

# System House

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

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## A good deal for Hoskyns

On 18th July 1990, six months of uncertainty was ended for Hoskyns - and other UK computing services companies - when it was announced that GEC/Plessey's 69.5% stake was to be sold to CAP Gemini Sogeti (CGS) for £199m; valuing Hoskyns at £286m.

As CGS Chairman Serge Kampf had previously "insisted that a bid for Hoskyns was impossible", the announcement came as a surprise. It is understood that CGS was not in play just two weeks before the deal. Negotiations with the then front runner hit problems. CGS was approached on the Thursday and by the following Monday the principles of the deal were agreed.

CGS is already the biggest computing services group in Europe and we estimate that, with the Hoskyns and recent SD-Scicon West German purchase, CGS could hit \$2 billion revenue in 1990. That would make them number two in the world after EDS.

The deal looks excellent for Hoskyns and its management. Hoskyns will have exclusive rights to develop FM activities across Europe - they are already by far the biggest FM supplier in the UK.

The "six principles" which Hoskyns' Chairman, Geoff Unwin, put on any purchaser seem to have been largely met. Outside observers felt this would never happen and we understand that Plessey were "somewhat annoyed" at the preconditions; believing they would depress the price paid for their stake.

Hoskyns retains its all important Stock Exchange quotation which should give the management a considerable level of autonomy. It will also be able to use its paper for further acquisitions. "CGS expects Hoskyns to continue its programme of expansion by acquisition both in the UK and internationally and will fully support this growth" Source -Lazard Press Release on behalf of all parties.

However, the quotation will probably only last until 1993 when CGS will make an offer for the remaining shares at a minimum of £4.69 and a maximum of 23 times EPS or £6.60 which ever is lower. The £4.69 price infers an EPS growth of 19.5% in each of the next three years and would mean a PBT of c£26m, assuming no dilution, for Hoskyns in the year to Oct 1992. Triggering the highest price of £6.60 would require a 34% increase in EPS for each year and a PBT of c£37m in 1992.

Interestingly, Hoskyns EPS has grown by 34.9% CAGR over the last ten years. But many analysts believe Hoskyns will achieve only a 10% EPS growth this year.

*"A Hoskyns without the continued motivation of its management would be a very poor purchase"*  
System House Feb 1990.

Apart from the benefits and drawbacks of working for a large French controlled company like CGS, the Hoskyns management has been fitted with another set of "Golden Handcuffs". Plessey provided a trust, initially valued at £8m, for the 100 most senior Hoskyns managers. That trust is now worth c£13m and remains in force with further payments due in 1990 and 1991. But CGS has established a further trust (let's call it GH2 - Golden Handcuffs #2). GH2 is for the benefit of over 200 senior employees at Hoskyns. A further 4.05 million shares, worth £13.4m at the offer price, have been provided. GH2 will be worth a minimum of £19m by end 1992 and possibly a lot more. Members receive their entitlement between 1993 and 1995. When you add both existing and future executive share options, most of Hoskyns' existing top managers will be able to sail into a rather pleasant sunset in the mid 1990s.

### A good or bad deal?

Undoubtedly the deal is good for CGS. In one step they have overcome the frustrations of not being a major player in the UK market by acquiring the UK market leader.

The deal looks even better for the Hoskyns' managers and, with uncertainty behind them for a very long time into the future, they should be able to exploit their FM leadership across the Continent.

GEC/Plessey possibly expected over £220m for their stake but are probably now relieved that they achieved the current deal.

However, there is one aspect of the deal with which I have regrets.

At the recent CSA Conference on the 1990 Holway Report, I was accused of being a "Nicholas Ridley" by suggesting that it would be a sad day when all of the UK's largest computing services companies are in overseas ownership and control.

*That day is now one step nearer.*

*Why couldn't it have been the other way around?*

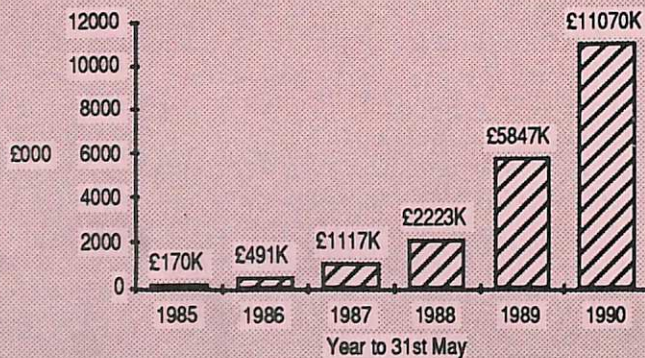


# Is Misys misunderstood?

It's bad enough when the computing services industry seems to misunderstand what your company is all about - it's even worse when the City does too. Misys Chairman, Kevin Lomax, warned the City a year ago that its profit expectations, then estimated at £15m, were too high. He warned them again in Jan 90 when the interims were announced. The reward for his "prudence" was to see his share price dive from 450p to 148p. The City deserves to be criticised when it reacts in this way.

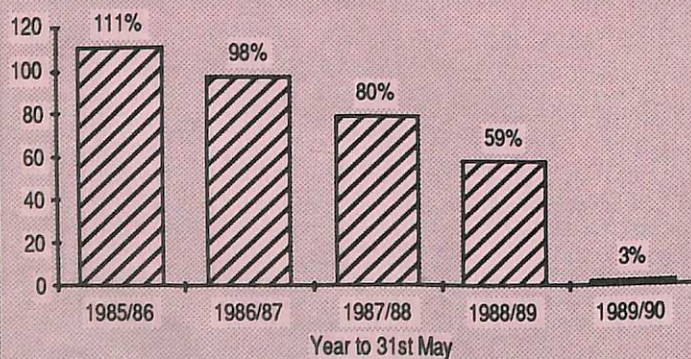
Now, Misys has come up with a mixed set of results for the full year to 31st May 1990. Revenue is up a massive 202% at £76.7m and PBT increased by 97% at £11m - twenty times higher than when they launched onto the USM in Jan 1987. We reckon that that will put Misys in the "Top Five" profit makers when we come to do our analysis of 1990 results.

Misys PBT Growth Record



But the bad news is that EPS growth was virtually static - up just 3% - upsetting a long record of exemplary growth. A 35%+ EPS growth had been expected. This indicated that some of the Misys businesses have had a tough year.

Misys - EPS Growth Record (%)

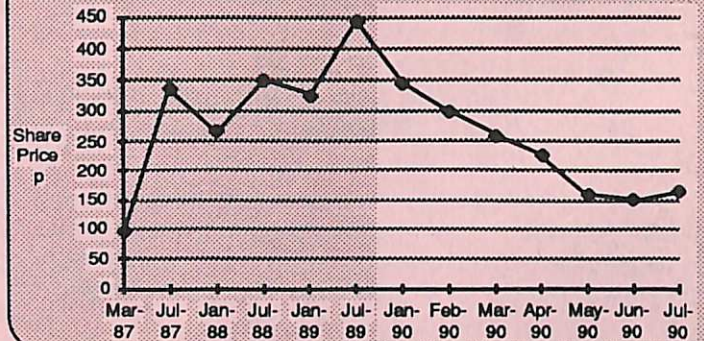


"Out of the 14 operations we now have in the UK, the majority have performed in line with or better than our expectations. The more difficult trading environment has focused our attention on some areas which have needed strengthening and particularly in Misys Dataller, TIS Applications, BOS and Mentor".

However the Open Systems activities, which now represent 53% of Misys revenue and 62% of profits (c£6.9m), have performed "exceptionally well".

Even though Misys EPS is now 183% higher than for the year ending May 1987, the share price is 47% lower. Misys now has a P/E of just 7. The Misys share price has behaved like a roller coaster.

Misys - Share price movements



## So why might Misys be misunderstood?

For some reason, many do not understand what Misys does. But Misys has one of the clearest strategies around. **Misys is a products company.** It supplies complete solutions to end users (eg construction systems via Mentor, insurance systems via Dataller, manufacturing systems via Enterprise) and distributes the building blocks used to construct those systems via an extensive dealer network (eg UNIX systems from TIS, applications software from BOS). Misys is **not** a consultancy, PC dealer or bespoke program developer.

People think that there is no synergy between the operating companies. This also is incorrect. Most Misys companies sell other group companies' products and services, intercompany product development - eg the new G2 UNIX accounting software - is underway, buying power has been combined to achieve greater discounts and many staff have transferred within the group.

The City and the press has had a "we are waiting for them to fail" attitude. That is not entirely unfair given the abject failure of other acquisitive groups. But Misys is *still* one of the very few companies in the sector involved in the acquisitions game (just) not to report an EPS reversal in the last 5 years.

**Outlook.....**Misys seems well placed to weather the current difficult market conditions. They ended the year with cash of over £3.5m and "will continue to produce strong, predictable cashflow". Debtor days were 48 at year end. "Certain of the companies we acquired were not quite as tight in cash management as we expect". The group has built an enviable recurring base from maintenance and other services; c41% of 89/90 profits.

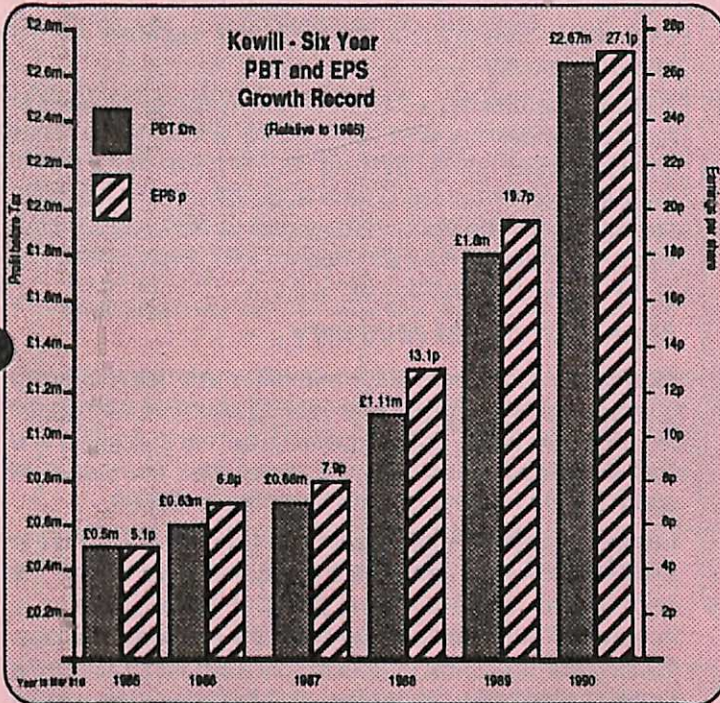
Misys will move from the USM to a full listing in September. Lomax believes "that the group has made good progress during the year and is now significantly better placed to take advantage of the predicted long term growth of the IT market. However, there is evidence that the economic climate for the corporate sector will continue to deteriorate in the short term, with no early improvement likely".

Note: Richard Holway, the editor of *System House*, has been a non-executive director of both BOS and TIS and is now an adviser to the Misys group.

## Strong growth at Kewill

In these difficult days, it is good to report excellent and consistent performance for software products' company - Kewill. Full year results to March 90 show PBT up 48% to £2.7m on revenue up 51% at £17.1m. EPS also grew a very satisfactory 38%.

Kewill's six year record is about the best in the business with EPS growth exceeding PBT growth despite significant acquisition activity.



**Trifid Software**, with its mini based manufacturing systems, was the main contributor with profits up 67% at £876K. At the interim stage, **Omicron** (purchased by Kewill for £2.4m in Feb 89) had made a loss of £15K on revenues of £1m. But the problems seem now to have been solved, as a profit of £226K was reported for the year.

Other recent acquisitions included **Micro-MRP** (Dec 89 - £3.4m) and **Han Dataport** (Mar 90 - £8.4m). US based Micro-MRP contributed £161K to the last quarter's results but was the cause of an extraordinary cost of £194K resulting from a write off of US investment. West German CAD/CAM group, Han Dataport, did not contribute to last year's figures but will make a full contribution this year. "Profits are expected to reflect growth above the profits shown in its last audited accounts of in excess of DM4.0m (£1.5m)".

"For the year ahead the Directors anticipate difficult trading conditions in the UK and have already implemented a programme to reduce costs". But Kewill should make a majority of its profits outside the UK next year so there must be considerable resilience in the Kewill performance. Although the share price is showing a minor 16% increase in the last 15 months, it still does not fully reflect the prospects for the enlarged group.

### Granada

Granada Business Services, the amalgam of CFM, Mainstay, DPCE etc in the TPM arena, reported a 42% drop in profits to £4.8m on a turnover up 11% at £105.2m in the six months to April 1990. We are not surprised.

## Sharp downturn at Vistec

Vistec has changed dramatically under the leadership of Bob Morton as a result of major acquisition activity. In the last year Vistec have acquired **01 Computers** (later described by Morton as a "can of worms"), **National Computer Supplies**, **Level V Distribution**, **CPS Trader** and **Loxton**.

First half results showed PBT of £1.1m but the full year results to April 90 show profits of just £1.6m on revenues of £36m. EPS was up 7%. "There is no final dividend due to current trading conditions, resulting from high interest rates, and the directors' wish to conserve the Group's cash resources".

National Computer Supplies lost £250K. "The management took their eye off the ball when the earn-out ended. They upped staff levels and went on jollies to America. The old guard have now been replaced" says Morton. Source - Microscope 4th July 1990.

To be fair, Morton had warned shareholders at the half way point by informing them that the economic climate "could have the effect of reducing operating profits in the short term". He warns shareholders again now that "the performance of the Group during the second half of the year has not been satisfactory and the current year has started slowly". "Performances from 01 Computers and National Computer Supplies damaged good performances from Vistec Business Systems and Level V in a very difficult year". Remember though that Morton is known in the City as "the bear".

Net assets are £3.2m. A £2.5m 5 year loan has recently been negotiated with Nat West; the servicing of which is going to add to current trading difficulties.

The metamorphosis of Vistec into a value added systems group was bound to take time even in the best of trading conditions. And that's not what we have at present.

But things can't be too bad at Vistec. Morton has bought 8m shares recently increasing his holding to 11%.

### EDP shows return to growth

After the disappointing full year results to Sept 89, when PBT declined by 24% to £1.04m, EDP seems to be on the recovery trail. Latest interims to March 90 show a 120% increase in PBT to £822K and a 109% increase in EPS. Revenue was up only 9.6% at £8.3m "reflecting an increase in computer sales and maintenance revenue".

EDP distributes the Mentor range from ADDS (part of NCR) and is very strong in PICK based systems solutions. There are also developments underway in the UNIX arena. We have seen excellent results from other PICK houses recently - see Sanderson's latest results in *System House* July 90.

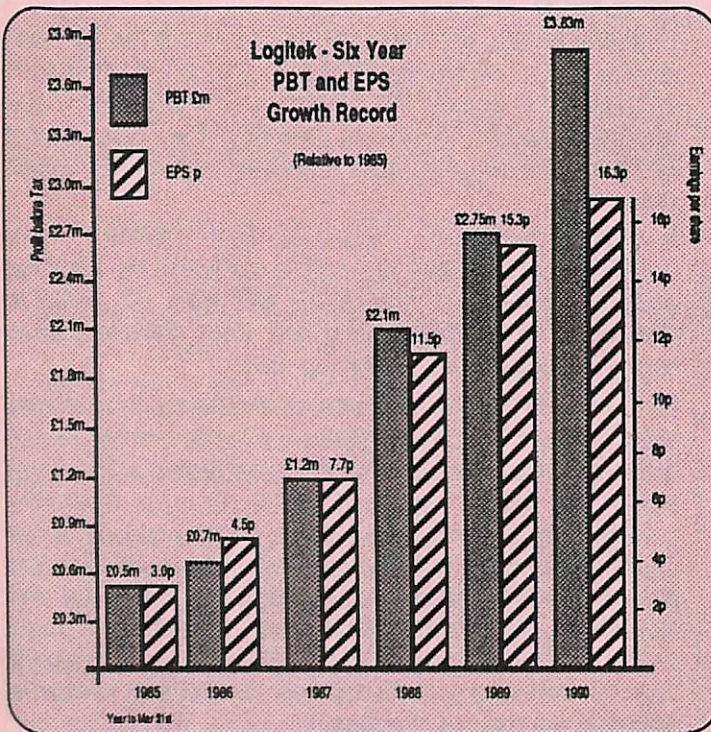
EDP has a strong market focus and increased recurring revenue from maintenance "now in excess of £6m pa". Companies that control both product sales and maintenance are in an excellent position as TIS and their maintenance operation has demonstrated in the last year (see Misys page 2). Those attributes will be major strengths in the current difficult times.

We remain ardent supporters of the company. This is now being translated into the share price which has risen by 17% in the last month since the results were published.

## Logitek exceeds expectations

In the full year to March 1990, Logitek increased revenue by 104% to £59.6m and PBT by 39% to £3.83m. EPS, however, increased by a more modest 6.5%.

Given the nature of Logitek's business, as a distributor of UNIX based Altos products, their record in the last six years has been excellent as the graph below shows.



In the last year, Logitek has acquired Advansys for £10.1m in July 1989 and has also added Microtex (£1m from MBS), Focalpoint (£1m from Tetra) and Microdrive (£2.9m). Logitek's chairman, Jim Pickup, reports that these acquisitions "have been successfully integrated into the group".

It is interesting to note that Mike Brooke, who many readers will know from his Datasolve and MBS days and joined Logitek from Advansys, has been appointed as Group Managing Director. The dictionary does not state the plural of "second coming" and certainly "fourth coming" seems strangely inappropriate.

If Logitek is feeling the current cold drafts of the trading downturn, it certainly isn't letting on. Although Mike Brooke admits that the group's UNIX activities will "take time", Jim Pickup is "confident that Logitek is well positioned to become one of the leading computer services groups". The board "is confident that the coming year will be one of great opportunity and continued development for Logitek in the UK and the wider European marketplace, leading to increased earnings". Source - Logitek Press Release

Logitek now intends "to move into additional vertical markets for end user sales" and "to increase the group's service activities, particularly training and connectivity". "A year ago 90% of sales were coming from distribution but only 74% of profits". Pickup says that "the Group now derives 30% of sales from services but 45% of profits". Source - FT 13th July 90.

The record cannot be faulted and seems not to be reflected in the current share price which is still 25% lower than in April 1989. They will do well if they achieve their target of a 50:50 balance in sales between distribution and services.

## P&P fulfils promises

P&P, which concentrates on micro distribution and services, stated in February 90 that "Demand ... continues to be strong and P&P has made an encouraging start to the new financial year". Latest interim results to May 90 show PBT up 36% at £6.8m on revenues up a similar percentage at £109.4m. EPS increased by 15%.

As we have said before, P&P really is an impressive operation with its key differentiating factor being its strong management. In the last two years they have reduced their exposure to PC distribution from 60% to 22% by expanding high margin training and services to the corporate sector.

Now P&P is making a £26.7m rights issue to be used to reduce borrowings and fund future acquisitions. They have promised not to raise any further funds in the City in the next two years. European acquisitions are the main target. "Assuming the company makes PBT of £15m this year, the shares are on an undemanding prospective P/E of 10". Source - FT 20th July 90.

## Microgen starts recovery

Microgen, the typesetting, microfilm and laser printing bureau, has had a rotten year (see *System House* - March 90). A £839k fraud, action against a former executive and "an ill-advised purchase of a direct mail company" all contributed to a 28% decline in profits to Oct 89.

Latest interims to April 90 saw a further 7% fall in PBT to £4.53m. However, this was a great improvement on the second half of 89 when a profit of just £2.29m was achieved. There had been no decline in ongoing business. Closing the direct mail business cost a further £130K in the first half. Microgen Equipment and Supplies was sold for £1.5m in June and the company has a new UK management team.

"Change often takes longer than anticipated" said Chairman Barbour.

## Exciting times ahead for Telecomputing?

Telecomputing has also had a rough ride in the last year; what with Bernard Panton stepping down and Ferrari arriving. Full year results to Sept 89 were restated as a £777K loss.

Latest interims to March 90 show a loss of just £44K (loss of £332K last time). The company has returned to its core business and has recently launched a UNIX based transaction processing product - TP+. "The results for the second half will depend on the timing of specific orders...we now have a growing list of prospects and budgets for next year indicate a return to substantial profits".

"We are presently investigating in detail one particularly attractive acquisition...but we would not envisage having to call (on shareholders) for further funds". Source - Telecomputing Press Release.

Michael Whitaker, with his association with Singer and Friedlander ("merchant banker kingmaker to the UK microcomputing industry"), is on board so the future could be action packed.

But exciting companies are not exactly in favour at present.

Radius Interim results see page 10.

**Richard Holway Limited - Results Service**

<b>Admiral plc</b>	Results Revenue PBT EPS	Final - Dec 88 £11,239,000 £1,610,000 9.20p		Final - Dec 89 £15,971,000 £2,653,000 16.2p	Final Comparison +42.1% +64.8% +76.1%
<b>ACT plc</b>	Results Revenue PBT EPS	Final - Mar 89 £105,773,000 £6,012,000 6.22p		Final - Mar 90 £140,712,000 £8,026,000 7.07p	Final Comparison +33.0% -33.5% -13.7%
<b>Butler Cox plc</b>	Results Revenue PBT EPS	Final - Dec 88 £7,699,791 £924,994 10.24p		Final - Dec 89 £9,370,000 £1,324,095 16.43p	Final Comparison +21.7% +43.2% +60.4%
<b>Capita plc</b>	Results Revenue PBT EPS	Final - Dec 88 £4,301,000 £747,000 6.65p		Final - Dec 89 £6,880,000 £1,300,000 10.39p	Final Comparison +60.0% +74.0% +56.2%
<b>Computer People plc</b>	Results Revenue PBT EPS	Final - Dec 88 £47,023,000 £3,229,000 17.84p		Final - Dec 89 £69,919,000 £4,219,000 21.8p	Final Comparison +48.7% +30.7% +22.2%
<b>Electronic Data Processing plc</b>	Results Revenue PBT EPS	Interim - Mar 89 £7,600,000 £373,000 3.41p	Final - Sept 89 £16,034,000 £1,040,000 8.45p	Interim - Mar 90 £8,330,000 £822,000 7.14p	Interim Comparison +9.6% +120.4% +109.4%
<b>Ferrari Holdings plc</b>	Results Revenue PBT EPS	Final - Dec 88 (Restated) £16,621,000 £399,000 Not available		Final - Dec 89 £32,003,000 £1,419,000 Not available	Not comparable due to accounting period change
<b>Headland Group plc</b>	Results Revenue PBT EPS	Final - Dec 88 (Restated) £13,095,000 £1,568,000 2.76p		Final - Dec 89 £19,118,000 £1,061,000 1.22p	Final Comparison +46.0% -32.3% -55.8%
<b>Hoskyns Group plc</b>	Results Revenue PBT EPS	Interim - Apr 89 £87,300,000 £6,730,000 5.4p	Final - Oct 89 £188,706,000 £15,229,000 23.9p	Interim - Apr 90 £111,700,000 £8,160,000 6.3p	Interim Comparison +27.9% +21.2% +16.9%
<b>INSTEM plc</b>	Results Revenue PBT EPS	Final - Dec 88 £7,565,000 £681,000 9.7p		Final - Dec 89 £8,003,000 £885,000 12.9p	Final Comparison +5.8% +30.0% +33.0%
<b>Kewill plc</b>	Results Revenue PBT EPS	Final - Mar 89 £11,325,000 £1,805,000 19.71p		Final - Mar 90 £17,107,000 £2,668,000 27.11p	Final Comparison +51.1% +47.8% +37.5%
<b>LBMS plc</b>	Results Revenue PBT EPS	Final - Apr 89 £12,774,000 £1,453,000 7.9p		Final - Apr 90 £18,470,000 £450,000 2.3p	Final Comparison +44.6% -69.0% -70.9%
<b>Logica plc</b>	Results Revenue PBT EPS	Interim - Dec 88 £77,270,000 £7,440,000 7.9p	Final - Jun 89 £179,505,000 £18,835,000 20.0p	Interim - Dec 89 £91,341,000 £6,022,000 6.2p	Interim Comparison +18.2% -19.1% -21.5%
<b>Logitek plc</b>	Results Revenue PBT EPS	Final - Mar 89 £29,200,387 £2,752,013 15.28p		Final - Mar 90 £59,580,000 £3,830,000 16.27p	Final Comparison +104.0% +39.2% +6.5%

## Richard Holway Limited - Results Service

<b>Macro 4 plc</b>	Results Revenue PBT EPS	Interim - Dec 88 £5,875,000 £2,775,000 7.9p	Final - Jun 89 £13,500,000 £6,501,000 18.4p	Interim - Dec 89 £6,947,000 £3,279,000 9.2p	Interim Comparison +18.2% +18.2% +16.5%
<b>Micro Focus plc</b>	Results Revenue PBT EPS	Final - Jan 89 (Restated) £21,314,000 £2,637,000 16.3p		Final - Jan 90 £35,639,000 £8,223,000 37.4p	Final Comparison +67.2% +211.8% +129.4%
<b>Microgen plc</b>	Results Revenue PBT EPS	Interim - Apr 89 £22,982,000 £4,847,100 8.0p	Final - Oct 89 £45,071,000 £7,179,000 11.1p	Interim - Apr 90 £25,050,000 £4,530,000 7.1p	Interim Comparison +9.0% -7.0% -13.0%
<b>Misys plc</b>	Results Revenue PBT EPS	Final - May 89 £25,386,000 £5,630,000 22.8p		Final - May 90 £76,741,000 £11,070,000 23.5p	Final Comparison +202% +97% +3%
<b>MMT plc</b>	Results Revenue PBT EPS	Interim - Feb 89 £3,464,000 £922,000 5.5p	Final - Aug 89 £7,443,898 £2,151,953 12.8p	Interim - Feb 90 £3,735,000 £1,012,000 5.7p	Interim Comparison +7.9% +9.8% +3.6%
<b>NMW Computers plc</b>	Results Revenue PBT EPS	Final - Dec 88 £10,318,000 (£1,327,000) (4.6p)		Final - Dec 89 £9,119,000 £87,000 0.2p	Final Comparison -11.6% Loss to profit Loss to profit
<b>Optim plc</b> Now part of SRH plc	Results Revenue PBT EPS	Final - Oct 88 Restated £10,064,000 (£606,000) (6.82p)		Final - Oct 89 £12,963,000 (£5,838,000) (40.0p)	Final Comparison +28.8% Loss both Loss both
<b>P&amp;P plc</b>	Results Revenue PBT EPS	Interim - May 89 £79,850,000 £5,000,000 9.9p	Final - Nov 89 £168,869,000 £11,066,000 20.8p	Interim - May 90 £109,400,000 £6,800,000 11.4p	Interim Comparison +37.0% +36.0% +15.2%
<b>P-E International plc</b>	Results Revenue PBT EPS	Final - Dec 88 £48,234,000 £4,511,000 17.5p		Final - Dec 89 £58,017,000 £5,622,000 21.1p	Final Comparison +20.3% +24.6% +20.6%
<b>Pegasus plc</b>	Results Revenue PBT EPS	Interim - Jan 88 £3,910,000 £1,290,000 15.6p	Final - Jul 89 £10,873,000 £3,084,000 36.7p	Interim - Jan 90 £7,830,000 £1,340,000 16.1p	Interim Comparison +100.3% +3.9% +3.2%
<b>Quotient plc</b>	Results Revenue PBT EPS	Final - Dec 88 £22,907,000 £2,206,000 10.3p		Final - Dec 89 £19,095,000 (£1,577,000) (8.8p)	Final Comparison -16.6% Profit to Loss Profit to Loss
<b>Radius plc</b>	Results Revenue PBT EPS	Interim - May 89 £13,445,000 £1,015,000 2.5p	Final - Nov 89 £29,630,000 £2,000,000 4.74p	Interim - May 90 £14,521,000 £1,394,000 3.2p	Interim Comparison +8.0% +37.3% 28.0%
<b>Rolfe &amp; Nolan plc</b>	Results Revenue PBT EPS	Final - Feb 89 £3,841,000 £757,000 18.7p		Final - Feb 90 £5,460,000 £1,142,000 27.6p	Final Comparison +42.2% +50.9% +47.6%
<b>Sage Group plc</b>	Results Revenue PBT EPS	Interim - Mar 89 £4,539,000 £1,438,000 6.2p	Final - Sep 89 £9,304,000 £2,911,000 12.6p	Interim - Mar 90 £6,703,000 £2,341,000 7.65p	Interim Comparison +47.7% +62.8% +55.6%

## Richard Holway Limited - Results Service

<b>Sanderson Electronics plc</b>	Results Revenue PBT EPS	Interim - Mar 89 £6,187,000 £1,509,000 11.5p	Final - Sep 89 £12,008,000 £3,013,000 23p	Interim - Mar 90 £6,446,000 £1,780,000 14.0p	Interim Comparison +4.2% +18.0% +21.7%
<b>SD-SCICON plc</b>	Results Revenue PBT EPS	Final - Dec 88 £221,565,000 £13,354,000 4.01p		Final - Dec 89 £283,304,000 £7,230,000 0.59p	Final Comparison +27.9% -45.8% -85.3%
<b>Sema Group plc</b>	Results Revenue PBT EPS	Final - Dec 88 £266,893,000 £12,929,000 8.4p		Final - Dec 89 £293,021,000 £17,457,000 11.6p	Final Comparison +9.8% +35.0% +38.1%
<b>Sherwood Group plc</b>	Results Revenue PBT EPS	Final - Dec 88 £26,528,000 (£1,965,000) (36.8p)		Final - Dec 89 £25,397,000 £2,024,000 25.0p	Final Comparison -4.3% Loss to Profit Loss to Profit
<b>Star plc</b>	Results Revenue PBT EPS	Final - Jun 88 £12,798,000 £1,210,000 11.3p		Final - Jun 89 £14,213,000 (£930,000) (11.7p)	Final Comparison +11.1 Profit to Loss Profit to Loss
<b>Synapse plc</b>	Results Revenue PBT EPS	Interim - Jan 89 £4,072,400 £463,100 8.54p	Final - Jul 89 £9,074,050 £1,096,967 20.19p	Interim - Jan 90 £4,674,800 (£249,200) (7.07p)	Interim Comparison +14.8% Profit to loss Profit to loss
<b>Systems Reliability plc</b>	Results Revenue PBT EPS	Final - Dec 88 (Restated) £24,070,000 £1,362,000 3.32p		Final - Dec 89 £134,586,000 £7,863,000 12.76p	Final Comparison +459.1% +477.3% +284.3%
<b>Tele-computing plc</b>	Results Revenue PBT EPS	Interim - Mar 89 £1,310,000 (£332,000) (6.97p)	Final - Sep 89 £2,519,080 (£777,000) (16.47p)	Interim - Mar 90 £1,232,000 (£44,000) (0.99p)	Interim Comparison -6.0% Loss both Loss both
<b>Total Systems plc</b>	Results Revenue PBT EPS	Interim - Sep 88 £1,091,399 £51,996 0.37p	Final - Mar 89 £2,100,508 £96,543 0.59p	Interim - Sep 89 £860,474 £39,865 0.29p	Interim Comparison -21.2% -23.3% -21.6%
<b>Touchstone plc (was MBS)</b>	Results Revenue PBT EPS	Final - Dec 88 £116,283,000 (£14,095,000) (14.6p)		Final - Dec 89 £77,317,000 (£4,817,000) (4.7p)	Final Comparison -33.5% Loss both Loss both
<b>Trace plc</b>	Results Revenue PBT EPS	Interim - Nov 88 £4,612,000 £847,000 4.97p	Final - May 89 £9,814,976 £1,709,233 9.96p	Interim - Nov 89 £5,798,000 £934,000 4.78p	Interim Comparison +25.7% +10.3% -3.8%
<b>Vistec Group plc</b>	Results Revenue PBT EPS	Final - Apr 89 £11,961,000 £1,318,000 0.86p (5 months only)		Final - Apr 90 £36,048,000 £1,580,000 0.92p	Final Comparison Not comparable Not comparable Not comparable

### Problems at Computer Associates

Revenues at Computer Associates in Q1 to June 90 fell 16% to \$255m and profits dropped from \$10.7m to \$3.6m. The previous warning had depressed the CA share price by 50% and Kidder Peabody said that "credibility and confidence in the company are at a low ebb". This can do nothing to improve sector confidence this side of the pond.

August 1990

### A rose by any other name...

MBS has changed its name to Touchstone. We can understand why they may wish to disassociate themselves from the past but the last company we know that changed its name to one that sounded "solid, reliable and dependable" (Microscope's description not ours) was Headland. Need we say more.

## Acquisitions and disposals

The CGS purchase of a controlling stake in Hoskyns dominates the news this month (see page 1).

**P-E International** has continued its policy of small but strategic acquisitions with the purchase of **SJ Noel-Brown** - a management consultancy specialising in healthcare and the public sector. Initial consideration is £1.5m in cash and shares plus a £600K deferred profit related element.

**PI Holdings**, the group setup by ex CMG founder Bryan Mills, paid £700K for a 13% stake in **Griffin**. Griffin provides VAN services. Pi has been growing rapidly by acquisition and expects revenues of £35m in 1990. Mills was quoted as saying "Pi is a bit of a ragbag but the companies in it have certain key skills in networking and communications". Acquired companies are allowed to run as separate entities. "We don't try to consolidate these companies into one vanilla-flavoured lump". Source - Computer Weekly 21st June 1990.

**Systems Reliability** continues its buying spree - around a company a month this year so far - with the purchase of **Analogue Computer Services**. Initial consideration is £100K but this could rise to £1m based on future profits.

**Sanderson Electronics** has acquired 55% of General Automation's UK supplier of hardware and software - **GAL** - for £1.485m. Sanderson has also reorganised the shareholdings in SGA which handles systems in Australia and the Far East. GA has bought control for £500K in cash. GAL made PBT of £120K in the year to 30th June 89 and management accounts show "profits to 30/6/90 will confidently exceed those in 1989".

Chairman, Paul Thompson, agrees that success to date is because of the group's focus on PICK systems but he "is aware of PICK's strengths and weaknesses and recognises the current moves to UNIX". Interestingly he says that overheads in all of the 15 companies in the group are "fixed at no more than 150% of that company's recurring revenue from maintenance and support". That seems like a pretty sound policy to us.

**Other acquisitions...**Just two days before the Hoskyns purchase was made public, **SD-SCICON** announced that it had sold **SCS Scientific Control Systems GmbH** to **CGS** for c£39m. Not bad for the sale of a subsidiary that lost £1.8m in the year to Dec 89 and continues to report losses. SD had WG revenues of £43m last year. With the sale of Warrington's and other disposals, SD is now in a strong positive cash position to weather the UK's current CSI climate. **Specialist Computer Holdings (SCH)**, which you may remember has build up a c9% stake in **NMW**, has acquired the UK business interests of French owned **Asystel**. With a £20m contribution from Asystel, SCH expects £100m revenue this year. Source *Microscope* 18th July 1990. **Granada Computer Services** has bought **React Corp** - a California based TPM specializing in Unisys and Burroughs systems - for an undisclosed sum. React had revenues of \$10m (£5.3m) in 1989. **Tandem** and **Volmac** have bought **Mentis Computing**, which will now be renamed **Twinnac**. Mentis employs 39 staff and had revenues of £2m last year. Thorn-EMI's **Datashield** subsidiary has bought part of the **Fastbak** disaster recovery business from BP. **Dowty** has bought Danish networking company **Dataco** for £36m.

## Ernst & Young and Regent publish Mergers and Acquisitions Review

Accountants Ernst & Young and acquisition brokers Regent Associates have just published a review of mergers and acquisitions in the UK IT industry.

The survey results seem to bear out the views put forward in *System House* (Feb 1990). In particular, we commented that to avoid acquisition indigestion you should stay clear of performance related deals. It proved to be one of the most controversial points we made. However, the Ernst & Young survey "reveals that many CEOs do not agree with the conventional view that acquisitions of people companies are best structured as earnouts. They believe that earnouts get in the way of rapid control of the target, a key success factor".

We were a little disappointed that there was no critical analysis of the often disastrous aftereffects of acquisitions, but perhaps this would not have been in the interests of the authors.

We can, however, say that this 45 page report is good value for money. You can obtain it free of charge from Nick Pasricha, Ernst & Young - Tel: 071 931 3598..

## Capita buys out BT option

**Capita** is buying the option that **British Telecom** has to subscribe to 51% of the shares of **Telecom Capita**.

**Telecom Capita** was established to develop and market FM services to local authorities. In 1989, PBT of £412K was reported on revenues of £2.1m. It was previously reported that FM contracts with a total value of £25m were secured in the first year.

The consideration for the purchase of the option is £1.285m; satisfied by the placing of 778,788 new ordinary shares at 165p by Capita's brokers, Laing & Cruckshank.

The new arrangements will allow Capita to consolidate the **Telecom Capita** results into their own and, given the obvious early success of the joint venture, looks to be a very sensible move

## Saatchi & Saatchi sells Gartner Group

**Saatchi & Saatchi** has sold the **Gartner Group** to **Information Partners** for \$70m. Saatchi's acquired Gartner in June 1988 for \$86m. Gartner made a pre tax loss of \$1.8m in the six months to March 90. **Information Partners** specialises in information industry management buy-outs and is backed by **Bain Capital** and **Dun & Bradstreet**.

Gartner is one of the few well respected providers of market information and product data to the IT industry and it is likely that most readers have made use of their data at some time; even if they didn't buy it from Gartner.

There were many reasons for the sale and lack of performance at Gartner. But, in general, we know only too well that many in our industry are only too pleased to use market information and rather less eager to pay for it. This attitude has meant that many major investment decisions are made on the basis of minimal market information. **We believe this is the single most important reason for the many failures that we have witnessed.**

A few thousand pounds spent on market research against a £1m+ failure is a small price to pay.



# Computing Services Share Price Index

Micro Focus achieved an index of over 4000 - that's four times the share price of April 89 - before profit taking set in. We keep thinking the rise must come to an end but the Americans have now taken a shine to the stock. Micro Focus is now on an historic P/E of 21. Hoskyns rose to the number two slot as a result of the CGS stake.

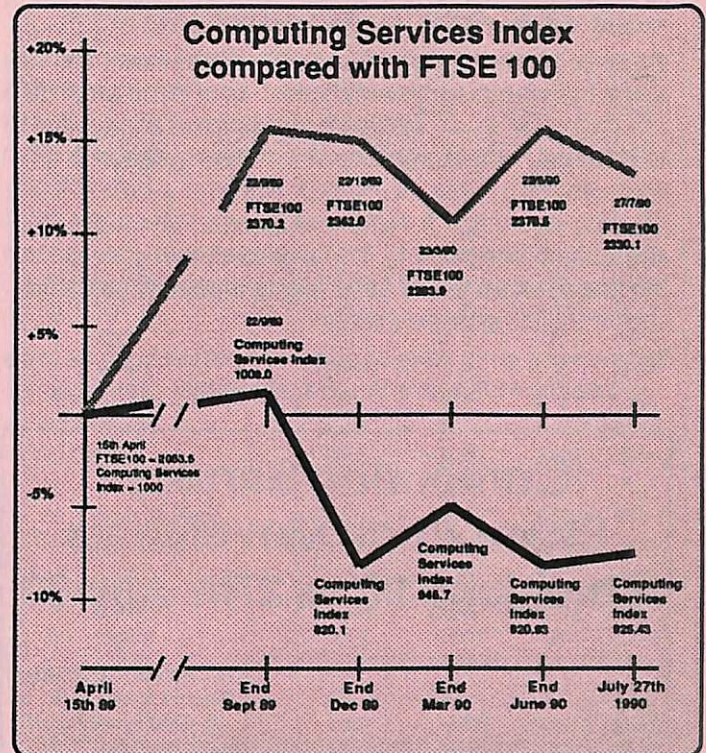
Radius has started its share price - and profits - improvement. Headland has the wooden spoon in what is probably their last index appearance.

It is interesting how all the bottom three, Headland, Touchstone and Ferrari, had previously changed their names to disassociate themselves from the past.

## Computing Services Share Price Index 27th July 90

Index Rank	15th April 1989 = 1000	Share Price 27/7/90	Index 27/7/90
1	Micro Focus	7.98	3855.07
2	Hoskyns	3.59	1751.21
3	Capita	1.74	1740.00
4	Admiral	2.33	1688.40
5	Sema Group	5.36	1685.53
6	Rolfe & Nolan	2.75	1636.91
7	Sage Group	2.06	1584.61
8	Macro 4	3.08	1241.94
9	ACT	0.75	1190.48
10	Kewill	2.98	1177.87
11	Sherwood	1.38	1150.00
12	Computer People	2.78	1144.03
13	Sanderson	2.55	1085.11
14	P-E International	2.53	1041.15
15	Butler Cox	1.81	1034.28
16	INSTEM	1.03	1030.00
17	P&P	2.19	982.06
18	Electronic Data Processing	0.90	918.36
19	SD-Scicon	0.68	865.38
20	Systems Reliability	1.01	808.00
21	Quotient	0.91	791.30
22	Logitek	1.28	739.15
23	MMT	1.20	714.29
24	Pegasus	2.38	648.51
25	Trace	0.81	648.00
26	Learmonth & Burchett	0.72	600.00
27	Microgen	1.32	564.10
28	Logica	2.01	550.69
29	NMW	0.30	500.00
30	Misys	1.62	402.98
31	Radius	0.55	398.55
32	Telecomputing	0.37	397.85
33	Optim	0.17	369.57
34	Total	0.19	358.49
35	Vistec	0.08	349.63
36	Synapse	0.90	310.35
37	Star	0.35	291.67
38	Ferrari	0.35	285.71
39	MBS (now Touchstone)	0.13	276.60
40	Headland (suspended)	0.09	209.30

Note: Index set at 1000 on 15th April 1989. Any new entrants to the market are allocated an index of 1000 based on the issue price.



### Share price changes at the halfway point

For the first six months of 1990, the share prices of quoted computing services have not performed too badly against the FTSE 100 index. Our index was down 3.2% in the period 1st Jan to 30th June 1990 but the FTSE 100 also lost 2%.

The "Top Ten Gainers" in the first six months were:

	Share Price @ 31/12/89	Share Price @ 30/6/90	% change
Quotient	0.59	1.01	71.19
Sema Group	3.66	5.99	63.66
Micro Focus	4.46	6.90	54.71
Sherwood	1.02	1.45	42.16
Sage Group	1.48	2.08	40.54
Electronic Data Processing	0.62	0.87	40.32
Total	0.14	0.19	35.71
ACT	0.67	0.83	23.88
Rolfe & Nolan	2.30	2.78	20.87
Capita	1.46	1.67	14.38

Whereas the "Top Ten Losers" in the first six months were:

	Share Price @ 31/12/89	Share Price @ 30/6/90	% change
Vistec	0.16	0.10	-40.63
Radius	0.73	0.41	-43.84
Star	0.66	0.36	-45.45
Logica	3.32	1.79	-46.08
Learmonth & Burchett	1.40	0.75	-46.43
Misys	3.45	1.78	-48.41
Ferrari	0.90	0.40	-55.56
Headland	0.35	0.15	-57.14
Synapse	2.18	0.90	-58.72
Telecomputing	1.05	0.37	-64.76

The reasons for the gains and falls will be familiar to *System House* readers. It does demonstrate the high volatility of stocks on the sector and, perhaps, the gains to be made from picking the right investment portfolio.

## Index static but FTSE falls

The Computing Services Index was virtually static for the month but the FTSE 100 dropped 2%.

**Radius** was the top gainer - up 28%. Good interim results and a bullish chairman's statement were the reason - see this page. Yet again, **Micro Focus** stormed ahead; due to US interest in the shares now they have a US quote. **EDP** were also up 17% on return to profits growth in their latest interims (see page 3). **Hoskyns** gained 12% on the CGS acquisition (see page 1). The shares should go higher as the rate of return at end 1992 is guaranteed at better than current building society rates.

**Misys** were up to 207p at one point but fell back to 162p - up just 8% on the month - after the results (see page 2).

### Computing Services Share Price Movements 22nd June 90 to 27th July 90

Rank		% Change 22/6/90 to 27/7/90	% Change 20/4/90 to 27/7/90
1	Radius	27.91	19.57
2	Micro Focus	17.70	43.01
3	Electronic Data Processing	16.88	34.33
4	Optim	13.33	6.25
5	Hoskyns	11.84	3.76
6	Misys	8.00	-28.00
7	Logica	7.49	-32.55
8	Computer People	6.51	3.73
9	Total	5.56	18.75
10	INSTEM	5.10	14.44
11	Capita	4.19	4.19
12	Microgen	3.94	21.10
13	Admiral	3.56	5.91
14	Macro 4	3.36	4.05
15	Kewill	2.76	3.47
16	Systems Reliability	1.00	-2.88
17	Sage Group	0.49	9.57
18	P-E International	-0.39	-0.39
19	Rolfe & Nolan	-1.08	13.17
20	Butler Cox	-1.09	-9.05
21	Pegasus	-1.65	-18.77
22	Synapse	-2.17	-23.73
23	Sema Group	-2.72	20.45
24	Star	-2.78	-27.08
25	P&P	-3.95	-2.67
26	Sherwood	-4.83	-4.83
27	Telecomputing	-5.13	5.71
28	Sanderson	-5.56	-12.97
29	Logitek	-5.88	-9.86
30	NMW	-6.25	-3.23
31	MBS (now Touchstone)	-7.14	-27.78
32	Learmonth & Burchett	-7.69	-38.46
33	ACT	-8.54	-11.76
34	Ferrari	-10.26	-48.15
35	MMT	-10.45	-26.38
36	Quotient	-12.50	-13.33
37	SD-Scicon	-14.56	-14.56
38	Trace	-17.35	-21.36
39	Vistec	-20.00	-40.74
40	Headland (suspended)	-40.00	-70.00

## Computing Services Index 27th July 1990

April 15th 1989 = 1000

# 925.43

Shares in **Headland**, now in the hands of the receiver, were suspended at 9p. Buyers taking the Sunday Times recommendation that Headland was the "share of the decade" would have bought at 48p in Jan 90. They are now probably worth nothing.

**Vistec** lost 20% on poor interims (see page 3) and **Trace** were down 17%.

**SD-Scicon** were down 15%. CGS had been rumoured as a bidder for the BAe stake in SD; but in the event bought just the West German activities. **Sema**, down just 3% on the month, also reacted to the CGS/Hoskyns acquisition. Sema's share price had been buoyed by bid speculation resulting from the CGS' 24% stake. Most observers initially thought that CGS would sell its stake and the price dropped substantially. Then CGS surprised everyone by purchasing more shares, possibly with a view to taking the holding to 29.9% when they would have to make a full bid. **Logica** started their recovery (up 7%); again buoyed by the price CGS paid for Hoskyns.

Changes in Indices	Computing Services Index	FTSE 100
Month 22nd June 90 to 27th July 90	+0.49%	-2.03%
15 months 15th April 89 to 27th July 90	-7.46%	+13.4%
3 months 20th April 90 to 27th July 1990	-2.35%	+6.5%

### Bullish statement from Radius

**Radius** seems to be on the recovery trail after the disappointments of last year when full year profits slipped 31% to £2m. Latest interims to May 90 show revenue up a minimal 8% at £14.5m but PBT up 37% at £1.4m. EPS also advanced by 28% due to an absence of the buying spree of 88/89.

Chairman, Edward Sharp, said he was "particularly pleased about the underlying factors" which had brought about this profits increase. These results "together with the current order book position indicates a full year improvement".

The management system for the print and packaging industry seems to be selling well and sales to Eastern Europe are buoyant. The previously reported "sizeable expenditure" on the development of Radius' Retail System Architecture was gaining "considerable support from major organisations".

Sharp's bullish statement ends with "I therefore expect that the full year will yield a satisfactory result and that... the Group will be set for sustained expansion and a continually improving financial performance thereafter."

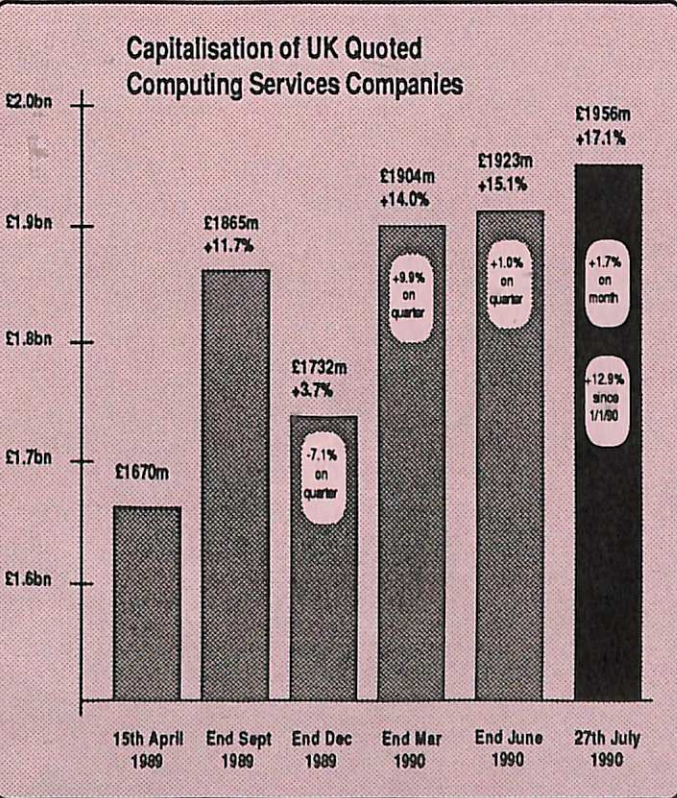
# Capitalisation Monitor

Total capitalisation of UK quoted computing services services increased by just £33m to £1.956 billion.

**Hoskyns** accounted for all of the gain; up £34.5m at £307m. The CGS acquisition had valued Hoskyns at £286m.

**Micro Focus** achieved a £100m+ capitalisation for the first time. The £26.7m rights issue at **P&P** should put them in the £100m capitalisation category in the next month. Given recent performance, both these companies could challenge the ratings of **Logica** and **SD-Scicon** in the next few months. As we have said before, that could upset an order unaltered for a decade. **SRH** gained £13m in the month to £65m. Their recent performance has been excellent which is still not fully reflected in the share price.

The major losers were **SD-Scicon** (down £23m) and **Sema** (down £13m); both effected by the CGS purchase of Hoskyns. And **Headland** probably isn't worth a bean.



## 3i doubles debt provision

3i has investments over 3% in three quoted computing services companies - **Caplita** (12.8%), **Sanderson** (4.8%) and **Sherwood** (11.7%). They also have extensive investments in over 80 private computing services companies.

3i has doubled debt provisions to £80m, but this has to be set against their £597m investment portfolio. Total return fell from £232m to £41m in the year to March 1990.

3i is often liked for its "hands off" approach. But with the current trading climate in our sector, their hands may have to become a little dirtier in future.

## Computing Services Capitalisation - 27th July 90

Rank		Capitalisation 27/7/90 £m	% Change since 15/4/89	% Change since 22/6/90	£m Change since 22/6/90
1	Sema Group	£478.03	68.26	-2.72	(£13.37)
2	Hoskyns	£307.00	86.29	12.66	£34.50
3	SD-Scicon	£135.99	-13.49	-14.58	(£23.21)
4	Logica	£122.12	-44.69	8.07	£9.12
5	Micro Focus	£104.33	304.39	17.62	£15.63
6	P&P	£86.90	16.33	-3.87	(£3.50)
7	ACT	£70.16	77.18	-8.52	(£6.54)
8	Macro 4	£68.10	26.35	3.34	£2.20
9	Systems Reliability	£64.72	48.78	25.91	£13.32
10	Microgen	£51.07	-42.23	3.79	£1.87
11	Misys	£50.91	-32.83	8.10	£3.81
12	P-E International	£41.97	5.98	1.37	£0.57
13	Computer People	£37.71	22.82	6.52	£2.31
14	Sage Group	£33.57	58.37	0.52	£0.17
15	Kewill	£28.32	68.57	2.61	£0.72
16	Admiral	£25.20	72.60	3.28	£0.80
17	Logitek	£21.62	-26.79	-6.01	(£1.38)
18	Sanderson	£21.40	8.63	-5.73	(£1.30)
19	Caplita	£20.74	156.03	41.08	£6.04
20	Ferrari	£18.86	-3.77	-10.19	(£2.14)
21	MBS (Touchstone)	£16.90	-72.34	-7.14	(£1.30)
22	Pegasus	£14.58	-26.38	-1.50	(£0.22)
23	Optim	£13.60	96.25	13.33	£1.60
24	Radius	£12.71	-60.15	28.01	£2.78
25	MMT	£12.69	-26.66	-10.64	(£1.51)
26	Quotient	£12.40	-20.51	-12.68	(£1.80)
27	Trace	£10.64	-33.89	-16.85	(£2.16)
28	Butler Cox	£9.67	3.79	-1.09	(£0.11)
29	Vistec	£8.97	58.77	-19.90	(£2.23)
30	Learmonth & Burchett	£8.75	-40.07	-7.70	(£0.73)
31	Electronic Data Processing	£7.77	-8.16	16.84	£1.12
32	Roffe & Nolan	£7.38	68.88	-1.07	(£0.08)
33	Sherwood	£7.24	17.45	-4.93	(£0.37)
34	NMW	£6.17	-49.85	-6.25	(£0.41)
35	INSTEM	£4.64	3.00	5.10	£0.23
36	Headland (suspended)	£4.34	-62.55	-39.99	(£2.90)
37	Synapse	£3.18	-68.82	-2.15	(£0.07)
38	Star	£2.38	-70.69	-2.86	(£0.07)
39	Telecomputing	£2.35	-46.95	-5.24	(£0.13)
40	Total	£1.90	-64.15	0.00	£0.00

## Bob Woodland writes... Ferrari warns

Earlier this month Bob Woodland, the then Chairman and MD of Ferrari, wrote to us saying "I did a fast analysis of our falling share price and what do you think is the major cause? Shareholders who did not understand the 1 for 10 consolidation and sold to take a profit. The lesson is never consolidate in a Bear market".

However, the shareholders seemed to have been rather more astute. On 27th July, Ferrari warned "that in the short term, the integration of various businesses acquired has taken longer than anticipated and this, together with the difficult economic background, is likely to result in Ferrari approx. breaking even in the first six months".

The announcement also stated that Peter Marshall was to become Group Chairman with immediate effect.

**Profit warnings are currently coming thick and fast.**

## Receivers in at Headland

On Thursday 26th July, administrative receivers were appointed at Headland after the shares had been suspended at 9p. The background to this was fully covered in the July edition of *System House*.

Phil Wallace, a partner at Peat Marwick, said "Interest has already been shown in acquiring the principal businesses.. principal assets are the employees and, if the businesses are sold quickly, few jobs will be lost".

Multisoft seems to be the business of most value but most of the key people have already left. This month David Roots joined the leaving list to setup **Systems Authority** to specialise in supplying open systems applications into local government exploiting the attributes of the Wootton Jeffreys' BRIX product. We felt that this product had died after its creators left WJ in 1987 to form MVM with considerable assistance from DEC. The other businesses are **Wootton Jeffreys Systems** and **Mega**; which are less likely to attract significant offers other than an MBO.

Wilmot and Bristow's reputations are dented. Nic Birtles must rue the day he left Ingres. But for the many staff and creditors of Headland the consequences will be much more serious. *What a mess.*

### Snake Oil, Windows and mixed fortunes

DEC reported its first ever quarterly loss of \$257m in Q4. This is clearly not "snake oil" but DEC maintains its "no layoffs" policy. Microsoft, however, topped £1 billion revenue for fiscal 1989 and net income of \$279m. Gaudette, Senior VP of Microsoft, said "We shipped over 500,000 Windows 3.0 in the final 6 weeks of the year.". Now that must be a record for any software product and must have scared the daylights out of Apple.

## Goodbye...

The IT industry news this month has been dominated by the impending sale by STC of ICL to Fujitsu "in a deal which could be worth £650m". We tend to think that the sale of Hoskyns to CGS is of at least equal importance.

In the last period we have seen Apricot sold to Mitsubishi, Acorn sold to Olivetti, Owl sold out to Mitsubishi, SD-Scicon selling its operations in the US and West Germany and many other deals involving UK IT companies being bought by overseas concerns.

We think it matters that the UK's technological assets are being sold overseas. IT matters and it would be to the UK's greater advantage if control was retained within our green and pleasant land. We may not be super efficient at manufacturing but we are rather good at invention. Our birthright seems to be disappearing fast.

## Shareholdings Report Published



Since 1st June 1990, it has become mandatory for all shareholdings in excess of 3% to be notified to the Stock Exchange.

We have just published a report on the notifications received and combined these with details of larger shareholdings previously notified.

The report makes fascinating reading and is offered to **System House** subscribers for just £95. Please see order form below.

## Order Form: Please supply:-

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