

System House

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

Volume 3

Number 4

Available by subscription only

February 1992

Do acquisitions damage UK CSI companies?

If you warn someone of the dangers of smoking, you are more than likely to get all of the following reactions. Firstly, no-one every tries to argue that you are wrong. Secondly, no-one pays any heed to the warning on the basis that it will not apply to them (as in "I'm OK because I only smoke tipped cigarettes"). Lastly, the harbinger of the warning is always put down as a depressing spoilsport.

We are in a very privileged position. We know exactly who our readers are and we know they read *System House* avidly because otherwise they wouldn't complain so much when we get things "wrong". Also out of the 160 acquisitions/disposals involving UK CSI companies in 1991, our readers were responsible for the vast majority. We, the harbinger, know the unpopularity of our message.

If *System House* is known for anything, it is its warnings about **Acquisition Indigestion - the after effects of taking over too many companies of the wrong type too quickly.**

Although we produce our Acquisitions Review on an annual basis (see back page for further details of this year's edition), we thought we would study a longer, four year, period.

The facts: The five largest deals, involving a quoted UK CSI company as the purchaser, in the four year period, 1988-1991, were:

Rank	Buyer	Purchased	Consideration	Date
1	Granada	DPCE	£110m	May 88
2	CAP	Sema Metra(Fr)	£93.7m	Jun 88
3	Systems Designers	SCICON	£82.5m	Apr. 88
4	Misys	TIS Ltd & TIS Maint.	£26.5m	May 89
5	Logica	Data Architects(US)	£26m	Mar 88

In every one of the cases above, the acquiring company has suffered as a result of the purchase. **Granada Computer Services** made losses of £7.7m last year as a result of DPCE and other major acquisitions; Derek Lewis, Peter Edwards and hundreds of other Granada staff paid the price with their jobs. **Sema** is now firmly controlled (and 80%+ owned) by the French due to poor UK performance. **SD-Scicon** lost £19.8m, mainly due to projects "mismanaged as a result of the merger" and was acquired by **EDS** in 1991. **Misys'** share price was 405p at the time of the TIS Ltd purchase in 89 - it subsequently fell to a low of 68p. This month Misys said TIS Ltd was the only group company not making profits. In the year to 30th June 89, **Logica** had PBT of £18.8m, to which its latest acquisition,

Data Architects, had contributed £4m. Last year, Logica's PBT slumped to £3.7m and Data Architects made a loss of £2.7. **So "eating big meals" clearly doesn't work, but how about eating lots of smaller meals?**

Over the same period, 1988 - 1991, the top five quoted UK CSI multiple acquirers were:

Rank	Acquirer	Number. of deals	Total Consideration
1	Misys	11	£85.3m
2	Enterprise	11	£68.0m
3	P-E International	10	£20.6m
4	Sanderson	10	£6.9m
5	Trace	9	£3.1m

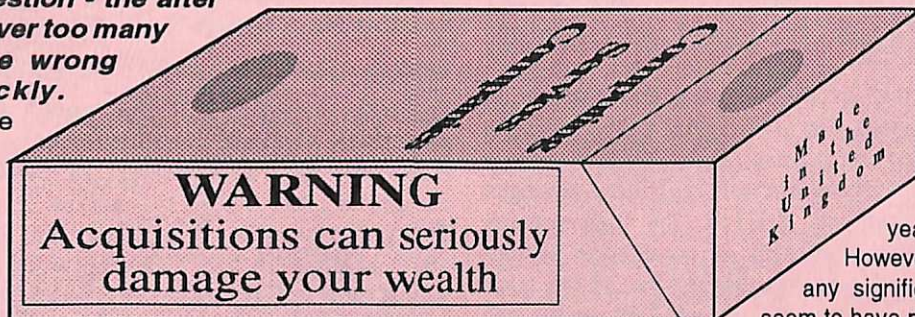
Misys (see previous comments) has seen its EPS decline from 22.8p in the year ending 31st May 89 to 11.5p in the year to 31st May 91.

However, two years without any significant "feasts" does seem to have put Misys back onto

the upward track. **Enterprise** is a very sorry tale. PBT in 89 was £7.9m - but losses for the six months to 30th June 91 were £4.8m. Enterprise shares are worth just an 1/8th of their value in Apr 89 and most of the acquisitions have now been sold. **P-E International** has also suffered - latest results show EPS down 35%. P-E's chairman, Hugh Lang, said that in future "the emphasis will be on developing our portfolio of businesses with acquisitions and new ventures likely to play a less prominent role". **Sanderson** has limited its acquisitions to stakes in its hardware manufacturer, GA, and its overseas distributors. Although doing well in comparison to 91, Sanderson's EPS slipped 23% in the year to 30th Sept. 91. **Trace** reported its first ever loss - of £471K - in the year to 30th May 91.

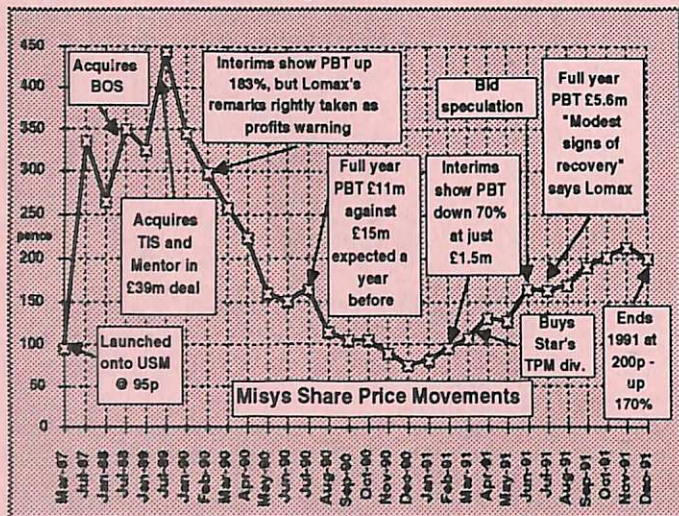
Then, you may well say "So what, all CSI companies have done badly recently". **NOT TRUE!** The best performers - both by EPS growth and share price increase - in the last year were such companies as **Electronic Data Processing, Sage and Micro Focus**. None of these companies had undertaken any acquisitions until recently. On a longer term basis, such companies as **Admiral, Hoskyns, Rolfe & Nolan and Macro 4** would lead. Again, none of these companies has been particularly active on the acquisitions front.

But there seems no sign of any reduction in CSI acquisition activity.



Misery ends for Misys

Exactly two years ago in Jan. 90 Misys Chairman, Kevin Lomax, warned that trading conditions would worsen and that his outlook was cautious. The market correctly interpreted this as a profits warning and the Misys share price, which had hit a high of 450p, started a long and sustained fall. A year ago, in Jan. 91, Misys announced a 70% dive in interim PBT to just £1.5m. At the time we predicted that the "Misery had ended for Misys". Latest results for the six months to 30th Nov. 91 indicate just that. Although revenues declined by 2% to £32.3m, PBT rose 136% to £3.59m and, more importantly for an acquisitive company, EPS was up 126%. The shares have been on the up for the whole of 1991 - indeed they were one of the Top Five best performing CSI stocks in 1991.



The major reason for the financial improvement is undoubtedly previous cost cuts - rather than a revival in sales. Indeed "demand remained at depressed levels with product sales experiencing further falls". The only business not to record a profit was TIS Ltd - the open systems hardware distributor previously run by Gordon Skinner which was acquired by Misys in May 89 for £26.5m. Here again "costs have recently been brought further in line with the depressed levels of demand which should allow a more satisfactory performance during the rest of the year".

It is probably difficult for Misys to cut costs too much more and therefore further profits growth must depend on a recovery in the market. Here Misys reports "encouraging trends in order intake in recent weeks".

At the same time as the interim figures, Misys announced a further three relatively small acquisitions (see page 7). Cash balances were £7.4m on 30th Nov 91 - up from £6.9m in May 91 - before the latest acquisitions.

Misys has been forced to concentrate on running its existing businesses over the last two years rather than continuing its previous frenetic acquisition activity - they had spent over £80m on acquisitions in the period June 88 to July 89. We feel that must be to the advantage of the Misys management team which had little previous CSI experience. A combination of a recovery in the market, further acquisitions and an increasingly competent management team puts Misys in a superb position to achieve its goal of becoming the most profitable UK CSI company.

Note - Richard Holway - the editor of *System House* - has been a non-executive director of several Misys companies, has advised the Misys board and is currently still a Misys shareholder.

Discomfort at Real Time Control

System House has, this month, for the first time included **Real Time Control (RTC)** in its results service and the CSI Index (replacing SD-Scicon). RTC specialises in EPOS systems for the retail sector. Back in Nov. 91, RTC said it had come to realise that "hardware was becoming a commodity" and that "business solutions are largely software oriented". We include RTC because, in its own words, it was establishing itself as a "major software and systems supplier" in an industry "that is rapidly adopting open systems".

RTC made PBT of £1.2m on revenues of £7.6m in the year to 31st Mar. 91 but this month announced a reversal in its fortunes. In the six months to 20th Sept 91, revenue dived 31% to £3m, PBT was down 23.3% at £507K and EPS declined 19.7%. But RTC was still profitable and still achieved an impressive profit margin of 17%. It does not take a genius to realise that the retail sector has not exactly been paken with gold in the last year and RTC's Chairman R Carrell is becoming increasingly concerned at the willingness and ability of retailers to continue to invest during "this prolonged and deep recession". US business remained very depressed and a small loss was made. However, 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, at this time, of producing a result for the full year in line with our record result for 1991 (£1.2m PBT)".

If they achieve that in today's climate, they will have done superbly. We will, as they say, wait and see....

Continued profits at Research Machines but...

It seems amazing that **Research Machines** is now the largest UK owned PC manufacturer. It's also amazing that they managed to continue to make a profit in the chill climate of 1991. Profit before tax for the year to 30th Sept. 91 was, however, down from £3.3m to £2.1m on static revenues of £62.2m. RM shipped over 42,000 units in 91. In line with recent pronouncements from other hardware manufacturers, we are told that "non-hardware" revenues at RM accounted for over 35% of the total. Indeed, FD Mike Greig, was reported as saying that service revenues "had experienced rapid growth (the R&A states growth at >100%) and is tipped for future expansion".

Cash balances increased from £1.9m to £3.5m.

Back in early 90, RM completed a share placing involving five City institutions (including Abingworth - 16%, Citicorp - 15%, 3i - 6%); valuing RM at around £20m. The largest shareholders are directors Mike Fischer (21%) and O'Regan (16%). RM made £2.3m PBT in 89 - somewhat higher than the latest results. We think that the educational market will prove to be increasingly tough for RM but their move to networking and service oriented activities could compensate for lower hardware margins. Indeed, Chairman Fischer sees "little sign of recovery from the recession...the company's budgets...do not assume there will be any real growth in the size of its main markets". But "the contribution to profits made by software and services will continue to rise".

The 1991 R&As shows an exceptional cost of £209K was incurred "in contemplation of a proposed listing on the Stock Exchange". It looks as if it could be a few years before the trading climate is right for an RM listing.

Cray

Electronics

We knew little about **Cray Electronics** until we had the opportunity to meet Roger Holland (Deputy Chairman) and Jon Richards (Group MD) this month. Their pedigree is, to say the least, impressive. They were founders of Miles 33, sold it to UEI for £27m in paper in 1987 and then saw the value of that paper rise rather well when Carlton Communications acquired UEI.

In 1989 they, together with Chairman Sir Peter Michael, took on Cray Electronics. At that time Cray had 41 business units - everything from video hire shops to loudspeaker manufacturers. More specifically it had a debt burden of £48m and was about to report losses of £2.8m (year to 30th April 90).

Since then they have distilled Cray down to just four operating divisions. Telecomms, Instruments, Defence and Software Systems. In the year to 30th April 91, PBT of £3.5m was achieved and this greatly improved position was retained at the half year to 31st Oct 91. Debt has been reduced from £48m to £21m. Gearing has reduced from around 240% to under 100%.

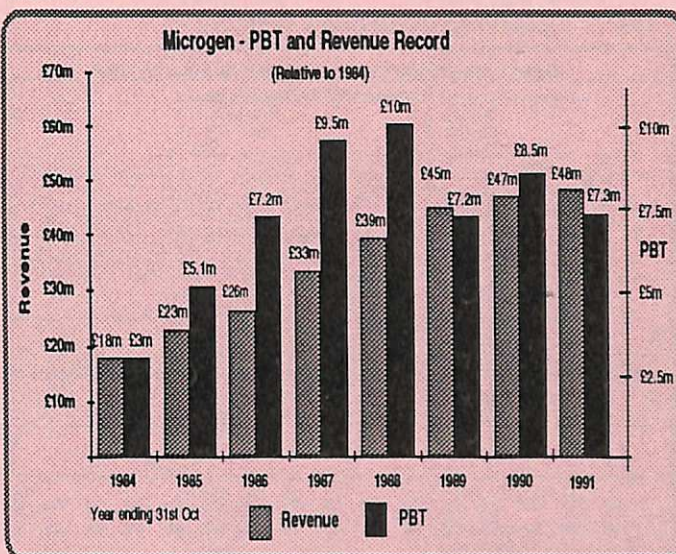
It is clearly the CSI division which interests *System House* readers. At present this is based around the Marcol activities led by ex-Software Sciences MD Mike Shone. Marcol, together with its operating subsidiaries Helix (c20%) and Avonicom (c15%), had sales of c£14m to April 91. Marcol has historically been strong in the space market. It is now launching a new UNIX based accounting product - FourGen - into the UK.

In May 1991, Cray put SD-Scicon into play with a 37p per share bid valuing SD at around £100m. Perhaps the fact that they didn't win - at any price - is to their credit. But the exercise did cost them a net £400K. We must expect a major CSI acquisition in the next year. Indeed, if that doesn't happen we wonder how the impressive new Cray management team is going to occupy its time - now that the "old" Cray businesses have been saved. We would agree with the Charterhouse Tilney comment that "any team that was capable of saving Cray from extinction should be able to handle most eventualities".

The new Cray management has an aggressive EPS growth/share price related incentive plan. We rather like these kinds of schemes as the shareholders tend to benefit as well as the directors. The maximum gain for the management comes if EPS of 16p (last year 2.5p) is achieved by April 93; implying a share price of 200p (currently 69p). The management would then hold c20% of the equity. That really means that a major acquisition has to be made; but it will not be in the management's interests unless it has a significantly beneficial short term effect on EPS. Cray was rumoured as a possible bidder for Dowty IT, but we understand that this will not be progressed. The problem for Cray is that other large UK CSI acquisition targets are becoming increasingly scarce. Having met the Cray management, we would suspect that the goals they have agreed to are deadly serious. Readers should watch Cray with equal seriousness.

Troubled times for Microgen

Microgen, the typesetting, microfilm and laser printing computer bureau, had its heyday in 1988 - making PBT of £10m on revenues of £39m. Since then, they have disposed of several of their businesses (UK Equipment and Supplies in June 90 and similar operations in Sweden for £1.4m in Nov. 91), their MD was jailed for a £800K fraud against the company, Chairman, Patrick Barbour (who forecast "solid, sustained growth" just a year ago) was replaced by Douglas Lee and the financial results have been on a downward track.



Latest results for the year to 31st Oct. 91 show revenues largely unchanged at £47.7m but PBT down 14% at £7.3m and EPS down 10%. Chairman, Lee, said "Most of the reduction in profits is attributable to the UK company. Costs and capital expenditure had been allowed to run ahead of income generation during the recession in both the core businesses and new services". Operations in Scandinavia, "where the recession has been even more severe", were buoyed by Microgen's largest ever contract to take over the computer output department of a major Finnish bank in a deal expected to be worth £3m pa. "The German operation has had a very good year".

Microgen is yet another CSI company plagued with unwanted, but costly, office space. Unoccupied premises are currently costing £525K pa.

As to the future, Lee believes that the rationalisation measures (which cost £300K this year) will "restore Microgen to a sustainable growth pattern once the current recession eases". As readers will know, we have our doubts about the long term viability of COM services. But many conventional FM companies know there is good money in managing outgoing technologies. Perhaps, now that costs have been cut, this will result in a short term profits improvement for Microgen.

Hoskyns to lose the Griffiths brothers

Hoskyns directors, Peter Griffiths (Group Marketing Director) and his brother David are leaving Hoskyns to move to the US. They formed the **Instruction Set** (Inset), which was considered to be the leader in UNIX training, in 1984. In 1989, Inset was acquired by Hoskyns for "up to £12.2m in shares" which were then quoted at around 230p; share price now 400p and guaranteed to be 469p in early 1993. We expect more amicable "retirements" from the increasingly rich Hoskyns management team in the next couple of years.

"Double bottom" for CSA Trend Survey

The rate of change in staff numbers in the latest **CSA Business Trend Survey** clearly shows a "double bottom". "The rise in optimism which followed the end of the Gulf War in 1991 was short-lived and was replaced by uncertainties in the major economies around the world, the very bad figures returned by many large computer manufacturers and the uncertainty in the UK about the outcome of the impending General Election. All these factors are bad for business in general and certainly reduces the inclination of prospective clients to invest in new or replacement computer systems".

Mean percentage change in staff number in CSA companies by quarters



The CSA Business Confidence survey, however, shows that 64% of CSA members still believe that their business will improve in the next year against just 5% who think it will get worse. The problem is that in every quarterly survey for the last two years the vast majority - 70%+ - of CSA members thought their business would improve. In every survey except one, less than 10% believed their business would get worse. One could put forward the argument that it is this lack of realism amongst CSI companies that has caused many of the failures and delayed essential cost-cutting. The CSA survey shows that the Recruitment and Contract Staff sectors were the hardest hit.

Good and bad news from NMW

On 31st Jan. 91 Brian Bibby, the Chairman of **NMW Computers**, wrote to shareholders - as he has always done at this time of year - to give them an update on the company. He confirmed that his warnings, contained in his interim statement, were well founded. Lower Stock Market activity and delayed investment decisions had restricted progress in the second half. A profit is still expected for the full year.

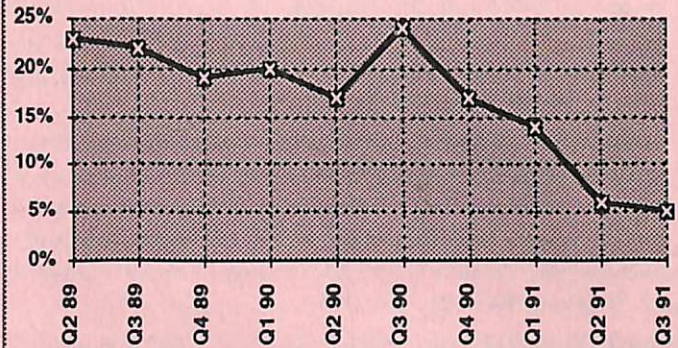
NMW undertook their first acquisition in 1991 - the purchase of IBM AS/400 agent Charterhouse. This adds solicitors, insurance and debt systems to the product portfolio. Although "considerable investment in cash and staff resources has been required to complete the product development" the products "have now been successfully installed... following sales to major organisations". In NMW's System Management Division "nine new customers have been added during the year covering both FM and Crisis Management".

Bibby says that the cost savings of £1m implemented in Q4 and the significant profit contribution expected from Charterhouse will "have a significant effect on financial performance in 1992". Note: Richard Holway - the editor of *System House* - is a non executive director of NMW.

Government statistics show continued UK downturn but major growth in overseas billings

The latest statistics from the DTI show a continued downturn in growth rates for the UK computing services industry; just 5% in Q3 1991. This is the fourth consecutive quarter in which growth has declined.

CSO Business Monitor - Computing Services Growth Rates



This time, all the main revenue earning areas have been hit with hardware sales particularly badly effected - down 20%. Both consulting and software products showed 4% reductions.

All figures £000	1991 3rd Quarter	Increase %	1990 3rd Quarter
BUREAU SERVICES			
Database services	49,695	7	46,473
Value added network serv.	37,255	5	35,585
Other services	120,243	6	113,973
TOTAL BUREAU SERVICES	207,193	6	196,031
SOFTWARE			
Custom software	188,798	11	169,650
Semi-custom software	8,168	-1	8,247
Software Products	130,867	-4	135,822
Software Support & Maint.	66,208	24	53,605
TOTAL SOFTWARE	394,041	7	367,324
HARDWARE			
Hardware	73,246	-20	91,965
Hardware Maintenance	28,423	8	26,380
TOTAL HARDWARE	101,669	-14	118,346
PROFESSIONAL SERVICES			
Consulting	104,688	-4	109,053
Education & Training	24,213	-2	24,779
Other unclassified	96,572	35	71,545
TOTAL PROFESSIONAL SERVICES & OTHER	225,473	10	205,377
TOTAL BILLINGS	928,376	5	887,078

Software support and maintenance - as companies as diverse as Sage and FI Group have shown - was one of the few areas to show significant growth. An encouraging trend is the continued increased billings to foreign clients - up a massive 35%. These now apparently represent 11% of total billings. However, if these foreign earnings are stripped out, UK billings grew by under 2%.

On a more optimistic note....

Fraser & Russell's survey of 1000 UK companies found that 40% expected to increase expenditure on hardware but 54% expected to increase software spend in 1992. We, however, repeat our forecast that CSI revenues will rise by a modest 5% in 1992 - but that's better than the single digit fall we predict for 1991.

Richard Holway Results Service

Admiral plc	Results Revenue PBT EPS	Interim - Jun 90 £ 9,785,000 £ 1,511,000 9.1p	Final - Dec 90 £21,207,000 £3,276,000 19.4p	Interim - Jun 91 £ 11,686,000 £ 1,667,000 10.3p	Interim Comparison +19.4% +10.3% +13.2%
ACT plc	Results Revenue PBT EPS	Interim - Sep 90 £ 46,162,000 £ 5,364,000 4.01p	Final - Mar 91 £ 98,831,000 £ 12,706,000 9.5p	Interim - Sep 91 £ 52,588,000 £ 7,648,000 5.13p	Interim Comparison +13.9% +42.6% +27.9%
Capita plc	Results Revenue PBT EPS	Interim - Jun 90 £ 9,167,000 £ 956,000 5.9p	Final - Dec 90 £20,072,000 £2,512,000 13.7p	Interim - Jun 91 £ 11,104,000 £ 1,382,000 7.1p	Interim Comparison +21.1% +44.6% +20.3%
Computer People plc	Results Revenue PBT EPS	Interim - Jun 90 £ 38,988,000 £ 2,138,000 11.25p	Final - Dec 90 £ 76,170,000 £ 3,106,000 16.42p	Interim - Jun 91 £ 34,834,000 £ 669,000 3.53p	Interim Comparison -10.7% -68.7% -68.6%
Cray Electronics Holding plc	Results Revenue PBT EPS	Interims - Oct 90 £ 53,406,000 £ 788,000 0.54p	Final - Apr 91 £ 107,286,000 £ 3,509,000 2.5p	Interims - Oct 91 £ 40,044,000 £ 1,261,000 0.83p	Interim Comparison -25.0% +60.0% +53.7%
EIT Group plc (was Maxiprint)	Results Revenue PBT EPS	Interim - Sep 90 £ 200,000 (£ 128,000) n/a	Final - Mar 91 £ 485,000 (£ 246,000) (0.083p)	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	Final - Sept 90 £16,645,000 £2,100,000 17.38p		Final - Sep 91 £ 17,420,000 £ 4,083,000 32.83p	Final Comparison +4.7% +94.4% +88.9%
Enterprise Computer plc (was Systems Reliability plc)	Results Revenue PBT EPS	Interim - Jun 90 £ 95,345,000 £ 5,012,000 6.25p	Final - Dec 90 £ 183,149,000 £ 7,532,000 7.4p	Interim - Jun 91 £ 89,965,000 (£ 4,775,000) (6.59p)	Interim Comparison -5.6% Profit to Loss Profit to Loss
Gresham Telecomputing plc	Results Revenue PBT EPS	Interim - Mar 90 £ 1,232,000 (£ 44,000) (0.99p) NOTE: THESE FIGURES	Final - Sept 90 £ 2,101,000 (£ 103,000) (16.47p) ONLY RELATE TO	Interim - Mar 91 £ 732,000 (£ 79,000) (1.26p) TELECOMPUTING PLC	Interim Comparison -40.6% Loss both Loss both
Hoskyns Group plc	Results Revenue PBT EPS	Final - Oct 90 £223,263,000 £17,253,000 13.0p		Final - Oct 91 £ 200,663,000 £ 14,299,000 10.5p	Final Comparison -10.1% -17.1% -19.2%
INSTEM plc	Results Revenue PBT EPS	Interim - Jun 90 £ 5,349,000 £ 505,000 7.07p	Final - Dec 90 £11,154,000 £ 1,005,000 14.0p	Interim - Jun 91 £ 7,870,000 £ 507,000 7.21p	Interim Comparison +47.1% +0.4% +2.0%
Kalamazoo plc	Results Revenue PBT EPS	Final - Jul 90 £ 62,221,000 £ 1,074,000 2.2p		Final - Jul 91 £ 61,149,000 £ 3,660,000 7.0p	Final Comparison -1.7% +240.8% +218.2%
Kewill plc	Results Revenue PBT EPS	Interim - Sept 90 £15,924,000 £1,513,000 11.38p	Final - Mar 91 £ 31,298,000 £ 3,731,000 29.43p	Interim - Sept 91 £ 21,459,000 £ 1,685,000 12.60p	Interim Comparison +34.8% +11.4% +10.7%
LBMS plc	Results Revenue PBT EPS	Interim - Oct 90 £ 9,643,000 (£ 618,000) (3.4p)	Final - Apr 91 £ 19,485,000 (£ 1,701,000) (10.5p)	Interim - Oct 91 £ 10,051,000 (£ 281,000) (1.7p)	Interim Comparison +4.2% Loss both Loss both
Logica plc	Results Revenue PBT EPS	Final - Jun 90 (Amended) £ 190,819,000 £ 8,822,000 8.7p		Final - Jun 91 £ 197,758,000 £ 3,676,000 (1.6p)	Final Comparison +3.6% -58.3% Profit to Loss
Logitek plc	Results Revenue PBT EPS	Interim - Sept 89 £18,723,000 £1,310,000 6.69p	Final - Mar 90 £29,580,000 £3,833,000 16.27p	Interim - Sept 90 £33,103,000 £145,000 0.52p	Interim Comparison +76.8% -88.9% -92.0%
Macro 4 plc	Results Revenue PBT EPS	Final - June 90 £14,775,000 £7,353,000 20.6p		Final - Jun 91 £ 18,028,000 £ 7,647,000 23.0p	Final Comparison +22.0% +4.0% +11.7%
Micro Focus plc	Results Revenue PBT EPS	Interim - Jul 90 £ 23,337,000 £ 7,633,000 33.0p	Final - Jan 91 £ 46,382,000 £ 13,549,000 63.5p	Interim - Jul 91 £ 25,387,000 £ 8,961,000 41.1p	Interim Comparison +8.8% +17.4% +24.6%
Microgen plc	Results Revenue PBT EPS	Final - Oct 90 £47,115,000 £8,504,000 13.5p		Final - Oct 91 £ 47,735,000 £ 7,283,000 12.2p	Final Comparison +1.3% -14.4% -9.6%
Microvitac plc	Results Revenue PBT EPS	Interim - Jun 90 £ 11,236,000 (£ 2,143,000) (5.2p)	Final - Dec 90 £ 23,444,000 (£ 2,415,000) (6.2p)	Interim - Jun 91 £ 12,484,000 (£ 2,212,000) (4.8p)	Interim Comparison +11.1% Loss both Loss both

Richard Holway Results Service

Miaya plc	Results Revenue PBT EPS	Interim - Nov 90 £ 33,091,000 £ 1,521,000 3.1p	Final - May 91 £ 67,253,000 £ 5,626,000 11.5p	Interim - Nov 91 £ 32,304,000 £ 3,585,000 7.0p	Interim Comparison -2.4% +135.7% +125.8%
MMT plc	Results Revenue PBT EPS	Final - Aug 90 £ 7,524,390 £ 1,865,165 10.4p		Final - Aug 91 £ 5,920,484 £ 1,256,967 6.8p	Final Comparison -21.3% -32.6% -34.6%
NMW Computers plc	Results Revenue PBT EPS	Interim - Jun 90 £ 4,423,000 £ 210,000 0.6p	Final - Dec 90 £ 8,726,000 £ 413,000 1.3p	Interim - Jun 91 £ 4,977,000 £ 278,000 0.9p	Interim Comparison +12.5% +32.4% +50.0%
P & P plc	Results Revenue PBT EPS	Interim - May 90 £ 109,400,000 £ 6,800,000 10.9p	Final - Nov 90 £ 223,787,000 £ 13,117,000 18.5p	Interim - May 91 £ 120,700,000 £ 3,300,000 3.9p	Interim Comparison +10.3% -51.5% -64.2%
P-E International plc	Results Revenue PBT EPS	Interim - Jun 90 £ 32,381,000 £ 2,753,000 10.3p	Final - Dec 90 £ 65,013,000 £ 4,214,000 15.0p	Interim - Jun 91 £ 33,565,000 £ 1,833,000 6.7p	Interim Comparison +3.7% -33.4% -35.0%
Pegasus plc	Results Revenue PBT EPS	Final - July 90 £13,039,000 £2,554,000 30.4p		Final - Jul 91 £ 8,493,000 £ 1,669,000 19.9p	Final Comparison -34.9% -34.7% -34.5%
Proteus plc	Results Revenue PBT EPS	Interim - Sep 90 £ 0 (£ 520,000) (2.44p)	Final - Mar 91 £ 7,000 (£ 1,802,000) (7.01p)	Interim - Sep 91 £ 2,000 (£ 1,273,000) (5.92p)	Interim Comparison n/a Loss both Loss both
Radius plc	Results Revenue PBT EPS	Interim - May 90 £ 14,521,000 £ 1,394,000 3.2p	Final - Nov 90 £29,902,000 £2,820,000 6.48p	Interim - May 91 £ 14,708,000 £ 801,000 1.71p	Interim Comparison +1.3% -42.5% -46.6%
Real Time Control plc	Results Revenue PBT EPS	Interim - Sep 90 £ 4,359,000 £ 661,000 6.1p	Final - Mar 91 £ 7,571,000 £ 1,199,000 10.9p	Interim - Sep 91 £ 3,002,000 £ 507,000 4.9p	Interim Comparison -31.1% -23.3% -19.7%
Rolfe & Nolan plc	Results Revenue PBT EPS	Interim - Aug 90 £ 2,969,000 £ 661,000 8.0p	Final - Feb 91 £ 6,298,000 £ 1,446,000 17.7p	Interim - Aug 91 £ 3,277,000 £ 704,000 8.5p	Interim Comparison +10.4% +6.5% +6.3%
Sage Group plc	Results Revenue PBT EPS	Final - Sept 90 £13,359,000 £4,731,000 18.6p		Final - Sep 91 £ 20,002,000 £ 6,638,000 25.5p	Final Comparison +49.7% +40.3% +37.1%
Sanderson Electronic plc	Results Revenue PBT EPS	Final - Sept 90 £14,259,000 £3,302,000 24.8p		Final - Sep 91 £ 20,503,000 £ 2,403,000 19.2p	Final Comparison +43.8% -27.2% -22.6%
Sema Group plc	Results Revenue PBT EPS	Interim - Jun 90 £ 189,921,000 £ 7,185,000 4.5p	Final - Dec 90 £375,410,000 £15,331,000 10.5p	Interim - Jun 91 £ 200,869,000 £ 6,566,000 4.7p	Interim Comparison +5.8% -8.6% +4.4%
Sherwood Group plc	Results Revenue PBT EPS	Interim - Jun 90 £ 12,336,000 £ 850,000 8.7p	Final - Dec 90 £ 24,785,000 £ 1,992,000 17.0p	Interim - Jun 91 £ 12,139,000 £ 575,000 6.6p	Interim Comparison -1.6% -32.4% -24.1%
Star plc	Results Revenue PBT EPS	Final - June 90 £13,567,000 (£1,995,000) (27.2p)		Final - Jun 91 £ 13,700,000 (£ 886,000) (12.6p)	Final Comparison +1.0% 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)	Interim - Jan 91 £ 5,211,000 (£ 974,000) (27.6p)	Interim Comparison +11.5% Loss both Loss both
Total Systems plc	Results Revenue PBT EPS	Interim - Sep 90 £ 966,765 £ 19,949 0.13p	Final - Mar 91 £ 2,041,384 £ 102,768 0.74p	Interim - Sep 91 £ 1,285,264 £ 351,002 2.38p	Interim Comparison +32.9% +1659.5% +1730.8%
Trace plc	Results Revenue PBT EPS	Final - May 90 £13,933,504 £1,807,644 10.49p		Final - May 91 £ 19,698,904 (£ 471,377) (2.04p)	Final Comparison +41.4% Profit to Loss Profit to Loss
Vistec Group plc	Results Revenue PBT EPS	Interim - Oct 90 £ 13,908,000 £ 78,000 0.04p	Final - Apr 91 £ 31,005,000 £ 1,763,000 0.95p	Interim - Oct 91 £ 14,271,000 £ 1,010,000 0.56p	Interim Comparison +2.6% +1194.9% +1300.0%

Acquisitions, disposals and liquidations

Buying resumes at Misys

On 8th Jan. 91 Misys - the most acquisitive CSI company in the four year period 1988-1991 - announced another three acquisitions:

- the hardware maintenance activities, with an annual contract base of £260K, of **Principality Systems** - one of the TIS VARs - for £235K.
- **Computer Management Services**, a supplier of construction industry systems which is complimentary to Misys' Mentor operation, from the receiver for £205K.
- **Innsite** for a total consideration of £3.55m, satisfied by a vendor placing, by Baring Brothers, of new Misys shares. Misys will also assume responsibility for £1.7m of Innsite's debts. Innsite, which specialises in hotel systems, was formed in 1981 by ADP Inc and was the subject of an MBO in Mar 87. They have systems installed in 1,150 hotels in the UK. In the year to Feb. 91 Innsite had revenues of £8m and made PBT of £662K. A significant proportion of this revenue derives from support. Unaudited accounts for the 40 weeks to 8th Dec. 91 show PBT of £539K. Innsite's MD and FD will both be leaving. **First Independent** acted as advisers to Innsite.

On the basis that small acquisitions rarely adversely effect overall performance, the latest Misys purchases look sensible and well timed.

Systematica calls in the receivers

Bournemouth based systems software company, **Systematica**, is the latest victim of the current hard times. Receivers Ernst & Young were appointed on 29th Jan. **IBM UK** had a 20% stake and had supported the company, which developed the Virtual Software Factory product, for some time. Venturelink was the other external investor to refuse to stump up more cash. The receiver is considering, amongst others, a management bid. In the year to 31st Mar. 90, Systematica had PBT of £268K on revenues of £2.9m.

Sligos marches into UK

The overseas rape of the UK computing services industry continued with the purchase of a 51% stake in **Nexus** by French, **Sligos**. Sligos had been unsuccessful earlier in 1991 in their bid for the **Signet** credit card processing bureau. Signet, which was owned by a consortium of banks including Nat. West, Midland, Lloyds and the Royal Bank of Scotland, was eventually purchased by **First Data Resources**; an "arm's length subsidiary" of **American Express**, for £146m.

Nexus was established in 1989 and provides services for ATMs and POS terminals in banks, building societies and other financial institutions. It forecasts 1991 revenues of £10.5m, profits in excess of £600K and "a year-on-year growth rate in excess of 40%". Sligos, owned by Credit Lyonnais, has revenues of c£320m. Nexus represents its first entry into the UK market.

We understand that the purchase valued Nexus at around £15m - that's good going for a two year old company. Nexus management had previously owned the majority of the equity with six institutions as minority shareholders. The sale of the 51% stake was shared equally by all shareholders.

Tell us the old, old story...

David Wilton of receivers Cork Gully blamed the collapse of **Denton's** - the largest Apricot distributor - on the acquisition of loss-making **KM Computing** in 1989. "Denton hoped to be able to turn it around and make it into something profitable, but it's been a bad couple of years". Denton's apparently owe £2.5m. Source - MicroScope 15th Jan. 92.

Sanderson acquires the rest of General Automation

Last month, **Sanderson Electronics** announced its first profits and EPS reversal with PBT of £1.74m for the year to 30th Sept. 91. Chairman, Paul Thompson, told the AGM that the company "continues to be restrained by the economic climate". He also announced the purchase of the remaining 45% stake in **General Automation** for \$350K in cash and the settlement of \$765K owed by GA Inc to Sanderson. GA reported PBT of £383K on revenues of £7.4m for the 15 months to 30th Sept. 91. £3.8m of this related to recurring hardware maintenance and software support services.

Others... **Ferranti Healthcare Systems Corp**, a US subsidiary of the UK group, has filed for Chapter 11. The company provides data centres and computer systems to hospitals and surgeries. It made an operating loss of £3.9m on revenues £5.4m. Ferranti Healthcare was formed on the acquisition of **Pentamation** in 1988 for \$16m. The current problem is said to relate to one unprofitable contract. Richard Jowitt, CEO at **EDP**, sold another 10,000 shares at 299p. Perhaps he should have waited - they ended Jan. 92 at 391p! Jowitt still owns 11.7%. **West Wiltshire District Council** has failed to find a buyer for its software operation and now intends to keep it after **Centre-file** and **Datasolve** pulled out at the last moment (allegedly). An MBO has been launched for **BTG** - a further 20 bids for the operation are being considered by the government. French **Interquad** has bought Novell distributor **Micro Macro** from the receivers. **Corporate Computers** (ex. of Enterprise) has sold its bespoke software division to its former Chairman - Gerry Redman. The new company is to be known as **Professional Software Development**. Barclays Bank has setup **Barclays Network Services** as a distinct business unit employing 400 staff. It will now start to offer services to external clients. DEC publishing house **Vista Publishing** has appointed the receivers following the collapse of parent **AGB Pergamon** - part of Maxwell Communications. Vista had revenues of £7m, 70 staff and 100 users. The business forms division of **Kalamazoo** has acquired the **Nu-Kote Group** for around £1m. Nu-Kote, which had revenues of c£5m in 1991, specialises in forms management, the "Copyvoid" security device and continuous forms. DEC has bought the remaining 35% of **Digital Kienzle Computersysteme GmbH** from **Mannesmann**. US **Ameritech** has bought **Dynix**, the developer of UNIX based library systems. Mail order company **MacBudget** has called in the receivers. Apple has been trying to stamp out this "grey" channel; which has been plagued with failures in recent years. **EDS (US)** has acquired **Energy Management Associates Inc**. **Techland Group** has acquired networking operation **PC Communications (PCC)** from the receivers. PCC was formed from an MBO from **Alphanumeric**; with backing from 3i. **BMW** has increased its stake in CASE company, **Softlab**, from 40% to 75%. PC supplier **Data Dynamics** which produced the Sygnet PC has appointed the receivers.

PCL acquires Alpha-Numeric

PCL Computer Services has acquired Alpha-Numeric for £1m. PCL's ownership has changed hands a number of times. PCL started in 1974 as a division of P&O, was the subject of an MBO in 1984, 51% was sold to Swiss Re in 1988 which was bought back in 1990. 3i is now the only external shareholder with 16%. PCL provides FM on IBM mid range systems together with products and services. Alpha-Numeric is an old established data prep bureau (remember them?) which has branched out into laser printing, telesales database systems etc. with revenues of around £7m. The combined turnover of the new group will be in the region of £14.5m and a "trading profit" of £800K is projected for 1992.

We understand that further acquisitions in the FM and data prep areas are planned with the active encouragement of 3i. A float onto the Stock Exchange is planned in the next five years.

The strange Proteus story

Whilst everyone else in the industry struggles to increase profits and revenue, it seems strange to quote a Chairman who is "pleased" to report an increased loss of £1.3m on revenues of just £2K compared with a loss of £520K last time. It seems even stranger when the shares of the company have recently rocketed from under 80p to a high of 223p. But that's exactly the story for Proteus International for the six months to 30th Sept. 91.

Proteus has developed a computer molecular modelling system called Prometheus. When they launched onto the Stock Exchange, in May 90, they had planned to market the software product and projected £5.1m revenue for the first year. However, they changed this policy in favour of collaborations with pharmaceutical companies where Proteus will share in the financial rewards which a successful new drug could provide.

There are now many on-going collaborations; 11 are listed in the Chairman's statement. But it was the announcement of a possible vaccine and treatment for AIDS - in collaboration with Repligen - that sent the share price into the stratosphere.

Chairman, Kevin Gilmore, says "the current year will be an exciting and rewarding one... as negotiations reach fruition and our planned income generation begins".

The concept of sharing in the financial success that your software product can provide for the user, rather than generating revenue from direct sales, has been talked about on many occasions but rarely put into practice. Perhaps CSI companies should revisit the idea as in "We'll implement our production control software free but we want 10% of the annual savings you make".

Indian software house opens in UK

HCL, which was founded in India in 1977 and now has 7,000 employees, has opened HCL Europe with its headquarters in Marlow. HCL specialises in UNIX systems and claims "over 1000 software consultants worldwide working on major UNIX and database projects". HCL America was only formed in 1988 and now has revenues exceeding \$25m.

John Louth, previously International VP at Sybase, heads HCL Europe, owns 35% of the equity and forecasts "rapid growth". He forecasts £500K business this year.

ACT launches Network Si

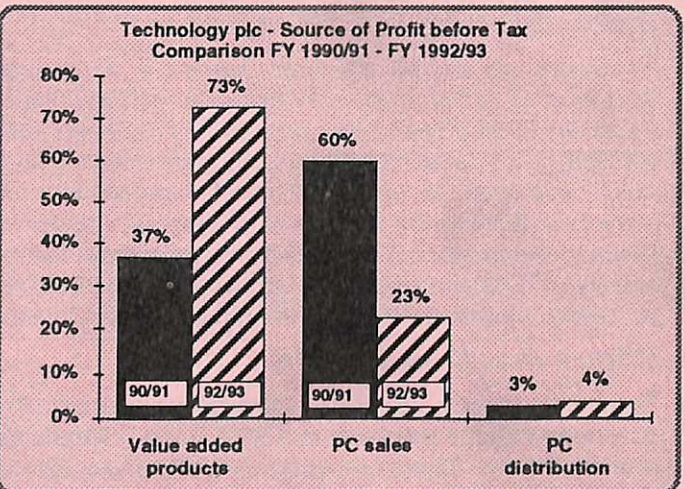
ACT has launched a new subsidiary to implement and manage complex networks. Network management is reported to be one of the fastest growth areas in the sector - with revenues increasing by 24% pa according to the Yankee Group. Deals worth £10m are forecast for the first year of operation for the 45-strong company. Another ACT company, Logsys, already has sales of £30m in the central government arena. With well timed moves like this, we can only repeat our prediction that ACT will become the most profitable UK CSI company with analysts forecasting PBT of £17.5m in the year to 31st Mar. 92.

Technology plc - winning against the odds

News that Technology plc had increased PBT by 51% to £5.3m on static revenues of £130m for the year to 30th June 91 were extensively reported in the national trade press this month. System House readers are *not* suffering from *deja vu* - we reported this in our Aug. 91 edition.

We met CEO Derek Lewis and his fellow executive directors this month and were greatly impressed. Their MBO from MBS has landed them in the record books as the greatest turnaround from loss to profit on record. MBS's product sales division lost around £20m in 1988 but managed a profit of £3.5m in its first trading year as Technology plc.

Lewis is keen to stress the move from box shifting to systems integration. His Chairman's statement, bravely, forecasts the split of profits in two years time as follows:



If he can achieve this change, the value of Technology will be boosted greatly; to the benefit of both the employee shareholders and Schroder Ventures, which holds 73% of the ordinary shares.

The strong performances of companies like Technology and rivals such as Specialist Computer undermine the moaning of many in the industry who say that their lack of profits is because of poor market conditions. Good, strong management wins against the odds, time and time again.

BICC Data Networks falls to 3Com

Yet another UK owned IT company has been purchased by an overseas operation. BICC Data Networks is to be acquired by 3Com Corp for \$25m (£13.8m) plus 500K (1.6%) 3Com shares. The BICC subsidiary employs 250 staff, had sales last year of \$75m and "was profitable". 3Com is about 5-times larger with 1991 revenues of c\$400m. The acquisition provides 3Com with an immediate strong presence in Europe. Source - FT 28th Jan. 92.

Stock Market

We have changed the way we present the performance of CSI companies on the Stock Exchange by combining the three previous tables into one. This allows us more space for further news comment. We have also added **Real Time Control** to the index in place of **SD-Scicon** (which is no longer quoted since it was acquired by EDS).

This month the CSI Index continued to race ahead - up 12.5% in the month against a rise of only 3.1% in the FTSE 100. That's a massive 66% rise since 1st Jan. 91.

EIT saw the largest increase - up 42%. EIT has spent the month engaged in extensive PR to support the recent two acquisitions and the share placing. **Micro Focus** was up **another 40%** due to renewed US buying - the shares have risen by over ten times since our index began in Apr. 89. **EDP** also did extremely well - up 38% - on recent excellent results. A year ago the shares stood at 73p - they ended Jan. 92 on £3.99. **Microvitec** also put on 31%. Brokers Henry Cooke Lumsden estimate losses for the year to 31st Dec. 91 to be around £3.5m but expect PBT of £2.5m in 92. The deal with Electrohome should contribute £1m of these profits. Super **Sage** were up another 26%.

Conversely, **Kewill** plunged 38% on a profits warning concerning problems with Weigang (see p 10). **Computer People** was down 22% - their contract staff and recruitment operations have been the worst effected sectors in the

current recession. **Real Time Control** was down 19% on disappointing results (see p 2).

Sema lost another 9% this month. **ACT** (£216m) has now overtaken **Sema** (£178m) as the third most highly capitalised UK CSI company; after **Hoskyns** (£372m) and **Micro Focus** (£295). **Sema** had been valued as high as £480m in 1990 when bid speculation was rife. Given the £162m paid by EDS for loss-making **SD-Scicon**, at £178m profitable **Sema** could well become a target again.

Computing Services Index 31st January 1992

April 15th 1989 = 1000

1175.37

Changes in Indices	CSI Index	FTSE 100
Month 31st Dec. 91 to 31st Jan. 92	12.49%	3.13%
33 months 15 Apr. 89 to 31st Jan. 92	17.54%	25.20%
1st Jan 90 to 31st Jan 92	27.74%	8.86%
1st Jan 91 to 31st Jan. 92	66.04%	19.01%

System House CSI Share Prices and Capitalisation

	Share Price 31/1/1992 (£p)	Capitalisation 31/1/1992 (£m)	Historic P/E	CSI Index 31/1/92	Share price % move since 31/12/91	Share price % move this year	Capitalisation move (£m) since 31/12/91	Capitalisation move (£m) this year
ACT	£ 1.66	£ 215.80	17.47	2657.06	9.21%	9.21%	£ 29.90	£ 29.90
Admiral	£ 3.00	£ 32.20	15.46	2173.91	0.33%	0.33%	-£ 0.10	-£ 0.10
Capita	£ 3.00	£ 44.73	21.90	3000.00	14.50%	14.50%	£ 5.43	£ 5.43
Computer People	£ 0.90	£ 12.50	5.48	370.37	-21.74%	-21.74%	-£ 3.50	-£ 3.50
Cray Electronics	£ 0.67	£ 71.00	26.80	391.81	3.08%	3.08%	£ 3.10	£ 3.10
EIT Group	£ 0.17	£ 5.43	Loss	680.00	41.67%	41.67%	£ 0.05	£ 0.05
Electronic Data Processing	£ 3.99	£ 34.66	12.15	4071.41	38.06%	38.06%	£ 9.66	£ 9.66
Enterprise	£ 0.19	£ 13.05	2.50	148.00	15.63%	15.63%	£ 0.65	£ 0.65
Gresham Telecomputing	£ 0.09	£ 2.87	Loss	96.77	0.00%	0.00%	£ 0.00	£ 0.00
Hoskyns	£ 4.06	£ 372.04	38.67	1980.48	2.78%	2.78%	£ 12.54	£ 12.54
INSTEM	£ 0.82	£ 3.69	5.86	820.00	9.33%	9.33%	£ 0.32	£ 0.32
Kalamazoo	£ 0.48	£ 8.85	6.86	1371.43	1.05%	1.05%	£ 0.47	£ 0.47
Kewill	£ 1.95	£ 18.60	6.63	770.75	-38.10%	-38.10%	-£ 11.50	-£ 11.50
Learmonth & Burchett	£ 0.59	£ 7.86	Loss	491.67	1.72%	1.72%	£ 0.13	£ 0.13
Logica	£ 2.00	£ 122.61	Loss	547.95	3.63%	3.63%	£ 4.31	£ 4.31
Macro 4	£ 3.79	£ 84.37	16.48	1528.23	0.00%	0.00%	£ 0.87	£ 0.87
Micro Focus	£ 21.65	£ 295.06	34.09	10458.93	39.86%	39.86%	£ 92.66	£ 92.66
Microgen	£ 1.52	£ 58.86	12.46	649.57	-5.59%	-5.59%	-£ 3.44	-£ 3.44
Microvitec	£ 0.19	£ 12.21	Loss	463.41	31.03%	31.03%	£ 3.23	£ 3.23
Miays	£ 2.08	£ 75.16	18.09	517.41	2.46%	2.46%	£ 5.96	£ 5.96
MMT	£ 0.83	£ 8.81	12.21	494.05	0.00%	0.00%	£ 0.00	£ 0.00
NMW	£ 0.38	£ 7.86	29.23	633.34	0.00%	0.00%	£ 0.21	£ 0.21
P&P	£ 0.40	£ 22.20	2.16	179.37	0.00%	0.00%	£ 0.60	£ 0.60
P-E International	£ 1.16	£ 25.34	7.73	477.37	-7.20%	-7.20%	-£ 1.96	-£ 1.96
Pegasus	£ 1.70	£ 10.39	8.54	463.22	13.33%	13.33%	£ 1.22	£ 1.22
Proteus	£ 1.97	£ 44.16	Loss	2345.23	15.88%	15.88%	£ 6.06	£ 6.06
Radius	£ 0.38	£ 10.30	5.86	275.36	-2.56%	-2.56%	-£ 0.30	-£ 0.30
Real Time Control	£ 0.83	£ 5.81	7.61	1693.88	-19.42%	-19.42%	-£ 1.40	-£ 1.40
Rolfe & Nolan	£ 1.94	£ 10.90	10.96	2291.70	1.04%	1.04%	£ 0.00	£ 0.00
Sage Group	£ 4.18	£ 83.71	16.39	3215.38	25.53%	25.53%	£ 17.81	£ 17.81
Sanderson	£ 1.14	£ 10.03	5.94	485.11	-7.32%	-7.32%	-£ 0.77	-£ 0.77
Sema Group	£ 1.98	£ 179.97	18.86	622.64	-8.76%	-8.76%	-£ 18.23	-£ 18.23
Sherwood	£ 1.50	£ 7.87	8.82	1250.00	11.94%	11.94%	£ 0.94	£ 0.94
Star	£ 0.23	£ 1.57	Loss	191.67	0.00%	0.00%	£ 0.00	£ 0.00
Total	£ 0.40	£ 4.00	54.05	754.73	17.65%	17.65%	£ 0.60	£ 0.60
Trace	£ 0.35	£ 4.77	Loss	280.00	-2.78%	-2.78%	-£ 0.10	-£ 0.10
Vistec	£ 0.15	£ 17.06	15.79	655.56	11.11%	11.11%	£ 1.76	£ 1.76

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; in other words a change in the share price of the largest company has the same effect on the index as a similar change in the share price of the smallest company

Overseas software and services results

How can US companies announce results to 31st Dec. 91 within a fortnight whereas we have to wait up to three months for UK results? **Borland** announced Q3 profits up 10% at \$7.54m on revenues down 7% at \$115m. But the **Ashton-Tate** acquisition took its toll at the EPS level - which remained static. Phillippe Kahn, who holds all the top titles at Borland said "We are pleased with how quickly we have assimilated Ashton-Tate's people, products and technology worldwide". That's a bit rich considering they seem to have dumped most of the people, products and technology.

Microsoft continues to power ahead with profits up 55% in Q4 (to 31st Dec. 91) to \$175m on revenues up 48% at \$682m. Strong demand for Windows (shipments now exceed 9m copies!) and Windows based application products ensured that Microsoft bucked the downturn in the PC market. **Oracle** reported Q2 profits of \$13.6m compared with a loss of \$1.3m on sales up 11% at \$284m. Oracle UK sales rose even more - by 15% to £25.3m. **Novell** made profits of £162m to 26th Oct 91 - up 72% on the previous year. **Automatic Data Processing (ADP)** reported Q2 profits up 13% at \$60m on revenues 6% higher at \$449m. **Computer Associates** reported Q3 profits up 25% at \$76m and revenues up 19% at \$455m. **Software Publishing (SPC)**, which acquired UK **Precision Software** in May 91, reported sales down 4% at \$41.1m and profits down 36% at \$4.1m in Q1. As Precision had sales of £2.7m, this reduction is a little concerning. **Lotus Development** reported better than expected Q4 results with revenues up 32% at \$249m but reduced profits of \$5.8m.

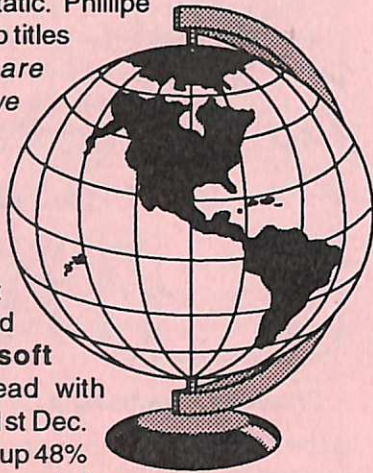
Manufacturers continue move to services

IBM announced its first revenue decline since 1947 (down 6% at \$64.8b) and a massive \$2.8 billion loss for the year to 31st Dec. 91. John Akers described this as "disappointing". Computer hardware sales declined by 11% but **service revenues grew by 35%** and now represent 43% of annual revenues. Q4 software revenues rose 8.5% to \$3.4b.

It was also announced that IBM had won a £1.3m FM deal with Winchester DHA and, rather perversely, that it was to "promote **Telecom Capita's FM business...because it admits it cannot succeed on its own**". Source CW 30th Jan. 92.

DEC's Q2 losses were even larger than expected - \$138m against profits of \$111m in the same period last year. Revenues were up just 4% at \$3.48b. Readers take note that "equipment sales were flat although the **software and services business continued to grow**" according to DEC president Ken Olsen. Geoff Shingle's says that services revenues at DEC UK now exceed 50%.

Bull UK cut 150 jobs but, at the same time, announced the establishment of a new system integration activity in Scotland, involving 100 new jobs, as part of a move away from hardware towards "software services and systems integration".



Profits warning from Kewill

Two months ago **SystemHouse** interpreted **Kewill's "press release speak"** as indicating that they were having serious problems with **Weigang**; their latest acquisition in Germany. Kewill purchased Weigang in May 91 for £400K in cash plus £400K in future profit related payments. Weigang develops and distributes UNIX based manufacturing software throughout Germany. Although Weigang had made a loss of £300K on revenues of £5.7m in the six months to Dec. 90, the Kewill directors said, at the time, that they believed Weigang will "achieve satisfactory profitability in the current year".

However, on 8th Jan., they put out an announcement warning that "problems being experienced in Germany will have a significant adverse effect on the group's profit performance". Since the end of Sept. 91 Kewill said there had been a decline in the value of orders taken at Weigang "which will particularly affect the final quarter of the financial year". The fair value adjustments made to cover the reorganisation costs will be insufficient to cover Weigang's losses in the current financial year. They had warned several months ago that benefits accruing from the 40% cut in Weigang's staff numbers would not be experienced until the next financial year. They now repeat that point, but add that Weigang will have a significant adverse effect on group profits in the year to 31st Mar. 92; cutting at least £1m from PBT this year. Analysts are expecting PBT of around £2m for the year to 31st Mar. 92 compared with £3.7m in 91.

Kewill said that its operations in the UK, US, Austria and the Netherlands continued to perform "satisfactorily".

We cannot feign surprise but we do express deep disappointment. Kewill has had an exemplary track record - no EPS reversals and strong, steady growth. It even looked as if their new acquisition policy was sensibly based. With **Micro-MRP** (US Dec. 89 - £3.4m) and **Han Dataport** (Austria Mar 90 - £8.4m) Kewill seemed to have avoided the dreaded acquisition indigestion. We were more concerned about the £9.2m of "acquired software and IPRs" that had been capitalised. But now it seems the smallest and most recent acquisition will put that previously excellent record into reverse. *What a crying shame.*

Kewill shares plummeted on the day of the announcement - falling 133p from a 12 month high of 318p to 185p; surely an over reaction?

Pegasus buys - Morton sells

Pegasus has acquired **Stockforms Ltd** for an initial £390K in shares plus a further 61K Pegasus shares in each of the next three years. In the year to 31st Aug. 91, Stockforms made PBT of £149K on revenues of £934K. Stockforms trades as Inform and supplies standard business forms. Pegasus' own supplies business has revenues of £2.2m.

Pegasus also said it had made a slow start to the year. There had been "an improvement in the level of activity in the second quarter and sales in Jan. were ahead of the same month last year". Pegasus had reported PBT down 35% to £1.7m in the year to 31st July 91.

Earlier in the month, **Vistec's** Bob Morton sold his holding in Pegasus without making the usual profit he has achieved in previous speculative deals.

We hear rumours of interesting corporate activity at Pegasus. *Watch this space.*

People

Bill Gates, the founder of **Microsoft**, is now America's richest man - worth \$6.4 billion and just 36 years old. His major advantage, of course, is that he has not been married.

Grace Hopper died on New Years Day. Everyone remembers her as one of the founders of COBOL. We remember her as being responsible for the introduction of all the bugs in our programs. "Things had gone wrong" she recalled later "and someone located the trouble spot and, using tweezers, removed the problem; a two-inch moth. From then on, when anything went wrong with a computer, we said it had bugs in it". At least some things don't change.

Paul Donovan has been appointed Marketing Director at **Apple (UK)** in place of John Leftwich who left in May 91 to join Microsoft. Apple's CEO, John Sculley, had the dubious honour of introducing Diet Pepsi in the US but Donovan was responsible for introducing caffeine free Coca-Cola to the UK.

Peter Edwards, UK and European MD at **Granada Computer Services**, has left. We rather admired Edwards' frankness. In Aug. 90 he told Computer Weekly "Granada bought DPCE in 1988 and then went to sleep for a year... There was open warfare between CFM and DPCE... The organisation chart looked like a blue print for Spaghetti Junction". Obviously no longer any room for frank talking at Granada. **Derek Lewis**, who initiated Granada's ill-fated TPM buying spree in 1987, received a £575K termination payment according to the R&A. Robert Fleming's reckons Granada's maintenance operations will make a profit of £8m this year - they lost £7.7m last year. Don't hold your breath though.

The only surprise about **Jeff Trendell** quitting as MD of **ECsoft (Synapse)** on 31st Dec. 91 was why he stayed so long. **FD Jonathan Firth** "expressed his wish to leave" at the same time. **Steve Coussins** assumes the MD role. Trendell is "to pursue private interests". We don't expect they will stay private for long.

Alan Goldman, CEO at **Sage**, received an MBE in the New Year's Honours list. **Kenneth Gray**, ex-CEO at **Software Sciences** got a CBE. Still no mention of **Geoff Unwin** - why is he one of the only ex-CSA presidents/senior CSI figures without an honour? We think we should be told.

Tony Cleaver Chairman **IBM (UK)**, who received a knighthood, "unexpectedly resigned" as CEO; the 2601st IBM UK employee to leave in 91. He is replaced by 44 year old **Nick Temple**. IBM UK lost £124m in 1991 compared with a profit of £420m in 1990. UK revenues fell 8% to £3.98b.

Five ex-Systems Designers' directors/managers have formed a new management consultancy - **Periti**. Periti is a Latin word meaning "experienced, practised, expert". **Tony Baughan**, **Ian Murray**, **Ian Taylor**, **Mike Thom** and **Mike Thurbon** are certainly that - they all figure in the original prospectus for Systems Designers' float onto the Stock Exchange back in Nov. 82. Mind you, we could find very few directors or senior managers listed in that prospectus who are still with SD-Scicon today.

February 1992



IT = bad risk?

A report from **Arthur Andersen** (cost £200 - Tel. 071 438 3307) this month indicates that IT related proposals to UK venture capitalists (VC) have a lower (2.9%) rate of acceptance than the average (4.3%). Conversely, in 1990 US VCs invested 89% of their funds in IT related activities compared to only 30% by UK VCs.

David Kirk, the Andersen researcher who produced the survey, believes that UK IT managers are poor at promoting themselves. Their background is usually technology oriented ("often regarded as boffins") and lack the business experience needed to gain the support of the VCs.

But it is not all one-sided criticism. The majority (64%) of UK VCs have no IT background. As readers might expect, we greatly support the finding that VCs need to "use industry experts to help them find and evaluate proposals". Successful IT companies "should provide their backers with an outstanding return on their investment".

Other results from overseas manufacturers

Apple reported better than expected Q1 profits of \$166m (\$150.5m last time) on revenues up 11% at \$1.86b.



International sales accounted for 45%. Sales of the Powerbook topped 100,000 showing immediate acceptance of Apple in a new market. Apple now plan to enter the consumer market with a multimedia based product range; probably in association with a Japanese manufacturer (Apple worked with Sony on the Powerbook).

Apple increase market share - see page 12.

Tandem Computers announced that it expected to make its first loss in Q1 ending 31st Dec. 91. "The economic environment continues to be very tough and we do not anticipate relief in the short term" said CEO James Treybig.

Data General reported disappointing Q1 profits down 68% at £4m on revenues of \$295m. DG shares fell 23%. On the other hand, **Unisys** delighted the market by reporting its first profits for three years. Profits for Q4 were \$80.5m on revenues down 16% at £2.46b. But full year losses were £1.4b on revenues of \$8.7b. **Amdahl** reported Q4 losses of £13m on revenues of \$390m - "soft European markets" were given as the excuse. **Compaq's** profits were down 51% at \$167m in Q4 on revenues down 13% at \$873m. (Full year profits were \$131m on revenues of \$3.3b).

New orders for Sherwood

Shares in **Sherwood Computer Services** rose 12% this month after announcing three new orders (UNIX underwriting, risk management and housing mobility systems) worth a total of £3m.

More closures at Centrefile

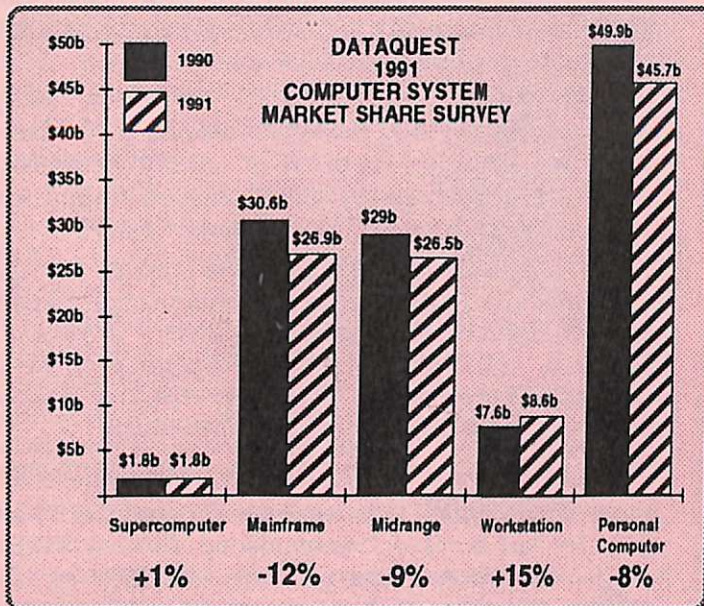
Centrefile, the Nat West's IT offshoot which reported PBT of £10.5m on revenues of £83m in the year to Sept 90, is to close its business systems division which is said to be losing £1m pa. In Nov. 91, Centrefile closed its building society service unit.

Bull links with IBM

After six months of deliberation, the French government has chosen **IBM**, rather than **HP**, for an alliance with **Groupe Bull**. IBM will pay c\$100m for a 5.7% stake; valuing Bull at \$1.8b. **NEC** already holds a 4.7% stake. Earlier this month, Bull had completed a \$1.1b debt refinancing deal involving 26 banks.

Dataquest survey confirms recession

The 1991 Dataquest survey confirms that, we believe for the first time, computer hardware revenues declined by 7.8%, from \$119b to \$109.7b (based on factory revenue), between 1990 and 1991.



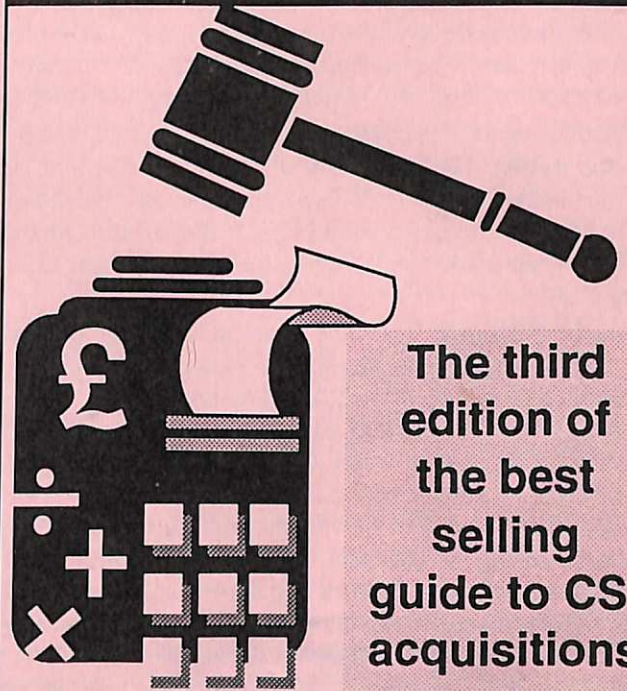
The largest segment, PCs, fell by 8%. "PC vendors were hit very hard by the price-cutting wars which raged throughout 1991". IBM (down 11%) and Olivetti (down 18%) took the brunt but Apple increased revenues by 14% and its share of the PC market grew from 8.6% to 10.7% in 1991. This is certainly confirmed in the latest, and greatly contrasting, financial results from Apple and IBM (see page 11). Workstations was one of the only segments to experience growth - up 15%. Sun was the major winner, up 16%, but DEC declined by 24%. "Price competition continued to weigh heavily". The PC/workstation market is now bigger than mainframes and midrange combined.

"The computer systems industry ran into two very high hurdles in 1991; the negative state of the worldwide economy and the mammoth organizational structures many vendors were supporting" said Nancy Stewart, senior industry analyst at Computer Group. "In the face of this maturing market, we can expect to see further cost-cutting measures and restructuring from vendors in 1992".

The power of the press

The Sunday papers on 5th Jan. 92 were full of tips for CSI stock. The Sunday Times tipped **EDP**, **EIT** and **Sanderson** (where Chairman Paul Thompson has bought a further 2%; taking his holding to 38.3%), the Sunday Telegraph tipped **Total**, **P-E International** and **Micro Focus** and Adam Faith (as in "What do you want if you don't want money" fame) also tipped Micro Focus in the Mail on Sunday. Amazing...their share prices all rose considerably the following day.

Acquisitions involving UK Computing Services Companies in 1991



The third edition of the best selling guide to CSI acquisitions

This month, we have published the third edition of our annual review of **Acquisitions involving UK Computing Services Companies in 1991**. This year's edition is twice as big - over 75 pages. It contains details of 160 acquisitions, detailed comment on the larger deals, a review of the aftermath of the acquisitions undertaken since 1988; as well as our "Acquisitions Checklist".

Acquisitions Review and System House ORDER FORM

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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 several computing services companies including NMW Computers plc.

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