

System House

The monthly review of the financial performance of the UK computing services industry
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1989 - End of Part One

Doug Eyeions - Director General of the Computing Services Association - said at the last CSA conference "There has never been a year like 1988". When he rises at Gleneagles in March 1990, what will he say of 1989? In 2001, what will the then CSA Director General say of the 1990s?

1989 was both the end of a decade and the end of the computer industry as we have known it for the last 30 years.

The writing is on the wall for all but the most blind to read. *And the message is the most exciting, most optimistic ever for the computing services industry.*

Open Systems

Any computing services company that has not already started to embrace open systems will not be around in the year 2000. Ignoring open systems is akin to ignoring MSDOS in 1982. By 1994, every hardware platform will run binary compatible UNIX systems - just like 90% of all PCs sold run binary compatible MSDOS today. The "Eastern bloc" like stranglehold of the key manufacturers and their proprietary operating systems will be gone - and not before time. The true winners will be the software companies with open systems products and services.

Application Tools

By 1994, application tools are forecast to be the largest sector of the packaged software market in Western Europe. Oracle, in the UK, has doubled revenue in the last year. Experienced software staff will get rarer and more expensive. The company that develops the leading UNIX system generator is destined to be the leading international computing company by the mid 90s.

Hardware Manufacturers

Hardware manufacturers are in for a hard time. Some, like those with large debt, probably will not survive. Siemens is likely to be one of the major international players. It is difficult to foresee a world without IBM by 2000, but it will be a relatively smaller IBM with much of its historic power a thing of the past. Margins on hardware will tumble alongside prices. The 100 mips system on the desktop for <\$10,000 will be here long before 2000. Hardware just ain't the place to be. The major manufacturers will buy into computing services - because they do not have the experience to grow in this sector organically - thus forcing up the prices paid for companies in the computing services sector.

International Players

The big will get even bigger. International - certainly pan European - players will emerge. The £100 billion computing services company will be here by 2000 - it will be US or mainland European owned. On current trends, the UK will be just a "bit part" player on the international scene.

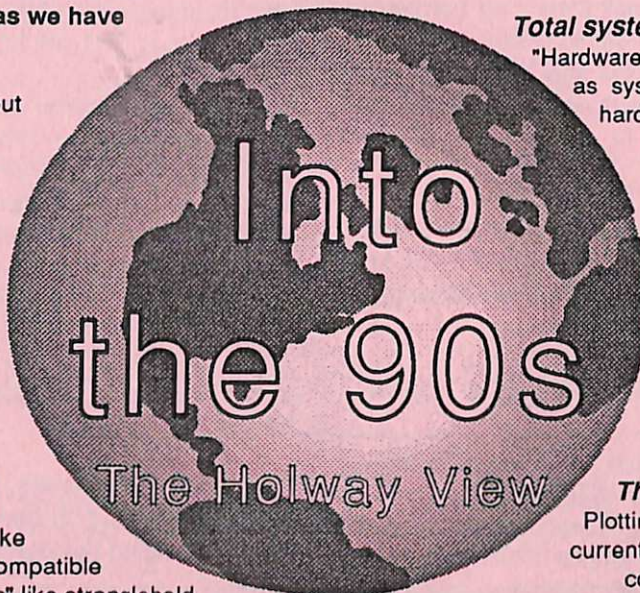
Total system maintenance

"Hardware only" maintenance will die as systems integration takes over and hardware becomes cheaper and less prone to breakdown. "Total system maintenance" will take over, with "engineers" skilled in the software, applications, networking, comms etc. Customers will buy the service from computing services companies rather than TPMs or manufacturers. FM cos. will move into this area - and thrive - as will software suppliers.

The winners?

Plotting the forecasts above against the current quoted computing services companies presents a sorry picture.

Hoskyns is the market leader in FM and expanding its UNIX services. Misys is already a major UNIX software product player with good support services. Kewill is strong in UNIX manufacturing systems. MMT is strong in software facilities management.....Where will the others be?



In this month's System House

This is the third edition of the new monthly review of the financial performance of the UK computing services industry. As well as the usual features, a complete review of the acquisitions undertaken in 1989 is presented on pages 6 to 8.

In this month's issue

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Review of the Latest Company Results

1989 ends with some excellent results

Sanderson's results exceed expectations

Sanderson Electronics turned in an excellent set of results for the year to Sept 89 with PBT up 72% at £3m and EPS also up 70%. The four year EPS record shows sparkling growth.

Sanderson - EPS Growth Record

1985/86	1986/87	1987/88	1988/89
45%	69%	400%	70%

Sanderson joined the USM in May 88 at 130p - their share price now is nearly 150% higher. Sanderson specialises in PICK systems; selling "total solutions", eg community charge systems to local government, in the UK, Europe, USA and the Far East. They have also built a high value maintenance base (c20% of revenue). The company says it is now "well positioned to expand its activities worldwide".

Many believe that the advent of UNIX, and "native" UNIX databases and 4GLs, will herald the decline of PICK. Let's hope Sanderson's is canny enough to have future plans covering that eventuality.

International expansion for Rolfe & Nolan

Rolfe & Nolan produced another set of excellent interim results with PBT up 48% and EPS up 59%. It's one thing when companies do well in good market conditions, it's another to produce such impressive results in the securities market over the last two years. You only have to compare Quotient, NMW and Sherwood to Rolfe & Nolan to get an idea of what quality management can achieve in such conditions.

Future prospects look bright. The bureau operation "continues to run ahead of budget in the first 3 months of the second half". International expansion seems to be working well. A European sales manager has been appointed in the Frankfurt office and a Paris office is planned. "Further revenue from Germany should see continued improvement in results for the remainder of the year. New licence sales will give a useful start to 90/91"

LBMS returns to profits growth

Interim results from Learmonth & Burchett (LBMS) - the SSADM people - showed a return to growth with a 37% increase in PBT to £513k in the half year to Oct 89. Full year results to April 89 had shown a 24% reduction in PBT - blamed on increased R&D. The interims also showed increased development costs - up from £852k to £1.11m. The chairman said "current trading continued to be good and the company felt confident about the year as a whole."

Hoskyns shows how to do it

Twelve consecutive years of profit growth is one thing; but an average annual increase in EPS for the last 10 years of 34% makes Hoskyns unique in our industry.

Hoskyns - EPS Growth Record

1985/86	1986/87	1987/88	1988/89
44%	51%	43%	48%

Hoskyns PBT surged by 60% to £15.2m for the year ending in Oct 89. Unless Sema or SD-Scicon produce a miracle in their second half, Hoskyns will be the second most profitable UK computing services company in 1989 (after Logica); up from 5th position in 1988.

It's rare in a newsletter to quote a 20 year old Computer Weekly article, but on 8th Oct 1970 "John Hoskyns predicted that most computer users would not have their own computers. Service companies will be involved in operating hardware...with these trends in mind, the Hoskyns Group is becoming involved in Facilities Management by setting up data centres". The prediction was totally wrong - the decision was totally right as FM now accounts for nearly £90m - or 47% - of Hoskyns revenue and the company estimates that they have over 60% of the UK FM market.

The Hoskyns story is very important as an object lesson to our industry and February's **System House** will carry a major feature on the company.

Vistec added to results service

Vistec has changed significantly under the leadership of Bob Morton since the F&H days and is now a rapidly expanding computing services company. They have been added to our Results Service and will feature in the Share Index from next month.

Six month results to Oct 89 show PBT of £1.1m against £1.19m for the 5 months to April 89 on revenue up from £11.9m to £17.3m. The second half is usually stronger but Morton was "reluctant to predict that this year would follow that pattern because I have absolutely no control over the economy" Source - FT 4th Dec 89. Current trading conditions are described as difficult in a highly competitive marketplace. "Anyone who says the corporate market is not getting tougher is a liar" says Morton.

Interestingly, Vistec seems to be another company suffering some of the acquisition after effects. Vistec found the 01 Computer Group "a can of worms" and, eventually, the sellers agreed to repay £884k of the £1.25m initial consideration. Source - Microscope 6th Dec 89.

More results - EDP and Total - on pages 10 & 11

Richard Holway Limited - Results Service

Admiral Group plc	Results Revenue PBT EPS	Interims - Jun 88 £4,500,000 £562,000 3.55p	Final - Dec 88 £11,239,000 £161,000 9.20p	Interims - Jun 89 £7,200,000 £1,100,000 6.96p	Interim Comparison +60% +95.7% +96.1%
Apricot plc	Results Revenue PBT EPS	Interims - Sept 88 £46,645,000 £4,150,000 4.31p	Final - Mar 89 £105,773,000 £6,012,000 6.22p	Interims - Sept 89 £56,440,000 £2,020,000 1.85p	Interim Comparison +21% -51.3% -57.1%
Butler Cox plc	Results Revenue PBT EPS	Interims - Jun 88 £3,900,000 £503,000 6.2p	Final - Dec 88 £7,699,791 £924,449 20.37p	Interims - Jun 89 £4,190,000 £634,000 8.10p	Interim Comparison +7.4% +26.04% +30.65%
Capita plc	Results Revenue PBT EPS	Interims - Jun 88 £1,970,000 £311,000 2.9p	Final - Dec 88 £4,301,000 £747,000 6.65p	Interims - Jun 89 £3,010,000 £502,000 4.4p	Interim Comparison +52.8% +61% +51.7%
Computer People plc	Results Revenue PBT EPS	Interims - Jun 88 £20,673,000 £1,419,000 7.92p	Final - Dec 88 £47,023,000 £3,229,000 17.84p	Interims - Jun 89 £32,400,000 £1,810,000 9.50p	Interim Comparison +56.7% +27.5% +20%
Electronic Data Processing plc	Results Revenue PBT EPS	Final - Sept 88 £14,755,000 £1,373,000 11.77p		Final - Sept 89 £16,034,000 £1,040,000 8.45p	Final Comparison +8.7% -24.3% -28.2%
Ferrari Holdings plc	Results Revenue PBT EPS	Final - Sept 88 £2,977,000 (£280,000) Not available		Interims - Jun 89 £14,500,000 £688,000 0.29p	Not comparable 9 month period
Headland Group plc	Results Revenue PBT EPS	Interims - Jun 88 £3,494,000 £161,000 0.53p	Final - Dec 88 £8,198,000 £851,000 2.39p	Interims - Jun 89 £5,367,000 £351,000 0.64p	Interim Comparison +53.6% +118% +20.75%
Hoskyns Group plc	Results Revenue PBT EPS	Final - Oct 88 £110,002,298 £9,511,030 16.1p		Final - Oct 89 £188,710,000 £15,230,000 23.9p	Final Comparison +71.6% +60.1% +48.4%
INSTEM plc	Results Revenue PBT EPS	Interims - Jun 88 £3,497,000 £302,000 4.16p	Final - Dec 88 £7,565,000 £681,000 9.7p	Interims - Jun 89 £4,012,000 £382,000 5.32p	Interim Comparison +14.7% +26.4% +27.9%
ITL plc	Results Revenue PBT EPS	Final - Apr 88 £31,120,000 £2,519,000 5.66p		Final - Apr 89 £31,605,000 (£1,148,000) -2.52p	Final Comparison +1.6% Profit to Loss Profit to Loss
Kewill plc	Results Revenue PBT EPS	Interims - Sept 88 £5,414,000 £726,000 7.52p	Final - Mar 89 £11,330,000 £1,810,000 19.7p	Interims - Sept 89 £8,064,000 £1,125,000 10.12p	Interim Comparison +48.9% +55.0% +34.6%
LBMS plc	Results Revenue PBT EPS	Interims - Oct 88 £5,491,000 £373,000 2.0p	Final - Apr 89 £12,774,000 £1,453,000 7.9p	Interims - Oct 89 £8,032,000 £513,000 2.7p	Interim Comparison +46.3% +37.5% +35%
Logica plc	Results Revenue PBT EPS	Final - Jun 88 £132,548,000 £14,738,000 18.1p		Final - Jun 89 £179,505,000 £18,835,000 20.0p	Final Comparison +35.4% +27.8% +10.5%

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Macro 4 plc	Results Revenue PBT EPS	Final - Jun 88 £11,008,000 £5,509,000 15.5p		Final - Jun 89 £13,500,000 £6,501,000 18.4p	Final Comparison +22.6% +18.0% +18.7%
MBS plc	Results Revenue PBT EPS	Interims - Jun 88 £61,641,000 £215,000 0.2p	Final - Dec 88 £116,283,000 (14,095,000) (14.6p)	Interims - Jun 89 £64,400,000 (£7,100,000) (7p)	Interims Comparison +4.5% Profit to Loss Profit to Loss
Memory Computer plc	Results Revenue PBT EPS	Final - Jun 88 £12,982,000 £313,000 0.54p		Final - Jun 89 £ £ Results delayed	Results for year to Jun 89 delayed due to impending MBO.
MicroFocus plc	Results Revenue PBT EPS	Interims - Jul 88 £10,000,000 £900,000 5.4p	Final - Jan 89 £22,100,000 £3,100,000 19.4p	Interims - Jul 89 £16,300,000 £3,680,000 18.9p	Interim Comparison +153% +308% +250%
Microgen plc	Results Revenue PBT EPS	Interims - Apr 88 £19,380,000 £5,150,000 8.60p	Final - Oct 88 £39,526,000 £10,039,000 17.10p	Interims - Apr 89 £22,980,000 £4,890,000 8.2p	Interim Comparison +18.6% -5.0% -4.65%
Misys plc	Results Revenue PBT EPS	Final - May 88 £7,938,472 £2,223,268 14.9p		Final - May 89 £25,603,000 £5,847,000 23.7p	Final Comparison +222.5% +163% +59.1%
MMT plc	Results Revenue PBT EPS	Final - Aug 88 £5,957,496 £1,634,635 10.1p		Final - Aug 89 £7,443,898 £2,151,953 12.8p	Final Comparison +25% +31.6% +26.7%
NMW Computers plc	Results Revenue PBT EPS	Interims - Jun 88 £5,916,000 (£428,000) (1.7p)	Final - Dec 88 £10,318,000 (£1,327,000) (4.6p)	Interims - Jun 89 £4,663,000 £48,000 0.1p	Interim Comparison -21.2% Loss to profit Loss to profit
Optim plc	Results Revenue PBT EPS	Interims - Apr 88 £3,790,000 (£484,000) Not available	Final - Oct 88 £10,064,000 £506,000 5.06p	Interims - Apr 89 £6,013,000 (£471,000) Not available	Interim Comparison +58.6% Loss both interims Loss both interims
P&P plc	Results Revenue PBT EPS	Interims - May 88 £50,000,000 £3,300,000 9.5p	Final - Nov 88 £106,517,000 £7,511,000 19.3p	Interims - May 89 £80,000,000 £5,000,000 10.5p	Interim Comparison +60% +51.5% +10.5%
P-E International plc	Results Revenue PBT EPS	Interims - Jun 88 £23,450,000 £2,014,000 7.8p	Final - Dec 88 £48,234,000 £4,511,000 17.5p	Interims - Jun 89 £27,440,000 £2,430,000 9.4p	Interim Comparison +17.0% +20.7% +20.5%
Pegasus plc	Results Revenue PBT EPS	Final - Jul 88 £7,604,000 £2,065,000 24.1p		Final - Jul 89 £10,873,000 £3,084,000 36.7p	Final Comparison +43% +49.3% +52.3%
Quotient plc	Results Revenue PBT EPS	Interims - Jun 88 £11,107,000 £517,000 2.48p	Final - Dec 88 £22,907,000 £2,206,000 10.3p	Interims - Jun 89 £9,203,000 (£1,984,000) (10.21p)	Interim Comparison -17.1% Profit to Loss Profit to Loss
Radius plc	Results Revenue PBT EPS	Interims - May 88 £6,115,000 £1,085,000 3.5p	Final - Nov 88 £17,726,264 £2,909,533 8.71p	Interims - May 89 £13,445,000 £1,015,000 2.5p	Interim Comparison +119.9% -6.4% -28.6%

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Roife and Nolan plc	Results Revenue PBT EPS	Interims - Aug 88 £1,892,000 £350,000 8.1p	Final - Feb 89 £3,841,000 £757,000 18.7p	Interims - Aug 89 £2,250,000 £517,000 12.9p	Interim Comparison +18.9% +47.7% +59.3%
Sage Group plc	Results Revenue PBT EPS	Final - Sep 88 £5,235,000 £1,618,000 6.7p		Final - Sep 89 £9,304,000 £2,911,000 12.6p	Final Comparison +78.1% +79.9% +88.1%
Sanderson Electronics plc	Results Revenue PBT EPS	Final - Sep 88 £7,812,000 £1,750,000 13.5p		Final - Sep 89 £12,008,000 £3,013,000 23p	Final Comparison +53.7% +72.2% +70.4%
SD-SCICON plc	Results Revenue PBT EPS	Interims - Jun 88 £77,961,000 £4,343,000 1.69p	Final - Dec 89 £221,565,000 £13,354,000 4.01p	Interims - Jun 89 £141,520,000 (£1,019,000) (0.83p)	Interim Comparison +81.5% Profit to Loss Profit to Loss
Sema Group plc	Results Revenue PBT EPS	Interims - Jun 88 £ £	Final - Dec 88 £266,893,000 £12,929,000 8.4p	Interims - Jun 89 £137,700,000 £4,600,000 4.8p	Interim Comparison Not comparable due to year end change
Sherwood Group plc	Results Revenue PBT EPS	Interims - Jun 88 £11,670,000 (£1,520,000) (29.7p)	Final - Dec 88 £26,528,000 (£1,965,000) (36.8p)	Interims - Jun 89 £12,190,000 £580,000 7.7p	Interim Comparison +4.5% Loss to Profit Loss to Profit
Star plc	Results Revenue PBT EPS	Final - Jun 88 £12,798,000 £1,210,000 3.5p		Final - Jun 89 £14,231,000 (£930,000) (11.7p)	Final Comparison +11.2 Profit to Loss Profit to Loss
Synapse plc	Results Revenue PBT EPS	Final - Jul 88 £6,805,627 £1,155,720 21.34p		Final - Jul 89 £9,000,000 £1,090,000 20.19p	Final Comparison +32% -5.6% -5.7%
Systems Reliability plc	Results Revenue PBT EPS	Interims - Jun 88 £9,050,000 £267,000 0.5p	Final - Dec 88 £24,070,000 £1,424,000 3.5p	Interims - Jun 89 £44,600,000 £3,020,000 6.2p	Interim Comparison +392% +1031% +1140%
Tele-computing plc	Results Revenue PBT EPS	Interims - Mar 88 £1,569,000 (£189,000) (1.0p)	Final - Sep 88 £3,109,000 (£194,000) (1.83p)	Interims - Mar 89 £1,704,800 £144,900 3.04p	Interim Comparison +4.5% Loss to Profit Loss to Profit
Total Systems plc	Results Revenue PBT EPS	Interim - Sep 88 £1,091,000 £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%
Trace plc	Results Revenue PBT EPS	Final - May 88 £6,231,000 £1,020,000 5.9p		Final - May 89 £9,810,000 £1,710,000 9.96p	Final Comparison +57.5% +67.6% +68.8%
UCL plc	Results Revenue PBT EPS	Interims - Jun 88 £ £ p	Final - Dec 88 £21,386,000 £105,000 0.6p	Interim - Jun 89 £9,940,000 £16,000 0.1p	Interim Comparison
Vistec Group plc	Results Revenue PBT EPS		Final - Apr 89 £11,900,000 £1,190,000 0.86p (5 months only)	Interim - Oct 89 £17,300,000 £1,100,000 0.7p	Comparisons not possible

Acquisitions in 1989

This feature presents a summary of known acquisitions concerning UK computing services companies in 1989; including foreign acquisitions and vice versa. Details were obtained from the press and company reports.

Over £475m was paid by way of consideration - down from the £700m paid in 1988. However, 1988 was dominated by the £450m paid for just four acquisitions - Hoskyns(Plessey), DPCE (Granada), Sema Metra (CAP) and Scicon (Systems Designers).

1989 was itself dominated by the £180m acquisition of Istel by AT&T - representing 37% of the total.

1989 Acquisitions - Top Five by value

Rank	Buyer	Acquired	Consideration
1	AT&T	Istel	£180,000,000
2	Realnew (MBO)	MBS product sales	£28,100,000
3	Misys	TIS companies	£27,007,000
4	Sys Rel.	Enterprise	£22,000,000
5	ServiceTec	Ferranti maint.	£17,000,000

The "most acquisitive/highest spending" buyer in 1989 was **Misys** with four deals totalling £51m.

1989 Acquisitions - Top Five by number of deals

Rank	Buyer	No	Consideration
1	Misys	4	£50.7m
2	Systems Reliab.	4	£31m
3	Sanderson	4	£3.3m
4	Vistec	4	£3.0m
5	P&P	3	£16.7m

Ferrari would have headed the list - with five deals valued at £16m - if their £9.6m reverse into Cifer and the Telecomputing investment were included.

As in 1988, many 1989 acquisitions involved companies either in trouble or at least not performing well. It is therefore meaningless to compare the prices paid. However, there were clear signs that the heady days of 30+ P/E's are over for the time being. If you are performing reasonably well, an historic or warranted P/E of 12 is around what you should expect.

Shaded items indicate acquisitions since Dec 89 edition of *System House*

Buyer:	Purchased:	Activity	Date	Valuation or Stake purchased	Latest known revenue	Latest known PBT	Notes:
AB Electronics	Eltec	PC & peripherals reseller	Jan-89	£600,000			Deferred £2.7m "on current performance seems unlikely" - AB Chairman Peter Phillips
Apricot	DDT	Third party maintenance	Apr-89	£7,800,000	£7,278,071	£366,874	Apricot won battle with Vistec
Apricot	ITL	Hardware & soft. integrator	Oct-89	£12,700,000	£31,605,000	(£1,148,000)	All share offer
AT&T	Istel	Computer bureau	Sep-89	£180,000,000	£85,000,000	£8,300,000	See November "System House"
BICC plc	Syrtek	Systems & software	Aug-89	£4,220,000	£2,867,751	£105,599	£1.2m initial - remainder depending on profits in years to 1992. Results to March 89
Capita	Penn Communications	Marketing Consultancy	Jun-89	£1,100,000			Performance related
Cifer	Ferrari Holdings	Hardware distribution	Jan-89	£9,600,000	£18,413,237	£1,190,713	Shares suspended. Cifer renamed Ferrari. Woodland becomes Chief Executive
CHI Mistral	Amazon - software div.	Technical software	Nov-89		£4,500,000		
Computer People	William D Farlow & Assoc.	Chicago USA - consult.	Jul-89	£725,000	£2,000,000	"break even"	Financed by placing. Further consideration of \$3m based on profits. Farlow broke even in 1988. 1989 interims PBT = \$175k
Computer People	Starflex(US)	US computer contract staff	Apr-89	£2,700,000	£4,823,500	£33,000	Initial payment \$1.7m cash + \$900k loan 1988 profits include payment to owners to be discontinued.
Computer Sciences	Inforem	Consultancy	Nov-89		£12,000,000		First "known" UK acquisition. See Dec 89 "SH"
CMG	Mayne Nickless Comp Serv.		Nov-89				
C/NP	Wilkins Computer	IBM PC business	Oct-89		£600,000		
Electron House	Westwood Westrex		Apr-89	£425,000	£1,400,000	£0	
Failsafe ROC	Efem Management Serv.	Disaster Recovery	Sep-89	£250,000			Comdisco/ISTEL joint venture. Efem owned by Mars

Buyer:	Purchased:	Activity	Date	Valuation or Stake purchased	Latest known revenue	Latest known PBT	Notes:
Ferrari Holdings	UCL	UNIX & Pick systems	Aug-89	£4,100,000	£21,390,000	£105,000	Shaded items indicate acquisitions since Dec 89 edition of <i>System House</i>
Ferrari Holdings	Div. of Commercial Cable	Message Data Switching	Aug-89	£1,350,000			
Ferrari Holdings	Blue Chip Systems	Software for Est. Agents	Nov-89	£1	£4,800,000		Blue Chip had PBT of £284k on £4.8 revenue in 1988.
Headland Group	Multisoft	Accounting software	Oct-89	£11,000,000	£5,640,000	£1,050,000	£1.1m in cash and issue of 8.8m ordinary and 4.25m convertible pref shares. Multisoft results for 11 month period
Headland Group	Elision	SQL software	Nov-89				
Hestair	Direct Programming Serv	Contract Computer Staff	Jul-89	£3,400,000	£6,700,000	£640,000	Warranted profits to end Jul 89 \$11.9 £1=\$1.7
Hoskyns Group	The Instruction Set	UNIX training & consult.	Oct-89	£12,200,000	£4,900,000	£18,000	£3.5m initial, £8.7m performance related to Mar 91
Hoskyns Group	Programm-Standard Group (PSG)	West German software house	Jun-89	£6,000,000		£880,000	Initial consideration DM 18.4m. Could rise to DM 46.8m if 40% pa growth over 3 yrs £1 = DM 3.06
Hoskyns Group	Datasolve's training div	Training	Sep-89	n/a			Assets + 20 people taken on
IBM	Ibis	Banking systems software	Sep-89		£6,000,000	£1,000,000	IBM takes 9.9% stake - its first in a UK co.
IBM	Paxus	Aust & UK fin software	Nov-89	£10,000,000	£91,600,000	£5,200,000	IBM takes 15% stake
Jaguar Comms	Alpha Data Systems		Nov-89				
Kewill	AMCS	Accounting & Manuf. sys.	Oct-89	£50,000			
Kewill	Omicron	Accounting software	Jan-89	£2,400,000	£2,220,000	£100,000	
Kewill	Micro MRP (US)	Manufacturing software	Dec-89	£3,437,000		£500,000	Init con. \$4.5m. plus \$1m if profits > \$800k
LBMS	Keith London Ass, Meta & Keith London Systems	Training & Case tools	Dec-89	£2,487,000	£1,454,000	£374,000	£1.7m in case (£532k payable in 1 yr. Rest shares. Results for yr to Apr 89 for Ass only
Le Group Andre	Gamma International	French Software company	Jun-89	£7,000,000			Was part of Saatchi & Saatchi
Logitek	Advansys	UNIX computer services	Jul-89	£10,100,000	£23,400,000	£1,200,000	£7.1m in shares, £3m in cash. Perf. related.
Logitek	Microtex (from MBS)	Altos distributor	Nov-89	£1,005,000	£6,700,000	(£600,000)	
Manufacturing Sys Prod	MBO from Pearsons	Manufacturing systems	Nov-89	£1,000,000			3l backed MBO
Micro Planning Intern.	InstaPlan (USA)	MS DOS systems	Aug-89	£1,000,000			Price stated as "in excess of £1m"
Misys	Team Systems	UNIX Systems House	Jun-89	£10,000,000	£6,100,000	£760,000	Warranted profits of £1.18m to 30/9/89
Misys	Enterprise	DEC manufacturing sys.	Jul-89	£1,580,000	£2,230,000	£286,000	Cash payment
Misys	Mentor	UNIX construction systems	May-89	£12,155,000	£5,630,000	£1,717,000	
Misys	TIS	UNIX systems- distribution and maintenance	May-89	£27,007,000	£10,888,000	£2,123,000	25% cash, remainder shares
Municipal Mutual Ins	Warwickshire Computing		Apr-89	£715,000			IMI sells its 51% stake
Microgen	Laser Image	Cardiff laser printing bus.	May-89	£300,000			
PA Consulting	Hartmark IRAS (Norway)	Management consultancy	Jun-89	£3,200,000			Further 2 perf. related payments
PA Consulting	Bakconsult	Danish management consult.	Sep-89	£4,500,000	£8,800,000	£1,300,000	Two further profit related payments in 90 & 91. Fins are "expected" for 89
P-E International	Applied Skills for Management	Training	Jul-89	£350,000			Further £500,000 over 3 years depending on profits
P-E International	Westvries Consultants	Dutch consultancy	Nov-89	£898,000			Further £828k dependent on profits

Buyer:	Purchased:	Activity	Date	Valuation or Stake purchased	Latest known revenue	Latest known PBT	Notes:
Pegasus	Sphinx	UNIX software distribution	Mar-89	£2,750,000	£6,100,000	(£259,000)	Shaded items indicate acquisitions since last edition of System House
PI Holdings	SIA	Consultancy	Aug-89				
PF Ltd	UCL- division only	Micro hardware & software	Jun-89	£324,000			
Polycmaster	Mitronix (Sherwood sub.)	Motor insur. software	Oct-89	£150,000		(£920,000)	£150k in cash. Max £300k re nett worth
P&P	Personal Computers plc	PC dealer in City	Feb-89	£11,460,000	£35,508,000	£1,090,000	
P&P	Maxima	Apple comms s/w distrib.	Jun-89	£500,000	£800,000	£73,000	Further £750,000 based on 89 & 90 performance
P&P	Micro Business Systems Saventem Elect Develop.	Belgian PC businesses	Dec-89	£4,750,000	£6,300,000		£2.17m up front via vendor placing and further £2.6m profit related earn out.
PSC	MBO from Capita	Temporary staff placement	Nov-89	£250,000			Part cash, balance by instalments
Radius plc	Systemsolve	Local Govt. software	Mar-89	£2,000,000			
Raven Computers	Maddison Business Sys.	DTP specialists					
Realnew	MBS Product Sales Div	PC distribution	Jun-89	£28,100,000	£78,800,000	(£5,200,000)	MBO with Schroder Ventures backing
Riva	IMC	Apple distributor	Oct-89		£1,300,000		IMC in receivership
Romtec	Lanra	Local Area Net. Research	May-89				Parent - Communique - in receivership
Sanderson	General Automation (US)	US PICK Hardware supplier	Jan-89	£2,250,000			Rights to 51% stake - GA Rev \$41.5m to June 89 - 30% in UK
Sanderson	AWA Computers (Australia)	Comp dist and software	Jul-89	£500,000	£13,000,000		45% stake
Sanderson	System 800	PICK software	May-89	£200,000			75% stake taken by Sanderson
Sanderson	Xsoft	PICK software	Mar-89	£325,000			75% stake taken by Sanderson
Sema Group	Adv/Orga (West Germany)	Major W German software services company	Dec-89	£9,090,000	£29,000,000	(£3,350,000)	50.13% stake purchased for DM25m - DM:9m to be paid in cash by Sema. Rest profit related
ServiceTec	Ferranti's computer maintenance business	Computer maintenance	Dec-89	£17,000,000		£3,900,000 (oper. prof.)	Part of Ferranti assets disposal. Exit P/E of 8.5 criticised by analysts (Times 12/12/89)
Software Profiles	UCL's PC & UNIX Division	PC & UNIX activities	Aug-89	£325,000	£2,500,000		Management buy-out
Star	Summit	Maintenance	Jun-89	£135,816			Remaining 49% purchased
Synapse	Beacon (part of Evode)	Computer support	Dec-89	£304,000	£903,500		Rev. for 6 months to Sept 89
Systems Reliability	Enterprise	IBM mainframe specialist	Mar-89	£22,000,000	£30,000,000	£2,400,000	Enterprise left with 20% of SR stock Estimated results to Mar 89
Systems Reliability	Chase International Computer Services	IBM mainframe specialist	Apr-89	£7,850,000	£2,200,000	£536,000	Initial consideration £5m
Systems Reliability	South East Computers	IBM systems centre	Apr-89	£843,000	£8,700,000	£181,129	Plus performance related payment based on Calendar 1989
Systems Reliability	Aquix		Apr-89	£300,000			
Trace	Gordon & Gotch	Bureau & software	Dec-89	£450,000	£3,882,000	£64,000	£150 now, £300k deferred.
Thomainfor	Third Party Services	CDC's maintenance arm	Jun-89				
Trace	Micrologic	Property software	Dec-89	£769,000	£801,000	£110,000	51% stake. Remainder to be purchased for up to £2.76m between 1991 & 95.
Visionware	Systeme- Division only	PC systems integration	Sep-89	£500,000			Management buy-out with 3i assistance
Vistec	Level V Distribution	UNIX systems integration	Jun-89	£300,000	£798,676	£80,699	Further payment based on PBT to 30/6/90
Vistec	01 Computer Group	Business systems house	May-89	£2,000,000	£5,260,000	£161,000	£1.25m initial consideration Loss expected for year to Mar 89 £884k subsequently repaid
Vistec	Loxton Business Systems	Financial services software	Nov-89	£650,000	£569,000	(£16,000)	Half in shares up front, rest on 24th Nov 1990
Vistec	CPS trader		Sep-89	£82,500			
Xitan	Xitan (MBO from Kode)		Jun-89	£1,100,000			MBO with 3i backing
Zelix	Camell	ICL Traderpoint sys house	Aug-89	£600,000			75% stake

Computing Services Share Price Index

The Computing Services Index now consists of 41 companies quoted on the Stock Exchange - both full and USM - in the UK. The index was set at 1000 on 15th April 1989.

Dealings in Sage Group plc commenced on 14th December and are now included in the index. Considering the general "health" of the sector, Sage made an impressive start. Launched at 130p, they quickly climbed to 148p.

The Index shows, for yet another month, how "out of favour" the sector currently is. The Index was static in a month when the market raced ahead with an impressive 6.3% gain in the FTSE 100.

The underperformance of the sector is now assuming serious proportions. Since the index began in April 89, the FTSE 100 has risen by 15% but the Computing Services Index has declined by 8%. This represents an underperformance of 25%. The UK can only grow internationally sized companies by acquisition and success in acquisitions depends on the strength of your share price. The converse is also true - UK companies are becoming increasingly vulnerable to overseas takeover as their share prices become weaker.

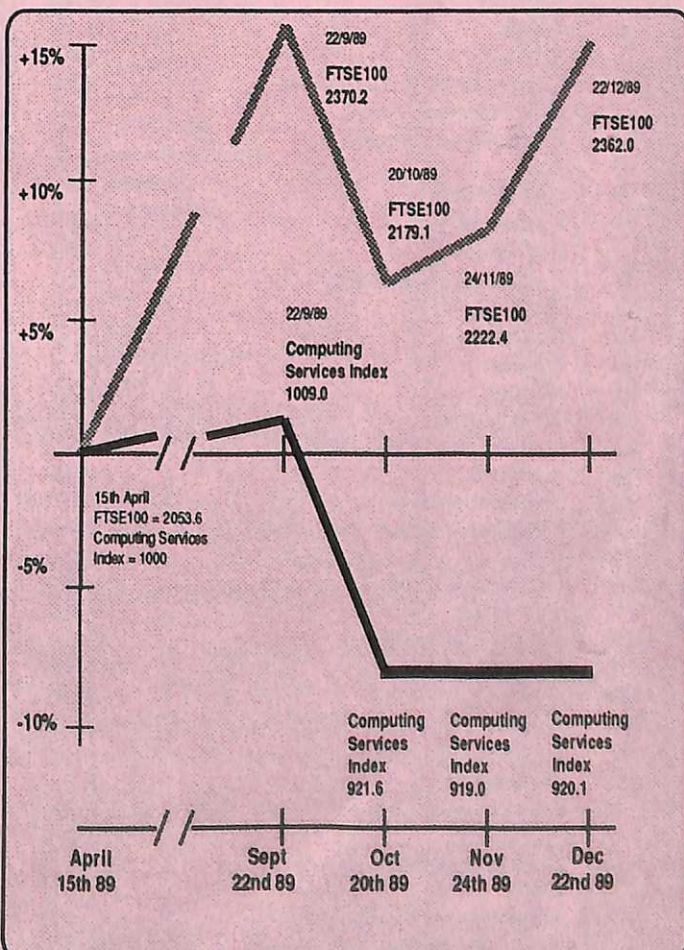
78%, or 32 of the 41 quoted companies have underperformed the FTSE index. Some like Total, Memory and Optim are now under a third of their value in April.

But let's not forget the good performers. MicroFocus continues to power ahead with a 116% increase in their share price. MicroFocus is one of the very rare UK companies playing its part on the international scene in the fast growing tools arena. If only the UK had more of them.

Computing Services Share Price Index 22nd Dec. 89

Index Rank	15th April 1989 = 1000	Share Price 22/12/89	Index 22/12/89
1	MicroFocus	£4.38	2115.94
2	ITL	£0.44	1571.43
3	Admiral	£2.03	1471.01
4	Capita Group * Apr 89	£1.46	1460.00
5	Rolfe & Nolan	£2.30	1369.05
6	Sanderson	£2.88	1225.53
7	Kewill	£3.10	1225.30
8	Hoskyns Group	£4.90	1195.12
9	Learmonth & Burchett	£1.40	1166.67
10	Sema Group	£3.67	1154.09
11	Telecomputing	£1.07	1150.54
12	Macro 4	£2.83	1141.13
13	Sage * Dec 89	£1.48	1138.46
14	Computer People	£2.55	1049.38
15	Apricot	£0.66	1047.62
16	Butler Cox * May 89	£1.78	1017.14
17	Pegasus	£3.62	986.38
18	INSTEM	£0.95	950.00
19	P-E International	£2.27	934.16
20	Logica	£3.35	917.81
21	Trace * Jun 89	£1.13	904.00
22	SD SCICON	£0.70	897.44
23	Systems Reliability	£1.09	872.00
24	MMT	£1.44	857.14
25	Misys	£3.43	853.23
26	Sherwood	£1.02	850.00
27	P&P	£1.88	843.05
28	Headland	£0.35	813.95
29	Synapse	£2.18	751.72
30	Ferrari	£0.09	714.29
31	Electronic Data Proc.	£0.62	632.65
32	NMW	£0.33	550.00
33	Star	£0.66	550.00
34	UCL	£0.45	529.41
35	Radius	£0.73	528.99
36	Microgen	£1.14	487.18
37	Quotient	£0.55	478.26
38	MBS	£0.20	425.53
39	Optim	£0.15	326.09
40	Memory Computer	£0.08	319.15
41	Total Systems	£0.14	254.72

* denotes month of entry onto Stock Market if after 15th April 1989. Index set at launch price.



Index static for month

The index remained largely unchanged for the last month. Most shares moved little in a month which saw the FTSE 100 increase by 6.3%.

The major gainer, yet again, was **MicroFocus** (up 14.4%), newcomer **Sage** (up 13.8% on launch price), **Macro 4** (up 12.7%) and **Hoskyns** who gained 7.7% on one of the best performances seen in the industry this year. Hoskyns shares had hit 520p on the announcement - up 60p in two days. But have since fallen back to £4.90.

Computing Services Share Price Movements 24th Nov to 22nd Dec '89

Rank		% Change 24/11/89 to 22/12/89
1	MicroFocus	14.36
2	Sage * Dec 89	13.85
3	Macro 4	12.75
4	Hoskyns Group	7.69
5	Star	4.76
6	Admiral	4.10
7	Logica	3.40
8	NMW	3.13
9	Ferrari	2.94
10	Learmonth & Burchett	2.19
11	P-E International	1.34
12	Computer People	0.79
13	ITL	0.00
14	Sanderson	0.00
15	Pegasus	0.00
16	INSTEM	0.00
17	Systems Reliability	0.00
18	Radius	0.00
19	Quotient	0.00
20	Optim	0.00
21	Misys	-0.58
22	Sherwood	-0.97
23	Butler Cox * May 89	-1.11
24	Apricot	-1.49
25	Sema Group	-1.87
26	Capita Group * Apr 89	-2.01
27	MMT	-2.04
28	Rolfe & Nolan	-2.13
29	Synapse	-2.24
30	Trace * Jun 89	-2.59
31	SD SCICON	-2.78
32	P&P	-3.09
33	UCL	-4.26
34	Kewill	-4.62
35	Microgen	-7.32
36	Telecomputing	-8.55
37	Headland	-10.26
38	Electronic Data Proc.	-11.43
39	MBS	-13.04
40	Memory Computer	-16.67
41	Total Systems	-25.00

Computing Services Index 22nd Dec 1989

April 15th 1989 = 1000

920.14

Total Systems crashed a further 25% in the month. They now have a capitalisation of just £1.35m compared to £8.5m when they were placed by Albert E Sharp in March 1988. For results see pages 5 and 11.

Memory also declined by 17% until their shares were suspended pending the outcome of the long awaited management buyout. The year end results to June 89 are still not published. Announcements are made regularly stating that a conclusion to the negotiations is "imminent". David Stern, who was the "founder" UK MD, returned in November and has now become Group CEO in place of McKenna who becomes Chairman in place of Casey who has resigned.

MBS fell another 13% as talks with Ferrari broke down. The public reason for this was Ferrari's objection to letting MBS have sight of their internal forecasts. This gave rise to one of Bob Woodland's colourful remarks "I'm not going to teach them any tricks. They lost £18m in the last 18 months, not me". Source - FT 30th Nov 89

Changes In Indices	Computing Services Index	FTSE 100
Month 24th Nov to 22nd Dec 1989	+0.12%	+6.28%
Eight months 15th April to 22nd Dec. 1989	-7.99%	+15.02%

EDP's final results disappoint

Final results from **Electronic Data Processing** for the year to Sept 89 show a 24% reduction in PBT (to £1.04m) on increased revenue of £16m. EPS was 28% lower.

The four year PBT and EPS record is as follows:

	1985/86	1986/87	1987/88	1988/89
PBT	63%	37%	2%	-24%
EPS	26%	39%	-2%	-28%

The Chairman "remains optimistic" and believes 1990 will see a "satisfactory outcome" despite growing delays in decision making by prospective customers.

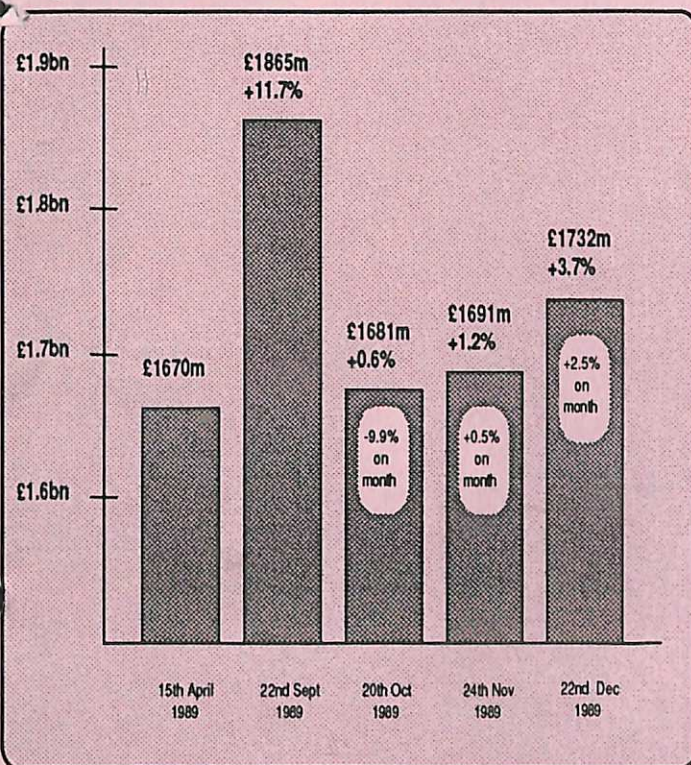
The future will depend on how quickly EDP get their open systems act together.

Capitalisation Monitor

Sage Group - now capitalised at £24.1m - is now included in the Capitalisation Monitor. Without Sage, the value of quoted computing services companies would have risen by just 1% or £17m.

Ferrari rose by 42% - or £7.7m - in the month due to the success of their rights issue required for their acquisition of UCL. The highest gainer of the month was **Hoskyns** - up £14.8m, on their share price due to their excellent full time results. Hoskyns is now the 2nd highest valued UK group. Interestingly, **Logica** also gained £6.7m, despite the San Francisco rail contract, on bid rumour.

SD-SCICON lost £4m and a link with the French group SLIGOS was mentioned in the press. **Sema** was the largest loser - down £6.2m on the month.



Total depression

Total made £835k PBT in the year to March 88 - just before they came to the market. This result was up 67% on the previous year. Total undertakes systems development - "90% on a time and materials basis". Since the launch, Total have suffered greatly. The latest interims to Sept 89 show a PBT of just £39k on reduced revenue of £860k.

The company put out a statement saying "prospects remain strong and we are in a position to take advantage of an upturn in the market which surely must come" Given the continued shortage of skilled staff and the absence of "fixed price" contracts, just what has gone so wrong?

Computing Services Capitalisation- 22nd Dec '89

Rank		Capitalisation 22/12/89	% Change since 15/4/89	% Change since 24/11/89
1	Sema Group	£327.27	15.19	-1.87
2	Hoskyns Group	£206.99	25.60	7.69
3	Logica	£202.69	-8.20	3.42
4	SD SCICON	£141.10	-10.24	-2.76
5	Misys	£107.70	42.08	-0.55
6	P&P	£62.97	-15.70	-3.12
7	Apricot	£61.73	55.88	-1.55
8	Macro 4	£61.52	14.14	12.68
9	MicroFocus	£54.67	111.92	14.38
10	Systems Reliability	£46.28	6.38	-0.05
11	Microgen	£43.06	-51.29	-7.41
12	P-E International	£37.00	-6.57	1.37
13	Computer People	£34.67	12.94	0.79
14	MBS	£26.00	-57.45	-13.04
15	Ferrari	£25.81	31.70	42.61
16	Sanderson	£24.20	22.84	0.00
17	Sage * Dec 89	£24.14	13.87	13.87
18	Pegasus	£22.10	11.62	0.00
19	Admiral	£21.94	50.28	3.98
20	Kewill	£20.70	23.21	-4.61
21	Learmonth & Burchett	£17.00	16.44	1.80
22	Headland	£16.93	45.97	-9.93
23	Radius	£16.80	-47.34	0.00
24	MMT	£15.20	-12.14	-1.94
25	Trace * Jun 89	£14.60	-9.32	-2.67
26	ITL	£13.67	57.29	-0.23
27	Capita Group * Apr 89	£12.50	54.32	-2.34
28	Butler Cox * May 89	£9.51	2.04	-1.14
29	Synapse	£7.69	-24.61	-2.16
30	Quotient	£7.51	-51.84	0.04
31	NMW	£6.78	-44.84	3.11
32	Rolfe & Nolan	£6.01	37.53	-2.12
33	Electronic Data Proc.	£5.35	-36.74	-11.39
34	Sherwood	£5.34	-13.23	-1.02
35	Telecomputing	£5.10	15.06	-8.49
36	Star	£4.46	-45.07	4.69
37	INSTEM	£4.27	-5.12	-0.01
38	UCL	£4.10	-47.10	-4.21
39	Optim	£2.86	-58.73	0.00
40	Memory Computer	£2.74	-65.84	-10.66
41	Total Systems	£1.35	-74.53	-25.00

Sage comes to market

The **Sage Group**, which develops and markets mainly PC based accounting software, became only the fourth computing services company this year to come to the market when trading began on 14th December.

Sage has an impressive trading record in what is considered to be a tough and competitive marketplace. Sage has over 50,000 registered users and a "UK market share estimated to be approx. 30% by volume".

£000 - Year to 30/9	1985	1986	1987	1988	1989
Revenue	838	2148	3441	5235	9304
PBT	(131)	624	1047	1618	2911
EPS	(0.6)	2.6	4.3	6.7	12.6
EPS Growth %	-	-	65%	56%	88%

Sparkling results from CODA

Whether you are a quoted or unquoted computing service company, you would be hard put to match CODA's financial performance - with a massive 211% increase in PBT to £1.82m and a 30% profit margin on the £6.2m revenue to year ending 31st October 89.

Coda Results - Last four years

to 31st Oct	1986	1987	1988	1989
Revenue	£1.5m	£2.0m	£3.2m	£6.2m
PBT	£321k	£493k	£585k	£1820k

Coda specialises in accounting systems for the mid range. They started with HP 3000 and have added DEC VAX and IBM AS/400 versions since. CODA Inc is "now giving US VAX market leader Ross Systems serious problems" says MD Rodney Potts.

McCormack & Dodge were rumoured as a bidder for the company recently but, with these results, they should arouse the interest of nearly every "acquiring" company - provided they have the £20m that Coda is probably now worth!

ServiceTec "snip"

The purchase of Ferranti's computer maintenance business by ServiceTec for £17m seems a "snip". The division contributed £3.9m profits last year - representing an exit P/E of just 6.5. A far cry from the 40 P/E paid by Apricot for DDT or the 31 P/E paid by Granada for DPCE in 1988. Maintenance is the "vogue" sector at present. With a 10 year trade agreement with Ferranti as part of the package, we will watch ServiceTec with great interest.

In next month's System House

Next month's *System House* contains an in-depth review of the full year results from the **Hoskyns Group** - consistently the best performer in the sector. Together, of course, with a complete update on the very latest company results, the progress made in the Computing Services Index and Capitalisation monitor with all the major movers identified and analysed.

All the news, all the comment and some of the rumour.... helping you to understand the fast moving fortunes of one of the UK's largest industries.

Granada - another case of "Acquisition Indigestion"?

Granada paid £110m for DPCE in May 88. Other acquisitions have included CFM and Mainstay. Although the revenue of the Business Services division has risen from £13.8m to £20m (mainly by acquisition), Bernstein had to admit that "the integration had taken longer and been more difficult than originally expected. The disruption caused by integration also had an impact on operating profits and involved further one-off reorganisation costs".
Source - FT 13th December 1989

The first three issues of *System House* have been dominated by poor performance from companies hell bent on the acquisition trail. We have also commented on the problems faced by TPMs without a product sales activity. Sometimes we wonder why the evidence is constantly ignored.

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