

# System House

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

Volume 8

Number 4

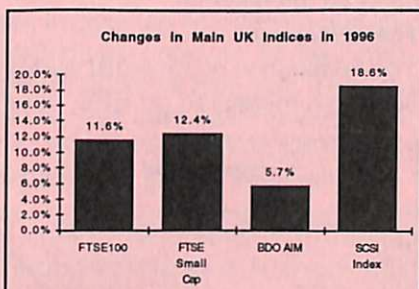
Available by subscription only

ISSN 0967-2583

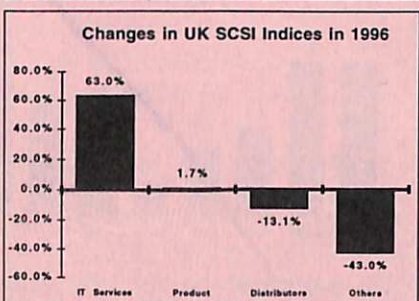
February 1997

## Winners...and losers...in 1996

Although our SCS Index increased by 18.6% in 1996, this was far lower than the 50% increase reported in 1995. Even so, our SCS Index increased more than the 11.6% increase in the FTSE100 or the 12.4% increase in the FTSE Small Cap. Index.



However, within the 84 companies which currently constitute the Index, IT services companies led the way with a 63% increase. Indeed, the ranks of Top Ten share price rises in 1996 were dominated by IT Services companies.



Conversely, Software Products companies recorded share price rises of just 2%. Indeed, the situation would have been even worse had we not included such companies as Sage and Misys in the Products category. Both companies recorded significant price rises in 1996 but both companies make a majority of their revenues from services rather than product sales.

### Top Ten Share Price Increases in 1996

DCS Group	260.00%
CMG	155.32%
Parity	152.86%
FI Group	141.91%
MMT Computing	132.11%
Admiral	122.56%
CRT Group	117.39%
Sema Group	102.43%
Logica	100.11%
Delphi Group	97.97%

### Bottom Ten Share Price Declines in 1996

OmniMedia	-85.38%
Systems Integrated	-84.78%
Learmonth & Burchett	-73.68%
Quality Software	-68.90%
Protec	-68.75%
Phonlink	-67.89%
On Demand	-65.38%
Virtuality	-62.85%
Division Group	-52.17%
Coda	-49.77%

Companies involved mainly in the distribution of product had a bad year with a 13% fall.

But it was the "Other" category - which mainly consisted of Internet companies and Service providers - which fell

the most registering a 43% fall in 1996.

Indeed, the ranks of the Top Ten largest share price falls in 1996 were dominated by product or Internet companies.

### Long term?

We started our SCS Index seven years ago in 1989. The long term gainers are all IT services companies (or in the case of Sage, making the majority of their revenues from services). If you had invested in Comac (the predecessor to Parity) your investment would now be worth a massive 24-times more.

### Gainers since April 1989

- 1 - Parity Up 24-fold
- 2 - Sage Up 19-fold
- 3 - Capita Up 14-fold
- 4 - Admiral Up 12-fold

### New Entrants

Only 15 new SCS companies gained a UK quote in 1996. Set against that CentreGold (acquired by Rage),

Firecrest (suspended),

L B M S (moved to NASDAQ)

and Vistec (acquired by Lynx) were removed from the lists making a net gain of just 11.

Again the new entrants had a mixed reception with IT service companies getting the best send off. FI Group's 241% rise since their Mar. 96 float was by far the best performing newcomer.

AIM

The AIM market attracted 8 new SCS entrants in the year making a total of 14. We would have expected the new junior market to attract far more SCS companies.

US - NASDAQ - 7

Q1 1996 Q2 1996 Q3 1996 Q4 1996

Q1 1996 Q2 1996 Q3 1996 Q4 1996

Q1 1996 Q2 1996 Q3 1996 Q4 1996

Q1 1996 Q2 1996 Q3 1996 Q4 1996

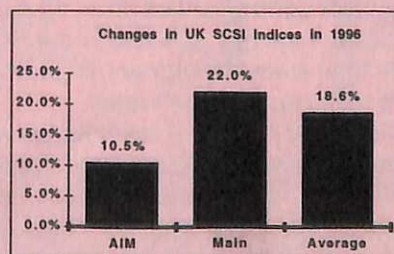
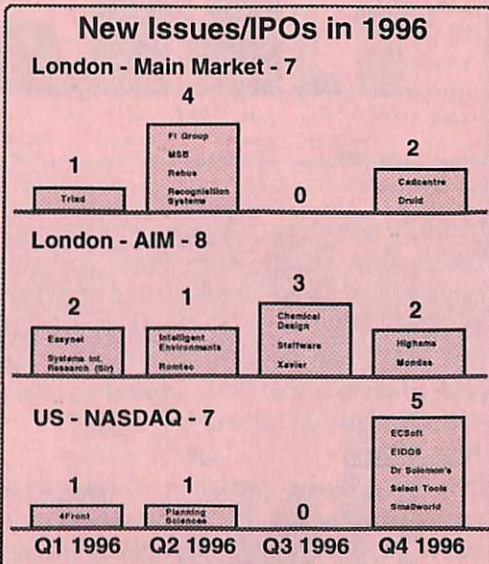
Q1 1996 Q2 1996 Q3 1996 Q4 1996

Q1 1996 Q2 1996 Q3 1996 Q4 1996

Q1 1996 Q2 1996 Q3 1996 Q4 1996

Q1 1996 Q2 1996 Q3 1996 Q4 1996

Q1 1996 Q2 1996 Q3 1996 Q4 1996



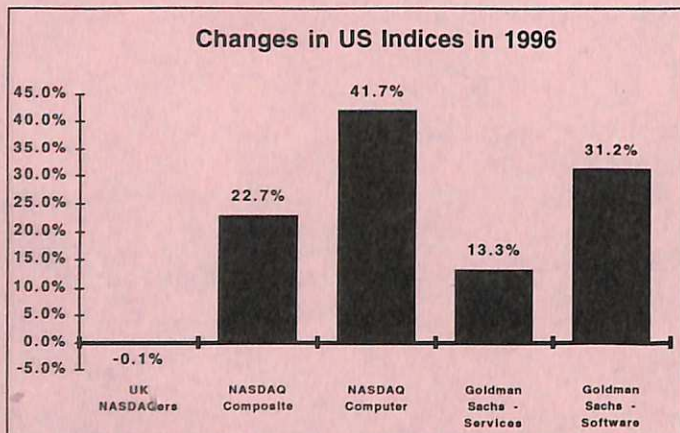
Continued from page one

The SCSI AIM Index was up just 10.5% in 1996 compared with the SCSI Main market Index which rose by 22%. This was, however, still better than the minimal 5.7% increase in the **BDO Index** of all AIM quoted companies. Again the best performing SCSI AIM companies were IT Services companies with newcomer **Highams** heading the list with a 90% gain (equating to a 236% increase since their debut). It is interesting to note that **Lorien** - the VERY first AIM listing in June 1995 - rose by a further 62% in 1996 but is now to move to the Main market. Conversely the very first AIM suspension was of **Firecrest** - an Internet access company.

### NASDAQ

As we reported last month, seven UK SCSI companies chose a NASDAQ IPO in 1996; making 10 UK companies in total. Although **Micro Focus** recorded the highest gain - up 87% - the best newcomer was **Select Tools** - up 24%.

However, these gains could not compensate for decreases elsewhere and the "UK SCSI NASDAQ" Index was down 0.1% in 1996. This compares with a 23% increase in the NASDAQ Composite Index and a 42% increase in the Computer sub section.



In 1996 **Goldman Sachs** introduced a number of Technology Indices. Their Software Index (GSO) which includes companies like Microsoft and Novell, rose by 31% in 1996 whereas the Services Index (GSV) was up by just 13%. The main reason for this meagre services performance is that **EDS**, which has fallen significantly in 1996, makes up 22% of the Index.

### Selection

One of the reasons given in our review last month for UK companies choosing to go onto NASDAQ was the almost 100% hit rate from US institutional investors.

*So is selection really worth the hassle?*

If you had invested in EVERY new issue in the last three years your portfolio would be showing a 60% gain! Indeed, if you had invested in EVERY new issue in 1996 - including the dogs like **SiR** which has lost 84% of its value since launch - you would be showing a 25% gain - substantially higher than the 18% rise in our SCSI Index!

Almost every Investment Trust we know would be happy to claim such growth rates.

*But if you had been really astute (or lucky) in which new issues should you have put your money?* **Unipalm** leads the new issues with its 350% rise - indeed if you had accepted UUNet shares instead of cash, you would have doubled that again! But **Oxford Molecular** (up 345%),

**RM** (up 254%) and **Moorepay** (up 250%) would have produced a quite exceptional return. A third of the 34 new issues are currently trading at **twice** their new issue price; more than compensating for the one third currently trading at **less** than their new issue price.

### Capitalisation

1996 was the first year when a UK-quoted SCSI company achieved a £1 billion market cap. Indeed,

	Capitalisation end 1996	Capitalisation chg. in 1996
Sema Group	£1,207.0m	£705.3m
Misys	£950.1m	£472.4m
Logica	£583.2m	£295.9m
Sage Group	£568.7m	£221.3m
CMG	£538.4m	£328.4m

**Sema** ended the year worth £1.2b - up a staggering £705m on the year. But **Misys** - up £472m at £950m - could well soon be the second.

### Revaluation

The revaluation of the SCSI sector continued. Given that earnings, measured by EPS, have increased by around



20% in each of the last two years, average P/Es have increased from 15 in April 1995 to 29 in Dec. 96 - inferring a re-rating of at least 60%.

We now have IT Services companies like **Admiral**, **Capita**, **CMG**, **Logica** and **Sema** all trading on P/Es in excess of 30 with **FI Group** currently on an historic P/E approaching 50!

### The Future?

Harold MacMillan, when Prime Minister, was asked what he most feared most. He replied "Events, dear boy, Events". The future performance of our industry - and the share prices of SCSI quoted companies - will be affected (both negatively and positively) by *Events*. Events include the Year 2000 and the Euro - which will have a positive effect on performance in the next three years, but could well contribute to a major SCSI recession in 2001+. A *General Election in the UK in 1997 is at least a certainty!* We happen to believe it will have little negative effect on our industry.

But a re-rating (downwards) of IT stocks in the US is the most feared *event*. Regardless of logic, it would effect UK stocks more than any other *event* we know.

### FI GROUP PLC

FI Group announced its results for the six months to 31st Oct. 96 showing rev. up 24% at £46.3m, PBT up 30% at £954K and EPS up 22%. "The second half has started well".

FI Group was a new issue in Mar. 96 at 235p and has been one of the best performers since, ending Jan. 97 on 598p! More next month and on our web page.

## Staffware profits warning

Shares in AIM newcomer **Staffware** plunged by 27% to 190p this month as a result of a profits warning. This is becoming too common an occurrence nowadays.

Staffware specialises in workflow systems and was a new AIM entrant in July 96 at 225p. It had - of course - had an impressive growth record prior to float (see *System House* Aug. 96) with PBT of £536K on revenues of £4.3m in 1995. We had been led to expect PBT of £2m in 1996. However we now understand that 1996 has been "adversely affected" by a shortfall in US earnings and some orders "falling into the new FY". It now does "not expect 1996 to meet market expectations". Expenses associated with recruitment, together with the costs of the abortive acquisition of CSE in Australia, will have an effect on second half profits.

Our industry has been bugged by companies coming to the market at high valuations - and, to be fair, often a good track record - only to fail in the first year. *It all leaves a bad taste in the mouth.* We then have to explain why other new entrants are not going to do an MDIS, Coda, Staffware etc. The argument is getting more difficult.

## Vega - Still Boring after the events of the last year

**Vega** is one of our rare **Boring Award** winners which has not let us down. However, growth in the six months to 31st Oct. 96 was hardly exciting either! Although rev. advanced 22% to £8.8m - £677K of that was from the acquisition of **Kortekerwal B.V.** (Aug. 96 for £4.3m). PBT advanced by 11% to £1.4m but EPS was up just 8%.

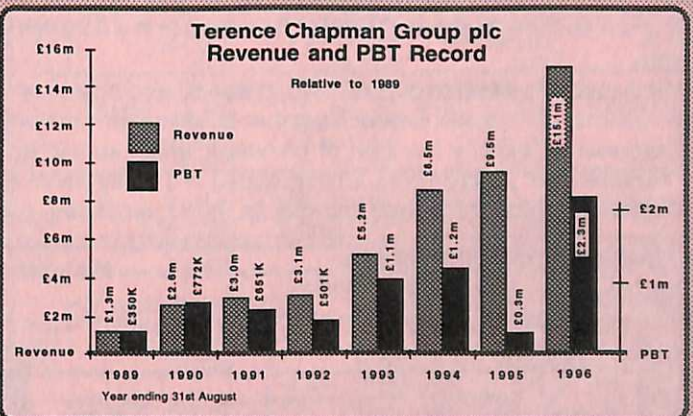
But the really good news at Vega is that "the flow of new contracts" has been particularly strong; including the first two civil aircraft training contracts. In addition, in Vega's established defence/aerospace markets, a new £4m deal with the British Army has been added to a range of new and extension contracts. Given that "the order book has increased significantly" Chairman Robert Drummond is perhaps justified in looking forward with "confidence". Vega shares rose in Jan. by 15% as a result.

**Footnote:** Kelvin Harrison, who was MD of Vega until Apr. 96 when he "unexpectedly resigned" has been appointed this month as CEO of **Symbionics** - a privately owned company specialising in data, voice and video technology where about 60% of the c£10m rev. is software related. *We will watch with great interest.*

## Surely Terence Chapman Group will float soon?

We have featured **Terence Chapman Group** - which specialises in software and services to the financial services sector - for many years fully expecting a float. As results for the year to 31st Aug. 96 show rev. up 59% at £15.1m, PBT up six-fold at £2.3m and EPS up 856%, is the wait almost over?

As the chart shows, there was an element of "recovery" from the "glitch" in 1995 caused by some delayed contracts. "All three operating divisions (TCA Synergo with their TAROT stock broking system, TCA Syntech with their Open Hub product and TCA Consulting) have had a fantastic year...the current year is showing signs of being even better" said Chairman Terence Chapman.



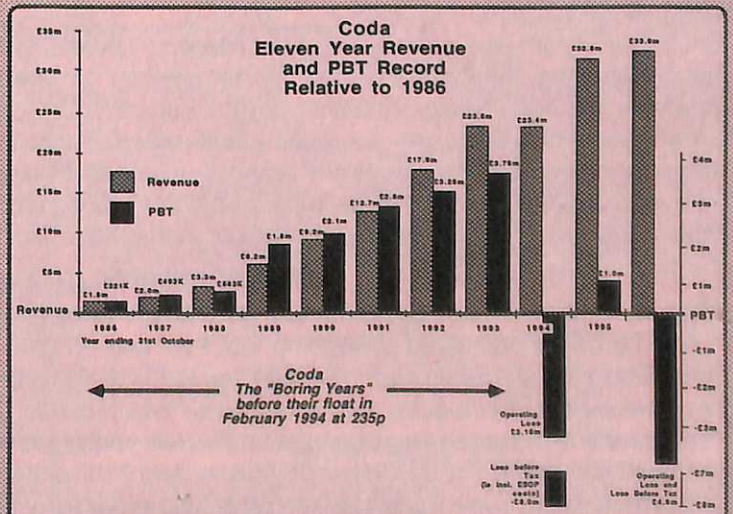
## Coda - Perhaps we should say "No comment"

We should have stopped reviewing **Coda** years ago. After awarding them a **Boring Award** just before their float at 235p, we then had to eat our words when they plunged to an £8m loss in 1994 and the share price hit a low of 75p. Just a year ago we headlined "Coda - Boring again" as the share price hit 230p again as they returned to profit. But we had to eat those words again in June as a profits warning was issued and the shares slumped back down to a low of 96p.

So how do we review **Coda** now? Whatever we say we suggest you don't take a blind bit of notice. At the headline level, revenues in the year to 31st Oct. 96 increased by a minimal 3% to £33.9m but losses of £4.9m were recorded compared with PBT of £1m last time. "Restructuring in the US" was "the principal reason".

As might be expected it was the 18% reduction in proprietary revenues - most pronounced in the 23% reduction in DEC VAX - which caused the grief in each of the last three years. Open systems rev. increased by 33% to £18.2m or over 50% of the total for the first time. 40% of new licences were for MS NT. The UK (+74%), Benelux (+79%) and France (+156%) were the best performers but US rev. declined by 14%. Overall licence rev. was down 10%. But it was (yes, you've guessed) professional services - up 19% at £10.1m and maintenance up 14% at £8.9m - which saved Coda from an even worse result. Services and support now represent 56% of revenues.

The market hoped that the worse was over and the shares rose 18% to end Jan. 97 on 127p. *Probably better for us to make no further comment!*



# DIAGONAL

Last month **Diagonal plc** announced its intention to seek a full stock market float. This is currently planned for mid-March. Diagonal is the first and only such Farnham-HQed company to go for a Stock Exchange listing.

When we visited Chairman and CEO Mark Samuels to produce this review, we were castigated for our "Diagonal - another IT staff agency to float" headline

last month. Samuels doesn't like the tag line even though about half the revenue still seems to us to come from this activity! Mark Samuels was with P-E International between 1972 and 1987 and, as MD, took P-E to the stock market in 1986. About a year after leaving, Samuels and others from P-E set up Diagonal in 1988 with £750K of their own money with 3i. investing £1.5m for a 29% stake. This enabled them to acquire Strand and MAPP.

Diagonal now consists of the following activities:

- **SAP Consulting** (around £7m revenue) where they have recently, alongside Andersen Consulting and Origin, been voted SAP's "Excellence Award" by customers. In this activity, they could be likened to **Druid** which itself gained a Stock Market quote in Nov. 1996.
- **Strand** (around £3m revenues) which is a SAP IT contract agency.
- **Managed Projects** (around £3m revenues) which typically works long term with blue chip clients like Asda, Nat West etc. Their long term support contracts could be likened to application management.
- **MAPP** (around £10.5m revenues) is a general IT staff agency...and also seems, at 5%, to be making the typical kind of IT agency profit margins.
- **Information Systems** is a general consultancy with revenues of around £4m. Diagonal's campaign recruitment operation, **Marshall-Wilkins** (revenue £600K) has been merged into this division.

Growth has been exemplary - one might even be forced to describe it as "**Boring**" in the future as there does not seem to have been any reversals since inception. In the year to 30th Nov. 96, it looks as if both revenues and PBT grew by around 45% to £28.4m and £2.0m respectively.

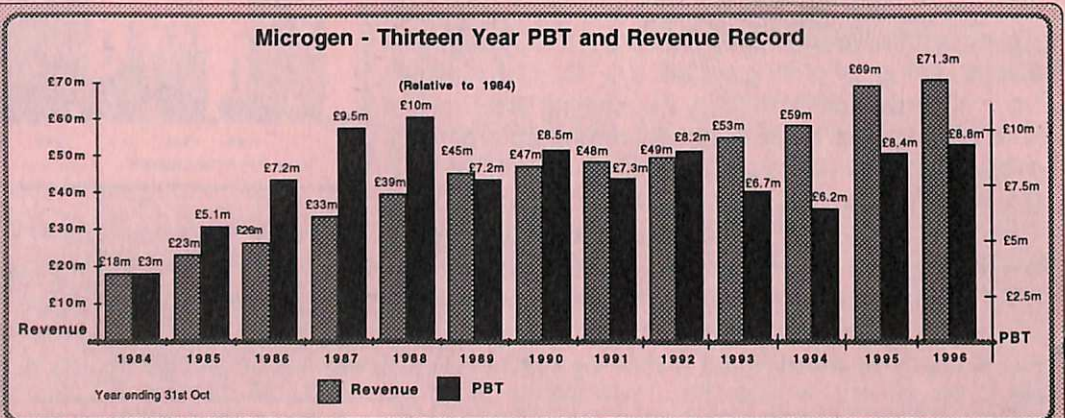
In 1994, **Gartmore** bought in with a 4.5% stake. They and 3i. (29%) are the only external shareholders with directors (35%), staff (25%) and ex-directors/employees holding the remainder.

It looks as though about £10m will be raised in the float with £4m being new funds allowing Diagonal to reduce borrowings etc.

We expect a valuation of £40m. Druid was floated on an historic P/E of 37 but has still seen its share price rise by 57% since! A modest 47 P/E! We expect Diagonal to have a P/E in the low 20s - thus providing considerable scope for further gains. Diagonal is exactly the kind of company which should do well in the next few years. It seems to be well managed by "experienced" practitioners. On top of that, if it really wants to be rated as an IT consultancy - rather than an IT staff agency - it has significant scope to improve its rather pedestrian current 7% profit margin.

## Microgen in transition

The chart is, in effect, the full story of **Microgen**. Revenues up 6% at £73.4m, PBT up 5% at £8.8m and EPS up 2%. Of course a 12% profit margin is still a dream for most in the industry, but the growth rate is ...well, truly boring! Indeed Microgen were earning a higher PBT in 1987!



Microgen's COM services are in terminal decline - as an example a substantial contract with a Finnish bank has come to an early end. Microgen has not only recognised this but has worked hard to develop other information archiving markets. But we all know transition can be difficult. Being charitable, Microgen seems to have weathered the storm better than most. COM has remained a cash cow even though revenues have fallen. This has, as Chairman Douglas Lee says "masked the substantial progress made in re-engineering the business". Indeed their newer Information Management/FM business "is growing quickly and, for the first time, represents more than half group turnover". Perhaps the future may, indeed, be more exciting than the past.

## Misys' organic growth hardly exciting

Results for the six months to 30th Nov. 96 at **Misys** were largely as expected. Rev. increased 10% to £142.8m - which could hardly be described as exciting. But PBT was up 23% at £23.7m and EPS up 20%. Banking - now 51% of the total - was the strongest performer with rev. up 14% and profits up 25% at £15.4m. But "slow market conditions were experienced in the General Insurance sector" which meant profits declined by 5% to £5.5m on rev. up 11% at £20m. The transaction processing operation, however, performed "excellently". But rev. at Information Systems grew only modestly to £49.6m but, at least, profits were up 21% at £4.4m.

Chairman Kevin Lomax said that the recent acquisitions of Frustum and Summit had performed "at least as good as the best expectations" and that "further small to medium sized deals" were planned. "With continued good order intake, particularly in the Banking Div., the board is confident that Misys should record strong further progress".

Anyway, Misys shares ended Jan. 97 on £11.13p - that's 89% higher than a year ago. As we told Nicholas Denton of the FT "Just think what they could now be worth in a NASDAQ IPO"

**Quoted Companies - Results Service**

Note: Shaded = Results announced this month.

Admiral plc					Electronic Data Processing plc				
	Interim - Jun 95	Final - Dec 95	Interim - Jun 96	Comparison		Final - Sep 95	Final - Sep 96	Comparison	
REV	£ 30,204,000	£ 65,460,000	£ 43,009,000	+42.4%	REV	£ 12,605,000	£ 14,267,000	+13.2%	
PBT	£ 5,589,000	£ 9,832,000	£ 5,180,000	-7.3%	PBT	£ 3,083,000	£ 2,519,000	-18.3%	
EPS	6.40p	10.72p	5.50p	-14.1%	EPS	7.53p	6.64p	-11.8%	
AFA Systems plc					F.I. Group plc				
	Final - Dec 95 (5 mos)	Final - Apr 96	Interim - Jun 96	Comparison		Final - Apr 95	Final - Apr 96	Comparison	
REV	£ 0	£ 217,000	£ 237,000	n/a	REV	£ 61,703,000	£ 78,824,000	+27.7%	
PBT	-£ 121,000	-£ 133,000	-£ 229,000	Both loss	PBT	£ 3,260,000	£ 3,763,000	+15.4%	
EPS	-1.62p	n/a	-3.06p	Loss both	EPS	7.60p	7.70p	+1.3%	
Anite Group plc					Flomerics Group plc				
	Interim - Oct 95	Final - Apr 96	Interim - Oct 96	Comparison		Interim - Jun 95	Interim - Jun 96	Comparison	
REV	£ 128,957,000	£ 262,838,000	£ 103,533,000	+19.7%	REV	£ 1,541,240	£ 2,146,559	+39.3%	
PBT	-£ 14,594,000	-£ 19,378,000	-£ 63,454,000	Loss both	PBT	-£ 110,288	-£ 154,643	loss both	
EPS	-6.30p	-8.40p	-27.40p	Loss both	EPS	n/a	n/a	n/a	
Azlan Group plc					Gresham Computing plc				
	Interim - Sep 95	Final - Mar 96	Interim - Sep 96	Comparison		Final - Oct 95	Final - Oct 96	Comparison	
REV	£ 72,716,000	£ 196,459,000	£ 126,464,000	+73.9%	REV	£ 7,895,000	£ 9,271,000	+17.4%	
PBT	£ 4,445,000	£ 10,507,000	£ 6,034,000	+35.7%	PBT	£ 1,281,000	£ 1,682,000	+31.3%	
EPS	13.60p	30.30p	15.00p	+10.3%	EPS	2.36p	3.15p	+33.5%	
Cadcentre Group plc					Highams Systems Services Group plc				
	Final - Mar 95	Final - Mar 96	Final - Mar 96	Comparison		Interim - Sep 95	Interim - Sep 96	Comparison	
REV	£ 11,941,000	£ 14,198,000	£ 14,198,000	+18.9%	REV	n/a	£ 7,359,000	n/a	
PBT	£ 556,000	£ 1,669,000	£ 1,669,000	+200.2%	PBT	n/a	£ 388,000	n/a	
EPS	n/a	n/a	n/a	n/a	EPS	n/a	3.30p	n/a	
Capita Group plc					INSTEM plc				
	Interim - Jun 95	Final - Dec 95	Interim - Jun 96	Comparison		Interim - Jun 95	Interim - Jun 96	Comparison	
REV	£ 43,418,000	£ 86,994,000	£ 50,067,000	+15.3%	REV	£ 11,205,000	£ 10,740,000	-4.1%	
PBT	£ 4,011,000	£ 9,420,000	£ 4,588,000	+14.4%	PBT	£ 577,000	£ 402,000	-30.3%	
EPS	5.00p	11.80p	5.50p	+10.0%	EPS	8.40p	5.80p	-31.0%	
Cedardata plc					Intelligent Environments Group plc				
	Interim - Sep 95	Final - Mar 96	Interim - Sep 96	Comparison		Interim - Jun 95	Interim - Jun 96	Comparison	
REV	£ 5,333,000	£ 12,071,000	£ 5,661,000	+6.2%	REV	£ 2,026,000	£ 2,028,000	+0.1%	
PBT	£ 1,995,000	£ 4,384,000	£ 1,935,000	-3.0%	PBT	-£ 3,000	£ 35,000	Loss to profit	
EPS	4.20p	9.50p	4.10p	-2.4%	EPS	-0.10p	0.20p	Loss to profit	
CFS Group plc					JBA Holdings plc				
	Interim - Jun 95	Final - Dec 95	Interim - Jun 96	Comparison		Interim - Jun 95	Interim - Jun 96	Comparison	
REV	£ 1,276,000	£ 2,988,520	£ 1,751,000	+37.2%	REV	£ 49,464,000	£ 69,822,000	+41.2%	
PBT	-£ 66,000	£ 384,675	£ 26,000	Loss to profit	PBT	£ 754,000	£ 1,362,000	+80.6%	
EPS	-1.50p	4.77p	1.60p	Loss to profit	EPS	1.43p	2.33p	+62.9%	
Chemical Design Holdings plc					Kalamazoo Computer Group plc				
	Interim - Jun 95	Final - Dec 95	Interim - Jun 96	Comparison		Interim - Sep 95	Interim - Sep 96	Comparison	
REV	£ 512,645	£ 1,811,407	£ 863,015	+68.3%	REV	£ 32,358,000	£ 35,218,000	+8.8%	
PBT	-£ 151,810	£ 239,488	£ 52,478	Loss to profit	PBT	£ 2,012,000	£ 2,340,000	+16.3%	
EPS	n/a	3.50p	0.69p	n/a	EPS	3.66p	3.72p	+1.6%	
Clinical Computing plc					Kewill Systems plc				
	Interim - Jun 95	Final - Dec 95	Interim - Jun 96	Comparison		Interim - Sep 95	Interim - Sep 96	Comparison	
REV	£ 924,000	£ 2,355,178	£ 1,236,000	+33.8%	REV	£ 16,567,000	£ 19,830,000	+19.7%	
PBT	-£ 357,000	-£ 546,832	-£ 573,000	Loss both	PBT	£ 2,613,000	£ 3,243,000	+24.1%	
EPS	-2.20p	-3.40p	-3.40p	Loss both	EPS	14.60p	17.50p	+19.9%	
CMG plc					Logica plc				
	Interim - Jun 95	Final - Dec 95	Interim - Jun 96	Comparison		Final - Jun 95	Final - Jun 96	Comparison	
REV	£ 94,559,000	£ 196,484,000	£ 116,616,000	+23.3%	REV	£ 250,135,000	£ 284,810,000	+13.9%	
PBT	£ 8,640,000	£ 18,460,000	£ 11,340,000	+31.3%	PBT	£ 20,310,000	£ 24,710,000	+21.7%	
EPS	8.90p	18.20p	11.40p	+28.1%	EPS	21.70p	27.10p	+24.9%	
Coda Group plc					Lorien plc				
	Final - Oct 95	Final - Oct 96	Final - Oct 96	Comparison		Interim - May 95	Interim - May 96	Comparison	
REV	£ 32,791,000	£ 33,889,000	£ 33,889,000	+3.3%	REV	£ 11,527,000	£ 17,997,000	+56.1%	
PBT	£ 1,030,000	-£ 4,899,000	-£ 4,899,000	Profit to loss	PBT	£ 414,000	£ 600,000	+44.9%	
EPS	2.50p	-18.80p	-18.80p	Profit to loss	EPS	6.17p	7.05p	+14.3%	
Compel Group plc					Lynx Holdings plc				
	Final - Jun 95	Final - Jun 96	Final - Jun 96	Comparison		Final - Sep 95	Final - Sep 96	Comparison	
REV	£ 70,019,000	£ 85,620,000	£ 85,620,000	+22.3%	REV	£ 32,018,000	£ 37,644,000	+173.7%	
PBT	£ 2,684,000	£ 3,235,000	£ 3,235,000	+20.5%	PBT	£ 2,564,000	£ 6,953,000	+171.2%	
EPS	11.10p	13.00p	13.00p	+17.1%	EPS	4.70p	5.36p	+14.0%	
CRT Group plc					M.A.I.D. plc				
	Interim - Oct 95	Final - Apr 96	Interim - Oct 96	Comparison		Interim - Jun 95	Interim - Jun 96	Comparison	
REV	£ 48,079,000	£ 103,282,000	£ 55,497,000	+15.4%	REV	£ 5,762,000	£ 9,584,000	+66.3%	
PBT	£ 1,748,000	£ 6,515,000	£ 3,367,000	+92.6%	PBT	£ 408,000	-£ 3,284,000	Profit to loss	
EPS	1.71p	5.70p	2.40p	+40.4%	EPS	0.33p	-3.68p	Profit to loss	
DCS Group plc					MMT Computing plc				
	Final - Jun 95	Final - Jun 96	Final - Jun 96	Comparison		Final - Aug 95	Final - Aug 96	Comparison	
REV	£ 8,694,833	£ 30,482,000	£ 30,482,000	+250.6%	REV	£ 13,957,949	£ 16,861,201	+20.8%	
PBT	£ 609,530	£ 2,366,000	£ 2,366,000	+288.2%	PBT	£ 3,075,053	£ 4,531,686	+47.4%	
EPS	5.02p	8.31p	8.31p	+65.5%	EPS	16.30p	24.60p	+50.9%	
DRS Data & Research Services plc					M-R Group plc				
	Interim - Jun 95	Final - Dec 95	Interim - Jun 96	Comparison		Final - Jun 95	Final - Jun 96	Comparison	
REV	£ 4,269,000	£ 6,468,000	£ 2,918,000	-31.6%	REV	£ 41,429,000	£ 38,381,000	-7.4%	
PBT	£ 512,000	£ 594,000	-£ 363,000	Profit to loss	PBT	£ 1,309,000	£ 4,810,000	+267.5%	
EPS	0.95p	1.33p	-0.72p	Profit to loss	EPS	1.60p	5.70p	+256.3%	
Delphi Group plc					McDonnell Information Systems Group plc				
	Interim - Jun 95	Final - Dec 95	Interim - Jun 96	Comparison		Interim - Jun 95	Interim - Jun 96	Comparison	
REV	£ 83,168,000	£ 175,006,000	£ 100,174,000	+20.4%	REV	£ 79,145,000	£ 60,540,000	-23.5%	
PBT	£ 4,101,000	£ 9,015,000	£ 5,709,000	+39.2%	PBT	-£ 1,673,000	-£ 9,213,000	Loss both	
EPS	11.70p	25.42p	15.10p	+29.1%	EPS	-2.30p	-9.39p	Loss both	
Division Group plc					Macro 4 plc				
	Final - Oct 95	Final - Oct 96	Final - Oct 96	Comparison		Final - Jun 95	Final - Jun 96	Comparison	
REV	£ 4,895,000	£ 4,900,000	£ 4,900,000	+1.4%	REV	£ 25,035,000	£ 25,317,000	+1.1%	
PBT	-£ 3,893,000	-£ 1,678,000	-£ 1,678,000	Loss both	PBT	£ 11,602,000	£ 12,147,000	+4.7%	
EPS	-9.20p	-3.80p	-3.80p	Loss both	EPS	35.20p	37.50p	+6.5%	
Druid Group plc					Micro Focus plc				
	Final - Jun 95	Final - Jun 96	Final - Jun 96	Comparison		Interim - Jul 95	Interim - Jul 96	Comparison	
REV	£ 6,159,000	£ 12,013,000	£ 12,013,000	+95.0%	REV	£ 36,802,000	£ 34,140,000	-7.2%	
PBT	£ 1,303,000	£ 3,011,000	£ 3,011,000	+131.1%	PBT	-£ 4,470,000	-£ 9,463,000	Loss both	
EPS	n/a	n/a	n/a	Loss both	EPS	-30.00p	-62.20p	Loss both	
Eidos plc					Microgen Holdings plc				
	Final - Dec 94	Final - Mar 96	Final - Mar 96	Comparison		Final - Oct 95	Final - Oct 96	Comparison	
REV	£ 254,225	£ 3,706,000	£ 3,706,000	n/a	REV	£ 69,029,000	£ 73,391,000	+6.3%	
PBT	-£ 107,623	-£ 1,949,000	-£ 1,949,000	Loss both	PBT	£ 8,383,000	£ 8,783,000	+4.8%	
EPS	-4.16p	-44.60p	-44.60p	Loss both	EPS	14.80p	15.10p	+2.0%	

# Quoted Companies - Results Service

Note: Shaded = Results announced this month.

Microvitec plc				Recognition Systems Group plc					
	Interim - Jun 95	Final - Dec 95	Interim - Jun 96	Comparison		Final - Sep 95	Final - Sep 96	Comparison	
REV	£ 26,550,000	£ 55,050,000	£ 33,840,000	+27.5%	REV	£ 669,000	£ 324,000	-51.8%	
PBT	£ 1,607,000	£ 3,411,000	£ 1,610,000	+0.2%	PBT	£ 397,000	£ 1,266,000	Loss both	
EPS	1.47p	3.10p	1.40p	-4.8%	EPS	-2.10p	-5.50p	Loss both	
Misys plc				Riva Group plc					
	Interim - Nov 95	Final - May 96	Interim - Nov 96	Comparison		Interim - Jun 95	Final - Dec 95	Interim - Jun 96	Comparison
REV	£ 129,528,000	£ 279,867,000	£ 142,809,000	+10.3%	REV	£ 34,718,000	£ 73,022,000	£ 32,348,000	-8.8%
PBT	£ 19,216,000	£ 50,437,000	£ 23,665,000	+23.2%	PBT	£ 58,000	£ 182,000	£ 905,000	Profit to loss
EPS	16.90p	44.00p	20.30p	+20.1%	EPS	-0.20p	0.10p	-3.00p	Loss both
Mondas plc				Rolfe & Nolan plc					
	Final - Apr 95		Final - Apr 96	Comparison		Interim - Aug 95	Final - Feb 96	Interim - Aug 96	Comparison
REV	£ 133,300		£ 134,176	+0.7%	REV	£ 7,661,000	£ 8,630,000	£ 8,630,000	+12.6%
PBT	£ 232,066		£ 167,966	Loss both	PBT	£ 1,074,000	£ 2,517,000	£ 1,107,000	+3.1%
EPS	n/a		n/a	n/a	EPS	5.35p	12.33p	5.57p	+4.1%
Moorepay Group plc				Romtec plc					
	Interim - Jun 95	Final - Dec 95	Interim - Jun 96	Comparison		Interim - Jul 95	Final - Jan 96	Interim - Jul 96	Comparison
REV	£ 2,342,152	£ 4,632,538	£ 2,717,246	+18.0%	REV	£ 1,614,000	£ 3,731,187	£ 1,990,000	+23.3%
PBT	£ 666,324	£ 1,142,110	£ 851,417	+27.8%	PBT	£ 105,000	£ 257,430	£ 128,000	+21.9%
EPS	5.88p	10.22p	7.52p	+27.9%	EPS	1.50p	3.60p	1.70p	+13.3%
MSB International plc				Sage Group plc					
	Interim - Jul 95	Final - Jan 96	Interim - Jul 96	Comparison		Final - Sep 95	Final - Sep 96	Comparison	
REV	£ 15,692,000	£ 38,555,000	£ 29,961,000	+90.9%	REV	£ 102,234,000	£ 136,236,000	+33.3%	
PBT	£ 1,370,000	£ 3,420,000	£ 2,166,000	+58.1%	PBT	£ 22,362,000	£ 30,053,000	+34.4%	
EPS	4.80p	9.00p	7.00p	+45.8%	EPS	13.88p	18.50p	+33.3%	
OmniMedia plc				Sanderson Electronics plc					
	Interim - Jun 95	Final - Dec 95	Interim - Jun 96	Comparison		Final - Sep 95	Final - Sep 96	Comparison	
REV	£ 199,962	£ 275,275	£ 250,684	+25.4%	REV	£ 57,801,000	£ 61,385,000	+6.2%	
PBT	£ 279,137	£ 1,023,344	£ 670,769	Loss both	PBT	£ 5,305,000	£ 6,201,000	+16.9%	
EPS	-1.76p	-6.06p	-3.16p	Loss both	EPS	8.80p	10.10p	+14.8%	
On Demand Information plc				Sema Group plc					
	Final - Jul 95		Final - Jul 96	Comparison		Interim - Jun 95	Final - Dec 95	Interim - Jun 96	Comparison
REV	£ 8,786,000		£ 11,429,000	+30.1%	REV	£ 321,892,000	£ 677,728,000	£ 426,919,000	+32.6%
PBT	£ 3,646,000		£ 2,900,000	Loss both	PBT	£ 16,034,000	£ 36,927,000	£ 19,754,000	+23.2%
EPS	-7.20p		-5.60p	Loss both	EPS	10.47p	24.79p	13.23p	+26.4%
Oxford Molecular plc				Sherwood International plc					
	Interim - Jun 95	Final - Dec 95	Interim - Jun 96	Comparison		Interim - Jun 95	Final - Dec 95	Interim - Jun 96	Comparison
REV	£ 2,832,000	£ 6,179,000	£ 4,350,000	+53.6%	REV	£ 13,195,000	£ 26,248,000	£ 11,801,000	-10.6%
PBT	£ 2,112,000	£ 3,693,000	£ 950,000	Loss both	PBT	£ 615,000	£ 6,850,000	£ 705,000	+14.6%
EPS	-4.20p	-7.20p	-1.80p	Loss both	EPS	5.90p	66.20p	5.60p	-5.1%
P & P plc				Spargo Consulting plc					
	Interim - May 95	Final - Nov 95	Interim - May 96	Comparison		Interim - Jun 95	Final - Dec 95	Interim - Jun 96	Comparison
REV	£ 171,100,000	£ 341,990,000	£ 179,200,000	+4.7%	REV	£ 3,329,000	£ 7,379,000	£ 4,040,000	+21.4%
PBT	£ 6,200,000	£ 12,574,000	£ 6,500,000	+4.8%	PBT	£ 192,000	£ 902,000	£ 602,000	+213.5%
EPS	5.30p	11.00p	5.80p	+9.4%	EPS	0.90p	4.43p	3.10p	+244.4%
Parity plc				Staffware plc					
	Interim - Jun 95	Final - Dec 95	Interim - Jun 96	Comparison		Interim - Jun 95	Final - Dec 95	Interim - Jun 96	Comparison
REV	£ 61,512,000	£ 127,711,000	£ 76,363,000	+24.1%	REV	£ 1,819,534	£ 4,267,360	£ 4,044,061	+122.3%
PBT	£ 3,069,000	£ 6,540,000	£ 4,303,000	+40.2%	PBT	£ 146,380	£ 535,213	£ 159,812	+9.2%
EPS	4.82p	10.34p	6.75p	+40.0%	EPS	0.70p	3.90p	0.40p	-42.9%
Pegasus Group plc				Superscape VR plc					
	Interim - Jun 95	Final - Dec 95	Interim - Jun 96	Comparison		Final - Jul 95	Final - Jul 96	Comparison	
REV	£ 3,038,000	£ 6,426,000	£ 3,729,000	+22.7%	REV	£ 1,590,000	£ 3,888,000	+144.5%	
PBT	£ 172,000	£ 893,000	£ 511,000	+197.1%	PBT	£ -1,746,000	£ -2,873,000	Loss both	
EPS	1.80p	10.30p	6.50p	+261.1%	EPS	-30.70p	-37.90p	Loss both	
Persona plc				Systems Integrated Research plc					
	Interim - Jun 95	Final - Dec 95	Interim - Jun 96	Comparison		Interim - Nov 95	Final - May 96	Interim - Nov 96	Comparison
REV	£ 24,780,000	£ 53,375,000	£ 65,164,000	+163.0%	REV	n/a	£ 1,246,000	£ 507,000	n/a
PBT	£ 1,350,000	£ 2,832,000	£ 2,707,000	+100.5%	PBT	n/a	£ -642,000	£ -1,194,000	n/a
EPS	6.88p	14.41p	7.78p	+13.1%	EPS	n/a	-5.80p	-9.10p	n/a
PhoneLink plc				Total Systems plc					
	Interim - Sep 95	Final - Mar 96	Interim - Sep 96	Comparison		Interim - Sep 95	Final - Mar 96	Interim - Sep 96	Comparison
REV	£ 2,103,000	£ 4,356,000	£ 2,155,000	+2.5%	REV	£ 1,273,331	£ 2,892,802	£ 1,477,822	+16.1%
PBT	£ -2,712,000	£ 6,711,000	£ 3,152,000	Loss both	PBT	£ 54,488	£ 222,329	£ 185,587	Loss to profit
EPS	-7.30p	-17.30p	-6.70p	Loss both	EPS	-0.44p	1.60p	1.33p	Loss to profit
Proteus International plc				Trace Computers plc					
	Interim - Sep 95	Final - Mar 96	Interim - Sep 96	Comparison		Final - May 95	Final - May 96	Comparison	
REV	£ 30,000	£ 1,663,000	£ 413,000	+1276.7%	REV	£ 19,876,832	£ 20,534,253	+4.4%	
PBT	£ -3,618,000	£ 5,395,000	£ 1,820,000	Loss both	PBT	£ 482,746	£ 5,135,596	Profit to loss	
EPS	-9.75p	-14.53p	-3.67p	Loss both	EPS	2.53p	-35.88p	Profit to loss	
Quality Software Products Holdings plc				Triad Group plc					
	Interim - Jun 95	Final - Dec 95	Interim - Jun 96	Comparison		Interim - Sep 95	Final - Mar 96	Interim - Sep 96	Comparison
REV	£ 10,115,000	£ 21,385,842	£ 11,797,000	+16.6%	REV	£ 3,720,000	£ 11,680,000	£ 8,350,000	+124.5%
PBT	£ 805,000	£ 502,697	£ -1,117,000	Profit to loss	PBT	£ 778,000	£ 2,131,000	£ 1,219,000	+56.7%
EPS	9.20p	5.20p	-8.60p	Profit to loss	EPS	2.51p	7.09p	3.22p	+28.3%
RM plc				Vega Group plc					
	Final - Sep 95		Final - Sep 96	Comparison		Interim - Oct 95	Final - Apr 96	Interim - Oct 96	Comparison
REV	£ 80,691,000		£ 99,032,000	+22.7%	REV	£ 7,260,000	£ 18,032,000	£ 8,828,000	+21.6%
PBT	£ 5,023,000		£ 6,806,000	+35.5%	PBT	£ 1,271,000	£ 3,452,000	£ 1,405,000	+10.5%
EPS	18.80p		25.10p	+33.5%	EPS	5.90p	16.16p	6.35p	+7.6%
Radius plc				Virtuality Group plc					
	Interim - Jun 95	Final - Dec 95	Interim - Jun 96	Comparison		Interim - Jun 95	Final - Dec 95	Interim - Jun 96	Comparison
REV	£ 13,424,000	£ 26,052,000	£ 13,934,000	+3.8%	REV	£ 6,269,000	£ 12,779,000	£ 3,541,000	-43.5%
PBT	£ 835,000	£ 1,809,000	£ 1,006,000	+20.5%	PBT	£ -583,000	£ 565,000	£ 3,783,000	Loss both
EPS	1.96p	4.37p	2.40p	+22.4%	EPS	-2.20p	-2.10p	-13.40p	Loss both
Rage Software plc				Wakebourne plc					
	Final - Jun 95		Final - Jun 96	Comparison		Interim - Jun 95	Final - Dec 95	Interim - Jun 96	Comparison
REV	£ 9,154,000		£ 9,504,000	+3.8%	REV	£ 18,848,000	£ 36,714,000	£ 16,145,000	-14.3%
PBT	£ 969,000		£ 3,224,000	Profit to loss	PBT	£ 356,000	£ 3,384,000	£ 212,000	Loss to profit
EPS	0.51p		-1.34p	Profit to loss	EPS	-1.10p	-12.20p	0.60p	Loss to profit
Real Time Control plc				Xavier Computer Group plc					
	Interim - Sep 95	Final - Mar 96	Interim - Sep 96	Comparison		Period - Mar 96	Final - Dec 95	Interim - Sep 96	Comparison
REV	£ 5,325,000	£ 11,903,000	£ 6,314,000	+18.6%	REV	£ 457,000	£ 1,201,884	£ 3,740,000	n/a
PBT	£ 742,000	£ 2,207,000	£ 1,156,000	+55.8%	PBT	£ -86,000	£ 70,472	£ 260,000	n/a
EPS	7.10p	20.80p	11.00p	+54.9%	EPS	n/a	n/a	0.33p	n/a
Rebus Group plc				Zergo Holdings plc					
	Interim - Sep 95	Final - Mar 96	Interim - Sep 96	Comparison		Interim - Oct 95	Final - Apr 96	Interim - Oct 96	Comparison
REV	£ 28,293,000	£ 80,040,000	£ 30,255,000	+5.4%	REV	£ 4,005,000	£ 8,483,877	£ 4,671,000	+16.6%
PBT	£ 356,000	£ 1,969,000	£ 2,313,000	Loss to profit	PBT	£ 479,000	£ 214,693	£ 237,000	Loss to profit
EPS	-0.32p	0.33p	1.72p	Loss to profit	EPS	-5.47p	n/a	1.81p	Loss to profit

## UK M&A

Dealership **Portable Computers** has been sold to US **Elcom** for £7m. **Cap Gemini UK (Hoskyns)** has sold its NHS business to US healthcare specialist **HBO**. 70 staff and 100 customer contracts will transfer. HBO bought **Oracle UK's** healthcare operations in 1995.

Ex-ACT Lindsay Bury's **Casewise** (modelling software) has raised \$1.6m in the US implying a £11.6m valuation. A US or UK float is planned. Hot on the heels of its acquisition of **Data Translation Networking**, Peter Rigby's **Specialist Computer Holdings** has acquired network distributor **Qudis**. **Rage Software** (games) has bought out the remaining 20% of **Splinter** for £500K. **Software City** is said to be "a week away from liquidation" according to MicroScope. **Bitstream** has acquired **Mainstream Software Solutions**.

**Time Open Systems Ltd** (advised by Broadview) which develops Windows NT based financial applications, has been acquired by US **Software 2000** for \$9m.

**Torex** acquired three companies in Dec. 96 (see Jan. 97 *System House*) turning itself from a tool hire company into an IT services operation. However, its £1.93m rights issue received only 49% acceptances. That was a bit surprising given that the issue was at 43p but Torex shares were at 50p when the offer closed.

**Reuters** (which some consider to be the largest UK-owned SCSI operation) has acquired a 49% stake in **BisNews Information Services** (real time news to the Thai financial markets) for £10.6m.

**Delphi** has completed its purchase of **SystemLink** ("US IT consultancy and IT staff agency") for \$2.6m. We reported on this back in Nov. 96 when Delphi announced their £7.3m placing. SystemLink had operating profits of \$500K on revenues of \$4.8m with estimated revenues of >\$5m in 1996 and profits "at the same level as 1995".

**Superscape** have raised £1.8m in a placing at 440p.

**SHL Systemhouse** has acquired **PC ServicePartners Inc.** - a PC services operation with 225 employees in Canada. The seller was **IBM Canada Ltd.** Relevant now, of course, because SHL Systemhouse is owned by MCI which in turn is in the process of being acquired by BT. So it's a British SCSI acquisition!!!

Philip Noden, one of the founders of **Sanderson Electronics**, has joined Paul Thompson in selling much of his shareholding this month. The Sunday Times concluded "some profit taking is timely".

**Sema** has been selected as the preferred bidder for **BR Business Systems** - the IT dept. of BR which has over 1100 staff and rev. of £87m. It had net assets of £13.2m. We are not completely sure of the consideration but it is rumoured at around £50m. This is yet more growth for Sema's booming outsourcing activities and must have come as a disappointment for rival bidders Cap Gemini (Hoskyns), Andersen Consulting and ICL (CFM).

**Infobank International** which "provides electronic commerce systems for the purchase of business products by corporates from approved suppliers" is coming to AIM in early Feb. raising £8m and valuing the group at c£20m.

### Computacenter prospers

**Computacenter** has announced UK rev up 60% at £803m (plus French rev. of FF650m = c£80m) for 1996. Op. profits increased from £13.5m to £38m - a margin of 4.7%.

These results are truly sparkling - more detailed profile later.

### Anite - now a fully fledged SCSI company

This month **Anite** (previously **Cray Electronics**) has announced the sale of **CASE Technology** (Denmark) to **INTEL** for £42m cash. Considering that this part of the operation had lost £8m on rev. of £16m in the year to 30th Apr. 96, the consideration was remarkable. "This is at least one transaction when **Broadview Associates** earned their fee" we were told! **Case UK** has been sold for £1m to **Nileband** whose directors are ex-Cray Chairman Roger Holland and Mark Lunt - the new MD brought in by Jon Richard last year. In addition Anite will provide up to £4m working capital + other assistance. **Case UK** had lost £13m on rev. of £39m in the year to 30th Apr. 96. As previously reported, **Case US** had been sold for \$14m to **Osicom** in Sept. 96... "the divestments announced today successfully conclude Anite's exit from data comms manufacturing enabling it to focus resources on its core strengths" i.e. its SCSI activities.

But, have no doubt, this metamorphosis has come at a heavy price. Interim results for the six months to 31st Oct. 96 show (not that surprisingly) revenues down 20% at £103.5m and a loss before tax of £63.4m... a sector record! Interestingly, the proforma net loss on all the disposals was only £4m. The major part of the loss was the operating loss in the period of discontinued businesses and a £21.9m surplus property cost provision.

The continuing SCSI bits recorded revenues of £77.4m and op. profits of £3m in the six months to 31st Oct. 96. Mike Shone's **Anite Systems** had a particularly good period with PBT up 38% at £2.8m and rev. up 5% at £39m - a quite acceptable 7.3% margin. Major new £1m+ orders had been booked with EC, CONAE, ESA, Standard Life. **Anite Networks**, however, suffered a 14% reduction in revenues to £38.6m and minimal (but at least static) profits of £215K.

Both operations were profitable and cash generative. Indeed, although we were not surprised at the high cost of the disposals, the cash was a positive surprise. Anite's proforma balance sheet would have showed £17m in cash and zero gearing.

All the hardware-oriented bad news has undoubtedly caused Anite to lose business or, at least, to see decisions delayed pending a more stable future. This is now behind them. Anite should now be valued as a SCSI company. When the dust settles, analysts are suggesting PBT of £10.6m equating to prospective P/E of 13. Even though Anite's shares have risen by 41% to 52p this month, that's about half the industry average and about a third commanded by high flyers like FI Group, Logica etc. So either Anite's value rises or they are more vulnerable than ever to a predator.

### Intelligent Environments buys in US

**Intelligent Environments** has a range of development tools - like its Amazon internet building application. IE were an AIM new entrant in June 96 at 94p.

This month they have acquired **Intrepid Consulting Inc.** "a US systems implementation consulting firm" for \$1.625m now + \$1.375m performance related products. IE also announced that its results for the year to Dec. 96 will be close to the board's expectations of £3.5m rev. and pretax losses of less than £1.5m. However "significant rev. growth will be achieved in 1997". IE shares had slipped to a low of 63p but have recovered to end Jan. 97 on 76p. That still implies a market valuation of £16.9m.

## IMR acquires Link

We are sure many readers know Philip Shipperlee as the Chairman of the CSSA SME Group. He and his wife Sheila also founded **Link** in 1980 as a development/application management supplier. Since then Link has grown to revenues of around £6.9m with PBT of £121K in the year to 31st May 96. They employ 80 staff.

In 1995 Link formed a 50:50 JV with **US Information Management Resources** to form **IMR-UK** which had revenues of \$3m in the 9 months to Sept. 96.

IMR itself was formed by an Englishman - Satish Sanan and provides similar services to Link in the US but often using services sourced from India (see below). IMR was a NASDAQ IPO in Nov. 96 at \$14 and has risen to \$26 since; giving a value of \$252m. Pretty good considering that IMR had revenues of only \$22.7m and profits of \$2.5m in FY95.

This month IMR has acquired Link and its JV stake in IMR-UK for \$5.5m - \$2.1m now in cash, \$1.7m in IMR shares and the rest in cash in 12 months hence. Shipperlee stays on as UK MD...and as an avid *System House* reader we hope!

## Indian SCSI prospers

IMR owns a software development operation in Bangalore, India and therefore is clearly a contributor to the quite exceptional growth in the Indian SCSI. Figures issued this month by their equivalent of the CSSA, show revenues up 60% with exports likely to exceed \$1b in the year to end Mar. 97. The key growth area is Indian companies offering services to overseas clients from India... conversely Indian software products exports represent just 10% of exports. Given the quality of Indian software experts and that their costs can be a fifth of those in the US, it is not surprising that so many companies are looking East.



## AEA Technology acquires SCSI company

Perhaps the greatest difficulty we have is choosing who is - and who is not - an SCSI company. HM Govt. privatised the **Atomic Energy Authority's** (AEA) Technology operations which then went on to a main market float at 280p in Sept. 96. At that stage we decided they were too science and engineering based to be included. In Dec. 96, AEA undertook their first major acquisition buying **BR Research** for £10.8m. As this just took AEA deeper into engineering we also ignored it.

But this month AEA has acquired **Advanced Scientific Computing** (ACS) of Canada. "The acquisition of ACS, a market leader in mechanical fluid dynamics software, is the first in the software field since AEA's recent privatisation". AEA is paying C\$15m (£6.7m) in cash in four equal tranches over 3 years. ACS had revenues of £2.2m and op. profit of £120K in the year to 31st Mar. 96. It seems a good fit for AEA which will now be able to sell ACS's software in Europe and Asia Pacific as well as expanding AEA's presence in America.

AEA itself, where (ex IBMer) Sir Tony Cleaver is Chairman and Steve Shirley is a non exec, recently reported revenues up just 3% at £112m and PBT of £5.3m in the six months to 30th Sept. 96. Profits are, however, expected to be static at around £23m in the full year. Analysts currently forecast PBT of £29m in FY98.

## UK NASDAQers

**Insignia** issued a profits warning this month...indeed a loss is expected in Q4 96. Shares had already been the worst performer and ended Jan. on \$4.19 - compared with their IPO price of \$12 in Nov. 95.

**Select Tools**, a UK NASDAQer launched in Dec. 96, has this month acquired the **Systems Engineer** product range (which has over 15,000 users) from **LBMS** for \$2m cash. It involves the transfer of 11 UK-based development people and some of the maintenance revenues we reported for the new LBMS UK MBO. Select has been one of the better UK NASDAQers with the share price up 21% since launch at \$16.88 at the end of Jan. 97.

UK NASDAQer **Dr. Solomon's** (the anti virus company) has reported "strong revenues and earnings for Q2 to 30th Nov. 96". Indeed revenues were up 90% at £8.7m, PBT up a massive 238% at £1.54m. Dr. Solomon's came to NASDAQ in Nov. 96 at \$17 which valued the company at \$310m. Since then the shares have risen by 45% to end Jan. 97 on \$24.63 - valuing them at \$449m. Proof - if you still need it - that NASDAQ values products companies far more highly than the UK.

## US transactions

Some US acquisitions caught our eye this month for a variety of reasons.

Ex-Oracle/CSSA President Geoff Squire's **Openvision** was acquired by US **Veritas** in a share pooling deal worth \$400m. Openvision was an IPO at \$14 in May 96 but had sunk to \$8 since before recovering to \$13.5 just before the deal. Anyway the \$400m valuation ain't bad for a company with annual revenues of \$30m!

Squire stays on as co-Chairman reporting to Veritas' Mark Leslie. *But we can't see that lasting for long!*

**SunGard** announced the acquisition of **GMI** for \$30m. The reason this caught our eye is that GMI provides derivatives software and **Rolfe & Nolan** is its main (only?) competitor in the US. Many observers suggest this is very good news for R&N whose shares rose by 15% this month.

## Proteus - back from the brink?

We seem to have expected the worst from **Proteus** (molecular modelling software to assist in drug/vaccine development) for many years. Last Jan. 96 it was saved at the bell by **ML Laboratories** which backed a £9m/45p rights issue. But the shares have hit a 29p low since.

Proteus is still heavily loss-making (£1.8m in the six months to 30th Sept. 96) but at least Proteus made some revenue; albeit just £413K.

Shares ended Jan. 97 down 23% on 29p. - a long long way from the 500p high achieved in 1992! But with £9m cash in the bank, the current £16m valuation hardly seems high for this high flying sector.

## Division still disappoints

**Division** - which specialises in virtual reality software - was (or at least should have been) a great white hope for the UK software industry. It was a new issue in 1995 at 138p. But, two years on, rev. is static at £4.9m although, at least, losses have been halved to £1.7m. The board reckons that the emphasis for the coming year "will be on the move towards profitability" with more emphasis on SCSI and less on hardware sales whether their own or 3rd party.

Division ended Jan. 97 on 55p - around 40% of its new issue pricing.



## SCSI Share Index starts 1997 in buoyant mood

Our SCSI Index recorded a 7% rise in Jan. - three times the rise in the FTSE100.

**MDIS** headed the list with a 48% rise - they had been even higher as a result of various "Tips for 1997" before small investors took gains. **Anite** (p7) was up 41% on sale of the hardware side. Newly converted SCSI company - **Torex** - was also up 35%. Indeed almost half the companies in the Index rose by 10% or more.

**Staffware** (p3) fell 27% on profits warning soon after their AIM float. **Proteus** (p8) fell 23% and **Virtuality** (down 20%) reflected a lack of confidence in virtual reality stocks.

29-Jan-97		SCSI Index		2865.04	
		FTSE 100		4207.50	
		BDO AIM		1462.10	
		FTSE SmallCap		2292.17	
SCSI Index = 1000 on 15th April 1989					
Changes in Indices		SCSI Index	FTSE 100	BDO AIM Index	FTSE Small Cap
Month (31/12/96 - 29/1/97)		+7.01%	+2.16%	+7.85%	+5.00%
From 15th Apr 89		+186.50%	+104.88%		
From 1st Jan 90		+211.38%	+78.13%		
From 1st Jan 91		+304.74%	+94.76%		
From 1st Jan 92		+174.20%	+68.77%		
From 1st Jan 93		+79.79%	+47.81%		+65.22%
From 1st Jan 94		+71.60%	+23.08%		+22.66%
From 1st Jan 95		+91.11%	+37.25%		+31.25%
From 1st Jan 96		+26.86%	+14.05%	14.04%	+18.06%
From 1st Jan 97		+7.01%	+2.16%	7.85%	+5.00%

## System House SCSI Share Prices and Capitalisation

	Share Price 29/1/97 (£p)	Capitalisation 29/1/97 (£m)	Historic P/E	Ratio Cap./Rev.	CSI Index 29/1/97	Share price % move since 31/12/96	Share price % move in 1997	Capitalisation move (£m) since 31/12/96	Capitalisation move (£m) in 1997
Admiral	£4.13	£ 259.90m	42.1	3.97	14909.20	13.01%	13.01%	£30.00m	£30.00m
AFA Systems	£1.18	£ 11.70m	n/a	n/a	979.17	-15.77%	-15.77%	-£2.20m	-£2.20m
Anite (was Cray)	£0.52	£ 122.10m	Loss	0.46	301.17	41.10%	41.10%	£35.60m	£35.60m
Azian	£5.94	£ 210.90m	18.9	1.07	2582.61	4.67%	4.67%	£10.00m	£10.00m
Cadcentre	£2.68	£ 44.40m	33.7	3.13	1337.50	4.70%	4.70%	£1.90m	£1.90m
Capita	£5.64	£ 329.10m	46.6	3.78	16921.92	15.83%	15.83%	£45.00m	£45.00m
Cedardata	£2.46	£ 77.80m	26.3	6.45	2338.10	-1.80%	-1.80%	-£1.40m	-£1.40m
CFS	£0.80	£ 5.92m	11.0	1.98	888.89	-4.19%	-4.19%	-£0.26m	-£0.26m
Chemical Design	£1.70	£ 11.10m	27.1	6.13	1545.45	17.24%	17.24%	£1.66m	£1.66m
Clinical Computing	£0.34	£ 8.41m	Loss	3.81	270.16	11.67%	11.67%	£0.88m	£0.88m
CMG	£10.25	£ 657.00m	46.1	3.34	3534.48	22.02%	22.02%	£118.60m	£118.60m
Coda	£1.27	£ 35.20m	50.6	1.04	538.30	17.67%	17.67%	£5.30m	£5.30m
Compel	£1.66	£ 41.90m	12.9	10.48	1324.00	-6.23%	-6.23%	£15.00m	£15.00m
CRT Group	£2.26	£ 308.50m	28.4	2.99	2511.11	-9.60%	-9.60%	-£32.70m	-£32.70m
DCS Group	£2.53	£ 48.50m	31.9	1.59	4208.33	-6.48%	-6.48%	-£3.30m	-£3.30m
Delphi Group	£9.05	£ 260.60m	31.5	1.49	3724.28	23.55%	23.55%	£49.60m	£49.60m
Division Group	£0.55	£ 24.00m	Loss	4.90	1362.50	-0.91%	-0.91%	-£0.10m	-£0.10m
DRS Data & Research	£0.28	£ 9.41m	20.7	1.45	250.00	12.24%	12.24%	£1.03m	£1.03m
Druid	£4.31	£ 98.70m	46.9	8.22	1567.27	26.76%	26.76%	£20.90m	£20.90m
Eidos	£9.35	£ 159.90m	Loss	43.10	9350.00	29.41%	29.41%	£63.80m	£63.80m
Electronic Data Processing	£0.80	£ 21.00m	12.0	1.47	2449.48	15.94%	15.94%	£2.90m	£2.90m
FI Group	£5.98	£ 177.50m	52.1	2.25	2542.55	5.10%	5.10%	£8.70m	£8.70m
Flomerics	£2.30	£ 5.89m	23.2	1.42	1769.23	6.98%	6.98%	£0.38m	£0.38m
Gresham Computing	£0.61	£ 19.80m	19.1	2.14	650.54	15.24%	15.24%	£2.60m	£2.60m
Highams Systems	£1.20	£ 10.60m	17.6	0.80	1666.67	-12.09%	-12.09%	-£1.50m	-£1.50m
INSTEM	£1.46	£ 6.69m	9.3	0.31	1455.00	0.34%	0.34%	£0.02m	£0.02m
Intelligent Environments	£0.76	£ 16.90m	54.4	4.23	803.19	16.15%	16.15%	£2.40m	£2.40m
JBA Holdings	£6.88	£ 234.40m	41.1	1.88	4296.88	29.72%	29.72%	£53.70m	£53.70m
Kalamazoo	£1.10	£ 32.00m	11.3	0.48	3142.86	2.33%	2.33%	£1.00m	£1.00m
Kewill	£6.21	£ 78.90m	17.0	2.24	2454.55	18.62%	18.62%	£12.40m	£12.40m
Logica	£9.76	£ 621.40m	36.5	2.18	2672.60	6.21%	6.21%	£38.20m	£38.20m
Lorien	£4.15	£ 71.00m	34.6	2.44	4150.00	23.51%	23.51%	£32.70m	£32.70m
Lynx Holdings	£0.96	£ 93.50m	17.8	1.07	2387.50	10.40%	10.40%	£8.80m	£8.80m
M-R Group	£0.93	£ 51.90m	17.2	1.35	369.05	9.41%	9.41%	£4.50m	£4.50m
Macro 4	£4.90	£ 96.50m	13.0	3.81	1975.81	0.00%	0.00%	£0.00m	£0.00m
MAID	£1.70	£ 155.40m	Loss	11.39	1540.91	-15.88%	-15.88%	-£29.40m	-£29.40m
McDonnell IS (MDIS)	£0.49	£ 51.40m	Loss	0.35	188.46	48.48%	48.48%	£16.80m	£16.80m
Micro Focus	£10.98	£ 166.80m	Loss	2.16	5301.93	13.14%	13.14%	£20.30m	£20.30m
Microgen	£1.58	£ 61.60m	10.3	0.84	675.21	5.33%	5.33%	£2.40m	£2.40m
Microvitec	£0.25	£ 19.60m	8.3	0.36	609.76	-12.28%	-12.28%	-£2.80m	-£2.80m
Misys	£11.13	£ 946.70m	23.4	3.38	2767.41	-0.36%	-0.36%	-£3.40m	-£3.40m
MMT Computing	£5.85	£ 69.60m	25.3	4.13	3482.14	2.45%	2.45%	£2.20m	£2.20m
Mondas	£0.83	£ 4.97m	Loss	38.23	1100.00	-1.20%	-1.20%	-£0.06m	-£0.06m
Moorepay	£3.45	£ 26.20m	33.8	5.66	4156.63	23.21%	23.21%	£4.90m	£4.90m
MSB International	£4.64	£ 94.10m	31.2	2.44	2439.47	25.10%	25.10%	£18.80m	£18.80m
OmniMedia	£0.10	£ 2.46m	Loss	8.95	133.33	5.26%	5.26%	£0.12m	£0.12m
On Demand	£0.39	£ 21.20m	Loss	1.85	493.59	-14.44%	-14.44%	-£3.60m	-£3.60m
Oxford Molecular	£3.88	£ 236.30m	Loss	38.24	4850.00	8.99%	8.99%	£19.50m	£19.50m
P&P	£1.79	£ 144.00m	16.0	0.42	800.45	15.16%	15.16%	£18.90m	£18.90m
Parity	£5.13	£ 217.80m	41.9	1.71	28472.12	15.82%	15.82%	£29.70m	£29.70m
Pegasus	£3.88	£ 24.80m	26.0	3.86	1057.22	3.74%	3.74%	£1.20m	£1.20m
Persona	£3.43	£ 84.90m	22.4	1.59	2140.63	10.84%	10.84%	£8.30m	£8.30m
Phonelink	£0.51	£ 24.60m	Loss	5.64	329.03	-16.39%	-16.39%	-£4.60m	-£4.60m
Proteus	£0.29	£ 15.90m	Loss	15.00	345.24	-22.67%	-22.67%	-£4.70m	-£4.70m
Quality Software	£2.15	£ 27.90m	41.3	1.30	565.79	5.39%	5.39%	£1.40m	£1.40m
Radius	£0.61	£ 17.10m	12.7	0.66	442.03	-3.17%	-3.17%	-£0.50m	-£0.50m
Rage	£0.12	£ 27.90m	Loss	2.94	442.31	0.00%	0.00%	£0.00m	£0.00m
Real Time Control	£2.55	£ 17.90m	10.3	1.50	5204.08	9.68%	9.68%	£1.60m	£1.60m
Rebus	£0.69	£ 63.40m	17.0	1.06	778.41	-5.52%	-5.52%	-£1.60m	-£1.60m
Recognition Systems	£0.62	£ 16.60m	Loss	51.88	878.57	5.13%	5.13%	£0.80m	£0.80m
Riva	£0.24	£ 7.10m	235.0	0.10	167.02	0.00%	0.00%	£0.00m	£0.00m
RM	£6.85	£ 121.90m	26.6	1.23	3914.29	10.48%	10.48%	£11.50m	£11.50m
Rolle & Nolan	£4.18	£ 52.60m	33.3	3.07	4970.24	15.17%	15.17%	£6.90m	£6.90m
Romtec	£0.81	£ 4.19m	18.9	1.27	1288.00	0.00%	0.00%	£0.00m	£0.00m
Sage Group	£5.59	£ 600.90m	30.2	4.41	21500.00	5.47%	5.47%	£32.20m	£32.20m
Sanderson Electronics	£1.57	£ 71.40m	15.6	1.16	2663.83	4.33%	4.33%	£3.70m	£3.70m
Sema Group	£11.08	£ 1,233.00m	43.5	1.82	3482.70	2.07%	2.07%	£26.00m	£26.00m
Sherwood	£2.00	£ 17.20m	12.1	0.66	1666.67	2.56%	2.56%	£0.40m	£0.40m
Spargo Consulting	£1.89	£ 21.10m	25.3	2.86	1773.68	15.81%	15.81%	£2.90m	£2.90m
Staffware	£1.90	£ 22.00m	55.4	5.15	844.44	-26.78%	-26.78%	-£8.00m	-£8.00m
Superscape	£4.65	£ 39.10m	Loss	10.05	2348.48	16.98%	16.98%	£5.70m	£5.70m
Systems Integrated	£0.18	£ 2.35m	Loss	1.90	152.17	0.00%	0.00%	£0.00m	£0.00m
Total	£0.28	£ 2.75m	8.2	0.95	518.87	-5.17%	-5.17%	-£0.15m	-£0.15m
Torex	£0.70	£ 21.90m	23.8	n/a	1349.51	34.95%	34.95%	£9.60m	£9.60m
Trace	£0.46	£ 6.42m	17.8	0.31	364.00	30.00%	30.00%	£1.49m	£1.49m
Triad	£2.57	£ 64.60m	30.9	5.52	1900.00	22.43%	22.43%	£11.90m	£11.90m
Vega Group	£3.08	£ 44.00m	18.6	2.74	2520.49	14.95%	14.95%	£2.90m	£2.90m
Virtuality	£0.74	£ 22.00m	Loss	1.72	435.29	-20.00%	-20.00%	-£5.50m	-£5.50m
Wakebourne	£0.14	£ 3.19m	Loss	0.09	77.78	-6.67%	-6.67%	-£0.23m	-£0.23m
Xavier	£0.11	£ 5.88m	Loss	4.90	1125.00	2.27%	2.27%	£0.13m	£0.13m
Zergo	£2.90	£ 26.70m	72.8	3.15	2974.36	0.00%	0.00%	£0.00m	£0.00m

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.

## Gresham Computing looking for a merger?

Gresham Computing has reported revenues up 17% at £9.27m and PBT up 31% at £1.68m in the year to 31st Oct. 96. EPS was up 33%. Cash nearly doubled to £3.1m.

About half of Gresham's revenues come from mainframe-oriented systems products. The rest comes from IT services like IT agency staff and recruitment. This side of the business recorded "strong revenue growth" and "nearly doubled profits". Indeed "further emphasis will be placed on improving our services business and this is likely to increase in importance".

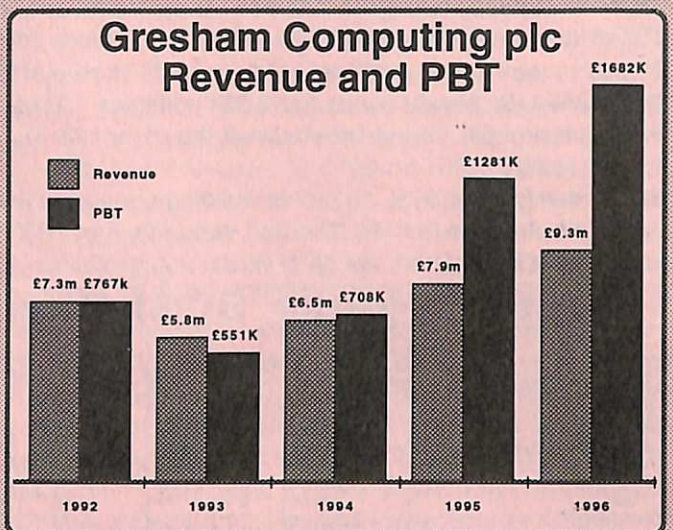
On the products side "high hopes" exist for Gresham's new Casablanca "access over the Internet to corporate data held on mainframe" product.

Gresham's Chairman Hamish Donaldson said that organic growth was "insufficient" and that Gresham would "examine the possibility of an acquisition or merger with a complementary business which meets our stringent criteria for quality earnings and growth".

Gresham shares rose by 15% to 61p this month as a result. But that still means that Gresham is valued at £19.8m - or

an (updated with these results) P/E of just 19. That's quite a lot below the norm. Gresham shares were 43p a year ago in Jan. 96 but that compares to the giddy high of 186p achieved by the "Gresham wonder stock" in 1993.

We wonder what will happen next?



## Recognition Systems - High risk, high potential

**Recognition Systems** produces intelligent software for data mining. Very much the vogue area at present with every retailer seemingly launching a loyalty card and, as a result, looking for software to help them understand their customers better. Recognition's customers are, however, more usually insurance and telecomms operators (e.g. AT&T). Recognition was one of the few main market new issues at 70p in May 96. This valued the company at £18.9m. Amazing given that rev. of just £669K and a loss of £397K was recorded in the year to 30th Sept. 95.

But the latest results are even worse. Revenues halved to an almost inconsequential £324K and losses tripled to £1266K.

But (unexpectedly coming from Holway) we believe that Recognition is exactly the kind of company UK investors should support. If we don't then US investors will instead. Recognition needed the £3.2m net from the float which was to be used to boost sales and marketing. Poor old Chairman David Bounds had been the only salesperson prior to the float. They have since appointed ex-Oracle Bryan Black as Group Sales Director and have built the team from 3 at the start of 1996 to 15 at the end. In addition two US sales offices were opened.

Of course Recognition is high risk...but it is also has enormous potential. Once that starts to be recognised, it will make a tasty acquisition target.

Shares closed Jan. up 5% at 62p.

## Metamorphosis at Maxima

John Cairn's **Maxima Group plc** has just signed off its first real accounts since its metamorphosis from **Minerva** in Jan. 95 (an acquisition which the accounts value at £2.5m) and its acquisition of **Systems Team** for £2.1m in 1995. Revenues of £12.7m and PBT of £1.26m - i.e. a 10% margin - were reported in the year to 31st May 96. Maxima's main activities are membership systems, health & social care and systems for manufacturers.

Maxima has also announced that Bill Passmore (ex DEC, Sun and current Chairman of Morse) has joined as a non exec.

## CSBL

COMPUTER SYSTEMS  
FOR BUSINESS LIMITED

CSB was established in 1986. Our interest in this privately-owned SCSI company was firstly aroused when Gordon Skinner (ex-MBS, TIS, Misys) became Chairman and took a 2% equity stake. But it increased when we discovered that CSB made two thirds of its revenues outside the UK - much of it from the old Eastern bloc.

CSB's three main UK activities are:

- construction industry where its COINS software is used by such blue chip customers as Balfour Beatty, Taylor Woodrow and Bovis Europe.
- integrated credit management where is ICM workflow software also has a blue chip customer list ranging from BAA, Dell, Europcar, Sony to Whitbread.
- distribution with its OASIS Progress-based product.

Revenues had grown steadily to £10m in the year ending 31st Mar. 96 when PBT of £909K was reported.

CSB's Polish division had hopes of joining the fledgling Polish Stock Exchange. However, this month its sale to **Computerland SA Poland** (itself one of only two IT companies quoted on the Exchange) was announced. The deal is for \$1.4m in cash plus shares (representing about 12% of Computerland's equity) which on current exchange rates are worth around £7.5m. CSB's CEO Larry Sullivan has joined the supervisory board of Computerland.

Of course the disposal means that CSB's remaining revenues will reduce to around £4m in 1997 but are expected to grow by around 25% in the following year. Clearly the balance sheet is going to look pretty strong after this transaction.

As to the future, Sullivan told us that an AIM float is a goal within two years but a merger might be on the cards before that.

## Advance Notice

Please note that the CSSA "Holway Evening" has been booked for 16th July 97 - the only other talk Holway will give in 1997. This year it's at the Barbican but still spaces are limited to the first 280. Call Ollie Ross at the CSSA now on 0171 405 2171.



ICL always seems to consummate its disposals at the eleventh hour. In other words 31st Dec. They then refuse to divulge the consideration but, when ICL's results for the year are announced, it is found that most of the profits were due to the exceptional gains on the deal.

We are not quite sure that this will be the case this year. About a year ago, when ICL turned itself into a SCSI company and declared it was giving up hardware manufacturing, it announced that its contract electronics business **D2D** was to be sold. This month it was eventually announced that D2D had been sold to **Celestica Inc.** Of course no consideration was announced but reports suggest the consideration was considerably less than \$140m - which compares with revenues of \$560m and net assets of \$180m. Celestica was IBM's manufacturing operation in Canada and was itself acquired by **Onex** for \$750m. ICL also announced that it had sold its **S-Print** operations to a new operation called **Continua** where Rank Xerox is to have a 50% stake. Again no consideration but assets of over £100m are involved.

On the plus side, ICL in Finland has acquired the remaining 57% stake it did not already own in **Visolutions Oy** from **Sitra**.

### ICL restructures

Also at the start of every year, ICL undertakes a restructuring. Nothing radical, of course, largely just rejigging the job responsibilities of the long serving directors. This year is a bit different though as three of its longest serving directors have departed. We all knew that Ninian Eadie was to retire as Fujitsu took over manufacturing responsibility. But Richard Livesey-Haworth and Paul Whitwam have also given up their executive roles.

In addition Michio Naruto has been appointed as non-exec Chairman in place of Sir Peter Bonfield. This is the first Japanese ever to take this role.

It looks as though yet another long standing ICLer - Nigel Hartnell has got the key role as MD ICL Services - which now embraces ICL CFM, ICL Network Services and ICL Education and Consultancy (incl. Peritas).

David Palk has been appointed MD of ICL Sorbus, Torsten Vieth becomes MD ICL Enterprise (Northern Europe) and Tim Gibson "will initially lead" ICL Enterprises in the rest of Europe including the UK.

Robin Hacking becomes Group Sales and Marketing Director and Andrew Boswell becomes Group Technical Director. All the other senior roles remain the same.

### Comment

It seems only yesterday (well 1995 to be precise) that we were reporting ICL as - yet again - the lead supplier of SCSI to the UK market. They have since slipped to #3. When we put the rankings together this year we expect further erosion.

The comparison with IBM Global Services (UK) could not be more striking. IBM finally realised that it had to bring in new blood who really understood IT services. It also decided that one route to achieve this was an acquisition - i.e. Data Sciences. IBM has prospered as a result. ICL, in the meanwhile, has stuck to "putting the old wine into new bottles". We await ICL's financial results for 1996 with interest - we do not have high expectations.

ICL needs to boost its standing by a major SCSI acquisition, getting new SCSI-oriented managers (how about Andy Roberts rejoining?) and/or by winning some major outsourcing contracts. None of this seem to be happening at present.

### Guardian

ICL made their numbers in 1994, you may remember, by selling **Guardian** in a £25m Paribas-backed MBO in Dec. 94. We wrote them up in the Sept. 96 issue when revenues of £16m and profits of £3.6m were expected for 1996.

1996 was indeed a busy year with the acquisitions of **Allen Computers**, **MDIS**' disaster recovery operations and a 25% stake in **SMH Associates**. This month Guardian has acquired **Computer Stand-By (CSB)** from **H Flude (Holdings) Ltd.** CSB has revenues of £2.6m and around 300 customers. Its Paris base "provides a key foothold to launch Guardian's services into Europe" and pushes annualised revenues over £20m.

Guardian is now the largest independent disaster recovery operation in the UK. As we have oft said, a float would be well received.

### Looking for Darwin

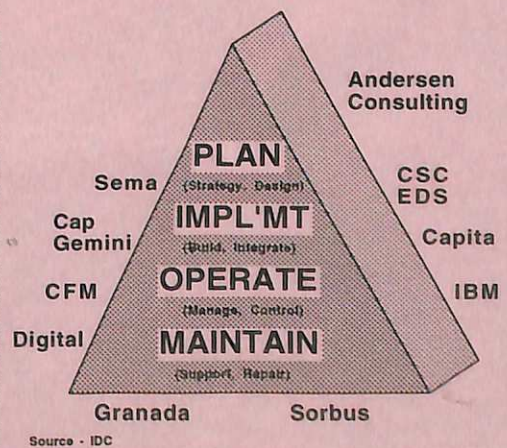
Anthony Miller, the UK Research Manager for IDC, gave an excellent presentation at the Regent Conference this month on the Evolution in the IT Services Market. Miller explained how some - like ICL Sorbus and Granada - were still stuck at the amoeba stage.

Whereas Andersen Consulting had reached the evolutionary pinnacle. It was interesting, as shown in the diagram, where he put the others...

Miller rightly suggested that Capita were getting off the IT cycle by their move into debt collection and other business processes.

**Comment** Miller's Darwin analogy mirrors financial success - the higher up the evolutionary scale the higher the profit margins, the higher the growth rate and the higher the shareholder value. *Are those at the lower end of the evolutionary scale incapable of understanding this...or just incapable of taking the required action?*

### IT Services Evolution Ladder



## Valuing information

Peter Rowell, MD at **Regent Associates**, at his conference this month, showed his usual table of relative values of SCSI trade sales in 1996. Information services came out top - at nearly three times revenues.

Earlier that day Luke Spikes of information services/market research company **Spikes Cavell**, announced that US NASDAQ-quoted researcher **Meta Group** had taken a 14.7% stake in his company for £1.5m effectively valuing it at £10.2m. Meta is valued at \$164m - about 5.5 times revenues! *But how about Spikes Cavell's financial performance?* Well, this is hampered as they are one of the very few companies in our database to hide behind modified accounts - which means you don't have to declare revenues at Companies House. So we dug up our review in *System House* Nov. 94 which read as follows:

"Luke Spikes (there is apparently no Cavell) owns around 95% of the firm. He has that wonderful youthful confidence that makes him say "we will turnover £4.5m this year, £8m next year and £16m in 1996...we aim to be a \$1 billion company by 2003". So we 'phoned Spikes again this month. "We don't want to make it easy for our competitors to know how we are doing" he said. "Did you make the £4.5m?" we asked. "Well, \$4.5m would nearer"...of course he was now referring to 1996 not 1994!

Spikes says he is aiming for £4.7m rev. in 1997 and a float - probably on NASDAQ - within three years. Given the listing requirements of NASDAQ, Spikes will have to learn that *secrecy is one thing...hot air another.*

**Footnote:** It looks as though Rowell's sector valuation - around three times revenues - looks spot on for Spikes Cavell. **Romtec**, one of the leading UK market researchers, is currently valued on AIM at about one times revenues.

*Either Romtec is seriously undervalued or hot air is more highly valued than we realised.*

**SPIKES  
CAVELL  
& CO**

## IBM Services prosper - in the UK too!

Our view of the expertise of US analysts was hardly enhanced by their reaction to IBM's Q4 results. At the headline level revenues for 1996 rose by 5.6% to \$76b and profits were up 29% at \$5.4b. This was enough, at one time, to write over \$11b off IBM's market value (although they rose a little a week later on news of a two-for-one share split). They were fearful about the absolute decline in mainframe revenues and associated software. Indeed hardware rev. in total only grew by 2% (to \$36b), software was up a *meagre* 3% (at \$13.1b) - which makes the Lotus acquisition look both expensive and its timing greatly misjudged. Maintenance rev. *declined* by 6% (at \$7b).

But the fact that services increased by 25% to \$15.9b - now bigger than software - hardly got a mention. IBM, yet again, is the biggest IT services operation in the world. We happen to believe that the way IBM will regain the kind of "ownership" of its customers it had in the 1970s as a result of hardware will happen by way of services - outsourcing in particular.

IBM currently has a market cap. of \$81b. It's a interesting point that US SCSI companies are currently valued at twice rev. In other words, IBM could be worth more as a SCSI company if it jettisoned its hardware for zilch. *We accept that this is unlikely!*

But it gives a new twist to "the computerless computer company". IBM UK announced even better figures with rev. up 11% at £5,119m and PBT up 25% at £269m. No further breakdown at present but our guess is that IBM UK SCSI revenues increased from c£540m (£450m excl. Data Sciences) to nearer £700m in 1996. Indeed recent mega outsourcing wins at British Steel (at least £350m over 10 years) and General Accident (£180m over 10 years) should boost this still further in 1997.

### People

It has been a month when a number of prominent and long standing industry figures have departed. Paul Whitwam, Richard Liversey Haworth and Ninian Eadie left **ICL** (see page 11), Barrie Morgans is to retire as Chairman/CEO of **IBM UK** (to be replaced by Kalil Barsoum of IBM Canada).

Also Mike Harrison has unexpectedly quit as head of **Informix** in Northern Europe. This occurred just a few days after Walter Koenigse was appointed over his head as VP Europe. Readers will remember that Harrison left his role as MD **Oracle UK** two years ago.

Mind you, judging by the past performances of other ex-database high flyers (like Geoff Squire) Informix' loss will be the VCs gain.

## ORDER FORM

From:

Delivery address:

### 1996 Holway Report

Master copy @ £1750 (cheque with order only)  Additional copies @ £450 each

### System House

One year's subscription @ £295 p.a.  "4 - copy subscription" @ £590 p.a.  Site licence @ £1000 p.a.

1996 Software and Computing Services Industry in Europe Report (Available Now)

Master copy at £5,600  Additional copies @ £850 each

Cheque payable to Richard Holway Ltd.

Richard Holway Ltd., 18 Great Austins,  
FARNHAM, Surrey, GU9 8JQ.

Cheque enclosed

Please invoice my company

Signed:

Date:

*System House*™ is published monthly by Richard Holway Limited, 18 Great Austins, FARNHAM, Surrey, GU9 8JQ. Telephone 01252 724584; Fax: 01252 725880; E-mail Internet: 100665,3460@Compuserve.com which also publishes the annual "Holway Report" and the "Software and Computing Services Industry in Europe Report". Richard Holway has been a director of several computing services companies and might hold stock in companies featured.

© 1997 Holway Research Associates. The information contained in this publication may not be reproduced without the written permission of the publishers. Whilst every care has been taken to ensure the accuracy of the information contained in this document, the publishers cannot be held responsible for any errors or any consequences thereof. Subscribers are advised to take independent advice before taking any action. *System House*™ is a trademark of Richard Holway Limited.