

System House

The monthly review of the financial performance of the UK computing services industry
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Computing Services Industry for sale?

We have reported before on the frenetic acquisition activity in the UK computing services industry. Over £1.2 billion has been paid for around 200 companies in the last two years, according to our researches. We believe there have been many more purchases which have gone unrecorded. Even though the after effects of that acquisition activity have been far from beneficial, there is now much evidence that the pace of acquisitions will increase in 1990.

In the past, the first that most observers knew of a disposal was after the deal had been struck, but there has recently been a spate of "For Sale" boards put up on UK companies.

Hoskyns

The sale of Hoskyns - the most consistently successful UK company and the largest supplier of computing services to the UK market - has been much reported. AT&T and Nynex seem to be the most regularly quoted front runners. The price is more likely to be nearer £350m than £400m due to "news that revenue from its contracts with Plessey would be lower this year than in 1989 following their renegotiation by GEC-Siemans" *Sunday Times* 11th March 1990.

It does now seem an odds on bet that Hoskyns' new parent will be from overseas.

Datastream/Interactive Data

Dun & Bradstreet announced on 5th March that Datastream (UK), acquired in 1984 for £60m and Interactive Data (US), acquired in 1988 for \$140, were up for sale. They have a combined revenue of \$155m.

Datastream, set-up by Hoare Govett in 1976 and now headed by Tony Helman, is one of the UK's oldest information suppliers. It was one of the first computing services companies to gain a listing in 1983. A price tag of \$350m is rumoured. The list of possible suitors includes Reuters, Pearsons and IDC. Perhaps Datastream may return to UK ownership but the odds do look against that.

Corporate Computers

Systems Reliability (SRH) has indicated that it wishes to dispose of Corporate Computers - its IBM System Centre activity. This came as quite a surprise. SRH was the most acquisitive company in our lists for 1989 (see January System House) and most of those acquisitions were in the Corporate Computers division. "Analysts are suggesting figures of £1.5m profits on a £35m turnover. Not sensational, but respectable" *Source - Microscope* 14th March 1990. That would infer a price tag of around £10m in today's climate.

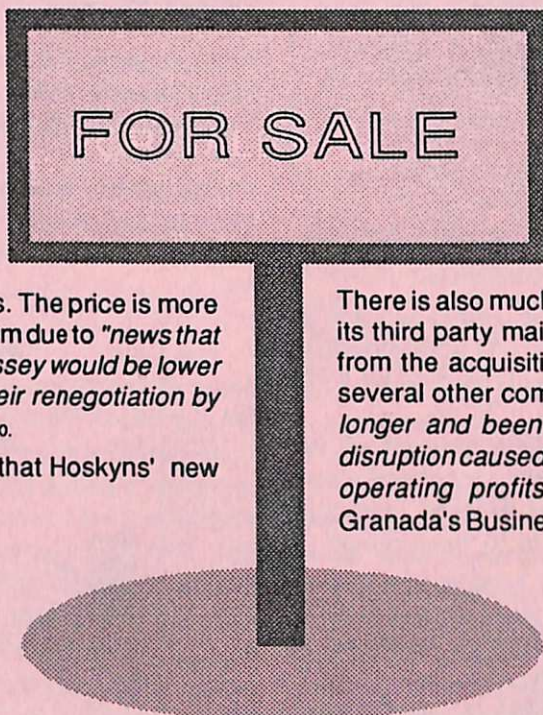
It seems strange to put the division up for sale so soon. Although P&P are rumoured as a suitor, a circular to the staff suggested that international and European buyers are "top of the priority list".

Granada

There is also much rumour that Granada wishes to sell its third party maintenance activity. This was formed from the acquisitions of DPCE, CFM, Mainstay and several other companies. "The integration has taken longer and been more difficult than expected. The disruption caused by integration also had an impact on operating profits" *Source Financial Times* 13th December 1989. Granada's Business Systems Division (which includes companies other than TPM) had revenues of £201m and profits of £20m in the year to Sept 89. Analysts have, however, been scathing about Granada's acquisition strategy and there are many in the computing services industry who have grave doubts about the medium term viability of the TPM sector.

The Future?

The more acquisitions, the greater management disruption, the greater chance of lower EPS growth. That just makes the UK more vulnerable to overseas predators and **that makes the chances of our top companies remaining in UK ownership even less likely.**



In this month's System House

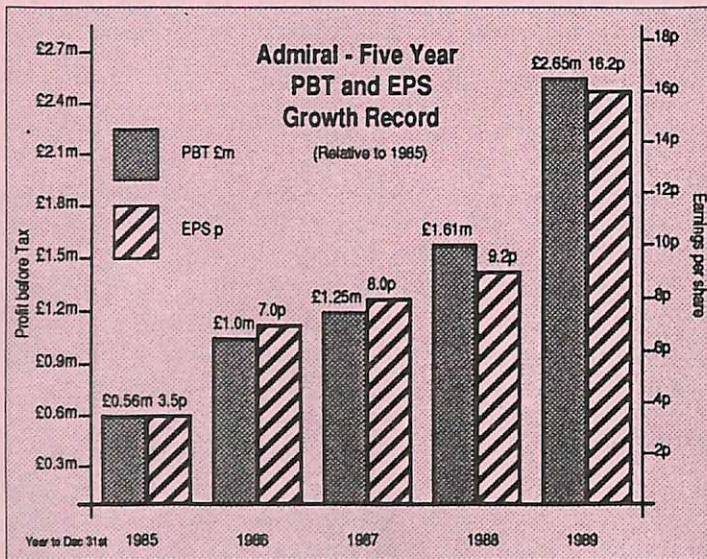
This edition of *System House* presents review and comment on the latest company results as the main reporting season gets underway.

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Review of the Latest Company Results

Admiral EPS up 76%

Increasing your EPS faster than your PBT is a fairly difficult act. Admiral is one of the very few companies to achieve this feat with EPS up 76% in the year ending December 1989 and PBT up 65% at £2.65m. To keep your EPS and PBT growth rate much the same over a five year period is almost unique but again, as can be seen in the chart below, this is something that Admiral has also achieved.



Admiral is basically a people company, earning most of its revenue from project management, bespoke systems development and consultancy mainly to Government departments and international organisations.

Perhaps one of the reasons for this unique success is a lack of acquisition activity. Admiral has only undertaken one purchase in the last two years - ITECH for £1.15m in August 88.

Admiral has always been seen as rather "unexciting". With £3m in the bank, a consistent growth record and a set of skills forecast to be in continued demand, perhaps it should become more fashionable to be "unexciting"!

Bid rumour has often surrounded Admiral. We know of several European computing services companies who would like to get their hands on Admiral. However, the shares are tightly controlled. Clay Brendish and Ceri James control around 75% of the stock, but surely they do not want to work on forever....

Macro 4 - "Thanks to the rental stream, turnover would be greater in the next 12 months even if sales stagnated". FT 2nd March 90

Macro 4 reported an 18% increase in PBT to £3.28m and a 16.5% increase in EPS for the half year to Dec 31st 89. With £8.62m in the bank, Macro 4 is probably the most stable company in the industry, although they do seem to be having some trouble with their West German agent. Certainly, most would be envious of their profit margins. The interims showed a 47% margin and Macro 4 has headed our profit margin league table since 1985.

But with the inconsistent thinking the City often adopts, the company is considered by many as "unexciting" and the share price has moved little since early 1987.

Newcomer Capita Increases profits by 74%

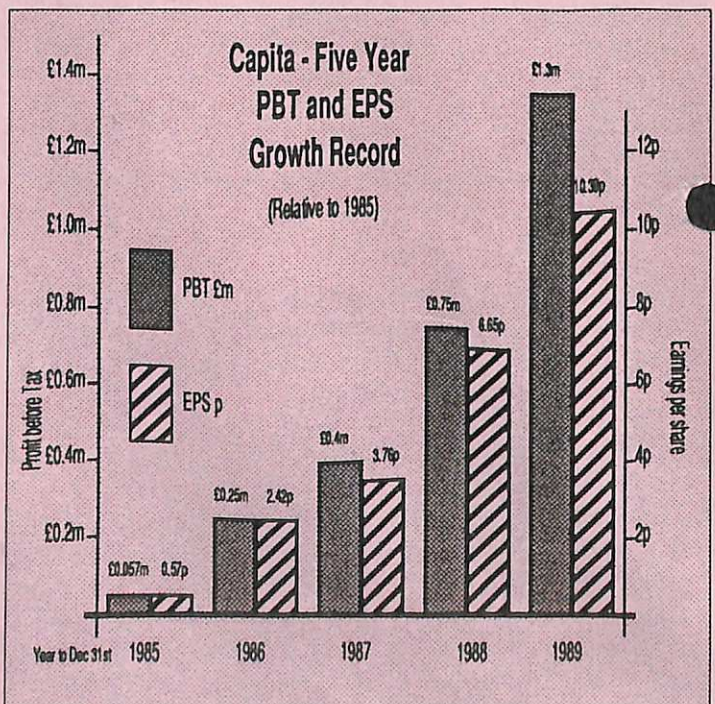
It is really satisfying, for once, to see a newcomer to the Stock Exchange meeting forecasts. Capita was the subject of a 31 backed MBO of CCS from CIPFA, the public sector's professional accountancy institute, in March 1987. Capita was launched on to the Stock Exchange in April 1989 at £1 in a placing by Hill Samuel. The shares now stand some 70% higher.

Capita supplies IT services to the public sector. In addition, in October 1988, a joint operation was formed with BT to develop and market facilities management services to the public sector. Telecom Capita secured FM contracts valued at over £25m in its first year; including a £13m contract with Berkshire CC.

Latest results for the full year to Dec 31st 1989 show PBT up 74% at £1.3m on revenues of £6.88m. EPS improved by 56%. Capita acquired three companies in 1989 including the marketing consultancy - Penn Communications. Further acquisitions are under review.

Chairman, Rod Aldridge, said "Capita had moved into the new year with a strong management structure and a group of companies capable of significant organic growth".

The public sector is committed to increase its proportion of computing services that are contracted out. In addition, FM is one of the fastest growing sectors of the industry.

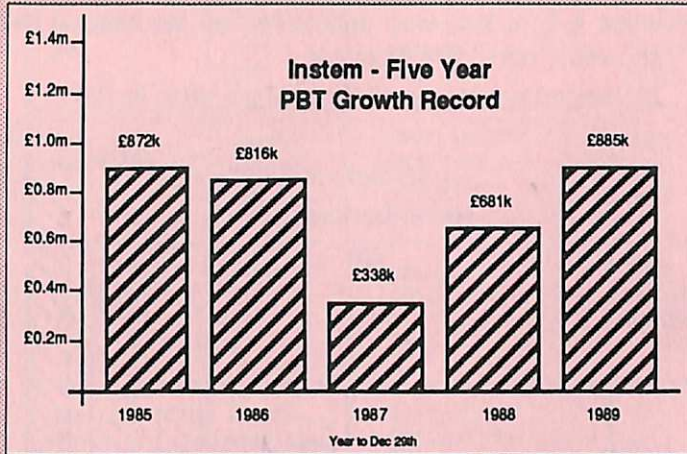


Capita's record, as shown above, is excellent. Provided the company can avoid paying over the odds for its next batch of acquisitions and has the management to assimilate those purchases, there do not appear to be any reasons on the horizon that could change its performance.

Results continued....

Instem EPS up 33%

You tend not to read too much about Instem - perhaps telemetry and computer systems for the control of power stations is a bit above the average reader of the trade press. The five year performance of Instem has also been somewhat disappointing with a major reduction in PBT between 1985 and 1987. Still the latest results to 29th Dec 89 show a return to the 1985 levels. PBT was up 30% at £885k and EPS was up 33%.



To be fair to Instem's Chairman, David Gare, he predicted this recovery quite accurately in his statements to shareholders over the last year - which is more than can be said for many of the recent pronouncements from other company chairmen. "It is beginning to look as if the future is at last looking rosier by the day" The recovery was helped greatly by the recent water privatization and Instem should benefit further from the forthcoming electricity industry privatization.

Synapse plunges into the red

The Directors are confident that the plans adopted and implemented in the last financial year will accelerate the growth of Synapse in all areas" W C Williams Chairman of Synapse - Oct 89

Synapse provides a range of systems software and other services to large IBM mainframe users. However, it was predicted that fewer users would convert to MVS. The Chairman's optimism was somewhat misplaced as the latest interim results to Jan 90 show a loss of £249k (£463k profit last time) on revenue up 15% at £4.7m.

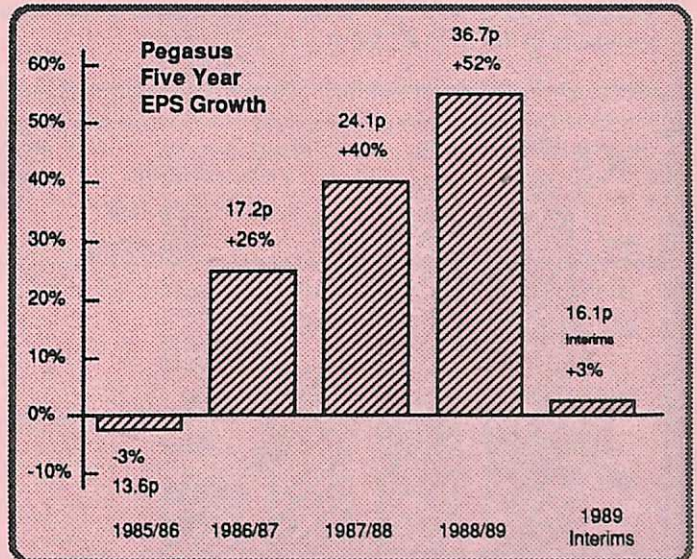
"Chairman, Bill Williams, blamed much of the turnaround on exceptional adverse trading conditions in the US. In spite of expectations of positive growth in the US, anticipated orders for the group's US offshoot failed to materialise"

Source FT 9th March 90. He also blamed a "sluggish UK market in line with many other software organisations". However, given the success of Macro 4 (see page 2) and the optimistic forecasts for mainframe sales ("IBM say they are seeing growth of more than 10% a year for their largest mainframe systems" Source FT 7th March 90) this excuse is a little difficult to swallow.

Synapse has acquired two companies since going public - Westwood and Beacon in Dec 89 - and they are both reported as going well. However, "the year ahead is likely to be a difficult one" but in the view of the board "the current situation is an unusual one which we are confident of overcoming". Source - Synapse Press Release

Pegasus wings clipped?

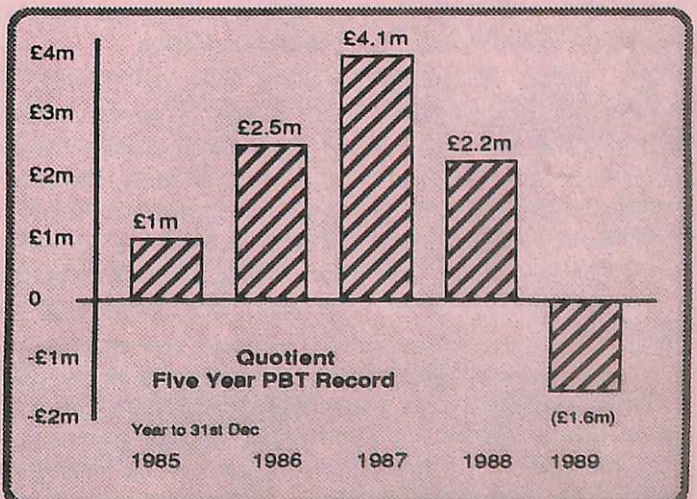
Philip Hughes of Logica once said that you should never be pleased at your competitors' misfortunes as "we all eat out of the same soup bowl". Bearing that in mind, Headland (nee Multisoft), Kewill (nee Omicron), Sage and Tetra would be ill advised to gain glee from the lacklustre interim results from Pegasus. With revenues doubled, PBT and EPS rose by a minor 3%. Sphinx, which Pegasus acquired for £2.75m in March 89, apparently made a loss of £277k whereas profits from the core accountancy software business rose by 29% to £1.25m. The record since the new management took over in 1986 had been exemplary. We hope this is not yet another case of "acquisition indigestion".



Quotient Recovers?

A headline like that seems strange when Quotient has just reported a £1.58m loss against a profit of £2.2m last time. Full year revenue fell by 17% to £19m. But at the interim stage Quotient had reported losses of £1.98m which would infer a significant improvement in trading in the second half. Tim Simon, Quotient's Chairman said "Pessimism should not be allowed to linger too long...we rediscovered our ability to earn profits at a time when some markets, such as equities and eurobonds, remained quiet." Source - Quotient Press Release.

Some have been concerned, however, that Quotient has been buying business at the expense of customer service and R&D has been trimmed back in favour of customer funded product development. This might be short sighted.

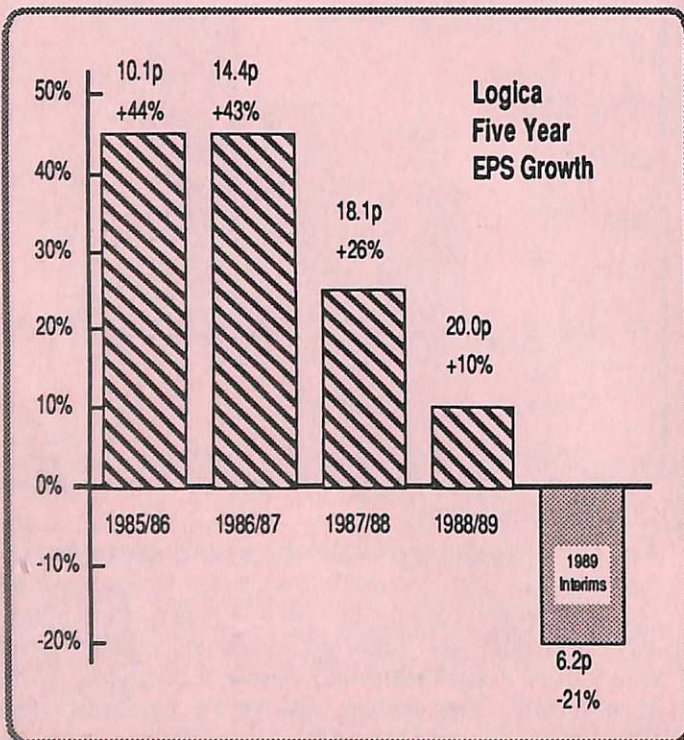


Results continued.....

Logica suffers first reversal for 5 years

Logica's interims to Dec 89 show PBT down 19% at £6m on revenues up 16% at £91.3m. EPS was also down 21.5%. This must have been a sad moment for founder, Philip Hughes, to announce his retirement from the Chairmanship after 21 years. Hughes has for some time wanted to spend more time on his increasingly successful new career as a painter.

Yet again the downturn is a direct result of overseas activities - particularly the losses in the US Data Architect subsidiary which was acquired in March 1988 for £26m. Logica has had an excellent record since the VTS debacle and were the most profitable UK computing services company in 1989 at £18.8m.



Logica seems to have been beset with bad news recently. The San Francisco rail contract is rumoured to have cost them at least \$1m and, in the weeks before the results were announced, a rumour (denied by the company) circulated that Logica's contract with the Nat West had been terminated prematurely. The shares were already on the slide and lost a further 55p when the results were known; although they have recovered since.

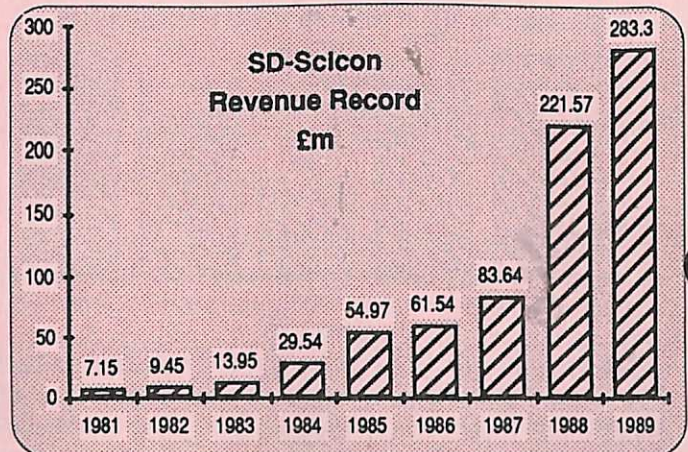
But Logica is one of the UK's best companies. Its management, in CEO David Mann, is strong and its markets are varied. Further share price erosion merely fuels the persistent rumours of a bid. Indeed, Computer Weekly (22nd March 90) carried a report that Cable & Wireless had commissioned BZW to study the possibility of buying Logica. "Jonathan Solomon, C&W corporate development director is not denying or confirming the reports".

It is probably more likely that Logica will fall to an overseas predator which, in turn, could make our prediction that our top four companies will be overseas owned in 3 years time more credible - a prediction we put forward with great sadness.

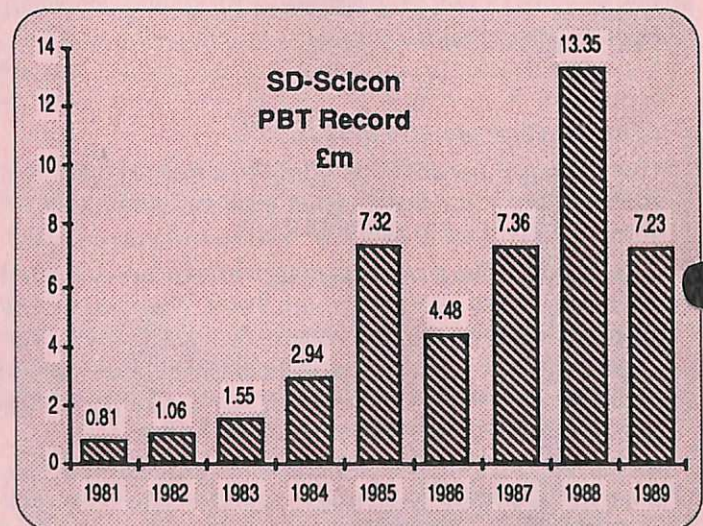
Riding the SD-Scicon roller coaster

As Alan Cane wrote in the FT on 23rd March 1990, SD-Scicon is "a company which has exasperated the City in the past with the volatility of its results". Latest results for year to Dec 89 show a 46% decline in PBT to £7.23m on revenues up 28% at £283m. EPS declined by 85% from 4.01p to 0.59p. However, dividends and extraordinary items resulted in an after tax charge of £7.4m and a retained loss of £4.4m against retained profits of £5.46m last time. The worse news had been at the half way point when a £1m loss was announced so the second half showed a significant recovery.

SD-Scicon revenue is 40 times higher than in 1981.



Profit growth has behaved like a roller coaster with major reversals in 1986 and in the latest results. PBT is now only 9 times higher than in 1981.



Readers are aware of our views on the consequences of acquisitions. SD has suffered in a major way from its purchase of loss making Scicon for £82m in 1988. The latest results include a £2.5m exceptional charge "written off against a Government project which had been mismanaged as a result of the merger".

Mr Swinstead was reported as saying "the group is abandoning its policy of acquisition in favour of organic growth...it was now time to consolidate and provide an adequate return to the shareholders" Source FT 23rd March 1990

After the recent sale of Warringtons for \$65m, it is likely that SD will have disposed of all its US activities within the next 18 months. SD-Scicon is likely to have a rosy future if it sticks to its new policy.

Richard Holway Limited - Results Service

Admiral Group plc	Results Revenue PBT EPS	Final - Dec 88 £11,239,000 £1,610,000 9.20p		Final - Dec 89 £15,970,000 £2,650,000 16.2p	Final Comparison +42.1% +64.6% +76.1%
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 1.86p	Interim Comparison +21% -51.3% -56.8%
Butler Cox plc	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%
Capita plc	Results Revenue PBT EPS	Final - Dec 88 £4,301,000 £747,000 6.65p		Final - Dec 89 £6,880,000 £1,300,000 10.39p	Final Comparison +60.0% +74.0% +56.2%
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 £5,357,000 £351,000 0.64p	Interim Comparison +53.3% +118% +20.8%
Hoskyns Group plc	Results Revenue PBT EPS	Final - Oct 88 £110,002,298 £9,511,030 16.1p		Final - Oct 89 £188,706,000 £15,229,000 23.9p	Final Comparison +71.6% +60.1% +48.4%
INSTEM plc	Results Revenue PBT EPS	Final - Dec 88 £7,565,000 £681,000 9.7p		Final - Dec 89 £8,003,000 £885,000 12.9p	Final Comparison +5.8% +30.0% +33.0%
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 £11,325,000 £1,805,000 19.71p	Interims - Sept 89 £8,064,000 £1,125,000 10.12p	Interim Comparison +48.9% +55.0% +34.6%
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	Interims - Dec 88 £77,270,000 £7,440,000 7.9p	Final - Jun 89 £179,505,000 £18,835,000 20.0p	Interims - Dec 89 £91,341,000 £6,022,000 6.2p	Interim Comparison +18.2% -19.1% -21.5%

Richard Holway Limited - Results Service

Macro 4 plc	Results Revenue PBT EPS	Interims - Dec 88 £5,875,000 £2,775,000 7.9p	Final - Jun 89 £13,500,000 £6,501,000 18.4p	Interims - Dec 89 £6,947,000 £3,279,000 9.2p	Interim Comparison +18.2% +18.2% +16.5%
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 Subsidiaries now in receivership
MicroFocus plc	Results Revenue PBT EPS	Interims - Jul 88 £10,000,000 £900,000 5.4p	Final - Jan 88 £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	Interims - Jan 88 £3,910,000 £1,290,000 15.6p	Final - Jul 89 £10,873,000 £3,084,000 36.7p	Interims - Jan 90 £7,830,000 £1,340,000 16.1p	Interim Comparison +100.3% +3.9% +3.2%
Quotient plc	Results Revenue PBT EPS	Final - Dec 88 £22,907,000 £2,206,000 10.3p		Final - Dec 89 £19,095,000 (£1,577,000) (8.8p)	Final Comparison -16.6% Profit to Loss Profit to Loss
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

Rolfe 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 +77.7% +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	Final - Dec 88 £221,565,000 £13,354,000 4.01p		Final - Dec 89 £283,300,000 £7,230,000 0.59p	Final Comparison +27.9% -45.8% -85.3%
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 £11,666,000 (£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
Star plc	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
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	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%
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 +8.7% Loss to Profit Loss to Profit
Total Systems plc	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%
Trace plc	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%
UCL plc	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
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, disposals and Share Stakes

CMG, the largest private computing services company in the UK, announced its first 1990 purchases. Dutch payroll and bureau services company - **Dora BV** - was acquired for 2m Dutch Guilders (c£626k). In addition, a second Dutch company, service bureau **Quadata**, was acquired for an undisclosed sum. As reported last month, further European purchases are expected shortly.

Kode, which announced a £1.46m loss for 1989 compared with a £409k profit in 1988 on reduced turnover of £27.8m, also made public that it was to sell its computer distribution activities to **Comart Systems** for £1.2m in an MBO.

Sema follows up its purchase of **ADV Orga** (see January 90) by purchasing a 49% stake in French financial software house **Tibet** for £5.1m.

Sanderson increased its shareholding in **General Automation Inc** from 35% to 49%. It is entitled to acquire up to 51%. As reported last month, GA has reported a profit for four quarters in a row. It looks as though Sanderson's sensible acquisition policy could well pay dividends.

4GL Systems, which specialises in bespoke services and products, has been bought from **Unibit Holdings** by five of its directors with a £500k funding package from **3i**.

Publically quoted **FR Group** has acquired a 51% stake in privately owned **Airdata** for £550,000 - £400k initially and £150k on profits to Sept 90. **Airdata** produce planning and aircrew management software which has been sold to 15 European airlines.

MBS has acquired the business of **VISI systems**, a specialist system house to the automotive industry. **VISI systems** had PBT of £180k and revenues of £4.4m in the year to March 89. PBT in excess of £250k is assumed for year to March 90. Consideration will not exceed £2.4m with £750k cash payable on completion and the rest performance related to March 92.

Kewill has acquired **HAN Dataport**, a CAD/CAM systems house operating in West Germany, Austria and Switzerland. Up to DM23.1m (£8.4m) could be paid.

Batman and Robin in new conquest

We seem to be constantly accused of having some kind of down on **Headland**. Far from it. We think the moves announced in the last month will prove excellent for the future of the group. Tony Nicholls from **Multisoft** is absolutely right to concentrate on indirect sales and **Headland** was right to rid itself of **Wootton Jeffereys Consultants** in an MBO. Now it looks as though **Wilmot** and **Bristow** will become even more removed from the operations of **Headland**.

Octagon undertook their study of **Alphameric** (which is forecasting a £11m loss for the year to March 90) in return for a 3.9% stake. This led to the sale of the data broadcasting business to **British Aerospace** for £2.25m - slashing debts from £8m to £2m - and the launch of a £3.6m rights issue.

Geoff Bristow becomes **Alphameric's** MD and **Wilmot** joins the board as a non executive director. Is there no end to the dynamic duo's endeavours?

Lucas buys Metier for "£40m"

Lucas Industries has bought **Metier** - the project management and manufacturing software house - from **Lockheed**. Consideration is believed to be "around £40m" making the deal the largest this year so far. **Metier**, which is based in **Hayes Middlesex** and employs 650 people worldwide, had sales of £54m in 1989. Its biggest market is the US. **Metier's** UK MD **Jeff Graham** said "We've tried to organise an MBO since **Lockheed** decided to offer us for sale, but it ran out of steam - and **Lockheed** was trying to maximise its investment in us" Source - *Computer Weekly* 15th March 1990. **Dr John Parnaby** - MD of **Lucas Engineering & Systems** and Group Director of Technology - said that the acquisition "would position **Lucas** to take advantage of forecast growth in global markets for applications software and services".

With combined turnover of £80m, the new group will become one of the Top 15 CSI companies in the UK. And it is now UK owned!

Largotim makes third acquisition

Manufacturing systems house **Largotim**, headed by **David Redwood**, has acquired **WW Computing** adding to the recent purchases of **Food Distribution** and a **Rotherham** based consultancy company.

Largotim's revenue has increased from £4.8m in 1988/89 to £7m this year. £10m is expected for the year ending March 1991. **Largotim** says it "is one year into a three year strategy to achieve a USM quote through a merger or direct launch" Source - *Computer Weekly* 22nd March 90.

No quote for McDonnell Douglas Information Systems

We reported in December's **System House** that MD had put the UK arm up for sale but **Causley**, who heads the UK operation, was "adamant that the business would go for a listing in the second quarter of the year" Source *Computing* 12th & 19th October 1989. These plans have now been ditched although the UK subsidiary "will be allowed to act as an autonomous unit".

Advisers **Ernst & Young** apparently decided against the flotation "because of the difficult business climate" Source *Computer Weekly* 22nd March 1989.

David Stern's hopes now just a bad Memory

David Stern tells us that he was just days away from securing the finance he needed to save **Memory** from the hands of the receivers. But the company's Irish bankers couldn't wait and pulled the plug.

The bulk of the UK activities have now been sold to **Database Systems** for £250k. The Unix maintenance business has been sold to **Typtec**. **Stern** hoped to buy two of the UK subsidiaries himself but was beaten to the post. He has however purchased **Travel Log**, which employs 16 people.

Memory has left a lot of unhappy creditors within the computing services industry. Even those that thought they had their contracts with **Memory Computers plc**, which has not been placed in receivership, will be unlucky as that entity has no assets to pay them either. At least the company should do the decent thing and declare itself bust so that the poor shareholders can offset their losses

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.

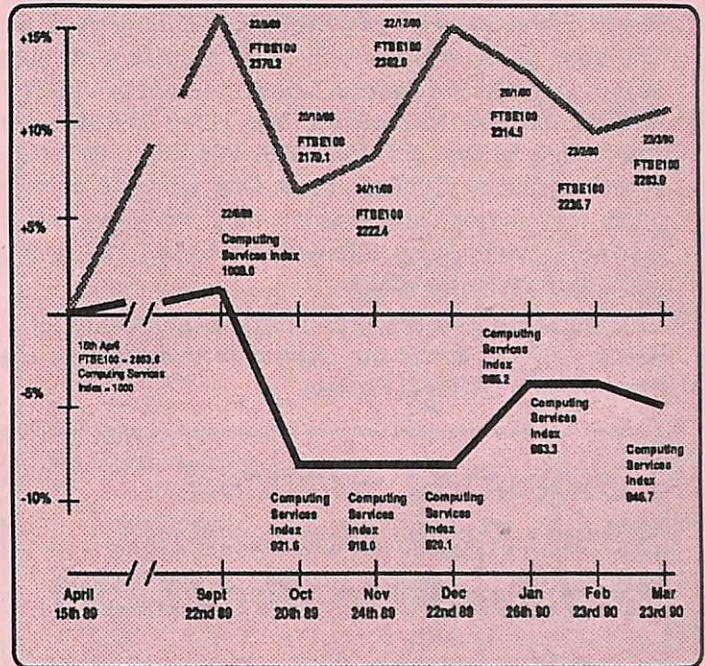
The Index declined by 1.7% in the month whilst the FTSE 100 increased by 2.1%. This means that in the last eleven months, the Index has underperformed the FTSE 100 by 15.5%. Only eleven companies have now outperformed the FTSE 100 as shown in the table below.

As one would expect the winners and losers are much the same as last month. The constant surprise, however, is that **MicroFocus** keeps increasing its lead - is there any end to its meteoric share price rise?

Computing Services Share Price Index 23rd Mar '90

Index Rank	15th April 1989 = 1000	Share Price 23/3/90	Index 23/3/90
1	MicroFocus	5.43	2623.19
2	Hoskyns Group	3.46	1687.80
3	Capita Group * Joined Apr 89	1.66	1660.00
4	Admiral	2.25	1630.43
5	ITL * Exit Feb 90	0.44	1571.43
6	Rolfe & Nolan	2.38	1416.67
7	Sage * Joined Dec 89	1.83	1407.69
8	Sema Group	4.38	1377.36
9	Sanderson	2.93	1246.81
10	Apricot	0.77	1222.22
11	Macro 4	2.90	1169.35
12	Kewill	2.83	1118.58
13	Butler Cox * Joined May 89	1.93	1102.86
14	Computer People	2.65	1090.53
15	Learmonth & Burchett	1.30	1083.33
16	SD SCICON	0.80	1025.64
17	INSTEM	1.00	1000.00
18	P&P	2.23	1000.00
19	Sherwood	1.15	958.33
20	MMT	1.60	952.38
21	P-E International	2.28	938.27
22	Headland	0.40	930.23
23	Pegasus	3.23	880.11
24	Trace * Joined Jun 89	1.08	864.00
25	Quotient	0.93	808.70
26	Logica	2.92	800.00
27	Systems Reliability	1.00	800.00
28	Ferrari	0.09	693.88
29	Electronic Data Proc.	0.63	642.86
30	Misys	2.58	641.79
31	UCL * Exit Feb 90	0.45	529.41
32	Microgen	1.17	500.00
33	NMW	0.30	500.00
34	Star	0.50	416.67
35	Telecomputing	0.38	408.60
36	Synapse	1.18	406.90
37	MBS	0.18	382.98
38	Radius	0.49	355.07
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.



The thoughts of Chairman Phil

We have probably witnessed the last industry presentation from **Phillip Hughes**, founder and Chairman of **Logica** who announced that he is to retire in November. At the CSA Conference in March, he presented his views on the last 30 years and some thoughts for the future. The most controversial points were as follows:

"The UK computing services industry has largely failed to secure or make any money out of the packaged software business"

"Hardware vendors and carriers will increasingly buy into computing services"

"Some have gained from a lack of productivity in the industry...the slower you build software, the more people you need and the more you can charge the customer"

"System Integration is the easiest way to lose money that the industry has so far invented"

For the future, Mr Hughes said that the best area to be in was people oriented or "body shopping" - "just look at the profit records of CGS or Volmac". But other profitable areas were niche product sales (eg Oracle) and facilities management (eg Hoskyns).

In our view, Mr Hughes is depressingly correct and the current state of the UK industry is testimony to that. We have few international software products companies, we read increasingly of major project overruns on fixed price systems integration projects and whenever companies take risks with major new initiatives (Logica VTS is a classic example) the failure rate is high.

We believe that the industry needs a whole new breed of managers, willing and able to shift the industry into another, higher gear to take on the enormous opportunities of the next decade. But we doubt that they exist in the industry at the present time. That's why the current brave moves to bring in management skills from outside computing should be watched with great interest.

Index underperforms FTSE

The Computing Services Index decreased by 1.7% in the month whilst the FTSE 100 increased by 2.1%.

The major gainer was **Quotient** - up a massive 43%, from 65p to 93p. On the surface, Quotient would seem to be well on the way to recovery and some analysts are forecasting £1.8m PBT for 1990. We have, however, heard stories of Quotient converting software licence deals into one-off sales which may adversely effect medium term revenues. But there is still MMT, with its 8% stake, waiting in the wings.

Sherwood, up 15%, is also benefiting as a recovery hope. **Sema**, up 9%, is still the subject of considerable bid rumour from CGS and Paribas.

Computing Services Share Price Movements 23rd Feb.90 to 23rd Mar.90

		% Change 23/2/90 to 23/3/90
1	Quotient	43.08
2	Sherwood	15.00
3	Sema Group	8.96
4	MicroFocus	4.83
5	Admiral	4.65
6	Sage * Joined Dec 89	4.57
7	Apricot	4.05
8	SD SCICON	2.56
9	Capita Group * Joined Apr 89	1.84
10	Macro 4	0.69
11	ITL * Exit Feb 90	0.00
12	Rolfe & Nolan	0.00
13	Sanderson	0.00
14	Butler Cox * Joined May 89	0.00
15	Computer People	0.00
16	INSTEM	0.00
17	P&P	0.00
18	UCL * Exit Feb 90	0.00
19	Optim	0.00
20	Memory Computer (Susp)	0.00
21	Total Systems	0.00
22	Kewill	-0.70
23	MMT	-1.23
24	P-E International	-1.72
25	Systems Reliability	-1.96
26	Trace * Joined Jun 89	-2.70
27	Ferrari	-2.86
28	Electronic Data Proc.	-3.08
29	Hoskyns Group	-6.23
30	NMW	-6.25
31	Headland	-6.98
32	Learmonth & Burchett	-7.14
33	Star	-9.09
34	Microgen	-9.30
35	MBS	-10.00
36	Logica	-13.10
37	Misys	-13.42
38	Pegasus	-16.10
39	Radius	-18.33
40	Telecomputing	-30.91
41	Synapse	-44.60

Computing Services Index 23rd March 1990

April 15th 1989 = 1000

946.66

Synapse fell like a stone after the announcement of its fall from a £463k profit to a £249k loss at the interims to Jan 90. **Telecomputing** is still to benefit from the "Whitaker Factor" with a further 31% fall - shareholders must be starting to wonder if the fall will ever stop. **Radius** fell 18% ahead of results due for release in the week after we go to press.

Pegasus and **Logica** fell on announcement of their very disappointing results.

Why **Misys** continues to plummet is one of the world's unsolved mysteries. A share falling by 45%, on the sensible warning that profits might be 10% off analysts' high forecasts, seems an over reaction.

MBS' shareholders were obviously not impressed with the news of a further acquisition. They had probably hoped that their misery was to be ended with a sale of the company rather than a purchase.

LBMS suffered from an announcement made on 23rd March 1990. "In Dec 89, the indications were that PBT in the second half of the year would significantly surpass those of the first half....the board is now of the opinion that there is unlikely to be a material increase in the second half". The principal reason seems to be the deferment of a number of larger software orders, totally £500k or more, into the next financial year. It was also stated that the recent acquisitions of KLA and Michael Jackson Systems would not make any impact in 1990 "until rationalisation measures were fully implemented".

Changes in Indices	Computing Services Index	FTSE 100
Month 23rd Feb 90 to 23rd March 90	-1.73%	+2.11%
11 months 15th April 89 to 23rd March 90	-5.33%	+11.21%

P-E bid in the offing?

The Mail on Sunday of 18th March carried an article speculating that a bid for P-E International would be made by a Dutch or Swiss institution. "Roger Hardman of brokers James Capel rates the company as a "lead buy" but reckons that one of the big accountancy firms, keen to boost its consultancy arm, is a more likely bidder".

P-E share performance has been lacklustre in the last year (see page 9). P-E made their debut on the Stock Exchange in May 1986 at 165p when profits for 1985 were £1.3m. The profits for 1989 are forecast to be £5.5m - some 320% higher - but the share price now is £2.28 - just 38% higher - down from a pre-crash high of £3.30.

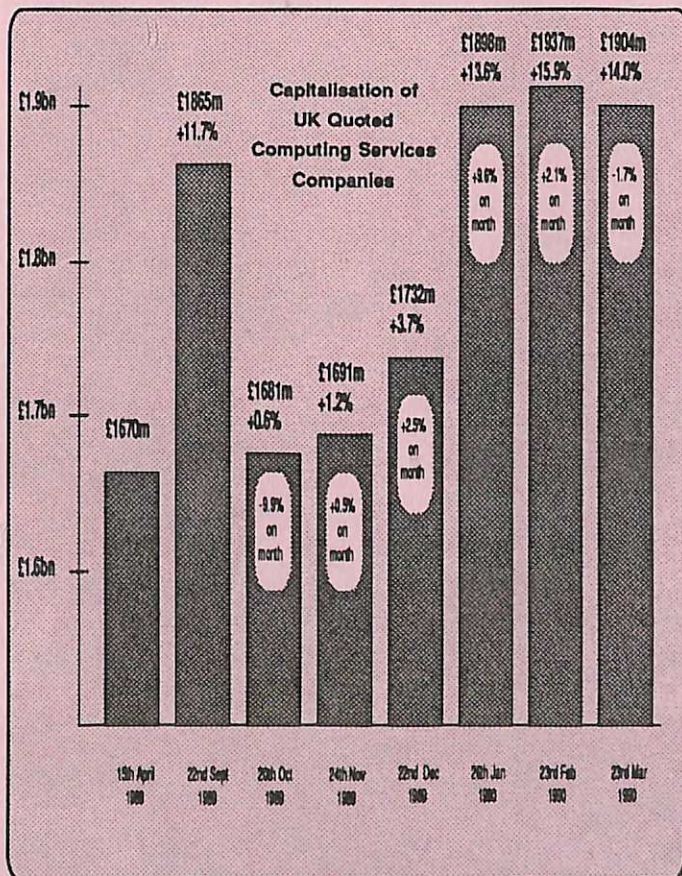
Capitalisation Monitor

The total capitalisation of UK quoted computing services companies decreased by 1.7% to £1.9bn in the month.

The major winner in the month was **Sema** - up £32m to £390m - undoubtedly because of the interesting battle which is emerging for control of the group between CGS and Paribas.

The main losers in the month were **Logica** - down £27m at £177m - due to disappointing results and **Hoskyns** - down £20m at £294m - as a result of share price decreases due to the reorganisation of Plessey business covered elsewhere.

Misys lost £12.6m and are now valued at just £81m - far less than that paid for acquisitions in the last two years. **Total** is still the company with the lowest capitalisation - at just £1.6m. Total is basically a "body hire" shop which we would have thought would make them of interest to several European computing services companies.



New Index next month

The next edition of **System House** is the anniversary of the establishment of our Index on 15th April 1989. We will focus on the winners and losers in the last 12 months. It also gives us the opportunity to revamp the companies we cover. We will delete **ITL**, **Memory** and **UCL** as they were delisted in Feb. 90. We will add **Vistec** and **Logitek** as these companies now undertake a significant amount of "added value" activities. Any other suggestions for further additions will be gratefully received.

April 1990

Computing Services Capitalisation- 23rd Mar. '90

Rank		Capitalisation 23/3/90 £m	% Change since 15/4/89	% Change since 23/2/90
1	Sema Group	£390.65	37.50	8.97
2	Hoskyns Group	£293.66	78.19	-6.24
3	Logica	£177.46	-19.63	-13.09
4	SD SCICON	£161.20	2.54	2.54
5	P&P	£81.40	8.97	0.00
6	Misys	£81.00	6.86	-13.46
7	Apricot	£71.97	81.74	4.00
8	MicroFocus	£67.80	162.78	4.95
9	Macro 4	£64.11	18.93	0.64
10	Microgen	£45.29	-48.77	-7.00
11	Systems Reliability	£42.50	-2.30	-1.85
12	P-E International	£37.07	-6.38	-1.92
13	Computer People	£36.00	17.26	0.00
14	Sage * Joined Dec 89	£29.83	40.69	4.65
15	Sanderson	£24.66	25.17	0.24
16	Admiral	£24.32	66.60	4.40
17	MBS	£23.40	-61.70	-14.29
18	Ferrari	£22.90	16.84	-2.97
19	Kewill	£21.55	28.26	-0.70
20	Pegasus	£19.77	-0.14	-15.87
21	Headland	£19.30	66.38	-7.21
22	MMT	£16.90	-2.31	-1.17
23	Learmonth & Burchett	£15.79	8.12	-7.14
24	Capita Group * Joined Apr 89	£14.60	80.25	1.39
25	Trace * Joined Jun 89	£14.14	-12.19	-3.16
26	ITL * Exit Feb 90	£13.70	57.65	0.00
27	Optim	£12.80	84.70	0.00
28	Quotient	£12.65	-18.92	42.43
29	Radius	£11.27	-64.67	-18.33
30	Butler Cox * Joined May 89	£10.30	10.52	0.00
31	Rolfe & Nolan	£6.38	46.00	0.00
32	NMW	£6.17	-49.84	-6.23
33	Sherwood	£6.03	-2.07	14.90
34	Electronic Data Proc.	£5.44	-35.70	-3.03
35	INSTEM	£4.50	0.00	0.00
36	Synapse	£4.16	-59.22	-44.61
37	UCL * Exit Feb 90	£4.10	-47.10	0.00
38	Star	£3.40	-58.13	-9.09
39	Memory Computer	£2.56	-68.12	0.00
40	Telecomputing	£1.80	-59.26	-31.11
41	Total Systems	£1.60	-69.81	6.67

And now the Inland Revenue is trying to damage your wealth too

Patrick Whale from Peat Marwick was given an unscheduled spot at the CSA Conference to explain the industry's concern at the ruling from the Inland Revenue that travelling expenses reimbursed to employees who spend more than 6 months out of the office on client assignments will be taxable.

The ruling applies even if the employee is on more than one contract in the period. We expect our people to be mobile and we aim that most consultants spend little time in the office. The implications of the ruling are serious. Not only will our people be less willing to undertake the jobs for which they were employed, but the IR has the power to demand six years' back tax.

The CSA is setting up a fighting fund to challenge the ruling. *If it fails, it will cost the Industry millions.*

"To quote or not to quote?"

Most of the annual report and accounts we receive are rather boring. **Logica** is one of the few that makes a major effort and their 1988 "comic" edition is almost a collector's item. But you do have to take care. We reported last month on the dismal performance from **Microgen**. They always have a quotation on the front cover of their Annual Report. Last year it was "He progresses fastest who takes the largest number of short steps". This signalled a 28% decrease in PBT. The 1989 edition has "In life, what lets you down is not what you know or what you don't know - its what you think you know that isn't so" on the front cover. With Microgen shares halved in value, we hope, for the sake of their shareholders, that the Microgen directors will start to "know what is so" in the future.

Another Realnew name

We are glad to see that Derek Lewis of Realnew took to heart our comments on how inadvisable it was to call his operation MBS Product Sales. It's now to be known as **Technology plc**.

In next month's *System House*

April sees the completion of the main reporting season. *System House* will bring you all the results and will carry a major feature analysing the financial performance of the computing services industry in 1989.

Plus all the usual features, comment and rumour.

Order Form

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CSA Conference - "The Retiring Decade?"

The CSA annual conference was held at Gleneagles from 13th to 15th March. As the conference was titled "The Decisive Decade" it was interesting that there seemed to be as much looking back as looking forward. The industry has matured in many ways. Created in the 1960's, the founders, who constituted most of the speakers, are now at least 25 years on. Retirement, to enjoy their hard earned wealth, seemed to be on the minds of more than a few.

The greatest value from the CSA Conference has always come from the informal conversations around the bar. It is rare to get all the greats from the UK industry in one place. Therefore John Leighfield of Istel and Geoff Unwin from Hoskyns deep in conversation, no doubt discussing the virtues or otherwise of a possible mutual parent, caused a few stirs.

In fact, acquisitions seemed to be the most popular topic of conversation. *What are IBM really up to with their stakes in 90 computing services companies - 16 in the UK? And why are they being so secretive?* There seemed to be general agreement that all the top UK services companies were vulnerable to overseas takeover. As Geoff Holmes from SD-SCICON said, he had predicted that might happen in the ACARD report some 4 years ago.

But as the main players in the industry reach their 50s, what seems to be missing is the new 30 year olds with fire in their bellies coming to replace them. Even Geoff Squire from Oracle, whom everyone expected to be highly controversial, produced a low key speech containing no surprises. But with a "telephone number salary", the best fringe benefits around and a farming estate in Hampshire perhaps even Geoff Squire is looking to retirement too.

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