

System House

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Internet Index up 836% since Jan. 99

We had more comment on, and more requests to be allowed to reproduce, our front page article "The Emperor's New Clothes" in the Jan. 00 *System House* than anything else we have written in a long while. Richard Holway used this as his theme at the Regent Conference on 25th Jan. 00 where his "fictitious" new internet company - **FreeJellyBeans.com** - clearly struck home with many in the audience.

This month we have introduced a new **Holway Internet Index** which covers only those companies where all, or the vast majority, of revenues are internet-related. Four companies - Freeserve, Baltimore, Geo Interactive and QXL, have valuations >£1 billion. The internet index also includes the flood of new internet investment funds like Jellyworks and Internet Indirect.

The statistics on the companies in the Holway Internet Index are quite startling:

* **the 35 companies which make up the index have combined market capitalisation of £20 billion.** It was only in 1999 that all the 100+ SCS companies in our other index exceeded the £20b level with most companies having pedigrees exceeding 20 years! But these 35 new internet companies have created £20b of "value" in just one year.

* **but these incredibly "valuable" companies have combined revenues of just £200m and combined losses of £150m.**

* we set our Internet Index at 1000 on 1st Jan. 99. Individual companies join at 1000 set as their share price on 1st Jan. 99 or IPO if later. The vast majority were IPOs in 1999. **Our Internet Index rose by a quite staggering 728% in Calendar 1999 and, after another 13% rise in Jan. 00, is now at 9356, showing a 836% gain since inception.** By contrast the FTSE100 is up just 7% in those 13 months.

There are some very serious internet software (e.g. Baltimore) and services (e.g. NetBenefit) companies in the list which have every chance of sustained future growth. But the vast majority of the rest are in, or invested in, what is called the B2C space.

It is this area for which we have greatest misgivings. We believe that the stock price shakedown, which will surely come, will expose these companies as seriously *naked*. Of course, they will drag everyone else down too but for many B2C operators the downturn will be terminal.

Please do not forget that *ultimately* B2C internet companies will have to make revenues...and even profits. *Where are these to come from?*

* *share of telecomms revenues?* No one thinks this is sustainable model anymore; apart from the telcos themselves.

* *advertising?* In 1999, a mere £40m was spent on internet advertising in the UK. Almost every ad you see is a giveaway.

We spend far more time on the internet each day than watching TV but cannot remember a single internet ad. Indeed most TV and newspaper ads are now for internet companies where the media spend exceeds £1b. We firmly believe that internet advertising will not work.

* *subscriptions?* For a very few operators this might work but Joe Public firmly believes all content on the internet is for free.

* *e-commerce?* This will undoubtedly be THE internet revenue earner...and it will be HUGE. The growth in internet shopping - groceries, toys, CDs etc. - and in financial services - banking, share dealing etc. - is phenomenal and *we ain't seen nothing yet*. BUT, we have severe doubts that it will be the current *naked* dotcoms that will win. We see the real B2C successes coming largely from current established retailers and financial institutions who have the ability to move swiftly into the internet space.

The most used example of a B2C success story is **Amazon.com**. but they have already been hit by the costs of establishing their distribution centres. **eToys** similarly saw their share price tumble this month due to higher than expected costs, and associated problems, in establishing its logistics operations.

This month, in the UK, we saw **WH Smith** signing a strategic internet agreement with **BT** which will immediately provide them with a further 1.1m users. WH Smith's own internet portal - WHSmith Online - already has 100,000-200,000 users, so the group will now have some 1.3m users. WHSmith Online will become BT's principal books retailer on all BT-controlled portals. We also saw **Tesco** announcing a further 7,500 jobs in its internet grocery operation. We could go on with other examples, but the point we wish to make is that these "mortar" companies already have most of the distribution/logistics in place. How

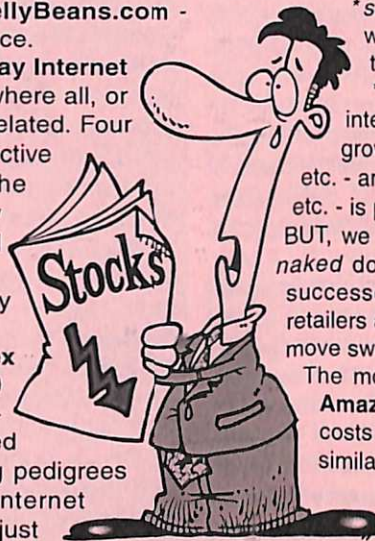
much easier to move from mortar to clicks than vice versa.

Bluntly we see the vast majority of the B2C space occupied by established mortar players.

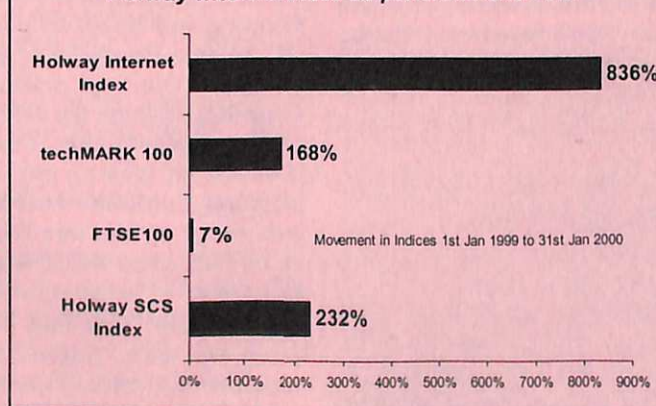
Then you come back to valuations. At the end of the day, the market for, say, books or groceries isn't going to expand that much because of the internet. So the total valuation of those sectors will not expand either. Currently the "clicks" have created additional value in these

sectors. But this defies natural logic. The AOL/Time Warner deal this month showed that, even in a takeover, the shares of AOL dropped as Time Warner increased.

We have little doubt that in the future the canny investors will be those spotting the e-mortars not those who invest in the e-clicks.



Holway Internet Index outperforms...and how!



Lower revenue, higher losses at Protherics

Protherics's (so renamed after the merger last year of Proteus and Therapeutic) produces molecular modelling software to assist in drug/vaccine development. Protherics do not "sell" product, but take a "stake" in the drugs produced. Very laudable, but rewards for their unhappy(?) shareholders are still awaited. The shares were launched in 1990 at 84p, at one time reached the heady heights of c£5, and ended this month on just 36p.

Results for the six months to 30th Sep. 99 showed revenue down from £2.7m to just £452K and losses increased from £5.3m to £9.2m. Since the September merger, "significant rationalisation" has taken place according to Chairman Stuart Wallis. Total headcount is down from 135 to 71 with a new HQ. And what's more, Wallis has "confidence in the outlook for the group". Well given enough time perhaps.....

Good results from Anite

Anite Group is now "a 100% IT consultancy and services company" and performed well at the six monthly stage to 31st Oct. 99. Although overall revenue was only up 3.5% to £83.9m, revenue on continuing operations was up a much higher 32% at £81.7m. PBT increased 18% to £4.7m with diluted EPS the same. Mind you the profit figure included an exceptional gain of £1.8m from sale/closure of discontinued operations. Having said that, PBT before goodwill amortisation and exceptional profits was up 33% on £6m.

Consultancy was the star with profits more than doubled to £3.7m and revenue up 92% to £36.6m. Some 800 of their 1,400 consultants now work outside the UK, mainly in Germany and Benelux and they have <5% of business in T&M with lots of Application Management and associated long term relationships. Telecomms and Travel didn't do too badly either with a 19% increase in sales to £22.3m and profits up 21% at £1.7m. We were pleasantly surprised to learn that Travel also has heavy recurring revenues with >30% of revenues from transaction oriented work with clients on 3/5 year contracts.

The "weak" link was not unexpectedly in the IT Personnel division which experienced a 5% revenue fall to £22.8m and profits static on £500K. The Y2K microclimate was the cause but even so they are still making money and fared much better than some other players in this field. We cannot see this division picking up until well into 2000. Indeed it is rather "non-core" now to Anite and a disposal wouldn't surprise us.

Once more Anite has been busy on the acquisition front with £2.2m spent for part of the local government business of Bull Information Systems (1998 revenues of £4.2m with losses of £71K). They have also entered into a licence and distribution agreement with Intelligent Environments to distribute iE integrator to the travel industry. Anite has paid £750K for the rights and a further £500K for iE's travel division.

A year ago the shares stood at c40p - they ended January on 177p (and at one time were well over £2).

ITG trebles revenue

Irish telecomms company ITG Group (not to be confused with UK ISP Internet Technology Group) saw its revenue treble to Euro25.5m although PBT plummeted from Euro730K to just Euro38K. This fall was due to "budgeted investment in card services" but "strong economic growth should continue to support growing demand for our products and services".

ITG is quoted on the London main market - the shares fell 3% this month to end on 708p.

Experian still getting bigger

Experian, the business information services arm of Great Universal Stores (GUS), is to form a JV with MyPoints.com Inc. to create MyPoints Europe in order to develop and operate loyalty infrastructure services for European corporate clients. MyPoints is a sort of electronic Green Shield stamps and has similarities with Beenz. GUS has a 13% stake in MyPoints.com Inc. and will invest \$13m as majority shareholder in MyPoints Europe.

Comment: It's moot whether Experian is actually a 'true' SCSI company - we count it as such at the moment, but its core businesses are things like on-line credit checking and authorisation. But with the recent changing of the guard at GUS it is still unclear whether they are to spin off Experian or keep it as 'part of the family'. This uncertainty needs to be resolved. Experian's move into loyalty systems seems a natural extension of their on-line businesses.

Slower sales at Eidos

Games publisher Eidos has issued a severe profits warning saying the profits for the second half to March will be the same as last year - the market had been expecting a strong improvement. Several reasons are given for the shortfall including launch delays, poor sales of some of the company's titles (although not Tomb Raider) and weak demand generally in France and Germany. By our calculations, this means that full year pre-tax profits will be in the region of £20m, compared to a consensus estimate of £53.6m.

Goldman Sachs has downgraded its rating and forecasts for Eidos. New estimates for pre-goodwill EPS are now 13.4p, hugely down from 41.8p for this year, and 31.9p (down from 47.2p) for next year. GS is sticking to its now rather ambitious 800p share price target.

The shares plummeted 21% on the news and fell further to end the month down 54% on 502p (after the share split).

Real progress at JSB

Results for six months to 30th Nov. 99 from JSB Software Technologies showed excellent progress towards the company's goal of global leadership in the Corporate Internet Access Control (CIAC) market. Group revenues increase 86% for the six months to Nov. 99 to \$5.5m (£3.3m). Within that figure, year on year sales of the core product, SurfCONTROL increased from \$0.1m to \$2.4m and Q2 over Q1 revenues doubled to \$1.6m. Sales of the group's 'cash cow' product MultiView increased slightly to \$3.1m. Almost all of JSB's expansion has been in the US where 95% of SurfCONTROL revenues are derived, but it now intends to formally launch SurfCONTROL in Europe. As expected, following the ramp up of sales and marketing costs in the US, JSB incurred a loss before tax and goodwill amortisation of \$2.1m. The final pre-tax loss was \$5.2m.

Comment. Whilst we have always like the look of JSB, we were concerned that it would lack sufficient capitalisation to effectively take on the US market. The recent sea change amongst European investor attitudes towards early stage technology stocks has meant that JSB's shares have gone up tenfold since the IPO and the company has over £30m cash on its balance sheet following fundraising on EASDAQ in November. This has enabled the company to not only catch up with, but also potentially overtake, its key competitor in the US called Websense. IDC has estimated that the worldwide CIAC market will be worth \$260m-\$1.5b by 2003 and JSB looks well set to take a substantial slice of that pie. The financial markets have given JSB the chance it deserves and so far management has delivered on all of its promises. We are also pleased that JSB is to retain its quote on the LSE and move to techMARK.

What a month for acquisitions...

Apart from those listed on other pages the other larger purchases this month were:-

Sage has launched a recommended offer for NASDAQ listed **Best Software** for \$445m (£272m) or \$35 per share. Best supplies asset management and payroll software. As at 30 September 1999, Best had over 49,000 licensed customer locations, representing over 138,000 licensed seats. Best derives a majority of its revenues from product licence fees and from services revenues, which include maintenance and support agreements, training and consulting services. In the year to Dec. 99, Best achieved revenues of \$91.4m (£69.3m) and pre-tax profits of \$15.9m (£9.1m). Best also had \$50m in cash on the balance sheet as at the end of 1999. The acquisition is expected to earnings enhancing in the first full year.

Comment . The price paid, if the cash is taken into account, is a 40 times historic post tax earnings and nearly 4.3x revenues. Never thought we would say this but, probably cheap in today's climate! With Peachtree and State of the Art adding to Sage's existing presence in the US financial accounting market, this is yet another example of the "Stick to the knitting" approach in overseas expansion which has done Sage - and its shareholders - proud. It adds depth too - HR, payroll and budget software - to the portfolio. Sage can now apply its margin enhancing support pattern to the operation.

Rebus HR Management, part of Rebus Group which was taken private with funds from Warburg Pincus in February 1999, has made a recommended offer for payroll specialist **Moorepay**. The bid is at 350p per Moorepay share, valuing the company at £41.4m equivalent to 28.2 times December 1998 earnings. **Comment** - Moorepay was an AIM IPO in Aug. 95 at 83p - so investors have not done too badly. But with highly impressive margins (28% at the interim stage) and the potential to exploit their payroll services as an ASP via the internet to SMEs, it looks as if Rebus has got a bargain.

AIM listed **Freecom.Net** has now emerged as the front-runner to win the battle for **Pegasus** after Pegasus withdrew its unqualified support of the rival bid from Australian **Solution 6** (430p per share cash - £30m valuation). "The board considers the Freecom.net offer to be fair and reasonable but, given the above average risk inherent in holding Freecom shares, cannot give an unqualified recommendation". The bid from Freecom was worth £48.5m, but this value has increased, on paper anyway, as Freecom share price has risen. But Pegasus is up too - at 625p. So if any shareholders feel uneasy about taking freecom shares, why don't they just sell now and pocket the cash?

Deal of 1999.... Deal of 2000?

NSB Retail (who took our vote for the best acquisition of 1999 after their purchase of US **Unlimited Solutions**) is at it again. They have acquired **Real Time Control plc** in an agreed bid at £10.50p per share which values RTC at c£73.8m. NSB are raising £75.1m in a rights issue at £21.50p to fund the bid. CEO Nikki Beckett "is delighted... the acquisition creates the UK market leader in retail software solutions".

Comment. Sounds absolutely correct to us - surely this deal will make NSB a contender for our 2000 'best deal' vote. With RTC's strong customer base in NSB's core area of department stores and apparel and RTC's application offerings in other growth areas such as hospitality and convenience store retailing, it seems a very good fit.

We have always been a fan of NSB and Nikki Beckett. NSB were a new AIM issue in Sep. 97 at 115p. The shares ended January up another 38% on £28.88p. A superb 25-fold return for those fortunate investors in 1997 who have remained faithful.

MMT Computing has acquired c24% of electricity supplier **Imperial Power** in exchange for the supply of software & services to the tune of c£1m plus £11K cash. MMT reckons they'll sell another £400K of services to Imperial in the next six months.

They have also paid £816K for the remaining 16% they did not own in **MMT Computing (Energy)** and have acquired web design company **Hypnosis Media** for £2.5m (£0.4m initially and £2.1m deferred over four years). Hypnosis Media, which specialises in designing dynamic websites for the music industry, achieved revenues of £0.3m and a small profit for the eight months to Nov. 99.

Comment: This is MMT putting its money where its mouth is. We expect to see more SCSI companies taking equity stakes in its customers business - it's the *real* demonstration of 'partnership'. Nonetheless, the electricity supply market is highly competitive now, so MMT/Atlantic will find it tough going.

A £10m MBO has been agreed at **Cyborg Systems UK** (HR management solutions) from US based **Cyborg Systems Inc.** The present four UK directors, Stallion, Fitzpatrick, Forrester and Ramshaw, all have a stake with VC Lloyds TSB Development providing further capital. Cyborg staff will also receive a stake. In FY98, Cyborg UK had £11m revenue but lost £106K.

Manpower has acquired one of the UK's largest ITSAs, **Elan**. The price paid was \$100m up front plus \$45m deferred (not dependent on any performance criteria). Elan "believes that sales for 1999 will exceed \$250m".

Comment - **Granville** acquired a 17% stake in Elan in Apr. 99 for £8m + £6m loan notes which valued Elan at c£50m. So we feel sure they will be pleased with the near 100% return on the equity bit of the investment. Latest results we have indicate revenue of £143.5m in 1998...so a pretty minimal 8% growth in 1999 if the above figures from the press release are correct. So, all-in-all, a relief for shareholders at the relatively high price, in today's climate, that Manpower has paid.

Baltimore Technologies (nee **Zergo**) (E-commerce security products) is to acquire **GTE Cybertrust Solutions Inc.** for \$150m (£91m) funded through Baltimore stock. This deal will give the combined operation proforma revenues of £24.9m (\$39.6m) for the 9 months to 30th Sep. 99 but we would assume that they will remain loss making. Nonetheless, as the star of the UK (OK, Irish) e-security sector, Baltimore's shares increased another 29% to £65.90p. A year ago Baltimore was valued at £78m - they are now valued at £2.6b!

Rather disappointing at Systems Integrated

Educational software supplier, **Systems Integrated Research** is certainly no 'RM'. They were almost acquired last year but failed to reach agreement. Their results at the interim six months to 30th Nov. 99 were a bit disappointing bearing in mind the rapid growth in their specialised market. Revenue fell slightly to £658K although PBT went up 31% - but still stands at only £42K.

The better news is that they have signed a 'non-exclusive' deal with **Freeserve** to make SiR's internet based learning system available in Freeserve's education channel. This has led to a dramatic recovery in the share price of SiR which went up 60% to 60p this month - unfortunately still lower than the Mar. 96 AIM float price of 115p (but much higher than the all-time low of just 18p!). We hope that SiR can survive on their own, or perhaps find a willing buyer.

We normally list all the smaller acquisitions and fund raising ventures on page 7. Not this month - there are just too many so we have tried to separate those that are mainly internet related...

BAA is investing £8m (c5%?) in **last.minute.com** - the travel, gifts and entertainment web site. **last.minute** is expected to float later this year and this investment values them at c£166m.

QXL.com, after it's acquisition last month of Norway's largest on-line auction site **DinSide**, has followed this with the purchase of the largest Danish on-line auction site, **Jubii Auktion** for c£6.6m in shares. The company have also announced plans to link up with German ISP **Freenet.de**. **QXL** shares have fallen 27% this month to £10.58p.

The market's infatuation with the Internet was underlined once again this month. A reverse takeover of a shell company into struggling retailer, **Blakes Clothing** - which had faced liquidation - and the change into an internet company saw the shares soar from under 8p to 147p, valuing the fledgling company at a potential £220m. The company will now change its name to **e-xentric** and will seek to invest in established internet companies, rather than start-ups. But can this shell company live up to their valuations? **Jellyworks** and **NewMedia Spark** are also in this category. *Only time will tell...*

Griffin Mining has also jumped on the internet bandwagon when it unveiled **Griff-Tech.Com**, an acquisition vehicle targeting fledgling internet and high tech. companies. The result, surprise, surprise, was that AIM quoted **Griffin** shares immediately doubled. **Griff-Tech** will also be floated on AIM.

US on-line broker **E*Trade** has paid \$104m to take control of its UK joint venture **E*Trade UK**. This values the UK part at c\$200m, and it was only set up last July!

eVestment is taking a 10% stake for £61K in **4HighTech.com**, an Israeli based specialist in internet start-ups. In addition, internet telephony company **CallServe Comms** has received a £3m investment from **eVestment**. Speculation is mounting that **Dixons** might spin off **Freeserve** completely after announcing a corporate restructure to separate its retail and property side from the internet operation. **Freeserve** has also announced interim and Q2 results with Q2 on Q1 revenues up nearly 50% to £3.8m and losses for Q2 of £3.6m compared to £5.0m in Q1. Active registered accounts grew Q2 on Q1 by 12% to 1.575m and, according to **Fletcher Research**, **Freeserve** now has 35% of the home Internet access market. But this growth rate is unchanged on the previous quarter although churn fell from 9.5% to 7.7%. Average minutes used were up 14% to 1.9 billion and the portal site received nearly 110m page impressions. Is it all enough to keep the market capitalisation at nearly £5b though?

Dialog has announced an alliance with **Freeserve** to give business users on-line access to **Dialog's** office supplies 'OfficeShopper' service over **Freeserve's** business portal. Is there more dosh in selling pens and pencils than in selling business information - or are we being too cynical?

Octopus is spinning out its internet business - **digitaloctopus.com**. **Elderstreet** (where **Richard Holway** is a general adviser to this fund) has invested £2.2m for a 10% stake. **Charles Haslam** joins as CEO after selling his **Bridge Media** operation to **digitaloctopus.com** in exchange for a 45% stake in the new operation. **Bridge** is very interesting as it acts as a broker bringing content to internet players. **Octopus** retains a 45% stake. **digitaloctopus.com**

has lots of content to work with now...including **Miller's Antique Guides** and **the Joy of Sex.....**

Kingfisher and LVMH are considering a float of their free ISP **LibertySurf** (a smaller French version of **Freeserve**) at a possible valuation in excess £1b.

StartIT.com is placing 5m shares at 17.75p after an approach from an institutional investor.

NewMedia Spark has acquired a minority stake in ISP **Purple Voice** for an undisclosed sum. They have also paid £750K for a 35% stake in **mergermarket.com**.

URWIRED!, an on-line retailer of computer games, is planning a float and could be valued at up to £180m.

Tosellonline.com, a provider of turnkey e-commerce solutions to the SME market has floated on **OFEX** to raise c£500K. At the 25p offer price, their valuation is £3m.

Netvest.com has raised £5m through a placing at 225p to invest further in internet related companies.

GlobalNetFinancial.com has announced a JV with Italian **AiSoftw@re** which itself is taking a 20% stake in **Italia-iVest.com** for \$1.8m. **GlobalNet** have also launched a Danish and Dutch language service.

Recently founded AIM quoted **Internet Indirect** is to raise £68.8m through an institutional placing at 35p per share to invest in early-stage internet companies. Yet another you might say, but at least they have a heavyweight board including **Mark Slater** (son of **Jim**), **Conor McCarthy** (editor of **Techinvest**) and **Philip Swinstead** (founder of **Parity**).

Rage Software has invested £1m in **Internet Indirect**.

Magic Moments International (web hosting solutions) has set up new subsidiary **Magic Moments Investments** in order to invest in a series of internet and e-commerce related businesses. *Yet another internet investment company.*

ZY.com (**Zyris plc**) has received a \$5m investment by way of a private placement.

New internet company **Totally** has raised £2m through an AIM placing at 40p (values them at £6m) to set up a website for the Jewish community. **Intermediate Equity** has invested £100K in **Totally** this month as well as £125K in **India Online plc**.

Geo Interactive has announced a placing of 10m shares at 2210p to raise £221m before expenses. Even by Internet standards, **Geo** has been a roller coaster ride. After floating at 100p the shares did well for a while before crashing down to 30p as recently as a 18 months ago. - that's an 80-fold increase now. This fund raising is ultimate testament to the dramatic changes on investor sentiment and some might say, the short memory of the investment community.

Jellyworks has made four more investments - **ComTelco** (Computer Telephony Integration), **TalkCast Corporation** (digital content and communications), **MatchNet** (Internet dating agency) and German **Value Management and Research** (investment house).

VC Net Investor is to float in February on the main market and intends to raise up to £50m in a placing at 200p. They intend to invest in unquoted US companies.

World OnLine has acquired ISP **Telinco Networks** for an undisclosed sum.

whereonearth.com has raised a further £4.8m led by **VC Elderstreet & Reuters Greenhouse** fund and supported by **VCs Amadeus Capital** and **Venture Technologies**.

Arthur Andersen has become the first of the Big Five accounting firms to establish a \$500m VC fund to finance internet start-ups.

Energis has bought a 30% stake in **Broker-to-Broker (B2B)** (on-line broking software) for £7.5m.

Quoted Companies - Results Service

Note: Highlighted Names indicate results announced this month.

Admiral plc				Easynet Group plc				Lorien plc			
Interim - Jun 98	Final - Dec 98	Interim - Jun 99	Comparison	Final - Dec 97	Final - Dec 98	Comparison	Interim - May 98	Final - Nov 98	Interim - May 99	Comparison	
REV	£55,805,000	£47,187,000	£84,927,000	£7,433,000	£19,978,000	+128.6%	£58,000,000	£138,407,000	£70,900,000	+45.3%	
PBT	£10,329,000	£23,479,000	£10,936,000	£1,315,000	£143,000	Loss to profit	£2,488,000	£2,549,000	£1,572,000	Profit to loss	
EPS	10.20p	24.90p	11.20p	-6.21p	0.53p	Loss to profit	8.00p	8.00p	-8.70p	Profit to loss	
AFA Systems plc				EcoSoft Group plc				Lynx Group plc			
REV	£113,000	£205,000	£386,000	£30,193,000	£62,211,000	+13.2%	£180,870,000	£180,870,000	£212,541,000	+17.5%	
PBT	-£1,064,000	-£1,444,000	-£716,000	£2,882,000	£8,108,000	+1.5%	£13,252,000	£13,252,000	£11,017,000	-15.9%	
EPS	-8.40p	-11.80p	-4.70p	19.70p	49.90p	-22.8%	6.67p	6.67p	5.62p	-21.3%	
AIT Group plc				Eidos plc				MMT Computing plc			
REV	£3,429,000	£17,460,000	£3,765,000	£47,586,000	£226,284,000	+44.9%	£36,638,694	£36,638,694	£41,024,210	+2.9%	
PBT	£1,262,000	£2,764,000	£1,530,000	-£18,928,000	£37,907,000	Loss both	£10,005,754	£10,005,754	£9,710,952	+2.9%	
EPS	4.11p	9.80p	5.06p	-16.12p	28.30p	Loss both	50.60p	50.60p	52.20p	-3.2%	
Alphamerica plc				Electronic Data Processing plc				MDIS Group plc			
REV	£6,183,000	£11,460,000	£11,161,000	£5,812,000	£11,518,000	+5.9%	£61,518,000	£133,014,000	£68,609,000	+11.5%	
PBT	-£421,000	£900,000	£1,010,000	£1,235,000	£2,210,000	-0.8%	£387,000	£3,966,000	-£8,116,000	Loss both	
EPS	-0.70p	1.20p	1.20p	3.23p	5.89p	-0.3%	-0.16p	3.06p	-3.03p	Loss both	
Anite Group plc				EuroLink Managed Services plc				Macro 4 plc			
REV	£81,101,000	£180,829,000	£83,930,000	Coy. Inc. 1998	£8,323,171	Comparison	Final - Jun 98	Final - Jun 99	Comparison		
PBT	£3,986,000	£6,788,000	£4,690,000		£844,762	n/a	£24,234,000	£31,025,000	+28.0%		
EPS	1.00p	1.50p	1.00p		n/a	n/a	£10,060,000	£10,400,000	+3.4%		
Axon Group plc				F.I. Group plc				MERANT plc			
REV	£7,488,000	£20,420,253	£11,744,000	£108,857,000	£228,353,000	+43.6%	£69,411,000	£215,473,000	£111,925,000	+11.2%	
PBT	£287,000	£1,824,401	£1,686,000	£7,545,000	£17,025,000	+6.4%	£58,788,000	-£11,572,000	-£11,593,000	Loss both	
EPS	0.40p	2.80p	2.20p	2.50p	5.80p	+6.2%	-6.00p	-14.30p	-10.00p	Loss both	
Azlan Group plc				Financial Objects plc				Microgen plc			
REV	£153,711,000	£342,861,000	£193,984,000	£10,275,000	£21,662,000	+4.0%	£32,560,000	£70,105,000	£15,472,000	+52.5%	
PBT	-£424,000	£3,835,000	£2,369,000	£1,589,000	£3,438,000	+66.7%	£1,285,000	£8,492,000	£1,516,000	+18.0%	
EPS	-0.80p	2.60p	1.60p	4.13p	8.88p	+25.9%	0.40p	2.20p	2.10p	+425.0%	
Baltimore Technologies plc				Flomerics Group plc				Misys plc			
REV	£7,970,000	£9,883,512	£9,810,000	£2,938,163	£5,910,106	+17.2%	£287,900,000	£582,000,000	£280,600,000	+2.5%	
PBT	-£523,000	-£5,173,012	-£1,600,000	£2,689,699	£3,841,123	-£149,600	£58,900,000	£91,400,000	£48,300,000	-18.0%	
EPS	-6.40p	-25.30p	-5.70p	n/a	10.10p	n/a	7.70p	10.60p	6.00p	-22.1%	
Baron Corporation plc				Gresham Computing plc				Mondas plc			
REV	£3,758,000	£1,513,000	£2,364,000	£8,522,000	£23,063,000	+16.3%	£223,945	£955,301	£641,678	+186.5%	
PBT	£85,000	-£84,000	-£175,000	£1,017,000	£3,003,000	+45.8%	£208,004	-£520,770	-£390,090	Loss both	
EPS	n/a	n/a	n/a	1.91p	5.46p	+23.0%	-3.40p	-5.70p	-3.10p	Loss both	
Bond International Software plc				Guardian IT plc				Moorepay Group plc			
REV	£4,320,000	£8,807,697	£4,567,000	£13,706,000	£29,693,000	+19.6%	£3,181,000	£8,365,688	£5,662,000	+78.0%	
PBT	£284,000	£935,378	£327,000	£2,959,000	£5,629,000	+3.6%	£1,141,000	£2,043,492	£1,617,000	+41.7%	
EPS	1.37p	4.54p	1.58p	3.94p	9.00p	+21.6%	7.14p	12.39p	9.51p	+33.2%	
Cadcentre Group plc				Harvey Nash Group plc				Morse Holdings plc			
REV	£8,798,000	£17,861,000	£10,929,000	£44,861,000	£104,851,000	+60.3%	£216,101,000	£283,943,000	£31,494,000	+31.4%	
PBT	£1,367,000	£3,001,000	£1,900,000	£4,074,000	£8,869,000	+80.7%	£11,799,000	£18,853,000	£18,943,000	+69.8%	
EPS	4.92p	11.21p	7.94p	9.52p	19.29p	+41.1%	19.60p	22.70p	22.70p	+18.8%	
Capita Group plc				Highams Systems Services Group plc				MSB International plc			
REV	£117,907,000	£237,802,000	£150,227,000	£16,163,000	£34,069,990	+14.9%	£90,400,000	£191,345,000	£99,869,000	+10.5%	
PBT	£10,484,000	£27,019,000	£14,115,000	£7,820,000	£1,524,855	-£2,000	£5,474,000	£8,088,000	£4,185,000	-23.5%	
EPS	3.35p	8.68p	4.59p	3.00p	5.40p	-0.07p	17.90p	27.00p	16.00p	-10.6%	
Cedar Group plc				ICM Computer Group plc				MSW Technology plc			
REV	£7,249,000	£23,046,000	£11,688,000	£35,881,000	£40,047,000	+11.6%	£2,909,951	£1,896,518	£1,896,518	-34.8%	
PBT	-£971,000	£2,807,000	£55,000	£2,702,000	£2,402,000	+60.4%	£502,442	-£1,641,521	-£1,641,521	Profit to loss	
EPS	-2.30p	5.50p	0.10p	8.70p	14.90p	+71.3%	7.05p	-20.86p	-20.86p	Profit to loss	
CFS Group plc				Intelligent Environments Group plc				NetBenefit plc			
REV	£3,160,000	£10,989,000	£6,090,000	£2,627,000	£6,633,118	+40.0%	£1,138,823	£2,156,000	£1,969,751	+73.0%	
PBT	£161,000	£1,223,000	£262,000	-£874,000	-£1,024,104	-£370,000	£2,857	£1,477,983	£279,862	Loss to Profit	
EPS	1.23p	8.33p	1.23p	-3.20p	-3.42p	-1.20p	n/a	8.00p	n/a	n/a	
Clinical Computing plc				Internet Technology Group plc				NSB Retail Systems plc			
REV	£1,664,000	£3,039,301	£1,561,000	£4,286,000	£11,012,000	+8.4%	£3,413,000	£8,366,637	£5,214,000	+62.8%	
PBT	£205,000	£276,584	£253,000	£164,000	£55,000	-£1,588,000	£749,000	£1,477,983	£873,000	+16.6%	
EPS	0.80p	1.10p	1.00p	-0.42p	0.12p	-3.43p	4.30p	8.00p	4.50p	+47.0%	
CMG plc				IS Solutions plc				Oxford Molecular plc			
REV	£194,151,000	£443,832,000	£290,496,000	£4,200,000	£8,745,633	+24,300,000	£1,757,500	£21,505,000	£10,161,000	+31.3%	
PBT	£23,960,000	£57,482,000	£35,758,000	£404,000	£94,386	£362,000	£2,195,000	-£1,228,000	-£4,184,000	Loss both	
EPS	12.10p	29.00p	18.50p	5.68p	13.67p	5.28p	-3.10p	-1.20p	-5.00p	Loss both	
Comino plc				ITN plc				Parity plc			
REV	£8,721,000	£18,595,033	£11,036,000	£50,172,000	£105,728,000	+60.9%	£13,987,000	£290,200,000	£153,556,000	+13.8%	
PBT	£2,186,000	£2,718,000	£1,562,000	£2,208,000	£7,346,000	£4,055,000	£8,754,000	£20,032,000	£10,240,000	+17.0%	
EPS	6.97p	14.83p	7.79p	1.70p	6.90p	4.00p	3.86p	8.84p	4.53p	+17.4%	
Compel Group plc				Jasmin plc				Pegasus Group plc			
REV	£210,003,000	£293,750,000	£140,499,000	£13,126,000	£6,914,000	£2,980,000	£7,410,000	£14,979,000	£8,121,000	+9.5%	
PBT	£9,021,000	£12,679,000	£4,900,000	£269,000	£811,000	-£94,000	£632,000	£3,280,000	£86,000	86.4%	
EPS	21.20p	34.90p	16.40p	5.52p	16.44p	-1.88p	6.70p	18.30p	5.20p	-22.4%	
Computacenter plc				JSB Software Technologies plc				Phonelink plc			
REV	£75,746,000	£1,586,238,000	£904,816,000	£1,825,000	£4,003,000	£3,406,000	£3,479,000	£10,014,000	£6,360,000	+82.8%	
PBT	£31,332,000	£64,603,000	£40,732,000	£386,000	£1,314,000	£3,263,000	£1,701,000	£3,381,000	£1,412,000	+11.0%	
EPS	11.40p	23.50p	14.60p	-4.10p	-12.78p	-23.20p	-3.00p	-5.40p	-2.00p	Loss both	
DCS Group plc				Kalamazoo Computer Group plc				Planit Holdings plc			
REV	£46,480,000	£110,172,000	£74,430,000	£32,018,000	£65,870,000	£32,768,000	£45,414,000	£9,676,000	£6,041,000	+33.8%	
PBT	£3,053,000	£7,353,000	£3,364,000	£550,000	£2,198,000	£754,000	£1,701,000	£1,570,000	£1,273,000	+93.2%	
EPS	9.07p	21.62p	8.16p	-1.10p	-3.30p	0.90p	-3.00p	-1.60p	-1.10p	+57.1%	
DRS Data & Research Services plc				Kewill Systems plc				Policy Master Group plc			
REV	£3,167,000	£6,777,000	£4,517,000	£27,443,000	£60,079,000	£35,738,000	£25,054,000	£11,338,408	£7,715,000	+62.7%	
PBT	-£316,000	£26,000	£214,000	£3,164,000	£7,196,000	£2,336,000	£164,000	£697,390	£500,000	+204.9%	
EPS	-0.91p	0.13p	0.53p	2.40p	5.44p	1.30p	1.32p	5.86p	3.50p	+165.2%	
Delcam plc				Keystone Software plc				Primer-E plc (was Stordata Solutions)			
REV	£6,479,637	£13,735,249	£7,677,884	£630,000	£1,585,217	£2,384,000	£5,994,000	£11,286,246	£4,806,000	+19.8%	
PBT	-£675,577	-£1,418,549	£509,549	-£1,195,000	-£2,400,057	£17,000	£245,000	£98,447	-£611,000	Profit to loss	
EPS	-9.60p	-23.10p	7.00p	-10.60p	-18.90p	0.10p	0.21p	0.54p	-0.38p	Profit to loss	
Diagonal plc				Laser-Scan Holdings plc				Protherics plc			
REV	£31,860,000	£70,179,000	£37,141,000	£5,317,000	£6,914,000	£7,000	£2,658,000	£6,996,000	£452,000	+83.0%	
PBT	£3,053,000	£7,314,000	£4,358,000	£1,298,000	£397,000	-£140p	£5,344,000	-£3,947,000	£9,218,000	Loss both	
EPS	2.56p	6.16p	3.66p	4.30p	-1.40p	Loss both	4.14p	-5.54p	-6.75p	Loss both	
Dialog Corporation plc				Logica plc				QSP plc			
REV	£88,750,000	£170,762,000	£87,330,000	£47,295,000	£69,468,000	£59,468,000	£18,135,000	£41,219,436	£22,166,000	+22.2%	
PBT	£6,990,000	£5,564,000	£1,700,000	£41,825,000	£58,604,000	-£40,192	£1,285,000	£4,604,830	£1,422,000	+10.7%	
EPS	4.10p	2.90p	0.70p	8.20p	10.80p	-31.7%	9.00p	32.60p	7.50p	+16.7%	
Druid Group plc				London Bridge Software Holdings plc				Quanta plc			
REV	£40,604,000	£59,776,000	£47,295,000	£8,054,000	£22,375,000	£19,454,000	£58,598,000	£15,164,000	£8,286,000	+25.6%	
PBT	£										

RM plc				SDL plc				Terence Chapman Group plc				
	Final - Sep 98	Final - Sep 99	Comparison		Final - Dec 97	Final - Dec 98	Comparison		Final - Aug 98	Final - Aug 99	Comparison	
REV	£130,996,000	£162,210,000	+23.8%	REV	£5,677,000	£10,098,000	+78.2%	REV	£20,866,000	£30,641,000	+46.8%	
PBT	£10,037,000	£12,262,000	+22.2%	PBT	£336,000	£209,000	-37.8%	PBT	£3,990,000	£4,464,000	+11.7%	
FPS	7.80p	9.90p	+26.9%	FPS	n/a	n/a	n/a	FPS	4.02p	5.45p	+35.6%	
Rage Software plc				Sema Group plc				Torex plc				
REV	£3,623,000	£8,845,000	+144.1%	REV	£16,600,000	£1,250,400,000	£668,600,000	+9.5%	REV	£9,426,000	£21,770,000	+130.6%
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	+86.0%
FPS	0.32p	1.03p	+221.9%	FPS	4.80p	14.60p	3.00p	+20.8%	FPS	3.80p	6.80p	+78.9%
RDL Group plc				Sherwood International plc				Total Systems plc				
REV	£15,692,000	£18,172,000	+15.8%	REV	£18,090,000	£42,591,000	£22,493,000	+24.3%	REV	£1,780,866	£3,247,157	+81.8%
PBT	£1,154,000	£1,335,000	+15.7%	PBT	£1,846,000	£5,494,000	£2,881,000	+56.1%	PBT	£495,484	£629,873	+26.3%
FPS	6.75p	8.05p	+19.3%	FPS	3.00p	9.00p	4.30p	+43.3%	FPS	3.31p	4.29p	+29.6%
Real Time Control plc				Skillsgroup plc				Touchstone Group plc				
REV	£8,590,000	£9,319,000	+8.5%	REV	£96,400,000	£208,400,000	£115,000,000	+19.3%	REV	£3,508,000	£7,663,000	+118.4%
PBT	£1,887,000	£4,366,000	+130.0%	PBT	£5,600,000	£14,400,000	£6,400,000	+3.0%	PBT	£460,000	£1,048,000	+127.8%
FPS	1.52p	3.60p	+137.5%	FPS	5.80p	12.30p	5.30p	+6.6%	FPS	3.34p	7.60p	+128.7%
Recognition Systems Group plc				Sophocleon plc				Trace Computers plc				
REV	£788,000	£2,315,000	+193.8%	REV	£440,000	£391,000	£506,000	+15.0%	REV	£14,658,625	£17,072,781	+16.5%
PBT	£226,000	£1,609,000	+623.4%	PBT	£390,000	£981,000	£616,000	+57.2%	PBT	£1,205,166	£4,367,036	+262.4%
FPS	6.30p	23.30p	+272.9%	FPS	2.00p	5.20p	3.00p	+50.0%	FPS	6.11p	25.94p	+324.5%
Roife & Nolan plc				Spring Group plc				Triad Group plc				
REV	£9,544,000	£21,000,000	+120.0%	REV	£193,301,000	£403,154,000	£206,641,000	+6.9%	REV	£22,112,000	£49,306,000	+121.1%
PBT	£205,000	£1,600,000	+683.4%	PBT	£3,206,000	£14,180,000	£1,400,000	+33.3%	PBT	£3,816,000	£8,629,000	+124.1%
FPS	2.27p	7.90p	+246.7%	FPS	0.78p	6.09p	0.60p	+23.1%	FPS	10.06p	22.74p	+126.8%
Romtec plc				Staffware plc				Ultima Networks plc				
REV	£1,861,000	£3,900,572	+107.5%	REV	£9,641,000	£22,187,000	£11,223,000	+16.4%	REV	£8,280,000	£14,437,000	+74.3%
PBT	£30,000	£273,934	+813.1%	PBT	£231,000	£250,000	£716,000	+210.0%	PBT	£1,070,000	£5,093,000	+372.7%
FPS	0.30p	2.30p	+666.7%	FPS	1.20p	1.10p	3.50p	+191.7%	FPS	1.27p	4.85p	+278.0%
royalblue Group plc				Superscape VR plc				Veega Group plc				
REV	£1,815,000	£4,543,000	+151.2%	REV	£4,220,000	£3,071,000	£2,229,000	-27.2%	REV	£1,428,000	£4,292,000	+200.0%
PBT	£181,000	£2,744,000	+1486.2%	PBT	£3,516,000	£2,765,000	£2,250,000	-18.8%	PBT	£1,428,000	£4,292,000	+200.0%
FPS	3.70p	9.30p	+151.4%	FPS	37.30p	27.50p	22.50p	-39.1%	FPS	6.00p	17.42p	+190.2%
Sage Group plc				Synstar plc				VI Group plc				
REV	£191,547,000	£307,041,000	+60.3%	REV	£164,425,000	£214,289,000	£214,289,000	+0.0%	REV	£1,828,000	£4,117,000	+125.2%
PBT	£47,635,000	£74,313,000	+55.9%	PBT	£21,169,000	£8,094,000	£273,299	-273.2%	PBT	£19,000	£333,000	+1645.3%
FPS	2.85p	4.17p	+46.4%	FPS	1.70p	3.60p	3.60p	+111.8%	FPS	0.17p	2.40p	+1200.0%
Sanderson Group plc				Systems Integrated Research plc				Vocalis Group plc				
REV	£34,743,000	£73,589,000	+111.9%	REV	£661,000	£1,405,000	£658,000	-0.5%	REV	£1,342,000	£4,820,000	+258.6%
PBT	£4,049,000	£8,592,000	+113.3%	PBT	£32,000	£140,000	£42,000	+31.3%	PBT	£1,050,000	£1,098,000	+4.6%
FPS	6.20p	12.80p	+107.7%	FPS	0.07p	0.71p	0.15p	+114.3%	FPS	3.22p	3.36p	+4.2%
SBS Group plc				Systems International Group plc - Pro Forma only				XKO Group plc - Pro-forma only				
REV	£35,856,000	£29,514,000	-17.1%	REV	£6,438,894	£12,371,337	£12,371,337	+92.1%	REV	£13,217,000	£28,428,000	+113.4%
PBT	£1,485,000	£2,219,000	+49.4%	PBT	£728,120	£1,573,632	£1,573,632	+116.1%	OP	£1,195,000	£2,667,000	+122.1%
FPS	11.70p	16.10p	+37.6%	FPS	0.72p	3.10p	3.10p	+327.8%	FPS	3.50p	8.20p	+134.3%
Science Systems plc				Readers Letters... "So it was the "spade and shovel" suppliers that really won in the Klondyke Goldrush? Oh no it wasn't, Holway, it was the brothel owners. Who could they be thinking of?"								

SCH

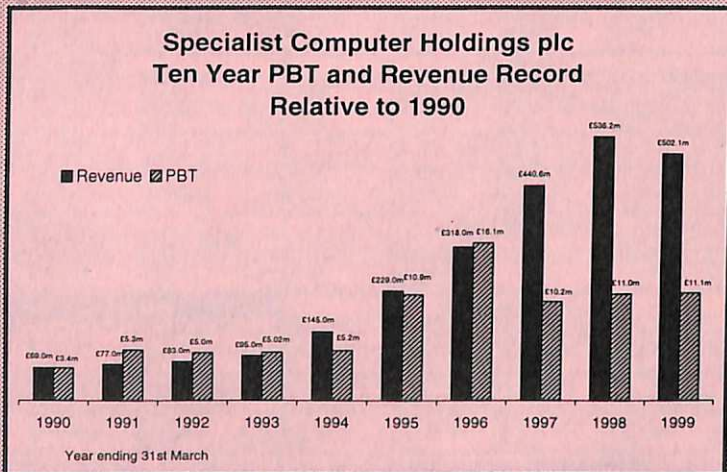
Specialist Computer Holdings

After our usual trawl at Companies House, we have picked up the latest set of accounts for the year ended 1st Apr. 99. Specialist has recorded yet another year of record sales from continuing businesses (up 9%) although overall revenue fell 6% to £502m due to the disposal of their PC stores operation Byte to Dixons in Mar. 98. Byte contributed £77.4m to revenue, but made an operating loss of £4.8m. It is pleasing to see that operating profit increased over 20% to £12.7m - a margin up from 2% to 2.5%. Due to last year's exceptional profit items (from the sale) of £2.8m, overall PBT was only up slightly at £11.1m - just a 2.2% margin. Overall average staff numbers have now come down from almost 2,000 to 1,500.

Specialist Computer Centres (direct PC seller and value added services arm - the bit we have always rated) continued to be the main contributor to the group's profits with operating profits of £11.3m. The distribution arm, **Enhancement Technologies Corp.** "enjoyed a strong year of sales growth returning an operating profit of £5.2m, an excellent achievement in the face of strong competition and pressure on margins". Specialist have also been quite active on the acquisition front. In Aug. 98 the acquired a "significant" interest in TW2 Communications (internet technology and web design) and in July 99 they further advanced their move into this arena with an investment in ISP Dialnet plc. They expanded their overseas interests with an investment in ACSI (European revenue went up 47% to over £27m with a further £3m from the rest of the world). Not content with this, Specialist completed the acquisition of a "large part" of the business of Elcom International in Jul. 99 to improve their service offerings. And their strategic stake in JBA Holdings (now sold) will realise a net gain for FY00, although no indication is given at this stage as to how much they have made.

Chairman Peter Rigby is bullish as to prospects, as well he might be. "SCH is in excellent shape... is well poised to compete and expand in the increasingly competitive but fast growing PC market... the start of the current financial year has been positive and it is anticipated that the Group will show significant growth for the year ended 31 Mar. 00".

Comment. We were never a fan of the Byte operation and were glad when Rigby decided to sell. Possibly if they had stuck to their knitting, SCH would now be a closer rival to Computacenter - and might even be a quoted company. Now SCH finds itself as a 'mid-sized' reseller with stiff competition. If it wasn't for Rigby's personal and family involvement, we would have said that SCH made a pretty attractive acquisition target to the small band of companies that wanted to increase market share in this sector.



(Some of the) M&A

Misys (see results p12) announced the finalisation of a strategic alliance between its US healthcare subsidiary, **Medic Computer Systems**, and **Healthon WebMD**. Under the terms of the deal, Healthon WebMD will integrate Medic's practice management systems and clinical applications into its physician portal. The joint offering will be introduced by Medic to its installed base of 11,000 practice sites, encompassing approximately 65,000 physicians.

Rolfe & Nolan is buying old established Singapore based derivatives software company **Contac** for a maximum of c£15.4m (initial £5m, £3.1m deferred and £7.3m earnout).

Gladstone has acquired recently formed **Cascade Management Consultants** for £100K.

Compel has acquired **Panagaea** (internet-based and multimedia business solutions) for a maximum of £10.5m. In FY99, Panagaea had £1.25m revenue and an excellent PBT of £572K.

Belgian **Real Software N.V** has bought a 65% stake in **Britannia Software** (fixed asset management software). No consideration given but they are paying 11-times net earnings.

NetBenefit has moved to the main market. They have been one of the best performing "picks & shovels" Internet IPOs in 1999. Launched at 200p in May 99, they ended this month on 785p.

CEO Jonathan Robinson said "*I look forward to the year ahead with great confidence. I firmly believe that in the Internet Gold rush, our investors should be comforted by the fact that it is NetBenefit that is selling the shovels". Couldn't have put it better myself!*

Azlan has acquired Belgium **Flexcom** (Microsoft training and distributor) for c£1.86m.

Diagonal has bought internet security company **Centurycom** for an initial £4.2m plus up to a further £2m. Centurycom had first year trading figures of £1.74m revenue and PBT of £280K.

Capita has bought teacher placement agency **LHR Education** for £12m. LHR had 1999 revenues of £14.14m and made a PBT of £1.26m.

Xpertise Group has acquired **Direct Computer Training** and **DCT Resources**. No considerations given.

XKO Group has bought Jersey-based network systems provider **Paperflow** for £211K, plus 40K XKO shares with a further £500K on profits to 2002.

ECsoft has acquired German IT services company **DVMB** for an initial DM4.8m plus 129K ECsoft shares. A further maximum DM19.1m is payable on profits (we make this a consideration of just over £9m in all). The shares have risen 14% this month to end on £12.88p.

Alphameric has acquired software supplier **Online Group Holdings** for an initial £10.3m plus up to a maximum of £6.55m on future earnings. Online has plans to become an ASP and had FY99 revenues of £3.8m and a low PBT of £60K after "*significant development costs*".

The PC dealer sector is having new year problems and a number have ceased trading. These include **Max Technologies** and **Access UK**.

VAR **Ibex Cavendish** has bought networking reseller (Cisco and Citrix) **Networks Interlinks** for an undisclosed sum.

EASDAQ quoted **Autonomy** has acquired a stake in digital media and comms group **Talkcast Corp**. No terms disclosed. Motor trade systems supplier **Kalamazoo** will take a £3.3m charge against full year earnings on the sale of its loss-making manufacturing software business, **Answer Ltd**. Answer was sold "*for a nominal consideration*" and had lost £258K in the year to Mar. 99.

Administrators have been appointed at **Calluna Technology**.

Rage Software has bought games developer **Wayward Design** for an £2.06m in shares, plus up to a further £250K on future performance. Wayward made £66K PBT in FY98.

Mergers and acquisitions - continued

FMI plc has bought US **SNE Systems Inc.** (software control systems integrator) for an initial \$25m with up to a further \$15m over the next five years.

Pearson is to sell its **FT Electronic Publishing** business to **LEXIS-NEXIS Europe** (part of Reed Elsevier) for <£10m. Pearson's have also placed 11.5m shares at £22 to raise c£250m to fund investment in its existing and new internet-related businesses - particularly **FT.com**.

Syan acquired **Sovereign** in Dec. 99. Sovereign specialises in AS/400 solutions.

Motherwell Bridge (a privately owned Lanarkshire-based engineering group) has completed a £75m 3i-led MBO of its information systems division. 3i invested £43.5m for a majority stake - the 15-strong management team have the rest. Pretty good seeing Motherwell acquired the operation for £400K only six years ago. They had revenue of £44m in 1999 and "*made a significant contribution to group profits*".

Granville advised Motherwell Bridge on this transaction. OFEX based **Knowledge Management Software** has placed 800K shares at £2.50 to meet their increased infrastructure base and intends to list on techMARK.

easier plc is proposing to float on AIM and hopes to raise c£12m. The company's market capitalisation will be c£37m. Computer games company **Vis Interactive** has secured £20m backing from the Bank of Scotland for development. Recently floated **SDL International** is in negotiation with companies in both Sweden and Spain for possible acquisitions "*worth up to £10m*".

Planit Holdings has raised £6.85m in a placing at 195p with part of the proceeds to extend marketing in Europe.

Significant acquisition by ITNET

ITNET has acquired independent IT management consultancy **French Thornton** for an initial cash consideration of £8.5m. There are two deferred payments of £6.75m and 3.75m in shares and loan notes payable in 2001 and 2002 dependent on results for calendar 2001. Based in London, French Thornton has five partners and employs 30 consultants and specialises in the in the financial services, retail and transport sectors. For the year to March 1999, French Thornton achieved operating profit after partner remuneration of £0.1m on revenues of £5.4m and revenue has grown at an average rate of 93% since 1995.

Comment: This is a small but significant acquisition for ITNET as it takes the company into consultancy (in any meaningful way) for the first time and should also be seen in the context of FI's acquisitions of OSI and Druid. The rationale for all of these acquisitions both defensive and aggressive - applications management companies are being squeezed by IT consultants, such as the big five, moving into their space and at the same time this acquisition enables ITNET to offer an end to end service for its AM/FM clients.

and yet more internet news...

...**eVestment** has made a \$800K investment in US WinWin.com as part of a syndicate.

...**Freerive** is in talks with to acquire on-line rights to **Dorling Kinderley's** content.

...**Jellyworks** has invested £2m in investment banking boutique **Shore Capital Partners**.

...**NewMedia SPARK** has invested £1m in **Rainbow Network**, a UK portal catering for the gay community.

...**Affinity Internet** has reached deal with **Vodafone** to enable Vodafone subscribers to have a full range of mobile internet services.

Yet another mega month

The ever upward march in SCS share prices continued in the first month of the new millennium with our (unweighted) SCS Index up another 14%. The performance was even more dramatic when set against a near 10% decline in the FTSE100 and a 6% decline in the FTSE IT (SCS) index. In other words, January 00 was THE month for the smaller stocks.

Newcomer **SDL** (translation services etc) was the best performer up 146% on its IPO price. **ITSA RDL** went against all the recent trends with a 115% increase this month (see p11). That's now up nearly 130% since its AIM IPO in July 99 at 90p.

Spring did exceptionally well as a result of the launch of **Spring.com**. Doubled at 342p, that would give a pretty good premium to any contractors taking up the 190p option and working for Spring for two out of the next three years.

At the other end of the scale, **Eidos** (see p2) plummeted 54% on the profits warning. **Systems Integrated** was also off 52%

End Jan 00	Move since 1st Jan 98	Move since 1st Jan 99	Move since 1st Jan 00	Move in Jan 00
System Houses	337.5%	183.2%	10.4%	10.4%
IT Staff Agencies	7.8%	29.2%	12.4%	12.4%
Resellers	114.9%	128.5%	10.1%	10.1%
Software Products	471.2%	388.2%	17.4%	17.4%

31-Jan-00	SCSI Index	FTSE IT (SCS) Index	techMARK 100	FTSE 100	FTSE AIM	FTSE SmallCap
	13093.89	4048.44	3908.10	6268.50	2238.50	3160.59
<small>SCSI Index = 1000 on 15th April 1989</small>						
Changes in indices	SCSI Index	FTSE 100	techMARK 100	FTSE IT SCS Index	FTSE AIM Index	FTSE Small Cap
Month (31/12/99 to 31/1/00)	+14.15%	-9.55%	+3.41%	-5.93%	+15.82%	+2.03%
From 15th Apr 89	+1209.39%	+205.24%				
From 1st Jan 90	+1323.09%	+165.39%				
From 1st Jan 91	+1749.76%	+190.15%				
From 1st Jan 92	+1153.17%	+151.43%				
From 1st Jan 93	+721.66%	+120.22%				+127.81%
From 1st Jan 94	+684.26%	+83.38%				+69.13%
From 1st Jan 95	+773.40%	+104.49%				+80.98%
From 1st Jan 96	+479.76%	+69.91%	+395.17%		+134.79%	+62.79%
From 1st Jan 97	+389.04%	+52.20%	+327.27%		+129.33%	+44.77%
From 1st Jan 98	+331.43%	+22.06%	+309.65%	+304.84%	+125.66%	+36.63%
From 1st Jan 99	+232.21%	+6.56%	+168.41%	+179.98%	+179.25%	+52.62%

on disappointing interims (p3).

Our new **Internet Index** was 13% higher. (More detailed listings in enlarged **System House** next month). **Affinity**, **JSB** and **StartIT.com** all doubled (or more) in the month. But, just to show that even the "larger" internet stocks can go down, **eXchange** is off 30%, auction site **QXL** was down 24% and **365 Corporation** fell 22%.

IR Watch

Our campaign in 1999 for better SCS Investor Relations - particularly on the internet - brought much support. This month **Nokia** scooped three awards at the recent 1999 Investor Relations magazine Euro Awards, including Best IR Web Site. They also won gongs for Best Annual Report and Best IR Officer, although overall winner was French water-to-telecoms group **Vivendi**, pushing Nokia into second place. As far as we know, no UK SCS companies won awards at this first pan-European IR event. *Are any of you going to step up to the mark in 2000?*

* According to a recent European survey reported in the FT (26 Jan. 00), some 75% of institutional investors visit your corporate web site before meeting your management team. *Need we again stress the importance of complete content and clarity on your IR pages?*

* Tim Ward, who's the London Stock Exchange's business development director, hammered home the message about the importance of good IR coverage on your web site at the recent Regent Associates conference. He says there are now around 5,000 investment clubs for private investors in the UK, and that the number of on-line broking customers is likely to top 250K this year. *It's no good wishing that they'll go away - private investors are here to stay!*

What's the next development in IR web pages? We think highly focused content tailored to each class of investor is the way to go. Even down to differentiating between tech-savvy private investors (the 'digerati') and the 'clueless but hope to make a quick buck' investor. *We only wish that more SCS companies would treat marketing their stock as seriously as marketing their products and services.*

Spring.com Major initiative at Spring

Spring Group has finally sprung its recently pre-announced "major commercial initiative". In outline, they have 'integrated' **Spring IT Personnel** (their IT staff agency business) into their **Spring.com** web site turning it into a 'clicks and mortar' operation at a cost of £10-12m this FY. **But there's more ...** Spring will also offer share options to IT contractors who work through the agency regularly (see below) and agree to keep their CV up to date (via **Spring.com**, of course). The offer is time-limited - contractors will need to register by 9th Feb. in order to get the option to buy 5,000 Spring shares at the lower of 190p or the closing mid-market price on the last dealing day before Spring's shareholder meeting. Spring also announced H1 results showing revenue up 7% to £206.6m and OP up 15% (pre-exceptionals) to £6.8m for the six months to 31st Oct. 99. PBT dropped from £3.21m to £1.4m after £4.9m exceptionals related to **Spring.com** and debt write-off. Diluted EPS also fell 23%.

Comment. A brilliant marketing exercise. Spring's enthusiastic CEO Karl Chapman took us through this scheme a few weeks before and we reckon it breaks new ground in the sector. They are aiming to transform their IT staff agency (ITSA) business into an 'e-resourcing' (their word, not ours!) operation which goes way beyond simple web-based job billboards like **Jobserve**, **Monster** and **Contracts365**. Importantly, they are also keeping their 'bricks and mortar' offices to support the essential 'face-to-face' aspects of the business (e.g. candidate interviews and client relationship management).

But it's the share options offer which is the real show-stopper. From what we can see, this is a 'win-win-win' situation: contractors get the chance to buy Spring shares at a preferential price if they work through the company two years out of three with very few strings attached; Spring gets the revenues and profits from the contractors in essence committing them to stay loyal to Spring; and Spring's customers get a wider choice of contractors.

OK, this is not the first time Chapman has come up with a 'big idea' - witness the ill-fated and barely lamented **CareerIT** (and the lesser known **Career Retail**) programme, which never really got off the ground. However, we think the new **Spring.com** 'has legs' - indeed, it could potentially transform the UK ITSA market, **as Spring's many competitors will have to respond**. This will be tricky for some - especially the 'privates' who will find it tough to offer a share option equivalent. And the quoted ITSA's, like **MSB**, **Lorien**, **Hays** et al, will have much catching up to do on their own web sites to turn them into 'real' e-businesses. Of course, it all stands or falls on the execution. But if Chapman really can pull it off then we will be witness to a fundamental change in the UK ITSA market - with Spring as the market leader. Spring's shares have more than doubled this month to end on 342p. At that level, contractors should be tripping over themselves to register!

System House SCSI Share Prices and Capitalisation

	FTSE IT Index?	SCS Cat.	Share Price 31-Jan-00	Capitalisation 31-Jan-00	Historic P/E	PSR Ratio Cap./Rev.	SCSI Index 31-Jan-00	Share price move since 31-Dec-99	Share price % move in 2000	Capitalisation move since 31-Dec-99	Capitalisation move (€m) in 2000
Admiral	Yes	CS	£16.03	£1,012.00m	60.4	6.88	57919.98	4.06%	4.06%	£26.40m	£26.40m
AFA Systems		SP	£4.14	£73.30m	Loss	90.61	3445.83	55.16%	55.16%	£24.80m	£24.80m
AIT Group		CS	£11.25	£194.90m	123.9	11.16	7500.00	-25.50%	-25.50%	-£111.60m	-£111.60m
Alphameric		SP	£2.83	£240.50m	n/a	35.21	1295.87	92.18%	92.18%	£127.30m	£127.30m
Anite Group	Yes	CS	£1.77	£457.60m	51.0	2.53	1032.16	30.26%	30.26%	£122.50m	£122.50m
Axon		R	£8.80	£431.90m	314.3	21.57	5028.57	48.52%	48.52%	£142.80m	£142.80m
Azlan Group	Yes	SP	£1.47	£172.60m	29.9	0.50	636.96	1.74%	1.74%	£18.20m	£18.20m
Baltimore Technologies		SP	£65.90	£2,595.00m	Loss	262.57	67589.74	28.59%	28.59%	£684.00m	£684.00m
Baron		SP	£3.55	£14.50m	n/a	6.14	3550.00	-17.44%	-17.44%	£0.70m	£0.70m
Bond International		SP	£0.68	£10.10m	14.2	1.15	1038.46	-8.16%	-8.16%	-£0.40m	-£0.40m
Cadcentre Group		SP	£3.56	£59.10m	24.5	3.31	1780.00	10.22%	10.22%	£5.50m	£5.50m
Capita Group		CS	£9.80	£2,100.00m	112.9	8.83	88288.29	-13.27%	-13.27%	-£259.00m	-£259.00m
Cedar Group		SP	£5.75	£361.10m	63.2	15.67	5476.19	3.14%	3.14%	£15.50m	£15.50m
CFS Group		SP	£2.42	£41.20m	22.1	3.75	2683.33	-7.47%	-7.47%	-£0.30m	-£0.30m
Clinical Computing		SP	£0.75	£18.70m	57.5	6.15	600.81	19.20%	19.20%	£3.00m	£3.00m
CMG	Yes	CS	£39.92	£5,190.00m	137.7	11.69	27531.03	-12.40%	-12.40%	-£643.00m	-£643.00m
Compel Group	Yes	R	£6.03	£186.30m	52.8	0.63	4820.00	11.68%	11.68%	£15.30m	£15.30m
Computacenter	Yes	R	£11.20	£2,027.00m	37.2	1.28	1671.64	10.07%	10.07%	£202.00m	£202.00m
Comino		CS	£5.33	£72.60m	33.3	3.90	4096.15	-12.35%	-12.35%	-£10.00m	-£10.00m
DCS Group	Yes	CS	£13.48	£329.10m	56.2	2.99	22458.33	27.73%	27.73%	£73.80m	£73.80m
Delcam		SP	£2.48	£14.60m	Loss	1.06	951.92	20.73%	20.73%	£2.50m	£2.50m
Diagonal	Yes	CS	£5.45	£456.20m	72.9	6.50	7923.61	44.37%	44.37%	£151.20m	£151.20m
Dialog Corporation		CS	£1.16	£183.40m	35.4	1.07	1050.00	26.92%	26.92%	£42.50m	£42.50m
DRS Data & Research		SP	£0.24	£8.13m	17.3	1.20	213.64	2.17%	2.17%	£0.17m	£0.17m
Druid Group	Yes	CS	£24.15	£631.00m	72.7	10.56	8781.82	25.45%	25.45%	£180.60m	£180.60m
Easynet		CS	£15.83	£397.30m	n/a	23.40	15825.00	-9.18%	-9.18%	-£31.40m	-£31.40m
ECSoft	Yes	CS	£12.88	£152.20m	23.2	2.45	712.51	13.94%	13.94%	£29.00m	£29.00m
Electronic Data Proc		SP	£3.09	£85.20m	50.5	7.40	9445.81	-18.06%	-18.06%	-£13.40m	-£13.40m
Eidos		SP	£5.02	£577.10m	27.2	2.55	25088.97	-53.86%	-53.86%	-£536.90m	-£536.90m
Eurolink		CS	£1.65	£17.20m	32.1	2.07	1650.00	35.25%	35.25%	£4.60m	£4.60m
FI Group	Yes	CS	£6.25	£1,640.00m	107.8	7.18	16025.64	-18.57%	-18.57%	-£121.00m	-£121.00m
Financial Objects		SP	£6.33	£229.60m	55.3	10.60	2750.00	-7.33%	-7.33%	-£13.40m	-£13.40m
Flometrics Group		SP	£4.60	£12.40m	31.2	1.79	3538.46	3.37%	3.37%	£0.40m	£0.40m
Freeserve		CS	£5.99	£6,267.00m	n/a	n/a	3993.33	1.53%	1.53%	£324.00m	£324.00m
Gresham Computing		CS	£0.69	£31.40m	10.3	1.36	736.56	11.38%	11.38%	£4.40m	£4.40m
Guardian IT	Yes	CS	£10.40	£551.70m	44.9	18.58	4078.43	8.50%	8.50%	£60.90m	£60.90m
Harvey Nash Group		A	£7.76	£211.60m	30.0	2.02	4434.29	28.58%	28.58%	£39.60m	£39.60m
Higams Systems Servs		A	£0.59	£10.80m	18.8	0.32	1625.00	3.54%	3.54%	£0.10m	£0.10m
ICM Computer		CS	£8.78	£167.20m	59.8	4.18	4875.00	9.35%	9.35%	£14.70m	£14.70m
Intelligent Environments		SP	£3.13	£131.90m	Loss	19.89	3324.47	12.21%	12.21%	£14.40m	£14.40m
Internet Technology		CS	£3.53	£193.50m	n/a	17.57	17625.00	27.49%	27.49%	£41.70m	£41.70m
IS Solutions		CS	£4.50	£21.60m	33.7	2.47	3358.21	12.50%	12.50%	£2.40m	£2.40m
ITNET	Yes	CS	£6.38	£449.90m	67.8	4.26	1821.43	-6.59%	-6.59%	-£29.90m	-£29.90m
Jasmin		SP	£1.33	£7.29m	14.3	1.05	883.33	6.00%	6.00%	£1.41m	£1.41m
JSB Software		SP	£19.05	£516.60m	Loss	129.15	9525.00	85.85%	85.85%	£258.30m	£258.30m
Kalamazoo Computer		CS	£0.86	£38.00m	Loss	0.58	2442.86	-25.97%	-25.97%	-£11.50m	-£11.50m
Kewill Systems	Yes	SP	£20.75	£1,564.00m	381.4	26.03	41007.91	32.59%	32.59%	£397.00m	£397.00m
Keystone		SP	£1.13	£31.90m	Loss	20.13	1250.00	14.21%	14.21%	£1.10m	£1.10m
Laser-Scan		SP	£0.37	£11.90m	44.5	1.76	7300.00	82.50%	82.50%	£5.36m	£5.36m
Logica	Yes	CS	£16.32	£6,699.00m	151.1	10.16	22349.98	2.19%	2.19%	£343.00m	£343.00m
London Bridge Software	Yes	SP	£57.00	£1,864.00m	288.3	83.31	28500.00	34.91%	34.91%	£534.00m	£534.00m
Lorier		A	£1.09	£22.80m	13.6	0.16	1085.00	-14.23%	-14.23%	-£2.00m	-£2.00m
Lynx Holdings	Yes	SP	£2.17	£240.80m	29.4	1.13	5412.50	31.21%	31.21%	£62.60m	£62.60m
Macro 4	Yes	SP	£7.43	£146.30m	20.6	4.72	2993.95	-0.67%	-0.67%	-£1.00m	-£1.00m
MDIS Group	Yes	CS	£0.47	£108.20m	15.2	0.81	178.85	52.46%	52.46%	£37.30m	£37.30m
MERANT	Yes	SP	£4.13	£611.10m	58.0	2.84	1992.29	2.36%	2.36%	£30.40m	£30.40m
Microgen Holdings		CS	£7.13	£347.40m	323.9	4.96	3044.87	6.74%	6.74%	£7.60m	£7.60m
Misys	Yes	SP	£8.62	£4,998.00m	53.2	8.59	10724.29	-10.67%	-10.67%	-£473.00m	-£473.00m
MMT Computing	Yes	CS	£9.30	£112.80m	19.9	2.75	5535.71	-2.36%	-2.36%	-£2.50m	-£2.50m
Mondas		SP	£1.07	£13.40m	Loss	14.03	1420.00	-1.84%	-1.84%	-£0.30m	-£0.30m
Moorepay Group		CS	£3.40	£39.80m	21.9	4.76	5737.84	29.52%	29.52%	£9.10m	£9.10m
Morse		R	£4.73	£590.10m	14.3	2.08	1890.00	31.43%	31.43%	£150.40m	£150.40m
MSB International	Yes	A	£3.59	£73.40m	10.3	0.38	1886.84	26.90%	26.90%	£15.80m	£15.80m
MSW Technology		SP	£0.88	£12.60m	Loss	4.33	902.06	-23.58%	-23.58%	-£1.50m	-£1.50m
NetBenefit		CS	£7.85	£101.90m	n/a	51.75	3925.00	-11.80%	-11.80%	-£9.30m	-£9.30m
NSB Retail Systems		SP	£28.88	£587.50m	360.9	70.22	25107.70	38.32%	38.32%	£170.00m	£170.00m
Oxford Molecular		SP	£0.36	£30.90m	Loss	1.44	443.75	18.33%	18.33%	£4.80m	£4.80m
Parity	Yes	A	£4.35	£664.60m	44.1	2.29	72499.73	16.31%	16.31%	£98.40m	£98.40m
Pegasus Group		SP	£6.25	£44.60m	36.4	2.98	1703.00	14.89%	14.89%	£6.50m	£6.50m
PhoneLink		CS	£1.00	£94.20m	Loss	9.41	645.16	0.00%	0.00%	£22.00m	£22.00m
Planit		SP	£1.32	£140.20m	61.1	14.49	5479.17	-21.26%	-21.26%	£16.30m	£16.30m
Polycymaster		SP	£5.65	£86.40m	66.2	7.62	3766.67	13.57%	13.57%	£16.30m	£16.30m
Primar-E (was Stordata)		CS	£0.16	£20.60m	28.7	1.83	1291.67	77.14%	77.14%	£9.10m	£9.10m
Protherics		SP	£0.36	£59.90m	Loss	86.06	422.62	-4.05%	-4.05%	£0.00m	£0.00m
OSP		SP	£7.30	£135.40m	24.8	3.28	1921.05	-3.82%	-3.82%	-£1.20m	-£1.20m
Quantica		A	£0.49	£19.60m	8.0	1.29	395.16	-6.67%	-6.67%	-£1.00m	-£1.00m
Rage Software		CS	£0.61	£172.20m	57.4	19.47	2326.92	3.86%	3.86%	£11.70m	£11.70m
RDL		SP	£2.05	£23.00m	25.5	1.27	2277.78	114.66%	114.66%	£12.30m	£12.30m
Real Time Control		SP	£10.35	£72.80m	22.7	4.33	21122.45	6.15%	6.15%	£4.60m	£4.60m
Recognition Systems		SP	£3.37	£301.30m	Loss	130.15	4814.29	-3.44%	-3.44%	-£15.90m	-£15.90m
RM Group	Yes	SP	£8.90	£847.30m	90.8	5.22	25428.57	3.79%	3.79%	£58.40m	£58.40m
Rolle & Nolan		SP	£6.15	£79.30m	43.5	3.78	7321.43	59.74%	59.74%	£27.30m	£27.30m
Romtec		CS	£0.98	£5.19m	34.8	1.33	1568.00	-6.67%	-6.67%	-£0.38m	-£0.38m
Royalblue Group	Yes	SP	£13.68	£405.10m	147.0	13.73	8044.12	30.55%	30.55%	£98.20m	£98.20m
Sage Group	Yes	SP	£7.44	£8,960.00m	178.2	29.18	285961.54	-1.59%	-1.59%	-£257.00m	-£257.00m
Sanderzon Group	Yes	CS	£2.22	£113.20m	14.5	1.54	3770.21	0.23%	0.23%	£0.30m	£0.30m
SBS Group		A	£2.72	£24.80m	16.1	0.47	2715.00	32.44%	32.44%	£6.80m	£6.80m
Science Systems		CS	£4.04	£69.40m	39.5	2.85	3127.91	11.00%	11.00%	£6.90m	£6.90m
SDL		CS	£3.69	£124.80m	n/a	12.36	2460.00	146.00%	146.00%	£80.00m	£80.00m
Sema Group	Yes	CS	£12.03	£5,718.00m	82.4	4.57	15132.08	7.99%	7.99%	£561.00m	£561.00m
Shawwood International	Yes	CS	£12.25	£502.70m	136.1	11.80	40810.85	-1.21%	-1.21%	£3.00m	£3.00m
Skillsgroup	Yes	CS	£3.17	£277.30m	27.7	0.74	1419.28	5.15%	5.15%	£13.60m	£13.60m
Sopheon		SP	£6.93	£233.50m	Loss	262.07	9964.03	111.45%	111.45%	£128.40m	£128.40m
Spring		A	£3.42	£493.40m	62.8	1.22	3794.44	100.29%	100.29%	£246.70m	£246.70m
Staffware		SP	£12.35	£137.50m	n/a	6.20	5488.89	52.00%	52.00%	£34.30m	£34.30m
Superscape VR		SP	£4.38	£153.00m	Loss	49.84	2209.60	28.11%	28.11%	£40.60m	£40.60m
Synstar		CS	£2.08	£334.80m	46.3	1.56	1260.61	-8.97%	-8.97%	-£36.50m	-£36.50m
Systems Integrated		SP	£0.60	£8.31m	69.3	5.91	521.74	60.00%	60.00%	£3.28m	£3.28m
Systems International		CS	£0.36	£13.30m	7.4	0.78	617.39	-52.03%	-52.03%	-£12.00m	-£12.00m
Terence Chapman		CS	£5.10	£381.90m	93.6	12.46	3777.78	-19.37%	-19.37%	-£47.60m	-£47.60m
Torex Group		CS	£5.08	£185.10m	65.8	8.50	9854.37	-16.60%	-16.60%	-£25.40m	-£25.40m
Total Systems		SP	£1.15	£12.30m	26.8	3.79	2169.81	-20.69%	-20.69%	-£2.8	

Sorry Triad but....

As we forecast last November after Triad's profit warning, we expected them to lose their **System House Boring Award**. Admittedly their FY00 is not yet over, but barring miracles it appears much too late for them to salvage any respectable profits this year. At the interim stage, although revenue went up 10% to £24.3m, PBT slumped 76% to £903K with diluted EPS down a similar amount.

Chairman John Rigg has reiterated that it was IT services, not the ITSA business, that had been weak and then went on to say that he is "very confident of a rapid rebound in trading performance based on the widely expected upsurge in demand". But naturally he cannot predict exactly when this might happen.

On the positive side, Triad has launched the "UK's first on-line job search service for IT contracting market" which Rigg claims is different from other recruitment web sites mainly in quality control and the valued added aspect. We remain slightly sceptical that the site can deliver exactly what it claims.

House brokers, Beeson Gregory have reduced FY00 PBT forecasts to just £2m with £5m in 2001. This compares to the £8.6m made in FY99.

Triad's shares fell 12% to 438p this month.



Strong growth at once Boring Vega

Vega used to hold a **Boring Award** too but lost it in 1998. At the six month interim stage to 31st Oct. 99, Vega saw a strong 44% revenue growth to £18.5m (but a lower 24% organic rise). PBT went up 35% to £1.9m with diluted EPS increasing a respectable 17%. The order intake for H1 was £19.8m - comfortably exceeding revenue. Their forward order backlog now stands at nearly £35m.

The outlook is also promising according to Chairman Andy Roberts. "Vega is well placed and well organised to win further work in all of its current market areas". Vega mainly operates in the Defence, Commerce, Space and Commercial Aviation markets.

Vega's share price went up 12% this month to 898p. Long time 'til they get the award back though...

Warning from London Bridge

London Bridge Software has issued a profit warning saying that revenues for the year to Dec. 99 will be around £42m (against consensus estimates of £47m) and pre-tax profits will come in at around £11.1m (against market estimates of £13.3m). This will leave earnings per share up only slightly. The key reasons given for the shortfall are deferred orders into the current year, and higher than expected R&D costs at £5m. The shares have hardly missed a beat down 295p to £56.25p.

Comment: No-one should be surprised at this warning - it was always a possibility with such lumpy revenues. It is also not surprising that the shares have been relatively buoyant as London Bridge has built up such a strong following in its relatively short time on the market. The worrying thing though, is that the deferred orders that caused the shortfall are still not in the bag and we have seen over optimism in these situations all too often.

Just to remind you of the **UK Software Partnering & Investment Forum** organised by the **Software Business Network** on 17th/18th Feb. 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.

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

Richard Holway Limited makes the News itself

Richard Holway Limited has been awarded a major assignment by the Department of Trade and Industry to study the export strategy for the UK Software and IT Services sector.



The study will involve evaluating the current export performance of the sector, determining the drivers for export success in individual companies, comparing the UK with other countries (particularly within Europe) and presenting a series of recommendations.

The UK software and IT services sector is already amongst the most successful in the world and has been one of the most important drivers in the UK economy in recent times. The study recognises the continuing - indeed increased - importance of this sector for the future.

Richard Holway said "We are delighted to have been selected to undertake this important study. We have been totally dedicated to this sector since our inception in 1986 and believe that there is huge potential for the study to make a real difference to the future of the sector."

As part of this research, DTI have asked Richard Holway Ltd to contact chief executives of both private and public SCSI companies to garner their views and experiences related to exporting their products and services.

We will shortly be inviting a number of you to participate in face-to-face or interviews during the next few weeks. We really do hope you will help us help the DTI to put in place the sorts of facilities and programmes you would like to see and which will help make the UK SCSI export market an even greater success.

In any event, if you have any opinions or experiences on software and/or services exports that you'd like to share with us (or if you would like to be considered for interview) please send us an email (rhohway@holway.com).

Comment - This is our biggest - perhaps our most important ever - consultancy contract. Our dedication over many decades to the UK software and IT services industry is well known and we would like to think this played a major part in us winning this contract against some pretty large competitors. Anyway, if RHL wasn't on the corporate radar screens before...it sure is now.

Scout.com soars

Online consumer directory company **Scout.com** (formerly Freepages) saw its valuation soar to nearly £800m after it unveiled a new 50/50 JV with French **Vivendi** this month. Vivendi has taken a 10% stake in Scout. But they also announced a drop in revenues of 15% to £15.9m in the year to 30th Sep. 99. At least they managed to reduce pre-tax losses from £26.6m to £20.6m (in Q12000 they even managed to reduce operating losses to "just" £1.2m).

Comment. What can one say in this mad, mad, world, when a company with such continuing losses (it's *not* a start-up venture) has such a stock market rating....

One of the UK's largest acquisitions

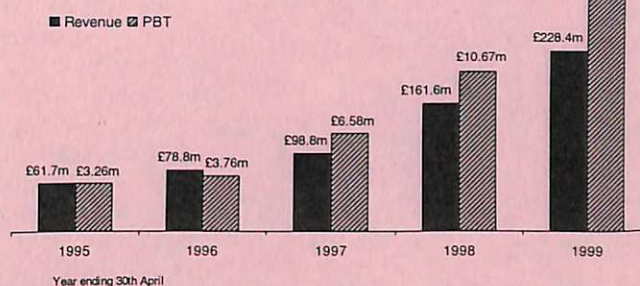
Some of the headlines and press comment amused us when **FI Group** announced a 'merger' with **Druid Group** in an all share deal on the basis of 3.73 new FI shares for each Druid share. "*Druid sacrificed*" was one which caught our eye. Strange as we understand that some 20 Druid employees will become "paper" millionaires. We also liked Caroline Daniel's article in the FT with a women's view on the deal - "*it marked a moment when women trumped men, and the traditional company pulled off a coup over its younger, upcoming rival*". An unnamed analyst (not us we hasten to say) said it was like "*Bath rugby club merging with the lacrosse team of Cheltenham's Ladies' College*". We can't wait for the shower scene. The offer values Druid at c£670m on the day of the announcement and the enlarged group at c£2.4 billion (and much higher after the FI share rise!) Some 87.5m new FI shares will be issued - about 28% of the enlarged share capital. With the combined market capital, surely we are on the way to seeing another SCSI entrant to the FTSE100.

FI Group has also announced their interim results for the six months to 31st Oct. 99. Total revenue rose 34% to £145.4m, operating profits increased 69% to £12.0m and PBT rose 51% to £11.4m (both pre-goodwill etc.). Post-amortisation saw operating profit up 42% to £10.1m and PBT up 26% to £9.5m. These results include FI's share in the First Banking Systems JV with Bank of Scotland and some 4.5 months from the **OSI** acquisition. Hilary Cropper (now FI's chairman) was upbeat about the longer term "*the outlook*

Druid Group plc
Five Year PBT and Revenue Record
Relative to 1995



F.I. Group plc
Five Year PBT and Revenue Record
Relative to 1995

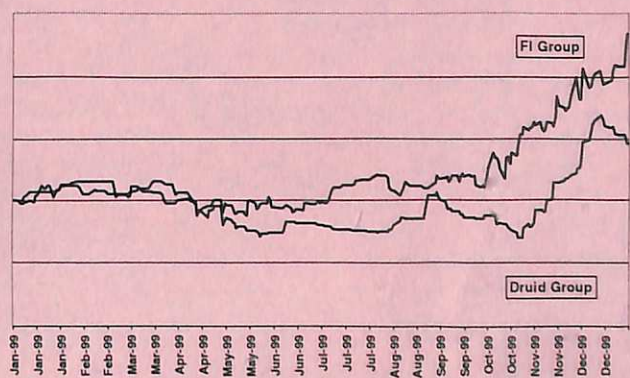


for large outsourcing contracts remains buoyant and the sales prospects are healthier than they have been for some time... The second half year is on track and the Board remains confident that long term shareholder value will continue to be created". But FI shares actually fell 19% this month to 625p.

Comment. We think Druid will be a great fit. But we upset certain people by describing it as a "no-brainer" for Druid's shareholders. Given the wild fluctuations in Druid's share price in the last year, holding FI stock seems a much safer option. Druid complements FI with seemingly little overlap. This will ultimately give FI a formidable consulting operation to support the core AM business, that will cover broad-based large-scale business change (OSI) through to focused ERP/ERM installation and support (Druid). Then there's the Indian operation IIS to provide low-cost development and AM. It's a powerful combination - a "*killer proposition*" as Cropper puts it! But although we don't want to be thought too much of a party pooper, let us compare this with Logica's purchase of Team 121 some six months ago. Logica bought Team 121 for c2x revenues at £74m. FI has paid about 5-times more - and Druid and Team 121 are not that dissimilar. And looked at another way, Logica paid c£400K per consultant, FI paid c£1m.

So will it solve the succession problem at FI for Hilary Cropper who wants to go part time next year. *But will Druid's CEO John Pocock fit the Cheltenham College culture?*

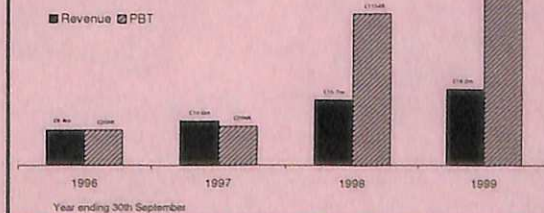
Druid and FI - Relative Share price performance in 1999



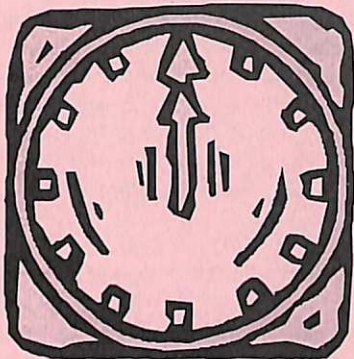
Good set of maiden results from RDL Group

IT staff agency **RDL Group** joined AIM last July at 90p - valuing them at £10.1m. The company goes back to 1992 and they tend to focus on the "premium" skills such as Oracle and SAP. They have just announced the maiden full year results to 30th Sep. 99. Bearing in mind the problems within their sector and the general Y2K microclimate these results are pretty good. Revenue went up 16% to £18.2m, PBT increased 16% to £1.3m with diluted EPS up a higher 19% and were in line with the forecasts in their prospectus. This means gross margins have been maintained at c20% with profit margins only down slightly at 7.3%. Revenue from mainland Europe increased 59% and, at £2m, now accounts for 11% turnover - and they have plans to increase this during FY01, possibly by acquisitions. Chairman & MD Andrew Richards is "*pleased*" with the results, as well he might be. Their newly set up SAP division has been "*highly successful*" and now accounts for 10% (c£1.8m) of total revenue. A new Major Accounts division (RDL have a wide range of blue chip clients) has focused on maintaining their long term relationships. Richards "*anticipates significant growth in the demand for IT contractors during 2000*". The shares have more than doubled this month to 205p - a premium of 128% to the July 99 float price.

RDL Group plc
PBT and Revenue Record
Relative to 1996



Y2K Microclimate



We should have copyrighted the term as it has been used so frequently in 1999 to describe poor performance from the ITSA's through to the "quality" players like Admiral and Cap Gemini.

But we have long and oft-said that anyone who believed that the Y2K woes would instantly be reversed on 1st Jan. was living in denial. Although the future looks good, it will take most of H1 to fill the really important "developer" (rather than front end consultancy) order books.

Another Y2K warning from Lorien Lorien has put out a warning that its Q1 loss will be "exacerbated" by a downturn in orders in H299. "the second half experienced a material fall-off and as a result Q1 will be impacted". Anyway, how long will Lorien remain as an independent company? Looking at the sharp rise in the share price of late - unaltered even by this "warning" - there must be others who smell a predator.

Y2K and a profits reversal at Misys

Misys reported an 18% fall in PBT to £48.3m on revenues down 2.5% at £280.6m in six months to 30th Nov. 99. Even revenues from continuing operations were up by only a meagre 7% at £281m and operating profit before goodwill was down 6% at £59m. Kevin Lomax blamed the Y2K microclimate, particularly at financial institutions. More positively, orders have been stronger of late. "The strong prospect list and current higher levels of activity with our customers bodes well for trading The board views the future with considerable confidence...."

Banking & Securities saw sales up only marginally on last time due to the Y2K effect. But "there has been a marked pick up in order intake" of late. But orders for larger +Medic systems in the Healthcare division suffered significant deferrals although "there is more recent evidence of a further improvement in prospect lists". Insurance seemed to be unaffected by Y2K issues. "Continuing strong organic growth in the Insurance Division, together with the acquisition of FOG, should ensure further good progress in H2". "Satisfactory trading for the year as a whole" is expected.

Comment - Our concerns over Misys' healthcare adventure are hardly smoothed by these figures. Misys (perhaps) should have stuck to what they know and do best. But even in their initial market area - Insurance - they face considerable competition from the new internet players. Misys is "fighting back" - but at a high development cost with "significant investment being made in the consumer retail financial services and IFA portals". We seem to have been saying "the jury is still out" for years now. In the meanwhile the market seems to have given its own judgement as Misys has not exactly performed up with the leaders - or the average - over whatever period you wish to take. It was the first SCS company in the FTSE100 - it's now the 5th and smallest in that exclusive club. On the day of the announcement the share price fluctuated widely, down 50p to start, then up 76p later in the day. The shares ended the month down 11% on 862p - a market capitalisation of just under £5b - well below Sage (£9b), Logica (£6.7b), Sema £5.7b and just below CMG (£5.2b).

Y2K hits IBM Global Services too

IBM was also hit hard by the Y2K microclimate in Q4. Total revenues were down 3.8% at \$24.2b with hardware revenue down 11% at \$10.2b. Revenue at **IBM Global Services** was up - but only 2% - at \$8.7b.

Y2K and Terence Chapman Group

Terence Chapman Group has announced the long awaited contract with Charles Schwab for its TAROT2000 range of products, which will replace Charles Schwab's back office systems over the next 12-18 months. The contract is worth £12m over five years. The company also announced that trading in TCA Consulting remains subdued and first half results will be affected, as expected in the trading update in December. Another example of the "Y2K microclimate". However, CEO Terry Chapman adds that the outcome for the full year could still be acceptable if the expected upturn materialises in H2.

MISYS

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