

System House

The monthly review of the financial performance of the UK computing services industry
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1989 revenues grow twice as fast as profits

All but two of the UK's quoted computing services companies had declared their 1989 full year results at the time we went to press. The exceptions were Optim and MBS.

Together, the 38 companies had a combined revenue of £1.93 billion and made profits of £150m representing an average profit margin of 7.8%.

Revenue growth - at 38.6% - was almost twice that for profit growth - at 21.4%. This reflects the frenetic acquisition activity over the last two years which has boosted revenue but, for many companies, has meant major problems on the profits front. However, the figures are much better than expected when we analysed the 1989 interim results in the December 89 edition of *System House* which indicated a 49% increase in revenue but only a 9% increase in PBT.

Four companies turned in a loss (**Quotient** - £1.6m, **ITL** - £1.1m, **Star** - £930K and **Telecomputing** - £777K) and **Memory** would have been added to the list if all their subsidiaries hadn't been placed in receivership before the results were announced. Nine companies managed to reduce PBT (**Apricot** by 27%, **EDP** by 24%, **Headland** by 32%, **LBMS** by 24%, **Microgen** by 28%, **Radlus** by 31%, **Synapse** by 5%, **SD-Scicon** by 46% and **Total** by 88%). But both **NMW** and **Sherwood** returned to profitability.

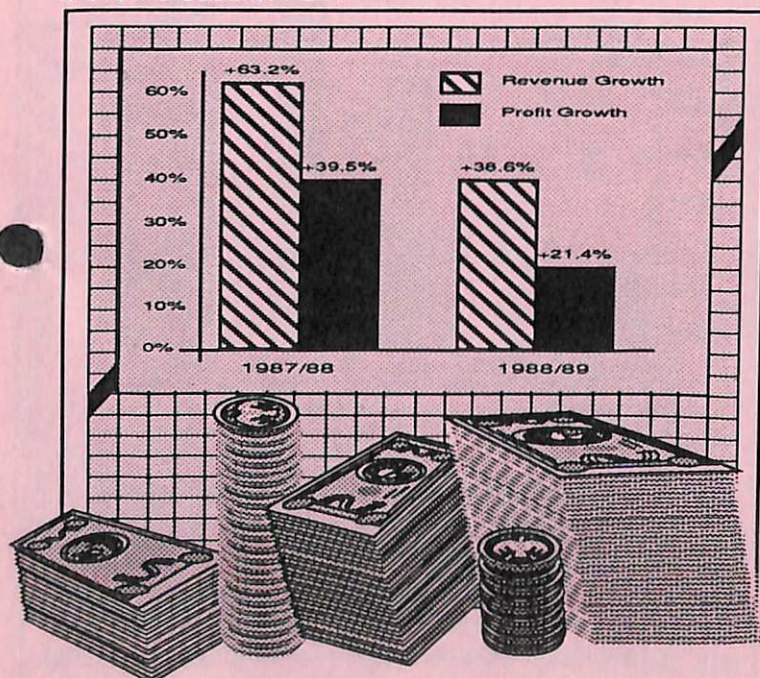
The major gainers in the last year were:

Rank		PBT Growth	1989 PBT
1	Systems Reliability	+477%	£7.9m
2	Microfocus	+212%	£8.2m
3	Misys	+163%	£5.8m
4	Sage	+80%	£2.9m
5	Capita	+74%	£1.3m

Over the 5 year period, 1985 - 1989, the winners in both PBT growth and EPS growth were, with the exception of Sema, surprisingly similar:

Rank		AAGR in PBT 85/89	Rank	AAGR in EPS
1	Misys	+152.6%	3	+85.5%
2	Capita	+118.5%	2	+106.6%
3	Sanderson	+111.7%	1	+113.8%
4	Sema	+69.4%	20	+11.1%
5	Trace	+67.1%	5	+66.1%
6	P&P	+59.6%	10	+45.8%
7	Hoskyns	+59.0%	9	+46.4%
8	Logitek	+53.0%	7	+49.7%
9	Butler Cox	+50.3%	4	+67.2%
10	MMT	+49.4%	6	+52.0%

Average growth rates in both PBT and EPS of >50% per annum over a 5 year period are exceptional, so perhaps the list above really does represent the UK's most consistently successful computing services companies..



In this month's System House

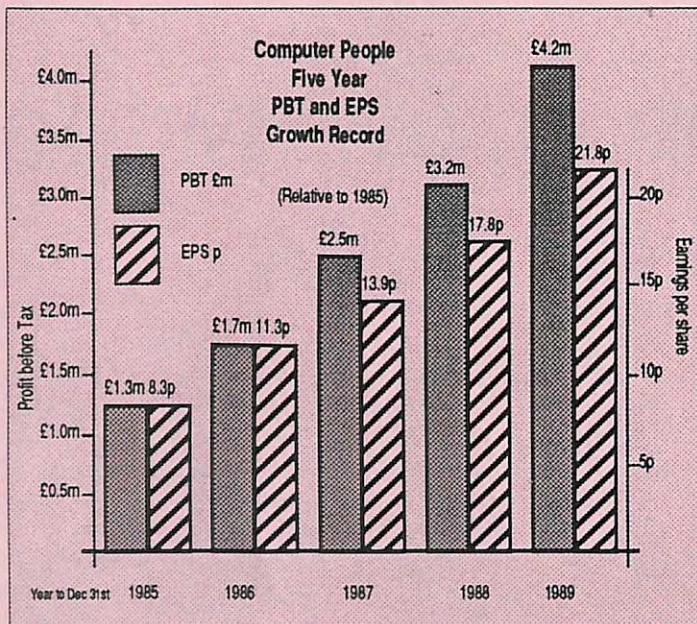
This edition of *System House* is dedicated to review and comment on the latest company results as the main reporting season draws to a close.

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Review of the Latest Company Results

"How to do it" lesson from Computer People

Computer People really is a very impressive operation. Latest results for year ending Dec 89 show PBT up 31% at £4.22m on revenues up 49% at £69.9m. In spite of recent acquisitions, EPS is also up 22%. The financial record is excellent with strong and consistent growth with no reversals to date.



Computer People is still steadfastly quoted under "Industrials" rather than "Electricals" and its profile in the industry is relatively low - we are constantly asked "what do they do?". Established in 1972, Computer People supplies contract staff on assignment (c90% of revenue) and recruits permanent computer personnel (c10% of revenue). Philip Hughes of Logica admitted at the CSA Conference that fee based businesses were one of the safest places to be in the 90s.

What is so impressive about Computer People is the obvious success of their US acquisition strategy. Adhering to our maxims of "sticking to the knitting" and not buying any company for more than 10% of your capitalisation has provided the company with an almost unique overseas success. They acquired the consultancy operations of US Sterling Software in August 1988 for £5m plus a profit related element. "This division passed the highest profits threshold of the earnout agreement with three months to spare and has made a strong contribution to the group" Source - Computer People Press Release. In 1989, Computer People made two further US acquisitions - William D Farlow (£2.6m) and Starlex (£2.7m). In 1989 the group derived 63% of its business from the UK and 37% from the US.

The company admits that its margins have been under pressure - indeed overall profit margins fell from 7% in 1988 to 6% in 1989. There are still many UK companies that would be happy to achieve this.

We hope that Computer People sticks to its sensible policies as they provide an object lesson to others on "how to do it".

CGS advances in 1989

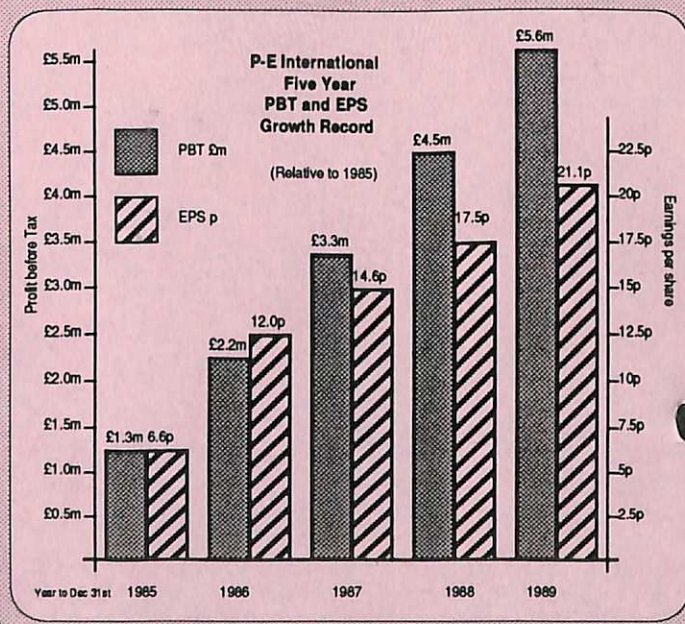
Europe's biggest system house, CGS, announced revenues up 21% at £704m and PBT up 30% at £53m.

P-E International - Another year of consistent growth

P-E International, engaged mainly in management and computer consultancy, produced yet another year of consistent growth. PBT increased 25% to £5.62m on revenues up 20% at £58m. EPS, even after three 1989 acquisitions, rose by 21%. Consultancy in the retail, transport and distribution sectors, where fees increased by 65% and, to a lesser extent to the public sector, increasing by 32%, were the "Star performers"

Their record is similar to Computer People (see opposite) and their business areas have certain similarities as they both earn the majority of their revenues from fees. P-E has also made a number of "small" but strategic acquisitions in 1989, including Applied Skills for Management (£850k), the Dutch consultancy Westvries (£1.7m) and March (£850k). It really does look as if the formula that we put forward in the February issue of System House is a winner..

However, the Chairman, Hugh Lang, issued a warning that "high interest rates, wage inflation and political uncertainty combine to make the UK business environment a great deal less friendly than it was 12 months ago". He did add that "Despite this, results for the first quarter of the current financial year will be significantly ahead of those for 1989 and, because of the wide spread of business, the group looked forward with confidence to another successful year" Source - P-E Press Release.



Logica to close management consultancy division

"Logica is to close down its dedicated management consultancy division as it struggles to halt the company's recent profit slide" Source - Computing 29th March 1990. The 135 staff will be transferred to various other Logica divisions. MD, Garry Hunt, has left the company ahead of the changes.

23% of Logica's revenue comes from consultancy; indeed the history of the company is based on this activity. With the obvious current success of the mainstream management consultancies in the IT arena, the report is somewhat worrying.

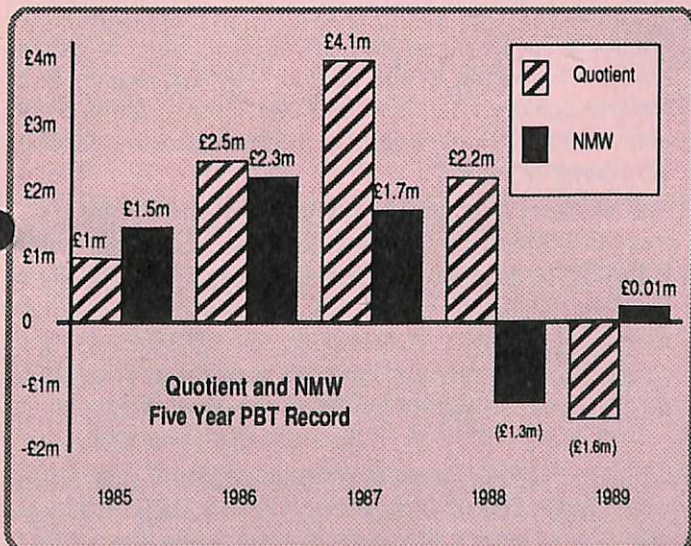
NMW back in the black

Imagine you were running a highly profitable business with a third of the marketplace in one of the fastest growing and most prestigious industries around - the securities industry. Volumes were running at 90,000 bargains a day and the Stock Exchange were insisting that you invested even more heavily to cope with their estimate of 200,000 bargains a day by 1990. That was the actual position for NMW in August 1987. What happened on "Black Monday" in October 1987 was the start of a nightmare for NMW with volumes slashed to a third almost overnight. NMW had to cut staff and resources drastically. That cost both profits - they plunged from a PBT of £2.3m in 1986 to a loss of £1.3m in 1988 - and cash - from a sizeable cash surplus to a £2.5m overdraft.

NMW is a bureau with a major X25 network. Although processing settlements via its CAPITAL system is still its most important area, over half its stockbroker customers have now bought its DEC based in-house systems. In 1989, NMW began its first moves away from total dependence on the securities industry with the launch of its disaster recovery service - FORTRESS - and customers now include the Britannia Building Society and Lancs CC. It also launched its Facilities Management services and initial signings include OMNIA-ICL and Arthur Andersen. "This organic growth of FM business is likely to be accelerated by acquisition" Source - NMW Press Release.

1989 results show the first fruits of the policy with a profit of £87k and a major £0.75m reduction in borrowings. 1990, despite low trading volumes, has had a "profitable start".

NMW has suffered like its competitors - see comparison between NMW and Quotient below - but NMW's recovery is well advanced.



With net assets of £5.6m (almost the same as their market capitalisation), cost cutting behind them, a cash flow which should eliminate borrowings this year and a new "non securities" policy in place, the future should, at least, be interesting.

He would say that wouldn't he

Richard Holway, the editor of *System House*, was appointed as a non-executive director of NMW early in 1989.

Telecomputing reports £777K loss

The new board of **Telecomputing**, appointed after Bernard Panton sold his stake to **Ferrari**, has announced a £777K loss for the year to Sept 89 and restated the loss for the year to Sept 1988 as £312K rather than the £194K previously reported. This was due to a change in accounting policies which meant that R&D expenditure was no longer capitalised but written off - as is the procedure in almost every other quoted software house.

A Telecomputing press release stated that "A significant rationalisation of the workforce has taken place and excess capital equipment and premises are in the process of disposal. The company said they had returned to profit during the 2nd quarter of the current FY, following "decisive action" taken by the new board. The new board believes that a number of existing business areas have excellent profit potential and renewed emphasis is being placed on the traditional TPS business. The company is actively pursuing acquisition opportunities in the software market which will add significantly to the profit and growth of the group."

In addition, 1,586,766 new ordinary shares have been placed by brokers Grieg Middleton & Co to raise approx. £500K net of expenses. This is subject to clawback on an open offer based at 37p.

Telecomputing explained that "the monies raised through the placing and open offer will serve to eliminate borrowings and provide them with the resources to exploit new product areas into which they are moving."

Telecomputing shares rose on the announcement and therefore failed to win our "wooden spoon" award for the fourth month in a row.

Radius - A clear case of "Acquisition Indigestion"

Revenue at Radius to Nov 89 advanced by 61% to £28.6m but profits slipped by 31% to £2m after an "exceptional debit of £500K related to a provision in the current year for cost overrun on a major software contract" Source FT 30th March 1990. EPS was also down 46%.

Radius, under the chairmanship of Edward Sharp, went on a buying spree in 1988/89 acquiring CBSL (Jan 88), MGB (June 88 - £5.4m), Slinn (Jul 88 - £1.2m) and Systemsolve (March 89 - £2m). We believe these purchases took the management's eye off the core business.

Share price has fallen from a 1989 high of £1.40 to just 46p. The problem is that ordinary shareholders would have gained little knowledge of the problems brewing. The Chairman's statement in July 1989, when interim profits had remained static, stated "The figures for the second half of the year..... will adequately demonstrate a return to profit levels more commensurate with the greatly expanded size of the group".

Now the directors say "they are confident of the group sustaining a good level of profitability, but are hesitant in suggesting that it would significantly increase in the current year" Source FT 30th March 1990.

The profit performance of Radius had been exemplary until they started on the acquisitions trail; rising from £1m in 1985 in consistent steps to a £2.9m profit in 1988. Perhaps the shareholders might have preferred them to stick with the size of business commensurate with the management's ability.

Ferrari advances

Ferrari announced revenues of £38m and PBT of £1.4m for the 15 months to Dec 89 - a margin of just 3.7%. But the results seem quite good in comparison to others considering Ferrari's frenetic acquisition activity in the last year. See Page 12 for news of Ferrari/Pericom.

Ferrari "indicated that the current year had started strongly with the group as a whole achieving profit ahead of budget The Chairman is confident that 1990 will prove a very rewarding year for shareholders." Source Ferrari Press Release. The shares fell 12% on the news.

Excellent "first year" results from Butler Cox

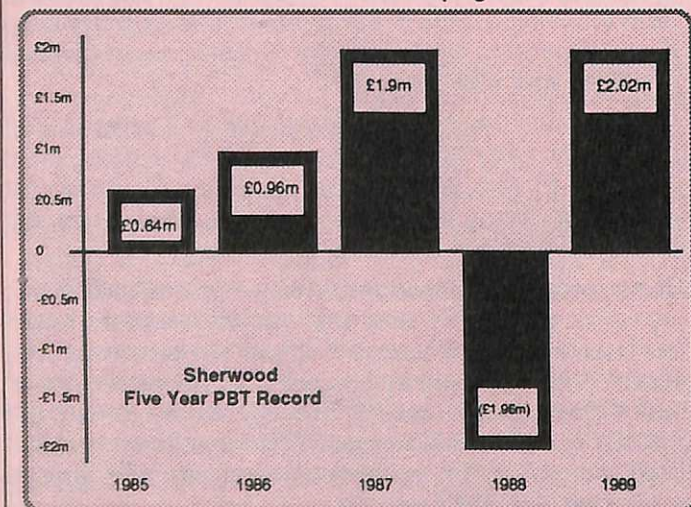
Butler Cox was established in 1977 and provides a combination of IT consultancy and syndicated market research. They were launched onto the Stock Exchange in May 1989 at £1.75. The first year as a quoted company produced excellent results with PBT up 43% at £1.3m and EPS up even more at 60% on revenues of £9.4m.

20% - or £267K - of this profit was due to interest received on the £2.7m cash which the company currently holds.

In February 1990, Butler Cox acquired Cranfield Information Technology Institute for £75K plus a further £900K based on PAT to end 1992. Maybe this was reason for the note of caution in the company's announcement that "the many new developments will have an inevitable impact on the first half of 1990's profits which may not be as high as the first half of 1989. Benefits will accrue over the year and we are looking forward to more profitable growth". Source - Butler Cox Press Release.

Sherwood back in the black

Sherwood managed to turn a £1.96m loss for 1988 into a £2m profit for the year to Dec 89 on revenues down 4% at £25.4m. Sherwood suffered after Black Monday like others who were dependent on the financial services arena - see NMW and Quotient on page 3.



After the sale of the Mitronix subsidiary - which lost £520K in 1989 - to Polycymaster for £150K and Slipstream for £750K, Sherwood is now less dependent on its financial services activities; which were still loss making in 1989. Moves to UNIX, the Sema pensions joint venture and the ICL local authority products deal will be important new areas for the continued recovery of Sherwood. However, the Chairman "is cautious on prospects for the coming year as it is difficult to forecast with precision" on the contribution to be made by these new product lines.

Disasterous results at Headland

Readers of the February 90 edition of System House would have known of our incredulity at Headland being voted by the Sunday Times as one of their "Ten Shares for the Decade" with a profit forecast for 1989 of £1.9m. The shares raced up 30% to 48p on the news. The results for the year show PBT down 32% at £1.1m and EPS down 56% on revenues up 46% at £19m.

Well that's what the results say, but we suspect that affairs are in an even worse state.

Firstly, Mega - acquired in Sept 88 for an initial £4m plus a further £6m if PBT for 1989 exceeded £1m. Mega had made £391K PBT in the year to Dec 87. "Mega's budget at the start of the year was £1.1m. Due to the existence of the deferred consideration arrangement, Mega was run by its own Board until 31st Dec 89 and in the event the company achieved an approx. break-even result before reorganisation costs. No further consideration will be payable". Mega was ruled with an iron rod by founder Peter Guymer. He left in mid 1989 selling his Headland shares at 42p. The prospects for DG software sales were on the downturn and we were critical of the decision to redevelop in DEC VAX VMS rather than UNIX. The delayed conversion has "depressed trading results since the year end".

Secondly, Wootton Jeffreys Systems suffered "cost overruns on two fixed price contracts" which cost Headland £284K.

Thirdly, Wootton Jeffreys Consultants, which had "contributed a profit before tax and Headland head office charges of £135K on turnover of £2.5m", has been sold for "a net consideration of £523K". They had been acquired, together with the Systems activity, for c£1.6m in March 1988.

Finally, the profits of £1.1m were struck before extraordinary items of £551K related to Multisoft - acquired for £11m in Oct 89. £250K went in closing Multisoft Solutions, £140K in "abortive costs relating to the merger between Multisoft and TIS" (now part of Misys) and "£161K of losses arising from an abortive Multisoft German investment".

The Multisoft deal, which had made £1.1m PBT for the 11 months to March 89, was merger accounted which means that profits were included for the full year. That rather infers that the rest of Headland made little if any profit and even Multisoft's profits were eroded by extraordinary charges.

On top of that, Headland now has borrowings of over £4m which could cost it over £600K to service this year unless it sells its properties in Brookwood and Guildford.

All those Sunday Times readers who bought in at 48p are now seeing the shares at 30p - down 38%. There are probably several institutional investors who would like to sell even at that price if only they could find a buyer.

The Headland story to date is one of hype and unsubstantiated grand claims. The results, however, are amongst the most depressing we have read and we suspect that the worst is still to come. We hope that now Wilmot and Bristow have their hands full saving Alphameric, the new MD - Nic Birtles - will be able to put things right. There is certainly enough to keep Mr Birtles busy for a long time. Sources - Headland Press Release and Microscope.

Microfocus wins all the accolades

We can't and don't tip shares but any readers in possession of the very first **System House** published in November 1989 would have done well to absorb our enthusiasm for this "stunning" company. The shares stood at just £3.75 then - they hit £6.28 this month; and that's three times higher than in April 1989.

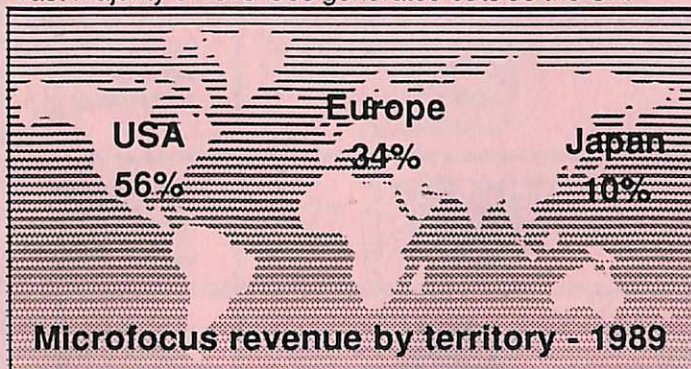


The latest full year results to Jan 90 are truly remarkable with PBT up 212% at £8.2m and EPS up 129%. Revenues increased by 67% to £35.6m. The results were way ahead of expectations and the shares soared 38p on the news.

But that's only part of the good news. Microfocus' COBOL/2 Workbench accounted for 40% of revenues and "substantially exceeded targets" with over 10,000 copies sold. Microfocus also became less dependent on sales via hardware manufacturers, with direct sales to corporate clients up from 48% to 61% of sales.

Then, you look behind the financial results and discover that Microfocus now has cash reserves of £13.5m - up from £2.2m at end 1988.

But what is really amazing about Microfocus is that here we have in the UK - for once - a software products company which is making it big internationally with the vast majority of revenues generated outside the UK.



With profits of £10m - £11m expected for 1990, the shares are still on a prospective P/E of around 13 which "is not regarded as expensive. A P/E of 17 is not unheard of for its transatlantic peers" Source - FT 10th April 1990. **If only the UK had more companies like Microfocus.**

Acquisition policy bears fruit for Systems Reliability

So far, Systems Reliability (SRH) has been one of the very few UK companies to achieve substantial financial benefits from its acquisition policy. SRH bought six companies in 1989 for £31.4m; the largest of which was Enterprise for £22m.

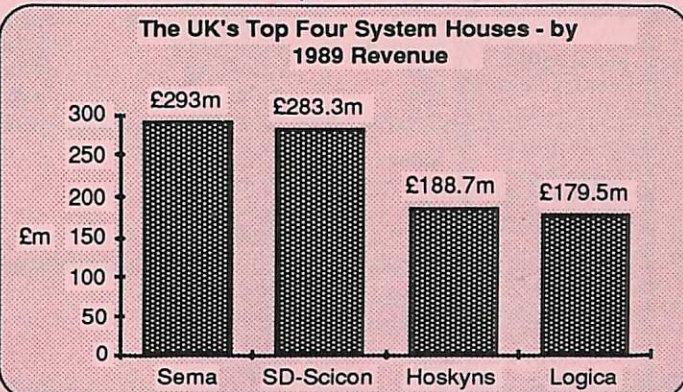
Latest results show PBT up a massive 477% at £7.9m on revenues up 459% at £134.6m. Even more impressive, bearing in mind the frenetic acquisition activity, was the 284% increase in EPS.

However, as reported in the April edition of *System House*, Corporate Computers - which contributed £3.14m profit on revenues of £50.6m in 1989 - is up for sale at c£15m.

Chairman Robert Evans, who joined from Hillside in late 1988, has worked miracles on SRH and should be congratulated for avoiding the "acquisition indigestion" which has affected so many others who have followed a similar path.

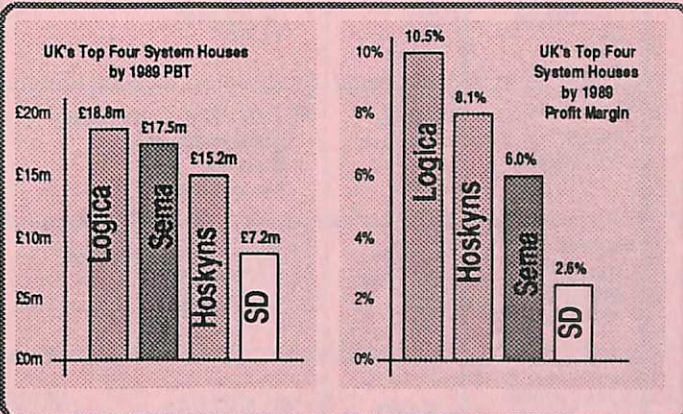
Sema now the UK's largest computing services company - but only by revenue

Sema - the merged CAP and Sema Metra outfit - is now the largest UK based computing services company. Latest results show revenues up 10% at £293m.



Sema did well to recover from the after effects of the merger with PBT up 35% at £17.5m as interim profits had been just £4.6m. EPS increased by 38%.

Profit margins however, at just 6%, still show that there is "room for improvement" as Sema still trail Logica and Hoskyns as shown.



Sema's group MD - Pierre Bonelli - admitted that "he was anxious to improve profit margins and saw no reason why a 10% margin could not be achieved" Source - FT 5th April 90. "The group is in much better shape, profitability is better, but there is still room for improvement" Source - Computer Weekly 12th April 90. The CAP Group had trailed our profit margin tables since 1985.

France is now Sema's largest market (41%) with the UK second at 37%. Germany is the key expansion area and US expansion has, bearing in mind the lack of success made by SD-Scicon and Logica, sensibly been ruled out for the time being.

Interestingly (for Hoskyns at least), 8% of Sema's revenue now comes from FM. It has a joint venture - Axone - with IBM to exploit FM on the continent.

The merger with the French has been a testing time for the UK directors and, indeed, several like MD Mike Smith, Alan Benjamin and John Ockenden are not at Sema to tell the tale. The French seem to be firmly in control.

Sema's share price is still artificially high - at a 38 P/E - due to the "unwelcome" 22.6% stake held by arch rivals CGS. The second largest shareholder is Paribas. With these predators in the wings, the next period could still see a change of ownership and still more disruption for the UK team.

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 £15,971,000 £2,653,000 16.2p	Final Comparison +42.1% +64.8% +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	Final - Dec 88 £7,699,791 £924,994 10.24p		Final - Dec 89 £9,370,000 £1,324,095 16.43p	Final Comparison +21.7% +43.2% +60.4%
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	Final - Dec 88 £47,023,000 £3,229,000 17.84p		Final - Dec 89 £69,919,000 £4,219,000 21.8p	Final Comparison +48.7% +30.7% +22.2%
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 - Dec 88 (Restated) £16,621,000 £399,000 Not available		Final - Dec 89 £37,978,000 £1,419,000 Not available	Not comparable due to accounting period change
Headland Group plc	Results Revenue PBT EPS	Final - Dec 88 (Restated) £13,095,000 £1,568,000 2.76p		Final - Dec 89 £19,118,000 £1,061,000 1.22p	Final Comparison +46.0% -32.3% -55.8%
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	Acquired by Apricot plc	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	Final - Jan 89 (Restated) £21,314,000 £2,637,000 16.3p		Final - Jan 90 £35,639,000 £8,223,000 37.4p	Final Comparison +67.2% +211.8% +129.4%
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	Final - Dec 88 £10,318,000 (£1,327,000) (4.6p)		Final - Dec 89 £9,119,000 £87,000 0.2p	Final Comparison -11.6% Loss to profit Loss to profit
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	Final - Dec 88 £48,234,000 £4,511,000 17.5p		Final - Dec 89 £58,017,000 £5,622,000 21.1p	Final Comparison +20.3% +24.6% +20.6%
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	Final - Nov 88 £17,726,264 £2,909,533 8.71p		Final - Nov 89 £28,630,000 £2,000,000 4.74p	Final Comparison +161.5% -31.2% -45.6%

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 £283,304,000 £7,230,000 0.59p	Final Comparison +27.9% -45.8% -85.3%
Sema Group plc	Results Revenue PBT EPS	Final - Dec 88 £266,893,000 £12,929,000 8.4p		Final - Dec 89 £293,021,000 £17,457,000 11.6p	Final Comparison +9.8% +35.0% +38.1%
Sherwood Group plc	Results Revenue PBT EPS	Final - Dec 88 £26,528,000 (£1,965,000) (36.8p)		Final - Dec 89 £25,397,000 £2,024,000 25.0p	Final Comparison -4.3% Loss to Profit Loss to Profit
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	Final - Dec 88 (Restated) £24,070,000 £1,362,000 3.32p		Final - Dec 89 £134,586,000 £7,863,000 12.76p	Final Comparison +459.1% +477.3% +284.3%
Tele-computing plc	Results Revenue PBT EPS	Final - Sep 88 (Restated) £3,109,000 (£312,000) (4.31p)		Final - Sep 89 £2,519,080 (£777,000) (16.47p)	Final Comparison -19.0% Loss to Loss Loss to Loss
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	Interim - Oct 88 £1,557,000 £129,000 0.8p	Final - Apr 89 £11,961,000 £1,318,000 0.86p (5 months only)	Interim - Oct 89 £17,362,000 £1,117,000 0.7p	Interim Comparison +1015% +765% -12.5%

Computing Services Share Price Index One Year Old

Our Computing Services Index is one year old. It was started on 15th April 1989; set at 1000. The Index includes 41 quoted companies - both full listings and USM. During the first year the index has declined by 5.23% whereas the FTSE 100 has increased by 6.5%. In other words, computing services companies have underperformed the market as a whole by 11%.

However, this is better than the 25% underperformance recorded at the end of December 89; due, it must be said, to the bad performance of the FTSE 100 rather than any real recovery in the fortunes of computing services companies. *A depressing picture.*



The out and out winner in the year has been **Microfocus** with their shares over 2.5 times higher than in April 89. It was excellent to see Microfocus receiving a well deserved Queens Award to Industry on 21st April.

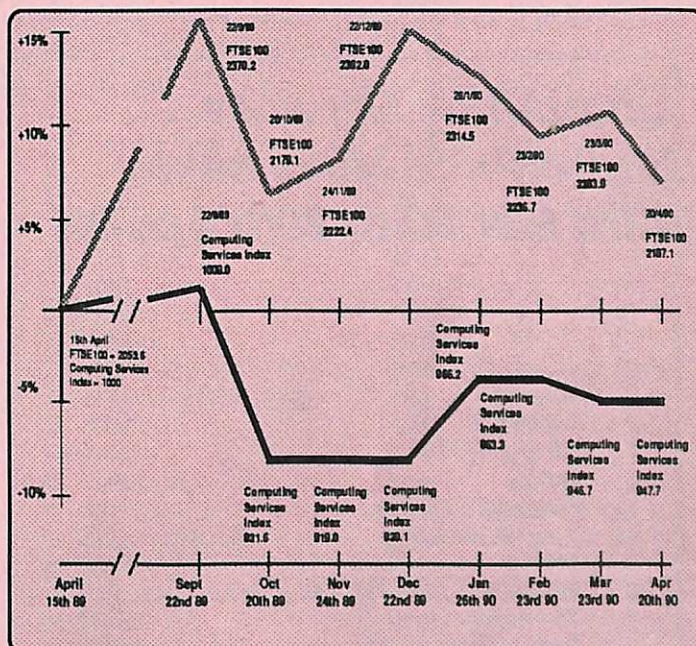
The major loser was **Total** - their shares are just 30% of their value a year ago. In fact, the worst performer was really **Memory** - suspended since Feb 90 - as the shares are now probably worth nothing.

A majority - 56% - of shares are worth less than in April 89. Only 15 of the 41 companies have outperformed the FTSE 100. *Surely the next year must be better?*

Computing Services Share Price Index 20th Apr 90

Index Rank	15th April 1989 = 1000	Share Price 20/4/90	Index 23/3/90
1	MicroFocus	5.58	2695.65
2	Hoskyns Group	3.46	1687.80
3	Capita Group * Joined Apr 89	1.67	1670.00
4	Admiral	2.20	1594.20
5	ITL * Exit Feb 90	0.44	1571.43
6	Rolfe & Nolan	2.43	1446.43
7	Sage * Joined Dec 89	1.88	1446.15
8	Sema Group	4.45	1399.37
9	Apricot	0.85	1349.21
10	Sanderson	2.93	1246.81
11	Sherwood	1.45	1208.33
12	Macro 4	2.96	1193.55
13	Kewill	2.88	1138.34
14	Butler Cox * Joined May 89	1.99	1137.14
15	Computer People	2.68	1102.88
16	P-E International	2.54	1045.27
17	SD SCICON	0.79	1012.82
18	P&P	2.25	1008.97
19	Learmonth & Burchett	1.17	975.00
20	MMT	1.63	970.24
21	Quotient	1.05	913.04
22	INSTEM	0.90	900.00
23	Systems Reliability	1.04	832.00
24	Trace * Joined Jun 89	1.03	824.00
25	Logica	2.98	816.44
26	Pegasus	2.93	798.37
27	Headland	0.30	697.67
28	Electronic Data Proc.	0.67	683.67
29	Misys	2.25	559.70
30	Ferrari	0.07	551.02
31	UCL * Exit Feb 90	0.45	529.41
32	NMW	0.31	516.67
33	Microgen	1.09	465.81
34	Synapse	1.18	406.90
35	Star	0.48	400.00
36	MBS	0.18	382.98
37	Telecomputing	0.35	376.34
38	Optim	0.16	347.83
39	Radius	0.46	333.33
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.



Further embarrassment for Telecomputing

Telecomputing suffered the embarrassment of having to send out a revised annual report and accounts within a week as their accountant's, Touche Ross, had not signed off the previous version. See page 3.

This all arose due to a court decision on 29th March - when the original accounts were mailed. You may remember that Telecomputing's founder - Bernard Panton - sold 29.8% of the company to Ferrari in Nov 89. In Jan, Telecomputing obtained an injunction against Panton for defamation. On 29th March, the court ordered that Panton's costs for this injunction be awarded against Telecomputing and further ordered that an enquiry should be held into the damages sustained. "Mr Panton's advisers have indicated that in addition to damages for loss of earnings, travel expenses and legal costs he may seek damages for loss of value in his shareholding".

Panton sold most of his Telecomputing shares to Ferrari for £1.2m at 87p per share but still retained 366,000 valued then at £318k. However the share price has since fallen to just 35p losing Panton £190k in the process. However, Telecomputing said "the Board have been advised that such claims are unfounded and if made we will strenuously resist them, and accordingly consider that the liability to the Company in total, including its own costs, will not exceed £55,000". Source - Telecomputing Annual Report and Accounts.

Index static for month

The Computing services Index increased by just 0.11% in the last month whilst the FTSE 100 decreased by 4.24%.

The clear winner was **Sherwood** - up 26% - which reported a £2m profit for 1989 compared to a £2m loss in 1988 - see page 4. **Quotient** also gained 13% due to continued recovery hopes. **P-E** gained 11% on excellent and consistent 1989 results (page 2).

Apricot gained 10% on the news of the sale of their hardware manufacturing activities to Mitsubishi. The sale realised £39m which was in excess of the £25m most city analysts expected. Assuming a pre-tax profit of c£12m for the next year and a P/E of c12, the shares could be worth £1.10 rather than the 85p at present. Source - Microscope 18th April

Computing Services Index 20th April 1990

April 15th 1989 = 1000

947.70

There were 13 losers in the month. The largest share decline was achieved by **Headland**. Their results were disastrous (see page 4) and the shares declined by 25%. We suspect that there may well be more institutional investors eager to divest which could depress the shares even more. **Ferrari** also declined by 21% even though the Chairman said "1990 will prove a very rewarding year for shareholders".

As readers will know, we find it impossible to understand the continued decline in the **Misys** share price. They were down a further 13% in the month and are now just a half of the high achieved just 6 months ago. Our analysis on page 1 shows that Misys has had the best PBT growth record over the last 5 years and achieved the number 3 position for increase in EPS. With over 60% of business coming from UNIX activities, Misys is well positioned for the future. At the current share price and a capitalisation of just £69m, Misys could even become vulnerable to a takeover themselves.

Changes in Indices	Computing Services Index	FTSE 100
Month 23rd Mar 90 to 20th April 90	0.11%	-4.24%
Year 15th April 89 to 20th April 90	-5.23%	+6.30%

Better than expected results from the US majors

Q1 1990 results from the US majors provided a tonic for the sector. **IBM** reported revenues up 11.4% and profits up 12.4% at \$14.2b - exceeding market expectations. The RS 6000 launch is reported to have gone well and has boosted orders in the period. **DEC**, which had earlier indicated the possibility of its first ever quarterly loss, surprised the market with Q1 profits of \$175m and revenues, at \$3.26b - up 4% on last year. **Tandem** also announced a 58% increase in profits. Even **Unisys** managed to cut its losses to just \$3.2m compared to \$78.7m in Q1 1989.

On the software front, **Microsoft** reported an 83% increase in profits - to \$75.2m - on revenues up 58% at \$311m. Non US business now represents 58% of Microsoft's revenue.

These results fly in the face of the many pundits that have been forecasting even harder times for the major players in our industry. We should remember that we are part of a global industry which will continue to have double figure growth rates for the rest of the 90s. As long as companies are fleet of foot, there is every reason why many should continue to earn good returns for shareholders.

Computing Services Share Price Movements 23rd Mar.90 to 20th Apr.90

		% Change 23/3/90 to 20/4/90
1	Sherwood	26.09
2	Quotient	12.90
3	P-E International	11.40
4	Apricot	10.39
5	Electronic Data Proc.	6.35
6	Systems Reliability	4.00
7	NMW	3.33
8	Butler Cox * Joined May 89	3.11
9	MicroFocus	2.76
10	Sage * Joined Dec 89	2.73
11	Rolfe & Nolan	2.10
12	Macro 4	2.07
13	Logica	2.05
14	MMT	1.87
15	Kewill	1.77
16	Sema Group	1.60
17	Computer People	1.13
18	P&P	0.90
19	Capita Group * Joined Apr 89	0.60
20	Hoskyns Group	0.00
21	ITL * Exit Feb 90	0.00
22	Sanderson	0.00
23	UCL * Exit Feb 90	0.00
24	Synapse	0.00
25	MBS	0.00
26	Optim	0.00
27	Memory Computer (Susp)	0.00
28	Total Systems	0.00
29	SD SCICON	-1.25
30	Admiral	-2.22
31	Star	-4.00
32	Trace * Joined Jun 89	-4.63
33	Radius	-6.12
34	Microgen	-6.84
35	Telecomputing	-7.89
36	Pegasus	-9.29
37	INSTEM	-10.00
38	Learmonth & Burchett	-10.00
39	Misys	-12.79
40	Ferrari	-20.59
41	Headland	-25.00

Capitalisation Monitor

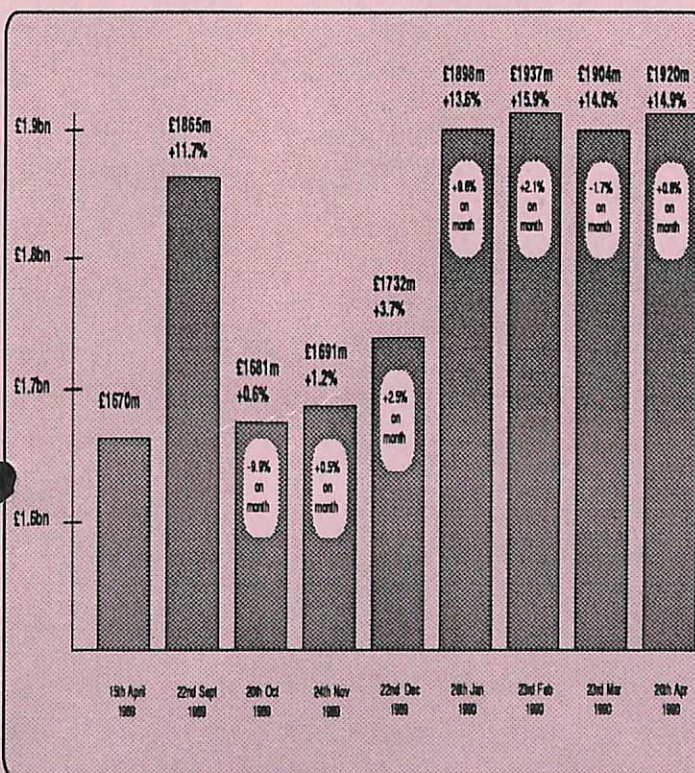
The total capitalisation of UK quoted computing services companies increased by 0.8% to £1.92 billion in the month. Since the start of the monitor - a year ago - the value of quoted companies has increased by 14.9% - or £250m - largely because of **Sema** and **Hoskyns**. This is a depressingly low growth considering the number of acquisitions and rights issues in the last year.

The largest gain in the last month was **Kewill** - up £8.7m - as a result of fund raising. **Apricot** was also up £7.5m - as a result of the hardware manufacturing division sale.

The largest loser was **Misys** - down £10.4m. Misys is now valued 7% lower than in April 1989 despite spending £50m on the acquisition of TIS, Enterprise, Mentor and Team in the period.

In the last year, the major capitalisation winner has been **Microfocus** (+183%) followed by **Apricot** (+101%) and the losers were **Total** (-70%) and **Radius** (-67%).

In the last year **Hoskyns** has put on £129m followed by **Sema** gaining £113m. **Microgen** has shed £46.2m, **Logica** is down £40m and **MBS** is down £38m.



The other acquisitions

Apart from **Wootton Jeffreys Consultants** (p4), **Pericom** (p12) and **Apricot** (p11), the other acquisitions in April included **Trace** purchasing 51% of **Wespac** for £50,000 and **Tetra** selling its "profitable" engineering division, **Focalpoint**, to **Logitek** for "up to £1m". Computer 2000, of West Germany, has bought a 49% stake in PC distributor **Frontline** providing a "large cash injection of many millions".

Computing Services Capitalisation- 20th Apr'90

Rank		Capitalisation 20/4/90 £m	% Change since 15/4/89	% Change since 23/3/90
1	Sema Group	£396.89	39.70	1.61
2	Hoskyns Group	£293.75	78.25	0.02
3	Logica	£181.12	-17.97	2.10
4	SD SCICON	£159.19	1.26	-1.25
5	P&P	£82.13	9.95	0.90
6	Apricot	£79.52	100.80	10.44
7	MicroFocus	£72.96	182.77	2.75
8	Misys	£70.64	-6.81	-12.79
9	Macro 4	£65.52	21.56	2.22
10	Systems Reliability	£44.20	1.61	4.00
11	Microgen	£42.23	-52.23	-6.79
12	P-E International	£41.34	4.39	11.43
13	Computer People	£36.40	18.57	1.11
14	Sage * Joined Dec 89	£30.65	44.59	2.86
15	Kewill	£30.27	80.20	40.16
16	Sanderson	£24.60	24.87	0.00
17	Admiral	£23.86	63.41	-2.22
18	MBS	£23.40	-61.70	0.00
19	Ferrari	£19.46	-0.72	-15.03
20	Pegasus	£17.87	-9.76	-9.30
21	MMT	£17.20	-0.58	1.78
22	Capita Group * Joined Apr 89	£14.70	81.48	0.68
23	Headland	£14.52	25.14	-24.79
24	Quotient	£14.30	-8.33	12.60
25	Learmonth & Burchett	£14.23	-2.50	-9.91
26	ITL * Exit Feb 90	£13.70	57.65	0.00
27	Trace * Joined Jun 89	£13.50	-16.15	-4.93
28	Optim	£12.80	84.70	0.00
29	Butler Cox * Joined May 89	£10.65	14.31	3.43
30	Radius	£10.60	-66.77	-6.19
31	Sherwood	£7.60	23.46	26.12
32	Rolfe & Nolan	£6.52	49.20	2.19
33	NMW	£6.37	-48.22	3.23
34	Electronic Data Proc.	£5.78	-31.65	6.30
35	Synapse	£4.16	-59.22	0.00
36	UCL * Exit Feb 90	£4.10	-47.10	0.00
37	INSTEM	£4.05	-10.00	-10.00
38	Star	£3.26	-59.85	-4.12
39	Memory Computer	£2.56	-68.12	0.00
40	Telecomputing	£1.66	-62.42	-8.02
41	Total Systems	£1.60	-69.81	0.00

Bye, Bye Apricot...Hello, again, to ACT

Sir John Harvey-Jones' BBC2 "troubleshooter" programme on Apricot was great stuff. "Borrowing Apricot's watch to tell them the time", it made it seem laughable that any UK company should consider making a go of volume PC production. Just like most consultants, Sir John was able to identify the problem when it was staring him in the face, but it took Apricot's Chairman - Roger Foster - to produce the inevitable solution.

Apricot's hardware manufacturing business has now been sold to Mitsubishi for £39m. Apricot will revert to its old name - ACT - in May. ACT will then be a fully fledged computing services group again. Devoid of any borrowings it will concentrate on support and maintenance, systems integration and software for the financial services and medicare sectors.

It's a shame, but the "back to basics" future could be bright.

Ferrari wins Pericom

As reported last month, **Ferrari** has now made an agreed offer for **Pericom** valuing the company at £3.975m. the offer is made on the basis "55.9.5% cumulative convertible redeemable preference shares of £1 each for every 100 ordinary Pericom shares". Singer & Friendlander will also make a separate recommended offer to acquire all or any preference shares from accepting Pericom shareholders at £1 or the equivalent of 53p per Pericom share. Pericom also announced its results for year. Revenue was slightly increased at £20m but a loss of £718K was reported against £1.3m last time).

Ferrari seem to be making a habit out of buying loss making businesses. 1989 acquisitions included loss making **UCL** and **Blue Chip Systems** as well as the original reverse take over of **Cifer**. They also bought a 29.8% stake in loss making **Telecomputing** (see page 3). But to be fair to them, their current results are surprisingly good. (see page 4) Ferrari certainly has the hard management style necessary to turn such businesses around. However, we do question the medium term viability of the third party maintenance activity which seems to be major reason for most of the purchases made to date.

In next month's System House

In June's System House we will be presenting a major review of the financial performance of the UK computing services industry in 1989 - including details of the largest unquoted companies.

Plus all the usual features, comment and rumours.

Synapse Chairman, Bill Williams, steps down

Synapse, which provides system software to large IBM mainframe users, announced losses of £249K for the six months to Jan 90 compared to profits of £463K last time. We reported in the April 90 edition of System House that the Chairman's previous optimistic statements to shareholders had been somewhat misplaced. On 9th April it was announced that Chairman and CEO, Bill Williams, was to step down "to pursue personal interests".

1990 Holway Report published this month

The 1990 edition of the Holway Report is published in May. This year's report is over 900 pages in length and contains financial details of over **600 of the leading UK computing services companies**. There is the usual analysis of the performance of the sector including average profit growth, profit margins, staff costs etc and the much quoted review of directors earnings and what they are worth. Detailed P&L and Balance Sheet details for 5 years are provided for over 600 cos.

After three editions, the Holway Report is considered as the industry's "Bible" and is much quoted in the press and company report and accounts....**It costs just £825.**

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1990

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