

System House

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

Volume 8

Number 7

Available by subscription only

ISSN 0967-2583

May 1997

Largest outsourcing companies dominate UK market

Last month we carried our analysis of the Top Ten SCSi suppliers to the UK market in 1996 headed by EDS at £765m. Our analysis this month shows that EDS has an even greater lead as the top provider of IT outsourcing in the UK.

Our analyses in the forthcoming **1997 Holway Report** will show that the UK outsourcing market grew by around 38% to £2.32 billion in 1996 - that means growth >30% in every year of the decade so far. But the annual value of new contracts fell. So, as we have long predicted, growth rates will now start to fall. Indeed we expect a c14% growth in 2000 when the market will be worth around £4.8 billion. But these are far from pessimistic estimates. Every market has its limits. In this case the in-house market. Already some 27% of such expenditure has been shifted to external companies. We predict this will have risen to 43% by 2000. *Who is benefiting from this high market growth?* On the surface, just a handful of companies. The Top Ten companies listed below now account for 77% of the total UK outsourcing revenues and the Top 20 over 90%.

1996 Rank	Company	1996 UK FM/AM Revenue Range	Growth rate 1995/96
1	EDS (incl. GM from 1995)	£500m	60%
2	Computer Sciences Corp (CSC)	£236m	115%
3	CAP Gemini/Hoskyns	£206m	26%
4	IBM (incl Data Sciences from 1996)	£170m	62%
5	ICL/CFM	£165m	50%
6	Sema	£160m	78%
7	Andersen Consulting	£125m	67%
8	Capita	£79m	38%
9	ITnet (Incl. Cadbury Sch from 1995)	£69m	17%
10	Perot	£65m	30%

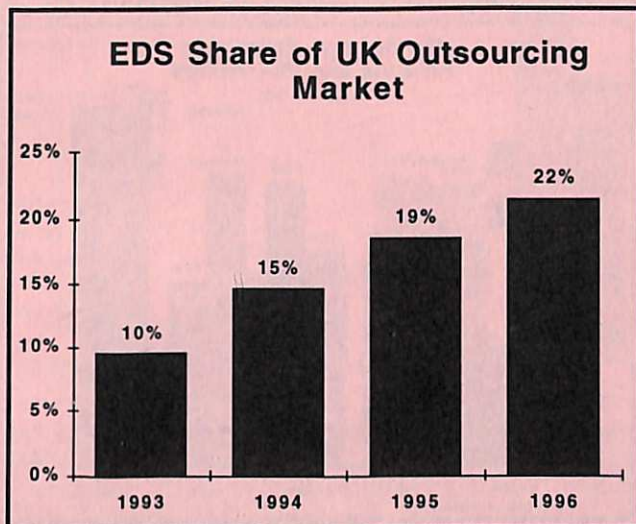
Indeed these larger suppliers have by far the fastest growth rates and have therefore been increasing their share of the market every year. Indeed the Top Ten grew their UK outsourcing revenues by 54% in 1996.

But again that does not tell the full story. We have been so surprised at the high level of work subcontracted by the likes of EDS and CSC to other, smaller, UK SCSi companies that we are now measuring this to ensure that double counting does not distort our statistics.

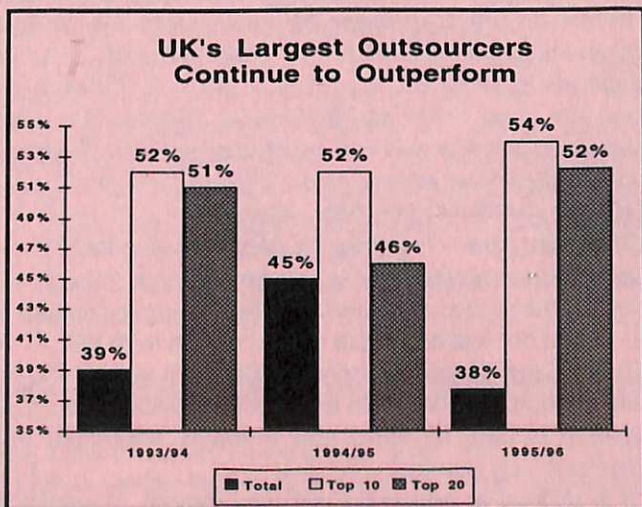
There has been much comment in the press recently concerning a US Embassy report quoting UK Treasury figures suggesting that EDS controls more than 50% of UK IT services business. EDS has around £400m public sector revenues in the UK of which some is consultancy/development/project work not necessarily classified as outsourcing. **Our strict definition of outsourcing is that staff have changed from the employment of the user to the supplier.** On this tough definition, however, we would not be surprised if EDS had not been awarded 50% (by

value) of public sector outsourcing contracts - which make up about a third of the total UK market by value.

But there is no denying that EDS has a dominant position in the UK outsourcing market. On our estimates EDS' share



of that market has increased from 10% in 1993 to 22% in 1996. But before everyone contacts the MMC, remember that even as the lead supplier EDS still only has 6% of the UK software and services market. We would suggest this was about the lowest % share held by the lead supplier in any major market - from cars to telecommunications - in the UK.



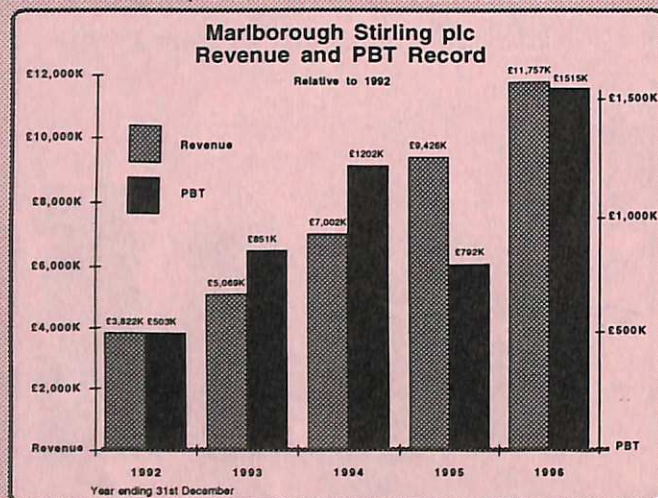
And remember size isn't everything. EDS issued a profits warning this month (see p12). With revenues of \$14.4b EDS now has a market value of just \$16b - i.e. a lowly PSR of 1.1. Its shares are down 44% in the last year. The leading UK-owned outsourcer Capita has revenues of "just" £112m but a market value of £437m - i.e. a PSR of 3.75. Capita's shares are up nearly 150% in the last year! *And the ratios would hold true for many other UK SCSi companies too.*

Marlborough Stirling plc

Marlborough Stirling is a private company which provides systems to life and pensions providers, banks and building societies. Their product range includes LAMDA (Life assurance and Pensions administration), OMIGA (Mortgage Application Processing), and SYGMA (Mortgage and Pensions Point of Sale systems) etc. Their customer list covers all the blue chip institutions you would expect in their market - from Alliance & Leicester Building Society to the Prudential. Indeed OMIGA is used by three of the UK's top five building societies.

In Sept. 96, 3i. took a 7.5% stake - £1.44m in pref. shares and £60K in ordinary shares. The rest of the equity is owned equally by five Marlborough Stirling directors including CEO Huw Evans.

Results for the year to 31st Dec. 96 show revenues up 25% at £11.8m, and PBT almost doubled to £1.5m.



With really excellent results like this we cannot see Marlborough remaining a private company for long - particularly given our long track record of similar private company reviews!

Footnote: Given the high profile "Holway Campaign" over many years, we were delighted to read "Development expenditure at £1.9m in FY96 was up 19%. Following a review of the treatment of such costs by quoted companies, we revised our treatment of such costs to expense them as incurred, rather than capitalise them and expense them as revenue is earned. Our new treatment is in line with that adopted by the overwhelming companies in our review". We hope MAID, Micro Focus, QSP etc. will eventually take note.

Superscape - having to face up to reality

Superscape develop virtual reality software. Results for six months to 31st January 1997 show revenues up c20% at £1.9m but losses before tax increased from £900K to £3.1m. Cash decreased from £8.26m to £6.06m. It should also be borne in mind that Superscape raised £1.8m in a placing in Jan. 97...and that Virtuality appointed the receivers last month.

"It is difficult to anticipate with any degree of precision the rate of take up for emerging technologies. The market place for virtual reality is no exception and the last six months has proved slower than many in the industry predicted". On 11th Apr. 97, Superscape announced that it was cutting 40 of its 100 workforce.

"Superscape will seek to move towards profitability in FY97/98". Superscape shares had fallen by 41% this month to 240p at the end of April 97.

CFS Group - almost all is forgiven

CFS Group was a new issue on the USM on 3rd Feb. 94 at 90p. CFS "provides specialised software and administrative support services to financial institutions, manufacturers and distributors in the management of inventory and consumer finance". Revenue derives from a bureau service based on their CreditLine product. Recurring revenues are, therefore, said to be high.

IBM UK bought 26% of CFS in Nov. 90 for £260K (plus £360K for prefs). At the time of the placing in 1994, IBM realised £214K but kept a 14% stake. This has since reduced to 4% in part due to Rotch acquiring a stake in Aug. 94. In April 97, CFS undertook their first acquisition investing £450K for a 50% stake in a new JV (with European Data Corp.) - **Premium Select Marketing Corp.** (PSMC) - which provides admin. for personal lines insurance premium financing.

As regular readers will know, we have strong views on the capitalisation of software development. CFS is one of a very few quoted companies which still does this. Last year, CFS had net assets of £1.4m which included intangible assets of £1.9m - i.e. NEGATIVE net assets of £500K had it written off R&D.

However, a year on the situation is very, very different... Results for the year to 31st Dec. 96 show revenues up 53% at £4.57m, operating profit was up 27% at £637K, PBT up 43% at £552K and EPS up 35%.

Pretty impressive. But - just for once - it gets even better on closer examination.

Sure CFS still capitalises R&D - much to our continued disagreement - but only £100K was added in 1996 compared with £600K in 1995. Indeed, CFS amortised £500K of previously capitalised R&D - so the net effect was a £400K reduction in the intangible assets total. In other words, CFS Group could have reported PBT of c£950K or a profit margin of c20% if they had previously adopted the same accounting principles as most of their competitors.

As a result of both real profits generated and the £2m raised (before expenses) through the 1996 placing and 1-for-5 Open Offer at 80p, net assets have increased to £3.5m and would have been a positive £2m even without the intangibles.

CFS Group has met its objectives for the year. It has installed a new management team. New FD Neil Candeland told us that the PSMC acquisition/investment was made whilst Chairman and Founder Alfred Stein was out of the country. We are sure readers will understand the message behind this!

"The year has started well", expectations met or exceeded, there is cash in the bank, a 20% profit margin, a new acquisition in a related area (the kind we like best)...and a reducing intangibles total.

From outright scepticism we have turned into a bull! After three years trading at or below the Feb. 94 90p new issue price, CFS ended April 97 on.....90p.

Andy Roberts

Andy Roberts is credited with the "raising from the dead" of Data Sciences. But the IBM environment was not right for him. This month he has been appointed a non exec. director of **Kewill Systems**. Many of you have contacted us saying he would be an ideal person to take over from 62-year old Chairman - Kevin Overstall. But is there a real biggie appointment for Roberts in the offing?

Riva Group - moving further into services

We added Riva to our SCSI Index a year back. They are, however, a long established holding company with various subsidiaries providing EPoS hardware and associated systems to the retail, wholesale, pub and restaurant markets in Europe.

"Our primary market in the UK is the High Street multiple retailers, where we are the market leader in Windows based point of sale software. This position has been confirmed by major contract wins with Harrods, Sketchley Retail, Coral and Post Office Counters".

They had also experienced considerable problems resulting in several years of losses.

Last year they declared that they were progressing "rapidly from the traditional hardware and services maintenance business to become a provider of software solutions and professional services". Hence our renewed interest.

Latest results for the year to 31st Dec. 96 "represent the third year of sustained improvement". Revenues reduced by 12% to £64.4m but PBT was up 185% at £518K - still a minuscule <1% profit margin. EPS was up 800%.

"We expect the progress of the last three years to continue" said Chairman Peter Giles.

DCS Group - STILL a services company

DCS (supply chain management systems, motor dealer systems, outsourcing etc.) topped our charts for its share price rise in 1996. Indeed, since Jan. 96 it is now showing an incredible 319% increase!

They deserved it when they unveiled results for the six months to 31st Dec. 96 showing revenues up 33% at £19.1m, PBT up 55% at £1.9m and EPS up 45.4%. We are always impressed by EPS rises - particularly in acquisitive companies.

Chairman Robin Lodge now says that "the outlook for 1997 is very promising". But (long term readers will understand the joke) then went and ruined it by "looking forward to the remainder of the financial year with confidence".

Comment We were amused at Computergram's (8th Apr. 97) comment "At DCS they have seen the future and it's people, not products...for every pound of DCS' turnover generated from product sales, three comes from supplying services. CEO Bob Williams is very proud of his software products, but in the long term DCS is a computer services company, because this is where the future lies".

Cadcentre was a new issue as recently as Nov. 96 at 200p. It has now warned that the strong pound will reduce profits by £600K even though revenues are up 20% at £17m. Shares ended April 97 down 12% at 208p. A warning this soon is unacceptable.

AFA Systems - riding nowhere at present

AFA Systems was formed in Oct. 95 when it acquired the Musketeer treasury and risk system from its South African developers for £1.84m. Ex-ACT MD, Mike Hart, is Chairman and CEO.

In July 1996, AFA Systems was an AIM new issue at 120p putting a value of £12m on the group. Given that it had only just been formed, had made revenues of just £217K and a loss of £133K in the first four months of trading, many may consider that to have been a pretty good valuation. The shares subsequently rose to a high of 150p.

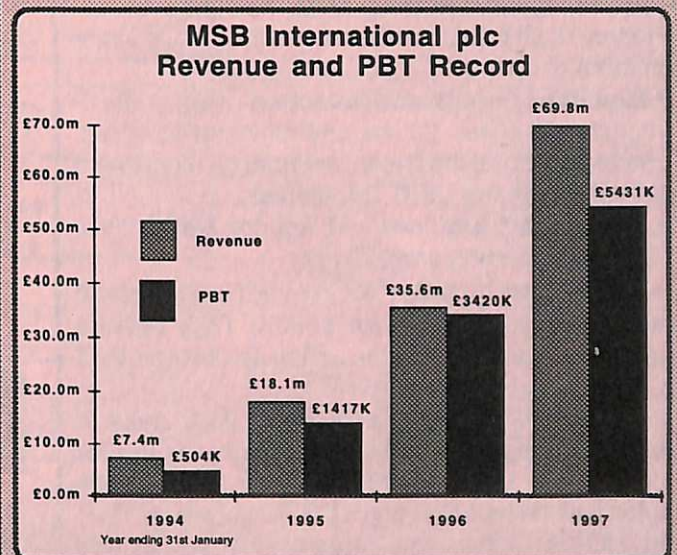
Maiden results for year to 31st December 1996 showed revenues of £364K (1995 = nil) and a loss of £913K (1995 = £121K). The positive news is that a year ago (Feb. 96) the first major contract was signed with a US bank. The bad news was that "part of the contract involved a jointly funded development to enhance Musketeer" due in Q4 1996, "has been rescheduled for Q2 1997". "This change in delivery date was due to ...increased functionality by the customer and difficulties in recruiting key technical and development staff due to strong market pressures". In other words, this put back the sales campaign quite considerably. But "we are now in a position to accept contracts".

It is, therefore, hardly surprising that AFA hasn't sparked...they ended April 1997 on 105p. A 13% discount to the 120p new issue price and a far cry from the 150p 1996 high.

MSB International plc

IT staff agency MSB International was a new issue onto the main market at 190p in May 1996. We wrote some critical reviews. None the less, MSB shares have since risen to a high of 530p although they have slipped somewhat since to end April 97 on 410p. So much for our comment!

Maiden results for the year to 31st Jan. 97 showed revenues up 81% at £69.76m "Our exceptional growth can be attributed to our unique sales formula". This has, in our estimation, catapulted MSB into the joint 3rd position - after Delphi and Parity - in the UK IT Staff Agency



rankings for 1996. Given that we estimate that the IT Agency market grew by only around 17% in 1996, it shows how much additional market share MSB has achieved.

PBT was up 59% at £5.43m and EPS 47% (or 54% before the launch costs). PBT margins decreased from 8.9% to 8% "reflecting the costs of sustaining our rapid growth...and clients looking to implement preferred supplier agreements". Nevertheless, this is still somewhat higher than the 5-6% margins achieved by many of MSB's competitors. Indeed MSB itself claims to "have the highest net profit margin in the industry".

"Having achieved organic growth rates averaging 100% p.a. for four consecutive years, we have now reached a size where such a rate of growth is no longer possible". MSB now wants to develop its international presence, "particularly in countries where contracting is an accepted way of solving staffing problems and where there is good growth potential for IT personnel".

MSB has also taken a three year call option to acquire Data Scanning Services Ltd.

HARVEY NASH

latest new main market SCS1 new issue when 9.8m shares at 175p were placed by Nat. West Markets and dealings commenced on 3rd April 1997. The shares placed were mainly on behalf of existing shareholders. A minimal net £1.3m new money was raised for the company. At the placing price, Harvey Nash Group was valued at £48.8m equating to a really quite reasonable 19.2 P/E. It was not surprising, therefore, that the price quickly increased to end April 97 on 193p - a 10% premium to the new issue price.

Harvey Nash was established in 1988. They operate in three divisions:

- **Executive Search and Selection** - permanent IT recruitment - (Rev. £8.0m, operating profit £491K). Harvey Nash are the largest spender on recruitment advertising in the UK IT trade press.
- **IT Contract Services** - IT agency staff - (Rev. £27.1m, operating profit £343K).
- **IT File Search.** In May 96, Harvey Nash acquired **Mortimer Spinks Ltd** for £630K. They provide recruitment via a database. (Rev. £1.2m and PBT £130K).

In 1996, Harvey Nash acquired a 25% stake in **Internet Appointments Ltd** (needs no further description). The other equity partners being Delphi, Information Hyperlink and TCS Recruitment.

In 1991 an office was opened in Stuttgart and revenues from Germany and Switzerland now account for £7.6m or 21% of revenues.

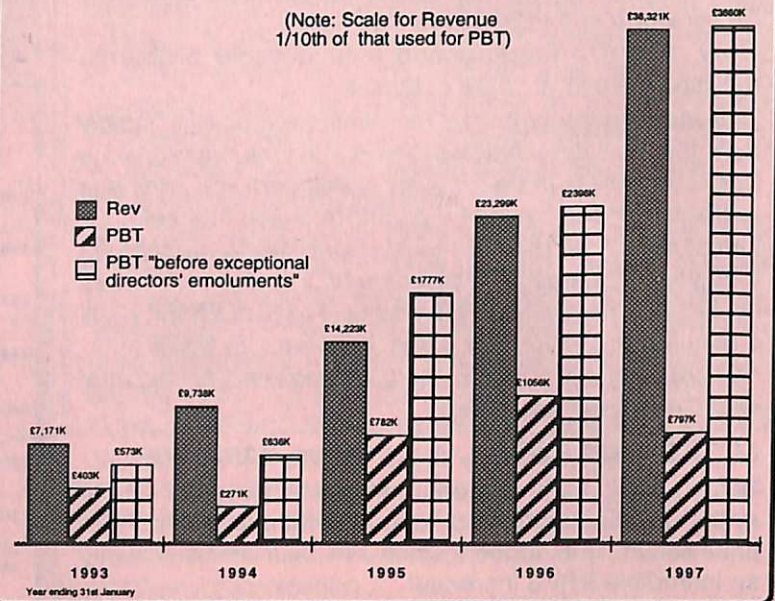
Results for the year to 31st January 1997 show revenues up a massive 56% at £36.3m and operating profit increased by 56% to £3.83m. PBT, however, reduced

from £1.06m to £797K. *Why?....you might ask.*

Harvey Nash directors have been taking large chunks out of the company (by the way, nothing wrong with that) by way of remuneration rather than dividends. In 1997 these "exceptional emoluments" more than doubled to £2.86m. The directors have now agreed to rather more modest service contracts. Indeed the three joint MDs (Tom

Harvey Nash Group Five Year Revenue and PBT Record

(Note: Scale for Revenue
1/10th of that used for PBT)



Crawford, David Higgins and David Treacher) have agreed to a base salary of £95,000 plus an EPS related bonus. Mind you each of these directors own >20% of Harvey Nash, with each worth >£10m. At some point, salary levels become not that meaningful.

Chemical Design - another convert

Chemical Design Holdings (CDH) was a new entry onto AIM in Aug. 96 at 110p in a placing raising £1.4m and valuing the group at £7.5m.

CDH has a product "Chem-X...an integrated modular system which allows molecules to be visualised"

Maiden results for year to 31st December 1996 showed revenues increased by 40% to £2.55m, restated PBT increased by 222% to £515K "below our expectations" and EPS was up 156%.

"Over 70% of revenues are outside the UK, with almost half in North America...the Board is confident about the outlook for Chemical Design".

"The Board has looked carefully at the accounting policies that it employs with the result that a prudent change has been agreed with our advisers. We have agreed that we will write-off all development expenditure in the period in which it is incurred, instead of amortising over a period of up to 5 years". Thank goodness for that...another convert!

Chemical Design ended April 97 at 215p - up an impressive 95% from their launch price.

Overdue. By the end of April every year the results from every quoted company have been announced. This year we are still missing **MDIS**, **Wakebourne**, **Omnimedia** and **Oxford Molecular**. If **Admiral** can announce in the first week of Feb. why not the others? However, we can prove beyond doubt that normally the later the announcement the worse the results.

Quidnunc Group - raising its profile

Many readers will know the high profile Laurence Holt - CEO of **Quidnunc**. They develop innovative client/server, and now Internet systems, for many blue-chip customers.

Holt tells us that the last few years has really seen him get the sales and marketing machine working with bids dramatically better and win rates much higher. This was reflected in the results for the year to 30th April 97. Revenues increased by 50% to £3m and PBT was up by 70% to £450K. He expects FY98 to be another year of 50% revenue growth (i.e. to £4.5m with similar 15% margins (i.e. PBT over £650K).

After that, maybe a listing, maybe an trade sale exit?

Profits warning at Kalamazoo

Let's face it, it has happened to almost everyone. The manager putting in duff forecasts to hide lack of sales success. It is usually relatively minor and gets spotted quickly. Not the case at Kalamazoo where "falsifying of management accounts" in the Tetra reseller division caused Kalamazoo to issue a profits warning. Before the £2m settlement reported a couple of months back, PBT would now be equal to last year's £5.9m - i.e. about £1m less than expected. Given that this division had profits of £1.4m on rev. of £6m last year, that's a pretty big falsification! The FT suggested this "raises questions of confidence in Kalamazoo's management".

Kalamazoo shares fell by 10% to end April on 81p.

Quoted Companies - Results Service

Note: Shaded = Results announced this month.

Admiral plc				Eidos plc					
	Final - Dec 95	Final - Dec 96	Comparison		Final - Dec 94	Final - Mar 96	Comparison		
REV	£ 65,460,000	£ 90,819,000	+38.7%	REV	£ 254,225	£ 3,706,000	n/a		
PBT	£ 9,832,000	£ 11,243,000	+14.4%	PBT	£ 107,623	£ 1,949,000	Loss both		
EPS	10.72p	11.60p	+8.2%	EPS	-4.16p	-44.60p	Loss both		
AFA Systems plc				Electronic Data Processing plc					
	Final - Dec 95 (5 mos)	Final - Dec 96	Comparison		Final - Sep 95	Final - Sep 96	Comparison		
REV	£ 0	£ 364,000	n/a	REV	£ 12,605,000	£ 14,267,000	+13.2%		
PBT	£ 121,000	£ 913,000	Loss both	PBT	£ 3,083,000	£ 2,519,000	-18.3%		
EPS	-1.62p	-10.50p	Loss both	EPS	7.53p	6.64p	-11.8%		
Anite Group plc				F.I. Group plc					
	In term - Oct 95	Final - Apr 96	Interim - Oct 96	Comparison		Interim - Oct 95	Final - Apr 96	Interim - Oct 96	Comparison
REV	£ 128,957,000	£ 262,838,000	£ 103,533,000	-19.7%	REV	£ 37,420,000	£ 78,824,000	£ 46,254,000	+23.6%
PBT	£ 14,594,000	£ 19,378,000	£ 63,454,000	Loss both	PBT	£ 2,089,000	£ 3,763,000	£ 2,805,000	+34.3%
EPS	-6.30p	-8.40p	-27.40p	Loss both	EPS	4.90p	7.70p	6.00p	+22.4%
Azlan Group plc				Flomerics Group plc					
	Interim - Sep 95	Final - Mar 96	Interim - Sep 96	Comparison		Final - Dec 95	Final - Dec 96	Comparison	
REV	£ 72,716,000	£ 198,459,000	£ 126,464,000	+73.9%	REV	£ 4,747,187	£ 5,332,409	+28.6%	
PBT	£ 4,445,000	£ 10,507,000	£ 6,034,000	+35.7%	PBT	£ 415,565	£ 477,885	+15.0%	
EPS	13.60p	30.30p	15.00p	+10.3%	EPS	11.00p	12.30p	+11.8%	
Cadcentre Group plc				Gresham Computing plc					
	Final - Mar 95	Final - Mar 96	Comparison		Final - Oct 95	Final - Oct 96	Comparison		
REV	£ 11,941,000	£ 14,196,000	+18.9%	REV	£ 7,895,000	£ 9,271,000	+17.4%		
PBT	£ 556,000	£ 1,669,000	+200.2%	PBT	£ 1,281,000	£ 1,682,000	+31.3%		
EPS	n/a	n/a	n/a	EPS	2.36p	3.15p	+33.5%		
Capita Group plc				Highams Systems Services Group plc					
	Final - Dec 95	Final - Dec 96	Comparison		Interim - Sep 95	Final - Mar 96	Interim - Sep 96	Comparison	
REV	£ 86,994,000	£ 111,869,000	+28.6%	REV	n/a	£ 13,227,496	£ 7,358,000	n/a	
PBT	£ 9,420,000	£ 12,292,000	+30.5%	PBT	n/a	£ 899,067	£ 388,000	n/a	
EPS	11.80p	14.30p	+21.2%	EPS	n/a	7.20p	3.30p	n/a	
Cedardata plc				INSTEM plc					
	Interim - Sep 95	Final - Mar 96	Interim - Sep 96	Comparison		Final - Dec 95	Final - Dec 96	Comparison	
REV	£ 5,333,000	£ 12,071,000	£ 5,661,000	+6.2%	REV	£ 21,324,000	£ 22,947,000	+7.6%	
PBT	£ 1,995,000	£ 4,384,000	£ 1,935,000	-3.0%	PBT	£ 1,244,000	£ 1,321,000	+6.2%	
EPS	4.20p	9.50p	4.10p	-2.4%	EPS	18.10p	18.80p	+3.9%	
CFS Group plc				Intelligent Environments Group plc					
	Final - Dec 95	Final - Dec 96	Comparison		Final - Dec 95	Final - Dec 96	Comparison		
REV	£ 2,888,520	£ 4,589,000	+58.9%	REV	£ 4,850,926	£ 3,475,554	-28.2%		
PBT	£ 384,675	£ 552,000	+43.5%	PBT	£ 202,000	£ 1,379,256	Profit to loss		
EPS	4.77p	6.44p	+35.0%	EPS	1.10p	-7.10p	Profit to loss		
Chemical Design Holdings plc				JBA Holdings plc					
	Final (PF) - Dec 95	Final - Dec 96	Comparison		Final - Dec 95	Final - Dec 96	Comparison		
REV	£ 1,811,407	£ 2,548,000	+40.6%	REV	£ 123,221,000	£ 181,810,000	+47.9%		
PBT	£ 160,000	£ 515,000	+221.9%	PBT	£ 7,242,000	£ 11,258,000	+55.5%		
EPS	2.64p	6.77p	+156.4%	EPS	13.14p	18.26p	+39.0%		
Clinical Computing plc				Kalamazoo Computer Group plc					
	Final - Dec 95	Final - Dec 96	Comparison		Interim - Sep 95	Final - Mar 96	Interim - Sep 96	Comparison	
REV	£ 2,167,131	£ 1,978,880	-8.7%	REV	£ 32,358,000	£ 68,885,000	£ 35,218,000	+8.8%	
PBT	£ 714,879	£ 2,079,530	Loss both	PBT	£ 2,012,000	£ 5,882,000	£ 2,340,000	+16.3%	
EPS	-4.40p	-12.30p	Loss both	EPS	3.66p	10.20p	3.72p	+1.6%	
CMG plc				Kewill Systems plc					
	Final - Dec 95	Final - Dec 96	Comparison		Interim - Sep 95	Final - Mar 96	Interim - Sep 96	Comparison	
REV	£ 196,484,000	£ 245,159,000	+24.8%	REV	£ 18,567,000	£ 35,242,000	£ 19,830,000	+19.7%	
PBT	£ 18,460,000	£ 27,522,000	+49.1%	PBT	£ 2,613,000	£ 6,061,000	£ 3,243,000	+24.1%	
EPS	18.20p	27.40p	+50.5%	EPS	14.60p	33.70p	17.50p	+19.9%	
Coda Group plc				Logica plc					
	Final - Oct 95	Final - Oct 96	Comparison		Interim - Dec 95	Final - Jun 96	Interim - Dec 96	Comparison	
REV	£ 32,791,000	£ 33,889,000	+3.3%	REV	£ 128,919,000	£ 284,810,000	£ 147,861,000	+14.7%	
PBT	£ 1,030,000	£ 4,899,000	Profit to loss	PBT	£ 9,035,000	£ 24,710,000	£ 10,632,000	+17.7%	
EPS	2.50p	-18.80p	Profit to loss	EPS	9.80p	27.10p	11.70p	+19.4%	
Compel Group plc				London Bridge Software Holdings plc					
	Interim - Dec 95	Final - Jun 96	Interim - Dec 96	Comparison		Final - Dec 95	Final - Dec 96	Comparison	
REV	£ 40,421,000	£ 85,620,000	£ 39,542,000	-2.2%	REV	£ 2,736,820	£ 6,306,376	+130.4%	
PBT	£ 1,441,000	£ 3,235,000	£ 1,696,000	+17.7%	PBT	£ 805,586	£ 2,499,071	+210.2%	
EPS	6.06p	13.60p	7.09p	+17.0%	EPS	2.82p	8.26p	+192.9%	
CRT Group plc				Lorien plc					
	Interim - Oct 95	Final - Apr 96	Interim - Oct 96	Comparison		Final - Nov 95	Final - Nov 96	Comparison	
REV	£ 48,079,000	£ 103,282,000	£ 55,497,000	+15.4%	REV	£ 29,109,000	£ 45,708,000	+57.0%	
PBT	£ 1,748,000	£ 6,515,000	£ 3,367,000	+92.6%	PBT	£ 971,000	£ 1,481,000	+52.5%	
EPS	1.71p	5.70p	2.40p	+40.4%	EPS	12.10p	11.80p	-2.5%	
DCS Group plc				Lynx Holdings plc					
	Interim - Dec 95	Final - Jun 96	Final (6 mos) - Dec 96	Comparison		Final - Sep 95	Final - Sep 96	Comparison	
REV	£ 14,335,000	£ 30,482,000	£ 19,095,000	+33.2%	REV	£ 32,018,000	£ 87,644,000	+173.7%	
PBT	£ 1,204,000	£ 3,366,000	£ 1,870,000	+55.9%	PBT	£ 2,564,000	£ 6,953,000	+171.2%	
EPS	4.27p	8.31p	6.21p	+45.4%	EPS	4.70p	5.36p	+14.0%	
DRS Data & Research Services plc				M.A.I.D. plc					
	Final - Dec 95	Final - Dec 96	Comparison		Final - Dec 95	Final - Dec 96	Comparison		
REV	£ 6,488,000	£ 4,822,000	-25.4%	REV	£ 13,642,000	£ 21,443,000	+57.2%		
PBT	£ 594,000	£ 1,734,000	Profit to loss	PBT	£ 4,045,000	£ 7,034,000	Both loss		
EPS	1.33p	-3.43p	Profit to loss	EPS	-4.42p	-7.82p	Both loss		
Delphi Group plc				MMT Computing plc					
	Final - Dec 95	Final - Dec 96	Comparison		Final - Aug 95	Final - Aug 96	Comparison		
REV	£ 175,008,000	£ 210,835,000	+20.4%	REV	£ 13,957,949	£ 16,861,201	+20.8%		
PBT	£ 9,015,000	£ 12,302,000	+36.5%	PBT	£ 3,075,053	£ 4,531,686	+47.4%		
EPS	25.42p	33.05p	+30.0%	EPS	16.30p	24.60p	+50.9%		
Diagonal plc				M-R Group plc					
	Final - 28 Nov 95	Final - 24 Nov 96	Comparison		Interim - Dec 95	Final - Jun 96	Interim - Dec 96	Comparison	
REV	£ 19,171,798	£ 28,326,000	+47.7%	REV	£ 18,560,000	£ 38,361,000	£ 18,509,000	-0.3%	
PBT	£ 1,140,275	£ 2,007,000	+76.0%	PBT	£ 2,174,000	£ 4,810,000	£ 2,354,000	+8.3%	
EPS	3.50p	7.10p	+102.9%	EPS	2.60p	5.70p	2.90p	+11.5%	
Division Group plc				McDonnell Information Systems Group plc					
	Final - Oct 95	Final - Oct 96	Comparison		Interim - Jun 95	Final - Dec 95	Interim - Jun 96	Comparison	
REV	£ 4,830,000	£ 4,900,000	+1.4%	REV	£ 79,145,000	£ 146,805,000	£ 80,540,000	-23.5%	
PBT	£ 3,893,000	£ 1,678,000	Loss both	PBT	£ 1,673,000	£ 39,420,000	£ 9,213,000	Loss both	
EPS	-9.20p	-3.80p	Loss both	EPS	-2.30p	-37.02p	-9.39p	Loss both	
Druid Group plc				Macro 4 plc					
	Interim - Dec 95	Final - Jun 96	Interim - Dec 96	Comparison		Interim - Dec 95	Final - Jun 96	Interim - Dec 96	Comparison
REV	£ 4,562,000	£ 12,013,000	£ 9,384,000	+105.7%	REV	£ 12,835,000	£ 25,317,000	£ 11,747,000	-7.0%
PBT	£ 867,000	£ 3,011,000	£ 1,800,000	+107.6%	PBT	£ 5,956,000	£ 12,147,000	£ 5,135,000	-13.8%
EPS	2.03p	6.69p	4.51p	+122.2%	EPS	17.90p	37.50p	16.50p	-7.8%

Quoted Companies - Results Service

Note: Shaded = Results announced this month.

Micro Focus plc				Recognition Systems Group plc					
	Final - Jan 96	Final - Jan 97	Comparison		Final - Sep 95	Final - Sep 96	Comparison		
REV	£ 77,258,000	£ 73,089,000	-5.4%	REV	£ 669,000	£ 324,000	-51.6%		
PBT	-£ 6,542,000	-£ 5,809,000	Loss both	PBT	-£ 397,000	-£ 1,266,000	Loss both		
EPS	-43.60p	-48.00p	Loss both	EPS	-2.10p	-5.50p	Loss both		
Microgen Holdings plc				Riva Group plc					
	Final - Oct 95	Final - Oct 96	Comparison		Final - Dec 95	Final - Dec 96	Comparison		
REV	£ 69,029,000	£ 73,391,000	+6.3%	REV	£ 73,022,000	£ 64,438,000	-11.8%		
PBT	£ 8,383,000	£ 8,783,000	+4.8%	PBT	£ 182,000	£ 518,000	+184.8%		
EPS	14.80p	15.10p	+2.0%	EPS	0.10p	0.90p	+800.0%		
Microvitec plc				Rolfe & Nolan plc					
	Final - Dec 95	Final - Dec 96	Comparison		Interim - Aug 95	Final - Feb 96	Interim - Aug 96	Comparison	
REV	£ 55,050,000	£ 65,176,000	+18.4%	REV	£ 7,661,000	£ 17,128,000	£ 8,630,000	+12.6%	
PBT	£ 3,411,000	£ 461,000	-86.5%	PBT	£ 1,074,000	£ 2,517,000	£ 1,107,000	+3.1%	
EPS	3.14p	0.21p	-93.3%	EPS	5.35p	12.33p	5.57p	+4.1%	
Misys plc				Romtec plc					
	Interim - Nov 95	Final - May 96	Interim - Nov 96	Comparison		Interim - Jul 95	Final - Jan 96	Interim - Jul 96	Comparison
REV	£ 129,528,000	£ 279,887,000	£ 142,809,000	+10.3%	REV	£ 1,814,000	£ 3,731,187	£ 1,990,000	+23.3%
PBT	£ 19,216,000	£ 50,437,000	£ 23,665,000	+23.2%	PBT	£ 105,000	£ 257,430	£ 128,000	+21.9%
EPS	16.90p	44.00p	20.30p	+20.1%	EPS	1.50p	3.60p	1.70p	+13.3%
Mondas plc				Sage Group plc					
	Final - Apr 95	Final - Apr 96	Comparison		Final - Sep 95	Final - Sep 96	Comparison		
REV	£ 133,300	£ 134,178	+0.7%	REV	£ 102,234,000	£ 136,385,000	+33.3%		
PBT	-£ 232,066	-£ 167,966	Loss both	PBT	£ 22,362,000	£ 30,053,000	+34.4%		
EPS	n/a	n/a	n/a	EPS	13.88p	18.50p	+33.3%		
Moorepay Group plc				Sanderson Electronics plc					
	Final - Dec 95	Final - Dec 96	Comparison		Final - Sep 95	Final - Sep 96	Comparison		
REV	£ 4,632,538	£ 5,118,415	+10.5%	REV	£ 57,801,000	£ 61,385,000	+6.2%		
PBT	£ 1,142,110	£ 1,327,894	+16.3%	PBT	£ 5,305,000	£ 6,201,000	+16.9%		
EPS	10.22p	11.56p	+13.1%	EPS	8.80p	10.10p	+14.8%		
MSB International plc				Sema Group plc					
	Final - Jan 96	Final - Jan 97	Comparison		Final - Dec 95	Final - Dec 96	Comparison		
REV	£ 38,558,000	£ 69,755,000	+80.9%	REV	£ 677,726,000	£ 926,965,000	+36.8%		
PBT	£ 3,420,000	£ 5,431,000	+58.1%	PBT	£ 36,927,000	£ 50,019,000	+35.5%		
EPS	12.00p	17.60p	+45.8%	EPS	24.25p	30.94p	+27.6%		
OmniMedia plc				Sherwood International plc					
	Interim - Jun 95	Final - Dec 95	Interim - Jun 96	Comparison		Final - Dec 95	Final - Dec 96	Comparison	
REV	£ 199,982	£ 275,275	£ 250,684	+25.4%	REV	£ 26,246,000	£ 24,628,000	-6.2%	
PBT	-£ 279,137	-£ 1,023,344	-£ 670,769	Loss both	PBT	£ 6,850,000	£ 2,065,000	-69.9%	
EPS	-1.76p	-6.06p	-3.16p	Loss both	EPS	66.20p	18.80p	-71.6%	
On Demand Information plc				P & P plc (to be renamed Skillsgroup plc)					
	Final - Jul 95	Final - Jul 96	Comparison		Final - Nov 95	Final - Nov 96	Comparison		
REV	£ 8,786,000	£ 11,429,000	+30.1%	REV	£ 341,990,000	£ 344,337,000	+0.7%		
PBT	-£ 3,646,000	-£ 2,900,000	Loss both	PBT	£ 12,574,000	£ 14,277,000	+13.5%		
EPS	-7.20p	-5.60p	Loss both	EPS	11.00p	12.70p	+15.5%		
Oxford Molecular plc				Spargo Consulting plc					
	Interim - Jun 95	Final - Dec 95	Interim - Jun 96	Comparison		Final - Dec 95	Final - Dec 96	Comparison	
REV	£ 2,832,000	£ 4,350,000	£ 4,350,000	+53.8%	REV	£ 7,379,000	£ 7,853,000	+6.4%	
PBT	-£ 2,112,000	-£ 3,693,000	-£ 950,000	Loss both	PBT	£ 902,000	£ 1,204,000	+33.5%	
EPS	-4.20p	-7.20p	-1.80p	Loss both	EPS	4.43p	6.17p	+39.3%	
Parity plc				Staffware plc					
	Final - Dec 95	Final - Dec 96	Comparison		Final - Dec 95	Final - Dec 96	Comparison		
REV	£ 127,711,000	£ 162,091,000	+26.9%	REV	£ 4,287,360	£ 10,009,325	+134.6%		
PBT	£ 6,540,000	£ 10,060,000	+53.8%	PBT	£ 535,213	£ 873,879	+63.3%		
EPS	10.34p	15.81p	+52.9%	EPS	3.90p	5.60p	+43.6%		
Pegasus Group plc				Superscape VR plc					
	Final - Dec 95	Final - Dec 96	Comparison		Interim - Jan 96	Final - Jul 96	Interim - Jan 97	Comparison	
REV	£ 6,426,000	£ 7,914,000	+23.2%	REV	£ 1,589,000	£ 3,888,000	£ 1,901,000	+19.6%	
PBT	£ 893,000	£ 1,160,000	+29.9%	PBT	-£ 897,000	-£ 2,873,000	-£ 3,128,000	Loss both	
EPS	10.30p	15.40p	+49.5%	EPS	-13.10p	-37.90p	-37.40p	Loss both	
Persona plc				Systems Integrated Research plc					
	Final - Dec 95	Final - Dec 96	Comparison		Interim - Nov 95	Final - May 96	Interim - Nov 96	Comparison	
REV	£ 53,375,000	£ 148,875,000	+175.2%	REV	n/a	£ 1,248,000	£ 507,000	n/a	
PBT	£ 2,832,000	£ 6,009,000	+112.2%	PBT	n/a	-£ 642,000	-£ 1,194,000	n/a	
EPS	14.41p	17.20p	+19.4%	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		Interim - Nov 95	Final - May 96	Interim - Nov 96	Comparison
REV	£ 30,000	£ 1,083,000	£ 413,000	+1276.7%	REV	£ 10,289,000	£ 20,534,553	£ 9,737,000	-5.2%
PBT	-£ 3,618,000	-£ 5,395,000	-£ 1,820,000	Loss both	PBT	-£ 50,000	-£ 5,135,296	£ 145,000	Loss to profit
EPS	-9.75p	-14.53p	-3.67p	Loss both	EPS	-0.35p	-35.88p	1.03p	Loss to profit
Quality Software Products Holdings plc				Triad Group plc					
	Final - Dec 95	Final - Dec 96	Comparison		Interim - Sep 95	Final - Mar 96	Interim - Sep 96	Comparison	
REV	£ 21,385,842	£ 25,360,189	+18.6%	REV	£ 3,720,000	£ 11,680,000	£ 8,350,000	+124.5%	
PBT	£ 502,697	£ 28,480	-94.3%	PBT	£ 778,000	£ 2,131,000	£ 1,219,000	+56.7%	
EPS	5.20p	0.20p	-96.2%	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	£ 80,891,000	£ 99,032,000	+22.7%	REV	£ 7,260,000	£ 16,032,000	£ 8,826,000	+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				Wakebourne plc					
	Final - Dec 95	Final - Dec 96	Comparison		Interim - Jun 95	Final - Dec 95	Interim - Jun 96	Comparison	
REV	£ 26,052,000	£ 27,287,000	+4.7%	REV	£ 18,848,000	£ 38,714,000	£ 16,145,000	-14.3%	
PBT	£ 1,809,000	£ 1,591,000	-12.1%	PBT	-£ 356,000	-£ 3,384,000	£ 212,000	Loss to profit	
EPS	4.37p	4.05p	-7.3%	EPS	-1.10p	-12.20p	0.60p	Loss to profit	
Rage Software plc				Xavier Computer Group plc					
	Interim - Dec 95	Final - Jun 96	Interim - Dec 96	Comparison		Period - Mar 96	Final - Dec 95	Interim - Sep 96	Comparison
REV	£ 4,139,000	£ 9,504,000	£ 3,975,000	-4.0%	REV	£ 457,000	£ 1,201,884	£ 3,740,000	n/a
PBT	-£ 1,226,000	-£ 2,204,000	-£ 1,752,000	Loss both	PBT	£ 86,000	£ 70,472	£ 260,000	n/a
EPS	-0.44p	-1.34p	-0.65p	Loss both	EPS	-0.26p	n/a	0.33p	n/a
Real Time Control 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	£ 5,325,000	£ 11,903,000	£ 6,314,000	+18.6%	REV	£ 4,005,000	£ 8,483,877	£ 4,671,000	+16.6%
PBT	£ 742,000	£ 2,204,000	£ 1,156,000	+55.8%	PBT	-£ 479,000	-£ 214,693	£ 237,000	Loss to profit
EPS	7.10p	20.80p	11.00p	+54.9%	EPS	-5.47p	n/a	1.81p	Loss to profit
Rebus Group plc									
	Interim - Sep 95	Final - Mar 96	Interim - Sep 96	Comparison					
REV	£ 28,293,000	£ 60,040,000	£ 30,255,000	+5.4%					
PBT	-£ 356,000	£ 1,969,000	£ 2,313,000	Loss to profit					
EPS	-0.32p	0.33p	1.72p	Loss to profit					

Our fears on ISPs are well known. We gain little satisfaction to read of UK leader Demon's search for a white knight with Deutsche Telekom the most likely.

UK M&A

Micro Focus has acquired **Millennium (UK) Ltd** for c£4m. **Radius** has acquired the rights to the **Prophecy** and **Miracle** financial management products from **CACI** for £423K. These products generated revenues of >£800K to 31st Mar. 97.

Internet Technology has acquired **Xara Networks Ltd** (an ISP) for £2.65m. **3i** has invested £600K in **Adaytum** - the Bristol based budgeting and planning software company with revenues of c£3m.

US Aris acquired **Oxford Computers** IT training operation (in Feb. 97 - sorry!) Network distributor **Ethix** has gone bust owing c£85K (Source - MicroScope). VR developer, **Division**, has sold its remaining hardware activities to **PixelFusion** for £868K. Last year they sold their graphics operation to HP.

US Compuware Corp. has acquired London based consultancy **Vine Systems**. Vine has 45 staff.

Foundation Systems (time management and student award s/w for LAs with rev £5m, PBT £219K in 1995) has been the subject of a 3i. and NatWest backed MBO.

ECsoft - one of the UK NASDAQers - has acquired **Astral AB** of Sweden for \$6.4m in a share pooling arrangement. Astral had revenues of \$4.9m in 1996 and develops client-server systems and systems for mobile telecomms operators.

ECsoft was a NASDAQ IPO in Dec. 96 at \$10. Its 1996 results were excellent with profits up 300% at \$3.7m. We continue to be amazed that ECsoft is now trading at just \$9.5 after sinking to a low of just \$8. Now just 6% discount to the IPO price. *Thus providing more evidence that the US does not really understand services companies!*



Vega buys CBL, shortlisted for RAF

Vega has acquired **CBL Technology**, (CBL/software-based training) for £5.5m - £4.28m now, £1.22m performance related. CBL had PBT of £404K on rev. of £1.7m in the year to 31st Mar. 96. £2.4m revenues are expected to 31st Mar. 97.

Vega also announced that it is the preferred bidder for an RAF training contract worth £6m. £30m of orders have been signed this year so far and Chairman Robert Drummond expects "PBT similar to last year".

Yet another Misys purchase

Misys has continued its buying this month - albeit on a modest scale - with its acquisition of **MOCOM** - an Australian provider of systems to stock brokers and investment banks. MOCOM has 100 staff - 60 in Hong Kong and 40 in Australia. It is just about to install its system in Jardine Fleming. If this goes according to plan, an initial £4m will be paid. The rest is performance related up to a max. of £25m. However "if we pay an additional £10m I will do cartwheels across the ceiling" said Ross Graham. Clearly, such performance would be to the enormous benefit of Misys' shareholders too!

Misys share price had been drifting - down c15% at the nadir - due mainly to NASDAQ "weakness". However Misys recovered to end April level on the month.

Services, services... Sorry to be so boring, but even **Netscape** had to admit that 25% of its rev. now come from services rather than products. *US readers take note!*

Comino joins AIM

In April 1997, **Comino plc** became the latest new SCSI float on AIM. 2m shares (18%) were placed by Williams de Broe at 130p raising £1.53m new money and valuing Comino at £14.35m.

In understanding Comino one needs to understand the history; particularly of the key players.

After separate early careers in IT, Mike Brooke and Gordon Skinner first joined forces in founding MBS - the PC reseller - in the 1980s. Brooke went on to have an involvement in many successful IT companies and is now the Chairman of Azlan, for example. Skinner formed TIS in 1980 and sold this to Misys in 1989 where he served as a director until 1991. Paul Clifford was the finance director of TIS. Garth Selvey founded Context in 1977 which in turn formed a JV with TIS in 1985. After the Misys acquisition, Selvey led an MBO of the housing association product of **Context**.

These individuals then all started to come together again when Brooke, Skinner and Clifford formed BCS in 1991 and invested in Context in 1992. BCS also invested in **IT Professional** - which didn't work well - and this was sold to Radius in 1996.

Other, more successful, BCS investments were **Prologic** (systems for the fashion and clothing industry) and in Aug. 96 in **ISE** (document management and workflow).

Also in 1996, a new holding company - Comino - was set up and VCs Abingworth and Questor both took stakes.

Revenues for varying periods to 31st Jan. 97 were £6.1m and PBT was £1.03m - a very healthy 16.5% profit margin. Context contributed the lion's share - c80% - of the profit. Indeed the main shareholders after the float will be Selvey, David Maddox and John Williams - who founded Context. But all the other activities were profitable too. Brooke and Skinner hold <4% of the equity each.

The balance sheet was pretty strong before the float with £1.5m in cash. The float will enable Comino to undertake further acquisitions. The board has considerable experience in this - *some purchases being more successful than others!* But perhaps recognising and disposing of the duds is a pretty valuable attribute too. Far too many companies have failed by not admitting and therefore not taking the required action early enough on its mistakes.

Comino shares ended their first month at 140p - a 10p premium to the issue price.

CRT buys again

Hot on the heels of its purchase of **INLINE KPG** last month, **CRT Group** has acquired London-based IT training operation **Harley West** for £7.96m (£6.5m in cash - rest in CRT shares issued at 229.6p). Harley West had rev. of £6.3m and PBT of £850K (1996 = £200K) in the year to 31st Mar. 97. Harley West had 128 staff including 70 trainers.

Azlan "in line with expectations"

Azlan shares rose 11% this month after it announced that PBT to 5th Apr. 97 would be up 29% at £14.8m "in line with expectations" on rev. up 43% at £280m. As readers will know we backed the acquisition of **Akam** but the City got it seriously wrong with the flop of the accompanying 630p rights issue.

Score: Warburg City 0 - Azlan Athletic 5

ITnet - becoming a very valuable company

Established in 1987, until November 1995 ITnet was a wholly owned subsidiary of Cadbury Schweppes plc. ITnet has grown from their internal IT department into one of the UK's leading companies specialising in outsourcing with particular emphasis on local government (50%), Central Govt. (7%) and manufacturing (33%).

In November 1995 it was announced that ITnet had completed an MBO from Cadbury Schweppes which valued ITnet at £37.1m. Management got 25.1% of the equity, 3i. got 37.4%, employees (via an Employee Benefit Trust) 25% and Cadbury Schweppes retained 12.5%. RBoS provided debt facilities. ITnet continued to provide IT services to Cadbury Schweppes companies which represents c£16m of revenues in 1996.

Over the last ten years, ITnet has had a record of steadily increasing revenue. In 1996 - the first full year since the MBO - revenues increased by 17% to a record £68.6m. Revenues from the private sector grew by 33%. Application management was the fastest growing sector - up 28% - but distributed systems and desktop management increased by 18% too.

The profit record of the new board established in 1991 has also been pretty good since. Operating profit increased by 24% to £5.1m in 1996 - equal to a profit margin of 7.4% - although we understand that interest payments etc. ensured that PBT remained static at around £5.54m. Two new sites were added and staff numbers increased by 21% to 1,200. "ITnet maintained its 100% success in renewing contracts due to end in 1996 and is already off to an excellent start in 1997 with a renewed five year contract, worth £25m, to provide and manage Birmingham City Council's IT systems". "Six major new contracts were won in 1996 including AGAS (part of Elf Oil), the RAC, and Somerset County Council. In addition a £3m contract with London Borough of Sutton provided ITnet's first managed service contract for revenue collection".

The future? ITnet is clearly now a very valuable operation. Even on AVERAGE valuations, ITnet is worth £100m+. Will valuations stay this high forever? We think not. If we were ITnet shareholders we would want to realise some of this value sooner rather than later.

Royalblue to float - and we need more like them!

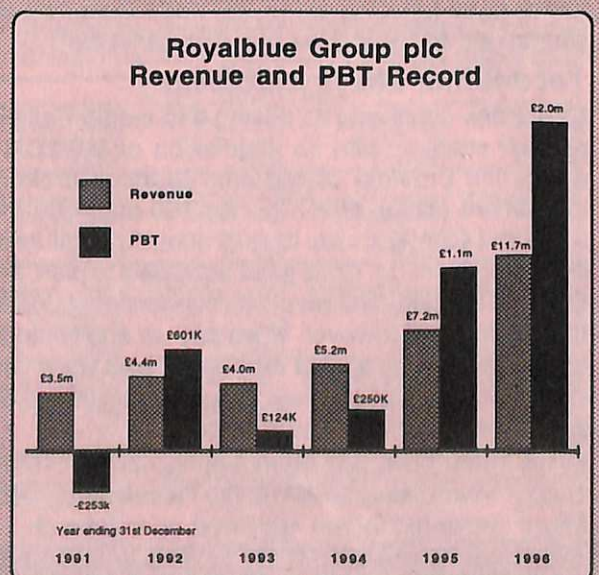
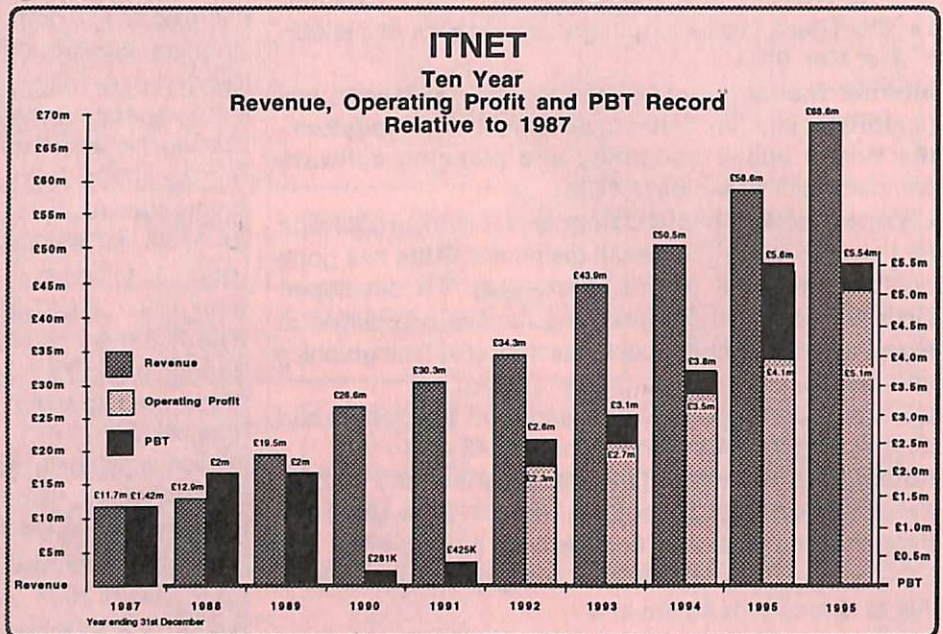
Intercom Data Systems Ltd was founded in 1981 by Intercommodities, undertook an MBO in 1986 and changed their name to Royalblue within the last year. "We develop and sell products and associated services - rather than the other way around" CEO John Hamer told us last year.

Royalblue's products include Fidessa - (43% of revenues) trading support system software, HelpDesk for customer support (35%) and Rostrum "CTI software for energising corporate call centres" (22%).

Shareholders include 3i. which has held a 15% stake since 1985, and Advent, which bought out a previous shareholder's 21% stake in 1995. The rest is held by Hamer (8%), the management team (15%) and others including 20% held under option for 90 staff. Results for the year to 31st Dec. 96 were again "really excellent". Revenues were up 62% to £11.7m, PBT up 83% to £2m (a 17% margin), product development ("all fully expensed") was up from £656K to £1.16m and EPS up 79%. Cash increased by 42% to £3.2m. 45% of revenues come from licences, 45% from services and the remaining 10% from maintenance...almost exactly the vital statistics we like the most!

Last year Hamer told us that they "haven't really thought about a float...yet.. I've been more concerned about creating value within the business". Exactly a year on, in April 97, Royalblue has announced that they intend to float "in the next few months" with a valuation of "£35m - £40m".

Footnote John Hamer wrote to us this month asking us "to try and love products a bit more otherwise it makes life hard for young (British) companies like us". The problem is that Royalblue's mix of business (see above) is EXACTLY the type we both like and have always supported.



We are writing this on Election Day when a change of Govt. seems rather likely. Surprising therefore that our SCSi index is largely unchanged on the month! CFS (see p2) was the largest gainer - up 59%. Clearly other investors were as impressed as us by the prospects. Other major gains were at **Rebus (+25%)**, **Moorepay (+21%)** and **Proteus (+21%)**. March's new issue - **London Bridge** - put on *another* 19%; that's now a 56% gain since the placing. As one reader wrote "so much for your comments, Richard!"

At the other end of the scale, poor old **Superscape** (p2) fell 41% on the frantic cost cutting announcements. The profits warning knocked 21% off **Vega** (p7).

And for all the many readers who 'phoned about **Capita's** share price dive...it didn't. They did a one-for-four share split, so at 239p the shares are little changed on the month. But we wonder what effect a Labour Govt. will have on the largest UK-owned public sector outsourcer (p1)?

30-Apr-97		SCSi Index		2869.24	
		FTSE 100		4436.00	
		BDO AIM		1449.60	
		FTSE SmallCap		2295.46	
SCSi Index = 1000 on 15th April 1989					
Changes in Indices		SCSi Index	FTSE 100	BDO AIM Index	FTSE Small Cap
Month (25/3/97 - 30/4/97)					
		-0.25%	+3.87%	-1.37%	-0.70%
From 15th Apr 89		+186.92%	+116.01%		
From 1st Jan 90		+211.84%	+87.81%		
From 1st Jan 91		+305.33%	+105.33%		
From 1st Jan 92		+174.61%	+77.93%		
From 1st Jan 93		+80.05%	+55.84%		+65.46%
From 1st Jan 94		+71.85%	+29.77%		+22.84%
From 1st Jan 95		+91.39%	+44.71%		+31.44%
From 1st Jan 96		+27.04%	+20.24%	13.06%	+18.23%
From 1st Jan 97		+7.16%	+7.71%	6.93%	+5.15%

System House SCSi Share Prices and Capitalisation

	Share Price 30/4/97 (£p)	Capitalisation 30/4/97(£m)	Historic P/E	PSR Ratio Cap./Rev.	CSI Index 30/4/97	Share price % move since 25/3/97	Share price % move in 1997	Capitalisation move (£m) since 25/3/97	Capitalisation move (£m) in 1997
Admiral	3.98	£251.20m	34.9	2.77	14367.05	1.92%	8.90%	£5.50m	£21.30m
AFA Systems	1.05	£10.40m	n/a	28.89	870.83	-7.11%	-25.09%	-£0.80m	-£3.50m
Anite (was Cray)	0.51	£119.70m	Loss	0.46	295.32	7.45%	38.36%	£8.30m	£33.20m
Azlan	5.88	£208.60m	18.7	1.06	2554.35	10.85%	3.52%	£20.40m	£7.70m
Cadcentre	2.08	£34.40m	26.1	2.42	1037.50	-11.51%	-18.79%	-£4.50m	-£8.10m
Capita	2.39	£437.20m	50.6	3.91	21486.49	-1.45%	47.22%	-£5.80m	£153.10m
Cedadata	0.95	£30.10m	10.2	2.49	904.76	-7.32%	-62.00%	-£2.40m	-£49.10m
CFS	0.90	£6.66m	14.0	1.46	1000.00	59.29%	7.78%	£2.48m	£0.48m
Chemical Design	2.15	£14.00m	31.8	5.49	1954.55	-10.42%	48.28%	-£1.60m	£4.56m
Clinical Computing	0.35	£8.66m	Loss	4.37	278.23	13.11%	15.00%	£1.00m	£1.13m
CMG	10.90	£698.70m	39.8	2.85	3758.62	-5.22%	29.76%	-£38.40m	£160.30m
Coda	1.30	£36.10m	Loss	1.07	553.19	7.44%	20.93%	£2.50m	£6.20m
Compel	2.63	£66.50m	18.0	0.77	2104.00	6.69%	49.01%	£4.10m	£39.60m
CRT Group	2.30	£323.40m	28.9	3.13	2555.56	-2.13%	-8.00%	£1.00m	-£17.80m
DCS Group	3.14	£63.00m	25.6	2.07	5225.00	-0.63%	16.11%	£2.40m	£11.20m
Delphi Group	8.03	£231.10m	24.3	1.10	3302.47	-2.43%	9.56%	-£5.80m	£20.10m
Diagonal	3.22	£59.60m	41.9	2.10	1170.91	4.72%	17.09%	£2.70m	£8.70m
Division Group	0.45	£19.60m	Loss	4.00	1112.50	-15.24%	-19.09%	-£3.50m	-£4.50m
DRS Data & Research	0.28	£9.41m	Loss	1.95	250.00	14.58%	12.24%	£1.20m	£1.03m
Druid	4.20	£96.20m	37.4	8.01	1527.27	-1.18%	23.53%	-£1.10m	£18.40m
EDP	0.71	£18.50m	10.6	1.30	2158.60	-11.32%	2.17%	-£2.30m	£0.40m
Eidos	8.60	£145.30m	27.2	39.16	8600.00	3.30%	19.03%	£5.40m	£49.20m
FI Group	5.02	£148.90m	40.6	1.89	2134.04	0.30%	-11.79%	£0.40m	-£19.90m
Flomerics	1.60	£4.10m	13.1	0.77	1230.77	-17.95%	-25.58%	-£0.89m	-£1.41m
Gresham Computing	0.52	£16.80m	16.4	1.81	553.76	-0.96%	-1.90%	-£0.20m	-£0.40m
Highams Systems	1.25	£11.10m	18.3	0.84	1736.11	-3.85%	-8.42%	-£0.40m	-£1.00m
INSTEM	1.75	£8.05m	9.2	0.35	1750.00	2.94%	20.69%	£0.23m	£1.38m
Intelligent Environments	0.72	£16.00m	Loss	4.60	760.64	7.52%	10.00%	£1.10m	£1.50m
JBA Holdings	8.15	£284.40m	44.6	1.76	5093.75	8.67%	53.77%	£28.60m	£103.70m
Kalamazoo	0.81	£23.50m	8.3	0.35	2300.00	-10.06%	-25.12%	-£2.50m	-£7.50m
Kewill	6.14	£77.90m	16.6	2.21	2424.90	4.69%	17.19%	£3.50m	£11.40m
Logica	8.68	£552.60m	30.4	1.94	2376.71	-9.40%	-5.55%	-£57.30m	-£30.60m
London Bridge	3.13	£73.40m	37.8	11.65	1562.50	19.05%	56.25%	£11.70m	£26.40m
Lorien	3.63	£62.10m	30.8	1.36	3630.00	1.26%	8.04%	£0.80m	£23.80m
Lynx Holdings	1.08	£105.70m	20.1	1.21	2700.00	7.46%	24.86%	£7.30m	£21.00m
M-R Group	0.91	£50.80m	16.1	1.32	361.11	-0.55%	7.06%	-£0.30m	£3.40m
Macro 4	4.02	£79.10m	11.1	3.12	1618.95	-1.47%	-18.06%	-£1.20m	-£17.40m
MAID	2.35	£218.10m	Loss	10.17	2136.36	17.21%	16.63%	£34.20m	£33.30m
McDonnell IS (MDIS)	0.42	£44.30m	Loss	0.30	162.50	-11.98%	28.03%	-£6.00m	£9.70m
Micro Focus	12.78	£194.20m	Loss	2.66	6171.50	4.07%	31.70%	£7.70m	£47.70m
Microgen	1.75	£69.30m	11.6	0.94	747.86	-1.41%	16.67%	-£0.80m	£10.10m
Microvitac	0.25	£19.30m	116.0	0.30	597.56	-6.67%	-14.04%	-£1.30m	-£3.10m
Misy's	12.38	£1,070.00m	26.2	3.82	3078.36	0.41%	10.84%	£9.00m	£119.90m
MMT Computing	5.82	£69.20m	25.2	4.10	3461.31	6.70%	1.84%	£4.30m	£1.80m
Mondas	0.78	£4.71m	Loss	36.23	1033.33	-6.06%	-7.19%	-£0.26m	-£0.32m
Moorepay	4.35	£33.00m	38.2	6.45	5240.96	20.83%	55.36%	£5.70m	£11.70m
MSB International	4.10	£83.20m	23.0	1.19	2157.89	2.76%	10.66%	£2.20m	£7.90m
OmniMedia	0.08	£1.85m	Loss	6.73	100.00	-6.25%	-21.05%	-£0.12m	-£0.49m
On Demand	0.35	£19.00m	Loss	1.66	442.31	6.15%	-23.33%	£1.10m	-£5.80m
Oxford Molecular	4.10	£249.40m	Loss	40.36	5118.75	0.37%	15.03%	£0.90m	£32.60m
Parity	4.90	£209.70m	31.0	1.29	27222.12	-3.64%	10.73%	-£7.90m	£21.60m
Pegasus	3.32	£23.20m	18.8	2.93	903.27	-11.48%	-11.36%	-£0.80m	-£0.40m
Persona	3.87	£95.90m	22.5	0.65	2415.63	0.00%	25.08%	£0.00m	£19.30m
Phonelink	0.57	£27.30m	Loss	6.26	364.52	-11.72%	-7.38%	-£3.60m	-£1.90m
Proteus	0.67	£36.90m	Loss	34.81	797.62	20.72%	78.67%	£6.40m	£16.30m
Quality Software	2.32	£30.10m	n/a	1.19	609.21	2.89%	13.48%	£0.90m	£3.60m
Radius	0.51	£14.30m	12.6	0.52	369.57	-5.56%	-19.05%	-£0.80m	-£3.30m
Rage	0.08	£20.10m	Loss	2.12	317.31	-19.51%	-28.26%	-£6.00m	-£7.80m
Real Time Control	2.20	£15.40m	8.9	1.29	4489.80	-3.72%	-5.38%	-£0.60m	-£0.90m
Rebus	0.75	£69.40m	18.6	1.16	852.27	25.00%	3.45%	£13.90m	£16.60m
Recognition Systems	0.43	£11.50m	Loss	35.94	607.14	-24.78%	-27.35%	-£3.80m	-£4.30m
Riva	0.27	£8.00m	230.0	0.12	188.34	15.22%	12.77%	£1.05m	£0.90m
RM	8.33	£148.20m	32.3	1.50	4757.14	9.90%	34.27%	£13.40m	£37.80m
Rolle & Nolan	3.98	£50.10m	31.7	2.93	4732.14	-1.24%	9.66%	£2.40m	£4.40m
Romtec	0.78	£4.03m	18.2	1.25	1240.00	0.00%	-3.73%	£0.00m	-£0.16m
Sage Group	6.42	£689.60m	34.6	5.06	24673.08	-1.16%	21.04%	-£8.10m	£120.90m
Sanderson Electronics	1.28	£58.40m	12.7	0.95	2170.21	0.00%	-15.00%	£0.10m	-£9.30m
Sema Group	11.98	£1,334.00m	38.6	1.44	3765.72	-12.11%	10.37%	-£183.00m	£127.00m
Sherwood	2.60	£22.40m	13.5	0.91	2166.67	-5.11%	33.33%	-£1.40m	£5.60m
Skillsgroup	2.22	£178.80m	17.2	0.52	993.27	0.88%	42.90%	£1.30m	£53.70m
Spargo Consulting	1.27	£15.80m	20.5	2.01	1331.58	-11.23%	-13.06%	-£2.00m	-£2.40m
Staffware	2.25	£26.10m	40.2	2.61	1000.00	-2.81%	-13.29%	-£0.70m	-£3.90m
Superscape	2.40	£21.10m	Loss	5.42	1212.12	-41.46%	-39.62%	-£15.00m	-£12.30m
Systems Integrated	0.16	£2.08m	Loss	1.66	134.78	0.00%	-11.43%	£0.00m	-£0.27m
Total	0.30	£3.00m	8.9	1.04	566.04	-3.23%	3.45%	-£0.10m	£0.10m
Trace	0.69	£9.73m	29.4	0.47	552.00	-1.43%	97.14%	-£0.14m	£4.80m
Triad	1.85	£46.60m	22.3	3.99	1370.37	-2.83%	-11.69%	-£1.30m	-£6.10m
Vega Group	2.55	£38.00m	15.4	2.37	2090.16	-20.93%	-4.67%	-£10.10m	-£3.10m
Wakebourne	0.12	£2.74m	Loss	0.08	66.67	0.00%	-20.00%	£0.00m	-£0.68m
Xavier	0.10	£5.23m	Loss	4.36	1000.00	0.00%	-9.09%	£0.00m	-£0.52m
Zergo	2.95	£27.20m	74.1	3.21	3025.64	1.72%	1.72%	£0.50m	£0.50m

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.

Clinical Computing - we really don't need and more like them!

If you really want a classic case of a new issue disaster then look no further than **Clinical Computing**. Clinical sells, under the brand name PROTON, "a suite of software products for the storage and management of detailed records aimed at the needs of clinical departments...aimed at helping doctors look after patients".

The placing at 124p in Feb. 94 valued Clinical at £20.1m. The share price quickly grew to a high of 186p - a 50% premium.

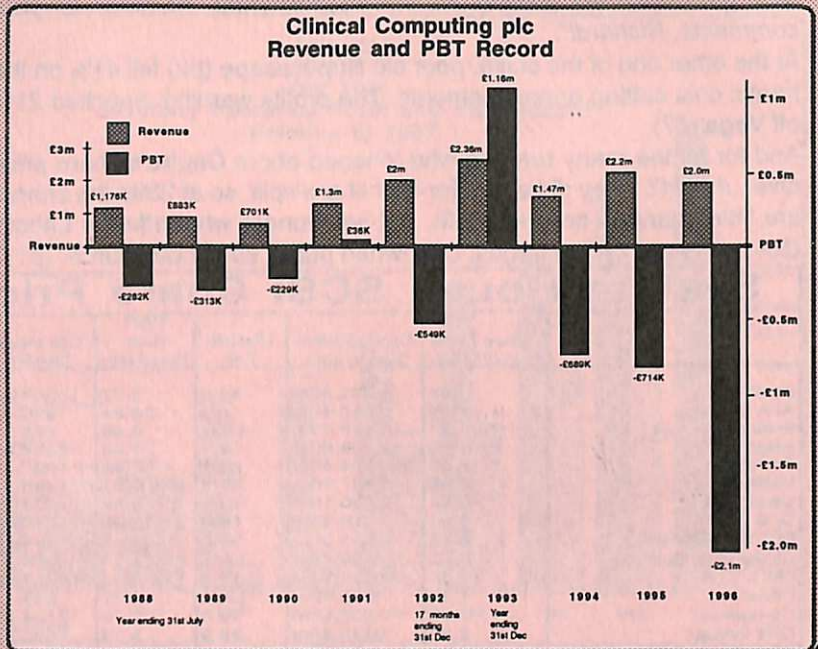
There has then followed three years of, quite frankly, appalling results.

Revenues decreased by 10% to £1.98m, and loss before tax tripled to £2.1m (yes...losses in excess of revenues) in the year to 31st Dec. 96. That really takes some doing.

A "difficult UK clinical systems market", "delays in new order intake in the US" (the US now represents over 60% of group revenues) and "uncertainty in the marketplace surrounding the announcement of the disposal of **National Medical Care to Fresenius**" (Clinical made a loss on disposal of £328K) were all blamed. Clinical could not find a buyer for its **Armstrong Healthcare** division and that activity has been discontinued, giving rise to an exceptional charge of £149K.

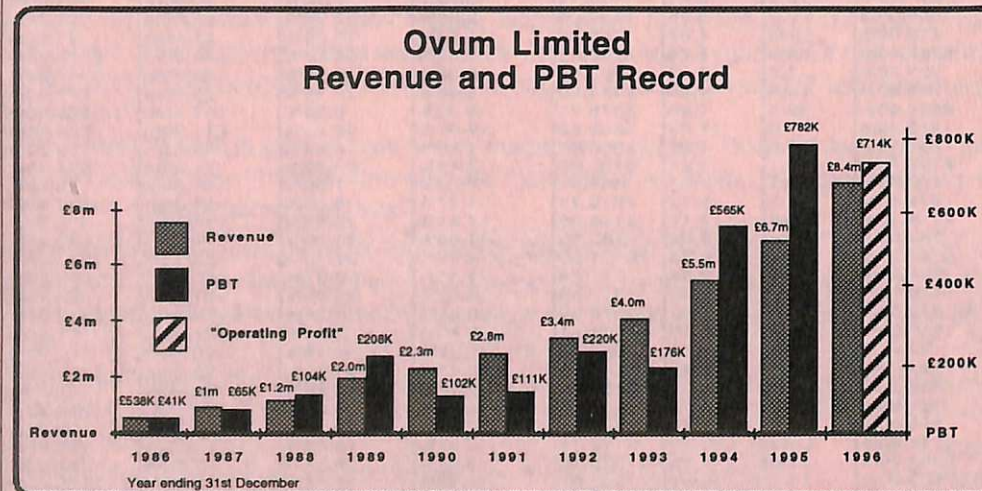
"The financial performance for the first two months of the current year has shown a significant improvement at the operating level".

Clinical shares closed April 1997 on 35p. A far cry from the 124p placing price.



Ovum Ltd - "nice to see a competitor doing rather well....too"

Ovum is a market research organisation which undertakes research on both IT and telecomms selling consulting, reports and subscription services. We guess they could be described as a competitor of ours.



When Peter Harrop was appointed non-exec. Chairman, we received a very bullish statement on the 1995 results. Actually the filed accounts were somewhat short of that which we were told. "Unfortunately the relationship with (Harrop) did not work well and he resigned in June 1996". Stephen Dawson became Chairman.

According to the figures we have now been given, revenues increased by 27% to £8.4m in the year to 31st Dec. 96 but operating profit remained static

at £724K. Ominously we have not been given a PBT figure.

In 1996 23% of revenues were from UK, 43% from Continental Europe, 13% from USA/Canada, 15% from Asia/Pacific and 3% from the Rest of the World. An office in Boston was opened in 1996.

"The board is aiming to achieve a stock market flotation in 2000".

intelligent environments

Intelligent Environments was a new AIM entry in June 96 at 94p. Their new product - **AMAZON** - is designed to assist in the building of intra/internet applications. The products have collected a blue-chip customer base including Tesco, Air Express, Blue Cross and the Lereta Corp.

In Jan. 97 they acquired **Intrepid Consulting** "a US systems implementation consulting firm" for \$1.625m now + \$1.375m performance related. IE now reckon that around 70% of their estimated £7m revenues in FY97 will come from services - rather than product. *Just as we like it...as readers will know!*

Results for the year to 31st Dec. 96 show revenues down 14% at £3.475m ("as a result of the expected decline in the OS/2 market") and a loss before tax of up sevenfold at £1379K. "The goal is to achieve substantial revenue growth in 1997 and 1998 and aim to achieve profitability in 1998".

Even so Intelligent Environments was trading at 72p at the end of April 97 - a substantial 23% discount to the float price just 10 months earlier

Double disappointment at IBM UK

In the year to 31st Dec. 96 IBM UK grew revenues by 11% from £4,594m to £5,119m, PBT was up 25% to £269m and net profits were up 11% at £248m. "The results represent the third consecutive year of profits for IBM UK, which lost a whopping £141m in 1993". But much of this increase was as a result of healthy export orders from IBM's PC manufacturing operations in Greenock.

We have done our usual "informed guesstimates" for our 1997 Holway Report. We estimate that UK revenues grew by a much more modest 8% to £2 billion. Although UK hardware revenues increased by 14% to £970K, almost everything else connected with hardware declined - with hardware maintenance down a major 21%. It has declined in every year this decade.

Our major concern, as usual, is with SCSI revenues (i.e. excluding hardware maintenance and operating software). At the headline level, we estimate these have increased by 33% to £600m. But, remember that c£100m of this increase relates to the acquisition of Data Sciences. Without Data Sciences, IBM UK's SCSI revenue growth would indeed have been very modest at around 10%. One of the main reasons for this was the hit IBM UK had to take in problems relating to the LITS contract and delays in other SI contracts.

However outsourcing appeared to be the real star, rising by over 60% to £170m in 1996 although again a significant part of this came from Data Sciences. The largest contract this year was from General Accident (£180m/10 years). In Nov. 96 IBM was jubilant on winning the British Steel (£350m/10 years) outsourcing deal - although this was subject to due diligence. In April 97, however, it was announced that the IBM had "failed to meet BS' commercial requirements" and had reopened discussions with the other contenders. Cap Gemini UK/Hoskyns looks like being in with the best chance. But this must have been an enormous blow to IBM Global Services ambitions in the UK.

Icom MBO - one year on

In Jan. 96 IMI plc divested itself of its remaining "non-core IT" activity. IMI Computing was subject of an MBO under Managing Director Irene Brown. The MBO price was £4.65m in a deal backed by Lloyds Development Capital and 3i.

The new operation was given the name Icom Solutions. Icom is deeply involved in the provision of innovative workflow, document imaging and office automation solutions with particular emphasis in the insurance and financial services markets. Equally Icom specialises in outsourcing with its application management services for both legacy systems and new client server applications. The company's strong consultancy and BPR skills coupled with cross-platform systems integration expertise helps it "to contain costs and increase efficiency". Icom is now evidently embarking on a recruitment drive.

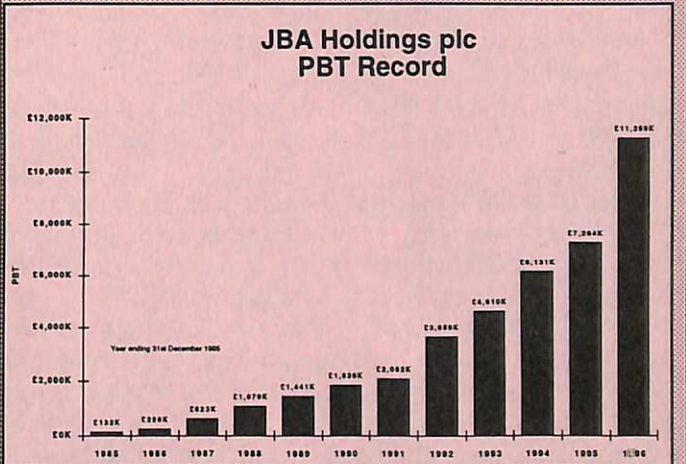
The last accounts for the year to 31st December 1995 when Icom was part of IMI gave revenue up 9% at £14m but PBT fell 10% to £674K - a 4.8% margin.

The first accounts as a separate company to 31st Dec. 96 show roughly static revenues of £14.55m and PBT of £692K. Operating profit had, however, increased by around 40% to £895K. The difference was, of course, the £140K interest payable on the funds used to effect the MBO.

JBA maintains "Boring" record - and makes major acquisition



JBA Holdings (business application software) announced revenues up 31% at £161.8m, operating profit up 54% at £12.8m, PBT up 57% at £11.3m and EPS up 39% in the year to 31st Dec. 96. Cash more than doubled again to £13.5m. If you think these results are good...well, they really could have been even better:



- firstly, JBA decided a few years back to capitalise the development of a new toolset (not their application products we are pleased to report). We were affronted! A *System House Boring Award Winner* adopting such methods! We actually think they soon regretted the decision. No, we do not claim the credit, but...JBA have abandoned the practice. Indeed, in the latest year the amount amortised exceeded the amount capitalised. (i.e. they would have made MORE profit last year had they adopted the common industry practice).

- JBA had to pull their results announcement as they wanted to adopt US GAAP rules relating to the recognition of maintenance revenues. Now, we admit that we thought that all SCSI companies took maintenance revenues (whether paid in advance or not) on a monthly basis. Apparently JBA took them on an annual basis. The change knocked £2.5m off the profit total.

- then "the strong pound reduced profits by £2m and revenues by £9m".

Good grief, how much better could these results actually have been? No wonder that the share price surged to end April 1997 on 815p as a result.

Non-UK revenues now exceed 65% of the total with over 50% from the US. Indeed, in the last year, the amount of JBA equity owned in US has increased from 15% to 33% and certain reports suggest that a NASDAQ IPO is being contemplated.

JBA also announced that it was to acquire French Presys Holdings for FF101.45m (c£10.8m). Presys is the largest IBM AS/400 distributor in France with revenues of FF184m and PBT of FF9.4m in 1996). The acquisition is "expected to be earnings enhancing for JBA".

The future?

Chairman Alan Vickery says "1997 has started well and the quality and size of orders already taken makes me very confident of another year of steady growth during 1997".

Just for once we will let him get away with the use of that dreaded word!

Learning Tree prospers

Established way back in 1974, Learning Tree International went for a NASDAQ IPO in Dec. 95 at \$12 in order to undertake acquisitions. However they have not, as far as we can see, actually consummated one! This might be one of the reasons why they have been one of the best performers in the sector since. They ended April 97 on \$31.5 (from a high of \$40 at one time) which equates to a market capitalisation of nearly \$700m. That is quite some valuation considering revenues in 1996 were \$103.6m (an increase of 31% on 1995) with net income of \$10.1m (an even higher 56% growth on 1995). In other words a PSR of 7 and a P/E of over 40. The share price (adjusted for the further share issue) is over 4-times the IPO price - a rare record indeed on NASDAQ in the period.

Learning Tree provides training to IT professionals via over 120 separate course titles. Just over 50% of revenues are earned outside the US with the UK at c27% of the total.

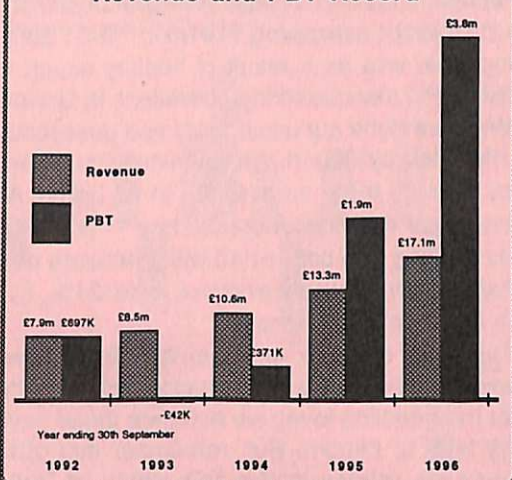
The results in the UK have been even more impressive with revenues up 29% at £17.1m but PBT doubled to £3.8m. That's an impressive 22% margin.

UK spend on IT training of the type that Learning Tree undertakes, actually declined every year to a low point of £180m in 1992. Since then it has grown strongly by 19% to reach £340m in 1996.

But the market is highly fragmented. Learning Tree is one of the leaders but still has only around 5% of the market. Learning Tree's main competition comes from a whole raft of small companies, dealers/resellers etc. Many of these are ATECs (Authorised Microsoft Training Centres) The fragmentation has been noticed by others. Parity, Delphi, ICL (Peritas) and, of course, CRT have been building their IT training operations.

So Learning Tree in the UK is a real success story in comparison with the market, the UK competition and even to Learning Tree worldwide - much due to the efforts and abilities, we feel sure, of UK MD David Pardo and his team.

Learning Tree International Ltd
Revenue and PBT Record



EDS profits warning. EDS announced revenues up just 6.7% to \$3.6b but profits down 11% at \$194m (i.e. a 5.4% margin) in Q1. It also warned that it would take a major charge for the "business transformation" of its workforce. As many as 9,000 - nearly 10% of the workforce - might go.

EDS shares have dropped 44% since the spin-out from GM in Jun. 96. That's an amazing \$11 billion stock writedown! EDS signed \$2.9b new business in Q1 - interestingly \$1b from Europe - mainly in the UK and Italy.

5.30 pm Wednesday 16th
July 1997
Make note to
attend
Richard
Holway's
CSSA
Presentation and Dinner
at London Barbican

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