

# System House

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

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## DTI Report Confusing and Disappointing

The UK computing services industry (CSI) was able, this month, to read the much delayed DTI report produced by Coopers & Lybrand updating their 1986 report; which was considered as critical of the performance of the UK industry on the world scene.

The update is one of the most confusing reports we have ever read. The 1986 report did not include Reuters in its analyses, but they are included in the 1989 update. Reuters this month declared 1989 results showing revenues of £1.19b - the majority earned overseas. Reuters distorts the findings significantly as, if included, it represents 80% of the UK CSI's overseas earnings. We believe it was wrong to include them.

**The update results can therefore be read in two very different ways:**

### The Good News....If you include Reuters

The UK CSI has increased its share of the world CSI market by 40% from 4.5% in 1986 to 6.3% in 1988 whereas France's share declined from 7.6% to 7.5%.

In 1988, the Top Ten UK CSI companies had a 2.44% share of the world market compared to 2.22% for France. "The Top 10 UK companies thus grew their world market share by almost 12.4% from 1986".

Reuters, of the UK, is larger than any other CSI company in Europe by total world revenue.

The Top Ten UK CSI companies have the highest overseas revenue as a % of total revenue in 1988.

WG	UK	France	USA
16%	55%	35.3%	22%

"The Top Ten UK CSI companies grew foreign revenues by 55% between 1987 and 1988" whereas the "Top Ten French companies grew by 67%" in the same period.

"The 1986 foreign revenues of the UK Top 20 CSI companies were approx. 17% greater than those generated by the French" This gap appears to have widened in favour of the UK to reach 26% in 1988.

### The Bad News....if you exclude Reuters

As Reuters represented 1.1% of world market share, the UK world market share would reduce to 5.2%. Even the residual increase would probably disappear "due to the bigger value of the UK market measured in 1988 dollars".

"In contrast, if Reuters is excluded from the UK Top Ten, other CSI companies lost world market share to just 1.33%, a fall of 5.6%".

The average size of the Top Ten UK CSI companies is "still small" (c\$180m), "only half the size of those in France and a tenth of the leading US companies".

"This disguises the fact that, if Reuters is ignored, the foreign earnings ratio has fallen dramatically in recent years". "The UK Top 10.....foreign earnings ratio has fallen from 40% in 1986 to 31% in 1988, below the French Top 10"

The Top Ten UK CSI companies reduced foreign revenues by 14.8% between 1987 and 1988 - down from \$277m to \$236m.

"In contrast, the foreign earnings of the French Top 20 now exceed those of the UK Top 20 by 84%".

"Computing Services Industry 1986 - 1986; a decade of opportunity 1989 Update" Coopers & Lybrand - 01 583 5000. - Price £28.75 Incl VAT.

If all this has left you confused, join the club. We have to assume, however, that considerable taxpayers' funds were spent on the report and that its findings will influence Government policy.

As the 1989 CSA Annual Report indicated a decline in % export sales, we would tend to believe that the UK CSI is reducing its share of world trade..... **The Industry needs all the help it can get to reverse the trend.**

## In this month's System House

This is the fifth edition of **System House**. As well as all the usual features, a major review of the financial performance of the **Misys Group** is presented on pages 6 & 7.

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# Review of the Latest Company Results

## Microgen

**"He progresses fastest who takes the largest number of short steps"** Source - Chinese proverb on front page of Microgen 1988 Annual Report and Accounts

**"We look forward to resuming our normal rate of growth during the current year although this will not become apparent until the second half"** Source - PF Barbour Chairman - Microgen 1988 Annual Report and Accounts.

Interim PBT falls by 5% to £4.89m. Mr Barbour ascribes this **"to a severe price war which affected its Eurocom Depora subsidiary and one-off reorganisation costs"** Source - FT 19th July 89

**"Microgen shares fall 20p as chairman warns of lower profits" .... "Microgen's brokers, Laurence Prust, are now forecasting £9m for the full year"** Source - FT 27th Sept 89.

**"Microgen hit by restructure and suspected fraud" ... "Profits of £7.2m reported for year ending 31st Oct 89, a decline of 28% and about £2m below analysts' expectations"** Source - FT 31st Jan 90.

Microgen is a bureau involved in microfilming, typesetting and laser printing. Until last year, their trading record was consistent and margins were impressive as shown:

to 31st Oct	1984	1985	1986	1987	1988	1989
Revenue	£18.2m	£23.1m	£26.4m	£33.4m	£39.5m	£45.1m
PBT	£3.0m	£5.1m	£7.2m	£9.5m	£10.0m	£7.2m
Margin	16%	22%	27%	28%	25%	16%
EPS	4.3p	8.2p	12.5p	16.6p	17.1p	11.1p

**"Mr Barbour said the company had made a provision of £839k against what he described as the possibility of a deliberate and systematic fraud" ... "charges are expected to be laid against a former senior executive of the company" ... "Losses from the ill-advised purchase of a direct mail company, shortly to be sold, cost £200k and the write-off of demonstration stock, £360k"** Source - FT 31st Jan 90

However, **"the company remains confident of the fundamental strength of the business and is excited by the growth potential over the medium to long term"** Microgen Press Release.

**"Rather large steps backwards upset shareholders"**

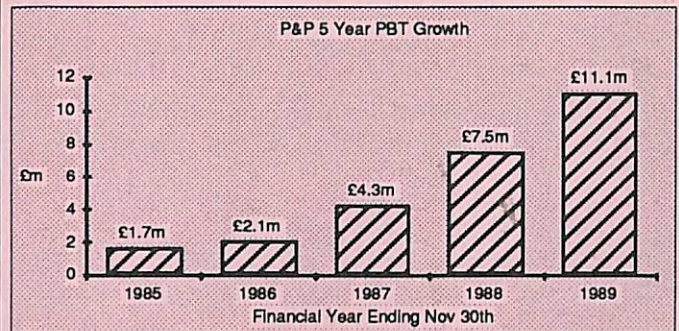
Source - Recent Holway Proverb

## Realnew name.. Realnew performance

Realnew - the MBS sales operation bought out by Derek Lewis for £28.1m in May 89 with assistance from Schroder Ventures now seems to be trading as MBS Product Sales. That's the bad news... the good news is that in its first half year to Dec 89, they managed a profit of £1m+ on revenues of £59.9m. In the year to Dec 88, the division within MBS had lost £5.2m on revenues of £78.8m. An excellent performance...its just a shame that it does not benefit the beleagued old MBS shareholders.

## P&P increases profits by nearly 50%

You cannot help but be impressed by the performance of P&P. Whilst so many in the micro arena have faltered, P&P keeps driving ahead. Final results to Nov 30th 89 show revenue up 58% at £169m and PBT up 48% at £11.1m. This exceeded analysts' forecasts of £10.6m.



In Feb 89 P&P announced that it was to acquire troubled **Personal Computers** for £11.46m - described at the time as a **"hefty price"**. This probably explains the more modest 15% growth in EPS. The trading side of the deal seems to have worked very well as **"there was virtually no customer overlap"**.

It is also impressive to witness P&P's move into value added services - networking, training, support and complete systems integration.

As well as Personal Computers, P&P also acquired Maxima to add to its networking and Apple offerings and, in Dec 89, purchased two Belgian PC dealers for £4.75m.

**"The demand in the corporate market-place for personal computer products and services continues to be strong and P&P has made an encouraging start to the new financial year"**. Source - P&P Press Release

David Southworth, P&P's Group MD, is well respected in the industry. **This just reinforces our view that performance is all to do with management rather than markets.**

## Acquisitive Trace shows lower EPS

Trace, one of the few newcomers to the market in 1989, reported profits up 10% at £934k on revenue up 26% at £5.8m for six months to Nov 89. EPS was however 4% lower **"following the issue of 2.17m new shares in the placing in June"**

The June purchases of **Image** and loss making **Prospect** would have been included in the results, but not the Dec 89 acquisitions of profitable bureau **Gordon & Gotch** and property software company **Micrologic**.

The results are hardly sparkling. It is to be hoped that Trace has the management to assimilate the four acquisitions without further EPS erosion.

## Sanderson's GA Investment shows profit

Sanderson has a 35% stake in US hardware manufacturer, General Automation, with the rights to increase this to 51%. GA's second quarter, to Dec 89, showed a profit of \$23k compared to a \$989k loss last time. This is the fourth consecutive quarter that GA has reported a profit.

## Richard Holway Limited - Results Service

<b>Admiral Group plc</b>	Results Revenue PBT EPS	Interims - Jun 88 £4,500,000 £562,000 3.55p	Final - Dec 88 £11,239,000 £1,610,000 9.20p	Interims - Jun 89 £7,200,000 £1,100,000 6.96p	Interim Comparison +60% +95.7% +96.1%
<b>Apricot plc</b>	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 1.86p	Interim Comparison +21% -51.3% -56.8%
<b>Butler Cox plc</b>	Results Revenue PBT EPS	Interims - Jun 88 £3,900,000 £516,000 6.2p	Final - Dec 88 £7,699,791 £924,994 20.37p	Interims - Jun 89 £4,190,000 £634,000 8.10p	Interim Comparison +7.4% +22.9% +30.6%
<b>Capita plc</b>	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%
<b>Computer People plc</b>	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%
<b>Electronic Data Processing plc</b>	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%
<b>Ferrari Holdings plc</b>	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
<b>Headland Group plc</b>	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 £5,357,000 £351,000 0.64p	Interim Comparison +53.3% +118% +20.8%
<b>Hoskyns Group plc</b>	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%
<b>INSTEM plc</b>	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% +26.5% +27.9%
<b>ITL plc</b>	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
<b>Kewill plc</b>	Results Revenue PBT EPS	Interims - Sept 88 £5,414,000 £726,000 7.52p	Final - Mar 89 £11,325,000 £1,805,000 19.71p	Interims - Sept 89 £8,064,000 £1,125,000 10.12p	Interim Comparison +48.9% +55.0% +34.6%
<b>LBMS plc</b>	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%
<b>Logica plc</b>	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%

## Richard Holway Limited - Results Service

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% +16.0% +18.7%
MBS plc	Results Revenue PBT EPS	Interims - Jun 88 £61,340,000 £215,000 0.2p	Final - Dec 88 £116,283,000 (14,095,000) (14.6p)	Interims - Jun 89 £64,398,800 (£7,101,000) (7p)	Interims Comparison +5.0% 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 +63% +308.9% +250%
Microgen plc	Results Revenue PBT EPS	Final - Oct 88 £39,526,000 £10,039,000 17.10p		Final - Oct 89 £45,071,000 £7,179,000 11.1p	Final Comparison +14.0% -28.5% -35.1%
Misys plc	Results Revenue PBT EPS	Interim - Nov 88 £8,511,000 £1,819,000 9.1p	Final - May 89 £25,603,000 £5,847,000 23.7p	Interim - Nov 89 £38,467,000 £5,142,000 11.0p	Interim Comparison +351.9% +182.7% +20.9%
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 +24.9% +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	Final - Nov 88 £106,517,000 £7,511,000 18.0p		Final - Nov 89 £168,869,000 £11,066,000 20.8p	Final Comparison +58.5% +47.3% +15.5%
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 £27,444,000 £2,429,007 9.4p	Interim Comparison +17.0% +20.6% +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%

## Richard Holway Limited - Results Service

<b>Rolfe and Nolan plc</b>	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%
<b>Sege Group plc</b>	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 +77.7% +79.9% +88.1%
<b>Sanderson Electronics plc</b>	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%
<b>SD-SCICON plc</b>	Results Revenue PBT EPS	Interims - Jun 88 £77,961,000 £4,343,000 1.69p	Final - Dec 88 £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
<b>Sema Group plc</b>	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
<b>Sherwood Group plc</b>	Results Revenue PBT EPS	Interims - Jun 88 £11,666,000 (£1,515,000) (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
<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	Final - Jul 88 £6,805,627 £1,155,720 21.34p		Final - Jul 89 £9,074,050 £1,096,967 20.19p	Final Comparison +33.3% -5.0% -5.4%
<b>Systems Reliability plc</b>	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 +392.8% +1031.1% +1140%
<b>Tele-computing plc</b>	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 +8.7% Loss to Profit Loss to Profit
<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>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>UCL plc</b>	Results Revenue PBT EPS	Interims - Jun 88 £9,940,000 £16,000 p	Final - Dec 88 £21,356,000 £105,000 0.6p	Interim - Jun 89 £9,700,000 £50,000 0.1p	Interim Comparison -2.4% +212.5% Now delisted
<b>Vistec Group plc</b>	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

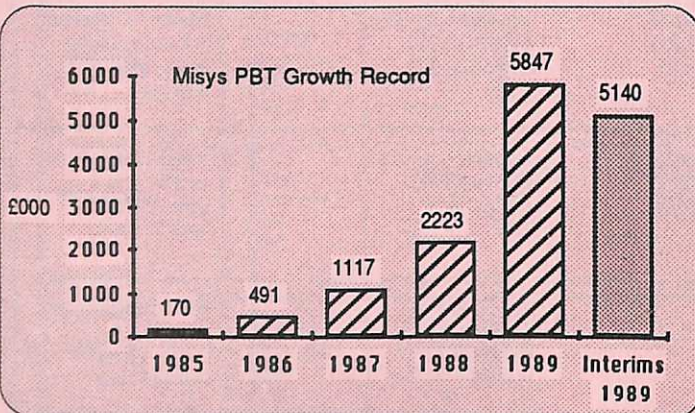
# MISYS

Misys is simply unique; which is probably the reason why the industry, the investment analysts, the press and its shareholders regard it with such caution. The latest interims show a massive PBT increase of 183% but a much lower EPS growth of just 21%.

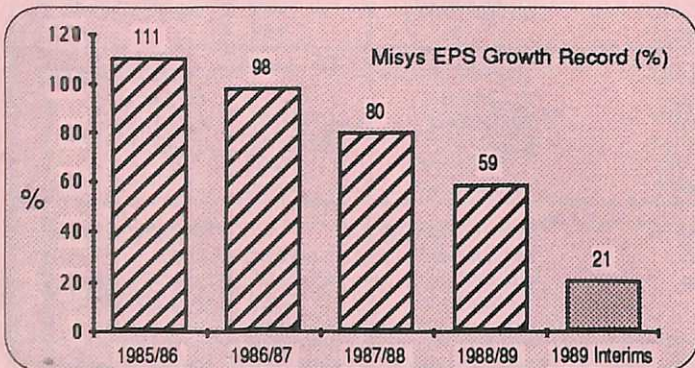
Misys has been the most acquisitive company in the sector in the last two years. Are they now showing the first signs of "acquisition indigestion" which has effected almost every other acquisitive company? Or is Misys the first company to play the acquisition game right? This article attempts to answer this conundrum.

## The record

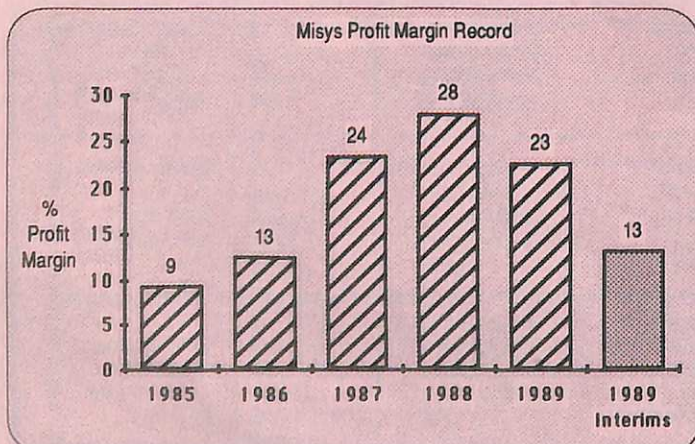
The PBT growth record has been impressive:



EPS growth has been exemplary for an acquisitive company, with no reversals to date.

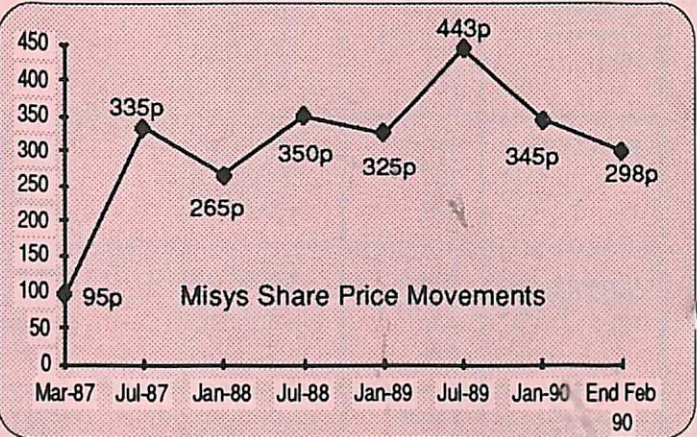


As the Misys business has evolved, profit margins have reduced. However, even now they are **still twice the average for the industry as a whole**.



## Share price and capitalisation

Misys was launched onto the USM in March 87 at 95p with a capitalisation of £8m. They were the "Best performing USM new issue in 1987". Capitalisation is currently £94m. The share price has behaved like a roller coaster and now stands at just £2.98 - less than in July 87.



## The acquisitions

Misys has acquired more companies than any other UK computing services organisation in the last two years; spending over £83m in the process, as follows:

Date	Company	Activity	Consideration
June 87	Dataller	Insurance systems	£1.9m
June 88	BOS	Application Software	£5.8m
Aug 88	CPP	IBM mid range systems	£9.0m
Dec 88	Zygal	CHA - DEC systems Base-Sys - ins systems Zygal - printers Mod Tech - Comms	£16.2m
Dec 88	ICC	Travel agency systems	£0.5m
May 89	TIS	CT & Mips systems Hardware maintenance	£26.5m
May 89	Mentor	UNIX construction sys.	£12.2m
June 89	Team	UNIX systems	£10.0m
July 89	Enterprise	DEC manufacturing sys	£1.6m

## Management

Without doubt, the main influence on the development of the group comes from its executive chairman - **Kevin Lomax**. Lomax is ex-Hanson Trust, a *possible USM entrepreneur of the year* and has particular skills in strategy and tight control of companies. The head office team is small - some 8 managers.

## Organisation

Misys now employs over 1000 people and is organised into four main operating divisions:

Division	Companies	Rev year to May 89
Open Systems	TIS companies	£19.0m
Business Systems	BOS, Team and others	£25.4m
Financial Services	Misys Dataller activities	£10.6m
Computer Solutions	CP Prog., Mentor, CHA etc	£19.8m

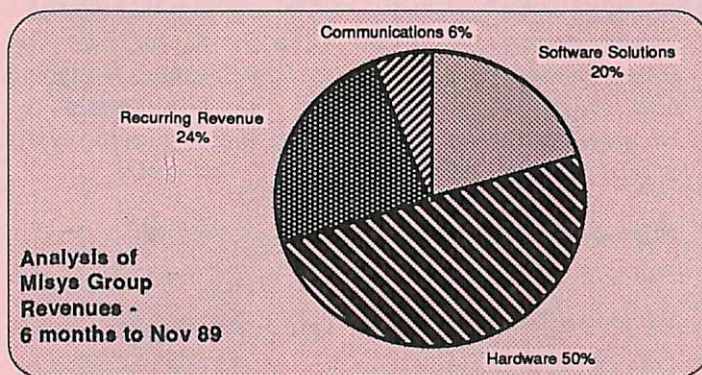
Not one division is headed by the Chief Executive of an acquired company - new CEOs have been brought in from outside the computer industry. They are known within Misys as "*Lomax's Lieutenants*".

## Misys mission

The Misys mission is clear and concise. Misys wants to become a major computing services business, initially in the UK but later in the USA. They are well on the way to achieving the former with profit forecasts for 1990 which will clearly put them in the Top Five.

Misys is a **product-oriented** company. It focuses on specific markets where it can obtain significant market share. These products are aimed at small to medium businesses in the 1-50 terminal sector and increasingly involve UNIX; which now accounts for 60% of group revenue.

Of course, the sale of software solutions generates significant other revenue from the sale of hardware, communications systems, hardware and software maintenance, training and supplies. Currently, revenue breaks down as follows:



## The Misys management style

There seems to be considerable misunderstanding in the market on how Misys manages the businesses it acquires. Most believe that Misys is highly autonomous with little synergistic advantage between the operating units. The truth is very different.

Firstly, there is a strong divisional management style with companies grouped so they can take advantage of the skills and resources within that division. There are a considerable number of examples of managers and staff transferring between divisions and companies. In fact we do not know of a single company in the group where this has not already happened.

Secondly, there is increasing evidence of the advantage of **Misysynergy** with software being shared between divisions, buying power being pooled to maximise discounts and developments being shared between operational units.

It is, however, well known and appreciated that Misys exercises strong financial control over its subsidiaries. All subsidiaries are controlled against their business plans and action is taken swiftly in the event of any deviation. Cash control is exemplary with particular emphasis on debtor days - a feature seen in few other computing services companies.

**Note...** Richard Holway, the editor of *System House*, has been a non-executive director of BOS and TIS and now serves as a director of the Open Systems division of Misys.

## More acquisitions?

The last acquisition was announced over 6 months ago - a relatively long gap compared to previous activity. However, at that point the shares stood at over 450p - they are now a third lower. This has certainly restricted the ability to acquire without significant effect on EPS growth. *"short term the emphasis appears to have shifted towards maximising the potential of the existing activities. That said, small acquisitions should not be ruled out while for the longer term, management is considering whether it is worth studying opportunities in North America"*

Source - Albert E Sharp Research Document 1st Feb 90

## The outlook

*"Computer Solutions Division and Open Systems Division both produced results ahead of forecast and Business Systems was on budget....In the Financial services Division, which now accounts for less than a quarter of our business, additional sales to our existing user base grew very strongly, but sales to new users were slow. This has resulted in a first half performance, which while good, was less sparkling than we would have wished"* Source - Misys Interim Statement 1989-90 *"Misys suffered a 40% drop in sales to insurance brokers"* Source - DT 26th Jan 90

*"Trading conditions in the months ahead would worsen considerably and in consequence his outlook was cautious"* Keven Lomax reported in FT 2th Jan 90. *"Misys has not exactly issued a profits warning but brokers came away with the feeling that their previous estimates might have been 10% too high"* Source - DT 26th Jan 90.

**It all seemed to make gloomy reading and the shares fell from 370p to 298p as a consequence.**

Albert E Sharp - Misys brokers - revised their forecasts for the full year to May 1990 down from £15m to £13.4m. *"while the directors should be given credit for their prudence, which contrasts strongly with perennial optimism displayed by most smaller companies, the downgrading from 30% plus growth to 20% has caused disappointment"*

*"The current downgrading can be expected to influence the share price short-term, but it should not be allowed to overshadow the quality of management, the breadth of the group's product and market coverage and, critically, its leading position in the emerging and rapidly expanding UNIX marketplace. Long-term prospects are not reflected in the share's current ratings"* Albert E Sharp Research Document 1st Feb

## Footnote

*"The economic squeeze has really come to stay if Misys is feeling the pinch"* DT 26th Jan 90

**Misys' track record is still exemplary. They are the only computing services company with a significant acquisitions record which has not seen a profits or EPS growth reversal. We tend to believe that the strong Misys management will keep it that way.**

## Acquisitions, disposals and Share Stakes

Next, the UK fashion retailer acquired Nashville based **TCS Management Group** for \$12.5m (£7.37m) to be paid in three instalments. TCS produces software to allow reservations companies to project future switchboard staffing levels. TCS made PBT of \$1.63m in 1989. Earlier Next had announced a joint venture with US Equifax to provide information services throughout Europe.

ICL acquired troubled **Pentagram**, which supplies UNIX based accident and emergency software for the health sector, for an undisclosed amount. ICL described the move as "part of its new thrust into the clinical applications area of the health service" Source - Computing 8th Feb 90.

**CMG** (see below) announced that it plans to buy three continental companies to support its push into Europe. Although refusing to name its targets, two are understood to be payroll companies and the third is in financial services.

**LBMS**, which acquired Keith London Associates in December 89, purchased **Michael Jackson Systems** in Feb. £500,000 was paid - half now and the rest based on the purchase costs of assets, the sale of the company's premises and a £140k cash injection. Michael Jackson, famous for his JSP software development methodology, joins the board of LBMS as a non executive director. Michael Jackson Systems is reported to have lost £491k last year. In 1988, they lost £25k on revenue of £1.8m.

**Butler Cox** acquired **Cranfield Information Technology Institute**, which provides IT education, for an initial £75k plus a further £900k based on PAT to end 1992.

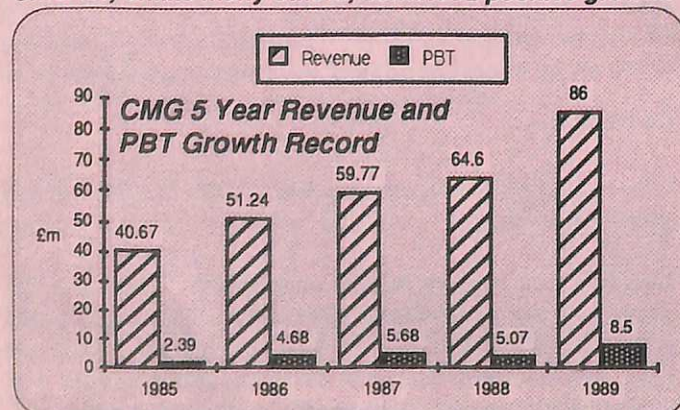
**CRT** buys IBM contract staff house **Software Personnel** for upto £5.3m. Software Personnel had PBT of £225k on revenue of £4.4m to March 89. CRT, the consultancy, recruitment and training operation, was formed in Nov 89 by a reverse takeover of R Smallshaw (Knitwear).

**Sema** signed an agreement with Societe de Bourse to acquire 49% of **Tibet SA** for £5.3m. Tibet, a French financial services company, had net profits of £440k on revenues of £16.4m in 88.

### CMG Celebrates Silver Anniversary and PBT up 68%

**CMG** is the largest UK computing services company still in private ownership. In February, CMG celebrated 25 years in the industry by spending £750,000 on a birthday jamboree for its 3000 staff. CMG is entirely owned by its employees with no-one allowed to own more than 5%. Even founder and Chairman - Douglas Gorman - is reducing his shareholding to that level in the near future.

After an 11% decline in PBT growth in 1988, this year's results show a 68% profits increase on revenue up just 33%. CMG's record is good but not sparkling. Hoskyns, the company with the closest business similarity, has grown revenue by 237% since 1985 compared to CMG's 111% growth. Hoskyns PBT is up 340% compared to CMG up 256%. **Every congratulation to CMG for, unlike many others, continued positive growth.**



## CSA members show continued optimism

80% of the respondents to the Jan 90 survey of CSA members - who are estimated to represent 80% of the revenues of the industry - indicated that they believed their businesses will improve in the next year. Although only 3% indicated a downturn, this was a higher level of pessimism than usually seen.

Business growth in Q4 89 slowed to its lowest level since 1986 but overall profit growth bucked the trend. That augers well for the forthcoming reporting season. Software products and training were the highest growth areas but turnkey, TPM and database services grew more slowly.

CSA Hanover House, 73/74 High Holborn, WC1V 6LE Tel: 01 405 2171

## Latest DTI Statistics show 22% Growth

The latest Business Monitor, produced by the Business Statistics Office of the DTI for Q3 1989, shows a 22% increase in billings for the computing services sector - almost exactly the same increase as for Q2 (see December 1989 *System House*). The Business Monitor is now much more useful and the DTI should be congratulated - for once. The latest figures infer the same annual run rate - c£2.9bn.

### Business Monitor - Q3 1989 - compared to Q3 1988

All figures £000	1989 3rd Quarter	Increase %
<b>BUREAU SERVICES</b>		
Database services	43,131	18
Value added network serv.	23,229	7
Other services	105,338	11
<b>TOTAL BUREAU SERVICES</b>	<b>171,698</b>	<b>12</b>
<b>SOFTWARE</b>		
Bespoke Software	159,069	27
Software Products	104,605	39
Software Support & Maint.	37,784	34
<b>TOTAL SOFTWARE</b>	<b>301,458</b>	<b>32</b>
<b>HARDWARE</b>		
Hardware	72,322	28
Hardware Maintenance	14,850	-3
<b>TOTAL HARDWARE</b>	<b>87,172</b>	<b>21</b>
<b>PROFESSIONAL SERVICES</b>		
Consulting	90,090	9
Education & Training	21,549	7
Other unclassified	49,253	44
<b>TOTAL PROFESSIONAL SERVICES &amp; OTHER</b>	<b>160,892</b>	<b>17</b>
<b>TOTAL BILLINGS</b>	<b>721,220</b>	<b>22</b>

The largest increase came in Software - up 32% - with Software Products up 39%. Software now represents 42% of the total industry billings. Software products are forecast by IDC, and all other researchers, as the fastest growing segment; so the actuals merely confirm the trend. Interesting, though, to see the major - 28% - growth in hardware sales but a decrease - (3%) - in hardware maintenance revenues. Bureau services showed a 12% growth compared to 23% in the previous monitor.



# Computing Services Share Price Index

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

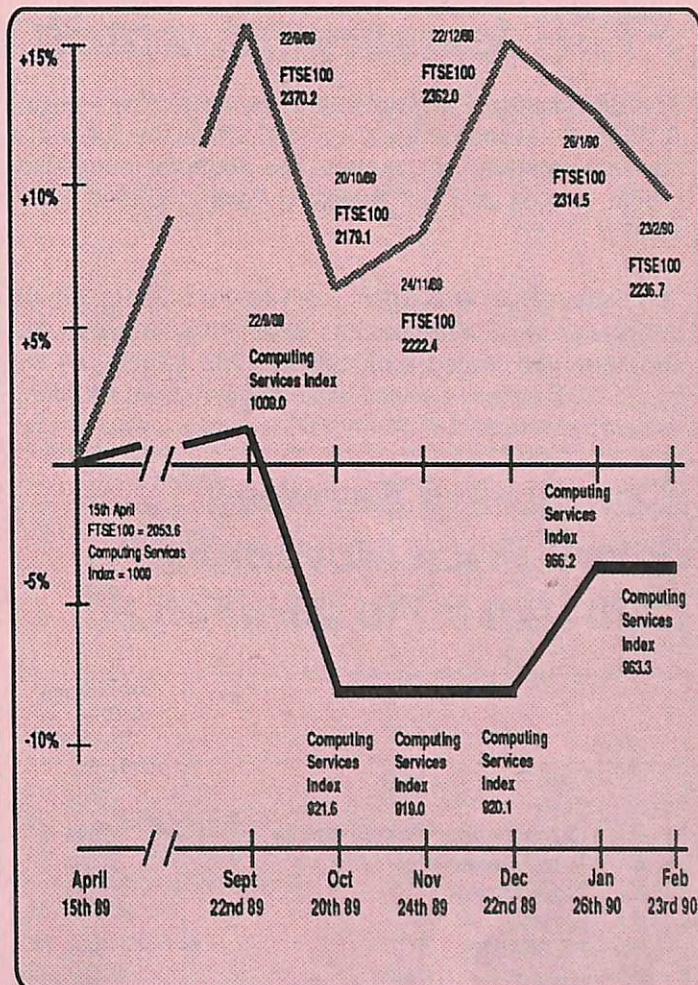
The Index declined by a minor 0.3% in a month when the FTSE 100 declined by 3.4%; the second month in a row when the Computing Services Index has outperformed the FTSE. The underperformance is now just 11.6%. Some 15 companies have now outperformed the FTSE as shown in the table below.

MicroFocus, Hoskyns and Capita continue to power ahead whereas Radius and Star continue to slip even further.

## Computing Services Share Price Index 23rd Feb '90

Index Rank	15th April 1989 = 1000	Share Price 23/2/90	Index 23/2/90
1	MicroFocus ●	£5.18	2502.42
2	Hoskyns Group ●	£3.69	1800.00
3	Capita Group * Joined Apr 89 ●	£1.63	1630.00
4	ITL * Exit Feb 90 ●	£0.44	1571.43
5	Admiral ●	£2.15	1557.97
6	Rolfe & Nolan ●	£2.38	1416.67
7	Sage * Joined Dec 89 ●	£1.75	1346.15
8	Sema Group ●	£4.02	1264.15
9	Sanderson ● Outperformed FTSE 100	£2.93	1246.81
10	Apricot ●	£0.74	1174.60
11	Learmonth & Burchett ●	£1.40	1166.67
12	Macro 4 ●	£2.88	1161.29
13	Kewill ●	£2.85	1126.48
14	Butler Cox * Joined May 89 ●	£1.93	1102.86
15	Computer People ●	£2.65	1090.53
16	Pegasus	£3.85	1049.05
17	Headland	£0.43	1000.00
18	INSTEM	£1.00	1000.00
19	P&P	£2.23	1000.00
20	SD SCICON	£0.78	1000.00
21	MMT	£1.62	964.29
22	P-E International	£2.32	954.73
23	Logica	£3.36	920.55
24	Trace * Joined Jun 89	£1.11	888.00
25	Sherwood	£1.00	833.33
26	Systems Reliability	£1.02	816.00
27	Misys	£2.98	741.29
28	Synapse	£2.13	734.48
29	Ferrari	£0.09	714.29
30	Electronic Data Proc.	£0.65	663.27
31	Telecomputing	£0.55	591.40
32	Quotient	£0.65	565.22
33	Microgen	£1.29	551.28
34	NMW	£0.32	533.33
35	UCL * Exit Feb 90	£0.45	529.41
36	Star	£0.55	458.33
37	Radius	£0.60	434.78
38	MBS	£0.20	425.53
39	Optim	£0.16	347.83
40	Memory Computer (Susp)	£0.08	319.15
41	Total Systems	£0.16	301.89

The month of entry onto the Stock Market is noted, if after 15th April 89. Index set at launch price. In addition, both ITL and UCL were delisted in Feb 90.



### Memory in receivership

On 21st Feb, Memory announced the appointment of receivers at 11 of its Irish subsidiary companies and the resignation of Aidan McKenna as Chairman. On 23rd Feb receivers were also appointed in the UK companies. The company is thought to have borrowings of c£2m. It is currently unclear whether this also applies to Memory Computers plc. Memory shares were suspended at 7.5p in Dec 89 awaiting David Stern's refinancing package.

**Total Systems** achieved the dubious honour of being the third worst performing share on the USM in 1989 - down 75%. Source The Times - 5th Feb 90

### Headland transportation activities to go in MBO?

The Stock Exchange was informed on 23rd Feb that Wootton Jeffreys Consultants - the transport consultants arm of Headland - is about to announce an MBO, led by John Wootton, from Headland.

Wootton Jeffreys plc, which also included the Prime systems activities, was acquired in March 1988 for £1.59m as the first of Headland's acquisitions. The transportation activities, with the Government and local authorities as its main clients were undertaken mainly on a "cost plus" basis.

The MBO seems absolutely the right course for Headland - allowing them to concentrate on their computing systems activities. The only surprise is that anyone should be able or willing to raise the money to organise the MBO.

# Index outperforms FTSE for second month

The Computing Services Index decreased by a minor 0.3% in the month while the FTSE 100 fell by 3.4%. But this was small fry compared to the major increases last month. It looks as if the "Hoskyns Factor" has run out of steam.

The major gainer was NMW - up 14% from 28p to 32p on publication of a shareholders letter indicating that the company had traded profitably in 1989 (1988 - £1.3m loss). MD Banister was reported as saying "the company will produce a profit of £100,000" Source - Computer Weekly 8th Feb 90.

## Computing Services Share Price Movements 26th Jan 90 to 23rd Feb 90

		% Change 26/1/90 to 23/2/90
1	NMW	14.29
2	Optim	14.29
3	Capita Group * Joined Apr 89	12.41
4	Total Systems	10.34
5	Sema Group	8.36
6	Apricot	5.71
7	SD SCICON	5.41
8	MBS	5.26
9	Sage * Joined Dec 89	4.17
10	Microgen	4.03
11	Systems Reliability	3.03
12	MicroFocus	2.98
13	P&P	2.29
14	Macro 4	1.77
15	Hoskyns Group	1.65
16	Computer People	0.76
17	P-E International	0.43
18	ITL * Exit Feb 90	0.00
19	Butler Cox * Joined May 89	0.00
20	Electronic Data Proc.	0.00
21	UCL * Exit Feb 90	0.00
22	Memory Computer (Susp)	0.00
23	Pegasus	-0.77
24	Rolfe & Nolan	-0.83
25	Trace * Joined Jun 89	-1.77
26	MMT	-1.82
27	Logica	-2.04
28	Learmonth & Burchett	-2.10
29	Headland	-2.27
30	Synapse	-2.29
31	Sherwood	-2.91
32	Admiral	-3.15
33	Ferrari	-5.41
34	Sanderson	-5.48
35	Kewill	-6.56
36	INSTEM	-7.41
37	Misys	-11.83
38	Quotient	-13.33
39	Star	-14.06
40	Radius	-14.29
41	Telecomputing	-15.38

## Computing Services Index 23rd Feb 1990

April 15th 1989 = 1000

# 963.30

NMW also announced an £800k order for a fault tolerant real time trading system from Winterfloods. In a sensible move to reduce its dependence on the securities industry, the company announced that FM contracts now exceeded £1m.

Sema shares jumped 19p to 410p on news that the French company Schneider had purchased the 4.5m shares previously owned by World Software thereby taking its holding to 7.7%. Paribas and CGS both hold big, rival stakes in Sema. Schneider is in the Paribas camp. Source - ST 25th Feb 90. Sema ended the month up 8.4%.

SD-SCICON improved by 5.4% on news of a £100m contract from the State of Florida.

In the fast expanding FM arena, Capita announced that Telecom Capita, its joint venture with BT, had secured contracts worth £25m in the first year. The shares rose 12.4%. Microfocus continued their unrelenting upwards rise, on "bid chatter" Source DT 14th Feb, putting on another 3% on further "buy" recommendations in the press. Microgen increased 4% despite depressing full time results (see page 2).

At the other end of the scale, Misys shares fell by 11.8% - from £3.38 to £2.98 due to analysts' reforecast of year end results (see pages 6 and 7). Quotient, the best performing share last month when they put on 36%, slipped back by 13% as a result of profit taking. Star continued its unremitting slide, even though it was reported to be "for sale" last month. Telecomputing won the wooden spoon for the second month in a row - falling by 15% (see p11).

Changes in Indices	Computing Services Index	FTSE 10
Month 26th Jan 90 to 23rd Feb 90	-0.30%	-3.36%
Ten months 15th April 89 to 23rd Feb 90	-3.67%	+8.92%

### So who will get Hoskyns?

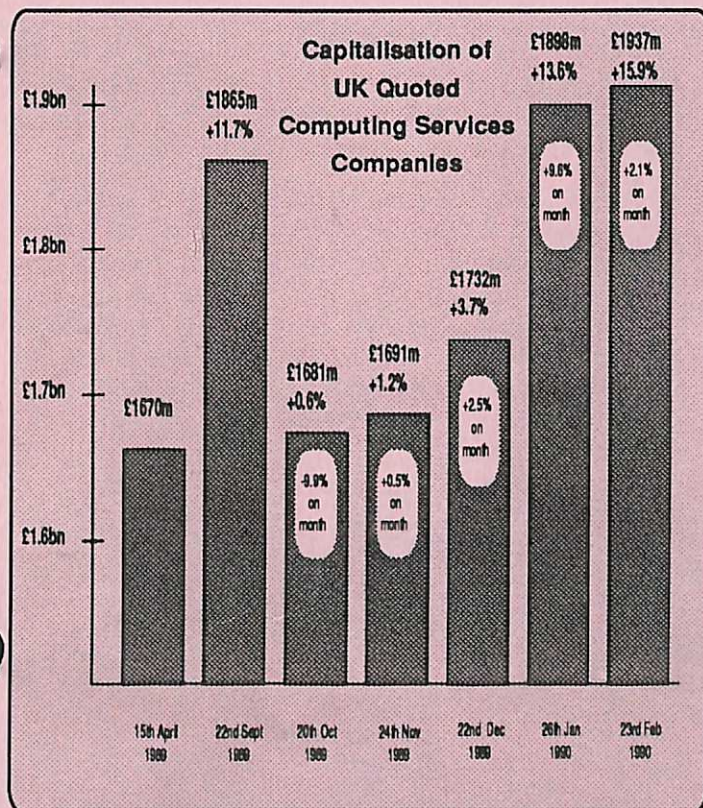
Hoskyns is obviously the biggest prize openly available for sale at present. We understand that the list of suitors queuing in Shaftesbury Avenue is longer than that for return tickets for *Les Miserables* in the theatre opposite. Nynex is the first to publically state that they will bid and AT&T will not be far behind. Press comment seems to be giving the thumbs down to EDS and CGS as Geoff Unwin says "he will oppose any bidder that threatens to cut jobs and break up the company" Source ST 11th Feb. Anyway, sale particulars are only due for release this week, so it will be a few months before the winner is announced.

Although Mr Unwin's "six principles" are laudable, it does seem increasingly likely that Hoskyns will go to the highest bidder rather than retain its quote - and its independence. And that would be a shame for the whole UK industry.

# Capitalisation Monitor

The total capitalisation of UK quoted computing services companies increased by 2% to £1.94 bn in the month. This was due mainly to **Sema** which gained £27.7m to £358.8m. This widened the gap on Hoskyns, which also gained £5.6m, to £45m. **P&P** gained £8.4m on share price movements and acquisitions after their excellent full time results (see page 2). **SD-SCICON** was also up £8.1m.

**Misys** lost £12.6m to end at a capitalisation of £93.5m - roughly their launch price in 1987 plus what they have spent on acquisitions since then. (See pages 6 & 7)



## Another ordinary month in the life of Ferrari folk

Ferrari has a 29% stake in **Telecomputing**. Michael Whitaker, the busiest non-exec in the business, has announced that *Telecomputing "is to acquire vertical software firms, preferably in CAD/CAM or financial services.....there are 150 UK firms that turn over under £1m in mid-range markets and it is these that he has his eye on"* Source - Computing 22nd Feb 90.

Then on 22nd Feb, Ferrari "emerged as the possible bidder for **Pericom**, its USM competitor" Source - FT 23rd Feb 90. The last time we reported such news, the bid for **MBS** collapsed within a day. **Better success this time?**

## Granada - Correction

In the January issue of *System House* we inadvertently stated that the "revenue of Granada's Business Systems Division had increased by 45% from £13.8m to £20m". Of course, these figures were for profits not revenue. Revenue for the division, which includes DPCE and CFM, increased by 66% to £201.2m in the year ending 30th Sept 90. Granada is estimated to have a 20% share of the European TPM market.

# Computing Services Capitalisation- 23rd Feb '90

Rank		Capitalisation 23/2/90 £m	% Change since 15/4/89	% Change since 26/1/90
1	Sema Group	£358.49	26.19	8.36
2	Hoskyns Group	£313.25	90.08	1.81
3	Logica	£204.19	-7.52	-1.59
4	SD SCICON	£157.22	0.01	5.44
5	Misys	£93.53	23.39	-11.91
6	P&P	£81.42	9.00	11.54
7	Apricot	£69.20	74.75	5.65
8	MicroFocus	£64.65	150.59	3.03
9	Macro 4	£63.75	18.28	1.83
10	Microgen	£48.74	-44.86	4.13
11	Systems Reliability	£43.28	-0.51	2.98
12	P-E International	£37.79	-4.57	0.39
13	Computer People	£35.97	17.17	0.76
14	Sage * Joined Dec 89	£28.55	34.68	4.21
15	MBS	£26.00	-57.45	5.26
16	Sanderson	£24.64	25.07	-5.24
17	Ferrari	£23.63	20.54	-5.32
18	Pegasus	£23.52	18.77	-0.77
19	Admiral	£23.28	59.42	-3.32
20	Kewill	£21.76	29.49	-6.63
21	Headland	£20.80	79.31	-1.89
22	MMT	£17.10	-1.16	-1.72
23	Learmonth & Burchett	£17.06	16.82	-2.10
24	Trace * Joined Jun 89	£14.54	-9.70	-1.77
25	Capita Group * Joined Apr 89	£14.33	76.88	12.70
26	Radius	£13.88	-56.49	-14.15
27	ITL * Exit Feb 90	£13.70	57.65	0.00
28	Optim	£12.80	84.70	14.29
29	Butler Cox * Joined May 89	£10.30	10.52	0.00
30	Quotient	£8.88	-43.08	-13.31
31	Synapse	£7.51	-26.34	-2.29
32	NMW	£6.58	-46.50	14.36
33	Rolfe & Nolan	£6.39	46.14	-0.83
34	Electronic Data Proc.	£5.61	-33.72	-0.05
35	Sherwood	£5.25	-14.81	-2.91
36	INSTEM	£4.50	0.00	-7.41
37	UCL * Exit Feb 90	£4.10	-47.10	0.00
38	Star	£3.74	-53.96	-13.98
39	Telecomputing	£2.62	-40.84	-15.30
40	Memory Computer	£2.56	-68.12	0.00
41	Total Systems	£1.60	-69.81	10.34

## IBM, Nextstep and Apple

The very first *System House* edition carried the view that, ex Apple, Steve Jobs' **Nextstep** would become a major influence in the 90s. On 5th Feb 90, **IBM** announced that it would offer **Nextstep** on its new UNIX based System 6000 workstations. This must have been quite a blow for Gates of Microsoft (see p12)

"Nextstep hides the complexity of the Unix operating system while allowing users to take advantage of the benefits of Unix" says IBM. Source FT 6th Feb 90.

Jobs was already estimated to earn \$50m in the first year from royalties. Source Fortune 9th Oct 89. Given the attractiveness of the RS6000 and the unstoppable progress of UNIX, that could be an underestimate.

**Apple**, on the other hand, seems to be suffering from the Sculley influence and a lack of innovation without Jobs. President Loren left in Feb and is likely to be followed by Gasse. The IBM name, good price performance, UNIX and Jobs' innovation seems an exciting alternative to Apple in the 90s.

## Centre-file boosts profits by 49%

Centre-file, a subsidiary of Natwest, increased PBT by 49% to £11.5m on revenue up just 17.5% to £73m. This is rather good compared with the modest performance in the previous four years:

to Sept 30th	1985	1986	1987	1988	1989
Revenue	£35.9m	£40.0m	£50.1m	£62.2m	£73.0m
PBT	£4.1m	£5.0m	£7.4m	£7.7m	£11.5m

Centre-file is one of the Top Twenty UK computing services companies (see Dec 89 *System House*). The largest contributor was the General Systems Division, but 90% of this division's revenue comes from the Natwest. Managing Director, Jim Graycon, said "We do have to compete for and win that business - it is not God-given. But we are trying to reduce our dependency on work from the bank" Source - Computer Weekly - 1st Feb 90

## In next month's *System House*

March sees the main month of the reporting season for companies with Dec 31st year ends. *System House* will comment on the results and analyse the performance of the industry in 1989. March also sees the Annual Conference of the Computing Services Association. We are attending and giving a presentation on our views on the industry. We will report on the proceedings, plus all the usual features.

We are also pleased to report that Richard Holway Limited is now a member of the CSA.

## Order Form

Richard Holway Limited has just published its review of acquisitions involving UK computing services companies in 1989. It contains details of around 100 acquisitions involving considerations of over £500m.

### Please supply:

copies of the Review of Acquisitions in 1989 @ £160 per copy

one year's subscription to *System House* @ £240 for 12 issues

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## Whither OS/2?

"If you look at the figures for investment in OS/2 development over the past year you'll see it outstrips everything in sight" Bill Gates - CEO Microsoft Source - Computing 12th Oct 89

If you have attended a seminar addressed by an IDC executive recently you might have been led to believe that OS/2 is taking over the workstation world. The editor of *System House* has personally argued the inaccuracy of this claim with IDC. We reported on our disbelief in the very first issue in Nov 89.

Well, IDC now admit that only 200,000 PS/2 PC operating systems have been shipped in the last two years. In 1988, 282,000 PC versions of UNIX were sold. This rose to 440,000 copies of UNIX on PCs in 1989.

"IDC is surprised by the performance of OS/2. It had forecast that the OS/2 installed base would be as large as 1m by the end of 1990. This prediction is now being revised by IDC" Source - Blackwells Software Markets Tel: 0865 240201

Whether OS/2 is better than UNIX is just irrelevant. PL/1 and CPM were quite good too, but where are they today? MSDOS was widely criticised by the technocrats in our industry but now runs on 90% of the world's PCs. UNIX will win only because everyone and his dog is backing it. Software availability is the Number One reason for taking on a new technology as many have learnt to their cost (see DEC, the Rainbow and the Professional). **Just don't say we didn't tell you.**

Name \_\_\_\_\_  
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