

System House

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

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August 1991



Take your partners!

Each of the last four years seems to have had a specific characteristic. 1988 was the year of the megadeal, eg SD acquiring Scicon, CAP merging with Sema Metra. 1989

was the year of the multideal eg Systems Reliability, Misys, Vistec and Trace all undertaking four or more acquisitions in their quest to build major CSI groups. 1990 was the year of divestment eg SD sold its US and German operations, ACT selling Apricot to Mitsubishi.

1991 seems to be emerging, particularly for overseas companies, as the Year of the Partnership.

In Europe, **Sogeti** - the **CGS** holding company - found the partner it needed to fund its insatiable acquisitions appetite in **Daimler-Benz** (see p7). Daimler is injecting c£120m of new equity money and the same again in convertible loan stock. Under the terms of the investment, Daimler could end up as a majority shareholder. CGS has to complete the Hoskyns acquisition in late 92; which will cost around £125m. Sogeti still says it is looking for other partners which will help to accelerate its ambitions to become even larger than its current \$2.3 billion revenues.

Perhaps potentially the most important coupling, announced this month, is that between **Apple** and **IBM**. Under this agreement Apple and IBM are to develop a new operating system ("extended AIX") based on the Mac GUI, to run on new IBM RISC chips. The partnership is important because the previous, but now rather acrimonious, link between **Microsoft** and IBM changed the whole face of the computing scene.

Indeed, **Novell's** acquisition of **Digital Research** (see p7) demonstrates only too well the importance of the Apple/IBM link. What might have been had IBM linked up with DR in the early 80s rather than Microsoft?

The Apple/IBM deal has serious implications for the future of Microsoft, but Apple could be the major long term loser. In the past Apple's much respected GUI has only been available on Apple hardware. Apple has been able to maintain high profit margins. The introduction of low cost Apple machines like the Classic has already decimated

Apple's profits (see p 9). If Apple's GUI is available on probably much cheaper IBM hardware, where will that leave Apple?

The Apple deal is the latest in a string of alliances for IBM in the last year. As well as taking stakes in a reputed 200 CSI companies - including most of their mid-range agents in the UK - IBM's other alliances include:

Go	July 90	Handwriting/recognition s/w
Metaphor	Sept. 90	Operating system development
Novell	Feb. 91	Rights to networking s/w
Borland	May 91	Rights to s/w development tools
Wang	June 91	Access to image technology
Lotus	June 91	Access to e-mail technology

Source - Business Week - 22nd July 91

ICL, in "partnership" with **Fujitsu**, has grown its services revenues rapidly by acquisition. This month ICL and **Bell Atlantic Business Systems** of the US have formed a 50:50 owned joint venture to provide total managed services in Europe. Bell Atlantic has services revenues of over £50m; about 40% from the UK. 50% of ICL's £1.6b sales last year were derived from software and services.

In the UK, **Bae** and **Sema** have formed a joint venture to take prime contractor responsibility for large systems procurement projects. This joint venture follows similar deals between **Logica** and **British Airways** (air transport software) and **SD-Scicon** and **Union Internationale de Chemins de Fer** (pan-European rail reservation systems). **Capita** has formed a joint venture with **MMI** to provide financial marketing consultancy. Indeed, the long-standing joint venture between **BT** and **Capita** in the FM arena has been a major success. **Pegasus** has continued to use partnerships in its European expansion. They recently formed a joint venture with **SAARI** of France.

The days when any IT company could take over the world, all on its own, are probably now over. Acquisitions are not the only route to international domination. We believe that strategic alliances will continue to grow in popularity in the near term. Partnerships could provide the best deal for all parties.

Welcome Data Sciences

Thorn EMI Software has been bought by its managers in the biggest UK CSI MBO to date. Consideration is £82m - less than their £117m revenue last year - or a P/E of over 20 based on PBT of £6.2m. See page 12 for more details.



Dramatic turnaround at Cray Electronics

Cray Electronics has been in the limelight for the last two months over their bid for SD-Scicon. This is now doomed. By the first close date for the share offer, only 0.31% valid acceptances had been received.

On 11th July, Cray announced their results for the year to 30th April 91. Although revenues declined from £117.1m to £107.3m due to the disposal of "non-core" businesses, PBT of £3.5m was achieved against a loss of £2.8m last time. The balance sheet also looks rather more healthy with net current assets of £14.6m against net current liabilities of £3.1m last year. Net borrowings were substantially reduced to £23m, through the sale of GRP Material Supplies Ltd, and gearing at 120%, although still too high, is now half that of last year.

Cray's principal CSI operation is **Marcol** - now run by Mike Shone (ex of Software Sciences). They seem to have retained their major contract with the European Space Agency. Via their purchase of dealing room specialists, **Hellx**, they are working with IBM to convert the product to the "strategic IBM DataTrade platform". Other Cray divisions are concerned with telecommunications (Craycom) and instrumentation (Malvern).

Chairman, Sir Peter Michael, was confident of the future and anticipates a return to the payment of dividends this year. "The balance sheet will continue to strengthen as a result of profitable trading and positive cash flow...The offer for SD-Scicon makes it clear that the group is ready, willing and able to expand by selective acquisition".

Trend-bucking Technology

Derek Lewis bought out the product sales activities of troubled MBS (now Touchstone, now part of Stratagem) for £28.1m in May 89 and formed **Technology Holdings** with the help of investors like Schroder Ventures. According to a report in *MicroScope* (24th July 91), Technology has achieved PBT of £5.5m - up 57% on 1990 - in year to 30th June 91 on revenues little changed at £130m.

Just like with P&P (see p10), hardware sales dipped from £107m to £98m but services have increased from £1.2m to £8m. "Technology now has 100 consultants doing everything from basic systems work to high level project management". After paying MBS £12m, the final part of the purchase settlement, Technology only had £3m of debt at the year end. As previously reported, the scheme whereby Technology was to refer maintenance to MBS did not exactly work and it is interesting that £3m of commission was earned on maintenance contracts subcontracted to DCML.

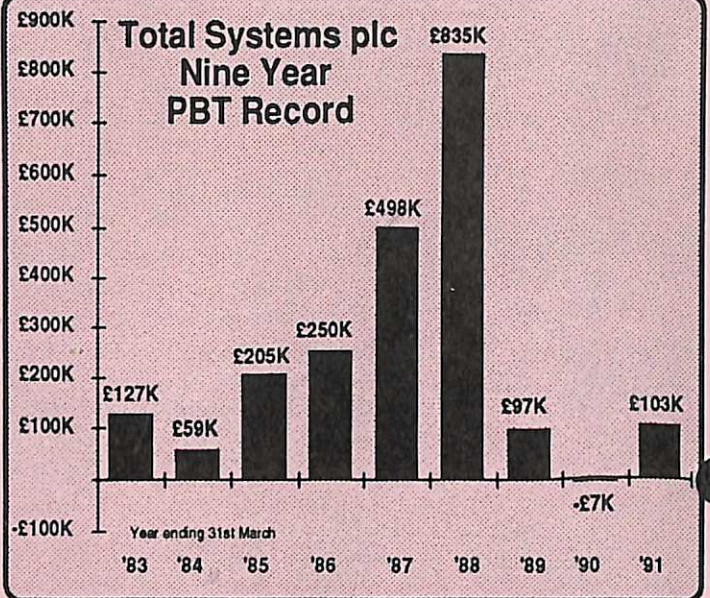
The performance of companies like Technology, in a sector of the IT marketplace which has been worst effected by recession, really sorts the men from the boys. We remember IBM telling its dealers back in 1984 that they would die if they did not develop value added services - few took any notice. In the last few years, success - or indeed survival - has only come to those like Technology and P&P which rather belatedly accepted the message.

Foster's pay up 54%

ACT's Chairman, Roger Foster, was the second highest paid Chairman in 1990. The latest R&As, for the year to 31/3/91, show that his pay has increased by 54% to £273K. Mind you he did boost ACT's profits by 58% to £12.7m.

Total recovery

When we suggested that the last two years had been a little difficult for **Total Systems**, Chairman Terry Bourne said "We thoroughly deserved it...it has made us readjust". Latest results for the year to 31st Mar 91 show PBT of £102.8K against a loss of £6.7K last time on revenues up 15% at £2m.



The vast majority of Total's revenue is on a time and materials basis - which should mean they are immune from the fixed-price project overruns which have effected so many others in the sector. But their business in the City has been especially badly hit in the past year.

To be fair to Total, in Aug. 90 they said "We face the future with more confidence than we have had over the last two years". Perhaps one of Total's main attributes is that they are cash positive - indeed they earned interest of £27.3K in the year. Bourne reports that "the current level of sales and technical activity is higher than in the same period last year, indicating a higher level of turnover in the current half year". Bourne is quite confident about the first half of the current financial year but "less confident about the second half".

Bourne is not the only person to have interests in Total. Mike Tilbrook's **MMT**, which built a stake in **Quotient** before selling this to **ACT**, has declared an interest in 3.9% of Total's equity. Remember that Total was launched onto the USM in Mar 88 at 85p - the shares now stand at just 14p. Bourne is not particularly worried. He readily admits he has been talking to other partners but says it is difficult to see what advantage they would bring to shareholders. **We will watch this space with increasing interest.**

EIT reports £246K loss

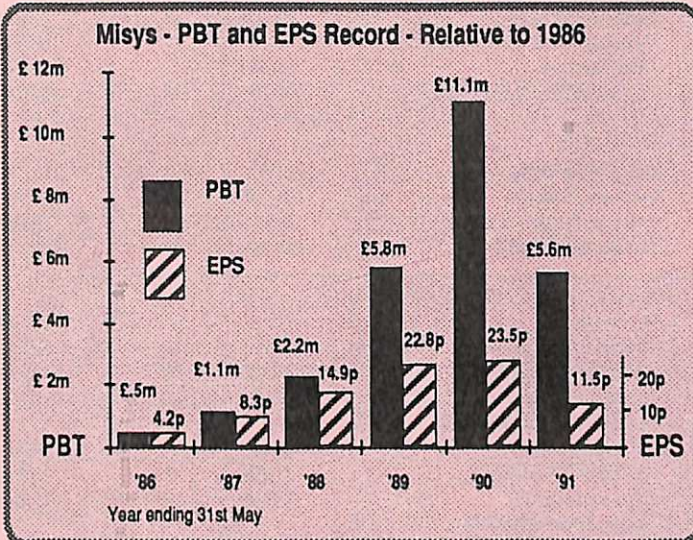
As forecast in their placing document issued in early June, **EIT Group** reported a loss of £246K (last year's loss was £882K) on revenues of £485K for the 10 months to 31st Mar 91.

Most of this loss was associated with the photo equipment business which has now been discontinued. Mike Dart (Chairman) and Mike Burden (MD) have changed EIT into a CSI group with the acquisition of **Intercom** in Nov. 90 and **Decisionware** in June 91.

EIT shares have fallen 20% in the six weeks since the placing at 20p per share in June 91.

"Confident" Misys

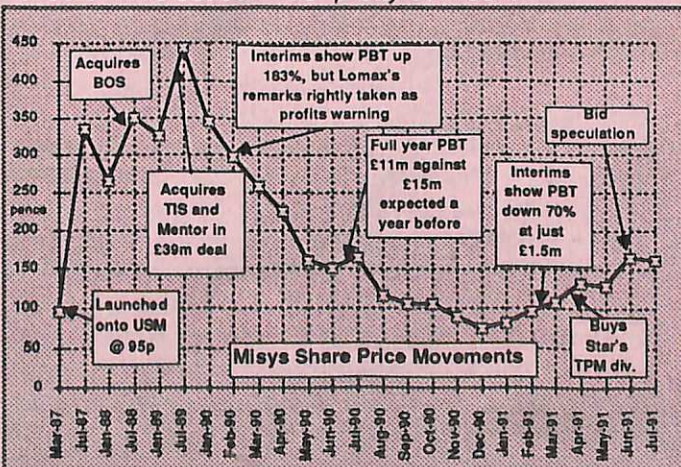
Results from Misys for the year to 31st May 91 were marginally better than expected. PBT was down 49% at £5.6m on revenues down 10.4% at £67.3m. EPS was down 51%. However, these figures show a considerable second half improvement resulting from the previous cost cutting which could save £5m in a full year.



"New business" sales declined by 21% but service revenues were up 16% and now represent 38% of group turnover. Misys finished the year with nearly £7m cash in the bank. Ross Graham described the reduction in average debtor days to 35 as an "immaculate performance". Best profit performers were Financial Services and Open Systems. Computer Solutions were "rather less successful in profit terms" and Network Systems made a small loss.

Deputy Chairman, Strone Macpherson, said that Misys had been presented with "over 150 corporate investment opportunities in the first six months of 1991". He also said that concern that Misys business was concentrated on one geographic area was being addressed. However, it appears that Misys are looking to the US rather than the much faster growing Continental Europe.

As to the future, Chairman Keven Lomax said that trading in Q4 had been "particularly good" and that there had been an increase in order intake. Current forecasts showed higher sales in the first half of 91/92 than in the second half of 90/91. His outlook was "pretty confident".

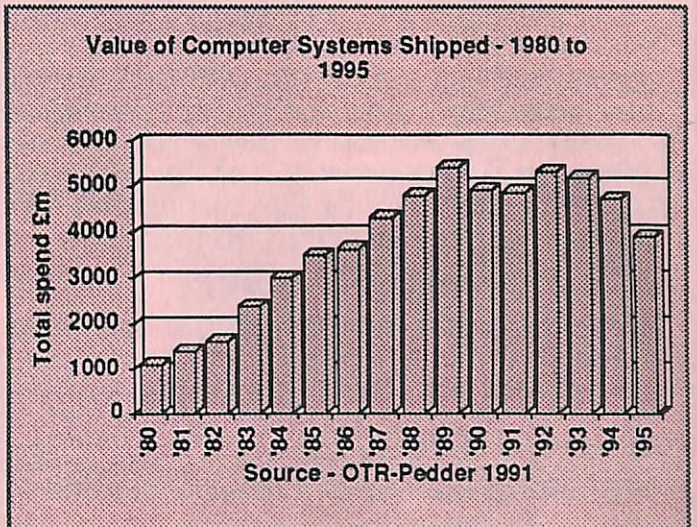


Lomax was amongst the first to predict a downturn in the industry in Jan 90 - Misys paid with a decimated share price. He now sees "modest signs of a recovery". **Whither the Misys share price now?**

August 1991

UK hardware heading downhill

The latest report from OTR-Pedder makes gloomy reading. It suggests that the hardware market peaked at £5.4b in 1989 and is forecast to drop to £3.9b by 1995.



The mainframe market will be largely a replacement market. Mid-range systems will peak in 93 at £1.21b because of competition from networked PCs. The business PC market, worth £2.76b in 1991, will decline to be worth just £1.87b in 1995. Derek Pedder says the hardware manufacturers pursuit of higher performance for less money "has provided a welcome opportunity for users to pay less for the same performance". He refutes the view that users will continue to move to ever more powerful PCs as "many users are finding an intermediate member of the family adequate for their needs". The home computer market will "evaporate altogether".

The findings are highly significant if not downright depressing. They indicate "a major restructuring of the industry away from the earlier dichotomy of computer manufacturers and services companies towards a wholly service-oriented vendor community".

OTR-Pedder 18th Annual Census - Price £1750 - 081-940-4300

Radius recovery short-lived

The recovery at Radius, reported in April 91's *System House*, was short-lived. Like many in the industry "The first four months of the FY saw reasonable trading. There was, however, a marked deepening of the recession within our industry in April".

Latest results for the six months to 31st May 91 show PBT down 42.5% at £801K and EPS down 46.6% on revenues unaltered at £14.7m. The interim dividend is held at 0.9p "reflecting the Group's positive cash position and strong balance sheet". That's a good position to be in at present and is even more creditworthy considering the many acquisitions undertaken by Radius in the last few years.

Worst effected were the printing & retail sectors and the professional market "experienced a small downturn as many accountancy practices reduced expenditure". However, health and local government seemed to have traded satisfactorily. In June, Radius signed a deal for the joint development of products in the local government arena.

"Difficult trading conditions are anticipated for the remainder of the year". Mike Slinn has retired from the board and Philip Kelly takes over as Chief Executive.

Abtex trebles profits

Against all the trends Scottish PC dealer, **Abtex Computer Systems** had an excellent year. Results to 31st Dec. 90 show revenues up 73% at £8.3m and PBT up 278% at £501K. Main clients are the oil industry in Aberdeen and the insurance/financial institutions in Edinburgh.

Abtex's Chairman is Brian Mills who masterminded a management buy-in some four years ago. Many readers might remember Mills from his days at BOC Datasolve. Mills points out that growth to date has been entirely organic but Abtex should now be considered as a prospective buyer of any suitable Scottish business.

Return to profits at Real Time

Real Time Control, which specialises in retail systems increased revenue by 77% to £7.6m in the year to 31st March 91. PBT of £1.2m was reported compared with a loss of £55K last year. However, RTC's US subsidiary was still reported as loss-making.

Hard times for distributors.....

Profits wipeout at CPU Computers

CPU increased revenues by 24% to £74.7m in the year to 31st Dec. 90 but PBT of £534K last time was wiped out generating a 0.46p loss per share (EPS 1.23p for 1989). CPU was profitable in the UK but its German operation, Synelec Datansystems, experienced trading difficulties due, in part, to "grey marketing" of their exclusive distribution products. This will contribute to an anticipated loss in the first six months of 1991 "Whilst corrective measures were being taken, the outlook for the year was poor".

Electron House profits dive

Electron House also operate a number of subsidiaries involved in computer and printer distribution together with associated services. Latest results for the year to 31st May 91 show revenues down 2% at £126.9m but PBT down from £4m to £968K. Chairman, Robert Leigh, said he did not expect market conditions to deteriorate any further but "We believe that an early improvement in demand in our industry is unlikely".

Oracle announces loss

Oracle Corporation announced a loss of \$12m on revenues of \$1.04b for the fiscal year ending 31st May 91. This compares to profits of \$81m in 90. Q4 revenues had reduced by 10%.

"Fiscal 91 was a difficult, challenging year which forced us to re-examine our growth objectives" said CEO Lawrence Ellison. He predicts a "solid financial improvement in fiscal 1992, particularly as the economy begins to recover".

Oracle is close to finalising a previously announced \$200m financing arrangement with Nippon Steel. Oracle's own cash resources increased from \$49m to \$101m over the year.

Leaving Misys

We were sorry to hear that **Gordon Skinner** is not to seek re-election to the board of **Misys**. Gordon was a founder director of MBS but left in the early 80s because he believed that UNIX was the future. After forming TIS, he took on the UK distribution rights for a fledgling company called MIPS. The rest, as they say, is history.

DTI figures confirm continued downturn

The latest Business Monitor from the DTI shows that overall CSI growth has slipped from 17% in Q4 1990 to just 14% in Q1 1991.

All figures £000	1991 1st Quarter	Increase %	1990 1st Quarter
BUREAU SERVICES			
Database services	44,508	-4	46,413
Value added network serv.	35,230	-1	35,535
Other services	122,361	1	120,565
TOTAL BUREAU SERVICES	202,099	0	202,513
SOFTWARE			
Bespoke Software	211,452	25	169,786
Software Products	154,959	10	141,431
Software Support & Maint.	64,538	37	46,961
TOTAL SOFTWARE	430,949	20	358,178
HARDWARE			
Hardware	109,129	14	95,584
Hardware Maintenance	27,954	19	23,481
TOTAL HARDWARE	137,083	15	119,065
PROFESSIONAL SERVICES			
Consulting	126,667	14	111,318
Education & Training	22,959	-3	23,612
Other unclassified	73,182	27	57,468
TOTAL PROFESSIONAL SERVICES & OTHER	222,808	16	192,398
TOTAL BILLINGS	992,939	14	872,154

For reasons which this editor finds impossible to explain, given recent company announcements, the largest growth seems to be in bespoke software - up 25%. This must come as a shock to the many companies which make their living from this activity; the majority of which have reported greatly reduced profits in the period. Growth in database and VAN services has come to halt - after 30%+ growth in previous quarters. Education & Training, yet again, has been badly hit by the recession.

Yet another set of brilliant results from Capita

Capita's growth when the market was doing well was pretty impressive. Its performance in the troubled times of 1990/91 is nothing short of brilliant. For the six months to 30th June 91, PBT increased 45% to £1.38m on revenues up 21% at £11.1m. EPS increased 20%.

Although all Capita's divisions are reported to have performed well, Telecom Capita, the FM operation, grew by 28% to £3.3m. Consultancy services, via JE Greatorex which was acquired for £9m in June 90, earned revenues up 21% at £4.8m. Marketing Services had a flat year with revenues unchanged at £2.27m. Managed Services, which grew revenues from £183K to £620K in the period, has the "cherished numberplates" contracts with the DVLA and has recently been awarded a pilot contract to help TV Licensing generate additional revenues. The group now has contracted revenue of £38m over the next seven years. Capita also reports that it has proposals outstanding for 24 long term contracts with a total value of £49m over a five year period. "In anticipation of securing a number of these contracts, the Board considers it important that the Group's capital base is strengthened".

Capita is therefore proposing a 1 for 6 rights issue at 207p (shares stood at 214p immediately before the announcement) per share to raise £4.2m. Capita will also move from the USM to the full list. Capita, and the industry, can be proud of this excellent performance.

Richard Holway Results Service

Admiral plc	Results Revenue PBT EPS	Final - Dec 89 £15,971,000 £2,653,000 16.2p	Final - Dec 90 £21,207,000 £3,276,000 19.4p	Final Comparison +32.8% +23.5% +19.8%	
ACT plc	Results Revenue PBT EPS	Final - Mar 90 £140,712,000 £8,026,000 7.07p	Final - Mar 91 £ 98,831,000 £ 12,706,000 9.5p	Final Comparison -29.8% +58.3% +34.4%	
Butler Cox plc	Results Revenue PBT EPS	Final - Dec 89 £9,370,583 £1,324,095 16.43p	Final - Dec 90 £ 10,725,924 £ 760,425 6.31p	Final Comparison +14.5% -42.6% -61.6%	
Capita plc	Results Revenue PBT EPS	Interim - Jun 90 £ 9,167,000 £ 956,000 5.9p	Final - Dec 90 £20,072,000 £2,512,000 13.7p	Interim - Jun 91 £ 11,104,000 £ 1,382,000 7.1p	Interim Comparison +21.1% +44.6% +20.3%
Computer People plc	Results Revenue PBT EPS	Final - Dec 89 £69,919,000 £4,219,000 21.8p	Final - Dec 90 £ 76,170,000 £ 3,106,000 16.42p	Final Comparison +9.7% +26.4% -24.7%	
Cray Electronics Holding plc	Results Revenue PBT EPS	Final - Apr 90 £ 117,133,000 (£ 2,795,000) (2.84p)	Final - Apr 91 £ 107,286,000 £ 3,609,000 2.5p	Final Comparison -8.4% Loss to profit Loss to profit	
EIT Group plc (was Maxprint)	Results Revenue PBT EPS	Final - May 90 £ 368,000 (£ 882,000) (5.56p)	Final - Mar 91 £ 485,000 (£ 246,000) (0.083p)	Final Comparison Not comparable Loss both Loss both	
Electronic Data Processing plc	Results Revenue PBT EPS	Interim - Mar 90 £ 8,331,000 £ 822,000 7.14p	Final - Sept 90 £16,645,000 £2,100,000 17.38p	Interim - Mar 91 £ 8,654,000 £ 1,865,000 14.69p	Interim Comparison +3.9% +126.9% +105.7%
Enterprise Computer plc (was Systems Reliability plc)	Results Revenue PBT EPS	Final - Dec 89 £134,586,000 £7,863,000 12.76p	Final - Dec 90 £ 183,149,000 £ 7,532,000 7.4p	Final Comparison +36.1% -4.2% -42.0%	
Gresham Telecomputing plc	Results Revenue PBT EPS	Final - Sept 89 £ 2,519,080 (£ 777,000) (16.47p)	Final - Sept 90 £ 2,101,000 (£ 103,000) (1.99p)	Final Comparison -16.6% Loss both Loss both	
Hoskyns Group plc	Results Revenue PBT EPS	Interim - Apr 90 £ 111,700,000 £ 8,200,000 6.3p	Final - Oct 90 £223,263,000 £17,253,000 13.0p	Interim - Apr 91 £ 102,800,000 £ 8,600,000 6.4p	Interim Comparison -8.0% +4.9% +1.6%
INSTEM plc	Results Revenue PBT EPS	Final - Dec 89 £8,003,000 £885,000 12.9p	Final - Dec 90 £11,154,000 £1,005,000 14.0p	Final Comparison +39.4% +13.6% +8.5%	
Kalamazoo plc	Results Revenue PBT EPS	Interim - Jan 90 £ 31,522,000 (£ 1,289,000) n/a	Final - Jul 90 £ 62,221,000 £ 1,074,000 2.2p	Interim - Jan 91 £ 28,348,000 £ 1,025,000 1.8p	Interim Comparison -10.1% Loss to profit Loss to profit
Kewill plc	Results Revenue PBT EPS	Final - Mar 90 £17,107,000 £2,668,000 27.11p	Final - Mar 91 £ 31,298,000 £ 3,731,000 29.43p	Final Comparison +83.0% +39.8% +17.7%	
LBMS plc	Results Revenue PBT EPS	Final - Apr 90 £18,470,000 £450,000 2.3p	Final - Apr 91 £ 19,485,000 (£ 1,701,000) (10.5p)	Final Comparison +5.5% Profit to loss Profit to loss	
Logica plc	Results Revenue PBT EPS	Interim - Dec 89 £91,341,000 £6,022,000 6.2p	Final - June 90 £187,489,000 £9,011,000 9.0p	Interim - Dec 90 £95,490,000 £4,721,000 4.5p	Interim Comparison +4.5% -21.6% -27.4%
Logitek plc	Results Revenue PBT EPS	Interim - Sept 89 £18,723,000 £1,310,000 6.69p	Final - Mar 90 £29,580,000 £3,833,000 16.27p	Interim - Sept 90 £33,103,000 £145,000 0.52p	Interim Comparison +76.8% -88.9% -92.0%
Macro 4 plc	Results Revenue PBT EPS	Interim - Dec 89 £6,947,000 £3,279,000 9.2p	Final - June 90 £14,775,000 £7,353,000 20.6p	Interim - Dec 90 £8,100,000 £3,367,000 9.5p	Interim Comparison +16.6% +2.7% +3.3%
Micro Focus plc	Results Revenue PBT EPS	Final - Jan 90 £35,639,000 £8,223,000 37.4p	Final - Jan 91 £ 46,382,000 £ 13,549,000 63.5p	Final Comparison +30.1% +64.8% +69.8%	
Microgen plc	Results Revenue PBT EPS	Interim - Apr 90 £ 25,050,000 £ 4,526,000 7.1p	Final - Oct 90 £47,115,000 £8,504,000 13.5p	Interim - Apr 91 £ 24,604,000 £ 4,328,000 7.2p	Interim Comparison -1.8% -4.4% +1.4%
Microvitec plc	Results Revenue PBT EPS	Final - Dec 89 £ 32,145,000 £ 1,276,000 3.1p	Final - Dec 90 £ 23,444,000 (£ 2,415,000) (6.2p)	Final Comparison -27.1% Profit to loss Profit to loss	

Richard Holway Results Service

Misys plc	Results Revenue PBT EPS	Final - May 90 £ 75,038,000 £11,070,000 23.5p	Final - May 91 £ 67,253,000 £ 5,626,000 11.5p	Final Comparison -10.4% -49.2% -51.1%	
MMT plc	Results Revenue PBT EPS	Interim - Feb 90 £ 3,735,000 £ 1,012,000 5.7p	Final - Aug 90 £ 7,524,390 £ 1,865,165 10.4p	Interim - Feb 91 £ 3,100,000 £ 626,000 3.4p	Interim Comparison -17.0% -38.0% -40.4%
NMW Computers plc	Results Revenue PBT EPS	Final - Dec 89 £ 9,119,000 £ 87,000 0.2p	Final - Dec 90 £ 8,726,000 £ 413,000 1.3p	Final Comparison -4.3% +374.7% +550.0%	
P & P plc	Results Revenue PBT EPS	Interim - May 90 £ 108,400,000 £ 6,800,000 10.9p	Final - Nov 90 £ 223,787,000 £ 13,117,000 18.5p	Interim - May 91 £ 120,700,000 £ 3,300,000 3.9p	Interim Comparison +10.3% +1.5% -64.2%
P-E International plc	Results Revenue PBT EPS	Final - Dec 89 £58,017,000 £5,622,000 21.1p	Final - Dec 90 £ 65,013,000 £ 4,214,000 15.0p	Final Comparison +12.1% -25.0% -28.9%	
Pegasus plc	Results Revenue PBT EPS	Interim - Jan 90 £ 7,830,000 £ 1,342,000 16.1p	Final - July 90 £13,039,000 £2,554,000 30.4p	Interim - Jan 91 £ 4,138,000 £ 774,000 8.9p	Interim Comparison -47.2% -42.3% -44.7%
Proteus plc	Results Revenue PBT EPS	Final Mar 90 £ 9,000 (£ 637,000) (3.95p)	Final - Mar 91 £ 7,000 (£ 1,502,000) (7.01p)	Final Comparison -22.2% Loss both Loss both	
Quotient plc	Results Revenue PBT EPS	Final - Dec 89 £19,095,000 (£1,577,000) (8.8p)	Final - Dec 90 £22,440,000 £1,022,000 4.0p	Final Comparison +17.5% Loss to profit Loss to profit	
Radius plc	Results Revenue PBT EPS	Interim - May 90 £ 14,521,000 £ 1,394,000 3.2p	Final - Nov 90 £29,902,000 £2,820,000 6.48p	Interim - May 91 £ 14,708,000 £ 801,000 1.71p	Interim Comparison +1.3% -42.5% -46.6%
Rolfe & Nolan plc	Results Revenue PBT EPS	Final - Feb 90 £5,460,000 £1,142,000 13.8p	Final - Feb 91 £ 6,298,000 £ 1,446,000 17.7p	Final Comparison +15.3% +26.6% +28.3%	
Sage Group plc	Results Revenue PBT EPS	Interim - Mar 90 £6,703,000 £2,341,000 9.65p	Final - Sept 90 £13,359,000 £4,731,000 19.2p	Interim - Mar 91 £7,821,000 £3,024,000 11.98p	Interim Comparison +16.7% +29.2% +24.2%
Sanderson Electronic plc	Results Revenue PBT EPS	Interim - Mar 90 £ 6,450,000 £ 1,780,000 14.0p	Final - Sept 90 £14,259,000 £3,302,000 24.8p	Interim - Mar 91 £ 10,610,000 £ 1,501,000 11.0p	Interim Comparison +64.5% -15.7% -21.4%
SD-Scicon plc	Results Revenue PBT EPS	Interim - Jun 90 £138,118,000 (£9,846,000) (6.19p)	Final - Dec 90 £ 256,547,000 (£ 19,781,000) (12.42p)	Interim - Jun 91 £129,173,000 £5,891,000 1.69p	Interim Comparison -8.5% Loss to profit Loss to profit
Sema Group plc	Results Revenue PBT EPS	Final - Dec 89 £293,021,000 £17,457,000 11.6p	Final - Dec 90 £375,410,000 £15,331,000 10.5p	Final Comparison +28.1% -12.2% -9.5%	
Sherwood Group plc	Results Revenue PBT EPS	Final - Dec 89 £25,397,000 £2,024,000 25.0p	Final - Dec 90 £ 24,785,000 £ 1,992,000 17.0p	Final Comparison -2.4% -1.6% -32.0%	
Star plc	Results Revenue PBT EPS	Interim - Dec 89 £6,392,000 (£649,000) (9.5p)	Final - June 90 £13,567,000 (£1,995,000) (27.2p)	Interim - Dec 90 £8,037,000 (£253,000) (3.7p)	Interim Comparison +25.7% Loss both Loss both
Synapse plc	Results Revenue PBT EPS	Interim - Jan 90 £4,675,000 (£ 249,000) (7.1p)	Final - Jul 90 £10,226,373 (£331,919) (8.9p)	Interims - Jan 91 £ 5,211,000 (£ 974,000) (27.6p)	Interim Comparison +11.5% Loss both Loss both
Total Systems plc	Results Revenue PBT EPS	Final - Mar 90 £ 1,777,084 (£ 6,722) (0.08p)	Final - Mar 91 £ 2,041,384 £ 102,768 0.74p	Final Comparison +14.9% Loss to profit Loss to profit	
Trace plc	Results Revenue PBT EPS	Interim - Nov 89 £5,796,000 £934,000 4.78p	Final - May 90 £13,933,504 £1,807,644 10.49p	Interim - Nov 90 £9,946,000 £31,000 0.06p	Interim Comparison +71.5% -96.7% -98.7%
Vistec Group plc	Results Revenue PBT EPS	Final - Apr 90 £36,048,000 £1,588,000 0.92p	Final - Apr 91 £ 31,005,000 £ 1,763,000 0.95p	Final Comparison -14.0% +11.0% +3.3%	

Acquisitions, disposals and liquidations

CGS in deal with Daimler

As reported in May's *System House*, CGS have been looking for a partner to provide the funds for future acquisitions - for example, they have to stump up at least another £125m to complete the **Hoskyns** purchase at the end of 1992. In April, Sogeti raised FF1.1b in fresh equity and CGS raised FF1.6b in a rights issue.

This month **Daimler-Benz** bought a 34% stake in Sogeti - the CGS holding company. Daimler are buying 25% of Sogeti shares from existing shareholders, for an undisclosed sum, and are paying FF1.2b for 9% of new equity. They have also agreed to provide a further FF1.2b in the form of a loan convertible into shares which if exercised would raise Daimler's share to 39.9%. In addition, Daimler is paying FF250m for a warrant to subscribe to a further capital increase in 1995 which would allow it to take a majority stake.

Daimler-Benz' German IT activities - **Debis System haus**, will be merged with CGS's German activities forming a new operation owned 51% by Daimler and 49% by CGS. Debis expects 1991 revenues of DM1.2b (c£400m) - 25% generated from outside Daimler-Benz.

Further investment and partnerships are being considered as CGS continues to grow its \$2.3 billion plus revenue international computing services group.

Micro Focus acquires Stingray

Micro Focus acquired US **Stingray Software** in exchange for 600,000 shares worth £10m on 1st July 91. Stingray made PBT of £1.6m in the year to 31st Dec. 91.

Stingray has developed an IMS environment for IBM PCs and PS/2s, which has been marketed by Micro Focus as the IMS option for COBOL Workbench since 1987. This brings the IMS technology under the control of Micro Focus. Seems like a sensible move except that it increases the US ownership of Micro Focus to well over 30%.

Sharp takes 40% stake in Techland

We thought that Hilary Dyson was a very effective Sales Director at **BOS Software**. It's a shame that Dyson parted company when **Misys** took control. Anyway, all was not lost. Dyson has now been promoted to MD at **Techland Systems** after a £600K capital injection from **Sharp Technology Fund** in return for a 40% stake. The Sharp fund is headed by Lindsay Bury - a former Chairman of **ACT**. Techland specialises in PC to IBM host connectivity products and currently has a turnover of c£2m. "We are going to get out of being just in the IBM markets and get into the **UNIX** area". Just like the old firm - **BOS** - has recently done.

Tricom raises £2.5m

It has been a busy month for Lindsay Bury (see above) as he has also been appointed non-executive chairman of networking supplier, **Tricom** which has just completed raising £2.5m from a syndicate of six investors. Schroder Ventures had been an investor in **Tricom** since 1987. Good to hear the old phrase "we are aiming for a stock market listing in 1993" crop up again. We thought we would never hear it again.

Across the pond....

Lotus is reputed to be in merger talks with database supplier, **Dataease**. **IBM** is reputed to have paid c\$100m for the remaining shares in the US object-oriented systems developer, **Metaphor Computer Systems**.

Novell is "merging with" **Digital Research** in a deal which values DR at \$75m. DR could have been another Microsoft - if only IBM had chosen DR-DOS instead of MS-DOS. Last year, however, its revenues were just \$41m. DR employs about 50 people - one third of DR's European work-force - at its research centre in Hungerford.

DEC has acquired the majority of the loss-making information systems division of Dutch electronics giant, **Phillips** "for an undisclosed sum". The deal covers the division's activities for financial institutions, small and medium enterprises, image and document management systems and all related customer service activities - it specifically excludes the hardware manufacturing activities.

Borland and Ashton-Tate

Borland International, the US software group quoted on the USM, launched a \$440m agreed bid for loss-making **Ashton-Tate** on 10th July. Borland shares rose 160% in 1990 and their growth has been meteoric. They were formed just 8 years ago and managed revenues of \$226.8m (double the previous year) and PBT of \$26.1m (up 127% on the previous year) in the financial year to 31st Mar 91. Borland already has 20% of the database and spreadsheet markets and some analysts question why Borland needs "to buy Ashton Tate when it was making such strong headway against it already in the market". Source - FT 11th July 91. "In 1988, Borland raised eyebrows by offering its \$495 Quattro Pro spreadsheet to Lotus 1-2-3 users for \$99. It then sold Paradox, Borland's \$725 data base, to Ashton-Tate customers for \$150". As Lotus VP, Donald Casey, said "Borland did a superior job of marketing to our own customers". Source - Businessweek 1st July 91. It certainly appears that AT's dBase product will now be quietly dropped in favour of Borland's products.

The others... Vega Technology, the parent company of ICL VAR **MFT Computer Systems** has bought ICL reseller **Phoenix** from **Zelix**. **Ferranti** has sold its road traffic systems business to **Peek** for £1.5m. **Peek** bought **Phillips** road traffic operations in April 91 for £3.9m. **Third Wave Network plc** has acquired a 91% stake in US **DSL Group Inc**. **DSL**, with 90/91 revenues of \$1.8m, provides consultancy and technical services in the wholesale and international banking sectors. Third Wave will "use the acquisition as a springboard into the US software market". It was confirmed that **FDR**, a subsidiary of **Amex**, paid £146m for **Signet** in Jan 91 (see *System House* Feb. 91). **Computer Sciences (CSC)** agreed £14.3m bid for **Butler-Cox** went unconditional on 1st July with 93% acceptances. Quite why any shareholder would refuse this offer is beyond us. **Pegasus** has acquired a minority shareholding in **Access Accounting** which has recently launched a "Pegasus-branded" accounting product for the Apple Mac. French **Bull** has sold its software products arm, **Prologue SA**, to its staff. **Prologue** had revenues of FF88m and net profits of FF12.5m in 1990. It appears that negotiations for **Centre-file** to purchase **West Wilts Software** in a "planned £4.5m deal" have broken down and that **Datasolve** is now back in the fray.

Synapse sells out to ECsoft

Synapse provides a range of systems software and other related services to IBM mainframe users. In 1989 they acquired IBM mid-range agent, Beacon, for £300K. Under the previous chairman, Bill Williams, they managed a £332K loss in the year to 31st July 90. On 23rd October 90, Williams sold his 24.5% stake to Delimar (a company of which Jeff Trendell is a director) at 122.5p per share. Trendell, who has significant CSI experience, joined Synapse as CEO. Latest Synapse results for the six months to 31st Jan 91 showed revenues up 11% but losses tripled to £974K. A rights issue was launched at 72p to raise £1.35m.

Now less than two months after the rights issue, Synapse has announced that it will recommend a £5.8m cash offer at 105p per share from ECsoft - a private European software distribution and computing services group whose principal existing operations are in Scandinavia. ECsoft's major shareholder is the well-respected US venture capital organisation Warburg, Pincus Investors. Apparently ECsoft is looking to buy further "sound, elite computing services companies in principal European countries" and is planning to float on some European stock exchange by 1995.

Trendell says it took longer to effect a recovery at Synapse than he expected. Additionally, he had recently told managers to anticipate zero economic growth in the next 12 months. The whole situation seems like damage limitation. Trendell and his backers have lost around £200k since Oct. 90 and probably thought it could get a lot worse. Although Trendell says he is staying on as UK MD, we tend not to believe that. Trendell is very well respected and we would expect him to resurface shortly in another guise.

P-E buys Handley-Walker

Handley-Walker (HW) was founded in 1975 and came to the USM in Apr. 88. HW employs 300 and provides management consultancy including quality management, human resources and specialised manufacturing consultancy. Revenues of £14.2m and PBT of £1.4m are shown for the year to 31st Dec. 90.

On 11th July, P-E International made a recommended £9.8m offer for HW. P-E is offering 7 P-E shares for every 10 HW shares valuing each HW share at 135p.

P-E has been on something of a buying spree recently. HW is the first publicly quoted company to be acquired but other private purchases in the last two years include:

Date		Consideration
July 89	Applied Skills for Manage.	£850K
Oct. 89	Westvies (Dutch)	£1.7m
Nov. 89	March	£850K
June 90	S J Noel-Brown	£2.1m
Nov. 90	AIMS	£2.9m
Apr. 91	Fray Data Intersite (Dutch)	£0.4m
June 91	Bellamy Associates	£1.5m

However, latest P-E results for the year to 31st Dec. 90 showed PBT down 25% to £4.2m on revenues of £65m.

HW and P-E have similar backgrounds and cultures but their strengths are largely complementary. P-E is more IT oriented whereas HW has a wider international spread.

ComputerGroup takes Computer Marketing

Bruce Coward set up Computer Marketing (CM) in 1977 and by 1990 had built a £42m turnover company with 200 staff specialising in selling and supporting PCs and add-on cards. They were particularly strong in networking. On 24th June, Chairman Coward wrote to 60 of the UK's leading resellers putting the company up for sale with a reputed valuation of £3.5m "I have decided that now is the time to realise a life-time ambition to spend a few years blue water sailing". Source - MicroScope 10th July 91.

Two weeks later Coward appointed Cork Gully as administrators. On 21st July, Coward sold CM to ComputerGroup for "between £250K and £500K". Source - MicroScope 24th July 91.

Job losses and massive hardware losses

It seems to have been a particularly bad month for the announcement of job losses and massive losses for hardware manufacturers - both in the UK and in the US:

Bonsal - 30 staff. **Computacenter** - c10 - where rumours of 120 job losses were described as fictitious. ICL software house - **Northern Computing** - lays off 12 employees, or 25% of the work-force. 98 employees go at **Siemens Nixdorf** - mainly from the Bracknell office. **Wang** has told 155 UK staff that they must go by Dec. "as the company prepares for a future tied to IBM". **Phoenix** - 8 staff. **Nat West** computer operations - 150 staff. **Inmos** - 180 jobs. At **Computer People** "Four of the group's branch managers have taken on lower level roles as account managers with four board members moving over to take their places". Source - Computing 4th July 1991. 50 staff go at **Computer Marketing** (see above). Dealer **Cavelle Data Systems** has made 12 redundant. Eight staff, including S&M Director Paul Johnson, have left **Perthcrest** - the recent BIS FM acquisition. **Information Builders** lays off 10% (c10) staff.

Further job losses at IBM, TI, Wang and Unisys

More staff applied for voluntary redundancy at IBM than expected; allowing IBM to increase their projected staff reductions this year from 14,000 to 17,000. Wall Street was "relieved" at IBM's Q2 results showing revenues down 11% at \$14.7b and profits down 92% from \$1.4b to \$114m. IBM warned that revenues for the year are likely to be static. Analysts are particularly concerned about the outlook for IBM's overseas business which accounted for 52% of revenues and 77% of profits in 1990.

On the same day as Big Blue's announcement, **Texas Instruments** said they were to shed 3,200 staff. **Wang** said 4000 jobs were to go.

On 23rd July **Unisys**, which has already cut its work-force from 90,000 to 70,000, announced a further 10,000 job losses. A \$925m restructuring cost plus \$275m of goodwill write-offs produced a staggering \$1.3b loss in Q2 on revenues of \$2.2b. Unisys has breached the terms of its credit agreement and Chapter 11 rumours abound.

Bad news at DEC and Compaq too....

DEC announced a massive \$1.1b restructuring charge in Q4 which produced a Q4 loss of \$871m and a loss of \$617m for the full year.

Compaq, which has had nine years of uninterrupted impressive growth, announced a drop of 81% in Q2 profits to \$20m on revenues down 17% at \$718m.

Computing Services Index

26th July 1991

April 15th 1989 = 1000

966.29

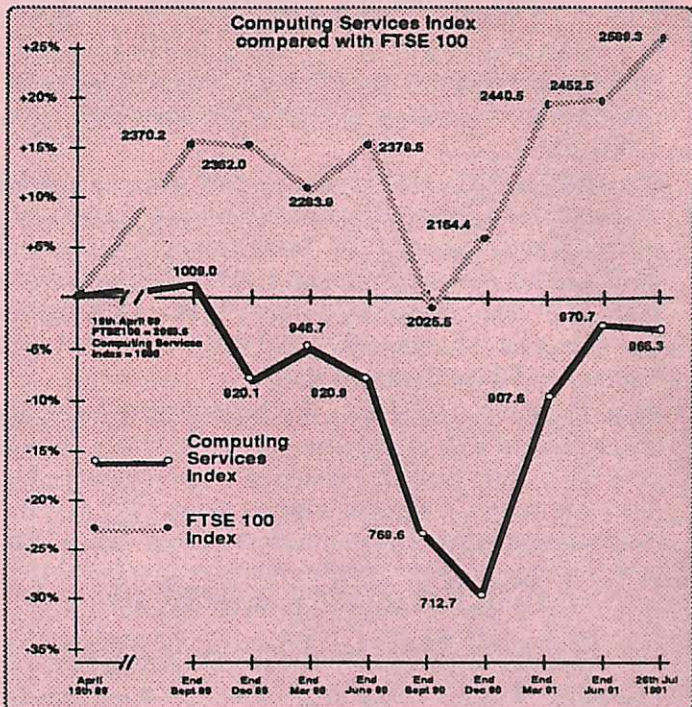
Changes in Indices	CSI Index	FTSE 100
Month 27th June 91 to 26th July 91	-0.45%	+5.58%
27 months 15 Apr. 89 to 26th July 91	-3.37%	+26.09%
1st Jan 90 to 26th July 91	+5.02%	+9.62%
1st Jan 91 to 26th July 91	+36.51%	+19.85%

Computing Services Share Price Index

26th July 1991

Index Rank	15th April 1989 = 1000	Share Price 26/7/91	Index 26/7/91
1	Micro Focus •	16.40	7922.70
2	Admiral •	3.35	2427.53
3	Capita •	2.14	2140.00
4	Rolfe & Nolan •	1.80	2126.32
5	Sage Group •	2.65	2038.46
6	Hoskyns •	3.86	1882.92
7	ACT •	1.16	1856.74
8	Electronic Data Processing •	1.76	1795.91
9	Quotient •	2.04	1773.91
10	Butler Cox •	2.43	1388.57
11	Proteus •	1.10	1309.52
12	Macro 4 •	3.04	1225.81
13	Kalamazoo •	0.41	1171.43
14	Kewill •	2.68	1059.29
15	Sherwood •	1.16	966.66
16	Sema Group •	2.69	845.91
17	INSTEM •	0.78	780.00
18	SD-Scicon •	0.56	717.95
19	P-E International •	1.74	716.05
20	EIT Group (Was Maxiprint) •	0.16	640.00
21	Microgen •	1.49	636.75
22	NMW •	0.37	616.67
23	Sanderson •	1.30	553.19
24	Logica •	1.97	539.73
25	Computer People •	1.30	534.98
26	Vistec •	0.12	502.59
27	MMT •	0.78	464.29
28	Pegasus •	1.55	422.35
29	Learmonth & Burchett •	0.50	416.67
30	Misys •	1.63	405.47
31	Cray Electronics •	0.69	403.51
32	P&P •	0.84	376.68
33	Synapse •	1.01	348.28
34	Radius •	0.48	347.82
35	Microvitec •	0.14	341.46
36	Total •	0.15	273.59
37	Enterprise (Was Systems Rel) •	0.34	272.00
38	Gresham Telecomputing •	0.13	139.78
39	Star •	0.16	133.33
40	Trace •	0.16	128.00
41	Logitek •	0.15	86.62

Note: Index set at 1000 on 15th April 1989. Any new entrants to the market are allocated an index of 1000 based on the issue price.



Apple losses....

Apple surprised analysts with Q3 losses of \$53.1m against profits of \$119.8m last year this time. Apple blamed a restructuring charge of \$139m and lower margins (gross margins were down from 54% to 45.8%) resulting from the introduction of the Classic. These bad results came despite a 12% increase in revenues to \$1.53b. Further cost reductions are planned.

....but Callhaven profits

Callhaven plc - "One of Apple's two best dealers" says Chairman Barney Gibbens, acknowledging that Rothwell Group plc, where Richard Holway is Chairman, is the other! - increased PAT by 27% to £526K in the year ending 31st Mar 91 on revenues up 40% at £14m.

Chisholm seconded to HM Government

Sema's UK MD, John Chisholm, has been seconded for three years to become Chief Executive of the Defence Research Agency following a request from Defence Secretary Tom King. Chisholm will be paid £140,000 pa - Chairman Barney Gibbens only managed c£100K pa at Sema last year. Sema's Group CEO, Pierre Bonelli said "We are honoured that the UK Government should have chosen one of our senior executives for so important a task". Chisholm will be succeeded by Harry Fryer - the current deputy UK MD at Sema.

Reuters static

Reuters reported PBT up 1.8% at £170m on revenues up 2.5% at £705.3m for the six months to 30th June. £10m has been set aside to fund redundancies to "cope with the retrenchment sweeping the world's financial centres". MD, Peter Job, said "We do not see double-digit growth this year or next".

Profits surge at Precision Software

Precision Software increased PBT from £67K to £1.17m on revenues up 104% at £5.49m in the year to 31st Mar 91. Sales of its Windows database, Superbase, rose by 350%. Precision was recently purchased by US Software Publishing Corp. for \$25m.

CSI Index misses out on FTSE gain

In a month when the FTSE 100 has scaled new heights - up 5.6% on the month - the CSI Index slipped a half point. But the rate of increase in 1991 is still twice that of the FTSE 100.

Synapse was the chief gainer - up 31% after the agreed bid from ECsoft. INSTEM gained 30% despite David Gare's warnings at the recent AGM. Total's return to profits and MMT's stake-building produced a 16% increase in share price. EDP - the second best performing share this year so far - was a up a further 16% this month, after the 127% increase in PBT reported in June.

After recent disposals and the PBT & EPS reversals announced in May, Enterprise (was SRH) has slipped 28% this month. Trace continues its one way slide; falling 24% this month. It has the dubious honour of being the worst performing share in the sector this year - down 71%.

Computing Service Share Price Movements 27th June 91 to 26th July 91

Rank		% Change 27/6/91 to 26/7/91	% Change this year	Historic P/E
1	Synapse	31.17%	-5.61%	Loss
2	INSTEM	30.00%	-11.36%	5.57
3	Total	16.00%	45.00%	19.59
4	Electronic Data Processing	15.79%	122.78%	10.13
5	SD-Scicon	13.13%	115.38%	Loss
6	Capita	7.00%	34.59%	15.62
7	Star	6.67%	0.00%	Loss
8	Hoskyns	5.75%	8.73%	29.69
9	Sage Group	5.58%	35.20%	13.80
10	Admiral	5.35%	48.89%	17.27
11	ACT	4.50%	52.63%	16.41
12	Macro 4	0.66%	29.36%	14.76
13	Quotient	0.49%	277.78%	51.00
14	Butler Cox	0.41%	127.10%	38.51
15	Logitek	0.00%	-34.78%	0.92
16	Rolfe & Nolan	0.00%	21.62%	13.04
17	Computer People	-0.76%	23.81%	7.92
18	Proteus	-0.90%	20.88%	Loss
19	Sherwood	-1.69%	36.47%	6.82
20	Learmonth & Burchett	-1.96%	11.11%	21.74
21	Sanderson	-2.99%	8.33%	5.24
22	Sema Group	-3.24%	-46.09%	25.62
23	Microvitec	-3.45%	-15.15%	Loss
24	Kalamazoo	-3.53%	43.86%	18.64
25	Micro Focus	-3.53%	109.45%	25.83
26	MMT	-4.88%	-12.36%	7.50
27	Misys	-5.23%	120.27%	14.17
28	Cray Electronics	-5.48%	23.21%	27.60
29	EIT Group (Was Maxiprint)	-5.88%	-36.00%	Loss
30	Kewill	-6.62%	37.44%	9.11
31	Logica	-7.51%	17.96%	21.89
32	P&P	-7.69%	0.00%	4.54
33	Microgen	-8.59%	22.13%	11.04
34	NMW	-9.76%	60.87%	28.46
35	P-E International	-9.84%	26.09%	11.60
36	Gresham Telecomputing	-13.33%	-35.00%	Loss
37	Pegasus	-13.89%	-4.32%	5.10
38	Radius	-14.29%	0.00%	7.41
39	Vistec	-20.69%	15.00%	12.11
40	Trace	-23.81%	-71.43%	1.53
41	Enterprise (Was SRH)	-27.66%	-29.17%	2.66

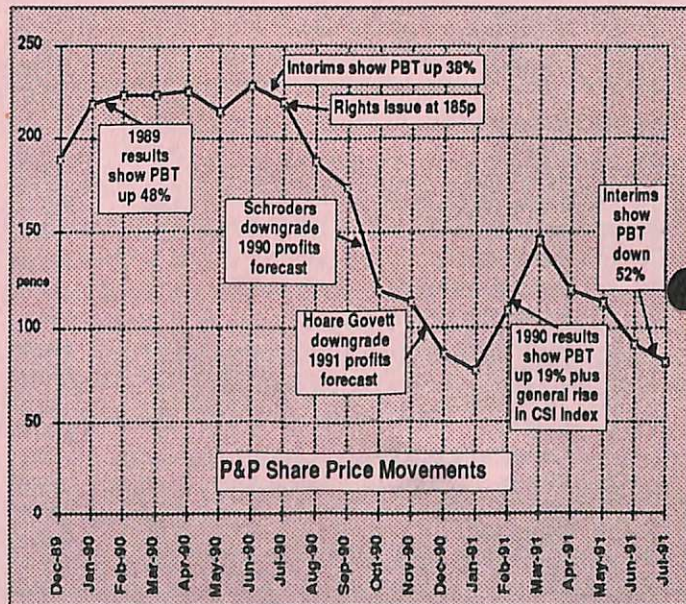
Repositioning at P&P

PBT at P&P took a 52% nose-dive from £6.8m to £3.3m for the six months to 31st May 91. This was struck after a £2m exceptional item "which related mainly to the write down of stock...no longer pertinent to the Group's future strategy". EPS was down 64%. There was, however, "encouraging growth in the Group's business despite the challenging economic climate and dramatic changes in the PC industry" as revenues were up 10% at £120.7m.

P&P has changed quite significantly in recent times from a product-led supplier of PC hardware and software to a value-added services supplier. P&P's distribution division saw sales down by 18% to £41m but their corporate - or direct sales - increased by 25% to £51m. This was also reflected in the increase in gross margin from 18.9% to 20.4%. A recent example of the kind of higher quality business now being signed is the £1.1m "facilities management" contract with the UK head office of Unilever to support, install and maintain their PC function.

After last year's £26.7m rights issue, P&P has a strong balance sheet with net assets totalling £55.6m and gearing a minimal 2.7%. Since Nov. 90, P&P has purchased P&P Sweden AB and paid the deferred consideration for P&P Belgium, totalling £4.8m.

P&P is "hopeful of a satisfactory outcome for the year". At the time of the 185p rights issue in July 90, when P&P's shares stood at 228p, the FT assumed profits of £15m - they actually made £13.1m. In Dec. 90, Hoare Govett slashed its 1991 profits forecast from £16m to £8m and P&P's shares ended 1990 at 86p. They have changed little since and end this month on 81p.



However, we remain ardent fans of P&P. They have good management, have faced up to the significant culture change required to develop their value added operations, have moved into Europe, taken steps into UNIX and, although not to the benefit of those who subscribed for the rights issue, have a strong balance sheet compared to most of its competitors. If P&P can do this at a time when the PC market has been in its deepest ever recession, imagine what P&P can do when the recovery starts.

PBT of around £8m is still expected for the full year. "At less than 9 times earnings, the shares have their medium term attractions". Tempus in the Times - 24th July 91.

Capitalisation static at £1.77b

Synapse was the highest % gainer this month - up 31% after the agreed bid from ECsoft. Enterprise, the old Systems Reliability, was the largest % loser - down 27.5%. Hoskyns gained £17.5m and now has a value £108m higher than Sema. With the CGS/Daimler deal, there now seems nothing to stop Hoskyns shares being bought for at least 469p in late 1992; ie a guaranteed gain of 21%. Now ranked #4, ACT has a higher capitalisation than Logica.

Microsoft profits up 73%

Microsoft reported Q4 profits up 73% at \$138m on revenues up 56%. Full year results, to 30th Jun. 91, show profits of \$463m on revenues of \$1.8b.

Troubled US PC dealer chain, Businessland, has received a bid from rival ComputerLand.

"Less is more" Mies van der Rohe - Microgen - 1983

"Resolve not to be poor: whatever you have, spend less" Dr Samuel Johnson - Microgen - 1990

Please Microgen - don't stop your quotations which appear on the front cover of your annual Report & Accounts. They bring a little joy into the dreary life of a CSI company analyst. But you must understand that your witticisms do lay you wide open to cynical comment.

Microgen's latest interims for the six months to 30th April 91 shows revenues down 1.8% at £24.6m and PBT is down 4.4% at £4.33m - but EPS was up 1.4%. But you must understand, this is illusory as if you strip out Microgen Equipment and Supplies and Imagen, which were sold in the last year, revenues actually increased by 13%. **Miracle - "less really is more!"**

Chairman, Patrick Barbour, forecast *"solid, sustained growth"* last time. *"The effect of acquisitions has been to produce a growth in income but the lower prices we inherited in the UK, and the impact of the UK and Scandinavian recessions, have meant that we have not earned increased profits from this extra activity"*.

Microgen is yet another company to be hit by their inability to let premises vacated in happier times - £162k this year and *"a further charge of £231K in the second half and in a full year the wastage could amount to over £500K"*. It is short-sighted for companies to vacate premises, to save money by moving into smaller premises, before they have secured a tenant.

Microgen's COM business is reported to have *'held up well'*. In time it will die, we believe, to be replaced by scanned, computer held and indexed images. *"We see the remainder of the current year as a period of consolidation....in this way we will be in a strong position to reap the appropriate rewards when conditions allow"*.

The Times said Microgen *"are likely to be dull performers in the short term"*. We are rather more concerned about the long term viability of the services offered by Microgen - COM really does not have a future. The combination of cheap mass storage (eg optical discs), scanned input and text retrieval software will make microfiche seem positively Victorian. Anyway, we are not aware of any IT business which has prospered, in the long term, on the *"spend less", "less is more"* philosophy.

Perhaps the market agrees with our prognosis as Microgen shares have slipped 9% this month.

Computing Services Capitalisation - 26th July 91

Rank		Capitalisation 26/7/91 £m	% Change since 15/4/89	% Change since 27/6/91	£m Change since 27/6/91
1	Hoskyns	£ 351.89	113.52%	5.23%	£ 17.49
2	Sema Group	£ 244.38	-13.98%	-2.60%	-£ 6.52
3	Micro Focus	£ 226.36	777.36%	4.22%	£ 9.16
4	ACT	£ 123.91	212.91%	4.48%	£ 5.31
5	Logica	£ 120.70	-45.34%	-5.85%	-£ 7.50
6	SD-Scicon	£ 113.12	-28.04%	10.90%	£ 11.12
7	Cray Electronics	£ 72.02	-51.63%	-5.48%	-£ 4.18
8	Macro 4	£ 67.19	24.67%	0.59%	£ 0.39
9	Microgen	£ 57.63	-34.81%	-8.67%	-£ 5.47
10	Misys	£ 55.48	-26.80%	-1.27%	-£ 0.72
11	Sage Group	£ 52.31	146.75%	4.83%	£ 2.41
12	P&P	£ 46.56	-37.67%	-6.69%	-£ 3.34
13	Admiral	£ 35.90	145.89%	2.87%	£ 1.00
14	P-E International	£ 28.80	-27.26%	-9.99%	-£ 3.20
15	Quotient	£ 27.90	78.85%	0.36%	£ 0.10
16	Capita	£ 27.20	235.80%	7.09%	£ 1.80
17	Kewill	£ 25.50	51.79%	-4.85%	-£ 1.30
18	Enterprise (was Systems Rel)	£ 24.80	-42.99%	-27.49%	-£ 9.40
19	Proteus	£ 23.60	30.75%	0.00%	£ 0.00
20	Computer People	£ 18.00	-41.37%	1.69%	£ 0.30
21	Electronic Data Processing	£ 15.27	80.47%	16.55%	£ 2.17
22	Butler Cox	£ 13.20	41.63%	2.33%	£ 0.30
23	Vistec	£ 13.07	131.30%	-20.80%	-£ 3.43
24	Sanderson	£ 11.45	-41.89%	-2.99%	-£ 0.35
25	Radius	£ 11.04	-65.39%	-8.00%	-£ 0.96
26	Rolle & Nolan	£ 10.04	129.84%	3.44%	£ 0.33
27	Pegasus	£ 9.48	-52.13%	-13.05%	-£ 1.42
28	Microvitec	£ 8.69	-21.71%	-3.45%	-£ 0.31
29	MMT	£ 8.27	-52.17%	-4.90%	-£ 0.43
30	NMW	£ 7.65	-37.78%	-9.75%	-£ 0.83
31	Kalamazoo	£ 7.56	17.21%	-3.45%	-£ 0.27
32	EIT Group (Was Maxiprint)	£ 7.17	94.84%	-5.91%	-£ 0.45
33	Learnmonth & Burchett	£ 6.66	-54.38%	0.00%	£ 0.00
34	Sherwood	£ 6.09	-1.14%	-1.62%	-£ 0.10
35	Synapse	£ 5.60	-45.10%	31.15%	£ 1.33
36	Gresham Telecomputing	£ 4.14	-6.49%	-13.33%	-£ 0.64
37	INSTEM	£ 3.51	-22.00%	25.81%	£ 0.72
38	Logitek	£ 2.53	-91.43%	0.00%	£ 0.00
39	Trace	£ 2.11	-86.89%	-20.08%	-£ 0.53
40	Total	£ 1.45	-72.64%	11.54%	£ 0.15
41	Star	£ 1.09	-86.63%	6.44%	£ 0.07

Granada confirms losses

As forecast in their rights issue document (*System House* June 91), **Granada Business Services** showed an interim loss of £700K on revenues down from £105.2m to £104.5m for the 28 weeks to 13th April 91. These figures are struck before interest charges on the £200m Granada has spent on building its third party maintenance operation with acquisitions of the likes of DPCE, CFM and Mainstay. The bad performance was one of the main reasons for Derek Lewis's departure from the Granada CEO position in May 91 as the price demanded for institutional support.

Chairman Alex Bernstein said *"Much still remains to be done in Computer Services....We are committed to this business....Although current financial results are clearly unsatisfactory, we believe the actions we are taking will improve performance"*. Bernstein, however, confirmed that he will *"concentrate on the disposal of peripheral businesses"* and we would still expect Granada to sell if the right offer was made.

SD-Scicon forecast PBT of £14m+

On Saturday 27th July, SD-Scicon issued their interim results and forecast for 1991. SD's estimate in the EDS defence document on 2nd July of interim profits of "significantly more than £4.5m" was justified with PBT of £5.89m (loss of £9.85m last time) on revenues down 6.5% at £129.2m. "This profit reflects strong trading performance in the UK, France and the USA". However, an extraordinary item of £2m "relates to the costs of defending the Group against unwelcome offers from Cray and EDS". Retained profit is therefore reduced from £1.55m last time to £685K now.

Profits "of not less than £14m, record EPS of not less than 4.07p and full year dividends up 33% to 1p per share" are forecast for the year to 31st Dec. 91. On 4th July, EDS had announced that they had paid £30m for BAe's 25% stake in SD. SD said "EDS has made an unbelievably good purchase". Many in the industry 'phoned us to describe their incredulity at BAe's sale at 45p. On 10th July SD announced that 48% of its shareholders would not accept the EDS bid - well, not at 45p anyway. Indeed, other than BAe, only 2.42% of SD's other shareholders have accepted the EDS bid. Now John Jackson (SD's Chairman) says "SD is an important company in a growing international industry. EDS should be congratulated on having purchased their 25% holding at only 45p; they must be very happy. All our shareholders should keep their shares and continue to benefit from our profits recovery and strong growth prospects".

However, there is still talk of bids being prepared by other "friendly parties"; BT, Cable & Wireless, French Thomson-CSF and Japanese CSK have all been mentioned. However, we would still not be surprised to see EDS winning the day with an increased bid. With the EDS bid closing on 7th Aug., the story is likely to be concluded in time for our next edition.

Welcome Data Sciences

A call to Mike Smith, Chairman at Thorn-EMI Software, early on 25th July was answered with "Data Sciences - how may I help you?". Smith had just signed the UK's largest CSI MBO deal after 3 months of negotiation and the usual 24 hrs locked in a solicitor's office. Data Sciences, the new operation, employs 2000 staff with revenues of £117m and PBT of £6.2m in the year to 31st Mar 91. Thorn-EMI will retain 20% of the equity, the staff have 22% and the main backers - CIN Ventures - have the remainder.

Under the deal Thorn will receive £50m in cash and assumption of borrowings. In addition, £32m will be paid in the form of a zero coupon loan note which matures in 4 years time. Net assets of £21.6m are involved in the transaction. Assuming a total consideration of £82m - that's only 70% of revenue or a high historic P/E of c22.

A happy but exhausted Mike Smith said that the operation would always have been too small to be a strategic part of Thorn's thinking. He had had "people knocking on the door all the time wanting to buy" and his fellow directors now had the chance to grow a major European systems house. A flotation is planned "as soon as practical" - they will need it to reduce the debt. **We wish them well.**

the Holway Report

The latest edition of the 1000 page Holway Report was published in June and the many System House subscribers who have ordered the report should have received their copies by now. We must be doing something right as both press coverage and, surprisingly in these difficult times, sales are three times higher than last year.

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