

# System House

The monthly review of the financial performance of the UK computing services industry  
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## Meddling on the European Computing Services Scene

### French Government meddling

Our concern that the UK computing services industry has all but disappeared into foreign ownership is both well known and often argued against. If we can be accused of being a "Little Englander" then what description do you apply to the French? The Economist (10th Oct. 92) carried an excellent article entitled "Europe's Software War". "CGS may stand a chance against EDS if the French Government can keep its hands off the software business. But, blithely ignoring the fiasco its meddling has already caused in the hardware business (eg pushing Bull into the arms of IBM), the Government looks poised to meddle again...it wants CGS to remain French, even if this means snubbing fellow Europeans".

The vehicle for the "meddling" seems to be France Télécom. On 15th Oct. France Télécom, via its CSI subsidiary FTLIS, acquired a 49.9% stake in a new holding company. Paribas has thrown in its 39% stake in Sema in exchange for a 50.1% stake in the holding company. Schnieder SA, which owns 10.5% of Sema, Paribas and FTLIS have all agreed not to sell their Sema stake for 5 years without the consent of the others. This effectively makes Sema bid-proof.

There is now increasing talk of France Télécom doing a similar deal with CGS to "save it" falling into the control of German Daimler Benz in 1995.

### Italian Government meddling

Finsiel is the largest CSI operation in Italy and is second only to CGS in the rankings of European-owned CSI companies. In the year to 31st Dec. 91, Finsiel had revenues of 1282M Lire and made PBT of 61.3M Lire - a profit margin of about 4.8%. Being a state owned operation meant that 55% of revenues came from central Government but banking & finance contributed 17% of revenues. The majority of revenues were earned from professional services (55%) and bureau processing (28%).

This month the Italian state holding company IRI sold Finsiel to STET, itself 52% owned by the state, for \$530m. It was not well received as STET's shares plunged 23% and Deputy Chairman Piergiusto Jaeger has quit, saying inter-group deals in the public sector are wrong.

The only European country  
 November 1992

which seems to have suffered more than the UK in the last few months is Italy. At least when the UK Government wants to raise funds it privatises state owned assets and raises the funds from the "public" rather than selling to another Government-owned organisation!

### Whilst the UK Government does....?

From our latest report (see page 12), we reproduce below the **Top Ten Suppliers of Software and Computing Services to the European Market**, excluding hardware manufacturers.

According to IDC, the European SCSi market in 1991 was worth \$48 billion. Larger therefore than the SCSi market in the US; worth only \$42 billion. Perhaps this explains why five out of the top ten suppliers are US owned. The battle is now clearly between the US and the French - some would be even more specific and say between CGS and EDS. Both companies have aggressive acquisition policies but CGS is suffering from a little "acquisition indigestion" and the effects of a massive reorganisation. The Top Ten contains not one UK owned company. In fact the largest UK-owned company - **BT Customer Systems** - only just squeezes into the Top Twenty. The largest truly independent UK-owned CSI company - **Logica** - is ranked #27.

**Why it matters....** Barney Gibbens has a menu signed on the day he merged CAP with Sema Metra in 1988. Eight out of the nine directors present are no longer with Sema. The UK held c50% of the equity then - now it is <10%. Although we are delighted that Geoff Unwin is playing such a key role with CGS in Europe, we wonder if the recent redundancies at **Hoskyns** would have been so severe if they had been UK owned? We could repeat the comments in the context of **EDS-Scicon**. Whatever anyone may try to persuade you, there will always be a bias when it comes to investment or cost cutting in favour of the owning country.

We have already seen 8% of UK-based SCSi jobs disappear since the start of 1991. **And what does the UK Government do to help?** When it recently selected parties for the Inland Revenue outsourcing contract, it included only US companies.

A bit of national bias in the "trade not aid" request and supporting the cry of "give us the jobs and we'll finish the tools" would not go amiss in these dark times.

SOFTWARE AND COMPUTING SERVICES COMPANIES EUROPEAN REVENUES 1991				
Rank	Company	1991 Revenues	Year end	Country of Ownership
1	CAP Gemini Sogeti	\$1,660m	31-Dec-91	French
2	EDS	\$1,350m	31-Dec-91	USA
3	Finsiel	\$1,034m	31-Dec-91	Italy
4	Andersen Consulting	\$908m	31-Aug-91	USA
5	Sema Group	\$728m	31-Dec-91	French
6	debis Systemhaus	\$724m	31-Dec-91	Germany
7	Computer Associates	\$690m	31-Mar-91	USA
8	Microsoft	\$688m	30-Jun-91	USA
9	Sligos	\$570m	31-Dec-91	French
10	Oracle	\$506m	31-May-91	USA

Note: Excludes hardware manufacturer's SCSi revenues  
 Source: RHL, PAC, Nomos



## Turmoil at DEC...

DEC's new President and CEO, Robert Palmer, confirmed that 15,000 jobs would be lost this year. "The rate of departure will increase significantly and there will be changes at the upper levels". Three of these were achieved in the UK where directors Peter Morse (sales and marketing), Peter Herne (small and medium accounts) and John Rea (systems and workstations) all resigned in the same week. Insiders tell us that DEC UK's top management is in turmoil. Geoff Shingles said that a further 300 jobs would go from the current 5000 UK work-force.

Those in our industry should note Palmer's words "We need to rationalise our hardware offerings and invest in services, software and networks". DEC has said it before but this time Palmer's words are unlikely to be "snake oil". In the same vein, a few days after his appointment, Palmer publicly took issue with Olsen's dismissal of UNIX. "This denial stuff doesn't work. If the market wants to move to UNIX, independent of the fact that it's inconvenient for you, you may have to recognise that early and really get out in front. Lip service won't do. The customers were quite clear but we didn't want to hear it". Source - Digital News and Review

DEC also announced reduced losses of \$261m for Q1 (to Sept. 92) on almost static revenues of \$3.3b. However, last time an exceptional charge of \$486m had been included so the losses this time are actually much, much worse. DEC UK has embarked on a £15m cost cutting exercise which will involve the closing of 5 UK offices and axing 250 jobs in December.

## ...carnage at IBM...

In our presentations this year we have said that John Akers described IBM's \$2.8b loss for the whole of 1991 as "disappointing". For some perverse reason this remark never fails to raise a laugh. We must now update this to John Akers was "disappointed" with IBM's Q3 net loss...of \$2.8b for just one quarter. To be fair, IBM did take a \$4.4b charge for redundancy costs in Q3, but it is still a remarkable loss for a quarter. IBM now has quarterly losses equal to Microsoft's annual revenues.

Note: Akers said "revenues from software and services continued to increase". Software revenues were up 11% to \$2.7b and services increased a massive 38% to \$1.8b.

## But Apple ...

Apple increased profits by 71% to \$530m (but there was a \$224m restructuring charge last time) on revenues up 13% at \$7.1b in the year to 25th Sept. 92.

## ...and Microsoft go marchin' on...

Microsoft exceeded analyst's expectations with a 45% increase in Q1 profits to \$209m on revenues up 41% at \$818m. Strong sales of Windows and Apple Mac applications were the main reason for the excellent performance.

Windows NT (which a recent industry guru described to us as "Microsoft's answer to Apple's System 7") will be launched early next year. All UK software companies, with the exception of Sage which already understands the message, please note - Microsoft spent £105m (13% of revenues) on R&D but three times more, \$264m (32%), on marketing in the quarter.

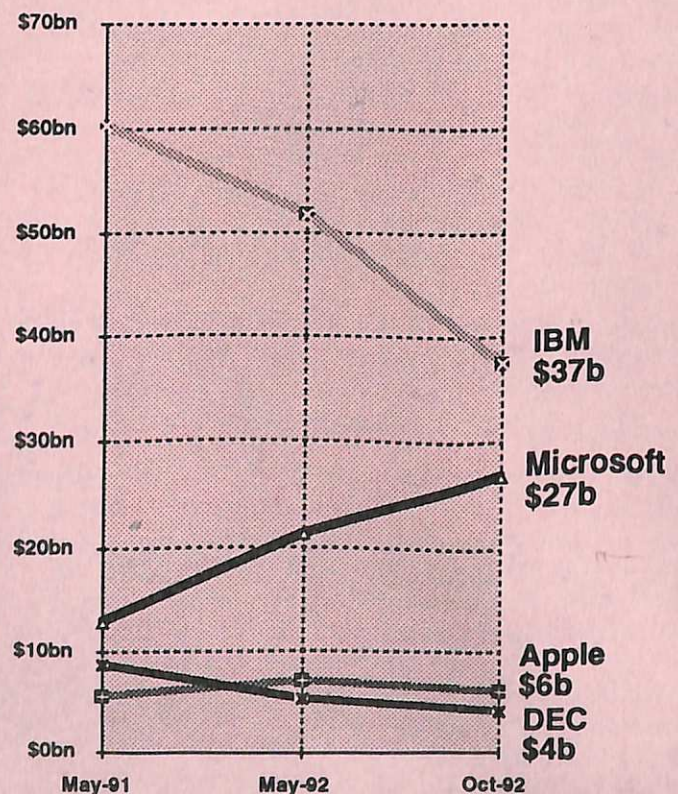
## ...to a new world order...

The chart on the right is...interesting. In May 1991, IBM's market value was 5-times that of Microsoft. Today IBM, with a capitalisation of \$37b, is worth only \$10b, or only 37%, more than Microsoft. Apple, even though its rating has slipped recently, is now worth 50% more than DEC. At a recent conference we received no takers betting against our prediction that Microsoft would have a higher valuation than IBM by 1995. At this rate it could happen much sooner than that.

## ...and into the UK Top Twenty

John Leftwich, marketing director of Microsoft (UK), tells us that in the year to 30th June 1992, Microsoft increased UK revenues by 50% to £100m. He pointed out that this figure *excludes* the considerable amount of software bundled at source by the hardware suppliers. This means that Microsoft is now the 15th largest supplier of software and services to the UK marketplace - alongside Oracle (UK) who have also told us this month that their UK revenues to 31st May 92 were \$176m or c£100m; a figure very similar to 1991. These two US companies are now within a whisker of the UK revenues of the remaining UK-owned/independent SCSI companies - ACT (£106.5m), Logica (£106.2m) and Data Sciences (£105m).

Changes in Market Value of US IT Companies





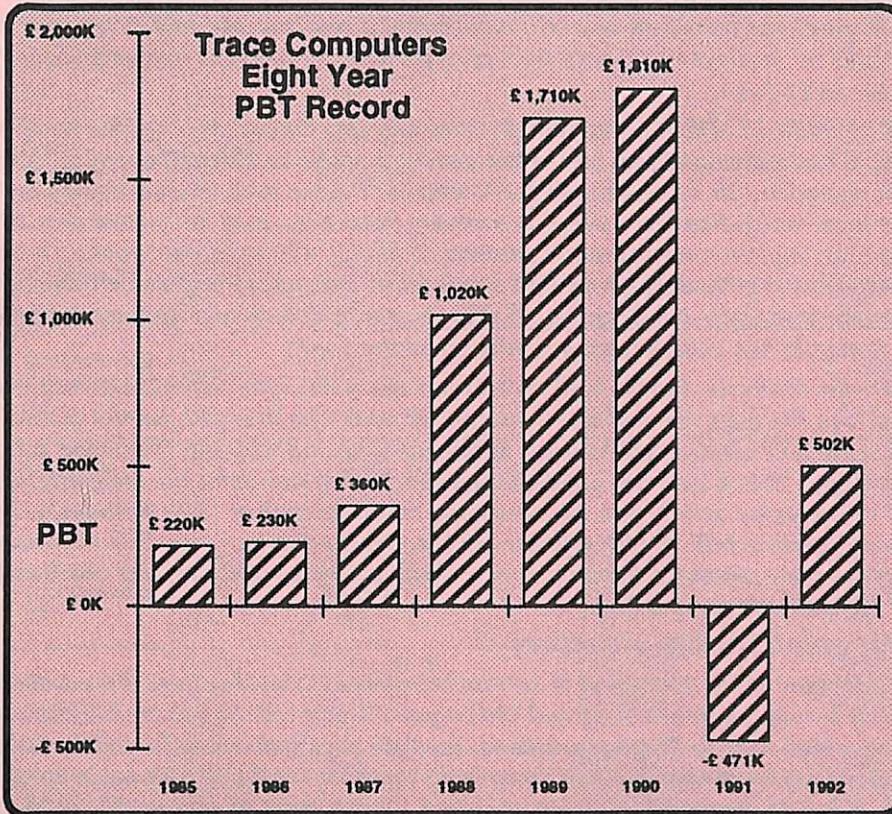
## No trace of previous problems at Trace

Trace Computers was launched onto the USM in June 89 at 125p after declaring PBT of £1.71m in the year to 31st May 89. They managed to report £1.81m PBT for 90 before slumping to a loss of £471K in 1991. Latest results, however, show a recovery to PBT of £502K on static revenues of £19.3m. In 1989 EPS was 9.9p - even now it is just 2.94p. The share price has been ravaged even more severely - trading at just 25p before the announcements but rising to 31p since.

Last year Trace had bank overdrafts of £3.8m and paid net interest of £515K. Even though interest rates have fallen substantially, interest payable has increased to £557K. Clearly Trace needs to refinance this debt burden by whatever means if they are to stage any significant recovery.

Trace was the archetypal "now we've got the paper let's go buy companies" organisation. After their USM launch they acquired **Image, Prospect, Gordon & Gotch, Micrologic, Wespac** and **Proteus**. The last two years have seen a return to the "core businesses of insurance broking systems, property systems, distribution systems, stockbroking systems and bespoke software, all of which have improved profits in the year". **Proteus**, the distribution software division, did particularly well turning "from a loss last year to making a significant contribution to profit this year". **Prospect** - the recruitment operation - made losses but this was due at least in part to "a major loss on a bad debt" which was reported at the interim stage. This didn't stop Trace making "a small investment in the acquisition of recruitment software business, **Trace Alexander**". Computer supplies "produced worse results this year and continues to operate at a significant loss".

The time honoured phrase "we are in a good position to take advantage of the recovery in the economy when it comes" was used yet again. Trace is "confident for the future". We will still wait and see.



## CSC to spend \$500m on acquisitions

Computer Sciences' UK boss, Ron Mackintosh, has been promoted to CEO of European operations and has been given \$500m to spend on acquisitions with an objective of \$1 billion European revenues by 1997. "It's our contention that four or five firms will merge as leaders in the services industry and we intend to be one of them".

They have a long way to go. With 1991 European revenues of \$192m to 31st March 1991 and \$240m forecast for this year, they rank #38 in the European lists.

(see **Software & Computing Services in Europe** report - page 12).

**The CSA Golden Oldies.....** The IT world has changed. Software products are now the most important sector of the market. The world (and the UK) now spends more on PCs and workstations than on all other hardware (incl. mainframe and mid-range) added together. A review of CSA members and continuing/new members of the CSA council does not exactly reflect this *new world order*. At the CSA AGM this month there were more than a few cryptic comments about the election (yet again) of John Ockenden (now of the NCC) to the Council. But as only a quarter of CSA member companies bothered to vote, they really do not have cause for complaint.

**CSA Business Trend Survey** for Q3 showed "optimism at its lowest level for two years". We should point out that 52% of CSA members still believe business is set to improve.

## Sorry Sid...

We are sorry that last month we referred to Alan Davies as the Chairman of **Gresham Telecomputing**. Of course, Sid Green is the Chairman and Davies is a director appointed earlier this year. Green rightly gets annoyed that everyone seems to refer to Bernard Panton as the "founder" of the company. He might have founded Telecomputing but Green was the founder of the much larger - and far more successful - private Gresham Group which merged with (ie acquired) the quoted Telecomputing in Feb. 91. We understand that Panton is now in Australia and that the DTI is not interested in forking out for the airfares to pursue its enquiries further.

Readers should note that Gresham Telecomputing is the best performing CSI share so far this year - up a massive 233%. The inherited problems are now firmly behind them.

## Emergency for Systems Options

In 1984 Jim Pedroza left Wootton Jeffreys with a few other people and setup **Systems Options** in Aldershot. Latest accounts for the year to 30th Sept. 90 show profits of £2k on revenues of £643k and 10 staff. This small company was awarded the command and control system for London Ambulance. On Monday 26th Oct. this system failed with dire results and an independent enquiry has been ordered. The consequences for Systems Options are likely to be equally dire.



## Bullish talk from Computer People

Three years ago (it just seems longer...), when we produced the first edition of *System House*, we said that **Computer People** was a *barometer of the industry*. Computer People is involved in the supply of contract IT staff (now c97% of revenue) and IT recruitment (c3%). Customers are about as blue chip as you can get with hardware manufacturers like IBM making up the biggest sector. Fixed price project risks are nonexistent. Early on, Computer People were one of the best performers with PBT up 31% to £4.2m in the year to 31st Dec. 89. In 1988/9, it had acquired Sterling, William D Farlow and Starlex in the US.

With the ingredients of acquisitions, staff hire and recruitment their record so far has been a remarkably accurate advance indicator of the fortunes of the industry. PBT plunged from £4.2m to £3.1m in 1990 and to £1m in 1991. Latest results, for the six months to 30th Jun. 92, show a loss of £135K (£669K PBT last time) on revenues down 14.2% at £29.9m. "This was due to a continued decline in our recruitment business in the UK from the levels of the second half of 1991, some delays in achieving the reduction in our UK overhead base that we had planned, and a lack of a recovery in the number of consultants working in the US". The results do, however, include £493K of costs which "have now been eliminated". Net borrowings have increased from £2.9m to £3.2m.

The UK now represents 60% of revenues (up from 57% in 91) even though revenues declined by 10%. But the number of consultants working for Computer People has increased from 560 at the start of the year to 670 at the end of June. By the end of Sept. 92 this number had increased to 738. If you believe that Computer People really is a barometer then note that "this increase in consultant numbers, which has taken place in a severe recession, is at the fastest rate that we have ever achieved and is attributable to an improvement in market demand combined with a different posture in the marketplace". The recruitment business declined by 26% and represented only 6.4% of Computer People's UK revenues in the period; a figure which has declined even more since. Although the US still represents 40% of revenue they declined by 20% (in dollar terms). However, "the \$ margin has been increasing throughout the year".

Chairman, Rupert Bayfield, moved back into the driving seat in 1990, when the problems set in. One of his policy decisions was to accept lower margins for bulk business. He says that the recession has allowed FDs to regain control of the IT activity. Bayfield is quite remarkably bullish for a Chairman who has just announced his first loss and "the worst set of figures I have had to report in 12 years". He says "this is the most optimistic report I have written since the company was floated onto the Stock Exchange in 1987.... The sales activity that we have seen in the first half of 1992 has resulted in our entering Q3 with a much higher business base in both the UK and the US than we started the year. This increased level of revenues, the cost reductions that we have already made and our continuing programme to reduce overheads will ensure that we produce satisfactory profits in the second half."

### Contract staff barometer - The first green shoots of recovery?

In 1985, Bayfield bought into **Freelance Informer** which advertises IT contracts available to freelancers. They sold the title to **Reed Publications** in 1988 for £3.3m. Freelance Informer carried 144 pages of ads in Oct. 88 but this had slipped to just 24 pages in Jan 92. The Oct. 92 issue had risen to 76 pages. Indeed, Bayfield says that currently "all the trend lines are up". The latest figures (see graph below) for all contract staff advertising seems to confirm a noticeable uptum. Bayfield believes there is a considerable pent-up demand in many companies. "They don't as yet want to take on permanent staff or turn to the more project oriented systems houses, preferring instead to take project responsibility themselves and use sub contractors." He believes the trend foreshadows an up turn in the permanent IT staff sector. The need for this uptum is evidenced by their database of available contractors rising from 45k to 75k in the last two years.

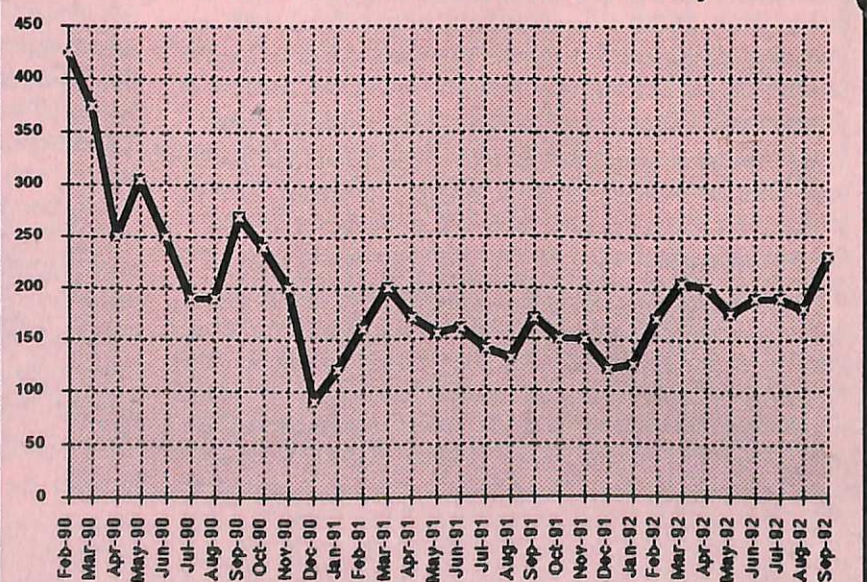
### Bucking the property trend...

With a large potential tax bill from the sale of Freelance Informer (see above), Computer People decided to invest the proceeds in the acquisition of a new headquarters building in London Docklands. Bayfield describes this as "a huge financial success". This is particularly the case as he has also managed to dispose of his old London based HQ to the Actors Union. "This will improve profitability initially by £330K rising to £420K in 3 year's time". We can think of many others in the industry who would give their eye teeth to be able to tell a similar story.

### Profit related earnouts

As readers will know we have strong views on the inadvisability of acquisitions with profit related considerations. When we met Bayfield this month his first words to us were to agree with our view. He said that the Sterling and William D Farlow purchases in the US had been "disappointing and below management expectations" and that the performance related element had either hampered remedial action or prevented the right long-term policies being effected. **Other readers please take note.**

Contract Recruitment Volume History



Source - Salary Survey Publications



## Richard Holway Results Service

<b>ACT Group plc</b>	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%
<b>Admiral plc</b>	Results Revenue PBT EPS	Interim - June 91 £ 11,686,000 £ 1,667,000 10.3p	Final - Dec 91 £ 26,104,000 £ 3,472,000 21.9p	Interim - Jun 92 £ 13,656,000 £ 1,960,000 11.6p	Interim Comparison +16.9% +17.6% +12.6%
<b>Capita Group plc</b>	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%
<b>Computer People Group plc</b>	Results Revenue PBT EPS	Interim - Jun 91 £ 34,834,000 £ 669,000 3.53p	Final - Dec 91 £ 67,660,000 £ 1,006,000 5.48p	Interim - Jun 92 £ 29,895,000 (£ 135,000) (0.73p)	Interim Comparison -14.2% Profit to Loss Profit to Loss
<b>Cray Electronics Holding plc</b>	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%
<b>EIT Group plc</b>	Results Revenue PBT EPS	Final - Mar 91 £ 485,052 (£ 246,437) (4.15p)		Final - Mar 92 £ 7,028,738 (£ 190,510) (1.3p)	Final Comparison +1349% Loss both Loss both
<b>Electronic Data Processing plc</b>	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%
<b>Enterprise Computer Holdings plc</b>	Results Revenue PBT EPS	Final (restated) - Dec 90 £ 183,149,000 £ 7,532,000 7.4p		Final - 15 mos to Mar 92 £ 157,857,000 (£ 8,330,000) (9.8p)	Final Comparison not comparable Profit to Loss Profit to Loss
<b>Gresham Telecomputing plc</b>	Results Revenue PBT EPS	Interim - Mar 91 £ 732,000 (£ 79,000) (1.26p)	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
<b>Hoskyns Group plc</b>	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%
<b>INSTEM plc</b>	Results Revenue PBT EPS	Interim - Jun 91 £ 7,870,000 £ 507,000 7.21p	Final - Dec 91 £ 15,810,000 £ 1,010,000 15.2p	Interim - Jun 92 £ 7,062,000 £ 551,000 7.96p	Interim Comparison -10.3% +8.7% +10.4%
<b>Kalamazoo Computer Group plc</b>	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
<b>Kewill Systems plc</b>	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%
<b>Learmonth &amp; Burchett Management Systems plc</b>	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
<b>Logica plc</b>	Results Revenue PBT EPS	Final - Jun 91 £ 197,758,000 £ 3,676,000 (1.6p)		Final - Jun 92 £ 200,383,000 £ 7,062,000 7.0p	Final Comparison +1.3% +92.1% Loss to Profit
<b>Macro 4 plc</b>	Results Revenue PBT EPS	Final - Jun 91 £ 18,028,000 £ 7,647,000 23.0p		Final - Jun 92 £ 19,016,000 £ 8,750,000 26.5p	Final Comparison +5.5% +14.4% +15.2%
<b>Micro Focus plc</b>	Results Revenue PBT EPS	Interim - Jul 91 £ 25,387,000 £ 8,961,000 43.1p	Final - Jan 92 £ 55,869,000 £ 18,146,000 83.1p	Interim - Jul 92 £ 30,053,000 £ 9,420,000 45.9p	Interim Comparison +18.4% +5.1% +6.5%
<b>Microgen Holdings plc</b>	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
<b>Microvitec plc</b>	Results Revenue PBT EPS	Interim - Jun 91 £ 12,484,000 (£ 2,212,000) (4.8p)	Final - Dec 91 £ 36,873,000 (£ 3,847,000) (5.3p)	Interim - Jun 92 £ 25,533,000 £ 62,000 0.1p	Interim Comparison +104.5% Loss to Profit Loss to Profit



## Richard Holway Results Service

<b>Misys plc</b>	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 +1.1% +62.1% +54.8%	
<b>MMT Computing plc</b>	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%
<b>NMW Computers plc</b>	Results Revenue PBT EPS	Interim - Jun 91 £ 4,977,000 £ 278,000 0.9p	Final - Dec 91 £ 10,588,000 (£ 207,000) (0.9p)	Interim - Jun 92 £ 4,872,000 (£ 1,233,000) (5.7p)	Interim Comparison -2.1% Profit to Loss Profit to Loss
<b>P &amp; P plc</b>	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%
<b>P-E International plc</b>	Results Revenue PBT EPS	Interim - Jun 91 £ 33,565,000 £ 1,833,000 6.7p	Final - Dec 91 £ 68,750,000 £ 1,622,000 4.9p	Interim - Jun 92 £ 35,508,000 £ 514,000 1.5p	Interim Comparison +5.8% -72.0% -77.6%
<b>Pegasus Group plc</b>	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%
<b>Proteus International plc</b>	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	
<b>Radius plc</b>	Results Revenue PBT EPS	Interim - May 91 £ 14,708,000 £ 801,000 1.7p	Final - Nov 91 £ 28,115,000 £ 366,000 0.8p	Interim - May 92 £ 11,988,000 £ 525,000 1.0p	Interim Comparison -18.5% -34.5% -41.2%
<b>Real Time Control plc</b>	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%	
<b>Rolfe &amp; Nolan Computer Services plc</b>	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%	
<b>Sage Group plc</b>	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%
<b>Sanderson Electronics plc</b>	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%
<b>Sema Group plc</b>	Results Revenue PBT EPS	Interim - Jun 91 £ 200,869,000 £ 6,566,000 4.7p	Final - Dec 91 £ 412,501,000 £ 14,015,000 11.02p	Interim - Jun 92 £ 195,393,000 £ 7,729,000 5.3p	Interim Comparison -2.7% +17.7% +12.8%
<b>Sherwood Computer Services plc</b>	Results Revenue PBT EPS	Interim - Jun 91 £ 12,139,000 £ 575,000 6.6p	Final - Dec 91 £ 22,321,000 £ 2,446,000 19.9p	Interim - Jun 92 £ 10,710,000 £ 1,748,000 16.7p	Interim Comparison -11.8% +204.0% +153.0%
<b>Star Computer Group plc</b>	Results Revenue PBT EPS	Final - Jun 91 £ 13,718,000 (£ 886,000) (12.6p)	Final - Jun 92 £ 7,333,000 £ 119,000 1.9p	Final Comparison -46.6% Loss to Profit Loss to Profit	
<b>Total Systems plc</b>	Results Revenue PBT EPS	Final - Mar 91 £ 2,041,384 £ 102,768 0.74p	Final - Mar 92 £ 2,796,777 £ 556,880 5.11p	Final Comparison +37.0% +636.5% +590.5%	
<b>Trace Computers plc</b>	Results Revenue PBT EPS	Final - May 91 £ 19,698,904 (£ 471,377) (1.98p)	Final - May 92 £ 19,312,000 £ 502,000 2.94p	Final Comparison -2.1% Loss to Profit Loss to Profit	
<b>Vega Group plc</b>	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%	
<b>Vistec Group plc</b>	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

## The power of the bank balance

This month, many of the UK's most successful CSI companies have gone shopping. Success, against the recessionary trend, has seen cash balances mount and what better time to buy than when prices are at or near their (hopefully) lowest? **Sage** (buying **CIEL** and **TeleMagic**), **ACT** (buying **NMW Computers**) and **Capita** (buying **Revenue Collection Services** and **Yates, Edge & Partners**) figure in the Top Five in all our performance rankings and they have all continued their buying sprees this month. *Read on...*

## Further additions to the Capita collection

**Capita's** performance is...faultless. Latest six months results to 30th June 92 showed PBT up 28% at £1.8m. It is even quite exciting for a company run by accountants. Their managed services concept is now being copied (or at least attempted to be copied) by several competitors. This month **Capita** has added to a string of purchases. Through their managed services operations for local authorities, **Capita** is already "Britain's biggest public sector debt collector" - an area which is rapidly expanding for **Capita** which had already announced new contracts valued at over £250K this month. In October they bought **Revenue Collection Services** for £1.24m. Bristol-based **RCS** has more than 70 local authority customers, like Bristol City Council, as well as working for the Inland Revenue, Customs and Excise and magistrates courts. They made PBT of £280K on revenues of £1.73m in the year to 31st Mar. 92.

**Capita** topped this a few days later by purchasing **Yates, Edge & Partners** for £600K. **Yates Edge** provides building service engineering and energy technology consultancy and had revenues of £700K and PBT of £120K in the year to 31st Aug. 92. The firm will be merged with **JE Greator**, acquired for a total of £5.3m in May 90, creating "one of the largest firms of consulting engineers in the West Midlands".

## Son of MBO

In June 1991, **Systems Reliability (SRH)** was bought out from **Enterprise Computers** in an MBO which valued the telephone management systems operation at £12m. The pages of *System House* have since been full of the woes besetting **Enterprise**. This month, **Systems Reliability Scotland** has undertaken its own MBO from **SRH Ltd.** with assistance from **3i** and the **Bank of Scotland**. The MBO valued the £3.4m pa revenue Scottish operation at £1.5m. £2m of that is from hardware sales of **IBM** and **Compaq** PCs, £1m comes from maintenance and the rest from services, particularly **Novell** based network systems.

## "Heavyweights" invest in Tranzline

**David Fraser** (ex **Microsoft UK**) and **Colin West** (ex **MicroFocus**) have both become non-executive directors and made personal investments in **Tranzline**. In addition **3i** have invested £500K in exchange for a 20% stake. **Tranzline** currently has a tiny £750K turnover and focuses on sales/marketing software. Source - *MicroScope* 28th Oct. 92.

**IBM/Sema** are to combine their CIM products; **IBM's** **CIMAPPS** and **Sema's** **I-Line** accounting software. The "enemy" is German **SAP**. Source - *Computergram* 29th Oct 92.

## EIT goes...European

The **EIT EGM** on 5th Oct. agreed the **SCS** purchase and the rights issue. But it is a bit difficult to get excited about a rights issue at 17p when the shares are now trading at...15p. **EIT** has pulled all the stops out with invitations for shareholders to visit **EIT** offices and distribution of articles favourable to the company. We wonder why they haven't asked for any reprints of *System House* articles?

Anyway, this month **EIT** has setup a German subsidiary. **Magic Systeme** had previously helped other companies to acquire German operations but this time decided to sell itself. **Magic** will still own 75% of the German operation but **EIT** has an option to buy this out within 3 years. **EIT GmbH**, as the new operation is to be known, will derive some 90% of its revenues from **EIT** products/services and the remainder from **Apple** products.

## Kalamazoo and European

**Kalamazoo** continues its CSI buying spree under its new CEO, **Michael Langmore**. This month they have acquired the customer base of **European Systems Support** and the hardware maintenance operations of **European Business Group** for an initial £750K plus a further £300K based on performance over the next 14 months. The buy adds around £3m of revenue to **Kalamazoo's** fast growing maintenance operations and, they claim, puts them into the Top Ten of UK TPMs.

**The others...** **Actionbyte Distribution** of Reading has appointed the receivers who determined "an estimated deficiency of £2.2m". Major creditors include **HP** (£285k), **Frontline** (£211k) and **Compaq** (£198k). (see *MicroScope* 21st Oct. 92 for excellent expose of **Actionbyte**). Also in Reading, **Comulink** went bust owing £175K. **Equinox Business Systems**, which had revenues of £3.5m in 1991, was forced into liquidation owing £220K when the **MOD** withdrew an order. **IBM (UK)** has bought just under 10% of the equity of **Checkout Computer Systems**. **Checkout** claim a 15% share of the UK POS market in the restaurant/pubs sector. **Computer Associates** has acquired Dublin based **Glockenspiel** - a developer of C++ compilers. **Weir Systems plc** has acquired **Stewart Computer Systems** of Nottingham for an undisclosed consideration. The combined CSI revenues of the new grouping are expected to exceed £10m this year. German-based networking operation, **Adcomp**, has appointed the receivers. The UK operation had already been sold to US **GBC Technologies**. **Bitastream** (now renamed **Mainstream**) has organised an MBO from their US parent. "Managing director **Terry Byrne** said some of the money came from the sale of his previous company, **QED**, to **Robert Maxwell** after software sales to the *European newspaper*". Source - *MicroScope* 14th Oct. 92. **Sowden Group** has purchased the assets of PC dealer **Dimension** (which had revenues of £3m) from the receivers. **Azlan** is reported to be interested in acquiring parts of German networking and software distribution company, **Adcomp Datensysteme**. **Adcomp** had revenues of \$67m in 1991. **IBM** has formed **IBM Consulting Group** which bring together 1,500 existing consultants in 30 countries. **DEC** second hand kit reseller, **SUS Holdings plc**, has appointed the receivers together with its subsidiaries **Megatex Europe** and **Eurolan**. The receiver is now trying to find buyers for disaster recovery operator, **Team**, **Computerent** and **US Technology Procurement**.



# SAGE

## THE SAGE GROUP

plc

In May 91, Sage Group paid \$18m for a 95% stake in UK DacEasy. It was a mighty big purchase for Sage but DacEasy in the US was almost a (albeit rather less successful) mirror image of Sage in the UK; packaged accounting products selling for between \$70 and \$150 a module, large existing client base accounting for over 50% of annual revenues and significant recurring revenues from support/maintenance.

We said at the time that it was "one of the most exciting UK inspired acquisitions for a long time and richly deserves to succeed". Sage Group results since then have continued to be exceptional. Latest interims to Mar 92 showed PBT up 44% at £4.3m; although EPS rose by a more modest 25%. £1.4m of that profit was contributed by DacEasy. Shareholders have also been rewarded as Sage shares have risen from 130p to 437p since their float onto the USM in 1989.

This month, Sage went a-buying again. The acquisition of Paris-based CIEL "the leader in the French market for low-priced accounting software for small business" looks spot on. It obeys all the rules for successful acquisitions. Sage understands this market inside out. Indeed it is "similar to Sage as it was some five or six years ago and, as such, represents an ideal partner to enter the French market". CIEL is marketing led - just like Sage. Sage spends 12% on marketing, CIEL 18%. It has 25,000 users but has so far not developed its support revenues as well as Sage. Only 16% of CIEL revenues come from services compared with 40% for Sage. CIEL had revenues of FFfr 18.9m in

1991 and forecasts FFfr 25m this year. No profit figures were disclosed. The price - £1.4m cash for an initial 95% stake plus a further £5m based on revenue performance in the years 1994 & 95 - seems quite reasonable and is well within Sage's capability.

The other purchase is US Remote Control International.

Their product, TeleMagic, is "a major player in the US market for sales automation software" - indeed Sage itself uses the product. Priced at \$695, TeleMagic has 250,000 users ranging from small businesses to large corporations and is sold via 1,000 VARs. Revenues have grown from \$3.1m in 1990 to \$4.2m in 1991 and are expected to reach \$6.5m in 1992.

The value of the US acquisition will be based on synergy. Clearly Sage will be able to exploit Telemagic outside the US where sales automation is a major growth area, forecast to grow from \$166m in 1992 to a massive \$2.5 bn in 1997. DacEasy will get access to 1,000 VARs and vice versa. Canny Sage is paying \$6m = £3m cash as they did the deal when the £ = \$2. A maximum additional \$6m is payable based on revenue growth over the next two years.

Our respect for Sage and its Chairman David Goldman, grows by the month. Organic growth at Sage is already the envy of all and to that can now be added one of the most soundly based acquisition strategies we have encountered. If Sage can do it in one of the most competitive markets you can imagine. *Why can't other UK companies do it as well?*

### ACT and NMW Computers

Readers will, we feel sure, be aware both that Richard Holway is a non-executive director of NMW Computers and that Rule 20.1 of the Takeover Code places severe restrictions on the statements which can be made by directors during this period. All information in this article is taken from the formal offer documents and no comments have been added.

- On 22nd Oct. 92 ACT Group plc announced a recommended cash offer for NMW at 18p per share plus an "eight for one" share alternative. This values NMW at £3.8m. As ACT already owned 25.4% of NMW, this would result in a cash payment by ACT of £2.8m. Irrevocable undertakings representing a further 10.5% (ie total 35.9%) to accept the offer had been received.
- ACT had purchased its 25.4% stake from Specialist Computer Holdings at 40p per share in June 1992.
- NMW announced a pre tax loss of £1.23m on revenues of £4.87m for the six months to 30th June 92. "The Company has experienced, and continues to experience, severe trading conditions, in particular in NMW Charterhouse. Due to the unforeseen poor level of sales of legal and debt products, and the higher than anticipated costs incurred in developing the Broker 400 insurance product, the losses in NMW Charterhouse, which the board envisaged would be eliminated in the short term, have instead substantially increased. These losses have had a severe impact on the financial position of the NMW Group. However, NMW's traditional businesses of accounting systems and bureau services, primarily for the securities industry, have operated satisfactorily in difficult conditions.... Trading conditions are not expected to improve materially in the short term and the NMW Board cannot be confident of the continuing support of the Company's bankers".
- ACT gave the reasons for its offer "As a supplier of specialist software and solutions to the financial sector, NMW... is an excellent fit with ACT, whose operations include software solutions for international financial markets".
- "In the light of the fact that the trading and financial position of NMW has deteriorated materially" ACT has obtained a dispensation from the Panel on Takeovers and Mergers for its bid at 18p.
- "Although the offer price represents a significant discount to NMW's current share price and the price at which ACT purchased its shareholding, the board of NMW considers that the offer places a fair value on NMW, taking into account its financial position".



## CSI Index up 6%

Our CSI index rose by 6.2% compared with a 3.5% rise in the FTSE 100. It was a month of major winners and losers. **Trace** shares rose by 41% as they returned to profit (see p3). The shares are still 13% lower than at the start of the year and only a quarter of their 125p price tag when they were launched onto the USM in June 1989. **Proteus** also put on another 24% as further drug trial successes were announced. Proteus shares have increased fivefold to 423p since their launch in May 90 at 84p - and they still haven't announced a profit. **Cray Electronics** put on 19% as a result of bullish statements from the Chairman at the AGM this month. The assimilation of the Dowty acquisition seems to be going well. **MicroFocus** were up another 16% this month due to the decline in sterling as they make over 80% of revenues from overseas. MicroFocus now has a capitalisation of £311m - second only to **Hoskyns**.

At the other end of the scale, **NMW Computers** lost 50% on news of the agreed **ACT** bid (see p 8). **ACT** was also down 4% this month and have now lost all the share price gains they made earlier in the year when they reached a high of 197p. **Radius** is down 24% - clearly the new top team is not winning the confidence they hoped for. **P&P** lost another 12.5% this month. Their share price now stands at just one eighth of its value when we launched **System House** three years ago and only 14% of the June 90 rights issue price of 185p. We understand that founder

Pete Fisher, who still owns a fair chunk of the equity, has now reassumed an executive role. Poor old **EIT** has seen their share price drop to just 15p against a rights issue price of 17p. We await the announcement of the take-up with great interest. **Kewill**, which was one of the best performers around until their German acquisition went wrong, lost another 11% making it the worst performer this year so far (down 74%). The best performer this year has been **Gresham Telecomputing** - up a massive 233%

## Computing Services Index

29th October 1992

April 15th 1989 = 1000

1455.06

Changes in Indices	CSI Index	FTSE 100
Month 30th September 92 to 29th October 92	+6.20%	+3.50%
42 months 15 April 89 to 29th October 92	+45.51%	+28.67%
1st January 91 to 29th October 92	+105.55%	+22.31%
1st January 92 to 29th October 92	+39.26%	+5.98%

## System House CSI Share Prices and Capitalisation

	Share Price 29/10/1992 (£p)	Capitalisation 29/10/1992 (£m)	Historic P/E	CSI Index 29/10/92	Share price % move since 30/9/92	Share price % move this year	Capitalisation move (£m) since 30/9/92	Capitalisation move (£m) this year
<b>ACT</b>	£ 1.52	£ 201.60m	14.04	2432.97	-3.80%	0.00%	-£ 7.90m	£ 15.70m
<b>Admiral</b>	£ 3.55	£ 38.10m	16.21	2572.46	0.00%	18.73%	£ 0.00m	£ 5.80m
<b>Capita</b>	£ 3.63	£ 54.70m	23.11	3630.00	4.61%	38.55%	£ 2.40m	£ 15.40m
<b>Computer People</b>	£ 0.68	£ 9.44m	12.41	279.84	3.03%	-40.87%	£ 0.28m	-£ 6.56m
<b>Cray Electronics</b>	£ 0.85	£ 172.00m	26.56	497.08	18.88%	30.77%	£ 27.40m	£ 104.10m
<b>EIT Group</b>	£ 0.15	£ 7.50m	Loss	600.00	-11.76%	25.00%	£ 1.71m	£ 2.12m
<b>Electronic Data Processing</b>	£ 4.55	£ 39.70m	13.86	4642.83	15.19%	57.44%	£ 5.30m	£ 14.70m
<b>Enterprise</b>	£ 0.15	£ 10.70m	Loss	116.00	7.41%	-9.38%	£ 0.71m	-£ 1.70m
<b>Gresham Telecomputing</b>	£ 0.30	£ 9.55m	30.00	322.58	-3.23%	233.33%	-£ 0.32m	£ 6.68m
<b>Hoskyns</b>	£ 4.45	£ 415.50m	42.38	2170.73	0.45%	12.66%	£ 2.40m	£ 56.00m
<b>INSTEM</b>	£ 1.01	£ 4.54m	6.64	1010.00	-7.34%	34.67%	-£ 0.36m	£ 1.17m
<b>Kalamazoo</b>	£ 0.31	£ 5.62m	n/a	305.00	-3.17%	-35.79%	-£ 0.18m	-£ 2.76m
<b>Kewill</b>	£ 0.80	£ 9.55m	4.02	316.21	-11.11%	-74.60%	-£ 1.15m	-£ 20.55m
<b>Learmonth &amp; Burchett</b>	£ 1.09	£ 14.50m	155.71	908.33	10.10%	87.93%	£ 1.30m	£ 6.77m
<b>Logica</b>	£ 1.69	£ 103.60m	24.14	463.01	-0.59%	-12.44%	-£ 0.60m	-£ 14.70m
<b>Macro 4</b>	£ 4.90	£ 109.80m	18.49	1975.81	2.30%	29.29%	£ 2.50m	£ 26.30m
<b>Micro Focus</b>	£ 22.73	£ 311.40m	27.35	10980.67	15.97%	46.83%	£ 43.80m	£ 109.00m
<b>Microgen</b>	£ 1.55	£ 60.00m	12.70	662.39	0.00%	-3.73%	£ 0.00m	-£ 2.30m
<b>Microvitec</b>	£ 0.27	£ 17.30m	Loss	646.34	15.22%	82.76%	£ 2.30m	£ 8.32m
<b>Misys</b>	£ 2.74	£ 105.80m	15.39	681.59	1.86%	34.98%	£ 2.00m	£ 36.60m
<b>MMT</b>	£ 1.10	£ 11.70m	16.18	654.76	-0.90%	32.53%	-£ 0.10m	£ 2.89m
<b>NMW</b>	£ 0.19	£ 3.90m	Loss	308.34	-50.00%	-51.32%	-£ 3.91m	-£ 3.75m
<b>P&amp;P</b>	£ 0.28	£ 15.50m	31.11	125.56	-12.50%	-30.00%	-£ 2.20m	-£ 6.10m
<b>P-E International</b>	£ 0.55	£ 12.00m	11.22	226.34	-8.33%	-56.00%	-£ 1.10m	-£ 15.30m
<b>Pegasus</b>	£ 1.30	£ 8.26m	6.53	354.23	-5.80%	-13.33%	-£ 0.51m	-£ 0.91m
<b>Proteus</b>	£ 4.23	£ 113.60m	Loss	5035.70	24.41%	148.82%	£ 22.30m	£ 75.50m
<b>Radius</b>	£ 0.31	£ 8.44m	38.75	224.64	-24.39%	-20.51%	-£ 2.76m	-£ 2.16m
<b>Real Time Control</b>	£ 0.70	£ 4.90m	6.31	1428.57	-4.11%	-32.04%	-£ 0.21m	-£ 2.31m
<b>Rolle &amp; Nolan</b>	£ 2.22	£ 12.50m	13.96	2622.46	-0.89%	15.63%	-£ 0.10m	£ 1.60m
<b>Sage Group</b>	£ 4.37	£ 87.50m	17.14	3361.53	11.48%	31.23%	£ 9.00m	£ 21.60m
<b>Sanderson</b>	£ 2.07	£ 18.20m	10.78	880.85	-1.43%	68.29%	-£ 0.30m	£ 7.40m
<b>Sema Group</b>	£ 3.04	£ 276.40m	27.59	955.97	6.29%	40.09%	£ 16.40m	£ 78.20m
<b>Sherwood</b>	£ 2.48	£ 15.20m	12.65	2066.66	10.22%	85.07%	£ 1.40m	£ 8.27m
<b>Star</b>	£ 0.37	£ 2.52m	19.47	308.33	8.82%	60.87%	£ 0.20m	£ 0.95m
<b>Total</b>	£ 0.44	£ 4.40m	8.61	830.20	-2.22%	29.41%	-£ 0.10m	£ 1.00m
<b>Trace</b>	£ 0.31	£ 4.24m	10.54	248.00	40.91%	-13.89%	£ 1.23m	-£ 0.63m
<b>Vega Group</b>	£ 1.16	£ 16.40m	16.04	950.82	-3.33%	-4.92%	-£ 0.50m	-£ 0.81m
<b>Vistec</b>	£ 0.22	£ 25.00m	14.47	961.48	-6.38%	62.96%	-£ 1.70m	£ 9.70m

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.



## And now we are three



Exactly three years ago we published the first edition of *System House*.

Our front page reported on the CSI equivalent of Black Monday - 16th Oct. 1989 - when £181m, or 11%, was wiped off the value of UK CSI stocks. The three biggest losers on that fateful day were **Hoskyns** down £32m at £194m, **Sema** down £26m to

£317m and **Misys** down £17m at £113m. Three years on Hoskyns have doubled their value to £415m but Sema have declined further to £276m and Misys, £106m, have still to recover their 1989 value.

The constituents of our CSI Index have also changed. Three have gone bust, ten have been acquired and three are now very different companies than in 1989.

CSI Index - Removals, Pending Removals and Major Changes	
Apricot	Changed name to ACT after PC operations sold to Mitsubishi
Butler Cox	Acquired by CSC
Ferrari	Went bust
Headland	Went bust
Hoskyns	Acquired by CGS. Delisted by 1993
ITL	Acquired by ACT
MBS	Acquired by Statagem
Memory	Went bust
NMW	"Under offer" from ACT
Optim	Acquired by Systems Reliability
Quotient	Acquired by ACT
SD-Scicon	Acquired by EDS
Synapse	Acquired by ESoft
Systems Reliability	Changed name to Enterprise
Telecomputing	"Merged" with Gresham
UCL	Acquired by Ferrari which went bust

There have been just two new CSI entrants to the Stock Exchange in three long years. We have, however, added a further six companies which we considered should be reclassified as CSI companies.

CSI Index - New entrants and Reclassifications	
Cray Electronics	Regraded as CSI company
EIT	Maxiprint now a CSI company
Kalamazoo	Regraded as CSI company
Microvitec	Regraded as CSI company
Proteus	New floatation
Real Time Control	Regraded as CSI company
Vega	New floatation
Vistec	Regraded as CSI company

And the other news in that very first edition? AT&T had just acquired Istel for £180m cash (a "full price" given that AT&T Istel lost £11.4m in the next year), **Headland** announced a 118% increase in PBT and bought Multisoft for £11m (Headland went bust within 6 months). IDC issued a report predicting that application tools would be the fastest growing sector in the next 4 years (a "spot on" prediction), CSA members reported a 23% increase in revenues (latest report shows a 7% increase). "Stunning" was the word we used to describe **MicroFocus'** interim profits - up from £900K to £3.68m. Their shares have since been the best performer in the sector; up over 10 times.

And Richard Holway is older, more tired and, we hope, a little wiser.



## 20% profits decline at CGS

**Cap Gemini Sogeti**, the largest CSI company in Europe (see p1), has announced a 20% decline in net income to FF142.5m on revenues up 18% at FF5,896m in the six months to 30th June 92. CGS admits that the revenue growth was due entirely to companies acquired in the period - namely its 58% stake in **Volmac** (1st Jan. 92) and 100% of **Programator** (from 1st May 92). Revenues at **Gemini Consulting** (not included above), however, rose by 32% in the period to FF1710m.

CGS blames the recession for its profits woes but seems to admit that it has been a little tardy in cutting jobs, expecting a recovery which "has yet to occur". "The costs of the vast reorganisation process undertaken a year ago" were also cited.

The short term outlook is not too good either. "Profitability for fiscal 1992 is likely to be lower than CGS' traditional profitability" which has averaged 6% in the last ten years. However, this is still ahead of its main competitors like Sema.

But CGS has earned its current #1 position by taking a long term view. The current reorganisation will take time to settle down. Geoff Unwin, who is carrying much of the responsibility for its success, is highly regarded and CGS is likely to emerge as an even stronger force as a result. In addition, its existing leadership in the systems integration sector will be strengthened, in future, by the addition of facilities management. CGS had been weak in this area before the acquisition of the UK FM pioneer/leader, Hoskyns.

In our view, CGS has benefited from having strong, long-term investors - unlike so many of its UK competitors. We deal with this issue further on page one, but one of CGS' main challenges will be to preserve this advantage as it outgrows the "depth of pocket" of some of its present shareholders. CGS' problems could really start if they falls under French Government control.

**Footnote:** We guess as a cost cutting measure, CGS has recently started to handle its press relations direct from Paris. Readers will therefore be interested to know that

one of the ways CGS intends to improve its future performance is by the "adaptation of its



organisation by lightening its structures, expanding its range of services, adjusting its work forces to the expressed needs of its clients, changing its behaviour and adopting and standardising new sales methods and technical tools - all of which will enable CGS to serve its customers everywhere with the same strict respect for quality and efficiency". We hope that is clear.

### Cray Electronics "Progressing well"

Sir Peter Michael told Cray Electronics shareholders at their AGM this month that the new communications operation, formed from the acquisition of Dowty IT, "is performing well...all indications are that the combined business will be very successful". The rest of the Cray business seems to be doing well too with order books ahead of last year. *Cray seems well on the way to becoming the largest UK-owned CSI company in 1993.*



## Back to basics Tetra prospers

We are used to drawing roller coaster charts of company profits - we are rather less accustomed to roller coaster revenues as well. The chart below is about as close as you can come to a classic of the genre.

In May 1990, Schroder Ventures invested £2m, in return for a 10% stake, in Tetra. The remaining shares are owned by founders Dowling and Cooke (c 39% each) and Clive Richards (c13%). The press release which trumpeted the investment said "After 10 years of self funded growth, to a turnover of £24m, Tetra has established itself as the UK's leading supplier of UNIX business software".

1990 was a year of significant "restructuring" for Tetra. They sold their TPM operation to Logitek for an initial cash consideration of £869K, retrenched on hardware distribution and reduced their direct sales operations which were in competition with their dealers.

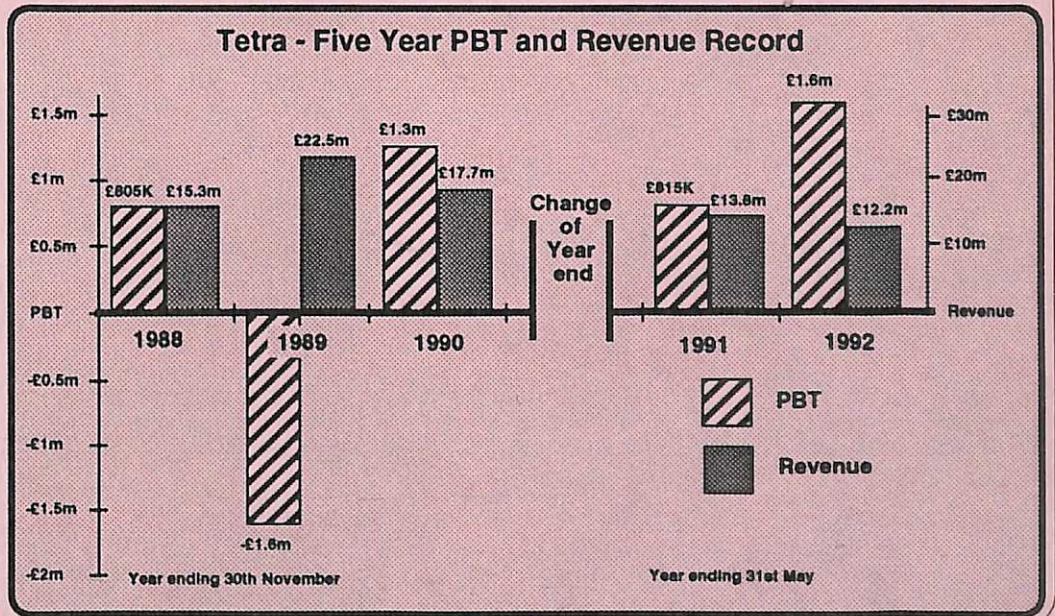
Although the latest Tetra press release is headlined "**Tetra doubles profits**" to £1.6m, readers should note that the company made profits of £1.3m in 1990 which Chairman Sean Dowling was proud to announce in his Chairman's statement dated 20th Feb. 91 as their "best ever profit performance...achieved against an industry backdrop of falling revenue and profits".

Revenues are now £12.2m; down £1.6m on last year and about half 1989 revenues largely as a result of the divestments but core revenues are also down by around £400K.

But, if we put the past hype to one side, the latest results are really superb. £1.6m PBT in today's climate is excellent and the

elimination of group debt, so that Tetra now has net cash of £2.1m, is even better. The majority of Tetra sales are via its 300+ strong dealer/VAR channel. However 15-20% of revenues are still made direct to 25 major accounts like ICL and Motorola. The *problem* (our word not Tetra's) in this is that support is undertaken by the dealer and therefore Tetra has difficulty in tapping into this rich stream of recurring revenues. Pegasus and Multisoft have the same problems but Sage, supplying much cheaper modules largely to the DOS market, has built up over 40% of its revenue from services/support and has prospered as a result.

"Depending on whose market research figures you read, Tetra currently has between 40% and 60% of the UNIX business software market in the UK". We share Tetra's frustrations with the market researchers, but they do all seem to be agreed that Tetra is currently the market leader for UNIX-based financial accounting software. That being the case, the "back to basics" Tetra should continue to show a strong return for its shareholders.



## Another AppleCentre appoints the administrators...

Apple's own financial performance (see page 2) may be powering ahead but many Apple dealers in the UK are suffering from the joint effects of the recession and increased margin competition. This month *another* Apple Centre threw in the towel. **Sign Express**, the operators of **AppleCentre Basingstoke**, had hoped to stave off collapse by selling its maintenance operations to **Misys** back in April 92. This raised £400K cash and £220K of exceptional profit. PBT of £177K was made on revenues of £5.1m in the year to 31st Mar. 92. It would have been a loss without the maintenance deal. Sign Express had lost £286K the previous year. But they were also saddled, like so many others, with an annual £250K interest bill.

Sign Express had focused on software for the production of signs/posters - **Package Express** - and had an impressive list of corporate customers. They had expanded with the appointment of several senior ex-Apple people - who had departed prior to the failure. With rumours abounding that Apple will sell direct, there can be few in the sector who do not feel apprehension for their future.

## ...and similar woes at ComputerLand

This month Leeds based **Perbell**, which traded under the **ComputerLand** name, appointed the administrators at the request of their factoring company. Two months ago ComputerLand's franchise in Birmingham, **XCL Computer Systems** quit after it was bought by Compaq reseller **KDL Systems**. Source - MicroScope 28th Oct. 92.

## ...but ICL bucks the trends

**Fujitsu** has announced the "worst results in its history" - with losses of Y7.5bn in the six months to 30th Sept. 92. A spokesman for ICL confirmed that in the year to Dec 92, ICL still expected to be profitable with turnover up 13%. Software and services growth is expected to be even higher - largely due to acquisition activity. Their takeover of Municipal Mutual's FM activities was completed this month.



## Women in our industry

Geri Schuch was a senior consultant at Hoskyns who lost her job when 150 staff were made redundant last month. She also featured in the Profile feature written by Emma Connors in *Computing* this month. "Arrogance" was her key word when speaking about women working in Hoskyns. "There are definite limits to the number of rungs a woman can climb on the corporate ladder. There's no doubt that women are treated differently. When I got angry at Hoskyns, people wondered if it was that time of the month. If a man got angry they asked why".

To be fair, this month Richard Holway addressed Data Sciences' Sales Conference. The person planning the seating arrangements could only manage one woman for each table of eight. A few months ago he addressed the Logica senior directors/managers meeting and there were just two women there out of 28.

## Analysts in our industry

Perhaps we shouldn't complain but the number of analysts in the City who have any interest in computing services are decreasing by the day. This month Roger Brocklebank from Matheson Securities has joined the ranks of the "independent consultants". Jerry Crowley (Credit Lyonnais Laing) and Adam Page (County Natwest) are two more CSI analysts who have lost their jobs recently.

It is now hard to find any analyst who follows the medium/small CSI companies. The City now relies on "unofficial company forecasts and a wing and a prayer". Source - Max Hotopf writing in *MicroScope*.

## Software and Computing Services Industry in Europe

Since we published our first Holway Report in 1988, reviewing the financial performance of UK CSI companies, our subscribers have increasingly asked us to produce a European version. This is not that surprising given that many UK CSI companies now have European ownership and most of the remainder are looking to Europe for both organic growth and acquisitions. However, although we would claim knowledge of the UK CSI scene, clearly this does not extend to mainland Europe.

This year, in perhaps the most significant move in Richard Holway Limited's corporate history, we have formed a business partnership with **Pierre Audoin Conseil (PAC)**, who operate in France, Germany and the Nordic countries as well as Spain, Belgium and the Netherlands, and **Nomos Ricerca**, the leading Italian market research company. The results of our joint endeavours will be published by the end of November.

The report comes in three volumes. **Volume One** is an overview of the European CSI scene with both historic and projected performance data. **Volume 2** contains in-depth analysis and projections for every European country. **Volume 3** contains incisive reviews of every major player, regardless of ownership, in each European country.

We are pleased to be able to extend our offer to *System House* readers of the special rates applying to orders received by us prior to 30th Nov. Initial orders have already been encouraging but, as they say, *you did ask for it...*



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