

System House

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

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Graphic demonstration of CSI slowdown

Our analysis of the latest 1990 results for quoted UK computing services companies shows that profit growth has slowed from 22% to just 5% - well under the inflation rate - even though revenues, buoyed by continued acquisitions, have grown by 31%

The results are clearly effected by the dismal results announced recently by SD-Scicon (loss of £9.8m) and Logica (profits reduced from £18.8m to £9m)..

Losses have been recorded by SD-Scicon, Synapse, Telecomputing and Total. Butler Cox, LBMS, Logica, Microgen and Sema have all reported reduced EPS. In fact only half of the quoted computing services companies had EPS growth in excess of inflation, ie >10%.

If anything, this picture is too optimistic as in the last year both Memory and Headland have gone into liquidation and ITL, Optim and UCL have been acquired. They would all have reported losses if they had still been around today.

But there have been some excellent performances. Quotient has returned to profit after their £2m loss at the interim stage in 1989.

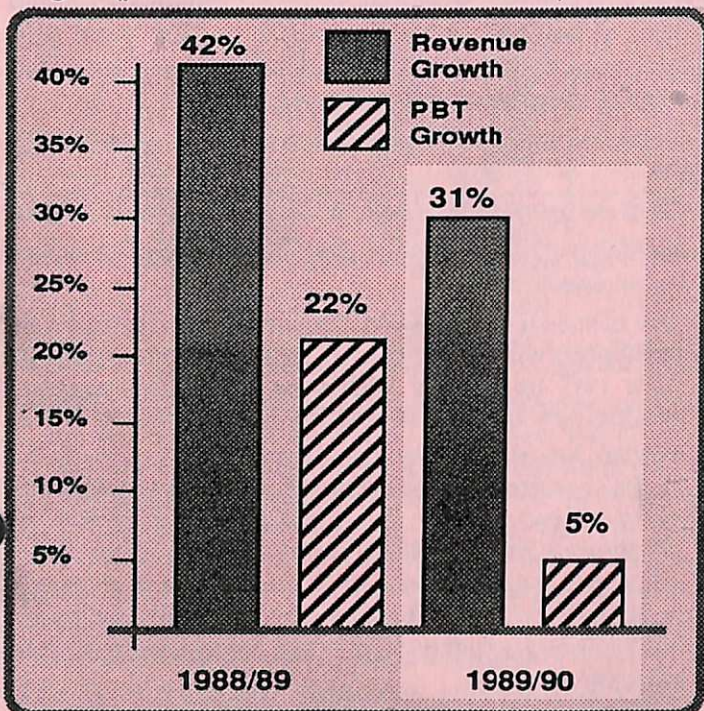
The Top Ten in terms of 1990 EPS growth is:

1	Micro Focus	+176%
2	EDP	+109%
3	Admiral	+49%
4	Rolfe & Nolan	+48%
5	Kewill	+38%
6	Capita	+34%
7	Instem	+33%
8	Radius	+28%
9=	Sage	+23%
9=	Sherwood	+23%

The Top Ten list above contains many of the companies that we rate very highly. If they can achieve these performances in the current difficult climate, *they could be the companies to watch for the future.*

How the analyses were compiled

The analyses compare results for periods ending in 1990 with the equivalent results for 1989 and 1988 - some are interim results and some for the full year; but in all cases the same periods have been compared.

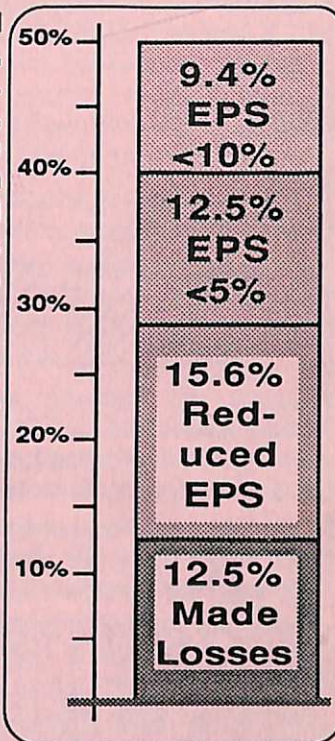


It would, in our opinion, be incorrect to blame the current results wholly on market conditions. There is clear evidence that this has affected many companies in Q2 and will increasingly depress performance in the second half. But the downturn in the market is not the main reason for the poor results in the period under analysis.

The main reasons are:

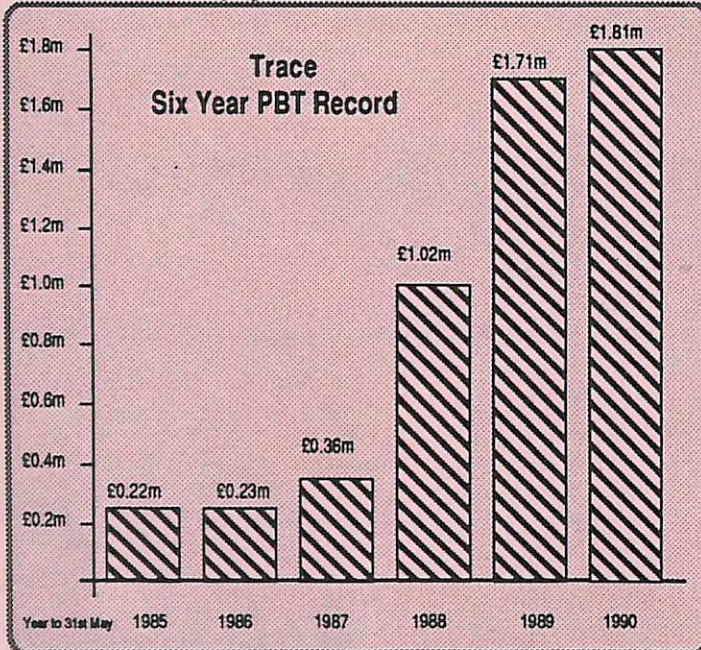
- **fixed price project overruns.** It could be argued that these have been caused by more competitive bidding, but the real reason is the lack of effective project control and a shortage of good project managers. (System House - Aug 90)

- **the aftereffects of recent frenetic acquisition activity.** The companies undertaking most acquisitions (by value or by volume) have been amongst the worst performers in terms of EPS growth. Misys, SRH and Trace are current examples. The best performers - see opposite - have undertaken few acquisitions.



Trace profits growth slows

Trace made its debut on the Stock Exchange in June 1989 at a placing price per share of 125p and a capitalisation of £16.1m. After last year's 67% profits increase, growth in the year to May 1990 has slowed considerably. PBT is up 5.8% at £1.8m on revenue up 42% at £13.9m. EPS rose 5.3%. Interest receivable decreased from £66K to £11K whereas interest payable increased from £33K to £186K.



The share price is now just 71p and, despite a clutch of acquisitions, capitalisation is down to £9.6m.

Originally Trace concentrated on bespoke development for Unisys kit in the property, insurance and banking markets. But, in their first year as a quoted company, Trace has been on a buying spree - purchasing Image, Prospect, Gordon & Gotch, Micrologic, Wespac and Proteus. "With the exception of Micrologic, all of these companies were trading at a loss when acquired". Although these acquisitions have boosted revenue they have also, as with so many other companies, depressed PBT and EPS growth. Indeed, it does look as if profits were lower in the second half. However, Trace's Chairman reported "that together these acquisitions made a positive contribution to the Group's results and all, except Proteus, are now recording profits".

"Emphasis is now on the development of open systems software... The Group is in a strong position after last year's work and remains confident about the future".

It remains to be seen if the Trace management has the ability to turn the recent acquisitions into real profits growth.

Sage

David Goldman, Sage's Chairman, telephoned last month to complain that we had said that Sky software was suffering "market problems" in line with others in the accounting software market. We are pleased to hear that, although Sage had stated that Sky was facing "strong competition", its sales had increased significantly.

Indeed, on 6th September, Sage announced that IBM is to promote its Sterling accounting software as the only accounting solution in its marketing campaign for the new IBM PS/1 range.

Butler Cox warning

Butler Cox warned back in April 90 that "the many new developments will have an inevitable impact on the first half of 1990's profits which may not be as high as the first half of 1989". But the Chairman did say that he was looking forward to "more profitable growth" over the year.

The first part of the warning was only too true. Latest interims to June 90 show PBT down 37% at £400K on revenues up 25% at £5.24m. EPS, after the acquisition of Cranfield Information Technology in Feb 90 for up to £900K, declined by 42%.

"Consultancy in the UK will continue to be affected by the downturn in the domestic economy and this will inevitably have an impact on our performance in the second half".

Butler Cox came to the USM in May 1989 at £1.75. The profits warning had one of the most dramatic effects we have seen for a long time. The shares crashed from 178p to 75p on 7th September but have recovered to 120p since.

Butler Cox has two major activities - IT consultancy which generates over 50% of revenue and syndicated research via the Butler Cox Foundation and Productivity Enhancement Programme (PEP). It seems that the market research activities have held up well - a view expressed by other IT market researchers at a recent CSA sub-committee meeting. But the IT consultancy activities have suffered in line with other UK competitors.

Butler Cox is yet another clear sign of the recession facing the UK CSI industry.

"It is beginning to look as if the future is at last looking rosier by the day" David Gare - Chairman, Instem, March 1990

The optimism of Instem's Chairman, David Gare, six months ago was not misplaced. Latest interims to June 90 show PBT up 32% at £505K on similarly increased revenue now standing at £5.35m. EPS increased 32.9%. Instem's key market area is the development of computer control systems for power stations. "Our marketplace is in some degree of flux as a result of the impending privatisation of the power industry and the recessionary influences being witnessed in much of the industrial marketplace". Confidence for the future is such that Instem has taken over a further 12,000 sq ft of factory space on an adjacent site.

Instem made £872K PBT in 1985 but only managed to repeat that performance again in 1989. Even so, Instem looks as though it will show good profits growth this year.

NCC makes £3.1m loss

The National Computing Centre reported a loss in the year to March 1990 of £3.1m (£1.7m trading loss plus £1.4m extraordinary) on revenues up 4% at £17.3m. The loss was attributed to the reduction in government investment from £5.9m to £1.5m. A loss of £642K was reported in 1989.

Singer & Friedlander dips

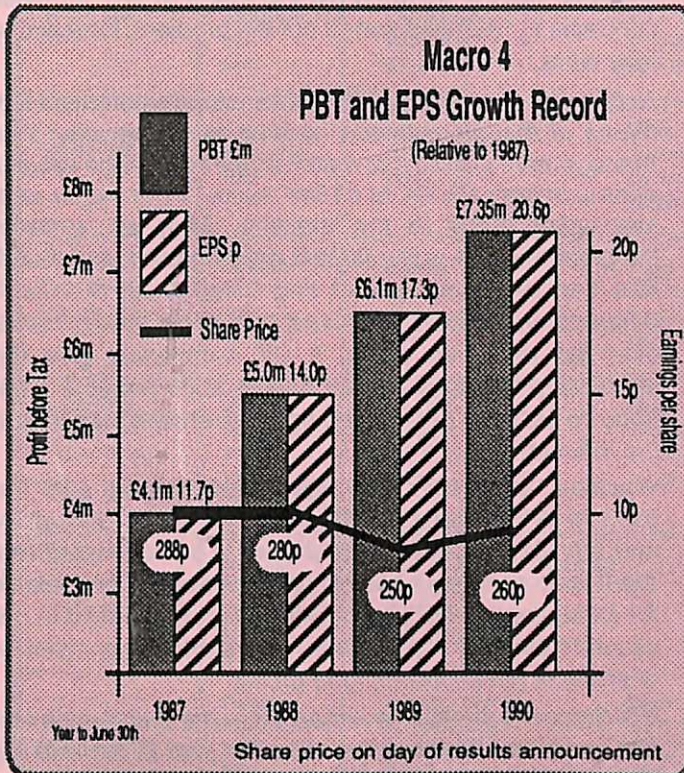
Merchant bank, Singer & Friedlander suffered an 11% fall in PBT for the first time in ten years to £9.5m in the six months to June 90.

Singer & Friedlander has a 20% stake in ACT, which has performed well over the last year, and a 17% stake in Ferrarl, which has lost 85% of its value in the same period.

Macro 4 maintains profits growth

Macro 4 produced final results to 30th June 1990 much in line with expectations. PBT was up 19.9% at £7.35m on revenues up 12.5% at £14.77m. EPS grew 19.1%.

Macro 4 develops and rents system software products for IBM mainframe systems. Macro 4's record has been exemplary with PBT and EPS growth staying much in line. However, even though EPS is nearly twice that in 1987, the share price is now 18% lower (at 236p) than when the 1987 results were announced.



Macro 4 just must be one of the safest companies around. They still have cash of £7.8m - even after the greatly increased dividend paid in Nov 89. They have also spent £2.7m cash on acquisitions and a further £1.84m on developing their headquarters building. But the real strength comes from recurring income - which constitutes 92% of group turnover. As the FT said on 2nd March 90 "Thanks to the rental stream, turnover would be greater in the next 12 months even if sales stagnated".

Last year, Chairman, Terry Kelly admitted to problems with their West German agent. That seems to have been solved by the purchase of part of their former agent - **Dialogika** - in June for £936K (see *System House* July 1990) and the formation of Macro 4 GmbH which "is now fully operational ... providing significantly improved revenues from the largest potential market in Europe".

Perhaps the greatest problem for the group has been its exposure to foreign exchange fluctuation. During the year the \$ varied by 14% and the DM by 15% - both adversely affecting Macro 4. The \$ has fallen back even further since. Unlike most other UK computing services companies, Macro 4 makes over 75% of its revenue from outside the UK. Kelly warns that these adverse fluctuations "could impact the group's profit growth in the forthcoming year".

But one fact is certain - with a 1990 margin of 49.8% - Macro 4 will continue to lead our profit margin league table ... as they have in every year since 1985.

Capita sparkles

Capita, which provides IT services to the public sector, has continued its quite excellent performance with half year results to June 1990 showing PBT up 71% at £956K on revenues up 153% at £9.2m. EPS increased 34%.

Consultancy, which accounted for 43% of revenues, had a mixed six months with "traditional consultancy activities encountering increasingly competitive markets". Computer services, which provides FM services, "enjoyed excellent organic growth" and revenues of £2.6m. A second "flagship" FM contract with Oxfordshire CC "is expected to generate revenues in excess of £20m over the next 7 years". The recent purchase, for £1.285m, of the option BT had to acquire 51% of Telecom Capita has given Capita full control and enables Capita to consolidate its results. The managed services division has won a £1m contract to provide the DVLA with services connected with personalised number plates and marketing services "enjoyed a highly successful 6 months", via Penn Communications purchased for £1.1m in May 89.

There have been four acquisitions in the last year. The most recent, in June 90, was consulting engineers **JE Greator** for a maximum consideration of £9m of which £5m was paid on completion. JEG had profits of £1.05m in 1989 and this acquisition "has already brought benefits to the group" and should boost second half results.

The share price has also reflected this excellent performance - up 70% since their debut. Given the high regard in which the industry holds Capita's management and the excellent market growth forecasts for their FM and public sector markets we have no reason to wish to change what we said in April 1990's *System House* "there do not appear to be any reasons on the horizon that could change Capita's performance".

Growth slows at P-E

IT consultancy, **P-E International**, produced "average" six months results to June 90 with PBT up 13.3% at £2.75m on revenues up 18% at £32.38m. EPS grew more modestly at 9.6%. However, Chairman Hugh Lang, had said in April that "results for the first quarter of the current financial year will be significantly ahead of those for 1989". In the hype-ridden world of the computing services industry, actual results are therefore a trifle disappointing. Indeed Lang said that "business conditions were good in Germany, Holland and the UK regions but during the second quarter we encountered some fall-off in enquiries in London and the South East".

P-E has undertaken four acquisitions in the last year. **Applied Skills for Management** (£850K) in July 89, Dutch consultancy, **Westvries** (£1.73m) in Oct 89, March (£850K) in November 89 and, most recently, the healthcare consultancy **SJ Noel-Brown** in June 1990. Lang believes that healthcare will be "an important growth area for P-E in the years ahead".

Lang seemed to share the "gloomy forecasts by most commentators" and said "We expect tougher economic conditions to be with us at least until the end of the year....P-E is well prepared and equipped to cope with these difficulties as our services are required in economic downturns as well as in more buoyant market conditions We expect to achieve a satisfactory outcome for the year as a whole".

Gloomy results from the UK's big three

Logica halves profits for year

Logica produced the expected set of dismal full year results to June 90. Although revenue was up a minimal 4% at £187.5m, PBT plunged by 52% from £18.8m to £9m and EPS was down 55%. Since the profits warning in May, Logica's shares have plunged by 50% from 299p to 152p - reducing capitalisation to just £94m.

Logica gave three main reasons for the downturn;

1 - The closing of its Danish office and UK management consultancy cost £1.7m. Even so, consultancy still accounts for 25% of revenues.

2 - The US operation, based around Data Architects which Logica purchased in March 1988 for £26m, moved from a £4m profit to a £2m loss.

3 - "significant additional expenditure on some large fixed-price contracts". The San Francisco rail contract seems to have been one of the main offenders. Indeed, the proportion of projects undertaken on a fixed-price basis has increased marginally from 36% to 38% in the year. Custom built software grew "by a healthy 15%" and represents 57% of revenues.

But we shouldn't be too gloomy. Overseas revenues increased to 50% of turnover, contracts in the energy and utilities sector increased by 40% and the Logica/BA joint venture is "strategically important". (System House - Sept 90)

"Analysts suggest profits for 1990/91 of between £12.5m and £15.5m with £17m likely in 91/92" Source - FT 21st Sept 90.

"The directors are confident that Logica is well placed to exploit the substantial growth opportunities in its markets worldwide".

We are meeting David Mann shortly and will present a major feature on Logica in next month's *System House*.

Further margin reduction at Sema

Sema's results for the six months to June 1990 showed revenue up 38% at £190m but PBT static at £7.2m. EPS declined by 6%. £25.7m of the increased revenue was due to acquisitions which included ADV/Orga, Tibet and Emnid. On the brighter side, operating profits improved by 28% but the group was hit by net interest charges of £391K, compared with net interest received of £272K last time, and exceptional costs of £673K due to rationalisation measures implemented in July.

Back in April when Sema announced its full year results, CEO, Pierre Bonelli, said he was anxious to improve profit margins from the 6% achieved in 1989. "I can see no reason why a 10% margin cannot be achieved" Latest interims show a meagre 3.8% margin down from 5.2% in last year's interims.

Sema's board said it was taking a cautious view on prospects for the full year as market conditions across Europe would remain difficult in 1990. Cutbacks in UK MOD spending have already affected the group. It does look as if the UK side of the operation is suffering when Chairman, Barney Gibbens, says that the current static profits are "due primarily to the strength of our French and Spanish systems businesses".

However, compared to rivals SD-Scicon and Logica, Sema's results might be considered as quite good.

SD-Scicon's £9.8m loss

SD-Scicon's losses in the six months to June 90 were twice as bad as expected - £9.8m against a profit of £1m last time. Revenue was also down 4% at £138.2m.

The losses resulted from "15 fixed price contracts, five of them of significant size" which have gone badly wrong. But the real problem is one of credibility. Most analysts believed that the £2.5m provision made by SD for these contracts in 1989 had sorted out the problem. How wrong they were.

Judging by our mailbag, Philip Swinstead's comment that "None of the UK software houses have upgraded their management systems to match a rise in average value of contracts from £500K to £15m" Source - FT 7th August 1990, has upset many in the industry. After all, systems integration is one of the fastest growing markets around. The Yankee Group predict that "fixed-price, fixed-term contracts will account for at least 60% of all developments" over the next five years. If UK companies give the impression that they cannot handle such projects, what hope do we have of retaining an independent presence in the industry?

However, SD-Scicon now has a cash surplus after the sales of Warringtons and their West German subsidiary and, say the directors "is well placed to move forward from this financially secure base to produce the profits available for its business". UK profits will remain depressed in the second half due to "economic factors and the completion of projects not contributing to profits"

SD-Scicon's shares have halved in the last month and the company is now capitalised at just £70m making them a prime takeover target.

EPS static at SRH

Although revenue at **Systems Reliability (SRH)** for the six months to June 90 increased by a massive 114% to £95.3m with PBT up 66% at £5m, EPS grew by <1%.

SRH has been the most acquisitive company around in the last two years since Chairman Robert Evans joined from Hillsdowne in late 1988. The major 1990 acquisitions were **Optim** for £5.8m in May and **Analogue** for £1m in July. This acquisition activity has clearly adversely effected EPS but Evans does say "that with the current mix of activities, profits are now weighted towards the second half". Results for July and August were "in line with the group's expectations" and "the order book in the new business software division is good especially in the communications sector where it has almost doubled since 1988". Mainframe maintenance has gained contracts in advance of expectations.

At the same time SRH announced that it was selling its PC dealership **Corporate Computers** for up to £13m (see page 8). We would like to continue our hope that SRH will avoid the "acquisition indigestion" which has effected so many other companies. The SRH share price has declined by 16% in the last month and is showing a 28% reduction since April 89.

Further results Sherwoods p7, Computer People p10, Oracle - p11, Peterborough p11 and Micro Focus p8.

Richard Holway Limited - Results Service

Admiral plc	Results Revenue PBT EPS	Interim - June 89 £7,221,000 £1,104,000 6.1p	Final - Dec 89 £15,971,000 £2,653,000 16.2p	Interim - June 90 £9,785,000 £1,511,000 9.1p	Interim Comparison +35.5% +36.9% +49.2%
ACT plc	Results Revenue PBT EPS	Final - Mar 89 £105,773,000 £8,012,000 6.22p		Final - Mar 90 £140,712,000 £8,026,000 7.07p	Final Comparison +33.0% -33.5% -13.7%
Butler Cox plc	Results Revenue PBT EPS	Interim - June 89 £4,194,600 £633,800 8.1p	Final - Dec 89 £9,370,000 £1,324,095 16.43p	Interim - June 90 £5,239,100 £400,100 4.7p	Interim Comparison +24.9% -36.9% -42.0%
Capita plc	Results Revenue PBT EPS	Interim - June 89 £3,630,000 £560,000 4.4p	Final - Dec 89 £6,880,000 £1,300,000 10.39p	Interim - June 90 £9,167,000 £956,000 5.9p	Interim Comparison +152.5% +70.7% +34.1%
Computer People plc	Results Revenue PBT EPS	Interim - June 89 £32,400,000 £1,810,000 9.5p	Final - Dec 89 £69,919,000 £4,219,000 21.8p	Interim - June 90 £38,988,000 £2,138,000 11.25p	Interim Comparison +20.3% +18.1% +18.4%
Electronic Data Processing plc	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%
Ferrari Holdings plc	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
Hoskyns Group plc	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% +16.7%
INSTEM plc	Results Revenue PBT EPS	Interim - June 89 £4,012,000 £382,000 5.32p	Final - Dec 89 £8,003,000 £885,000 12.9p	Interim - June 90 £5,349,000 £505,000 7.07p	Interim Comparison +33.3% +32.2% +32.9%
Kewill plc	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%
LBMS plc	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%
Logica plc	Results Revenue PBT EPS	Final - Jun 89 £179,505,000 £18,835,000 20.0p		Final - June 90 £187,489,000 £9,011,000 9.0p	Final Comparison +4.5% -52.2% -55.0%
Logitek plc	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%
Macro 4 plc	Results Revenue PBT EPS	Final - Jun 89 (amended) £13,131,000 £6,132,000 17.3p		Final - June 90 £14,775,000 £7,353,000 20.8p	Final Comparison +12.5% +19.9% +19.1%

Richard Holway Limited - Results Service

Micro Focus plc	Results Revenue PBT EPS	Interim - July 89 £14,807,000 £2,459,000 12.4p	Final - Jan 90 £35,639,000 £8,223,000 37.4p	Interim - July 90 £23,288,000 £7,127,000 34.2p	Interim Comparison +57.3% +189.8% +175.8%
Microgen plc	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% -6.5% -11.3%
Misys plc	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 +202.3% +96.6% +3.1%
MMT plc	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%
NMW Computers plc	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
P&P plc	Results Revenue PBT EPS	Interim - May 89 £79,850,000 £5,000,000 10.5p	Final - Nov 89 £168,869,000 £11,066,000 20.8p	Interim - May 90 £109,400,000 £6,800,000 11.7p	Interim Comparison +36.8% +36.0% +11.4%
P-E International plc	Results Revenue PBT EPS	Interim - June 89 £27,444,000 £2,429,000 9.4p	Final - Dec 89 £58,017,000 £5,622,000 21.1p	Interim - June 90 £32,381,000 £2,753,000 10.3p	Interim Comparison +18.0% +13.3% +9.6%
Pegasus plc	Results Revenue PBT EPS	Interim - Jan 89 £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%
Proteus plc	Results Revenue PBT EPS	Final - Sept 88 nil (£436,000) not available		Final - Sept 89 £21,000 (£588,000) not available	Final Comparison Not comparable Loss both Loss both
Quotient plc	Results Revenue PBT EPS	Interim - June 89 £9,203,000 (£1,984,000) (10.73p)	Final - Dec 89 £19,095,000 (£1,577,000) (8.8p)	Interim - June 90 £9,924,000 £747,000 3.19p	Interim Comparison +7.8% Loss to profit Loss to profit
Radius plc	Results Revenue PBT EPS	Interim - May 89 £13,445,000 £1,015,000 2.5p	Final - Nov 89 £28,630,000 £2,000,000 4.74p	Interim - May 90 £14,521,000 £1,394,000 3.2p	Interim Comparison +8.0% +37.3% +28.0%
Rolfe & Nolan plc	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%
Sage Group plc	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% +23.4%
Sanderson Electronic plc	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%

Richard Holway Limited - Results Service

SD-SCICON plc	Results Revenue PBT EPS	Interim - June 89 £143,771,000 £1,060,000 0.37p	Final - Dec 89 £283,304,000 £7,230,000 0.59p	Interim - June 90 £138,192,000 (£9,794,000) (6.16p)	Interim Comparison -3.9% Profit to loss Profit to loss
Sema Group plc	Results Revenue PBT EPS	Interim - June 89 £137,682,000 £7,124,000 4.8p	Final - Dec 89 £293,021,000 £17,457,000 11.6p	Interim - June 90 £189,921,000 £7,185,000 4.5p	Interim Comparison +37.9% +0.9% -6.3%
Sherwood Group plc	Results Revenue PBT EPS	Interim - June 89 £12,171,000 £580,000 7.7p	Final - Dec 89 £25,397,000 £2,024,000 25.0p	Interim - June 90 £12,249,000 £883,000 9.5p	Interim Comparison +0.6% +46.6% +23.4%
Star plc	Results Revenue PBT EPS	Interim - Dec 88 £6,911,000 £464,000 3.5p	Final - Jun 89 £14,213,000 (£930,000) (11.7p)	Interim - Dec 89 £6,392,000 (£649,000) (9.5p)	Interim Comparison -7.5% Profit to Loss Profit to Loss
Synapse plc	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
Systems Reliability plc	Results Revenue PBT EPS	Interim - June 89 £44,606,000 £3,022,000 6.21p	Final - Dec 89 £134,586,000 £7,863,000 12.76p	Interim - June 90 £95,345,000 £5,012,000 6.25p	Interim Comparison +113.8% +65.9% +0.6%
Tele-computing plc	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
Total Systems plc	Results Revenue PBT EPS	Final - Mar 89 £2,100,508 £96,543 0.59p		Final - Mar 90 £1,777,084 (£6,722) (0.08p)	Final Comparison -15.4% Profit to loss Profit to loss
Touchstone plc (was MBS)	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
Trace plc	Results Revenue PBT EPS	Final - May 89 £9,814,976 £1,709,233 9.96p		Final - May 90 £13,933,504 £1,807,644 10.49p	Final Comparison +42.0% +5.8% +5.3%
Vistec Group plc	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

Misys moves to main market

Misys moved from the USM to the main market on 21st September. It did not have any immediate effect on the share price which has fallen from £1.18 to £1.08 in the last month alone. The only new statement in the formal listing particulars was "there is growing confidence of a good improvement in levels of activity in the second half".

Kewill slowdown

Kevin Overstall, Kewill's Chairman, told shareholders at the AGM that UK staff had been reduced by 20% due to "difficult trading conditions" but that "trading results for the year will show good profits growth and EPS will not only be maintained but possibly increased".

October 1990

IoD reports big drop in business confidence

Nearly 73% of directors are less optimistic about the UK economy than they were six months ago according to a recent Institute of Directors survey. 59% claimed that their company's volume of business had either remained static or had fallen and 64% believed that profits were on the same trend. Source - FT 10th Sept 1990.

Several UK CSI companies with substantial overseas revenues have "complained" at the strength of sterling. We suspect they, like many in the UK, would welcome a cut in interest rates which, as the IoD says, would "depress sterling but could undermine a significant anti-inflationary force".

Acquisitions and disposals

Touchstone settles with Technology

Touchstone, which used to be known as MBS, seems to have settled its differences with Derek Lewis' **Technology plc** which bought MBS's product sales activities last year. You may remember, at the time that MBS announced losses of £4.8m for 1989 (*System House* June 90), that "a significant provision has been created to allow for the uncertainty surrounding the sums that MBS believes are due". We understand that provision was around £5m leaving disputed Technology debts of £10.1m (after provisions) in MBS's last accounts.

Under the terms of the settlement announced on 10th Sept. Touchstone has received £10.5m in cash. In addition, Touchstone has been granted an option to acquire up to 10% of Technology. In addition, Technology will refer all sub-contract computer maintenance business that it generates to Touchstone. This, the company commented, will give them the opportunity to tender for such business. This part of the deal had clearly failed and we still have doubts about the new arrangements.

Touchstone has done better than many observers had expected from this settlement. They had £5.5m cash at the end of 1989 which will have been boosted greatly by this deal. Cash is a good commodity to have in these troubled times particularly as Touchstone commented that "the difficult marketplace continues to influence performance".

Others..... **Bonsal** has bought the leisure and business computer distributor, **Parkfield Communications**, from the receivers for "£1m - £1.2m" in cash. **BIS** has paid £10.1m for a 32.2% stake in West Germany's **GMO AG** with rights to acquire the remaining shares. **IbIs** has bought the assets of Multisoft dealer **Premier Solutions**. **Mike Cleugh**, with backing from Barclays Development Capital, has effected an MBO of **Network Connections** from **Winprime** in a deal worth "several hundred thousand pounds". **Network Connections** is a specialist in the PC and Mac to DEC VAX connectivity arena and has revenues of about £2m. **Cleugh** said "we are extremely confident about the future of the networking market. It is growing by 30% pa and we expect our growth to match, if not outperform, this figure". **Pentad Holdings**, the parent company of **Apricot** and **ICL** dealership **Danetre Business Systems**, has entered administrative receivership only six days after being appointed as a distributor for 70 of **ICL**'s smaller traders. An MBO is underway. Last year **Danetre** acquired **CSDC**. Another **ICL** trader, **Microskill**, also fell to the receivers and has been acquired by **Bit Computer Services**. **Sherlington Software**, which supplied personnel management systems, is in the hands of the receiver. **Fourth Dimension** has called a creditors meeting for late Sept. **Realphase** has gone into liquidation owing 15 contractors up to £9000 in unpaid wages. **Computer Disaster Recovery**, part of **Granada**, has picked up 80 site licences from rival **Computer Lifeline**. **Lifeline**'s sales director, **Peter Button**, said the company was having trading difficulties. Source - *CW* 13th Sept 90. **Trinitec** has merged with **Rapid Recall** and shed 24 staff. **Erskline Data Systems** has been bought by its management.

P&P Only 66.5% acceptances were recorded in **P&P**'s recent £27.7m rights issue.

GW Thornton disposes of second CSI company

In June, **GW Thornton** sold FM supplier **Porthcrest** for £3.48m to **BIS**. (see *System House* July 90). Now they have sold their other CSI company - **ACT** - in an MBO for £2.65m in cash. **ACT** was originally purchased from **Apricot** which has itself, of course, returned to using the name **ACT** since.

ACT provides payroll and other services and many of the leading clearing banks use their services. They employ 160 full-time and 190 part-time staff. In the year ended 30th Sept 89, **PBT** was £321K on revenues of £6m which has moved to a loss of £9K on revenues of £3.6m in the first six months of the current year. The MBO, also takes over bank borrowings of £1.1m, was lead by former directors **Alan Davenport** and **Paul Sellars**. **GW Thornton** has been left with cash in the bank of £5.3m and its lucky shareholders will get a special dividend distributing a "substantial portion of the **ACT** proceeds".

This sale completes the disposal of **GW Thornton**'s foray into IT. It's been a quite profitable venture - they paid £1.4m in cash plus 2.2m shares and have now realised £6.8m.

SRH sells Corporate Computers for £13m

As forecast in the April edition of *System House*, **Systems Reliability (SRH)** has sold its personal computer subsidiary, **Corporate Computers**, to Dutch paper and printing group, **VRG**, for up to £13m in cash. Initial consideration is £9m cash plus £3m repayment of company debt. An additional £1m is payable based on results for calendar year 1990.

Corporate grew out of the acquisition of **Essex & City** and **Fletcher Dennys** in 1988 with **South East Computers** and others added in 1989. They are one of the top six PC dealers in the UK. In 1989, **Corporate** made **PBT** of £1.36m on revenues of £35.9m and had net assets of £10.8m at 31st Dec 89. The problem with **Corporate** was that, although it contributed 20% of **SRH**'s profits, it also accounted for half its borrowings. Based on the low prices paid for other PC dealers, it looks as if **SRH** has pulled off an excellent deal. See Page 4 for **SRH** interim results

Micro Focus shines again

Micro Focus has out-shone the industry yet again with a spectacular set of interim results for the six months to July 1990. Revenue is up 57% at £23.3m but **PBT** is up a massive 190% at £7.13m - they made £8.2m in the whole of 1989. **EPS** is also up 176%.

Micro Focus has been the best performing company since we started *System House*. They have also been the best performing share - up 400% since April 1989. They have succeeded in the "tools" market on an international scale - a feat that is almost unique for a UK company - and they have achieved this success organically.

But they did offer a warning over the "downturn in OEM business conditions" and "if the \$ continued to be weak, this would adversely affect profits and cash balances in the second half". "The service business is expected to continue to have tough trading conditions in the UK". However "direct business (63% of revenue in first half) is now sufficiently strong that we should achieve, and possibly exceed, the objectives set for the year".



Index hit again

The Computing Services Index was hit hard again in the last month - down 6% - over twice the fall of 2.9% in the FTSE 100. That means a fall over 16% since the Gulf crisis began.

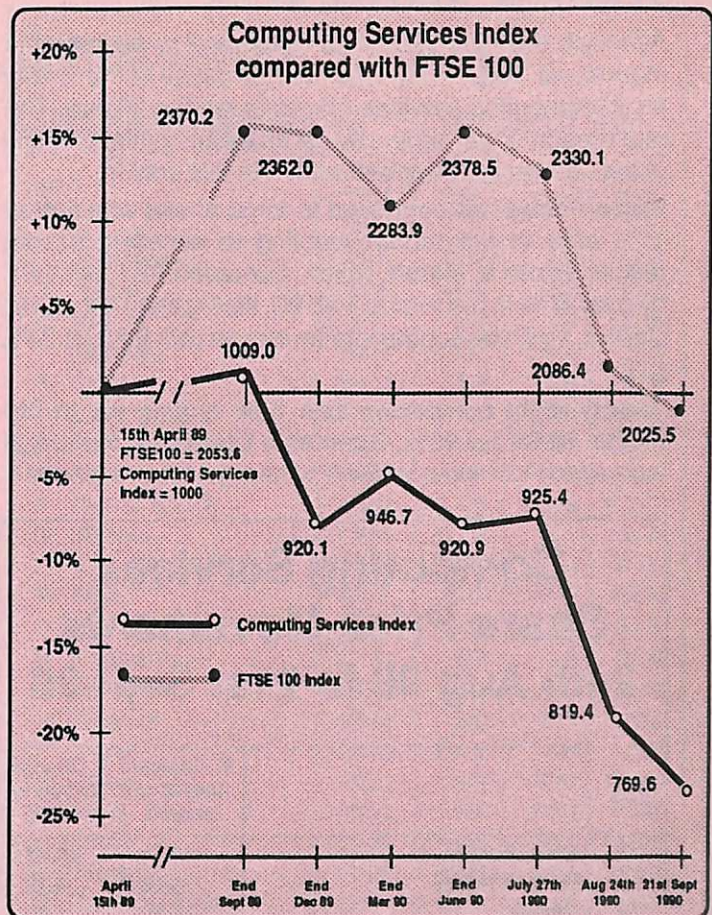
Now only 9 of the 39 quoted computing services companies are showing a gain since April 1989. **Micro Focus**, with its excellent interim results (p8), extended its lead in the month. But most others fell. **Touchstone** joins **Star** and **Ferrari** with share prices less than a fifth of that in April 1989.

A third of all companies have seen their share price halve. Both **Logica** and **SD-Scicon** have lost over 55% of their value in the period. (see p 4).

Computing Services Share Price Index 21st Sept 90

Index Rank	15th April 1989 = 1000	Share Price 21/9/90	Index 21/9/90
1	Micro Focus •	£7.83	3782.61
2	Capita •	£1.69	1690.00
3	Sema Group •	£5.32	1672.95
4	Hoskyns •	£3.38	1648.78
5	Sage Group •	£1.98	1523.07
6	Admiral •	£2.10	1521.74
7	Rolfe & Nolan •	£1.17	1382.11
8	Sherwood •	£1.27	1058.33
9	Proteus •	£0.85	1011.90
10	Macro 4 •	£2.36	951.61
11	ACT •	£0.59	936.51
12	Sanderson •	£2.20	936.17
13	Computer People •	£2.26	930.04
14	INSTEM •	£0.87	870.00
15	P-E International •	£1.93	794.24
16	P&P •	£1.73	775.79
17	Kewill •	£1.80	711.46
18	Butler Cox •	£1.20	685.71
19	Electronic Data Processing •	£0.65	663.26
20	MMT •	£1.09	648.81
21	Pegasus •	£2.27	618.53
22	Learmonth & Burchett •	£0.72	600.00
23	Systems Reliability •	£0.75	600.00
24	Quotient •	£0.67	582.61
25	Trace •	£0.71	568.00
26	Microgen •	£1.09	465.81
27	Logitek •	£0.78	450.42
28	SD-Scicon •	£0.34	435.90
29	Logica •	£1.52	416.44
30	Vistec •	£0.09	371.48
31	Radius •	£0.50	362.32
32	Synapse •	£0.90	310.35
33	NMW •	£0.17	283.34
34	Total •	£0.15	273.59
35	Misys •	£1.08	268.66
36	Telecomputing •	£0.23	247.31
37	MBS (now Touchstone) •	£0.09	191.49
38	Star •	£0.20	166.67
39	Ferrari •	£0.16	130.61

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.



Further recovery at Sherwoods

On revenue unchanged at £12.2m, **Sherwood Computer Services** reported PBT up 47% at £850K for the six months to June 90. EPS was also increased by 23%.

After losses of £2m in 1988, Sherwood recovered well to report a £2m profit in 1989. This recovery seems to have been maintained even in the worsening economic environment. Sherwoods is increasingly focusing on the London Insurance market and the public sector. Their Lloyds insurance Sceptre system has resulted in a number of new syndicates becoming clients. In the public sector, Sherwood's profile has been boosted by the acquisition of Wootton Jeffreys Systems from the Headland receivers in August for £300K. The marketing agreement with ICL for Sherwood's local government housing product, Threshold, has already "obtained substantial commitment". They have also made "substantial investment in the development of open systems products".

In June, World Software purchased 1.77m preference shares previously owned by British & Commonwealth ("welcomed" by Sherwoods) and, with the subsequent addition of 83,000 ordinary shares, could be interested in 18.9% of the company assuming full conversion. It was reported that Sherwoods had opened talks with **Volmac** - World Software is already a significant shareholder in this Dutch software group.

Due to high recurring revenue and the success of new products, Schrodgers recently forecast profits for the year of £2.7m and revenues growing by some 12%. Indeed, Chairman, Trevor Entwistle, is "confident that the underlying progress made in the first half... will be reflected in the results for the full year".

Index falls 6%

Although the Gulf crisis has continued to unsettle the market, we doubt if this was the real cause of the further fall in computing services stocks in the last month. The real reason is the rather dismal financial results of many in the sector; as described earlier in this edition.

Micro Focus has continued to forge ahead with a near 10% gain in the month reacting to excellent interim results. **Rolfe & Nolan**, which increased PBT and EPS by over 40% in the year to Feb 90, also gained 6% as did **Capita**, again on superb interim results with EPS up 34% (p3).

Twenty eight companies saw their shares fall in the month. **NMW** fell 35%. **Specialist Computer Holdings** increased their stake in **NMW** to nearly 10% in the month.

Computing Services Index

21st September 1990

April 15th 1989 = 1000

769.56

NMW's interim announcement is due in October. As they are still dependent on Stock Exchange volumes, which have reduced still further since the Gulf crisis began, the reaction is not really surprising. **Butler Cox** lost 33% as a result of their profits warning (p2) - their shares had been as low as 75p on the day of the announcement. Obviously the market was not impressed with the terms of the settlement between **Touchstone** and **Technology** (p8) as the shares fell 25% in the month.

Newcomer, **Proteus**, fell 21% - back to the launch price of 84p. Considering the risk in the venture and the absence of any profit record, the shares had previously been performing rather well.

Ferrari lost another 11% and is now showing a 76% fall in the 5 months since April 90. Will the new management arrest the fall or are even more radical changes required?

Computing Services Share Price Movements 24th Aug 90 to 21st Sept 90

Rank		% Change 24/8/90 to 21/9/90	% Change 20/4/90 to 21/9/90
1	Micro Focus	9.51	40.32
2	Rolfe & Nolan	6.36	-4.10
3	Capita	6.29	1.20
4	MMT	4.81	-33.13
5	Microgen	1.87	0.00
6	Sherwood	1.60	-12.41
7	Sema Group	0.38	19.55
8	Learmonth & Burchett	0.00	-38.46
9	Sage Group	0.00	5.32
10	Synapse	0.00	-23.73
11	INSTEM	-3.33	-3.33
12	Hoskyns	-3.43	-2.31
13	Radius	-3.85	8.70
14	Trace	-5.33	-31.07
15	Pegasus	-5.42	-22.53
16	Vistec	-5.56	-37.04
17	Admiral	-6.67	-4.55
18	P&P	-7.49	-23.11
19	Macro 4	-7.81	-20.27
20	Telecomputing	-8.00	-34.29
21	SD-Scicon	-8.11	-56.96
22	Misys	-8.47	-52.00
23	Logica	-8.98	-48.99
24	ACT	-9.23	-30.59
25	Quotient	-9.46	-36.19
26	Sanderson	-10.20	-24.91
27	Ferrari	-11.11	-76.30
28	Total	-12.12	-9.38
29	Star	-13.04	-58.33
30	Computer People	-13.41	-15.67
31	Electronic Data Processing	-15.58	-2.99
32	P-E International	-17.17	-24.02
33	Systems Reliability	-17.58	-27.88
34	Proteus	-20.56	1.19
35	Kewill	-21.74	-37.50
36	Logitek	-22.77	-45.07
37	MBS (now Touchstone)	-25.00	-50.00
38	Butler Cox	-32.58	-39.70
39	NMW	-34.62	-45.16

Changes in Indices	Computing Services Index	FTSE 100
Month 24th August 90 to 21st Sept 90	-6.08%	-2.92%
17 months 15th April 89 to 21st Sept 1990	-23.04%	-1.37%
5 months 20th April 90 to 21st Sept 1990	-18.80%	-7.39%

Growth to slow at Computer People

Interims for **Computer People**, the IT consultancy and recruitment company, showed revenue up 20% at £39m and PBT up 18% at £2.14m. EPS also grew by 18%.

38% of group revenues now come from the US as 1989 acquisitions of **William D Farlow** and **Starlex** were included for the full period. However, the datacentre in New York has been closed costing £636K as the client no longer requires this testing facility. This had made "useful profits in 1989 but has made a loss this year".

In the UK, consultancy revenues increased by 14% due primarily to "the steady increase in fee rates" and recruitment revenues were up 16% "even though the general level of advertised IT vacancies in Britain was subsequently reported as having significantly declined during the second quarter".

The outlook does not look quite so encouraging. Even though **Computer People** has found that consultancy revenues grow even in periods of economic recession, the Chairman now believes that it is "unlikely that the second half will show any significant growth over the corresponding period last year". That would infer full year PBT of around £4.5m (a growth of less than 10%) and a slowdown in an otherwise excellent growth record.

A further £73m wiped off CSI companies

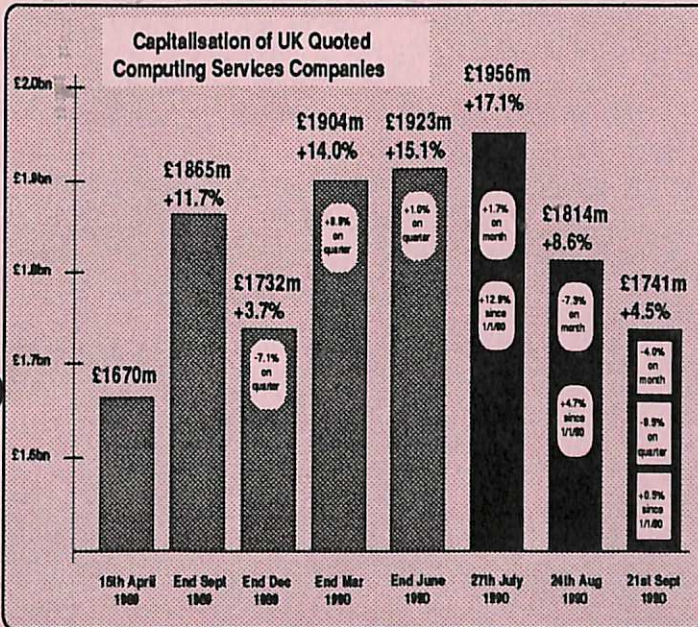
Total capitalisation of quoted UK computing services reduced by a further £73m - making a reduction of £215m since the Gulf crisis began.

Micro Focus was the only real gainer - up £7.6m at £97m. Interestingly, both **P&P** and **Micro Focus** now have a higher capitalisation than **Logica** and **SD-Scicon**. Both these companies have experienced a halving in their capitalisation since their profit warnings in the last few months.

It seems a little strange that **Systems Reliability** has seen its capitalisation reduce by £13m to £46m in the month. The sale of **Corporate Computers** seems to have been a good deal which has reduced **SRH's** borrowings significantly but this has not been appreciated by the market.

The highest percentage fall was experienced by **Butler Cox** - down 45% or £4.3m - due to their profits warning.

There are a number of companies which look very vulnerable to hostile takeover - particularly from overseas. The old adage "*Buy when the besieging army is at the gates: sell when the trumpets sound the retreat*" could well apply to many stocks in our sector today.



Peterborough makes £2.4m

Peterborough Software has announced results for year to March 1990 when revenue increased by 23% to £19.5m and PBT was up 49% at £2.4m. Revenue and profits have been growing strongly over the last few years despite major R&D investments. This year they have released their payroll and personnel packages, originally designed for mainframes, to run under UNIX on both IBM and ICL platforms.

Peterborough is owned by insurance company **CE Heath** and is one of the UK's largest suppliers of human resource software. Interestingly, like **Macro 4** (see page 3), the company rents its products and therefore has a high level of recurring revenue. The company also reported increased revenue from its consultancy services.

Computing Services Capitalisation - 21st Sept 90

Rank		Capitalisation 21/9/90 £m	% Change since 15/4/89	% Change since 24/8/90	£m Change since 24/8/90
1	Sema Group	£476.28	67.64	0.76	£3.58
2	Hoskyns	£293.23	77.93	-2.03	(£6.07)
3	P&P	£133.31	78.46	-4.92	(£6.89)
4	Micro Focus	£96.88	275.51	8.49	£7.58
5	Logica	£94.13	-57.37	-7.26	(£7.37)
6	SD-Scicon	£70.27	-55.30	-5.81	(£4.33)
7	ACT	£55.21	39.43	-9.19	(£5.59)
8	Macro 4	£54.91	1.87	-2.99	(£1.69)
9	Systems Reliability	£45.63	4.90	-21.86	(£12.77)
10	Microgen	£42.93	-51.44	3.70	£1.53
11	P-E International	£34.22	-13.58	-11.34	(£4.38)
12	Misys	£33.32	-56.04	-10.18	(£3.78)
13	Sage Group	£32.54	53.50	-0.18	(£0.06)
14	Computer People	£31.33	2.06	-11.49	(£4.07)
15	Admiral	£22.80	56.15	-6.57	(£1.60)
16	Sanderson	£20.61	4.63	-2.77	(£0.59)
17	Capita	£20.26	150.13	0.30	£0.06
18	Proteus	£18.51	2.55	-19.52	(£4.49)
19	Kewill	£17.92	6.64	-18.19	(£3.98)
20	Logitek	£14.63	-27.96	-14.47	(£2.48)
21	Pegasus	£14.31	-27.72	-2.65	(£0.39)
22	Touchstone (MBS)	£11.70	-80.85	-25.00	(£3.90)
23	Radius	£11.57	-63.73	-3.59	(£0.43)
24	MMT	£11.00	-36.42	0.00	£0.00
25	Trace	£9.57	-40.56	-2.64	(£0.26)
26	Quotient	£8.90	-42.95	-11.88	(£1.20)
27	Learmonth & Burchett	£8.75	-40.07	0.00	£0.00
28	Ferrari	£8.60	-56.10	-11.11	(£1.08)
29	Vistec	£8.59	290.23	-15.00	(£1.52)
30	Sherwood	£6.77	9.85	3.15	£0.21
31	Rolle & Nolan	£6.20	41.88	10.91	£0.61
32	Electronic Data Processing	£5.93	-29.85	-10.76	(£0.72)
33	Butler Cox	£5.23	-43.86	-44.98	(£4.28)
34	INSTEM	£3.92	-13.00	-3.33	(£0.14)
35	NMW	£3.67	-70.15	-31.24	(£1.67)
36	Synapse	£3.18	-68.82	0.00	£0.00
37	Star	£1.50	-81.59	-4.76	(£0.07)
38	Telecomputing	£1.46	-67.04	-8.18	(£0.13)
39	Total	£1.45	-72.64	-14.71	(£0.25)

Q1 loss at Oracle and Ingres falls to ASK

After announcing revenues up 66% at \$971m for year to May 1990, **Oracle** has warned that it could make a loss of \$27m in its first quarter (profit of nearly \$12m last time).

Oracle were still going for 50% growth at a time of general slowdown in the software market. **Oracle VP Geoff Squire** said "*The growth didn't happen but the costs did*". "*We just aimed too high*". The revenue growth rate target for 1991 has been slashed to 25% with a major restructuring and cost-cutting programme set in motion to achieve this. Source - **CW** and **Computing** 13th Sept 90.

Ingres, has been acquired by **ASK** for \$110m with funding from **HP** and **EDS**. The new operation will have combined revenues of \$400m. **Ingres** had said "*We too are experiencing softness in the market...for the first time our international revenues exceeded those from the US*".

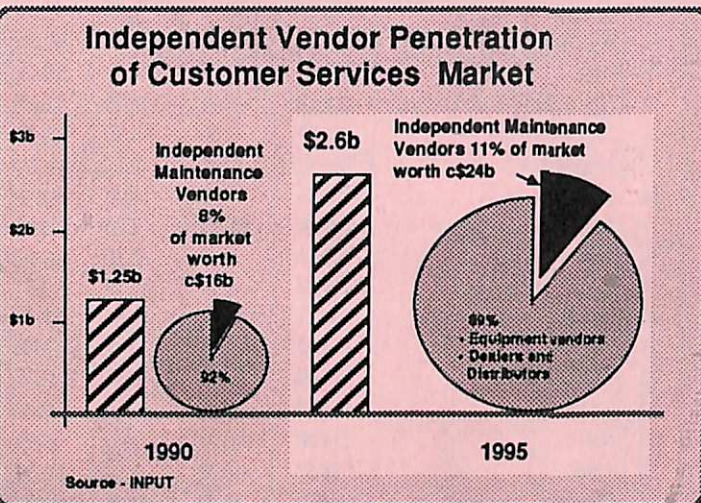
Sybase has also reported losses for the last two quarters.

Independent maintenance

"Hardware only maintenance will die as systems integration takes over and hardware becomes less prone to breakdown. **Total Systems Maintenance** will take over, with engineers skilled in software, applications, networks, comms etc." *System House* January 1990.

That was our prediction back at the start of the 90s. As nearly a quarter of our subscribers are involved in hardware maintenance in a major way, we are sure you will be interested that the latest report on independent maintenance in Western Europe from market researchers, INPUT, comes up with similar views.

The INPUT report predicts that the "major weakness .. is the inability to provide credible software support... This will be responsible for a rapid decline in revenues for independent maintenance companies in the latter half of the 1990s".



But the next five year period looks good. Independent maintenance is set to grow at an CAGR of 16% from 1990 to 1995 and the independent sector is predicted to increase its market share - away from the equipment vendors, dealers and distributors - from 8% to 11%. Indeed the hardware maintenance sector is only forecast to have a 4% CAGR in the next five years.

The UK has the lion's share of the European market, 34%, valued at \$575m in 1990. "The UK's % share of the European market is forecast to remain relatively constant over the next five years". West Germany accounts for only about 11% of the European total. However, the WG market is now opening and could provide significant opportunities.

Granada is clearly the European market leader with revenues of \$260m and an 18% share of the market in 1989. Other major players are:

Thomainfor	\$70m	5%
Sorbus	\$60m	4%
Getronics	\$45m	3%
Concept	\$40m	3%

French based, **Thomainfor**, has been particularly acquisitive with eight purchases since June 1989. **Concept** also acquired two companies - Spectral and MIS - in 1989.

Mid-range systems, PCs and peripherals constitute 70% of revenues. Maintenance revenues for IBM kit were estimated at \$2.7b in 1990 of which 16% was undertaken by third parties. DEC loses even more to third parties - \$250m, or 20%, out of an estimated \$1.2b maintenance market for DEC systems in 1990.

More details - INPUT - Tel 071 493 9335. The full report costs £1500.

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