

System House

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

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April 1991

All change for CSI companies

1991 will see more change in the computing services industry than any year in its history. We predicted (*System House* Jan 91) that "at least seven of the currently quoted CSI companies will not survive 1991 in their current form". We have already seen **Stratagem** acquiring **Touchstone** and **Gresham** "merging with" **Telecomputing**. This month we have seen the demise of **Ferrari**, **Microvitec** bidding for **Logitek** (which itself has sold its profitable networking business - **Azlan**) and **Star** selling the most profitable part of their business to **Misys** after **Star's** accounts were qualified.

It is now ten years since CSI companies started to be traded on the Stock Exchange. 51 companies have been listed, but just 37 remain - we expect that could be nearer 30 by the end of 1991. The number of new entrants has all but dried up. Until 1990, only one listed CSI company had gone broke - **PPL**. But a further three have gone in the last year

This month, **Ferrari** joined **Headland** and **Memory** by going into liquidation in the last year. If you were surprised about **Ferrari** we suggest you cancel your *System House* subscription. **Ferrari** shares were suspended at 5p on 6th March and the receivers were appointed on the 7th. Just a year ago, Bob Woodland told shareholders that "1990 will prove a very rewarding year for shareholders". The shares then stood at 90p. The directors admit that the demise of the company was due to "the acquisition of **UCL** in Aug 89, the acquisition of a 29.9% interest in **Telecomputing** (whose shares have been suspended) and the acquisition of **Pericom** in May 90...these acquisitions led to a substantial outflow of cash". Woodland was quoted in *Computing* saying "The company was mismanaged - there was a total lack of understanding of the business. Money was put into loss-making businesses and creditors weren't handled well". One assumes he was referring to the new ex-Plessey directors but the comment could well apply to previous times. A rights issue had been considered and abandoned as the shares were trading below their par value. Then "white knight" **Touchstone** was itself acquired by **Stratagem**.

Increased EPS in 1990

Admiral
ACT
Capita
Computer People
EDP
Hoskyns
INSTEM
Kewill
Macro 4
Micro Focus
Microgen
NMW
P-E International
Quotient
Radius
Rolfe & Nolan
Sage
Sanderson
Sherwood
Systems Reliability

Reporting lower EPS in 1990

Butler Cox
Logica
Logitek
Misys
MMT
P&P
Pegasus
Sema
Total
Trace
Vistec

Reported Loss in 1990

LBMS
Proteus
SD Scicon
Star
Synapse
Telecomputing

Went broke 1985 - 1990

Ferrari
Headland
Memory
PPL

Acquired 1985 - 1990

DDT
DPCE
Fletcher Dennys
Marcol
Optim
Personal Computers
Touchstone
UCL
Zygal

Videcom has bought **Ferrari Technical Services** (p8) but it looks like **Singer & Friedlander**, which held 34.7% of the ordinary stock and over 70% of the prefs, will have lost £14m. **Ferrari** joins **Headland** in the "how not to do it" textbook of acquisitive companies.

Since 1985, ten quoted CSI have been acquired - at least four of these were definite "rescues". Of the remaining 37 companies only 8 companies have consistently increased EPS each year:

The only quoted CSI companies not to suffer a reduction in EPS in the period 1985 - 1990

Admiral
Capita
Hoskyns ?
Kewill
Macro 4
P-E International <
Sage
Sanderson ?

In the last year alone, six quoted CSI companies (plus **Ferrari** and **Touchstone**) have reported a loss in their latest results and eleven, although making a profit, have reduced EPS. The convenient excuse is to blame the recession - *have none of it*. The bad results reported so far have more to do with ill-advised acquisitions, bad project control and overall poor management than they have to do with market conditions. The next crop of results, however, will suffer from recessionary factors as well.

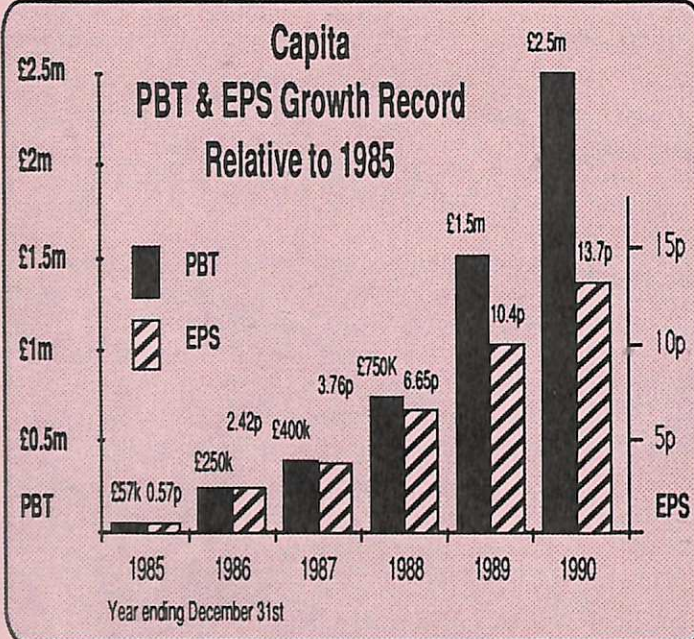
Geoff Unwin, **Hoskyns'** executive chairman, said at the CSA Annual Conference this month "Investors have lost confidence in our sector...there are spectacular examples of not living up to expectations". Unwin quoted that the *System House* Share Index had underperformed the FTSE 100 by over 30% in the last two years. David Mann, CEO at **Logica**, warned that the industry must "clean up its act".

If we don't succeed we will see increased company failures and rescues. Our companies will be increasingly susceptible to overseas takeover, and hardware manufacturers and the management consultancies (see p 11) will dramatically increase their share of our market.

But time is running out to effect the changes so desperately and urgently required.

Capita continues excellent growth

USM Company of the Year, **Capita Group plc**, which was launched onto the market in 1989, provides IT and management services to the public sector. Latest results to Dec 90 show continued excellent growth. Revenue is up 130% at £20.1m and PBT rose 65.5% to £2.5m. EPS was up 32%; making a 5 year compound growth in EPS of 54%.



In June 90, Capita acquired consulting engineers **JE Greator** for a maximum consideration of £9m. JEG has "proved very successful - and performed up to expectations". In July 90, Capita bought out BT's 51% option in **Telecom Capita** for £1.3m. Even so, cash balances at the year end were £3m - up £1.9m on 1989.

All five operating divisions have "performed strongly". The Computer Services Division has a 5-year FM contract with Berkshire CC worth £19m and starts a 7-year FM contract with Oxfordshire CC in the spring, worth £28m. This month a £2m FM contract was announced with Companies House in Cardiff. The Managed Services Division had revenues of £664K in its first year and has been awarded a £2m extension to its DVLA personalized number plates contract. Marketing Services, formed from the acquisition of **Penn Communications** for £1.1m in May 89, achieved revenues up 375% at £4.7m.

Capita seems to have a sound policy of strong organic growth coupled with strategic acquisitions. They are becoming an important player on the FM scene - which IDC forecasts will have a 25% pa growth over the next few years - the fastest growth of any CSI sector.

Capita told us some time ago that they would sensibly bed in the existing acquisitions before attempting anymore - the kind of prudent policies you would expect from a board dominated by accountants.

Back in Oct 90, Richard Benton, Capita's Group Sales Director, said that he wouldn't argue with analysts' forecasts of £2.5m profit for 1990 - he got that right - or £3.4m for 1991. Chairman, Ron Aldridge now says "The year has started satisfactorily and I expect to be reporting further progress in twelve months time".

System House readers know of our enthusiasm for Capita - we think it is one of the soundest UK CSI companies around. Latest results merely confirm our long held view.

System House

Macro 4 profits growth comes to a halt

Macro 4 supplies system software to the IBM mainframe market. Their latest results for the six months to Dec 90, show profits growth coming to an abrupt halt. Although revenues increased by 16.6% to £8.1m, PBT grew by just 2.7% to £3.4m and EPS increased by 3.3%. Cash increased by £1.11m to £8.87m. A further £180K was spent on Macro 4's favoured property project - "The Orangery". Some feel the money would have been better invested in the business.

The main reasons for the lacklustre performance seem to be cancellations both in the US and in the UK "caused by customers consolidating their mainframe data processing activities or even closing them down entirely...purchase decisions taking longer than previously experienced and some being postponed indefinitely" and "the relative strength of the Pound Sterling which has depressed consolidated overseas earnings which are approx. 75% of group earnings".

Problems still seem to be affecting overseas agents which "are under close scrutiny with a view to improving their results or even appointing new agents".

As to the future "the board anticipates that current year profits growth will be broadly in line with the underlying rate of growth experienced in the first half" - in other words nought - "but the company remains susceptible to foreign exchange exposure particularly the \$ and DM".

What a wasted opportunity.

Star disintegrates further

Our headline in Feb 91's *System House* was "Star in black hole". The last month has seen the further disintegration of Star. **United Health** was sold to ICL for £100K in Nov 90. **Connect Data's** name and assets were sold in Feb 91 for £68K and then ceased trading having made a loss of £436K in the year to June 90. **Inteq** also ceased trading in Feb 91. Star lost £2m in the year to June 90 and the delay in the publication of the results was due to the auditor's qualification over continued funding "being conditional on the sale of Star Computer Services (SCS)".

After previous reports of an impending MBO, on 6th Feb, it was announced that **Misys**, in its first acquisition since June 1989, had acquired Star's hardware maintenance operation for £2.7m. £1m of this was for net assets acquired. Star had maintenance revenues of £3m arising from 780 contracts mainly in the multi user UNIX arena on CT kit. SCS had shown PBT of £1.14m on revenues of £3.5m for the year to June 90. This really does look to be a superb acquisition for Misys as it fits like a glove with TIS Maintenance. They will add £3m of revenue for minimal extra costs and should give a welcome boost to Misys's profits. Further Star maintenance will be referred to Misys. If only all Misys's purchases had been so wise.

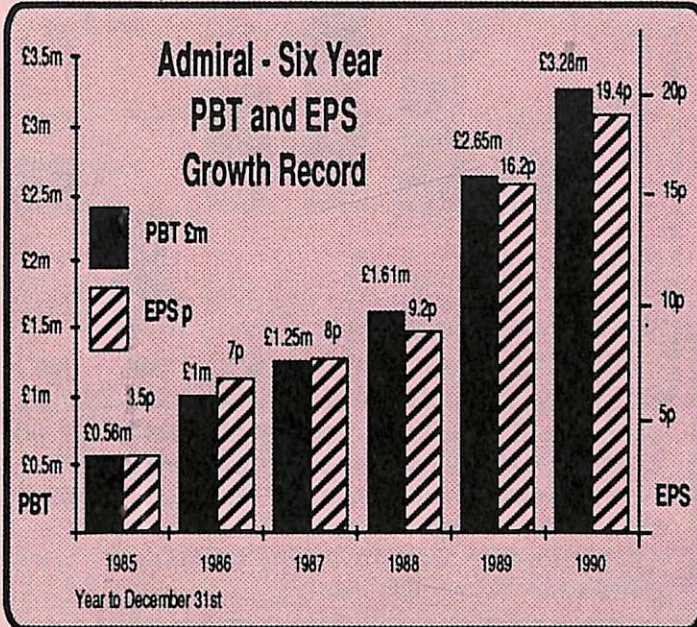
But Star has now sold its crown jewel. At least they will now be able to repay their significant borrowings and concentrate on the systems businesses; principally from legal software subsidiary - **Pinnacle**.

Star also announced its interim results for the half year to Dec 90. These showed a continued loss of £253K (£649K last time) on revenues up 26% at £8m. Chairman, David Blechner, is "confident in Star's future as a unified systems group". It looks like a pretty small operation to remain as a viable quoted company.

"Admiral is fit and lean"

OK, so every reader knows that we are a fan of Admiral. Every one said John Major was a "grey man" and the mantle has done him nothing but good. Many say that Admiral is unexciting (the FT's Alan Cane said they had a "marked aversion to risks") - if so, let's have more such UK CSI companies.

Latest results for the full year to Dec 90 show PBT up 23% at £3.28m on revenues up 33% at £21.2m. EPS also increased by 20%. Staff numbers increased 25% to 424.



The record as shown above is pretty well near faultless - Admiral is now one of a small, dwindling group of companies never to have suffered an EPS reversal. Chairman, Clay Brendish, says "Admiral is fit and lean. These results reinforce my belief in the company's management and show that Admiral is truly a quality organisation". When we met Clay Brendish and Ceri James recently, that quality theme came through in everything we discussed. Brendish told us the tale of a competitive company that wished to discuss quality control. He offered a meeting with Admiral's quality assurance manager and was somewhat surprised that the other company had no such appointment.

The future also looks bright "The core business in 1990 continued to thrive. We have a broad client base and the demand for services is strong. But 1991 will be a year of hard work and challenge. The economy continues to slide and many computing services companies will experience little or no growth, some for the first time. However, Admiral is in good shape and our order book continues to increase. We are dedicated to both the short and long term success of the company". Analysts are suggesting £3.8m for 1991.

Sensible but small acquisitions (they acquired Intra Systems and Mentor Interactive Training in 1990 - both in the training arena), a wide spread of business, strong adherence to quality, excellent cash control (cash increased 22% to £2.8m this year) and, perhaps the most important characteristic of all, strong and experienced management justifies Admiral's position as one of the best UK CSI companies (see Jan 91 System House).

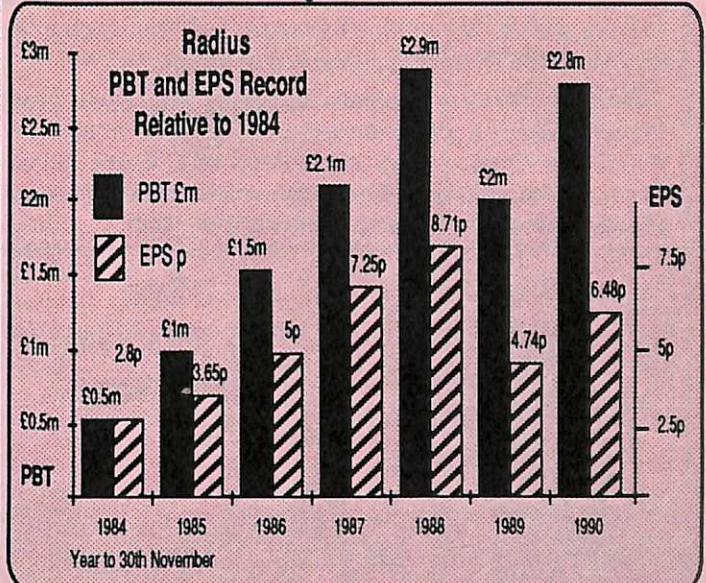
We remain an ardent fan of this supposedly unexciting company.

April 1991

Radius starts recovery

Edward Sharp has stepped down as Chairman and MD of Radius. His interim statement in July 90 forecast that "the full year will yield a satisfactory result". And so it has come to pass. Full year results to Nov 90 show PBT up 41% at £2.82m on revenues barely moved at £29.9m. EPS was up 37%. However, the 1989 result was struck after an exceptional provision of £500K relating to "cost overrun on a major software contract". Strip that out and profits growth is a more modest 12.5%.

The trading record is bumpy to say the least. EPS is still well down on its 1988 high.



On a more positive note, cash increased by £650K to £2.48m. Radius reported "a very good year in the ICL mainframe sector". There has been "continued focus on UNIX products in specialist areas. This has been particularly well received in the fuel distribution industry". "Professional services had another excellent year". However, the printing and retailing sectors have been affected by the recession. But Radius is "optimistic for longer term prospects but immediate prospects will clearly be governed by the depth and duration of the recession".

Radius had suffered a clear case of acquisition indigestion - they had been one of the most acquisitive CSI companies in 1989. Unlike several others, they do seem to be showing that it is possible to recover from the malady.

INSTEM "Rosier by the day" David Gare Mar 90

INSTEM's Chairman, David Gare, would win our award for the most accurate predictions in the last two years. Latest results for year to Dec 90 show revenues up 39% at £11.2m and PBT up 14% at £1m. This is a record in INSTEM's 21 year history; recovering from the 1987/88 dip. EPS rose 9% and staff numbers were up 39% at 251.

INSTEM never seems to make the headlines. Their main business is computer systems for the control of power stations. They were awarded £15m of new contracts last year including £3m for a replacement control system at Aberthaw power station. The privatisation of the power industry will provide new opportunities.

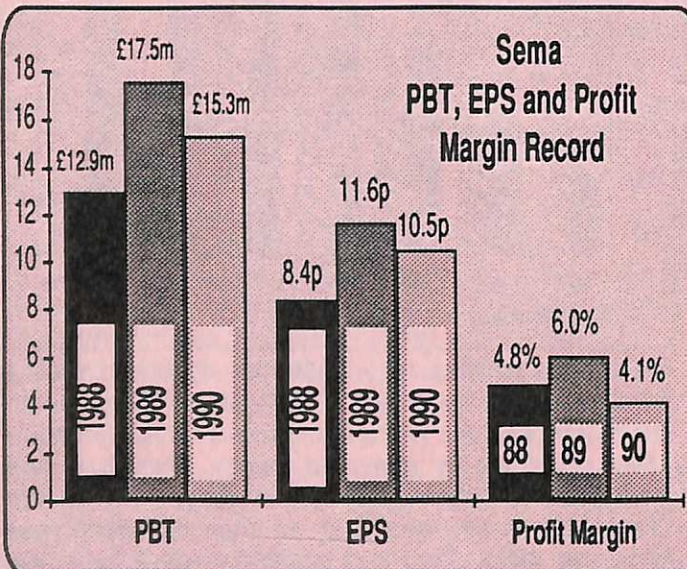
Indeed, Gare reports that "1991 has opened with a substantial order book, providing an excellent basis for continued performance improvement through the current year". Based on the accuracy of previous predictions, we would be inclined to believe him.

Sema falters

Sema Group is the largest CSI company quoted on the UK Stock Exchange. Latest results show revenues for the year to Dec 90 up 28% at £375.4m. Much of this growth was achieved by acquisition although the "core information systems business expanded organically by 12%." A majority of the shares, however, are owned by the French - 39% held by Paribas, 27% by CGS and 8% by Schneider. Many top UK directors have departed and management control is certainly no longer in UK hands.

Despite strong revenue growth, PBT declined by 12% to £15.3m and EPS was down 9.5%. Operating profit is said to have shown "a marginal increase" but interest charges hit £1.4m (£67K interest received in 1989).

The long standing problem at Sema has been profit margins. Before the merger, CAP always trailed our margin rankings. A year ago Group MD, Pierre Bonelli "saw no reason why a 10% margin could not be achieved". Margins have since slumped to 4.1% in 1990.



Bonelli said it was unlikely that Sema would make further acquisitions in 1991. R&D, running at around £5m pa, the general state of the economy and a history of inability to get to grips with the margin problem leads analysts to project another flat year in 1991. *Could be worse, though.*

Logica continues to suffer

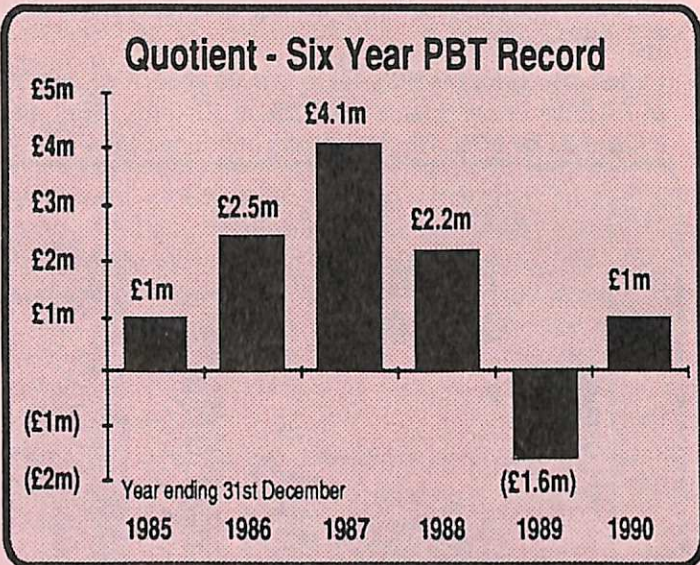
Logica, the largest independent UK CSI company, continued to show declining profits in the six months to Dec 90. Interim profits have declined each year since the Data Architects purchase - from £7.44m in 88 to £6m in 89. In 1990, PBT declined a further 22% to £4.7m and EPS was down 27%. Revenues increased by 4.5% to £95.5m.

The US operations continued to be loss making "because of falling revenues and acute pressure on margins". In the UK, "reduced or deferred expenditure" has hit the computing & electronics, manufacturing and distribution sectors although strong growth was recorded in central government, energy and utilities. Cash remained strong at £16.8m; down only marginally on last year's £17.7m. PBT of £11-£12m is forecast for the full year.

Staff numbers will remain frozen for the rest of the year after the extensive recent reductions. The outlook is "cautious". But Logica is a well respected company and, if it can retain its independence, would "stand to benefit fully when there is an upturn in economic conditions".

Quotient recovery slows

Quotient, the financial services system house and bureau, managed PBT of £1m for the year ending 30th Dec 90 compared to a loss of £1.6m for 1989 on revenues up 17.5% at £22.4m. EPS was 4p.



On the surface that looks good, but Quotient had made £750K PBT for the half year which rather infers a slowing in profits growth in the second half. Chairman, Tim Simon, told us that the high first half profits were due to £2.5m deferred revenue carried over from 1989 because of their conservative accounting policies.

At year end, cash at bank was £3.1m (£3.5m last year) and the "order book was in the region of £10m".

USA sales, down from £2.9m to £1.8m, "were weak...resulting in a loss for the year" but Quotient France "made a significant contribution to group profits in only its second year of operation" increasing revenue from £523K to £1.8m.

Great store is placed in the Fujitsu deal to develop a "cross border securities and derivatives system...which holds enormous potential for many years to come...Difficult trading conditions are likely to persist in the near future and 1991 will be a challenging year. However, we have established a strong international presence and a strategy for long-term growth".

We have reported before on our doubts over Quotient's ability to maintain a long term recovery. Nothing in the current statement, and our subsequent discussions with Tim Simon, have dispelled those misgivings.

Compaq bigger in Europe than the US

Compaq's European sales rose by 50% to \$1.8b in 1990 and exceeded US sales for the first time. UK sales reached \$504m, now Compaq's biggest country market outside the US, and UK exports added a further \$500m.

Compaq sells only through dealers and some think that this could be a weakness, particularly with its high powered Systempro range. Compaq is now "quietly" looking to consulting firms like Andersen to sell its top-end systems.

IDG targets UK expansion

The world's largest IT publisher, International Data Group, is targetting the UK with the launch of Computerworld next year. Watch out Reed, VNU and EMAP!

Richard Holway Limited - 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	Interim - Sept 89 £56,435,000 £2,023,000 1.86p	Final - Mar 90 £140,712,000 £8,026,000 7.07p	Interim - Sept 90 £46,162,000 £5,364,000 4.01p	Interim Comparison -18.2% +165.2% +115.6%
Butler Cox plc	Results Revenue PBT EPS	Interim - June 89 £4,194,600 £633,800 8.1p	Final - Dec 89 £9,370,000 £1,324,095 16.43p	Interim - June 90 £5,239,100 £400,100 4.7p	Interim Comparison +24.9% -36.9% -42.0%
Capita plc	Results Revenue PBT EPS	Final - Dec 89 (amended) £8,707,000 £1,518,000 10.39p	Final - Dec 90 £20,072,000 £2,512,000 13.7p	Final Comparison +130.5% +65.5% +31.9%	
Computer People plc	Results Revenue PBT EPS	Interim - June 89 £32,400,000 £1,810,000 9.5p	Final - Dec 89 £69,919,000 £4,219,000 21.8p	Interim - June 90 £38,988,000 £2,138,000 11.25p	Interim Comparison +20.3% +18.1% +18.4%
Electronic Data Processing plc	Results Revenue PBT EPS	Final - Sept 89 £16,034,000 £1,040,000 8.45p	Final - Sept 90 £16,645,000 £2,100,000 17.38p	Final Comparison +3.8% +101.9% +105.7%	
Ferrari Holdings plc IN RECEIVERSHIP	Results Revenue PBT EPS	Interim - June 89 (9 mons) £14,496,000 £604,000 2.9p	Final - Dec 89 (15 mons) £32,003,000 £1,419,000 6.6p	Interim - June 90 £27,503,000 £390,000 (2.5p)	Not comparable due to different accounting periods
Hoskyns Group plc	Results Revenue PBT EPS	Final - Oct 89 £188,706,000 £15,229,000 12.0p (adjusted)	Final - Oct 90 £223,263,000 £17,253,000 13.0p	Final Comparison +18.3% +13.3% +8.3%	
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%	
Kewill plc	Results Revenue PBT EPS	Interim - Sept 89 £8,064,000 £1,125,000 11.03p	Final - Mar 90 £17,107,000 £2,668,000 27.11p	Interim - Sept 90 £15,924,000 £1,513,000 12.02p	Interim Comparison +97.5% +34.5% +9.0%
LBMS plc	Results Revenue PBT EPS	Interim - Oct 89 £8,032,000 £513,000 2.7p	Final - Apr 90 £18,470,000 £450,000 2.3p	Interim - Oct 90 £9,643,000 £618,000 (3.4p)	Interim Comparison +20.05% 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 £59,580,000 £3,830,000 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%

Richard Holway Limited - Results Service

Micro Focus plc	Results Revenue PBT EPS	Interim - July 89 £14,807,000 £2,459,000 12.4p	Final - Jan 90 £35,639,000 £8,223,000 37.4p	Interim - July 90 £23,298,000 £7,127,000 34.2p	Interim Comparison +57.3% +189.8% +175.8%
Microgen plc	Results Revenue PBT EPS	Final - Oct 89 £45,071,000 £7,179,000 11.1p		Final - Oct 90 £47,115,000 £8,504,000 13.5p	Final Comparison +4.5% +18.5% +21.6%
Misys plc	Results Revenue PBT EPS	Interim - Nov 89 £38,383,000 £5,058,000 10.8p	Final - May 90 £76,741,000 £11,070,000 23.5p	Interim - Nov 90 £33,857,000 £1,521,000 3.1p	Interim Comparison -11.8% -69.9% -71.3%
MMT plc	Results Revenue PBT EPS	Final - Aug 89 £7,443,898 £2,151,953 12.8p		Final - Aug 90 £7,524,390 £1,865,165 10.4p	Final Comparison +1.1% -13.3% -18.8%
NMW Computers plc	Results Revenue PBT EPS	Interim - June 89 £4,663,000 £48,000 0.1p	Final - Dec 89 £9,119,000 £87,000 0.2p	Interim - June 90 £4,423,000 £210,000 0.6p	Interim Comparison -5.2% +337.5% +500%
P&P plc	Results Revenue PBT EPS	Final - Nov 89 £168,869,000 £11,066,000 20.0p		Final - Nov 90 £223,787,000 £13,117,000 18.5p	Final Comparison +32.5% +18.5% -7.5%
P-E International plc	Results Revenue PBT EPS	Interim - June 89 £27,444,000 £2,429,000 9.4p	Final - Dec 89 £58,017,000 £5,622,000 21.1p	Interim - June 90 £32,381,000 £2,753,000 10.3p	Interim Comparison +18.0% +13.3% +9.6%
Pegasus plc	Results Revenue PBT EPS	Final - Jul 89 £10,873,000 £3,084,000 36.7p		Final - July 90 £13,039,000 £2,554,000 30.4p	Final Comparison +19.9% -17.2% -17.2%
Proteus plc	Results Revenue PBT EPS	Interim - Sept 89 £8,000 (£226,000) (1.4p) - 5 mons only	Final - Sept 89 £21,000 (£588,000) not available	Interim - Sept 90 £nil (£520,000) (2.44p) - 5 mons only	Interim Comparison n/a 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	Final - Nov 89 £28,632,000 £2,003,000 4.74p		Final - Nov 90 £29,900,000 £2,820,000 6.48p	Final Comparison +4.4% +40.8% +36.7%
Rolfe & Nolan plc	Results Revenue PBT EPS	Interim - Aug 89 £2,250,000 £517,000 6.4p	Final - Feb 90 £5,460,000 £1,142,000 13.8p (adjusted)	Interim - Aug 90 £2,969,000 £661,000 8.0p	Interim Comparison +32.0% +27.9% +25.0%
Sage Group plc	Results Revenue PBT EPS	Final - Sept 89 £9,304,000 £2,911,000 12.6p		Final - Sept 90 £13,359,000 £4,731,000 19.2p	Final Comparison +43.6% +62.5% +52.4%
Sanderson Electronic plc	Results Revenue PBT EPS	Final - Sept 89 £12,008,000 £3,013,000 23p		Final - Sept 90 £14,259,000 £3,302,000 24.8p	Final Comparison +18.8% +9.6% +7.8%

Richard Holway Limited - Results Service

SD-SCICON plc	Results Revenue PBT EPS	Interim - June 89 £143,771,000 £1,060,000 0.37p	Final - Dec 89 £283,304,000 £7,230,000 0.59p	Interim - June 90 £138,192,000 (£9,794,000) (6.16p)	Interim Comparison -3.9% Profit to loss Profit to loss
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	Interim - June 89 £12,171,000 £580,000 7.7p	Final - Dec 89 £25,397,000 £2,024,000 25.0p	Interim - June 90 £12,249,000 £883,000 9.5p	Interim Comparison +0.6% +46.6% +23.4%
Star plc	Results Revenue PBT EPS	Interim - Dec 89 £6,392,000 (£649,000) (9.5p)	Final - Jun 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	Final - Jul 89 £9,074,050 £1,096,967 20.19p		Final - Jul 90 £10,226,373 (£331,919) (8.9p)	Final Comparison +12.7% Profit to loss Profit to loss
Systems Reliability plc	Results Revenue PBT EPS	Interim - June 89 £44,606,000 £3,022,000 6.21p	Final - Dec 89 £134,586,000 £7,863,000 12.76p	Interim - June 90 £95,345,000 £5,012,000 6.25p	Interim Comparison +113.8% +65.9% +0.6%
Tele-computing plc	Results Revenue PBT EPS	Final - Sep 89 £2,519,080 (£777,000) (16.47p)		Final - Sep 90 £2,101,000 (£103,000) (1.99p)	Final Comparison -16.6% Loss both Loss both
Total Systems plc	Results Revenue PBT EPS	Interim - Sept 89 £860,474 £39,865 0.29p	Final - Mar 90 £1,777,084 (£6,722) (0.08p)	Interim - Sept 90 £966,765 £19,949 0.13p	Interim Comparison +12.4% -50.0% -55.2%
Touchstone plc (was MBS) Now part of STRATAGEM	Results Revenue PBT EPS	Interim - Jul 89 £64,398,000 (£7,101,000) (7.0p)	Final - Dec 89 £77,317,000 (£4,817,000) (4.7p)	Interim - Jun 90 £9,809,000 (£66,000) (0.0p)	Interim Comparison Not comparable Loss both Loss both
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	Interim - Oct 89 £17,362,000 £1,117,000 0.7p	Final - Apr 90 £36,048,000 £1,580,000 0.92p	Interim - Oct 90 £13,908,000 £78,000 0.04p	Interim Comparison -19.9% -93.0% -94.3%

Back in the black

Computer maintenance and electronics group, **Kode International**, announced PBT of £504K for the year to Dec 90 compared to a loss of £1.46m in 1989. Revenues reduced from £27.9m to £16m as a result of the recent disposals of several subsidiaries.

Canadian **Systemhouse** forecasts that it will return to profits of C\$6.5m in the six month to Feb 91 compared to a loss of C\$31m last year. They are owned by the Kilburn high tech group which has been "caught by high interest rates, recession and overly fast expansion and defaulted on C\$800m in loans in April 90" Source - FT 28th Feb 91. Restructuring may put Bell Canada in control.

Freezing salaries

News that **IBM UK** was to impose a pay freeze on its 18,500 employees has been well publicised this month. However, we have heard of CSI companies imposing such freezes and many more imposing increases substantially less than inflation. Even so, most firms report that voluntary leavers have almost come to a halt.

Most employees saw their wages grow faster than inflation in the good years and it is quite justifiable that the suffering should be shared now. Companies imposing the freezes are reluctant to publicise them - and we always honour confidences - which makes it more difficult for others to follow suit.

Acquisitions, disposals and liquidations

MSP goes under

Manufacturing Systems Products Ltd was established to market the manufacturing software products of **US Fourth Shift** in the UK. MSP managed to become their largest distributor in a relatively short time selling over £400K per month. Then, in late 1990, they ran into the recessionary problems afflicting many in the industry. The bank, 3i and their creditors stood by them in their time of need. Fourth Shift, however, were the only creditor not to play ball. Because payments were late, they notified MSP that they were in breach of their contract. They also signalled that they intended to use this opportunity to setup their own UK operation. MSP had no choice but to call in the administrative receiver on 1st March.

The list of UK companies that have been treated in this manner by other US suppliers is long. Anyone thinking of investing in a company which is dependent on one supplier for its livelihood should think again.

Logitek proposes to sell Azlan

Our subscribers reacted with advanced incredulity to the all share bid by **Microvitec** for **Logitek** at 34p per share; valuing Logitek at £6.2m. The sense behind it seems to mystify both our readers and the directors of Logitek, who reacted to the unwelcome approach by announcing that they were proposing to sell their Novell networking operation, **Azlan**, in an MBO for £4.3m cash. In addition, Azlan will repay £300K of intercompany borrowings and assume responsibility for £2m of external borrowings. Azlan made PBT of £943K on revenues of £14.9m in the year to March 1990.

Microvitec immediately expressed its opposition to the sale saying that "it believed the terms of Azlan's sale, which involved an annualised P/E multiple of just 4.6 times, did not reflect the true value of the business and would leave Logitek in a significantly weakened trading position". Logitek's Jim Pickup, however, said he was "delighted" with the sale. We are told that the negotiations for the sale pre-dates the Microvitec bid and that Randall, who organised the MBO with ex-Logitek MD Mike Brooke, had already submitted his resignation - "an Azlan without Randall would not have a lot of value". In today's troubled times, the Azlan deal does not look as bad as Microvitec would have us believe.

Logitek, which had seen interim profits slump to £145K to Sept 90, compared to a profit of £3.8m in the year to March 90, also issued a profits warning. Difficult trading conditions, high interest rates and the effects of provisions for obsolete stock were blamed and will have "a significant effect on the results for the year to March 91".

On 20th March, Logitek announced that it was to close its loss-making **CSM Systems** subsidiary with the loss of 60 jobs. The closure is expected "to generate cash of some £0.5m".

At least Logitek has reduced its high gearing, but just how long they can hold out against hostile bids in their current state is questionable.

Specialist Computer Holdings now holds 14.8% of **NMW** whose results are due on 25th March.

The others...Msys acquired **Star's** hardware maintenance see page 2. **Ferrari** collapsed see page 1. **Videcom** has bought **Ferrari Technical Services**, thought to be the most profitable part of Ferrari with revenues of £14m, from the receiver. Apple dealer, **Blt32**, which specialised in systems for disabled people, has gone into voluntary liquidation. ICL continues its buying spree with the purchase of Dutch software house, **Comdes**, for around £2m. Comdes employs 80 people and specialises in financial, legal and healthcare software. Further to the liquidation of Apple dealer, **CSS** (see *System House* - Mar 91), £500K of maintenance contracts have been bought from the receiver by **Datapro** and **Fairhurst Instruments** has bought CSS's Manchester AppleCentre. **Pilmsoll Computers** (previously Colston) was placed in receivership on 20th Feb 91. **Alphameric** has sold its **PC Communications** subsidiary in an MBO for £127K. Certain bank borrowings are also being assumed so the sale will reduce Alphameric's borrowings by £282K. **Synchro Systems**, owned by Tottenham Hotspur, is up for sale. They made £180K profits last year. **Sintrom**, the networking company, announced that it had received a proposal to buy its distribution and maintenance activities. Shares shot up on the news. Yet another AppleCentre - **Relko Communications Systems** of Bolton - has been placed in receivership. **British Rail Computing** (BRC) is to offer external FM and bureau services. Possible strategic partners are rumoured to be Sema and SD-Scicon. **Intro**, which runs IT recruitment fairs, has gone into liquidation. Ex-Ferrari CEO, Bob Woodland, is backing an MBO for **Skytech** from the Ferrari receivers. **Newgate Computers** went into receivership earlier this year. **Businessland** has handed over its PC maintenance operations to **Granada**, guaranteeing revenue of £1.8m over three years. **AppleCentre West London** has acquired fellow Apple dealer, **Sterling Microsystems**. Archie Thomas has sold his 20% stake in **Trinltec Advanced Systems**. German **Veba** has bid £75m for computer distributor, **Memec**. **Bonsal** has bought **Celsius**, the distribution and maintenance subsidiary of Sketchley, for c£6m. Celsius, formerly known as Mellordata, had PBT of £811K on revenues of £27m to March 1990. A customer, the **International Commodities Clearing House**, has acquired disaster recovery specialist **Allen Computers**. We suspect the consideration was around £600K.

VAMP saved

As reported last month, **VAMP Health** - which supplies free computers to GPs in exchange for the statistical use of their medical information - had to renege on its contracts or go into liquidation. We are pleased to report that over 90% of their customers decided to pay VAMP for the service in the future in exchange for a profit sharing deal.

SD-Scicon appoints Chairman

We are pleased that **SD-Scicon's** Philip Swinstead is giving up one of the many roles he has recently assumed. John Jackson joins as non-executive chairman and Swinstead will continue as CEO. Jackson is chairman of Cambridge Electronics, Celltech and S W Wood.

Sorry..P-E International has asked us to point out that they have not made 60 staff redundant as reported in the March edition of *System House*. We now understand the job losses numbered around 30.

Computing Services Index

22nd March 1991

April 15th 1989 = 1000

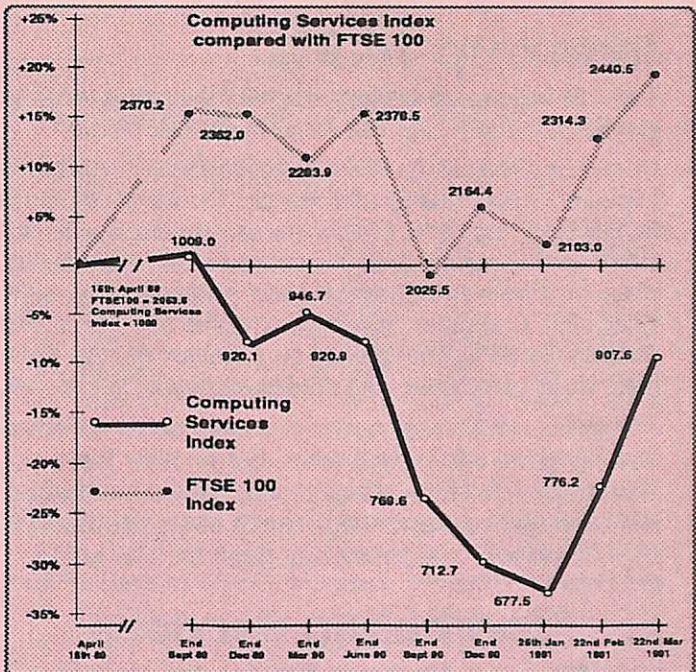
907.60

Changes in Indices	CSI Index	FTSE 100
Month 22nd Feb 91 to 22nd Mar 91	16.93%	5.45%
23 months 15th April 89 to 22nd Mar 91	-9.24%	18.84%
1st Jan 90 to 22nd Mar 91	-1.36%	3.32%
1st Jan 91 to 22nd Mar 91	28.22%	12.97%

Computing Services Share Price Index 22nd Mar 91

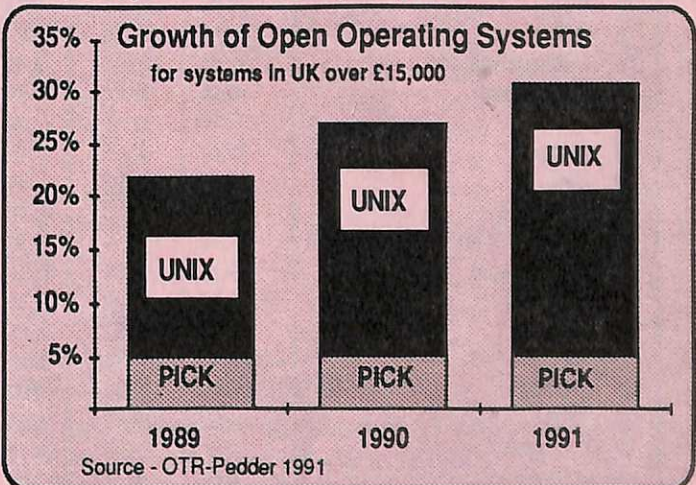
Index Rank	15th April 1989 = 1000	Share Price 22/3/91	Index 22/3/91	
1	Micro Focus	•	13.20	6376.81
2	Capita	•	2.16	2160.00
3	Sage Group	•	2.63	2023.07
4	Rolfe & Nolan	Outperformed	1.63	1925.50
5	ACT	FTSE 100	1.15	1840.73
6	Hoskyns	•	3.75	1829.26
7	Admiral	•	2.43	1760.87
8	Proteus	•	1.27	1511.90
9	Sema Group	•	3.98	1251.57
10	Macro 4		2.79	1125.00
11	INSTEM		1.12	1120.00
12	Electronic Data Processing		0.99	1010.20
13	Kewill		2.41	952.57
14	Sherwood		1.12	933.33
15	NMW		0.48	800.01
16	Butler Cox		1.32	754.28
17	Microgen		1.76	752.13
18	P-E International		1.76	724.28
19	Computer People		1.70	699.59
20	Quotient		0.78	678.26
21	P&P		1.45	650.23
22	Logica		2.24	613.70
23	Sanderson		1.40	595.75
24	MMT		0.89	529.76
25	Vistec		0.12	524.44
26	Pegasus		1.85	504.09
27	Systems Reliability		0.60	480.00
28	SD-Scicon		0.34	435.90
29	Radius		0.58	420.29
30	Learmonth & Burchett		0.45	375.00
31	Synapse		1.08	372.42
32	Trace		0.45	360.00
33	Misys		1.18	293.53
34	Total		0.12	216.98
35	Star		0.25	208.33
36	Logitek		0.28	161.69
37	Telecomputing (susp)		0.11	118.28
38	Touchstone (was MBS)		0.05	106.38
39	Ferrari (in receivership)		0.00	0.00

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.



The rolling UNIX bandwagon

We probably get more enquiries about UNIX than any other topic. UK CSI companies took an age to believe that MS-DOS was succeeding in the early 80s. They seem to have the same problem with UNIX at present. The latest survey from OTR-Pedder puts to rest, as they say, "the many years of hype and wild estimates". They set an installed system threshold of £15,000; which therefore covers virtually all departmental and corporate minis and mainframes, but excludes most PCs. They predict that by mid 1991, UNIX will be running on 25.4% of the UK installed base with PICK running on 5.6% - ie a total of 32% for open systems. *That's a pretty sizeable market.*



However, this accounts for a wide variation in UNIX dependency amongst the major computer vendors. Taking mid-1990 as the datum point, only 4.1% of DEC installations were UNIX-based compared to 15.9% for IBM, 17.4% for H-P and ICL and 58.1% for Unisys, the latter figure due mainly to the CT base.

The surge in UNIX sales is confirmed by the latest report from Wharton Information Systems. They show that spending on medium-sized UNIX systems more than doubled last year to £1.1b and unit shipments increased from 19K to 39K. Research indicates that UNIX could be the dominant operating system by the middle of 1991.

"Operating System Trends" costs £1750 from OTR-Pedder - Tel: 081 940 4300. Wharton - Tel: 081 891 6197.

Index up 16.9%

The CSI Index rose a significant 16.9% against a rise of just 5.5% in the FTSE 100 Index in the last month.

Computer People rose 55% in expectation of better than expected results due on 25th March. The same applied to **Butler Cox** - up 47%. We are personally pleased to see **NMW** up 41% on continued reaction to the recent bullish statement from the Chairman and continued buying by Specialist Computer Holdings. **Capita** (up 38%) and **Radius** (up 35%) both gained on excellent results. But a majority of companies had double-digit rises this month.

The index would have performed even better if **Ferrari** had not gone into receivership. But another loser was **Trace** with their highly disappointing results (see below). We advised two months ago that it was a good time to buy CSI stock - the Index has risen by 34% since.

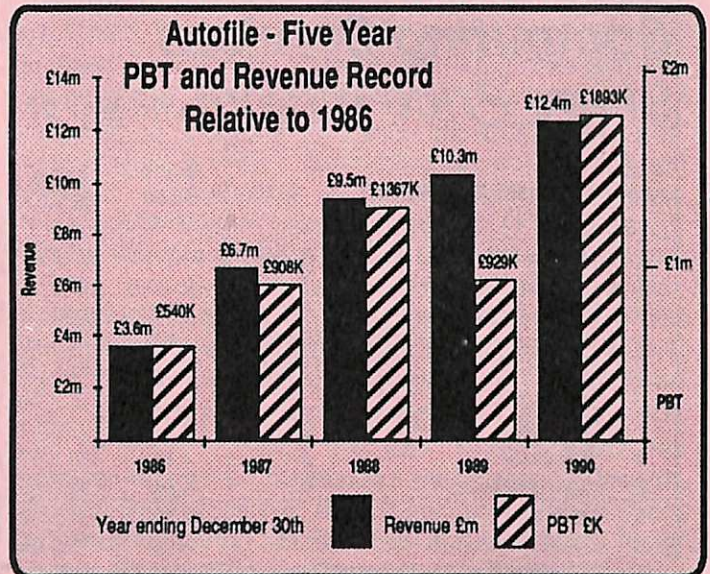
Computing Services Share Price Movements 22nd Feb 91 to 22nd Mar 91

Rank		% Change 22/2/91 to 22/3/91	% Change 20/4/90 to 22/3/91	Historic P/E
1	Computer People	54.55	-36.57	7.80
2	Butler Cox	46.67	-33.67	8.03
3	NMW	41.18	54.84	240.00
4	Capita	37.58	29.34	15.77
5	Radius	34.88	26.09	8.95
6	Kewill	33.89	-16.32	8.89
7	Electronic Data Processing	33.78	47.76	5.70
8	P&P	33.03	-35.56	7.84
9	ACT	32.18	35.29	16.27
10	P-E International	31.34	-30.71	8.34
11	Sage Group	30.85	39.89	13.70
12	Proteus	27.00	51.19	n/a
13	Misys	25.53	-47.56	5.02
14	Star	25.00	-47.92	Loss
15	Microgen	24.82	61.47	13.04
16	Systems Reliability	22.45	-42.31	4.70
17	Micro Focus	20.77	136.56	35.29
18	Logitek	16.67	-80.28	1.72
19	Logica	16.06	-24.83	24.89
20	Total	15.00	-28.13	Loss
21	INSTEM	14.29	24.44	8.00
22	MMT	11.25	-45.40	8.56
23	Quotient	9.86	-25.71	19.50
24	Macro 4	8.56	-5.74	13.54
25	Pegasus	7.56	-36.86	6.09
26	SD-Scicon	6.25	-56.96	n/a
27	Admiral	5.19	10.45	12.53
28	Hoskyns	3.02	8.38	28.85
29	Learmonth & Burchett	0.00	-61.54	19.57
30	Touchstone (was MBS)	0.00	-72.22	Loss
31	Sanderson	0.00	-52.22	5.65
32	Telecomputing (susp)	0.00	-68.57	Loss
33	Vistec	0.00	-11.11	13.04
34	Synapse	-1.82	-8.47	Loss
35	Rolfe & Nolan	-2.40	33.61	11.81
36	Sema Group	-3.86	-10.56	37.90
37	Sherwood	-4.27	-22.76	4.48
38	Trace	-6.25	-56.31	4.29
39	Ferrari (In receivership)	-100.00	-100.00	n/a

Excellent year for Autofile

Autofile is a private UK CSI company specialising in systems for the travel market based on DEC VAX VMS kit. Their main claim to fame is their ATOP system "used by over 175 companies carrying some 7.2m passengers every year". Autofile Inc operates in the US market; although 83% of Autofile's revenue still comes from the UK. The ATEL telephone management system has "been particularly successful" and the AMPS magazine publishing system is used by over 150 magazines. An FM operation has been established recently.

We give full marks to Autofile for publishing their annual results so quickly - and this accolade applies not just to this year. Latest results for the year to December 1990 show revenues up 20% at £12.4m on PBT up a massive 104% at £1.9m. Cash at bank increased by 87% to £2.2m. Chairman, Bob McPherson owns 52% of the equity.



Again, a private UK company shows the rest how to do it.

IBM announcement shocks Wall Street

IBM warned, on 19th March, that Q1 earnings might be as low as 90c per share compared with last year's \$1.81 - and well below expectations. IBM blamed a weak world economy and the Gulf war. They saw little hope of a Q2 recovery. IBM shares fell \$9.50.

Trace in profits slump

Trace Computer's Chairman, Robert Carefull, should be truer to his name. Although last Oct he warned that profits for the six months to Nov 90 would "be below those achieved in the same period last year", profits dived from £934K to just £31K on revenues up 72% at £9.9m. EPS was down 99%. We have warned many times, over the last year, that we doubted if Trace's management was up to profitably assimilating their many recent acquisitions.

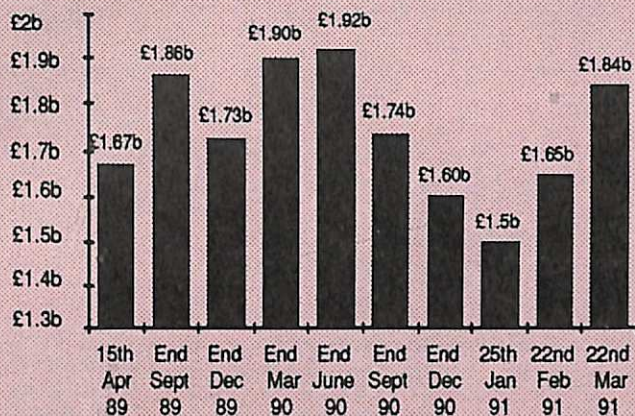
Even now, Carefull says he is "not prepared to compromise in the short term provided the group remains profitable and has adequate working capital". However, he warned that the company was in a "difficult period...which would continue for the remainder of the current year" but said he was "confident about Trace's medium and long term future".

We warned Trace's directors personally of the likely outcome of their policies over a year ago. We do wish they had listened. Carefull might be confident, but we are not.

Capitalisation up £200m at £1.84b

Share price increases contributed to a £200m rise in total capitalisation in the last month. Major gainers were **Micro Focus** up £29m, **P&P** up £27m and **ACT** up £26m. At the other end of the scale, **Sema** shed £14.4m. **Ferrari**, which went broke this month, was worth £25m just a year ago.

Capitalisation of UK Quoted CSI Companies



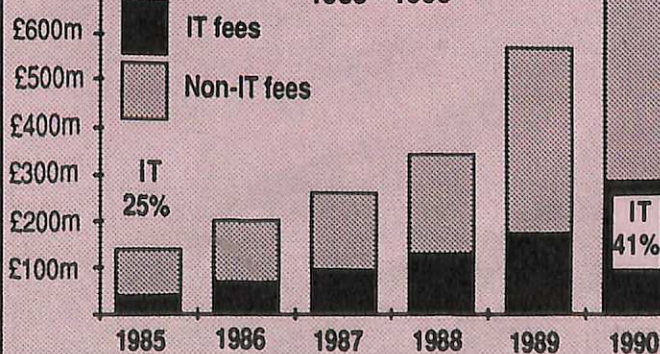
Watch out!...there's a management consultancy about

We have warned, since our first edition, of the threat posed to conventional CSI companies by the management consultancies. The latest report from **INPUT** shows that the IT activities of UK management consultancies "have grown at the exceptional rate of about 50% pa throughout the 80s as they built up their share of the computing services market". The total consulting services opportunity in the UK is valued at £8b in 1990 of which 35% - c£2.8b - comprise computer related services. Conversely, "it's a one way journey" as there seems to have been very little movement from CSI vendors into the management consulting sector.

The **INPUT** survey was sponsored by **Andersen Consulting** which announced a 40% increase in fee income for 1990 to £130m. **INPUT** said that everyone surveyed was "an Andersen Consulting watcher".

We are always sceptical of surveys sponsored by interested parties, but we cannot argue with the general trend of the findings. The **MCA** reports that its members have increased IT billings from £35m (or 25% of total income) in 1985 to £290m (or 41% of total income) in 1990 - that's a growth of 66% in the last year alone.

Management Consultancies Association
Total fee and IT related growth
1985 - 1990



Computing Services Capitalisation - 22nd Mar 91

Rank	Company	Capitalisation 22/3/91 £m	% Change since 15/4/89	% Change since 22/2/91	£m Change since 22/2/91
1	Sema Group	£358.88	26.32	-3.86	(£14.42)
2	Hoskyns	£338.98	105.69	3.44	£11.28
3	Micro Focus	£169.64	557.54	20.74	£29.14
4	Logica	£136.11	-38.36	16.03	£18.81
5	P&P	£108.70	45.52	33.05	£27.00
6	ACT	£107.56	171.63	32.14	£26.16
7	SD-Scicon	£68.52	-56.42	6.23	£4.02
8	Microgen	£68.10	-22.96	24.73	£13.50
9	Macro 4	£61.69	14.46	8.62	£4.89
10	Systems Reliability	£43.66	0.37	22.30	£7.96
11	Sage Group	£43.27	104.13	30.74	£10.17
12	Misys	£36.63	-51.68	25.44	£7.43
13	P-E International	£29.17	-26.34	31.39	£6.97
14	Capita	£27.44	238.81	37.22	£7.44
15	Proteus	£27.32	51.36	27.07	£5.82
16	Admiral	£26.09	78.67	5.18	£1.29
17	Computer People	£23.08	-24.81	54.93	£8.18
18	Kewill	£22.90	36.34	33.95	£5.80
19	Vistec	£13.60	518.18	0.00	£0.00
20	Radius	£13.36	-58.12	34.55	£3.43
21	Sanderson	£12.30	-37.56	0.00	£0.00
22	Pegasus	£11.35	-42.65	8.14	£0.85
23	Quotient	£10.64	-31.76	9.51	£0.92
24	NMW	£9.89	-19.56	41.54	£2.90
25	MMT	£9.41	-45.60	11.25	£0.95
26	Rolfe & Nolan	£8.80	101.29	-2.37	(£0.21)
27	Electronic Data Processing	£8.55	1.06	33.80	£2.16
28	Butler Cox	£7.05	-24.32	46.65	£2.24
29	Touchstone (now Stratagem)	£6.50	-89.36	0.00	£0.00
30	Learmonth & Burchett	£6.00	-58.90	0.00	£0.00
31	Trace	£5.95	-63.07	-6.22	(£0.39)
32	Sherwood	£5.88	-4.55	-4.23	(£0.26)
33	INSTEM	£5.04	12.00	14.29	£0.63
34	Logitek	£4.73	-76.70	16.76	£0.68
35	Synapse	£3.82	-62.58	-1.63	(£0.06)
36	Star	£1.70	-79.04	25.14	£0.34
37	Total	£1.15	-78.30	15.00	£0.15
38	Telecomputing(susp)	£0.70	-84.20	0.00	£0.00
39	Ferrari (in receivership)	£0.00	-100.00	-100.00	(£3.77)

Just to prove the point...

IBM has teamed up with **Coopers & Lybrand Deloitte** to form its own management consultancy; to be known as **Meritus Consulting Services**. Ownership is shared equally. Initially, Meritus will operate only in the US but overseas operations are expected to start soon. However, **C&LD** announced that it was to make 200 UK staff redundant in the next six months.

CGS reports 17% profits rise

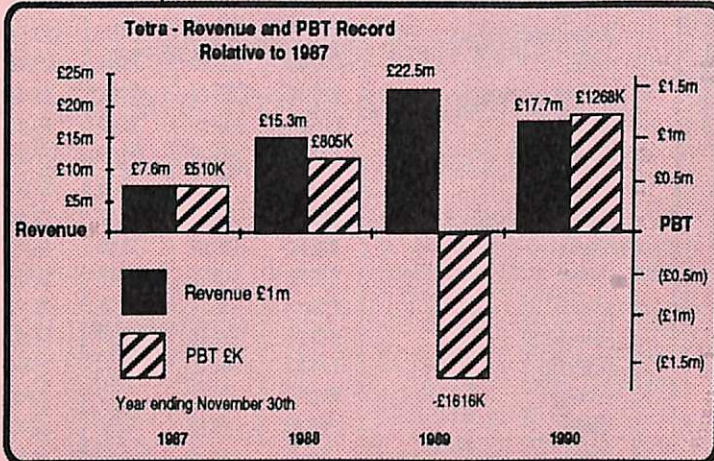
French Cap Gemini **Sogeti**, now the largest system house in Europe and the third largest in the world, reported profits up 17% at £63.4m on revenues up 30% at £945.9m for calendar 1990 - so our estimate of \$2b revenue in *System House* - Aug 90, was not too far adrift. That's a pretty average 6.7% profit margin but a rather good performance for the most acquisitive company in the sector in 1990.

Recovery at "back to basics" Tetra

Recent surveys show Tetra as the #1 UK UNIX business software supplier and #3 in the DOS rankings. Under Sean Dowling's leadership, 1990 has seen the company getting out of third party product distribution operations, selling its TPM subsidiary and closing some of its loss-making overseas operations. Dowling says Tetra is now solely committed to its own business software products - on both UNIX and DOS. The future will see extensions into larger systems and geographic expansion.

In 1990, Schroder Ventures invested £2m. The only other shareholders are founders Dowling 38.6% & Cooke 38.6% plus non-executive Clive Richards c13% (ex Datasolve, MBS etc).

Latest results for year to 30th Nov 90 show revenue down to £17.7m, as a result of the divestments, but a profit of £1.3m compared to a 1989 loss of £1.6m.



Tetra seems to have learned the lessons that have adversely effected both itself in the past and are still effecting some of its competitors at present. Although not immune to the effects of recession, with £1.4m cash in the bank and a real desire to "stick to the knitting", Tetra could well have a very rosy future.

Computer Industry Marketing

"40% of companies in the UK computer industry possess no formal marketing strategy. Those that do, however, will be allocating approx. 4.4% of annual turnover to their marketing budgets - an increase of 12.8% over last year.. Despite a decrease in advertising expenditure, it will continue to be the most popular marketing medium accounting for 24.7% of overall budgets - even though it only ranks #8 for effectiveness in achieving overall marketing goals".



These are just some of the results of the **Computer Industry Marketing Expenditure Survey 1990/91** produced by **The Concept Company** from questionnaires completed by 2,850 CSI marketing executives.

We often get asked "how much should we be spending on marketing?" Well, now you know - 4.4% of revenues. The survey also seems to confirm that direct mail costs less and is a lot more effective than advertising and exhibitions.

The Concept Company - Price £150 - Tel: 081 977 5333

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