

# System House

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

Volume 2 Number 8 Available by subscription only

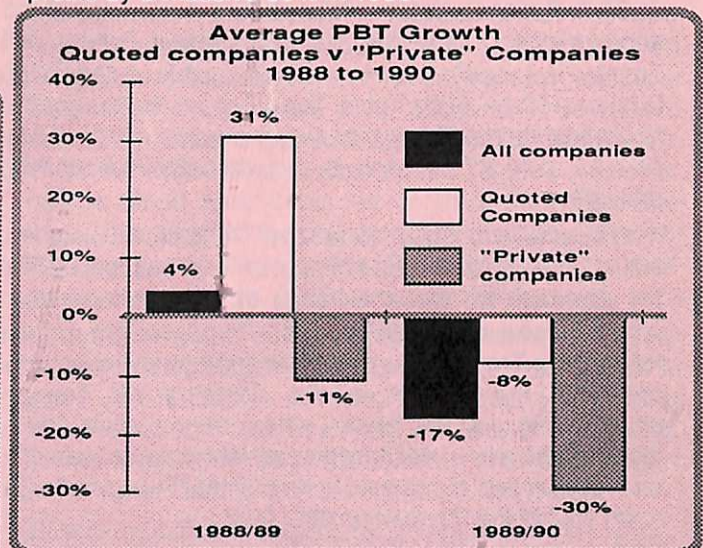
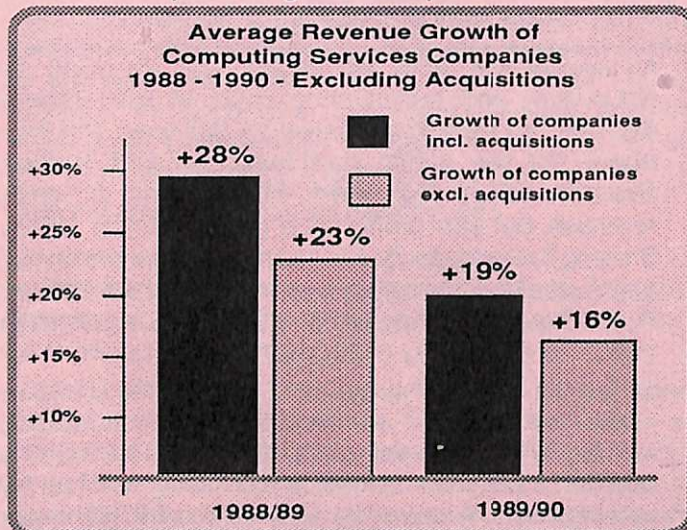
June 1991

## Unquoted companies worst affected in 1990

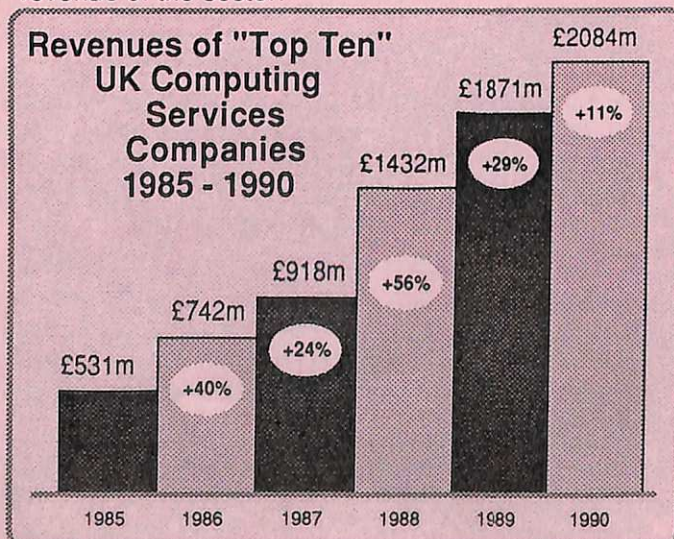
As many readers know, we produce an annual review of the financial performance of the top 600 UK CSI companies - the Holway Report. The 1991 edition is published this week. We have 1990 financial results for companies with a combined revenue of £5 billion - a very large database. *The results are depressing.*

Revenue growth in 1990 slipped from 23% to just 16%; when the effects of acquisitions are stripped out. Even so, that is an impressive growth in a period of recession.

Overall profits declined by 17%. We have reported before on the decline in profits by the quoted CSI companies - like SD-Scicon which lost £19.8m in 1990 - but this was nothing compared to the profit problems experienced by their unquoted brothers. Private companies, where this includes divisions of larger quoted non-CSI companies, decreased profits by a massive 30% in 1990.



The "Top Ten" UK CSI companies had a very modest 11% increase in revenue - the lowest on record. This was due to an absence of major acquisition activity, as the lessons of the previous years were digested. But at £2.1 billion, the Top Ten still accounted for over 40% of the revenue of the sector.



Without meaning to depress our readers still further, the figures we present are bound to be optimistic. We obviously cannot include the results of the many CSI companies that appointed receivers in 1990.

But all this bad news did not stop directors awarding themselves high increases. Whereas average staff costs, for the 84,000 in our survey, rose by 11.5%, the average highest paid director increased remuneration by 17% and the average board cost a massive 32% more to operate in 1990 than in 1989. Compensation payments were partly to blame. More details on page 8.

### What a month...

We always fear that there will be insufficient news to fill *System House*. In particular May is always a very quiet month. But, since our last edition, there have been bids for no less than four of the quoted CSI companies - **SD-Scicon, Logitek, Butler Cox and Quotient** (see p 7).

Of the 51 CSI companies on the Stock Exchange in 1985, or floated since, just 32 are likely to remain. We really cannot see an end to it either. There is still bid rumour surrounding other large operations - like Thorn-EMI Software and Granada Computer Services. The problem is that overseas suitors are in the majority. Will there be a UK owned CSI major in 1993? We doubt it.

## Synapse reports loss and £1.35m rights

When Synapse Chairman, Mike Godman, announced a £332K loss for the year to July 90 he said he was looking "forward to the current year with increasing confidence of showing a much improved performance". He now admits "the anticipated recovery is taking longer to achieve". Godman is to be replaced as Chairman by David Heynes, who has just joined the board as a non-exec.

Interim figures to 31st Jan 91 show revenue up 11% at £5.2m but losses tripled at £974K. The IBM mainframe services and support activities "performed better in the first half" but it seems that Beacon, the IBM mid-range agent acquired in Nov 89 for £336K, is still trading at a loss. 20 staff have lost their jobs since the year end. Synapse MD, Jeff Trendell, says that the appropriate actions have been taken throughout the group. A provision of £51K has been made in relation to the proposed sale of a majority shareholding of Synapse Italy to its management.

Synapse also launched a rights issue of 2.02m new ordinary shares at 72p each on the basis of 4 for 7, to raise £1.35m. Synapse shares stood at 106p on the day of the announcement. The directors and Delimar (where Jeff Trendell is a director) have given irrevocable undertakings to take up 50.2% of the rights. The proceeds "will be applied in eliminating the Group's bank borrowings, which at 31st Mar 91 were £1.2m, and to provide additional working capital".

It was perhaps too much to ask that Trendell's involvement would make an immediate impact on financial results. But his approach to, and knowledge of, the business must provide increased confidence for the future. We get the feeling that Trendell has taken the opportunity for a "clear out" with the current results. Certainly Mr Trendell continues to put his money where his mouth is and is investing heavily in the rights issue. We have no reason to change our view expressed in Nov 90 that Synapse "ought to do well in the medium term".

### IDS

Woking based IDS manages "complex, fixed-price projects" and is particularly active in the financial services and government arenas. Accounts to 31st Dec 90 show revenues up 19% to £4.3m but profits slipped from £321K to £256K. Cash more than halved to £303K due to an investment of £181K in 16% of French networking company, **Osiware**. In Oct 90, **Infonet** also took a 67% stake in Osiware. IDS's net assets increased to £583K. Chairman David Gilbert, expects modest but stable growth in 1991.

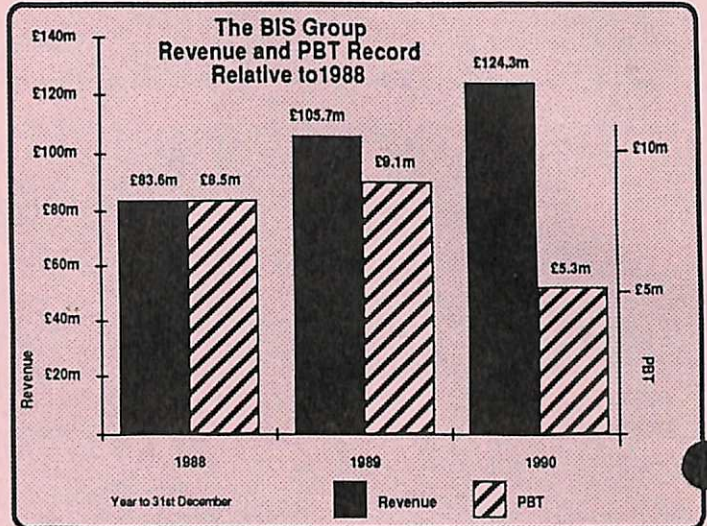
### EDS grows

EDS, the largest dedicated CSI operation in the world, declared revenues up 14% at \$1.6b and profits up 11% at \$121.8m for the quarter ending 31st March 91. We have failed, yet again, to get EDS (UK) to release their 1990 accounts. Even though these have to be lodged at Companies House in due course, EDS says that it is against US policy to release figures for separate countries.

While on the subject, a request to **Data Logic** for accounts to Nov 90 prompted a note from Chairman John Ockenden saying that he was "not interested". **Past analysis shows that the longer it takes to release accounts, the worse they ultimately prove to be.**

## Recession hits BIS too

The **BIS Group** supplies information services on a worldwide basis, particularly in the banking arena, and is owned by Nynex. Latest results, for the year ending 31st Dec 90, show revenues up 18% at £124.3m but operating profits reduced by 15% to £7.4m. PBT was down 42% to £5.3m. Note: Results given are for BIS Group rather than the legal entity BIS Group Ltd. The figures differ slightly.



An exceptional item of £2.2m was incurred for redundancy and restructuring costs in BIS Banking Systems and Robertson Marketing Services. The main reason for the profits downturn was BIS Banking Systems, which represents 41% (£51m) of group revenues, but saw profits drop from £7.2m to £972K. Banking Systems results were particularly weak in the US and Australia. Information Systems (profit £2.4m) and Brann Direct Marketing (profit £2.6m) had an excellent year.

During the year, BIS acquired **O D Systems** (c£1.8m), which specialises in software for the manufacturing industry, and **Perthcrest** (c£3.8m), the local authority FM supplier. Perthcrest seems to be doing well as FM contracts with Woodspring District Council (£5m) and Debenhams (£3m) were announced recently.

Chairman and Chief Executive, Roger Graham, expects "the coming year will be no less challenging, but we have invested in moving the Group towards our vision of the company in the mid-90s and re-emphasised the values which will take us there. This provides us with a solid base for future growth".

### ICL - the computing services company

ICL announced revenues of £1.61 billion for 1990 and PBT down 26% at £110m - an impressive performance compared to most other hardware manufacturers. But should we still refer to ICL as such? In 1990 they earned 50%, or £800m, from software and services.

**SystemHouse** readers will already know of ICL's FM and disaster recovery purchases in the UK in the last two months. We see ICL accelerating its CSI acquisitions. New subsidiaries, operating at arms length from the hardware side, have been setup to seek out and manage these acquisitions.

**PS. CGS** admitted that Japanese, **CSK**, had been the frontrunner for **Hoskyns**. We almost got the Japanese acquiring ICL and Hoskyns in the same week.

## Kalamazoo

Although we still think of **Kalamazoo** as a supplier of preprinted forms for payslips and the like, in their latest interims to 31st Jan 91, revenues from computing services were £18.4m and were the most profitable (£1.25m before central costs) of all their activities. Kalamazoo has recovered from losses of £1.29m in the last interims to a profit of £1.03m this time on revenues down 10% at £28.35m. Chairman, Kenneth Dibben, expects full year profits not less than £3m (£1.1m last time). "Given the difficult trading conditions, this will be a very satisfactory result for the group".

The company is controlled by the Kalamazoo Workers' Alliance which owns 51.5% of the equity. Their main concern is that they will be acquired and dividends will then cease. This is inhibiting Dibben from issuing shares for acquisitions or to raise funds. Indeed, Kalamazoo is looking at "six European businesses for takeover in the next two months". All these acquisitions are expected to be in the CSI arena allied to its motor trade and maintenance operations. Hot on the heels of **Kalamazoo's** interim results announcement, came news of the first of what is expected to be many acquisitions. Kalamazoo is buying **Datawork** (part of **Optim** - itself part of **SRH**) for £2.15m in cash. Net assets represent £1.2m of the purchase price. Datawork supplies motor trade products and services and should complement those of Kalamazoo. Datawork had revenues of £3.9m and PBT of £140K for the 14 months to 31st Dec 90.

## Rapid growth at acquisitive Pi

**Pi Holdings**, the acquisitive company under the leadership of Bryan Mills, boosted revenues by 132% to £16.35m in the year to 31st Dec 90. PBT was up from £55K to a rather modest £254K. EPS was up 141%.

"Nearly one third of the group's employees are now shareholders". In 1990, Pi purchased **Calidus** for a consideration of 1.7m ordinary shares (c24.4%) ("having a market value of £4.6m") plus £1.4m Loan Stock. Calidus reported PBT of £644K on revenues of c£6m for the year to June 1989; the last accounts available. (Note: Many readers have asked us how much Pi paid for John Croucher's Calidus. Pi would not tell us and said we would find it difficult to work out even when the accounts were published. Anyway, the price in 1990 is a bit academic. Under the terms of a shareholders' agreement Pi must be sold or floated before 1995. John Croucher now owns 355K or 5.2% of Pi shares; valued at around £1m.)

Pi also purchased **Eosys** (47.7K shares), the remaining 20% of **Computer Special Systems** (70K shares) and 13% of **Charco 342** for £335K. Since the year end Pi has disposed of **Calidus Inc** and their interest in **Uniface**.

**Laser Scan** supplies mapping software. Latest full year results to Dec 90 show PBT of £769K on revenues of £7.34m against a loss of £1.3m last time. However most of this profit was made in the first half with only £26K profits in the second half due to "a moratorium on orders from the MOD".

**Maxiprint**, as previewed last month, has arranged a placing of 20m shares at 4p raising £800K; a small part of which will be used for the initial £200K consideration of the **Decisionware** purchase. Maxiprint will change its name to **EIT Group**.

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## Further disappointment from MMT

The tone of the **MMT's** Chairman, Mike Tilbrook's statement on the announcement of interim results to 28th Feb 91 was one of disappointment.

Firstly he announced revenues down 17% at £3.1m, PBT down 38% at £626K and EPS down 40%. He blamed "trading conditions that have been tougher and more difficult than ever previously encountered". Secondly, **MMT (Training)** continued to make a loss even though they were said to be "close to breakeven" in Nov 90. Thirdly, **MMT** have still not disposed of the two leases on their previous London premises.

The greatest disappointment was saved for the total lack of business emanating from the 20% stake held in **MMT** by **Group SegIn** (now part of **AXIME**). "Our expectations here were high and a total lack of business accruing from our relationship with **AXIME** is a severe disappointment". Business levels are "currently nothing like good enough to maintain full utilisation of fee earning staff". Indeed, some redundancies have inevitably had to be made.

**MMT** had taken a 13% stake in **Quotient** which they have now sold to **ACT**. Tilbrook said "doubts about **Quotient's** likely performance in a difficult marketplace this year, and a particularly agile share price, combined to provide a source of concern that we felt we did not need". The investment yielded "a modest profit". Tilbrook must now be a bit miffed, as **ACT** has this month bid 200p per share for **Quotient** against the c80p he was probably paid for his decisive stake. Anyway this did improve **MMT's** cash position; now £3.4m - up £1.4m from the year end.

As usual the board "remains strong and confident for the future". Tilbrook said "Analysts have forecast profits of about £1.2m and the company has a history of beating these forecasts". Last year **MMT** made £1.86m. We still believe in the **MMT** recipe but will have to await an upturn in the market before that confidence is rewarded.

## Warnings from INSTEM

David "Its getting rosier by the day" Gare - Chairman of **Instem** - warned shareholders at their AGM that performance during the first four months of the current year "had been somewhat mixed. Due to the strength of our opening order book, I expect the performance of the company to be in line with its business plan and to maintain its growth during 1991. However, our order intake to date has been below expectations due.. to the recession".

## Board appointments at FI Group

Sir Peter Thompson joined the **FI Group** board as Chairman in 1990. Now Con Driscoll, who was co-founder of **Zygal** which was sold to **Misys** in 1988, joins as a non-exec. Dr Nigel Horne from **KPMG** joins as an adviser to the board.

**AT&T Istel** increased revenues by 20% in 1990 to £130.7m in their first full trading year under **AT&T** ownership. Profit figures will not be available until June. In 1989 they had PBT of £8m.

**Granada** stated in their rights issue document that **Granada Computer Services** had lost £700K in the 28 weeks to Apr 13th 91 compared to profits of £4.8m in the same period last year. One of the reasons given for Lewis' departure was his rather disastrous foray into hardware maintenance.

## Lastest DTI figures confirm slowdown

The latest Business Monitor from the DTI shows that overall computing services growth slipped to 17% in Q4 1990. Provisional figures for full year 1990 figures were also produced showing annual growth rates had declined from 23% (88/89) to 19% (89/90).

All figures £000	1989 Year	1990 Year	1989/90 Increase %	Q4 1990 Increase %
<b>BUREAU SERVICES</b>				
Database services	168,202	184,161	9	3
Value added network serv.	108,309	146,953	36	29
Other services	414,391	487,920	18	10
<b>TOTAL BUREAU SERVICES</b>	<b>690,902</b>	<b>819,034</b>	<b>19</b>	<b>11</b>
<b>SOFTWARE</b>				
Bespoke Software	657,084	749,429	14	13
Software Products	442,009	561,219	27	29
Software Support & Maint.	154,436	205,305	33	37
<b>TOTAL SOFTWARE</b>	<b>1,253,529</b>	<b>1,515,953</b>	<b>21</b>	<b>22</b>
<b>HARDWARE</b>				
Hardware	327,665	377,843	15	-5
Hardware Maintenance	77,024	106,475	38	40
<b>TOTAL HARDWARE</b>	<b>404,689</b>	<b>484,318</b>	<b>20</b>	<b>3</b>
<b>PROFESSIONAL SERVICES</b>				
Consulting	341,725	388,857	14	21
Education & Training	91,846	91,949	0	-22
Other unclassified	200,611	257,926	29	65
<b>TOTAL PROFESSIONAL SERVICES &amp; OTHER</b>	<b>634,182</b>	<b>738,732</b>	<b>16</b>	<b>26</b>
<b>TOTAL BILLINGS</b>	<b>2,983,302</b>	<b>3,558,037</b>	<b>19</b>	<b>17</b>

**Education and Training** actually declined by 22% in Q4. It had the lowest growth in both 1989 and 1990. It is depressing to see that, as the recession tightened, it is IT training which has been cut most. The value of **Hardware** supplied by CSI companies also declined by 5% - a not unexpected result given the current problems of the hardware manufacturers.

**Software support** and maintenance grew 37% which must be good news to the likes of **MMT** and **F International**. VANs also put on 29% and have doubled billings in the last two years - albeit from a small base. **Software products** is now the second largest segment of the market at 16%.

**Billings to overseas clients** increased by 22% to £275m and now represent 7.7% of total billings of the respondents.

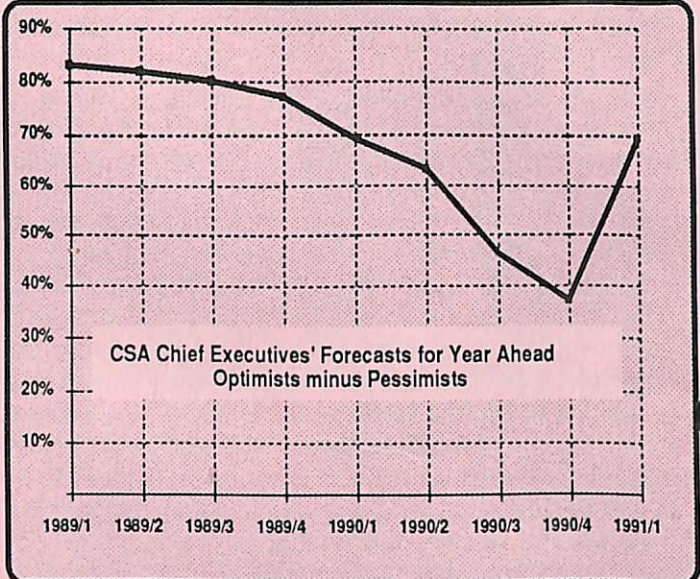
All companies with 1989 revenues over £5m have, by law, to respond and the DTI claim a 84% response rate. Therefore one must give the survey results some credence. But they do seem out of line with other surveys. The latest CSA survey shows staff employed in the industry still declining. However, the DTI shows a 2% increase in Q4 and an 8% increase for the year.

### As we were saying..

"Acquisitive companies run by dominant personalities were prominent among the 45 quoted companies which failed in 1989/90" according to a study by brokers County Natwest Woodmac. The average growth rate in the year prior to failure was 50% but a fifth doubled their revenues. Headland and Ferrari both fitted the description in the CSI sector. There are others which will suffer the same fate.

## But, "The only way is up" say CSA CEOs

We reported last month that we believed that the bottom of the recession had been reached. The latest trend survey from the Computing Services Association confirms that view. Although CSA companies continue to shed staff, the rate of decrease has not worsened. Indeed, the Chief Executives of CSA companies have a remarkably optimistic outlook for the next year with only 4% believing that business will worsen and 73% forecasting an improvement.



The only areas where a decline in business is forecast are database services and recruitment & contract staff. Bespoke software and training (thankfully, given recent trends) were forecast to have the steepest increases.

### An Apple a day brings Sculley \$16.7m

John Sculley, CEO at **Apple**, made the number two slot in Businessweek's survey of US executive's 1990 compensation at \$16.73m. John Shirley, the ex-President of **Microsoft**, however, received \$26m in 1990 but being "ex" did not count.

**DEC's** Ken Olsen managed \$11.9m and was featured in the "Executives who gave shareholders the least" rankings because of the steep dive in DEC's share price in the last three years. Akers at **IBM** only earned \$6.6m. On the services side, J S Weston CEO of **ADP** took home \$5.9m. The point of the survey was that CEO pay had increased by 212% in the last decade whereas profits had risen by just 78%. The average non-executive director in the US earns \$32K pa for 92 hours work per year.

### ...but Apple shares slip by a third

Apple warned that current quarter earnings would be lower than the £119m it achieved last quarter. Exchange rate movements and a higher proportion of low cost machines since the launch of the best selling Classic were blamed. Now Apple is to reduce staff worldwide by 10%.

The problem is that the Classic has been extremely successful in boosting Apple market share but unit prices have dropped sharply. We still believe the policy was right as it has made the Mac a viable machine from the educational market through to top end corporate networks.

**Businessland** confirmed the PC gloom with \$43m Q3 losses and is considering filing for Chapter 11.

## 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	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	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	Interim - Oct 89 £ 52,489,000 (£ 3,175,000) (2.28p)	Final - Apr 90 £ 117,133,000 (£ 2,795,000) (2.84p)	Interim - Oct 90 £ 53,406,000 £ 788,000 0.54p	Interim Comparison +1.7% Loss to profit Loss to profit
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%	
Gresham Telecomputing 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	
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%	
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
Kewlll 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 £3,833,000 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%
Maxlprint plc	Results Revenue PBT EPS	Final - May 89 £ 96,000 (£ 299,000) (2.54p)	Final - May 90 £ 368,000 (£ 882,000) (5.56p)	Final Comparison +283.3% Loss both Loss both	
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	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%	
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	
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%

## Richard Holway Results Service

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	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	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	Interim - Sept 89 £8,00 (£226,000) (1.4p) - 5 months only	Final - Sept 89 £21,000 (£588,000) not available	Interim - Sept 90 £nil (£520,000) (2.44p) - 5 months 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 £29,902,000 £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	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	Final - Dec 89 (amended) £ 285,881,000 £ 3,615,000 (1.2p)		Final- Dec 90 £ 256,547,000 (£ 19,781,000) (12.42p)	Final Comparison -10.3% Profit to loss Loss both
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
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%
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- Sep 90 £ 966,765 £ 19,949 0.13p	Interim Comparison +12.4% -50.0% -55.2%
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 £1,588,000 0.92p	Interim - Oct 90 £13,908,000 £78,000 0.04p	Interim Comparison -19.9% -93.0% -94.3%

# Acquisitions, disposals and liquidations

## Stock Exchange says goodbye to...

### 1 Butler Cox .....

On 13th May 91, **Butler Cox** announced that it had reached agreement to sell the company to US **Computer Sciences Corp (CSC)** for £14.3m cash. On our reckoning that's an historic P/E of 39. The shares immediately doubled to 230p. Messrs Butler and Cox are still the largest shareholders and stand to make around £1.5m apiece.

Butler Cox will be merged with CSC's US based **Index** consultancy. Consultancy contributes 42% of Butler Cox revenue but had been hard hit in the last year. The Butler Cox Foundation (syndicated market research) underpinned the operation. Now, Index/Butler Cox will have around 800 companies subscribing to their research programmes.

In today's climate the deal looks irresistible to Butler Cox shareholders. But it is still a crying shame to see yet another of the UK's respected IT companies fall to overseas ownership.

### 2 Logitek.....

When **Logitek** failed to respond to requests for a statement on likely results for the full year to 31st Mar 91, one could only draw the conclusion that they would be even worse than we were led to believe. After saying that the £3.3m bid by **Microvitec** was "unacceptable, misconceived and seriously undervalued the company", on 10th May the Logitek board agreed to recommend Microvitec's revised bid of £3.5m - hardly a "serious" increase. It's all a rather tawdry affair. Microvitec's £2.56m rights issue at 19p per share also flopped - only 6% of shareholders took up the offer leaving the rest with the sub-underwriters. Hardly the way to get the City on your side.

James Bailey, Chairman and CEO of Microvitec, said "We warmly welcome the Logitek board's recommendation. We look forward to working with them to create a successful group involved in the design, manufacture, distribution and maintenance of micro computers, computer displays, multi-media and communications systems".

### 3 Quotient.....

On 10th May 91, **Quotient** announced that it had received an approach which might lead to an offer. As reported last month, **ACT** had bought 13% of Quotient - shares previously held by **MMT**. Then on 15th May, ACT announced a recommended offer at 200p per share valuing Quotient at £27.4m. Just two months ago, Quotient had been quoted at 75p per share and 118p on the day before the announcement. On our reckoning that's an historic P/E of 50 (yes fifty!). "Quotient's results in recent years have been affected by the costs of its R&D programme and the establishment of its international network. ACT believes it is equipped to maximise the benefits of these investments".

We are not surprised at ACT's purchase but the price would indicate a return to the good old days of 1987/88.

### 4 SD-Scicon....?

On 24th May, **Cray Electronics** announced a £111m bid for **SD-Scicon**. The offer values each SD share at 41.8p or 37.125p if the cash alternative is taken. I.e. the share price before the bid. British Aerospace, which holds 25% of SD's shares, said it would accept the offer. The bid is final and would only be revised "in the unlikely event of a competing bid".

Sir Peter Michael has an impressive record at UEI and his 18 month spell at Cray has transformed the company from a loss-making mess to a focused company making profits of around £3.2m. Cray said that SD's performance had been "unsatisfactory and that the company required better control and direction...SD-Scicon has no management, no strategy and no profits". Difficult to disagree with that.

No one we spoke to was surprised that a bid had been made for SD - the only surprise was the identity of the bidder. We doubt if that's the end of the story. We would still not be surprised if another suitor emerged. In any event, Mr Swinstead's days must now be numbered.

**The others...Micro Focus** has purchased the source code and rights to **CICSVS86** - the application development and testing tool - from **Innovative Solutions** for \$3m cash. **3Com** has abandoned plans to sell off its **Workgroup Systems** division due to a shortage of viable bids. French group **CGI** has acquired **London Specialist Software Systems** which had revenues of £10m last year. CGI acquired **Yourdon** in 1990. **Scientia Ltd** has acquired the Lisp compiler developer - **Procyon Research** of Cambridge. **Henley Business Software** has acquired the staff and assets of **Planet Software** which specialises in the Clipper software development product. **Norsk Data** has continued its CSI buying spree by acquiring **Norman Magnetics** (disc drive repairs) for £2.7m. **US Software Publishing Corp** has acquired UK PC software house **Precision Software** for \$25m. Precision had revenues of £10m in the year to Mar 91. **Philips** has sold its local government division in an MBO to **Imasys**. Receivers were appointed at **IBM AS/400** agents **Branford Computer Services**. Directors and 21 staff have formed a new company, **Byford Computer Services**, which has already been made an IBM agent.

### Kewill continues European expansion

We reported in *System House* - Dec 90 - that **Kewill's** excellent interim results to Sept 90 were as a result of their European acquisitions of **Micro-MRP** (Dec 89 - £3.9m) and **Han Dataport** (Mar 90 - £8.4m). "Since the announcement trading has continued to be satisfactory". This month Kewill has acquired **Weigang MCS GmbH** for £400K cash and a further £400K depending on profits to 31st Mar 92. Weigang develops and distributes UNIX manufacturing software throughout Germany. Results for the six months to Dec 90 show revenues of £5.7m but a loss of £300K. In addition, a £1.4m overdraft will stay in place and a further £1.4m may be required over the next 12 months. The Kewill directors believe that Weigang will "achieve satisfactory profitability in the current year".

Kevin Overstall says "This move quickens the pace of our development in Europe and will, for the first time, bring the level of operations on the Continent to over 60% of Group sales". Kewill really seems to be bucking the trends by its excellent expansion policies - long may it continue.

# Just and unjust rewards

Before we start, we would like to make it clear that we fully support executives in our industry earning high salaries; provided that the company is increasing its performance - particularly its EPS growth - and that the shareholders are sharing in the rewards.

But our analysis of Chairman and CEO pay increases in 1990, extracted from the latest Report & Accounts, tends to point in the opposite direction. The top increases in the quoted companies in the sector in the last year were:

Company	Chairman	1990 remuneration	Increase
SD-Scicon	P Swinstead	£159,000	43%
P&P	R Smith	£64,000	39%
Star	D Blechner	£56,000	24%
Star	J Schumann	£56,000	24%

Note: All statistics in this article were extracted from the latest full year Report & Accounts. Share prices were as at 19th April 1991 and shareholdings were as disclosed in the latest Report & Accounts.

You should remember that **SD-Scicon** turned in a £19.8m loss in 1990 and their share price has more than halved in the last two years compared to our CSI Index which has now recovered all its losses. But Philip Swinstead received a 43% increase in remuneration. SD-Scicon's remuneration committee employed independent consultants in 1989 to set the pay of the CEO leading a £300m corporation. Swinstead's new salary was based on their recommendation. "It was only later that the SD-Scicon problems emerged".

SD-Scicon has two entries in the top five list of Highest Paid Director of quoted companies for 1990.

Rank	Company	Name if known	1990 Remun.	Increase
1	SD-Scicon	HPD	£179K	47%
2	Macro 4	T Kelly	£179K	11%
3	ACT	R Foster	£177K	15%
4	SD-Scicon	P Swinstead	£159K	43%
5	P&P	HPD	£151K	24%

Roger Foster earned £177K but **ACT** had increased PBT by 165% to £5.4m and EPS by 116% in 1990. Latest ACT results are equally impressive. T Kelly, the executive chairman from **Macro 4**, was the only other chairman who now earns more than Philip Swinstead - at £179K pa. Macro 4's performance over the last five years has been exemplary - boosting EPS by a CAGR of 29%.

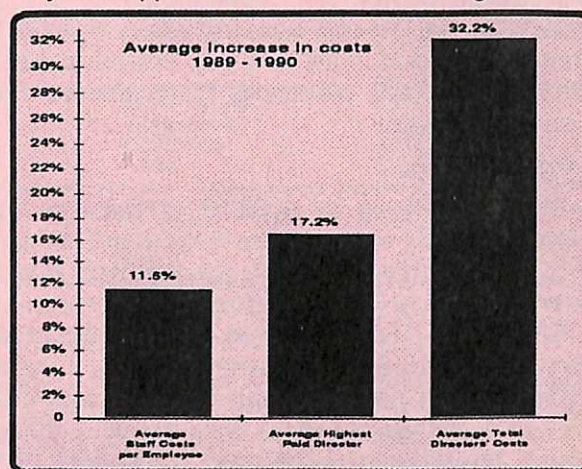
As a certain politician said "It's a funny old world". The other directors who were voted high pay increases, albeit from a modest base, were Messrs Blechner and Schumann from **Star**. Star also managed to report losses of £2m in the year in question. Perhaps this is the new rule - "the higher the loss, the higher the pay increase". Is it a coincidence that this also happened at **Touchstone** in 1988 when they lost £21m?

Then, you may say, "everyone does it". The truth is the opposite. Kevin Lomax at **Misys** earned £98K - 13% less - in 1990 as EPS growth came to a halt. H Lang of **P-E International** earned £89K - 19% less - as EPS dived by nearly 29%. At **Hoskyns**, Geoff Unwin's remuneration reduced to £115.5K - down 32% - on EPS up 8.5%. We understand that Hoskyns sets earnings growth thresholds before which bonuses are not paid - not a bad idea. But it is a little cruel when Hoskyns outperformed every one of the major "Top Four" UK systems houses in 1990.

SD-Scicon's board cost £1.76m in 1990 but £821K of this was paid as compensation for loss of office. Swinstead says that "the SD-Scicon board costs will be much reduced in 1991, with only three executive directors". Bearing that in mind, **Logica's** board is the most expensive - at £1.5m - up 10% in 1990. The Hoskyns' board cost £531K in 1990 - down £99K on 1989.

Barney Gibbens at **Sema** was awarded £89,500 compensation for loss of office - and received no pay increase in his last year. Perhaps he would have preferred to have worked for SD-Scicon; where £466K was paid to directors for loss of office and a further £355K to directors for loss of executive office (ie Geoff Holmes and Ian Scoggins who became non-executive directors).

Our analyses show that, for the fifth year in a row, increases in board costs and remuneration to the highest paid director for the leading 500 UK CSI companies have not only outstripped inflation but also average staff costs:



Directors of unquoted companies do rather better. The Highest Paid UK Director in 1990 - yet again - was Geoff Squire at **Oracle (UK)** who earned £484K. But Oracle (UK) did increase profits by 81%. We will await this year's figures from Oracle (UK) with the greatest interest. Peter Rigby, at **Specialist Computer Holdings**, was paid £308K; but again his main operating subsidiary - Specialist Computer Centres - increased profits by 72%. He was also featured as the richest CSI company director in the Sunday Times - where his fortune was put at £75m.

This is a lot more than the richest CSI directors that we can establish. This year the top five are:

Micro Focus	B Reynolds	£37.7m
Micro Focus	P O'Grady	£21.8m
P&P	P Fisher	£11.3m
Microgen	P Barbour	£9.7m
Admiral	C Brendish	£8.6m

But remember that these are just the shares they have left. We have no record of the many shares sold since flotation.

In comparison to the multimillions paid to US CSI executives, UK salaries seem paltry. We would greatly support high pay for high performance. What we, like many other shareholders, find difficult to come to terms with is greatly increased remuneration when profits - and returns to shareholders - are decreasing or turning negative. It's about time all directors - including non-executive directors - were put onto strictly performance related packages.



# Computing Services Index

24th May 1991

April 15th 1989 = 1000

# 958.88

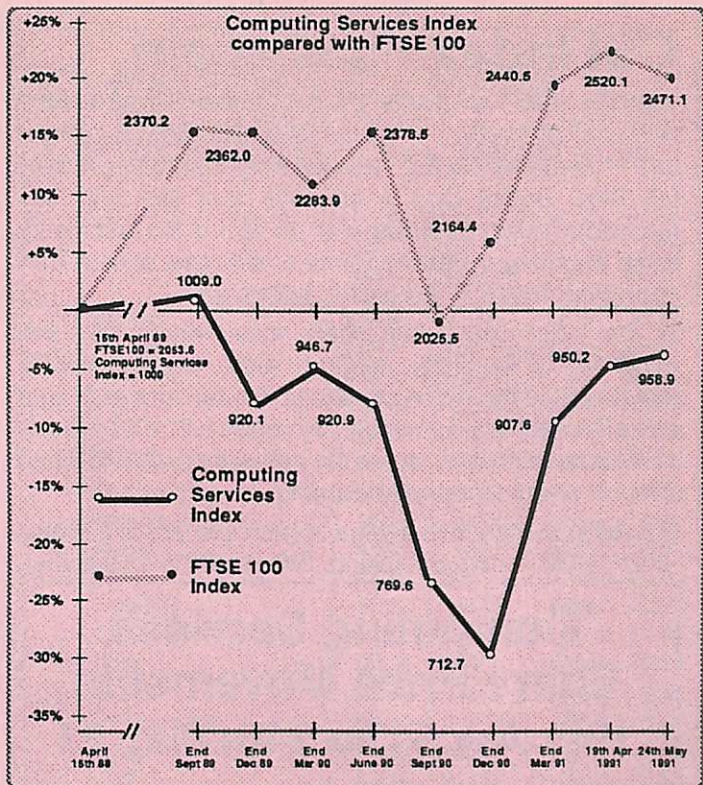
Changes in Indices	CSI Index	FTSE 100
Month 19th Apr 91 to 24th May 91	+0.92%	-1.94%
25 months 15th Apr 89 to 24th May 91	-4.11%	+20.33%
1st Jan 90 to 24th May 91	+4.21%	+4.62%
1st Jan 91 to 24th May 91	+35.46%	+14.38%

## Computing Services Share Price Index

24th May 1991

Index Rank	15th April 1989 = 1000	Share Price 24/5/91	Index 24/5/91
1	Micro Focus	16.00	7729.46
2	Admiral	3.15	2282.60
3	Capita	2.06	2060.00
4	Sage Group	2.41	1853.84
5	Rolfe & Nolan	1.55	1830.99
6	Hoskyns	3.64	1775.60
7	Quotient	1.86	1617.39
8	ACT	0.97	1552.62
9	Butler Cox	2.43	1388.57
10	Proteus	1.16	1380.95
11	Kalamazoo	0.44	1242.86
12	Macro 4	2.89	1165.32
13	Kewill	2.73	1079.05
14	Electronic Data Processing	0.99	1010.20
15	Sherwood	1.17	975.00
16	Maxiprint	0.05	900.00
17	Sema Group	2.75	864.78
18	INSTEM	0.83	830.00
19	P-E International	1.94	798.36
20	NMW	0.45	750.00
21	Microgen	1.68	717.95
22	Vistec	0.15	655.56
23	Computer People	1.56	641.97
24	Sanderson	1.35	574.47
25	Logica	2.08	569.86
26	Learmonth & Burchett	0.65	541.67
27	Pegasus	1.97	536.79
28	SD-Scicon	0.40	512.82
29	P&P	1.13	506.73
30	Systems Reliability	0.62	496.00
31	MMT	0.82	488.10
32	Cray Electronics	0.72	421.05
33	Microvitec	0.17	414.63
34	Radius	0.53	384.05
35	Trace	0.43	344.00
36	Mlsys	1.27	315.92
37	Synapse	0.80	275.86
38	Total	0.13	245.29
39	Gresham Telecomputing	0.15	161.29
40	Star	0.15	125.00
41	Logitek	0.17	95.28

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.



### Index redesigned

We redesigned the layout of *System House* last month to give you nearly 20% more news and reviews. This month we have revamped the CSI Index. We have dropped **Ferrari** (now in receivership) and **Touchstone** (acquired by **Stratagem**). Due to reader demand, we have added **Cray Electronics** as, even before the **SD-Scicon** bid, most of their revenue now comes from CSI activities such as its **Marcol** subsidiary, **Microvitec**, which is also moving into CSI, **Kalamazoo**, and **Maxiprint** which this month suffered a metamorphosis into a CSI company after their acquisition of **Decisionware**. As Maxiprint is so different, we have set their index at 1000 but we have calculated the index for all other newcomers back to April 1989. Any other suggestions will be considered.

### "Disaster limitation" at Sherwood

Last month, **Sherwood's** had to write off £125K in costs relating to the abortive sale of their disaster recovery operations but admitted that "alternative collaborations were being pursued". On 30th April, Sherwood announced a joint venture with **ICL**. In 1990, Sherwood's disaster recovery business had a turnover of £2.7m and made a loss of £242K. Net assets being transferred will be zero and Sherwood will retain the surplus - c£434K. As consideration, Sherwood will receive a 25% stake and a minimum of £525K, in the period to March 1994, for management and consultancy services.

Various options are also in place whereby **ICL** can acquire **Sherwood's** stake for a maximum of £975K in 1994 and **ICL** can, by 1996, require **Sherwood's** to sell their stake for a maximum of £1.5m.

Coming hot on the heels of **ICL's** FM acquisitions, this just shows how **ICL** is moving into support services in a big way.

In the same month, **World Software** declared a 3.75% stake in **Sherwoods**. Assuming full conversion of the preference shares, **World Software** would be interested in 21% of the company.

## CSI Index rises again

The CSI index rose nearly 1% in the last month compared with a fall of nearly 2% in the FTSE 100. Quotient ended up 111% due to the ACT agreed bid; although ACT itself fell 14%. **Butler Cox** is up 84% after the CSC bid. **Gresham Telecomputing** was up 36% in the first month since the merger. **Admiral**, one of the most consistently good performers in the sector, put on 28%.

At the other end of the scale, loss-making **Star** lost another 25%. After selling their profit making maintenance operations to Misys, the remainder of Star looks increasingly vulnerable. **Synapse** fell 24% because of disappointing results and the rights issue. **INSTEM** fell 23% on the recent profits warning.

**Micro Focus** found that there is such a direction as down - they fell 11% on profit taking. Still up 100% on the year.

### Computing Services Share Price Movements 19th Apr 91 to 24th May 91

Rank		% Change 19/4/91 to 24/5/91	% Change this year	Historic P/E
1	Quotient	111.36%	244.44%	46.50
2	Butler Cox	84.09%	127.10%	38.51
3	Gresham Telecomputing	36.36%	-25.00%	Loss
4	Learmonth & Burchett	30.00%	44.44%	28.26
5	Admiral	28.57%	40.00%	16.24
6	Vistec	25.00%	50.00%	16.30
7	Kewill	10.98%	40.00%	10.07
8	Sanderson	6.30%	12.50%	5.44
9	P-E International	4.86%	40.58%	12.93
10	NMW	4.65%	95.65%	34.62
11	Total	4.00%	30.00%	Loss
12	Rolfe & Nolan	3.33%	4.73%	11.23
13	Electronic Data Processing	2.06%	25.32%	5.70
14	Radius	1.92%	10.42%	8.18
15	Macro 4	1.40%	22.98%	14.03
16	Computer People	0.65%	48.57%	9.50
17	Microgen	0.60%	37.70%	12.44
18	Pegasus	0.00%	21.60%	6.48
19	Hoskyns	-1.09%	2.54%	28.00
20	Proteus	-1.69%	27.47%	Loss
21	SD-Scicon	-2.44%	53.85%	Loss
22	Capita	-2.83%	29.56%	15.04
23	Microvitec	-2.86%	3.03%	Loss
24	Cray Electronics	-4.00%	28.57%	Loss
25	Kalamazoo	-4.40%	52.63%	19.77
26	Trace	-4.44%	-23.21%	4.10
27	Sage Group	-5.12%	22.96%	12.55
28	Misys	-5.22%	71.62%	5.40
29	P&P	-5.83%	34.52%	6.11
30	Sema Group	-6.78%	-44.89%	26.19
31	Sherwood	-9.30%	37.65%	6.88
32	MMT	-9.89%	-7.87%	7.88
33	Maxiprint	-10.00%	-10.00%	Loss
34	Systems Reliability	-10.14%	29.17%	4.86
35	Micro Focus	-11.75%	104.34%	25.20
36	Logitek	-13.16%	-28.26%	1.01
37	Logica	-13.69%	24.55%	23.11
38	ACT	-14.16%	27.63%	13.72
39	INSTEM	-23.15%	-5.68%	5.93
40	Synapse	-24.53%	-25.23%	Loss
41	Star	-25.00%	-6.25%	Loss

### Profits slip at Sanderson

It is a shame to have to report the first reversal in **Sanderson Electronics'** otherwise exemplary trading record. Results for the six months to 31st Mar 91 show revenues up 65% at £10.6m but PBT down 15.7% at £1.5m. EPS slipped 21%.

Contributions from associated companies almost halved in the period and interest charges almost doubled. It looks as if the main business held up fairly well, as operating profits before these items increased by 12%. Chairman, Paul Thompson, admitted that US business had not sold enough product to move forward. Sanderson operates outside the UK through its 49% held associate General Automation Inc. GA achieved PBT of \$964K on revenues of \$23.9m for the half year. In the UK, sales to the printing and manufacturing sectors had been hard hit by recession. Thompson said that new prospects were about half that of last year and the mid-range marketplace was particularly flat. This comment is echoed by almost everyone else we speak to.

But Sanderson has built a strong revenue base from maintenance and support - now running at £15m pa. - and they must be one of the very few companies not to announce redundancies in the last six months. Clearly Thompson would like to meet last year's £3.3m profit for the full year, but that could be difficult unless the market recovers fast.

### EPS reversal at Systems Reliability

Announcement of the results for the year to 31st December 1990 at Systems Reliability (SRH) were over a month late. They show revenue up 36% at £183.1m but PBT was down 4.2% at £7.5m and EPS declined by 42%. Net interest payable soared from £1.4m to £2.6m.

SRH has made a significant number of acquisitions since Robert Evans joined as Chairman from Hillsdown. In the last year they have been divesting themselves of many of these operations. In 1990, **Corporate Computers** was sold for £13m to Dutch VRG. In May 1990, they sold their motor trade products and services operation, **Datawork**, for £2.1m to **Kalamazoo**. Now, SRH is to sell its communications and maintenance divisions in an MBO to **Strongyfield** for £12m. SRH is to subscribe £2.5m for 25% of the ordinary shares and between 25% and 31% of the preference shares. These divisions made £2.2m PBT on revenues of £30.9m in the year to December 1990.

Systems Reliability had previously had an exemplary record for an acquisitive company, but they now seem to be suffering the same problems as others who have tried the acquisitions route.

In addition, Systems Reliability announced that they were to change their name to **Enterprise Computer Holdings** - the trading name of their IBM mainframe operation.

### Micro Focus ADRs increase to 25%

As predicted last month, there has been heavy US buying of **Micro Focus** ADRs. The Bank of New York, which represents the ADRs, disclosed that it had bought a further 3.1% of Micro Focus bringing its holding to 25.1%. There are now suggestions of a US float which could put yet another leading UK software house in overseas ownership. Even so, Micro Focus suffered a rare 11% fall in their share price in the last month.

## CSI Capitalisation £1,744m

As we have revised the companies included in our lists, any comparison with last month's capitalisation is rather misleading.

For the second month, **Hoskyns** leads our lists extending their lead on **Sema** due to an £18m reduction in Sema's capitalisation in the last month. **Logica** also fell £20m. But the largest loser - for the first time - was **Micro Focus** which fell £27m to £206m.

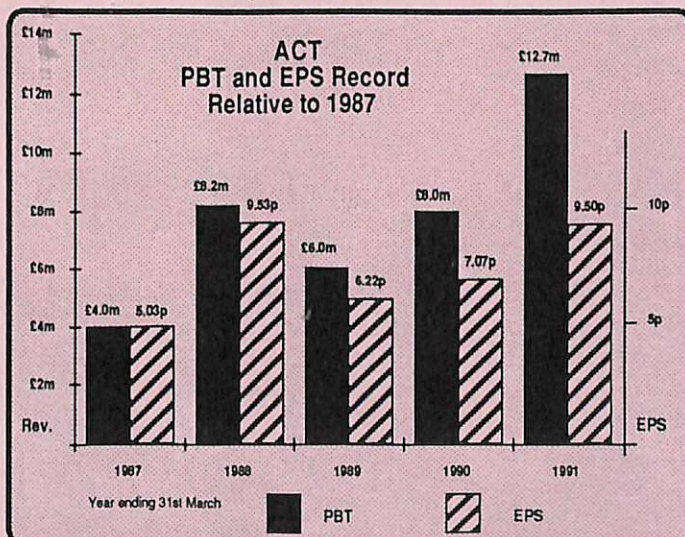
**Quotient** was the largest gainer - up £13m - due to the **ACT** bid. **Star** has slipped still further and now have a valuation of just £1m.

### Euro FM venture for Hoskyns

**Hoskyns**, now owned by French **CGS**, is the UK FM market leader. This month a new company **Cap Sesa Hoskyns** was established to sell FM in France and eventually "in every country where **CGS** has a major presence". The operation will be headed by Hoskyns' Joint MD - Tony Robinson; who announced an FM contract with **HJ Heinz** in the UK at the same time.

### Record year at ACT

**ACT Group plc** is really powering ahead now that Roger Foster's team has returned to the CSI fold. Latest full year results to 31st Mar 91 show PBT up 58% at £12.7m on revenues reduced from £140.7m to £98.8m (due to the sale of the Apricot hardware division to Mitsubishi in Apr 90 for £39m). EPS is up 34%.



**ACT** also announced its acquisition of **Quotient** for £27.4m (see p7).

The quite excellent results were a combination of £10m PBT from **ACT**'s software and services operations and a massive net interest earnings of £2.7m (compared to a net interest charge of £1.1m last year). "All divisions of the Group traded profitably". Cash stood at £27m on 31st Mar 91 - but will obviously be seriously depleted as a result of the **Quotient** purchase. **Quotient** had a PBT of £1m in 1990 whereas the **ACT** money in the bank earned £2.7m. We are not suggesting that the building society is better than trading success but....

Foster says "ACT is continuing to trade at a satisfactory level despite the current and world recession...we anticipate that computer services will continue to contribute significantly to Group profits despite margin pressure in its third party maintenance activity"

June 1991

## Computing Services Capitalisation - 24th May 91

Rank		Capitalisation 19/4/91 £m	% Change since 15/4/89	% Change since 19/4/91	£m Change since 19/4/91
1	Hoskyns	£331.67	101.25%	-0.70%	(£2.33)
2	Sema Group	£249.97	-12.01%	-6.80%	(£18.23)
3	Micro Focus	£205.65	697.08%	-11.74%	(£27.35)
4	Logica	£126.45	-42.73%	-13.69%	(£20.05)
5	ACT	£91.33	130.64%	-14.16%	(£15.07)
6	SD-Scicon	£80.77	-48.62%	-2.22%	(£1.83)
7	Cray Electronics	£75.18	-49.51%	-3.99%	(£3.12)
8	Microgen	£65.00	-26.47%	0.62%	£0.40
9	Macro 4	£63.90	18.55%	1.43%	£0.90
10	P&P	£62.66	-16.11%	-5.77%	(£3.84)
11	Sage Group	£47.60	124.54%	-4.99%	(£2.50)
12	Systems Reliability	£45.17	3.84%	-10.20%	(£5.13)
13	Misys	£43.28	-42.90%	-5.29%	(£2.42)
14	Admiral	£33.82	131.65%	28.60%	£7.52
15	P-E International	£32.17	-18.77%	4.77%	£1.47
16	Capita	£27.30	236.98%	1.09%	£0.30
17	Kewill	£26.00	54.73%	11.09%	£2.60
18	Quotient	£25.47	63.29%	110.53%	£13.37
19	Proteus	£24.90	37.95%	-1.97%	(£0.50)
20	Computer People	£21.16	-31.08%	0.27%	£0.06
21	Vistec	£17.04	201.52%	25.26%	£3.44
22	Butler Cox	£12.96	39.06%	83.83%	£5.91
23	Radius	£12.20	-61.76%	1.67%	£0.20
24	Pegasus	£12.04	-39.20%	0.32%	£0.04
25	Sanderson	£11.91	-39.53%	6.36%	£0.71
26	NMW	£9.25	-24.82%	4.61%	£0.41
27	MMT	£8.67	-49.89%	-9.89%	(£0.95)
28	Learmonth & Burchett	£8.66	-40.70%	30.01%	£2.00
29	Electronic Data Processing	£8.55	1.05%	2.14%	£0.18
30	Rolle & Nolan	£8.36	91.30%	3.35%	£0.27
31	Kalamazoo	£8.01	24.25%	-4.36%	(£0.37)
32	Microvitec	£7.34	-33.88%	-2.92%	(£0.22)
33	Sherwood	£6.14	-0.36%	-9.34%	(£0.63)
34	Trace	£5.69	-64.69%	-4.44%	(£0.26)
35	Gresham Telecomputing	£4.78	7.90%	582.86%	£4.08
36	Synapse	£4.44	-56.47%	18.72%	£0.70
37	INSTEM	£3.73	-17.11%	-23.25%	(£1.13)
38	Logitek	£2.78	-90.58%	-13.30%	(£0.43)
39	Maxiprint	£1.53	-58.42%	-10.00%	(£0.17)
40	Total	£1.30	-75.47%	0.00%	£0.00
41	Star	£1.02	-87.42%	-24.86%	(£0.34)

### NMW buys Charterhouse

**NMW** has made its first acquisition for many years by acquiring IBM mid-range agent, **Charterhouse**, for an initial consideration of £270K and a maximum deferred consideration of £350K.

**Charterhouse**'s S/36 products became the market leader in the legal marketplace. Delays in producing the AS/400 version of Trial/400 caused **Charterhouse**'s severe cash difficulties. They lost £1.1m in the year to 31st Jan 91. However, the product is now shipping and, together with their insurance broking and debt recovery products, provide an enormous opportunity for **NMW** to reduce its dependence on stock market volumes.

### 2,000 IT failures?

Labour's shadow trade secretary, Gordon Brown, warned that last year 2,000 UK IT businesses went broke and that a further 2,000 were likely to go the same way in 1991.

## IBM stakes

IBM confirmed this month that it had taken stakes in most of its leading AS/400 agents including Acksus, Bluebird Software, CEP, Cyberaid, AIG Computer Services, JBA international, Quality Software, Computing Services for Industry and International Banking Information Systems. We know of several more. The stakes are all in the 10-15% range. The knowledge of the CSI industry that such stakes will provide to IBM could easily outweigh the investment. In addition, at the end of the day, at least some of the investments will show a handsome return. But is there a hidden agenda? Remember that IBM earned \$6.55b from its own software and services operations last year - already making it the largest CSI provider in the world ahead of EDS (\$6.1b). As the returns from hardware sales decrease, many believe that IBM will wish to preserve margins by increasing its share of computing services by a combination of fast organic growth and acquiring CSI companies.

But the situation is very confused. One of the companies told us that IBM, worried about EEC legislation, had insisted on a clause which made it clear that their software could be sold on other hardware platforms. As IBM are reluctant to disclose their strategy, we can only "watch this space" with increasing interest and concern.

An interview with IBM's General Manager, Nick Temple, in the FT confirmed that an increased concentration on computing services was an important part of IBM's recovery strategy. "There are 400 (UK) staff on the computing services side at present; the idea is to increase that number to 2,000".

IBM's UK performance is significantly poorer than the company as a whole. In 1990, UK revenues grew by just 3% but profits fell to £420m from £459m.

# the Holway Report

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*System House* is published monthly by Richard Holway Limited, New Acre, 18 Great Austins, FARNHAM, Surrey, GU9 8JQ. Telephone 0252 724584; which also publishes the annual "Holway Report". Richard Holway is a director of six computing services companies including NMW and an adviser to the board of Misys.

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