools and methodologies across the whole business if they are to avoid re-inventing the wheel (web?) for each product. But with a sterling management team under the watchful eye of chairman Michael Jackson, we are sure they will, as always, rise to the challenge!

That's why we honestly believe that Sage is THE UK's internet play for the next decade.



Vocalis - another losses>revenue company

We added Vocalis Group to our index last month as they are now listed on techMARK. They floated on the main market at 95p in Jun. 96 valuing the company then at c£30m. Vocalis is an "international speech technology" or 'voice recognition' group. They have signed up a further three leading ISPs (BT Internet, Cable & Wireless and UUNet) for their SpeechMail phone product and have now launched a range of internet related products into the global market. They claim the number of ISPs now using SpeechMail is more than 30.

For the six months to 30th Sep. 99, revenue fell slightly to just £1.3m but losses almost doubled to £1.96m. Cash is a healthy £9.1m. Chairman Roy Cotterill is "confident that the progress we have made will underpin the future long term growth of the company".

The shares ended the month down 3% on 390p.

Strong growth at PhoneLink

At the interim stage to 30th Sep. 99, PhoneLink's turnover rose 83% to £6.4m and losses fell from £1.7m to £1.4m. As long-term readers know we strongly believed that their Tel-Me product would face strong competition from the Internet. So, we are rather pleased that, at long last, PhoneLink now intends to adopt a strategy to establish them as an internet, e-commerce and business service enterprise and the recent £1m placing will be used for marketing and promotion. House brokers Peel Hunt have shifted their original £200K profit forecast to a possible £1.6m loss due to this increased spending.

An IPO in 1993 at 155p, they hit a high of c440p soon after...before plummeting. Anyway, the shares have done well this year and the share price more than doubled this month to 100p - that's a rise of 264% in 1999.

The hunter is caught

So after years of reporting on M&As in our industry in which **Regent Associates** has played its part, we now report that Regent Associates has itself been acquired by **US Communications Equity Associates**. Regent was founded in 1987 and now has revenues of around £7m. It has completed around 250 M&A transactions (70% of them "cross border") and there can be few in the UK that have not come across them at some point. Indeed, CEO Peter Rowell is well known and respected in our industry and the annual Regent Conference has become one of the key events in the UK calendar. We understand that Peter is staying on ...for a couple of years anyway!

Florida headquartered CEA is less well known to us. They are a privately owned company with 150 employees. They list their activities as "investment banking, merchant banking, corporate finance, strategic consulting and related services for clients in cable, broadcast, telecomms, entertainment and new media". Like Regent, they have been involved in over 700 transactions worldwide. CEA has more than \$500m private equity under management and is developing additional funds of >\$1 billion.

Software and IT Services Industry in Europe Markets & Strategies 1999 - 2003

We are delighted to report the first c150 company profiles (out of c250) in the 8th annual edition of our highly respected European research project are now available. As past customers know, the tome covers every country in Europe, the lead companies in each country and, of course, the pan-European players. The research is a co-production between Richard Holway Limited in the UK, **Pierre Audoin Conseil** in France and **PAC GmbH** in Germany. Having seen off most of the competition, we are delighted that this research is now held in such high esteem. Indeed, one of the largest SCS companies in Europe recently told us that it was now the ONLY European research they now felt they could rely upon and another said that their annual bonuses were linked to how they fared relative to the Holway market averages!

Perhaps the best testimony is that it is this research work which has been quoted in most of the IPOs in recent years.

UK Software Partnering & Investment Forum

We rarely endorse events, but last year we were honoured to have been invited both to be a member of the advisory board and a speaker/moderator at the **UK Software Partnering & Investment Forum** organised by the **Software Business Network**. It proved to be one of the most successful and useful events with which we have ever been involved. It provided a showcase for young, UK software companies to present their proposals directly to the VCs and other investors. The sight of these investors queuing up to be involved with the brightest UK talent around is an enduring memory.

This year the event seems likely to be even more useful. We have already gone thru over 150 applicants for their "5 minutes of glory"...we are trying to reduce the numbers to c60. The Conference, opened by Gordon Brown, has a superb line up of speakers. My own session "How is the UK doing globally..Fighting Fit or Giving up?" has Tim Jackson (Founder QXL), David Levin (CEO, Psion), Gordon Crawford (MD, London Bridge) and Geoff Finlay (CEO, Kewill). *What an amazing line up!* And that's just one of half a dozen such sessions.

You can get all the details on www.sbn.org.uk, www.euro-techforum.com or from Zoe Hemming at CSSA (0171 395 6717. Also see attached brochure.

If you want to experience the buzz...make sure you are at the UK Software Partnering & Investment Forum, Royal Lancaster Hotel, London 17th & 18th Feb. 2000.

ECsoft that has said Q4 trading is worse than expected. However, CEO Terje Laugerud said that 1999 revenues will be higher than 1998. Profitability has been hit almost all year and Q4 will only be profitable because of a restructuring program put in place earlier in the year. ECsoft shares were over 10% lower at 983p on the news.

With the regular flow of contract announcements from **Logica** has been awarded the contract for the New Electricity Trading Arrangements (NETA). The contract, worth approximately £50m, is to design, build, operate and maintain the new system which will be used for all aspects of electricity trading in the England and Wales. **FI Group** watchers will note that **OSI** (recently acquired by FI), is in the consortium with Logica. Logica ended Dec. 99 up 5% at £15.97p

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