

System House

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Cray becomes largest UK-owned CSI company

With the acquisition this month of Dowty IT, Cray Electronics has become the largest UK-owned CSI operation with current annualised revenues of around £275m. This is significantly ahead of Logica (c£198m).

The history - In 1989, Sir Peter Michael (Chairman), Roger Holland (Dep. Chairman) and Jon Richards (Group MD) took on "troubled" Cray Electronics with its £48m debt burden and £2.8m annual losses. Their pedigree at Miles 33, UEI and Carlton Communications is exemplary. The team wisely spent the first two years putting the internal house in order - cutting out many of the 41 separate businesses they inherited in order to concentrate on IT.

Acquisitions and disposals

- In 1991, they raised their heads above the parapets with their £100m "unsuccessful" bid for SD-Scicon. Then in Apr.

92, they consummated their first small acquisition; **Autofile** for £16.8m. Paving the way for the Dowty IT purchase, earlier in July Cray sold its instrumentation business **Malvern**, to **Burnfield plc** for a cash consideration of £20m. Malvern had contributed profits of £2.1m on revenues of £14.7m in the year to 30th Apr. 92.

The results. Latest results for the year to 30th Apr. 92 show PBT up 36.4% at £4.8m on revenues down 21% at £84.8m. EPS improved by 28%. A dividend is to be paid for the first time since 1988. Perhaps the achievement of which the management should be proudest is bringing the group into a net cash positive position - from debts of £48m and a gearing over 200% when they first moved in.

Current trading is as difficult for the Cray as for most others but "orders in the last quarter are well ahead of the same period last year".

Dowty IT - The July edition of *System House* carried an in-depth review of Dowty IT. Both the old and new owners (TI) had openly put Dowty IT up for sale. Cray studied Dowty IT in 1991 so they were in a prime position to move fast with TI. The consideration is £50m - £40m in cash and £10m in loan notes. To finance this a £39m rights issue was announced at 61p per share. Both we and the market are sure the issue will be heavily taken up - Cray shares currently trade at 73p. Cray is not taking on the Cognito mobile paging operation - currently losing £1m a month -

which has now ceased trading.

Dowty IT, with PBT of £700K on revenues of £176m, is involved in electronic data transmission products with particular emphasis in WANs and LANs and systems integration. They also have "a substantial and profitable service business".

The new Cray - According to Holland, Cray's existing data communications business Craycom is currently making profits of £4m on revenues of £35m. Dowty IT and Craycom will be merged to form Cray Communications which will initially be run by Holland and Richards. They told us "We have sorted out the management in the rest of the group so can now afford the time to get Dowty IT right. We see no reason why we shouldn't achieve the same profit margins as we currently get at Craycom."

Cray Communications will represent around 90% of group revenues. Software (Autofile and Marcol) and

some remaining instrumentation activities represent the rest.

Viewpoint - Readers might expect the usual, and unfortunately depressingly true, Holway lecture on large scale acquisitions of troubled loss-making business in the CSI sector causing only pain. Readers must also be aware that we think that Cray will be one of the few exceptions (ACT, Misys and Sage are the others).

Why?

- the Cray management team is about the best around with experience of running much larger operations. As Charterhouse Tilney recently commented "any team that was capable of saving Cray from extinction should be able to handle most eventualities".
- Dowty IT fits well with Cray's core business and thereby satisfies the "stick to the knitting" acquisitions rule.
- Cray is getting Dowty IT for a relatively cheap price. An MBO team were said to have offered £15m more.
- they are financing the deal with equity rather than debt.
- the Cray management is on an aggressive incentive plan linked to EPS and the Cray share price. We like these deals because shareholders are bound to benefit alongside the directors.

As the Lex column in the Financial Times said on 18th July "The purchase is a large morsel (for Cray). But it makes much more strategic sense that last year's abortive attempt to buy SD-Scicon". Agreed.

Cray

Electronics

DOWTY
IT

Flat year at Real Time Control

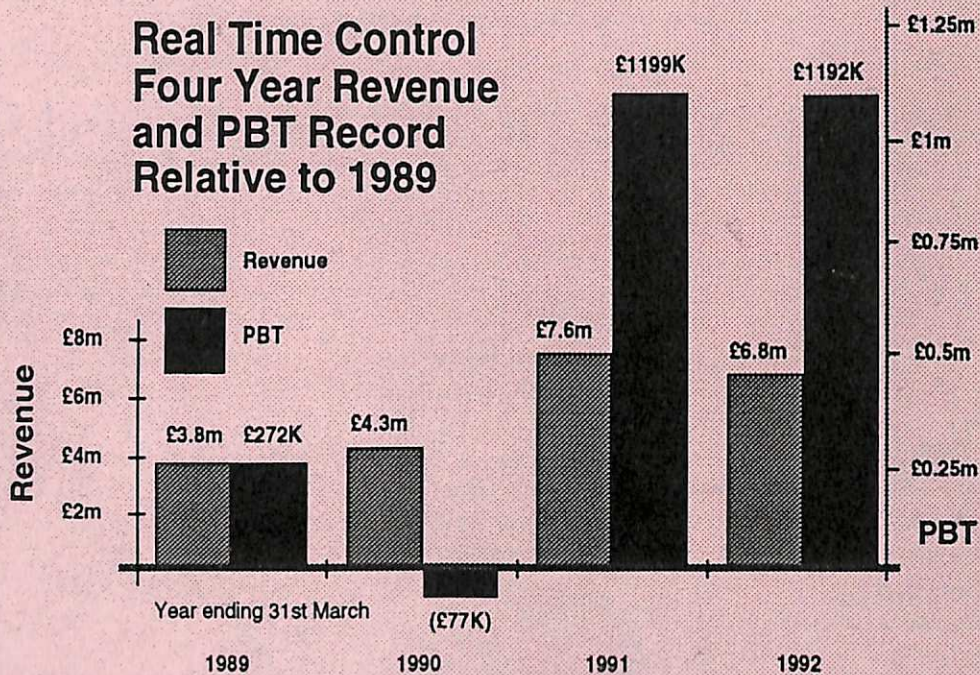
Real Time Control (RTC) specialises in EPOS systems for the retail sector. RTC made their first loss in 1990 but bounced back well in 1991. 1991/92 interim figures, however, had indicated problems with a 23% reduction in PBT. When the interims were announced in Jan. 92, RTC's Chairman B Carrell said "despite the continuing bleak economic circumstances of the retail sector, we entered the second half with a good order book and I am hopeful of producing a result for the full year in line with our record result for 1991". The latest full year results for the period to 31st Mar. 92 are therefore quite encouraging and we must congratulate Carrell on his forecasting accuracy. Although revenue fell 10% to £6.8m, PBT was static at £1,192K. EPS was up 1.8%. The already respectable profit margins thereby increased from 15.8% to 17.4%.

Operating profit was up 8% at £780K and £412K was earned from interest on cash reserves of £4m at the year end. RTC has made progress with marketing their software in Continental Europe but operations in the US have been scaled back "in response to the deep and prolonged recession in that area".

Now Carrell is "encouraged by the current volume of sales activity despite the persistent recession...I have confidence in the potential of RTC when the general economic recovery is underway".

RTC shares have fallen 21% this month.

Real Time Control Four Year Revenue and PBT Record Relative to 1989



Benjamin steers Alphameric out of trouble

On the surface, latest results from Alphameric for the year to 31st Mar. 92 are not encouraging. Revenue was just £5.1m compared with £13.4m last year - due to the disposal of dealing room systems operation FTT Alphameric to BT (for £1.65m rather than the £1.85m originally reported) and the disposal/closure of various other activities. Loss comparisons are also difficult. At the operating level a £1.7m loss was the same as last year but the loss per share has reduced from 58.9p to 28.8p.

When Alan Benjamin took the helm the losses were £11.6m and it would have been a brave (or foolish) man who would even offer odds on survival. Two successful (for the company) or unsuccessful (for the underwriters who were left with most of the shares) rights issue later, Alphameric has no borrowings and Benjamin is "confident that we shall become profitable during the coming year, as we originally forecast". Benjamin has built a strong and well respected management team headed by CEO Rodney Hornstein and now strengthened by David Evans "who built up Devlin Electronics from nothing". Source - MicroScope 8th July 92.

Oracle back in the black

Oracle Inc reported profits \$61.5m in the year to 31st May 92 compared with losses of \$12.4m last year on revenues up 15% at \$1.18 billion. Oracle also managed an all important \$161m positive cash flow resulting a \$64m cash balance at year end. Oracle UK increased revenues by 16.5% to £120m. Last year the UK made PBT of £2.9m but no profit figures are currently available for 1992.

What's in a name?

We have a confession to make. When EDS appointed image consultants Lloyd Northover to advise them on renaming SD-Scicon, we were consulted. We are not quite sure what to read into the fact that our suggestions were adopted to the letter.

EDS (UK) and SD-Scicon are to merge into one company to be known as EDS-Scicon, although the strategically important defence activities will be maintained as a separate business within EDS-Scicon to satisfy the requirements of the MOD. The French SD-Scicon operation is to be similarly known as EDS-GFI. John Bateman, who has been CEO at SD since the acquisition, becomes MD of EDS-Scicon and the previous EDS UK MD, Clyde Zeigler, returns to EDS in the US.

"The integration...makes EDS-Scicon number one in the UK information technology services market, and EDS-GFI number five in France. The EDS group is positioned overall as the number two in Europe, with more than 11,000 staff and revenues in excess of \$1 billion". Source EDS-Scicon press release 1st July 92. As neither EDS (UK) or SD-Scicon will release UK revenues figures to us, we will have to take their word for that but the rankings are confirmed by our estimates.

Outlook grim for Reuters

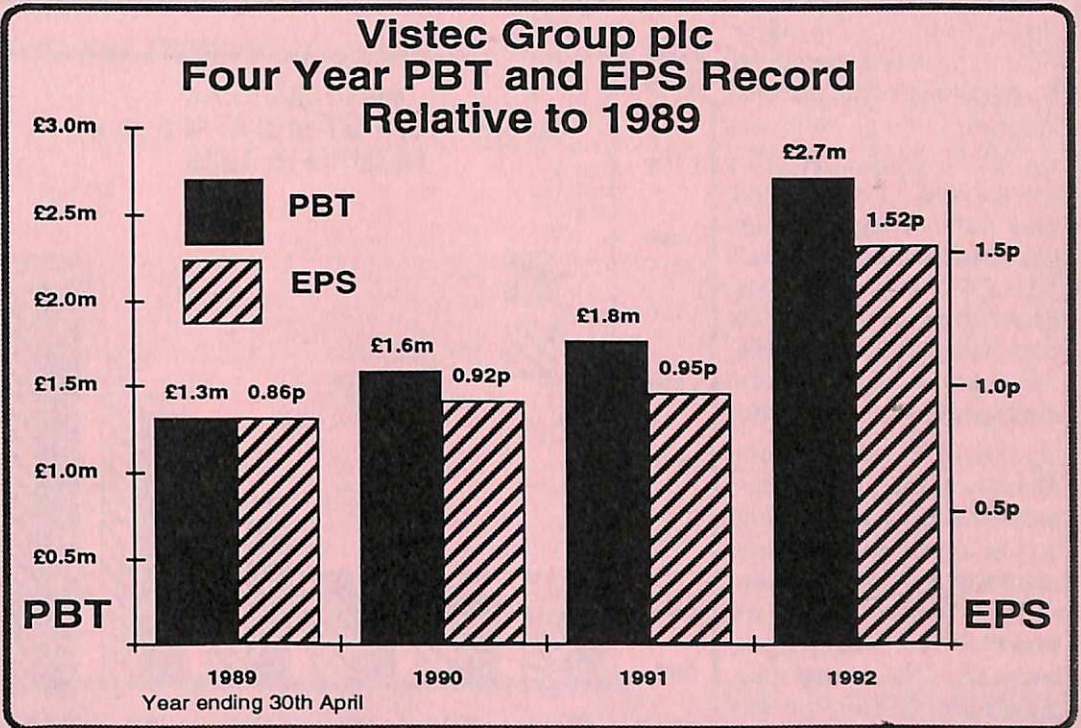
Reuters, which some consider is a CSI company, reported PBT up 10% at £187m on revenues up 6% at £748m for the six months to 30th June 92. Reuters has suffered from a slowdown in new orders. However, both the new products, Dealing 2000 and Globex, seem to be performing well.

Morton steers Vistec to excellent performance

There can be few in the industry who would not envy the financial performance of Vistec Group plc as shown in the chart below. Consistent PBT and EPS growth, during the worst three years the industry has known, is topped with a 54% increase in PBT to £2.7m on revenues up just 4.1% at £32.3m in the full year to 30th Apr. 92. EPS was up an even more impressive 60%. Cash in bank was up from £1.7m to £4.4m in the year.

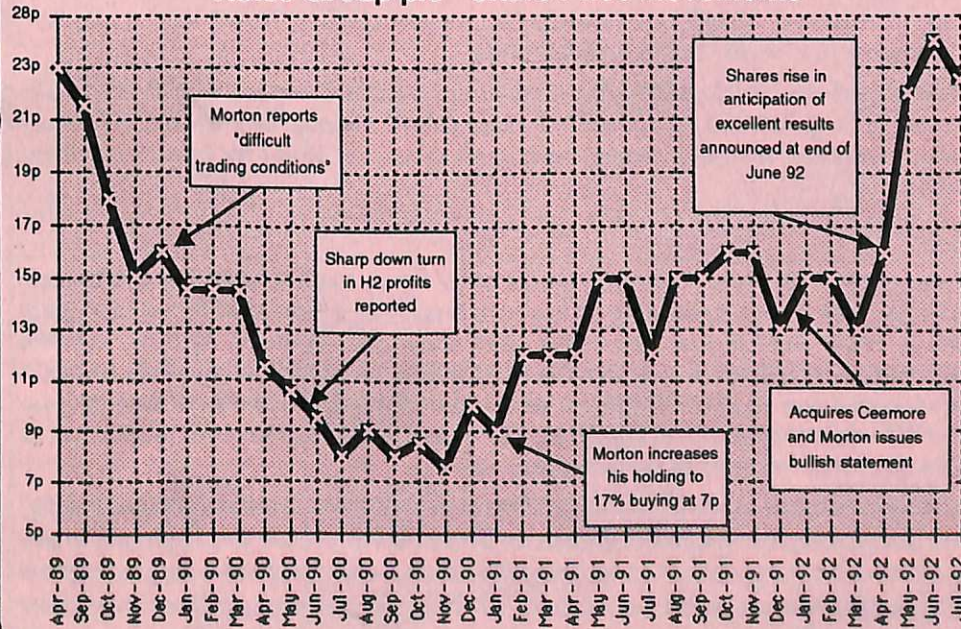
This performance has been achieved since Bob Morton arrived to turnaround a group which had declared losses of over £4m in the year to Apr. 88. Morton, a self made millionaire, had previously built (and lost) the Burgess Electronics empire. His first action, as might be expected, was to hit the acquisitions trail buying O1 Computers (which he later described as "a can of worms"), National Computer Supplies, Level V Distribution, CPS Traders, Loxton, Sphinx and Ceemore. In 1990, Morton sold some of these activities and concentrated on organic growth in the two core businesses. Vistec's Viewdata activities contributed about 40% of the profits. Sphinx Level

V is the market leading UNIX software distribution activity with sales of around £11m. They made "excellent progress" with improved margins and "a significant increase in profits". Even the end user sales and maintenance operation, Vistec Computer Services, "made good progress against a difficult economic background...trading was patchy for much of the year but finished strongly towards the end, particularly in systems sales to large corporate customers".



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Vistec Group plc - Share Price Movements



Morton says he is "increasing the search for suitable acquisitions in order to enhance our position as a leading supplier of computer systems, software and services". He now has the cash and the share price rating to make such purchases. We do hope that he will avoid some of the problems he encountered with this strategy the first time around.

Equitable Life bought a further 250,000 shares when the results were announced boosting their holding to over 6%. Vistec shares are up 67% since the start of 1992 and stand over three times higher than when Morton upped his stake to 17% by buying at 7p in Dec. 90. Brokers BZW are forecasting PBT of £3.3m in the current year.

US CSI results... The UK's Sanderson Electronics holds a 49% stake in US General Automation. GA reported profits down from \$303K to \$175K in Q3 and blamed the lack of an "economic rebound" in the US. US Borland, which acquired Ashton Tate last year and has a London quote, reported profits down from \$18.4m to \$2.3m in Q1 (to 30th June 92). But there was no such gloom at Microsoft where Q4 profits rose a further 52% to \$210m. That makes profits of \$708m (\$463m) on revenues of \$2.76b (\$1.84b) for the full year to 30th June 92. Rival Lotus also reported Q2 profits up 62% at \$15m on revenues up 18% at \$220m. Informix continued its good results with Q2 profits up 570% at \$9.1m on revenues up 50% at \$60m. Computer Associates Q1 profits rose 45% to \$29m on revenues up 28% at \$368m.

First reversals at Kewill

Until now, **Kewill Systems** had an unbroken and exemplary trading record. In fact, they were one of only four quoted CSI companies not to have suffered an EPS reversal since 1985. They also managed to make #5 in our list of best EPS growth in the period 1985/91 - with an AAGR of 34%. Kewill seemed to obey all the rules - like sticking to its leading position in computer aided manufacturing and design. Even their considerable acquisitions looked sensible and well executed. Then in May 91, Chairman Kevin Overstall took a decision which he now clearly greatly regrets. He bought **Weigang MCS GmbH** for a mere £400K. Weigang develops and distributes UNIX-based manufacturing products throughout Germany.

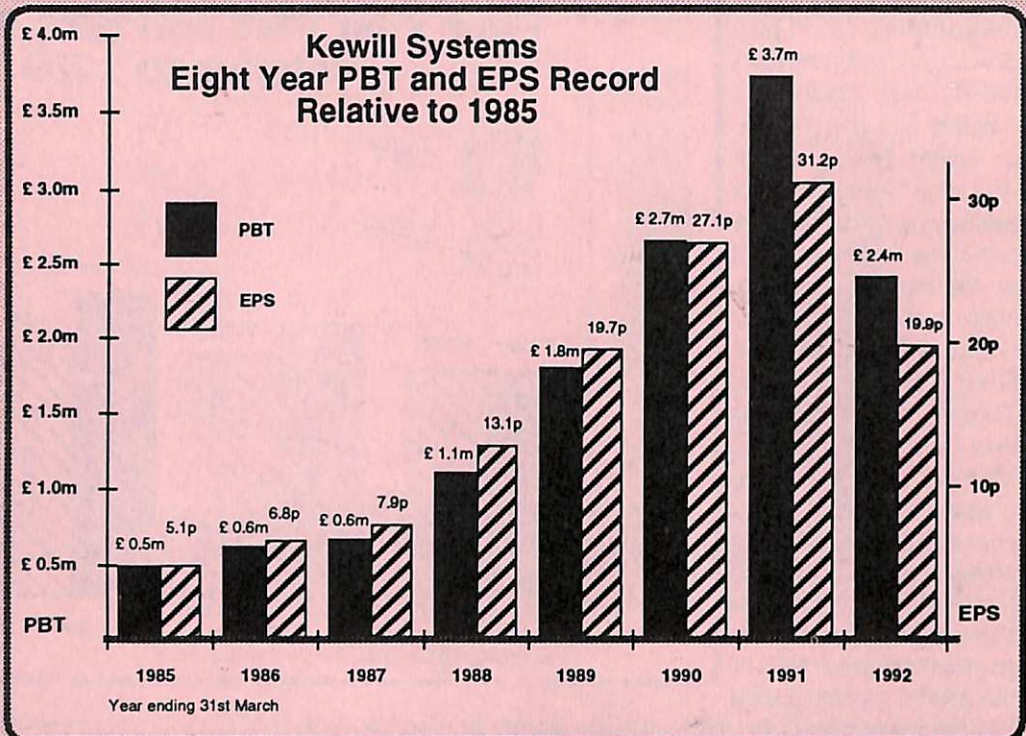
Although it was loss-making, Overstall said at the time that Weigang "will achieve satisfactory profitability in the current year". It didn't quite work out that way. Although their staff have been cut from 125 to 45, Weigang has lost £500K this year and has now cost Kewill £5.5m in write-offs. Further losses of £1m are expected in the next year.

Overstall had warned shareholders of these problems at the end of 1991. In the event the full year results to 31st Mar 92 were rather better than we expected. Revenues, largely because of the acquisitions, grew 34% to £41.8m but PBT slumped 35% to £2.4m and EPS was down 36%. These figures hide continued

excellent performance in the UK and USA which increased operating profits by 40% - no mean achievement in today's climate. Kewill's other German acquisition - Han Dataport - also performed well with operating profits up 55%.

All this had a detrimental effect on the balance sheet. Kewill's net borrowings at the year end were £5.5m which had risen to £7.3m in June. To address this Kewill is to raise a net £2.7m by way of a subscription for 2.4m shares @ 125p each from Guernsey-based unit trust - **Causeway**. Kewill shares ended the month at 101p. Kewill still has £9.5m of intangible assets - mainly acquired software and IPRs - on its balance sheet.

Statements from Overstall have usually come true. He now warns that continuing losses at Weigang will adversely effect the first half results but "operating profits are expected to improve in the second half". He also seems confident that he will get his borrowings sorted out. We are inclined to give Overstall the benefit of any doubt we may have. We expect Kewill to resume its excellent record shortly.



Radius still struggling

Radius plc had a superb trading record until 1989. They had made profits of £2.9m in 1988. Multiple acquisitions in 1988/89 contributed to a halving in EPS in 1989. By concentrating on the core business, it looked as though recovery was on the way when EPS rose 40% in 1990. But full year results for 1991 showed EPS diving by 90%, with the recession blamed this time. The latest interim results for the six months to 31st May 92 show that slump in Radius's financial fortunes continuing. Revenues were down 18.5% at £12m - at least in part due to the disposal of several loss-making activities/former acquisitions. PBT was down 34.5% at £525K and EPS declined 41%. However, these figures do show an improvement over the £141K profits reported in H2 last year.

The Printing Division - which was Radius' original core - showed "a marked improvement in performance and prospects". The public sector activities, which had been based on acquisitions such as Systemsolve in Mar. 89, "were adversely affected by the General Election and by the continuing debate concerning the proposed structure of local government in the UK". Healthcare activities, again resulting from a previous acquisition, "are beginning to respond to our investment and should proceed positively in the second half".

What worries us most is the statement "We anticipate using the strength of Radius' balance sheet to take selective advantage of the increasing number of acquisition opportunities presented to us". We believe the root of Radius' poor performance in the last three years can be traced clearly to management which were incapable of coping with their many acquisitions. We accept that the group has appointed both a new Chairman (Michael Roberts) and CEO (Philip Kelly). But will they fare better in the acquisitions stakes than their predecessors?

Radius says "In spite of the continuing pressures on the business, we are cautiously optimistic for the future, although we expect the recovery will be slow". Credit Lyonnais Laing was reported to be recommending the stock.

Richard Holway Results Service

ACT Group plc	Results Revenue PBT EPS	Final - Mar 91 £ 98,831,000 £ 12,706,000 9.5p		Final - Mar 92 £ 119,447,000 £ 17,020,000 10.83p	Final Comparison +20.9% +34.0% +14.0%
Admiral plc	Results Revenue PBT EPS	Final - Dec 90 £21,207,000 £3,276,000 19.4p		Final - Dec 91 £ 26,104,000 £ 3,472,000 21.9p	Final Comparison +23.1% +6.0% +12.9%
Capita Group plc	Results Revenue PBT EPS	Interim - Jun 91 £ 11,104,000 £ 1,382,000 7.1p	Final - December 91 £ 24,711,830 £ 3,448,487 15.71p	Interim - Jun 92 £ 13,732,000 £ 1,769,000 7.6p	Interim Comparison + 23.7% +28.0% +7.0%
Computer People Group plc	Results Revenue PBT EPS	Final - Dec 90 £ 76,170,000 £ 3,106,000 16.42p		Final - Dec 91 £ 67,700,000 £ 1,010,000 5.48p	Interim Comparison -11.2% -67.5% -66.6%
Cray Electronics Holding plc	Results Revenue PBT EPS	Final - Apr 91 £ 107,286,000 £ 3,509,000 2.5p		Final - Apr 92 £ 84,786,000 £ 4,787,000 3.2p	Final Comparison -21.0% +36.4% +28.0%
EIT Group plc	Results Revenue PBT EPS	Interim - Sep 90 £ 200,000 (£ 128,000) n/a	Final - Mar 91 £ 485,000 (£ 246,000) (0.83p)	Interim - Sep 91 £ 1,200,000 (£ 99,000) n/a	Interim Comparison +500.0% Loss both Loss both
Electronic Data Processing plc	Results Revenue PBT EPS	Interim - Mar 91 £ 8,654,000 £ 1,865,000 14.69p	Final - Sep 91 £ 17,420,000 £ 4,083,000 32.83p	Interim - Mar 92 £ 7,468,000 £ 2,407,000 18.83p	Interim Comparison -13.7% +29.1% +28.2%
Enterprise Computer Holdings plc	Results Revenue PBT EPS	2nd Interim - Dec 90 £ 87,804,000 £ 2,520,000 1.15p	Year to Dec 91 £ 152,496,000 (£ 3,043,000) (3.0p)	2nd Interim - Dec 91 £ 62,531,000 £ 1,732,000 3.59p	2nd Interim Comparison -28.8% -31.3% +212.2%
Grasham Telecomputing plc	Results Revenue PBT EPS	Interim - Mar 91 £ 732,000 (£ 79,000) (1.25p)	Final - Oct 91 £ 6,296,000 £ 355,000 1.0p	Interim - Apr 92 £ 3,954,000 £ 284,000 0.57p	Interim Comparison +440.2% Loss to Profit Loss to Profit
Hoskyns Group plc	Results Revenue PBT EPS	Interim - Apr 91 £ 102,800,000 £ 8,600,000 6.4p	Final - Oct 91 £ 200,663,000 £ 14,299,000 10.5p	Interim - Apr 92 £ 95,700,000 £ 5,600,000 3.9p	Interim Comparison -6.9% -34.9% -39.1%
INSTEM plc	Results Revenue PBT EPS	Final - Dec 90 £11,154,000 £1,005,000 14.0p		Final - Dec 91 £ 15,810,000 £ 1,010,000 15.2p	Final Comparison +41.7% +0.5% +8.6%
Kalamazoo Computer Group plc	Results Revenue PBT EPS	Final - 8 mos - Mar 91 £ 39,000,000 £ 2,300,000 4.1p	Final - Jul 91 £ 60,764,000 £ 3,660,000 7.0p	Final - 8 mos - Mar 92 £ 38,300,000 £ 600,000 Nil	Final Comparison -1.8% -73.9% n/a
Kewill Systems plc	Results Revenue PBT EPS	Final - Mar 91 £ 31,298,000 £ 3,731,000 31.2p		Final - Mar 92 £ 41,824,000 £ 2,421,000 19.91p	Final Comparison +33.6% -35.1% -36.2%
Learmonth & Burchett Management Systems plc	Results Revenue PBT EPS	Final - Apr 91 £ 19,485,000 (£ 1,701,000) (10.5p)		Final - Apr 92 £ 21,404,000 £ 303,000 0.7p	Final Comparison +9.8% Loss to Profit Loss to Profit
Logica plc	Results Revenue PBT EPS	Interim - Dec 90 £ 96,054,000 £ 4,671,000 4.4p	Final - Jun 91 £ 197,758,000 £ 3,676,000 (1.6p)	Interim - Dec 91 £ 98,575,000 £ 2,155,000 2.1p	Interim Comparison +2.6% -53.9% -52.3%
Macro 4 plc	Results Revenue PBT EPS	Interim - Dec 90 £ 8,100,000 £ 3,367,000 10.1p	Final - Jun 91 £ 18,028,000 £ 7,647,000 23.0p	Interim - Dec 91 £ 8,829,000 £ 3,828,000 11.5p	Interim Comparison +9.0% +13.7% +13.9%
Micro Focus plc	Results Revenue PBT EPS	Final - Jan 91 (amended) £ 46,495,000 £ 14,775,000 65.9p		Final - Jan 92 £ 55,869,000 £ 18,146,000 83.1p	Final Comparison +20.2% +22.8% +26.1%
Microgen Holdings plc	Results Revenue PBT EPS	Interim - Apr 91 £ 24,604,000 £ 4,328,000 7.2p	Final - Oct 91 £ 47,735,000 £ 7,283,000 12.2p	Interim - Apr 92 £ 24,974,000 £ 4,368,000 7.2p	Interim Comparison +1.5% +0.9% Same
Microvitec plc	Results Revenue PBT EPS	Final - Dec 90 £ 23,444,000 (£ 2,415,000) (6.0p)		Final - Dec 91 £ 36,873,000 (£ 3,847,000) (5.3p)	Final Comparison +57.3% Loss both Loss both

Richard Holway Results Service

Misys plc	Results Revenue PBT EPS	Final - May 91 £ 67,253,000 £ 5,626,000 11.5p	Final - May 92 £ 68,023,000 £ 9,118,000 17.8p	Final Comparison +0.8% +62.1% +54.8%	
MMT Computing plc	Results Revenue PBT EPS	Interim - Feb 91 £ 3,100,000 £ 626,000 3.4p	Final - Aug 91 £ 5,920,484 £ 1,256,967 6.8p	Interim - Feb 92 £ 3,009,000 £ 712,000 3.9p	Interim Comparison -2.9% +13.7% +14.7%
NMW Computers plc	Results Revenue PBT EPS	Final - Dec 90 £ 8,726,000 £ 413,000 1.3p	Final - Dec 91 £ 10,588,000 (£ 207,000) (0.9p)	Final Comparison +21.3% Profit to Loss Profit to Loss	
P & P plc	Results Revenue PBT EPS	Interim - May 91 £ 120,700,000 £ 3,300,000 3.9p	Final - Nov 91 £ 228,324,000 £ 711,000 0.9p	Interim - May 92 £ 119,300,000 £ 1,000,000 1.0p	Interim Comparison -1.2% -69.7% -74.4%
P-E International plc	Results Revenue PBT EPS	Final - Dec 90 £ 65,013,000 £ 4,214,000 15.0p	Final - Dec 91 £ 68,750,000 £ 1,622,000 4.9p	Final Comparison +5.8% -61.5% -67.3%	
Pegasus Group plc	Results Revenue PBT EPS	Interim - Jan 91 £ 4,138,000 £ 774,000 8.9p	Final - Jul 91 £ 8,493,000 £ 1,669,000 19.9p	Interim - Jan 92 £ 3,367,000 £ 320,000 3.8p	Interim Comparison -18.6% -58.7% -57.3%
Proteus International plc	Results Revenue PBT EPS	Final - Mar 91 £ 7,000 (£ 1,502,000) (7.01p)	Final - Mar 92 £ 3,000 (£ 2,410,000) (11.05p)	Final Comparison -57.1% Loss both Loss both	
Radius plc	Results Revenue PBT EPS	Final - Nov 90 £29,902,000 £2,820,000 6.5p	Final - Nov 91 £ 28,115,000 £ 366,000 0.8p	Final Comparison -6.0% -87.0% -87.7%	
Real Time Control plc	Results Revenue PBT EPS	Final - Mar 91 £ 7,571,000 £ 1,199,000 10.9p	Final - Mar 92 £ 6,835,000 £ 1,192,000 11.1p	Final Comparison -9.7% -0.6% +1.8%	
Roife & Nolan Computer Services plc	Results Revenue PBT EPS	Final - Feb 91 £ 6,298,000 £ 1,446,000 17.7p	Final - Feb 92 £ 6,737,000 £ 1,390,000 15.9p	Final Comparison +7.0% -3.9% -10.2%	
Sage Group plc	Results Revenue PBT EPS	Interim - Mar 91 £ 7,821,000 £ 3,024,000 11.61p	Final - Sep 91 £ 20,002,000 £ 6,638,000 25.5p	Interim - Mar 92 £ 14,489,000 £ 4,340,000 14.53p	Interim Comparison +85.3% +43.5% +25.2%
Sanderson Electronics plc	Results Revenue PBT EPS	Interim - Mar 91 £ 10,606,000 £ 1,501,000 11.0p	Final - Sep 91 £ 20,503,000 £ 2,403,000 19.2p	Interim - Mar 92 £ 10,610,000 £ 1,801,000 16.0p	Interim Comparison +0.0% +20.0% +45.5%
Sema Group plc	Results Revenue PBT EPS	Final - Dec 90 £375,410,000 £15,331,000 10.45p	Final - Dec 91 £ 412,501,000 £ 14,015,000 11.02p	Final Comparison +9.9% -8.6% +5.5%	
Sherwood Computer Services plc	Results Revenue PBT EPS	Final - Dec 90 £ 24,785,000 £ 1,992,000 15.5p	Final - Dec 91 £ 22,321,000 £ 2,446,000 19.6p	Final Comparison -10.0% +22.8% +26.5%	
Star Computer Group plc	Results Revenue PBT EPS	Interim - Dec 90 £ 8,037,000 (£ 253,000) (3.7p)	Final - Jun 91 £ 13,718,000 (£ 886,000) (12.6p)	Interim - Dec 91 £ 3,473,000 (£ 240,000) (3.5p)	Interim Comparison -56.8% Loss both Loss both
Total Systems plc	Results Revenue PBT EPS	Final - Mar 91 £ 2,041,384 £ 102,768 0.74p	Final - Mar 92 £ 2,796,777 £ 756,880 5.11p	Final Comparison +37.0% +636.5% +591.0%	
Trace Computers plc	Results Revenue PBT EPS	Interim - Nov 90 £ 9,946,000 £ 31,000 0.06p	Final - May 91 £ 19,698,904 (£ 471,377) (2.04p)	Interim - Nov 91 £ 9,715,000 £ 221,000 1.59p	Interim Comparison -2.3% +612.9% +2550.0%
Vega Group plc	Results Revenue PBT EPS	Final - Apr 91 £ 4,984,000 £ 1,243,000 6.19p	Final - Apr 92 £ 6,269,000 £ 1,433,000 7.23p	Final Comparison +25.8% +15.3% +16.8%	
Vistec Group plc	Results Revenue PBT EPS	Final - Apr 91 £ 31,005,000 £ 1,763,000 0.95p	Final - Apr 92 £ 32,287,000 £ 2,714,000 1.52p	Final Comparison +4.1% +53.9% +60.0%	

Acquisitions, disposals and liquidations

"World's largest" derivatives software firm

Devon Systems International has acquired ICCH Financial Markets (IFM) creating the "world's largest group dedicated to derivatives software". Devon is a subsidiary of US SunGard; a market leader in investment software with 1991 revenues exceeding \$280m. SunGard bought SD-Scicon's US subsidiary - Warrington - for £41m in Jan. 90. IFM was a part of the International Commodities Clearing House owned by the UK's four clearing banks.

The others... Commodore Amiga support company, Facilities Management Group Services, has appointed the receivers. PC dealer, Bonsai run by founder Michael Kraftman, has merged with the electrical retail chain, Tempo, run by his father Gerald Kraftman to form a £100m revenue group. In addition, 3i have put in £6.5m for a stake of less than 25%. Bonsai now says it will open a PC superstore within the M25. There will soon be more PC superstores than Marks & Spencer. Compel has bought £1m pa PC dealer, Johnson Microcomputers of Camberley, from the receivers. Barclays Computer Operations is tipped as the buyer of local government FM operation Municipal Mutual Computing. Hays has acquired Citidata Storage Ltd (CSL) for £4.6m in cash. CSL operates a secure storage and retrieval service for computer data from two London sites. CSL had PBT of £520K on revenues of £2.1m for the year to 30th Apr. 92. CGS and Matra SA have merged their defence operations creating a company with 1,000 engineers and revenues of \$190m. EIT has acquired for "no payment" the Data Interpretation Systems support contract base of US Sequence Support Services International. "The deal should add £142K a year to EIT's profits which could exceed £1m this year". Source - Sunday Telegraph 19th July 92. Electron House has sold part of Bytech Computers to its management for £5m. In addition, the MBO team will take on £4m of debt. The division to be sold sells hardware and other computer products. Electron House Chairman, Robert Leigh, said the sale "would enable the company to concentrate resources on higher margin businesses". Hot on the heels of its sale in an MBO of its UNIX operation, TopLog, last month Metrologie has sold its printer distribution operation, SMO Bureaucratique, to Ricoh of Japan for c£20m. Midlands based dealer Digital Matrix has appointed the receivers. Third Wave Network plc, which is perhaps best known for their India and Ireland based systems development activities, is to acquire Lieks Ltd, a Moscow based software company. Third Wave's chairman Bill Murphy said "we intend to invest in Russia as a source of low-cost quality software development". French Bull has invested "a significant amount" buying a 20% stake in local government systems house, Sheridan Systems. Banking software company, ITB UK, has appointed the receivers. ICL together with Investment Intelligence systems has bought the assets of Forex Advisory Services which includes the Bankwide UNIX wholesale banking product. Receivers have been appointed at IBM AS/400 agent, Newgate.

3i invested just £9m in 18 CSI companies in the year to 31st Mar 92 compared with £13m in the previous year.

ICL buys Technology

When we first heard of the ICL purchase of one of the UK's leading PC distributors, Technology plc, we were pleasantly surprised. It looked like a good deal for everyone. ICL paid an initial fairly cheap £30m for a £130m revenue business thereby gaining control over the all important distribution channel for its PCs and UNIX boxes. It also made the new division the largest PC/open systems reseller in the UK with revenues of £250m - ahead of the previous leader P&P. ICL business would represent around 45% of the new division's revenues. The acquisition is an important step towards ICL achieving its goal of overtaking IBM to become the dominant supplier of PCs and open systems in the UK with projected sales in excess of £500m by 1997.

For Technology shareholders, it also looked like a very good deal. They, with a little help from Schroder Ventures which took possession of c73% of the ordinary shares, originally paid c£29m for MBS' PC products business. This division had lost a massive £18.8m (if you include central costs, interest etc.) on revenues of £78.8m in the year to 31st Dec. 88. As is usual in an MBO you work hard to reduce the debt which funded about half of the deal, thus giving a significant return on your equity stake. Under the leadership of Derek Lewis and his MBO team, PBT of £5.3m on revenues of £130m were declared for the year to 30th June 91. Typical Schroder deals would just be entering the ratchet stage by now - just the right time to sell. Reports indicate that Lewis' initial £250K investment is now worth £2m and could be worth £8m if the performance criteria are met. Schroders also seem quite happy with the return on their investment.

In addition to the £30m initial consideration, a further £27m could be paid over in the period to the end of 1995 depending on revenue (yes, revenue) performance. Some just dream of being given revenue targets with access to extensive cash facilities with no boring profit restrictions. But meeting these revenue based performance targets rather depended on Technology being able to continue to sell its current range of IBM, Compaq and Toshiba PCs and DEC, HP and Sun workstations. In the event, IBM immediately withdrew its dealership agreement, DEC indicated that it would not renew its agreement on renewal in Sept. Sun is appointing another UK dealer and Compaq is reviewing the situation. Although the IBM agreement allows for termination on change of ownership, is the fact that the new owner is also a competitor really sufficient justification in European law?

The question is did ICL expect this to happen and would they still have signed the deal? On the other hand, ICL has got a ready made distribution channel for an initially low price (25% of annual revenues) together with an experienced management team that can only get the icing on the deal if they persuade their existing customers to take ICL PCs and workstations instead. The deal is one of the most significant for some time. The whole distribution channel in the UK is in some turmoil and is overdue for a shake-up. A decade ago several hardware manufacturers bought their UK distributors to enable them to own the channel (Apple buying Microsense is a classic example). Will the ICL deal be seen as role model? If ICL can own an IBM dealership, will IBM respond with discussions with P&P, Computacenter or the like? Or will the fast and decisive actions taken by IBM to cut off supplies to Technology make any other hardware manufacturer think twice?

Kode in further TPM buys

Kode has acquired DCM, the PC maintenance operation, for £3.2m from Hillsdown International. The funds will be raised by a rights issue at 100p a share plus a further £500K "to finance the expenses of the acquisition". Kode recently announced 1991 PBT of £486K, compared with £504K in the previous year. This was ahead of City expectations. Their TPM ops made a small loss in 91.

Recently, Kode announced a prestigious support agreement with Apple Computer (UK).

AAH and Advanced Medical Communications

AAH Holdings has acquired Advanced Medical Communications which supplies practice management computer systems to general practice. Consideration is £3.52m, satisfied by the issue of 698K AAH shares. Further cash will be paid "when the proceeds of certain contracts are determined".

Origin

BSO/Beheer is the second largest CSI company in Holland. In 1990 they formed Origin: a 50:50 joint venture with Philips. In 1991, BSO/Beheer acquired all the shares in Origin in return for Philips taking a 26% stake in BSO/Beheer - this stake has since increased to 35%. The remaining equity is owned by RABO Bank (15%), NPM (also a bank - 10%) and staff (40%). BSO Origin now employs over 3,500 staff worldwide with revenues of c£170m (to 31st Dec. 91) and PBT (pre-extraordinary items) of around £10m.

In the UK, Origin employs 225 people with revenues of £8.5m in 1991. An operating loss of £3m was reported. On the surface, there would not appear to be anything out of the ordinary about Origin *except that*:

- Origin is totally a skill/service based organisation - they have no software products. They rely heavily on working with other CSI companies in the supply of the product required to fulfil their SI type contracts.
- Origin has a very unusual organisation. Worldwide they operate in 14 countries and are organised into some 80 "cells". There are currently 5 cells in the UK.

A new cell is formed either to limit an existing cell to c50 staff and/or to take advantage of a new market opportunity. As BSO/Origin has few central functions, cells have a high level of autonomy. 20% of management remuneration is performance related - half on the financial results of the cell and the other half from meeting "non-financial" objectives. Each country is led by a country manager - in the UK the MD is Ad Alfrink.

The UK operation acquired GST in Cambridge in 1990 thereby adding an industrial automation cell. Elsewhere in the UK, Origin has a growing presence in the healthcare market with clients such as Guys Hospital and North West Thames RHA.

BSO directors "expect to achieve sales in excess of Dfl 600m (c£190m) in 1992, resulting in a substantial rise in net income". Acquisitions have so far been modest but we understand a purchase to strengthen presence in the US (ComTech Systems Inc was acquired in Mar. 91) and France would be given a high priority.

On 31st July, Misys announced that it was to acquire Specialist Computer Software and Specialist Computer Peripherals and Maintenance for £2.87m.

NMW and ACT

On 26th June 92, it was announced that Specialist Computer Holdings had sold its 25.4% stake in NMW Computers to ACT for £2.1m or 40p a share. Since then the shares have risen to end the month at 52p. ACT has not stated whether it intends to submit a bid saying its stake is for investment purposes. These same words were used last year when ACT bought MMT's 13% stake in Quotient (a competitor of NMW). A month later ACT agreed a £27.4m bid for Quotient. We have to take great care in our reporting as Richard Holway, the editor of System House, is a non-executive director of NMW.

Tim Simon, the founder of Quotient who left on the ACT takeover is launching a new CSI company - Mondas Information Technology.

France Telecom, Sema and CGS

An announcement is awaited on whether Paribas will transfer its 39% stake in Sema into a holding company owned jointly with France Telecom. There is also talk that Schneider, which holds 10.5% of Sema equity, would also sell but only with Sema's consent. CGS (which owns 29% of Sema) confirmed that it too was talking with France Telecom. CGS is looking for a further partner to balance Daimler-Benz. Is this the start of another major leap in size for CGS?

Worshipping at the Temple

On 14th July, some 250 of the top directors in the computing services industry attended the CSA Quarterly lunch - a record turnout. They were rewarded with one of the most open presentations ever from an MD of IBM - the newly appointed Nick Temple.

Temple confirmed that he was changing IBM from a "hardware foundry company" into a software and services company. Indeed "our industry is inverting - if it wasn't for computing services we would be in a very bad state indeed". He was highly critical of the old attitudes at IBM saying that "55% of staff were only there to tell you why you couldn't do something". In their attitudes to clients most staff "would tell the client the answer before listening to the question".

By design or mistake he repeated the "we took a chainsaw to IBM" jibe several times in reference to the staff cuts and organisational changes. Sources say that IBM will cut in excess of 40,000 jobs this year. Administration was cut in half "our policy was shift right logical with no remainder". That really appealed to the ageing CSA audience who could still remember BAL. (It was a sad reflection on our industry that the CSA president Patrick Whale and Nick Temple both had their notes written on punched cards). Personally, we found his answer to the question "Who should we now contact at Basingstoke?" the most telling. He replied "Talk to the business people - if you find anyone in staff functions there, please let me know".

As to IBM's CSI growth "systems integration is growing at 60% pa and outsourcing's growth is sort of infinity". He estimated that FM would account for 50% of total IT revenues by 1995. Not so fanciful when the current Inland revenue FM moves are taken into account.

IBM's current "open" attitude is refreshing. The "we'll try to provide you with all the information you want" is a refreshing change which we hope will be copied by others.

Majority of CSI stocks suffer falls

The latest CSA Trend Survey *still* indicates that 63% of Chief Executives expect their business will improve in the year ahead. However, they also recorded that, in profit terms, Q2 was down on Q1. Our unofficial soundings still show that few companies have witnessed any actual increase in trade since the "false dawn" after the April election. One reader said "the problem is that it always seems darker after a false dawn than it was before!" To be fair though, **Oracle UK** did publically state that they disagreed with our findings saying that their current trading was more buoyant than ever.

All this pessimism was translated into a depressing month on the Stock Exchange. The FTSE 100 fell over 5% for the second month in a row. Our CSI Index fell even more - by 8.3%. Three quarters of the CSI stocks registered falls.

P-E international suffered the biggest fall, down 39%; making a drop of 48% this year. Consultancies like P-E have been badly hit in the recession as last year's 62% profits slump indicated. Interim results are awaited. **P&P** also fell 30% in the month when interim results showed a 70% fall in PBT (see p10). **Proteus** reversed previous gains as investors wisely resorted to profit taking in this high risk stock. **Kewill** fell another 24% - making a decline of 68% this year. Max Hotopf, writing in *MicroScope*, said "The best way to invest in micro computer shares is to wait until

they have a nasty fall and then buy. If you get it right, you can treble your money in a year or two - look at **ACT** or **Misys**. The secret is to pick the right company. **Kewill** fits *about all the criteria*". Results see p 4.

The star performer this month was... **Star**, up 71%. Their shares have doubled this year. Clearly the market thinks they have broken the record of three consecutive years of losses. **NMW** also gained 40% as **ACT** bought its 25% stake. **Misys** now has a higher capitalisation than **Logica**.

Computing Services Index

30th July 1992

April 15th 1989 = 1000

1348.96

Changes in Indices	CSI Index	FTSE 100
Month 25th June 92 to 30th July 92	-8.30%	-5.70%
39 months 15 April 89 to 30th July 92	+34.90%	+17.43%
1st Jan. 91 to 30th July 92	+90.57%	+11.63%
1st Jan. 92 to 30th July 92	+29.10%	-3.27%

System House CSI Share Prices and Capitalisation

	Share Price 30/7/1992 (£p)	Capitalisation 30/7/1992 (£m)	Historic P/E	CSI Index 30/7/92	Share price % move since 25/6/92	Share price % move this year	Capitalisation move (£m) since 25/6/92	Capitalisation move (£m) this year
ACT	£ 1.52	£ 201.60m	14.04	2432.97	-12.64%	0.00%	-£ 32.60m	£ 15.70m
Admiral	£ 3.41	£ 36.60m	15.57	2471.01	-7.84%	14.05%	-£ 3.10m	£ 4.30m
Capita	£ 3.74	£ 56.30m	23.81	3740.00	-5.79%	42.75%	-£ 3.00m	£ 17.00m
Computer People	£ 1.03	£ 14.30m	18.80	423.87	-10.43%	-10.43%	-£ 1.70m	-£ 1.70m
Cray Electronics	£ 0.73	£ 97.40m	22.66	423.98	-5.23%	11.54%	-£ 5.40m	£ 29.50m
EIT Group	£ 0.20	£ 6.70m	Loss	800.00	-20.00%	66.67%	-£ 1.68m	£ 1.32m
Electronic Data Processing	£ 4.50	£ 39.20m	13.71	4591.81	-10.00%	55.71%	-£ 4.40m	£ 14.20m
Enterprise	£ 0.24	£ 17.50m	Loss	192.00	-20.67%	50.00%	-£ 4.50m	£ 5.10m
Gresham Telecomputing	£ 0.40	£ 12.70m	40.00	430.10	37.93%	344.44%	£ 3.46m	£ 9.83m
Hoskyns	£ 4.38	£ 408.30m	41.71	2136.58	1.15%	10.89%	£ 4.70m	£ 48.80m
INSTEM	£ 0.98	£ 4.41m	6.45	980.00	-16.24%	30.67%	-£ 0.85m	£ 1.04m
Kalamazoo	£ 0.36	£ 6.63m	n/a	360.00	-13.25%	-24.21%	-£ 1.02m	-£ 1.75m
Kewill	£ 1.01	£ 9.61m	5.07	399.21	-24.06%	-67.94%	-£ 3.09m	-£ 20.49m
Learmonth & Burchett	£ 0.77	£ 10.30m	110.00	641.67	20.31%	32.76%	£ 1.77m	£ 2.57m
Logica	£ 1.60	£ 98.10m	Loss	438.36	-13.51%	-17.10%	-£ 15.30m	-£ 20.20m
Macro 4	£ 4.38	£ 97.90m	19.04	1766.13	-5.19%	15.57%	-£ 5.30m	£ 14.40m
Micro Focus	£ 17.15	£ 234.20m	20.64	8285.02	-2.00%	10.79%	-£ 6.10m	£ 31.80m
Microgen	£ 1.53	£ 59.20m	12.54	653.84	-11.05%	-4.97%	-£ 7.40m	-£ 3.10m
Microvitec	£ 0.28	£ 18.00m	Loss	670.73	-12.70%	89.66%	-£ 2.60m	£ 9.02m
Misys	£ 3.04	£ 115.40m	17.08	756.22	3.75%	49.75%	£ 5.20m	£ 46.20m
MMT	£ 1.08	£ 11.50m	15.88	642.86	0.93%	30.12%	£ 0.10m	£ 2.69m
NMW	£ 0.53	£ 11.10m	Loss	875.01	40.00%	38.16%	£ 3.19m	£ 3.45m
P&P	£ 0.39	£ 21.60m	43.33	174.89	-30.36%	-2.50%	-£ 9.50m	£ 0.00m
P-E International	£ 0.65	£ 14.20m	13.27	267.49	-39.25%	-48.00%	-£ 9.20m	-£ 13.10m
Pegasus	£ 1.54	£ 9.78m	7.74	419.62	-8.33%	2.67%	-£ 0.92m	£ 0.61m
Proteus	£ 3.16	£ 84.90m	Loss	3761.89	-27.36%	85.88%	-£ 32.00m	£ 46.80m
Radius	£ 0.46	£ 12.50m	5.75	333.33	-20.69%	17.95%	-£ 3.30m	£ 1.90m
Real Time Control	£ 0.80	£ 5.60m	7.21	1632.65	-20.79%	-22.33%	-£ 1.47m	-£ 1.61m
Rolfe & Nolan	£ 2.33	£ 13.10m	14.65	2752.40	-0.85%	21.35%	-£ 0.10m	£ 2.20m
Sage Group	£ 3.67	£ 73.50m	14.39	2823.07	-16.21%	10.21%	-£ 14.20m	£ 7.60m
Sanderson	£ 2.05	£ 18.10m	10.68	872.34	-9.29%	66.67%	-£ 1.80m	£ 7.30m
Sema Group	£ 2.82	£ 256.40m	25.59	886.79	6.82%	29.95%	£ 16.40m	£ 58.20m
Sherwood	£ 2.30	£ 14.10m	11.73	1916.66	-11.20%	71.64%	-£ 1.40m	£ 7.17m
Star	£ 0.48	£ 3.27m	Loss	400.00	71.43%	108.70%	£ 1.36m	£ 1.70m
Total	£ 0.46	£ 4.60m	9.00	867.93	0.00%	35.29%	£ 0.00m	£ 1.20m
Trace	£ 0.28	£ 3.83m	Loss	224.00	-6.67%	-22.22%	-£ 0.28m	-£ 1.04m
Vega Group	£ 1.30	£ 18.34m	19.55	1065.57	-3.70%	6.56%	-£ 0.70m	£ 1.13m
Vistec	£ 0.23	£ 25.50m	14.80	983.33	-6.25%	66.67%	-£ 1.70m	£ 10.20m

Note: CSI Index set at 1000 on 15th April 1989. Any new entrants to the Stock Exchange are allocated an index of 1000 based on the issue price. The CSI Index is not weighted; a change in the share price of the largest company has the same effect as a similar change for the smallest company.

Recovery at P&P

P&P has been one of the companies worst hit by the recession and the significant changes in the distribution channel. In the year to 30th Nov. 91, profits crashed from £13.1m to just £711K on static revenues of £228m. This inferred a second half loss of c£2.6m.

At the AGM in May 92, Chairman Sir Roland Smith indicated a return to profits in the first half of 92. Latest results for the six months to 31st May 92 show PBT down 70% at £1m on static revenues of £119.3m. It should be noted that profits last time would have been £2m higher without exceptional charges, so the slump in fortunes in the space of just 12 months is quite dramatic. EPS was down 74% and the dividend is being cut by c50%. Although the balance sheet is still strong, with net assets of £46.4m, this showed a reduction from the £55.6m reported last year. Cash also reduced from £13m to just £2.4m.

Trading conditions remain "extremely tough" and "pressure on gross margins continues in most areas of the business, particularly those associated with computer product sales". P&P bought ICI Computer Systems on 10th Feb. 92 for £2m. "This transaction is seen as a model for future partnership relationships". Indeed, we feel it is a model of the kind of all-embracing PC and network supply and support contract that will form one of the fastest growing segments of the outsourcing market. P&P's move to become more of a CSI company than a "box-shifter" has been expensive. Although around half of P&P staff now work on services they currently contribute only £20m, or less than 10%, of P&P's revenues.

"Vigorous cost reductions" have been implemented resulting in the loss of over 200 jobs. These same cost strictures were being applied to P&P's European operations which are now experiencing the same reductions in prices and margins as the UK. Indeed, profits from P&P's Belgium and Sweden operations reduced from £1.1m to £200K on revenues of £19m.

We have always been a strong supporter of P&P. We would expect P&P to be a strong and early beneficiary from any upturn in the economy - *whenever that might come*. However, as can be seen from the ICL acquisition of Technology plc (see p7), the whole channel is overdue for restructuring. P&P is the most important player in that market and would be a treasured prize for several predators.

"The remainder of 1992 will continue to be challenging". Analysts expect another £1m profit in the second half. CEO David Southworth said he could see little hope for improvement in the second half of 1992 but said "1993 will be our year". Source - Max Hotopf writing in MicroScope 15th July 92.

Order books up 10% as Misys reports "strong recovery" in profits

Kevin Lomax, the chairman of Misys, was amongst the first to warn, in late 1989, that our industry faced recession. He was rewarded for this caution by a slump in Misys share price from 450p to 62p. Misys was also one of the first to take the cost cutting medicine required in such trading conditions. Overheads have been reduced by the equivalent of c£8m pa since 1990. Two years of tough actions were rewarded this month with the announcement that profits for the year to 31st May 92 had increased by 62% to £9.1m and EPS was up 55%. Turnover, however, remained static at £68m. Despite paying out £3m for acquisitions, cash increased from £6.9m to £9.9m. The Misys share price has also fared well to end the month on 304p - up 50% this year alone.

As can be seen, the recovery in profits did not come from increased sales but from cost savings and a switch away from hardware, which dropped 16% in the year, to software and services, which attract a far higher gross margin. Indeed, service revenues increased by 20% last year to £26.4m - nearly 40% of the total. Misys Computer Maintenance achieved record profits as did the "core" financial services activities. Even the previously loss-making MIPS/CT hardware operation, TIS Ltd, returned to profits in the second half. A fuller review of Misys will appear next month.

Standstill at Microgen

Microgen is a typesetting, microfilm and laserprinting computer bureau. They had their heyday in 1988; making PBT of £10m.

Latest interim results for the six months to 30th Apr. 92 show static turnover of £25m, static profits of £4.4m and static EPS. Given the results from many in the sector, however, Microgen ought not to be too disappointed. They also managed to improve their cash position - "net borrowings of £947K have become net cash of £1.2m at 30th Apr. 92 after investing £1.7m in the purchase of fixed assets and £475K in the acquisition of Data Print".

Microgen is yet another CSI company lumbered with vacant properties which cost £313K in the period. Microgen is a seasonal business - indeed their operations were beneficially effected by the General Election in the first half of this year. However, a cost reduction programme has already been implemented and Microgen is confident that it "will make progress in the second half of the year as compared with the same period in 1991". Last year Microgen added profits of c£3m in the second half.

Microgen are famed for the quotes which adorn their annual report. We feel they should have taken faster heed of the quote they used in 1990 - "Resolve not to be poor, whatever you have, spend less". Dr. Samuel Johnson.

Better times ahead for Gresham Telecomputing

Private Gresham group "merged" with quoted Telecomputing in Feb. 91. The last year has not exactly been the best of years for the renamed Gresham Telecomputing plc what with a DTI inquiry, disputes over the ownership of Merrion Gates Software BV, restated previous period losses and a plunging share price. But that seems to be all behind them now - indeed the company "does not intend to dwell further or report on these matters again". In May a major deal, where Dun & Bradstreet would use TP+ as the OLTP Manager around which they will build their downsized financial software products, was announced. This was followed by a marketing deal with ICL. The share price has rocketed since from a low of c8p to 40p now.

Latest results for the six months to 30th Apr. 92 show PBT of £284K compared with a loss of £79K for Telecomputing in the 6 months to 31st Mar 91. Revenue was £3.96m. However, the proforma accounts for the two entities in the same period to 31st Mar 91 show PBT of £293K on revenues of £4.89m - so the latest results are well down.

Chairman Sid Green believes the longer term prospects for the group are "very bright" and expects "the patience of our shareholders to be well rewarded".

The world's most valuable computing companies

BusinessWeek this month produced an analysis of the world's 1000 most valuable companies. It is interesting to note that nearly a half of the computing companies listed are involved in software & services rather than hardware. Indeed Microsoft's capitalisation is fast approaching that of IBM. Almost all of the CSI companies have increased their world rankings in the last year whilst most of the hardware manufacturers have declined. However, Apple have roared up the chart - overtaking DEC. CGS from the France is, as you might expect, the only European CSI entrant.

1992 Rank	1991 Rank	Company	Owner Country	Market value 29th May 92	Revenue	Profits	P/E
10	7	IBM	US	\$51.82b	\$64,800m	-\$560m	Loss
41	52	Siemens	Germany	\$23.14b	\$43,928m	\$1,112m	16
47	107	Microsoft	US	\$21.32b	\$1,843m	\$463m	49
58	101	Hewlett-Packard	US	\$19.12b	\$14,494m	\$755m	20
176	84	Fujitsu	Japan	\$9.36b	\$21,141m	\$588m	98
234	473	Novell	US	\$7.57b	\$640m	\$162m	39
257	337	Apple	US	\$7.07b	\$6,309m	\$310m	22
307	393	Automatic Data Proc.	US	\$6.29b	\$1,772m	\$228m	25
326	405	Electronic Data Sys.	US	\$5.92b	\$7,029m	\$563m	25
369	197	Digital	US	\$5.23b	\$13,911m	\$483m	Loss
387	415	Honeywell	US	\$5.02b	\$6,193m	\$331m	14
735	564	Sun Microsystems	US	\$2.69b	\$3,221m	\$190m	14
755	NR	Computer Associates	US	\$2.64b	\$1,348m	\$159m	16
762	726	Casio Computer	Japan	\$2.62b	\$2,384m	\$65m	32
872	587	Compaq Computer	US	\$2.25b	\$3,271m	\$131m	35
938	980	Cap Gemini Sogeti	France	\$2.09b	\$1,930m	\$108m	20
992	NR	Oracle Systems	US	\$1.95b	\$1,028m	-\$12m	53

Data from BusinessWeek 13th July 1992

Capita "Right place at right time"

A quick review of our comments about Capita in the last three years turns up nothing but rave reviews. Their financial performance is near faultless and they have pioneered some of the most interesting new ventures around - like their managed services. Now Capita is better placed than most to reap the benefits of the accelerated drive for outsourcing recently announced by HM Government. Back in Dec. 1990, *System House* readers voted Capita as one of the Top Five companies likely to provide shareholders with the best return over a three year period. *How right you were.* Already, Capita shares have risen by over 150% since the end of 1990.

Latest results for the six months to 30th June 92, show revenues up 24% at £13.7m, PBT up 28% at £1.77m. But EPS up only 7%, due to continued acquisition activity which has included Estate Design and Management (£1m) and RIPA (£430K) in the period. Cash increased from £6.7m to £7.6m in the period.

The star performer has been Facilities Management (incl. managed services); which now represents a majority of revenues and 82% of the profits. Forward contracted revenues now total £64m including a recently awarded 5 year contract with Tynedale valued at £2.3m. Capita's revenue collection service is now used by 27 organisations including 20 councils to track down poll tax defaulters.

But financial performance from the consultancy and marketing activities were in decline as shown:

CAPITA	Revenue	Inc/dec	% of total	Profit	Inc/dec	% of total
FM	£ 7.1m	81%	52%	£ 1.1m	82%	60%
Consultancy	£ 4.9m	-2%	35%	£ 0.5m	-14%	26%
Marketing	£ 1.8m	-20%	13%	£ 0.2m	-6%	13%

Chairman Rod Aldridge is "focusing on assignments which generate good profits" in the next period and "is confident that this strategy will continue to produce good results". On past performance, so are we.

"Triumphant" Granada

John Curran, the newly appointed Chairman of Granada Computer Services, made one of the most upbeat talks at the CSA annual conference in March. Delegates were left in no doubt that their maintenance business was back in the black after reporting unprecedented losses of £7.7m in the year to Sept. 91. This month it was announced that, in the 28 weeks to April 92, the division managed to turn losses of £3.6m into profits of £4.3m on unchanged revenues of £77.2m. Granada's CEO Gerry Robinson reported "real progress in simplifying the structure of the group". You may remember that the previous CEO of Granada Computer Services, Peter Edwards, had described their organisation chart as "a blueprint for spaghetti junction". Profits were achieved "against a background of virtually flat revenue - this is effectively all due to margin improvement and puts us well on the way to achieving our target of a 10% return on sales".

Robinson foresaw "considerable growth for the maintenance operations which currently had just 0.5% of a world market worth £27b. Acquisitions were likely once the structure of the division were right". Source - FT 2nd Jul. 92.

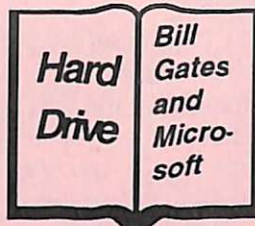
Making Granada more efficient is one thing - growing its revenue, particularly making inroads on the hardware manufacturers share, is another. Our doubts, expressed consistently over the last three years, remain. Now it's back in profit, it's a good time to sell it. Indeed, we understand a draft prospectus already exists.

Merger activity continues to increase

Broadview has monitored 71 acquisitions involving UK CSI companies in the first half of 1992. This shows an increase of 25% on the same period in 1991. Total consideration was up 13% at £403m. However, this included £173m for the merger of Covia, Apollo and Galileo. Application software products companies were the clear favourite with 30 deals compared with 11 last time.

Hard Drive

Before Microsoft went public in 1986, every employee was offered 1000 shares at a \$1 each. On the current share price, that means that everyone of them is a millionaire. The richest of all, in fact the richest man in the US, founder Bill Gates - is now worth a cool \$3.3 billion.



One of the problems of getting rich and famous is that authors start writing unflattering books about you. This month we read **Hard Drive** (John Wiley ISBN 0-471-56886-4 - £14.95). We recommend it as "a damned good read".

"Imagine an extremely smart, billionaire genius who is 14 years old and subject to temper tantrums" - former Microsoft project manager.

"I half-jokingly say there is only one person with fewer friends than Saddam Hussein. And that's Bill Gates" - Paul Grayson founder of Micrographix

The book makes reference to how Gates screws hard deals with almost everyone, like the original developers of DOS - perfectly fair in our view. Where we do get unnerved, and our suspicions are not just directed at Microsoft but at others in a powerful position in the IT world, is the use of a near monopoly to damage competitors. According to Hard Drive, back in 1983, Gates wanted to dominate the spreadsheet market and had a slogan "DOS isn't done until Lotus won't run". "They managed to code a few hidden bugs into MS DOS 2.0 that caused Lotus 1-2-3 to crash". In April 92, several competitors lodged a complaint, which is being investigated by the US Federal Trade Commission (FTC), that Microsoft's "dominant position has chilled competition and hurt consumers".

As Hard Drive says "The person who controls the operating system controls the direction of the industry - at the moment that person is Bill Gates".

Unwin takes one of top jobs at CGS

We cannot conceal our pleasure at the announcement of Geoff Unwin, the Executive Chairman of Hoskyns, being promoted to the inner sanctum at CGS. The new organisation sees Unwin, as one of three presidents, taking charge of the regions; with Jacques Arnould in charge of sectors and Michel Jalabert in charge of central functions such as finance and acquisitions. They all report to Serge Kampf as Chairman and CEO.

In the UK, the top echelons remain the same. As joint MDs, Tony Robinson heads up FM and Tony Fisher heads up the much bigger people and delivery based activities. They both join the 21-strong band of CGS VPs.

It looks as though Unwin has won the intellectual debate within CGS on its future shape and strategy. The last period has seen CGS as a "strategic assembler" - now it has to make the bits work together. There seems little doubt that this is not the case at present. Unwin's new job is to make CGS more cohesive.

We celebrate Unwin, from the UK, taking a seat at the top table of an international CSI company just as we celebrate Peter Bonfield, CEO at ICL, having a similar influence at Fujitsu. **If we can't own our rightful share of the industry, perhaps we can at least influence it.**

the Holway Report

Just a reminder that the latest edition of the Holway Report was published in June. The 1100 page report now contains financial details of 750 companies with combined revenues in excess of £7b - at least five times more than the first edition.

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