

System House

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

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June 1990

"Private" companies outperform quoted companies in 1989

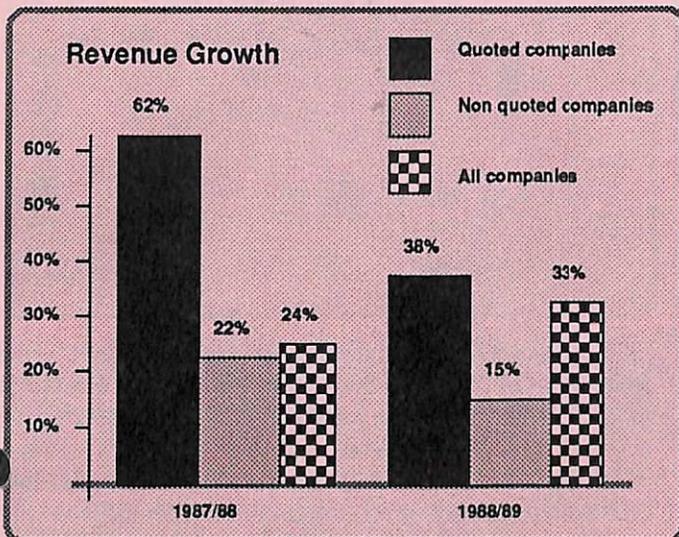
Although "private" UK computing services companies and those which are subsidiaries of larger groups had under half the revenue growth of their quoted brothers (15% compared to 38%), they managed to achieve a higher profits growth (22% compared to 18%) in 1989.

That is just one of the findings from the 1990 "Holway Report" that we have just published.

The granddaddy of all private companies - CMG - also announced a sparkling year with revenues up 33% at £86.5m and PBT up a massive 70% at £8.6m. Cash increased by 55% to £8.4m which was specially good as they paid £2.3m cash for Mayne Nickless in 1989. CMG is owned by its employees and has 1,600 shareholders. Their annual report ends with the "are keen to continue the operation of CMG as an independent partnership in full control of our own destiny".

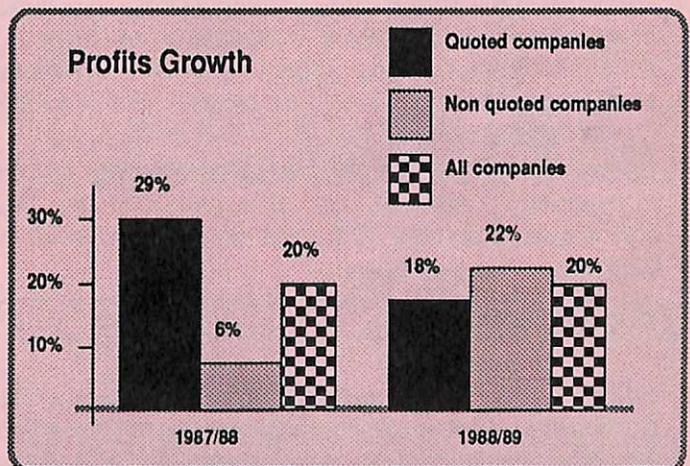
FI Group, another of our truly private companies, also increased PBT by 48% to £1.5m on revenues up 25% at £19.1m.

Istel also announced its first results since the £180m AT&T acquisition in 1989. Profits increased by 33% to £11.1m on revenues up 28% at £109m.



We have written before on the excellent results from Synon (see Feb 90 edition). Profits grew 300% to £5.7m in 1989 which probably pleased General Atlantic who paid £11.6m for its 32% stake in January 1990. We are highly impressed with Synon's growth in US revenue from £2.8m to £10m in the last year. Financial accounting software house Coda also grew profits by 211% to £1.8m (see Jan 90 edition). PC systems house Sapphire also doubled profits to £1m.

Oracle (UK) (see page 4) managed a 90% increase in PBT to £2.7m and Centrefille, owned by the Nat West, boosted their profits by 51% to £11.6m. Datastream, owned by Dun & Bradstreet and now up for sale, managed a 37% increase to £13.5m.



These really are excellent performances. Perhaps one of the reasons is a lack of any major acquisition activity. Obviously, it is much easier to purchase companies when you can use paper rather than cash. These top rating "private" companies have "stuck with the knitting" and have concentrated on their focused activities.

Perhaps there is an important message here for the quoted sector.

In this month's System House

This edition of *System House* contains the usual review of the latest company results. We also review director's remuneration and the latest DTI figures for the industry.

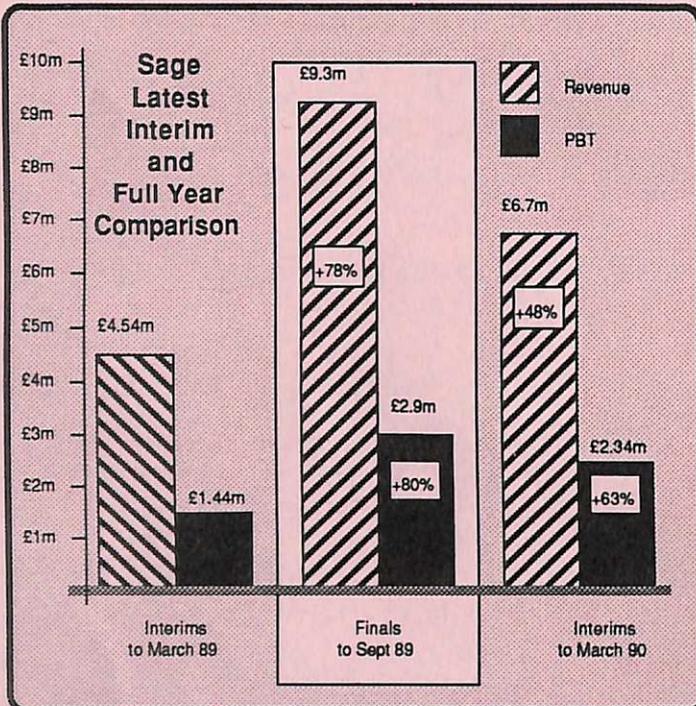
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Review of the Latest Company Results

Excellent "first" results from Sage

Sage develops and markets PC based products - particularly accounting systems. It was the fourth, and last, new entrant to the Stock Exchange in Dec 1989.

The first interim results, to 31st March 90, are excellent showing PBT up 63% at £2.34m and EPS up 56%. EPS growth has topped 50% in each of their last three full years.



"The strategy of promoting non-software products - stationery, software maintenance and training - has led to them becoming significant contributors to revenue" Although their networking product - MainLAN "continues to make good progress", the main product - Sky Software - faces "strong competition".

However, the Sage Board believes that growth will be maintained. Certainly, no one can criticise the performance - and the 35% profit margins - achieved to date. Source - Sage Press Release

Buoyant Admiral

When Clay Brendish, Admiral's Chairman, addressed the AGM on 30th April he told shareholders that the group had exceeded their budget for the first quarter of 1990 and that he was confident that the year would show strong growth.

"Our order book remains high and is currently in excess of £13m underpinning our expectation of healthy progress in the year as a whole".

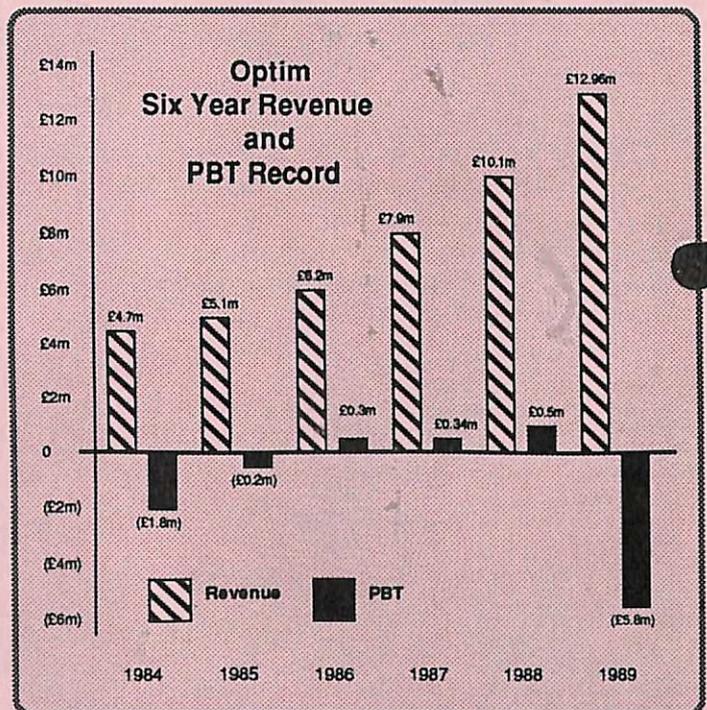
Admiral might be considered by some as boring but their financial performance is both impressive and consistent with PBT up 65% for 1989 at £2.65m (see April *System House*). PBT and EPS growth has gone hand in hand because of an absence of acquisition activity.

Mr Brendish also announced that Admiral Computing Group would in future be called Admiral plc to reflect "the evolution of the company". This was one of the more mystifying parts of his otherwise bullish presentation.

Optim clocks up largest loss for 1989 and falls to SRH

The long overdue results for the Optim Group for the year to 30th October 1989 were announced on 30th April 1990. They showed that the group had managed the largest recorded loss - £5.84m - of any UK quoted computing services company for 1989. This was achieved on revenues up 29% at £12.96m.

Launched onto the USM in 1987 at 70p, Optim offer a range of turnkey products including field service, retail, hotels and manufacturing. Their profit record had been far from good. Shares now stand at just 16.5p.



Optim was yet another example of rather "optimistic" press releases. On 31st Aug 89, Optim announced a first half loss of £471K with the words "it is anticipated that the second half year turnover will be somewhat greater returning your company to profitability". Soon after this Optim entered acquisition negotiations with Zellix in what was expected to be a "reverse takeover" valuing Zellix at £2.37m. These negotiations were not consummated.

In late Oct 89 after Optim's bankers, Brown Shipley, had demanded debt repayments, **Systems Reliability (SRH)** mounted a £7m rescue and took 13.3% of the equity. Brown Shipley converted their £6m debt into equity.

Latest results show a £2.7m operating loss which was made worse by £2.2m of exceptional items relating to stock and WIP write offs (£639K), "abortive ventures" (£226K), bad debt provisions (£414K) and group rationalisation costs (£169K). In addition, it looks as if the Zellix abortive acquisition negotiations cost Optim a further £320k in extraordinary items.

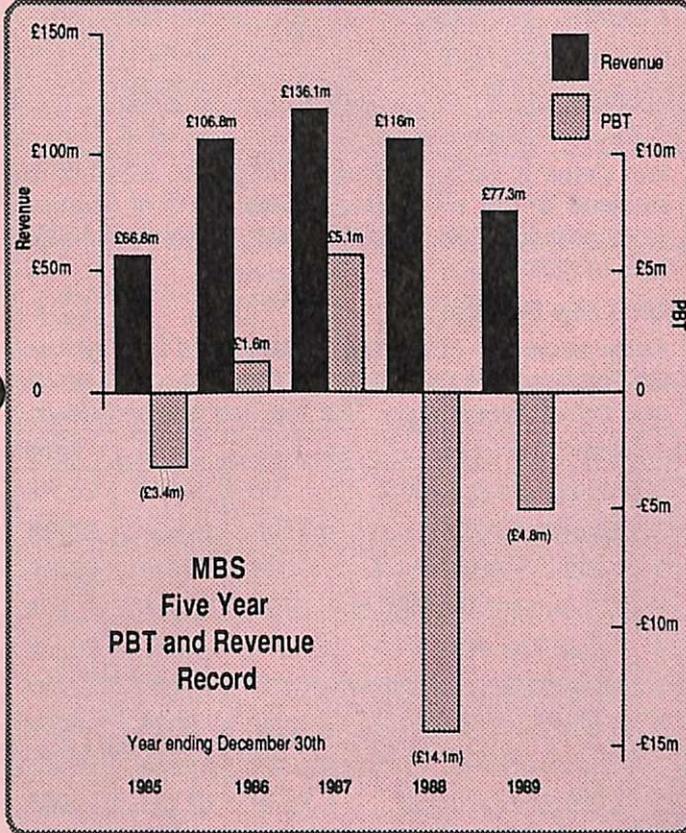
Then on 15th May 90 SRH announced an agreed bid (well, 45.3% of shareholders had accepted) for Optim valuing the company at £12.8m and each ordinary share at 16p.

A wholly depressing picture which only adds to the gloom in the sector and removes yet another company from the quoted sector.

MBS tale of woe continues?

We are sure there were many shareholders who thought that the nightmare story of MBS was all but over. Although the latest figures, for the full year to Dec 89, show a loss reduction from £14.1m to £4.8m; mainly by stemming the losses on the discontinued businesses. The continuing businesses only improved operating profits from £600K in 1988 to £1.2m in 1989.

The five year record is...well, a nightmare.



And if anyone thinks the worst is over, they should consider the following statements in MBS's press release.

"Consequent upon the board's decision to dispose of a substantial proportion of MBS's business, the group found significant difficulties in building its continued business in the second half of 1989. The effects of these difficulties are also being felt in the first half of 1990"

"The sum of £5.6m is believed to be due to MBS in respect of the net assets sold to Technology plc". This sum seems to be in dispute as "a significant provision has been created to allow for the uncertainty surrounding the sums that MBS believes are due".

MBS also announced the acquisition of the loss making TPM activities of Exchange Telegraph Company for £1 - further details see page 8. Clive Richards resigned from the board and 100 Extel employees were made redundant.

We have serious doubts over the viability of third party maintenance organisations which are not supported by a product sales operation. This is evidenced by the failure of Derek Lewis's Technology plc to pass over any maintenance contracts as had been expected by MBS. The MBS and Extel maintenance base has been under severe attack by several competitors over the last year and this must be contributing towards the declared continuing difficulties of both operations.

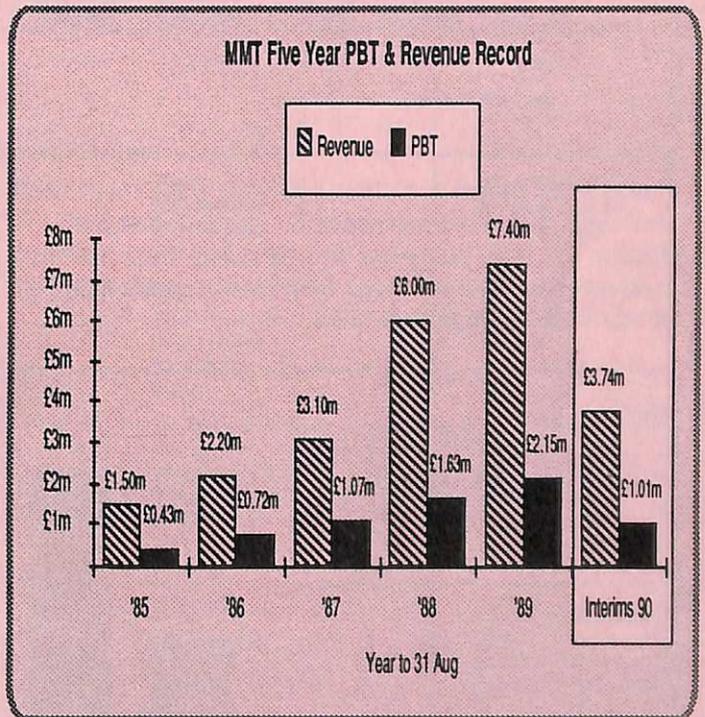
MMT growth slowdown

We have been a fan of MMT for sometime, but the latest interim figures show a more modest 10% increase in PBT to £1.01m for the six months to 28th Feb 90. EPS grew by just 3.6%.

MMT is one of the UK's few "software facilities management" companies with household names like Marks & Spencers as clients. In 1989, MMT took a 7.85% stake in Quotient.

The joint venture with C E Heath plc in the IBM AS/400 market had showed a "small loss" at the end of the period. Meanwhile, MMT (Training) initially incurred substantial costs, all sensibly taken in the period. Initial bookings had been slower than hoped for, but "an excellent order from British Telecomm perhaps signals a breakthrough".

Chairman, Mike Tilbrook, ended his statement saying "The marketplace is difficult at present and utilisation of fee earning staff is currently 95% as opposed to almost 100% in earlier years". We can think of many organisations which would be ecstatic to achieve 95%!



Schroders back Sherwood

Schroder Securities focused on Sherwood in its latest monthly report. "The high level of recurring revenues and the progressive acceptance of new product offerings will ensure that revenues will grow by some 12% - and profits would reach £2.68m - in 1990 despite dull economic forecasts". This would mean that the prospective P/E will fall to 4.6. "This is a significant discount to other analogous small software houses and more than reflects the remote possibility that the problems of the past (Sherwood lost £1.97m in 1988 but recovered to a £2m profit in 1989) may recur".

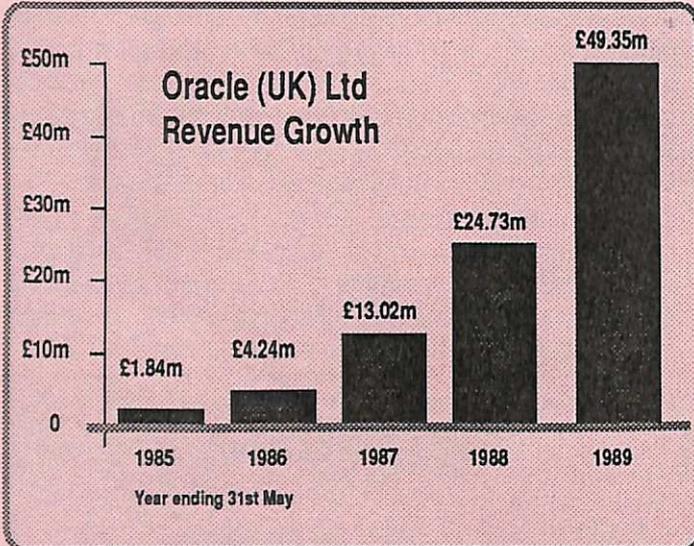
Ferrari - Correction

Sorry to Bob Woodland... Ferrari's revenue was £32m last year, not £37m as we reported in May's *System House*. Ferrari's margin is therefore a much healthier 4.4%.

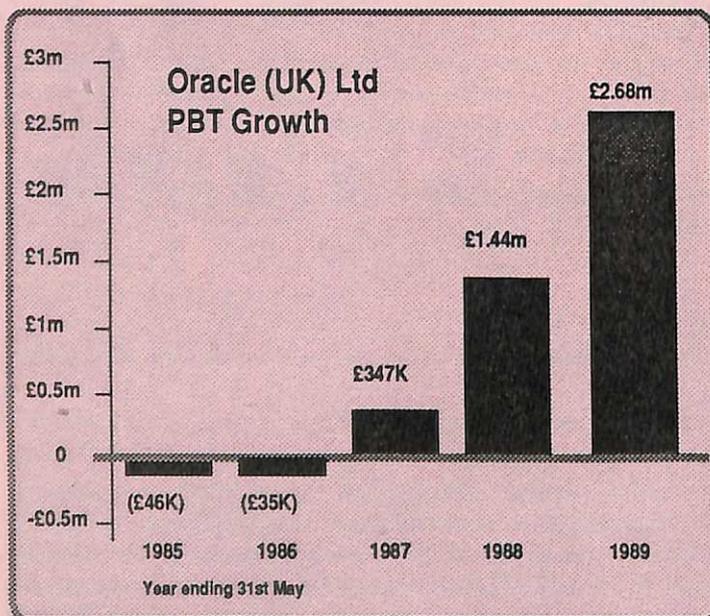
Oracle (UK) doubles revenue and profit

Oracle Corporation clocked up a 101.7% increase in revenue to \$669m in 1989 and an 85% increase in net income to \$86m. These results were equalled by the superb results from Oracle (UK) Ltd which we have obtained in the last month.

Revenue growth in the UK, under the leadership of Geoff Squire, has been exemplary; rising by a factor of 27 in the four years since 1985.



Profits have grown in a similar fashion to £2.7m in 1989. However, that does represent a margin of just 5.4% - a fraction of that achieved by the UK's best software products companies. **Macro 4** achieved a profit margin of nearly 50%, yet again, in 1989.



Oracle's highest paid director - which might be assumed to be the ebullient Mr Squire - managed to increase his pay almost in line with profits growth; up 58% from £240K pa to £379K pa. Geoff Squire complained last year when we missed his name from our ranking tables of the highest paid executives in the business. We can assure him that, in the absence of figures from BIS, his undoubtedly well deserved salary still does not put him in the number one position this year. See next article.

Whilst on the subject of pay....

Business Week's analysis (May 7th 1990) of the highest paid US executives showed that Craig McCaw - CEO of loss making McCaw Cellular earned \$54m in 1989 - that's £125,000 per working day. Nobody in the computing industry came close to that; but few were on the poverty line. The "Top Five" list is as follows:

Name	Company	1989 Compensation
J Sculley	Apple CEO	\$2251K
J Canion	Compaq	\$2115K
L Ellisson	Oracle	\$1734K
J Young	HP	\$1250K
C Exley	NCR	\$1166K

Ken Olsen of DEC received \$950K, John Akers of IBM received \$713K whereas J Shirley, CEO of Microsoft, received just \$315K; after increasing revenues in 1989 by 30% to \$862m.

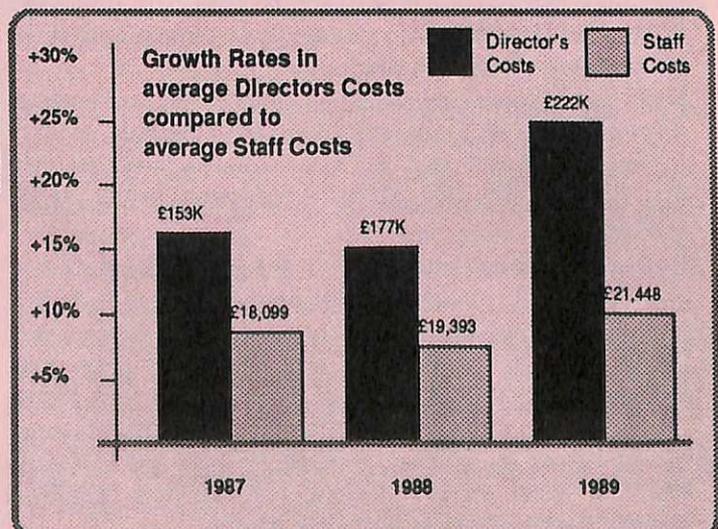
UK's Top Earners

As far as we can determine, P Barbour of Microgen was the Top Earner in 1989. He took home no salary but was paid £404K in dividends. The Top Ten was as follows:

	Name/Company	Remuneration	Dividend	Total
1	P Barbour/Microgen	£0	£404K	£404K
2	G Squire/Oracle	£379K	£0K	£379K
3	P Fisher/P&P	£0	£334K	£334K
4	P Thompson/Sanderson	£46K	£236K	£282K
5	T Kelly/Macro 4	£161K	£65K	£226K
6	P Swinstead/SD-Scicon	£111K	£112K	£223K
7	G Cox/Butler Cox	£188K	£32K	£220K
8	K Lomax/Misys	£113K	£103K	£216K
9	C Brendish/Admiral	£86K	£123K	£209K
10	G Unwin/Hoskyns	£171K	£6K	£177K

Director's Costs Surge Ahead

The average "highest paid director" in a UK company services company earned £66K in 1989 - up 16% on the previous year. There has been much criticism of the high level of growth in director's salaries whilst the "workers" are asked to observe pay restraint. Our industry is no different. The growth in director's costs - that is the average total cost of running boards - increased by 26% in 1989; that's 2.5 times faster than average staff costs.



Richard Holway Limited - Results Service

Admiral 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%
ACT plc	Results Revenue PBT EPS	Interim - Sept 88 £46,645,000 £4,150,000 4.31p	Final - Mar 89 £105,773,000 £6,012,000 6.22p	Interim - 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 £32,003,000 £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%
Kewill plc	Results Revenue PBT EPS	Interim - Sept 88 £5,414,000 £726,000 7.52p	Final - Mar 89 £11,325,000 £1,805,000 19.71p	Interim - Sept 89 £8,064,000 £1,125,000 10.12p	Interim Comparison +48.9% +55.0% +34.6%
LBMS plc	Results Revenue PBT EPS	Interim - Oct 88 £5,491,000 £373,000 2.0p	Final - Apr 89 £12,774,000 £1,453,000 7.9p	Interim - Oct 89 £8,032,000 £513,000 2.7p	Interim Comparison +46.3% +37.5% +35%
Logica plc	Results Revenue PBT EPS	Interim - Dec 88 £77,270,000 £7,440,000 7.9p	Final - Jun 89 £179,505,000 £18,835,000 20.0p	Interim - Dec 89 £91,341,000 £6,022,000 6.2p	Interim Comparison +18.2% -19.1% -21.5%
Logtek plc	Results Revenue PBT EPS	Interim - Sept 88 £13,000,000 £1,311,000 7.07p	Final - Mar 89 £29,200,387 £2,752,013 15.28p	Interim - Sept 89 £18,700,000 £1,360,000 6.69p	Interim Comparison +43.8% +3.7% -5.4%

Richard Holway Limited - Results Service

Macro 4 plc	Results Revenue PBT EPS	Interim - Dec 88 £5,875,000 £2,775,000 7.9p	Final - Jun 89 £13,500,000 £6,501,000 18.4p	Interim - Dec 89 £6,947,000 £3,279,000 9.2p	Interim Comparison +18.2% +18.2% +16.5%
MBS plc	Results Revenue PBT EPS	Final - Dec 88 £116,283,000 (14,095,000) (14.6p)		Final - Dec 89 £77,317,000 (£4,817,000) (4.7p)	Final Comparison -33.5% Loss both Loss both
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	Interim - Feb 89 £3,464,000 £922,000 5.5p	Final - Aug 89 £7,443,898 £2,151,953 12.8p	Interim - Feb 90 £3,735,000 £1,012,000 5.7p	Interim Comparison +7.9% +9.8% +3.6%
NMW Computers plc	Results Revenue PBT EPS	Final - Dec 88 £10,318,000 (£1,327,000) (4.6p)		Final - Dec 89 £9,119,000 £87,000 0.2p	Final Comparison -11.6% Loss to profit Loss to profit
Optim plc	Results Revenue PBT EPS	Final - Oct 88 Restated £10,064,000 (£606,000) (6.82p)		Final - Oct 89 £12,963,000 (£5,838,000) (40.0p)	Final Comparison +28.8% Loss both Loss both
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	Interim - Jan 88 £3,910,000 £1,290,000 15.6p	Final - Jul 89 £10,873,000 £3,084,000 36.7p	Interim - Jan 90 £7,830,000 £1,340,000 16.1p	Interim Comparison +100.3% +3.9% +3.2%
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 +61.5% -31.2% -45.6%
Rolfe & Nolan plc	Results Revenue PBT EPS	Interim - Aug 88 £1,892,000 £350,000 8.1p	Final - Feb 89 £3,841,000 £757,000 18.7p	Interim - Aug 89 £2,250,000 £517,000 12.9p	Interim Comparison +18.9% +47.7% +59.3%

Richard Holway Limited - Results Service

Sage Group plc	Results Revenue PBT EPS	Interim - Mar 89 £4,539,000 £1,438,000 6.2p	Final - Sep 89 £9,304,000 £2,911,000 12.6p	Interim - Mar 90 £6,703,000 £2,341,000 7.65p	Interim Comparison +47.7% +62.8% +55.6%
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 both Loss both
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%
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%

New Index.... New Results Service

We have added **Logitek** to our results service but have deleted **ITL**, **UCL** and **Memory**. It looks as if we will have to delete **Optim** from next month (see page 2).

If any of our readers believe that we should include any other quoted companies we would be delighted to hear from them.

Do we really deserve our press?

I have had my fair share of misquotes in the trade press. You may have read *Microscope* of 16th May quoting me as saying that **Logica** was an example of a company that had got its acquisition strategy right - I actually said **Hoskyns**, but no matter. This week I was asked by another journalist, who was writing a piece on the financial performance of sector, to explain to him what PBT, P/E ratios and EPS meant. *I give up.....* Richard Holway

Acquisitions

MBS and Exchange Telegraph

At the same time as the announcement of their financial results for 1989 (see page 3), MBS announced their acquisition of the Exchange Telegraph Company - "one of the UK's largest third party maintenance operations" which will "significantly strengthen MBS' position as the No 2 in the UK market for TPM and will considerably improve the company's cost/income ratio". MBS paid £1 for the entire share capital of Extel "a company with zero net assets and contracted annual revenue of approx. £6m". However, immediately after the acquisition Extel's debt was £1m "which will be repaid during the second half of 1990."

P&P and Perrin Systems

P&P has bought Perrin Systems which specialises in the sale of UNIX based HP workstations and associated systems and support. Perrin had profits of £739K on revenues of £6.3m in year to August 1989 and made a further £423K on revenues of £4.8m in the seven months to March 1990. The initial consideration was £3.5m with a further £1m "depending on the attainment by Perrin of gross profit of at least £1.485m for the year following the completion of the acquisition".

P&P had previously little or no UNIX activity and this was an obvious hole in an otherwise well structured operation. As UNIX workstations is one of the fastest growing markets around, the move looks strategically right.

Systems Reliability

The largest acquisition this month was the agreed bid by SRH for Optim valuing Optim at £12.8m (see page 2). Then on 24th May, SRH announced its purchase of Paris based CPG and Conseil Assistance Electronique for an initial £513K plus a further Fr 2m depending on profits.

Other acquisitions

Other acquisitions include AT&T Istel's purchase of DEC software house CSD from the Atlantic Computers receiver for an undisclosed sum. Comshare has acquired US software and consultancy activity Orlon Systems. AIM acquired the business and assets of Circulas Research from troubled Asset Technology. The main reason was to acquire the CEEMORE UNIX based communications product, with current contracts worth in excess of £1m, to add to AIM's extensive UNIX software offerings.

CMG made its fourth acquisition in six months of WG financial systems specialist Sysco. Sysco has revenues of £6.5m. "We anticipate spending £20m on acquisitions this year" says CMG's international director Ron White. CMG predicts WG revenues of £40m within three years.

Source Computer Weekly 10th Mar 1990.

Macro 4 purchased the CMAP range of system software from VM/CMS of San Diego, USA. \$2.2m in cash was paid which included \$0.4m advance royalties. Macro 4 is assigned maintenance and rental revenue of \$420K.

MBO at Hawke

Hawke Systems, the DEC reseller, with an annual revenue of around £12m, was bought from Lex Electronics by its directors with the help of £3m from 3i and £2m of working capital from the Bank of Scotland.

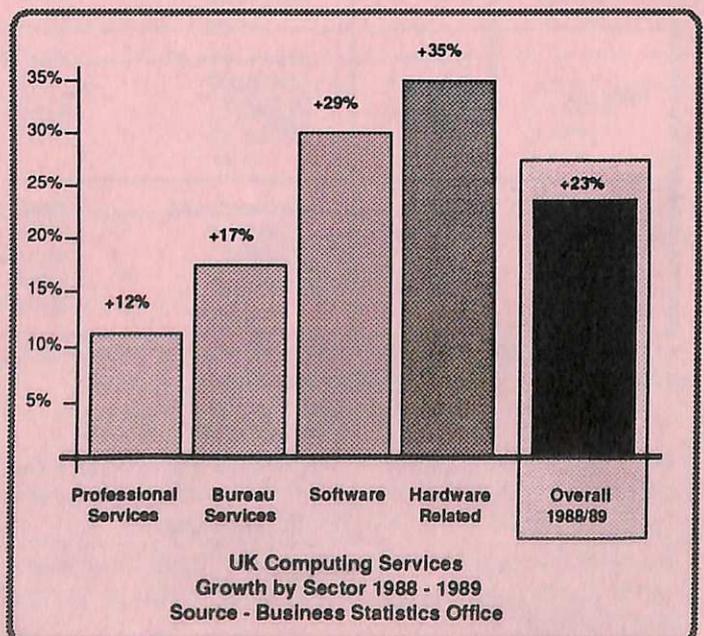
Latest DTI statistics show 19% growth

The latest Business Monitor, produced by the Business Statistics Office of the DTI for Q4 1989, shows a 19% increase in billings - down from the 22% growth experienced in the previous quarter (See System House March 90)

All figures £000	1989 4th Quarter	Increase %
BUREAU SERVICES		
Database services	43,867	-4
Value added network serv.	34,135	43
Other services	114,545	14
TOTAL BUREAU SERVICES	192,547	13
SOFTWARE		
Bespoke Software	165,938	8
Software Products	125,056	46
Software Support & Maint.	40,744	30
TOTAL SOFTWARE	331,738	23
HARDWARE		
Hardware	92,192	79
Hardware Maintenance	17,558	12
TOTAL HARDWARE	109,750	63
PROFESSIONAL SERVICES		
Consulting	81,550	-10
Education & Training	24,258	5
Other unclassified	49,073	23
TOTAL PROFESSIONAL SERVICES & OTHER	154,881	1
TOTAL BILLINGS	788,916	19

The largest increase was in hardware - up 79%. So the predicted increase in systems integration business is starting to happen. High growth in VANs (+43%) and software products (+46%) were rather less surprising.

The BSO also issued comparisons between 1988 and 1989 showing a 23% increase in total billings. Again the largest increase was in hardware - up 43%. VANs were up 42% and software products up 41%. Worst performer was consulting - up just 3% - and education and training - up just 6%. Indeed, the professional services sector as a whole grew by only 12%, as shown in the chart below.



Computing Services Share Price Index

As can be seen below, we have revamped our index deleting **ITL**, **UCL** and **Memory** and adding **Logitek** and **Vistec**. Both these new companies have underperformed the FTSE 100 in the period. Vistec's share price is now under half that in April 1989.

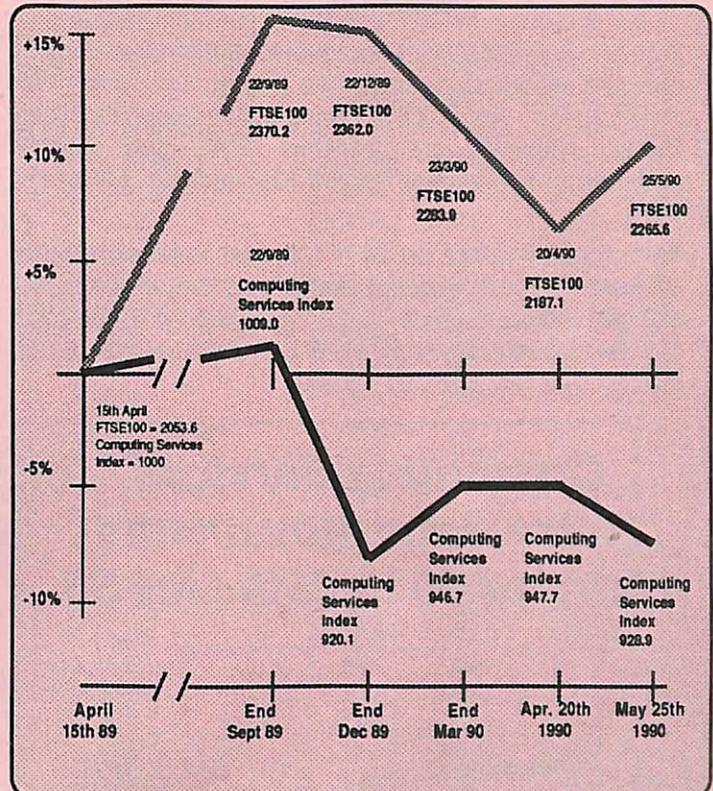
Microfocus continues to extend its lead with a share price up threefold. Only 11 out of the 40 quoted companies have outperformed the FTSE 100. 57% of companies have a lower share price now than in April 1989.

Radius has knocked **Total** off its bottom position. Radius declared profits down 31% in April and have warned that profits would not "significantly increase in the current year"

Computing Services Share Price Index 25th May 90

Index Rank	15th April 1989 = 1000	Share Price 25/5/90	Index 25/5/90
1	Microfocus ●	6.18	2985.50
2	Capita ●	1.69	1690.00
3	Sema Group ●	5.30	1666.67
4	Hoskyns ●	3.40	1658.53
5	Admiral ●	2.15	1557.97
6	Sage Group ● Outperformed	1.95	1500.00
7	Rolfe & Nolan ● FTSE 100	2.48	1476.19
8	Sanderson ●	2.78	1182.98
9	ACT ●	0.73	1158.73
10	Macro 4 ●	2.83	1141.13
11	Kewill ●	2.87	1134.39
12	P-E International	2.58	1061.73
13	Computer People	2.56	1053.50
14	Butler Cox	1.83	1045.71
15	Sherwood	1.25	1041.66
16	SD-Scicon	0.80	1025.64
17	INSTEM	1.00	1000.00
18	Quotient	1.12	973.91
19	P&P	2.14	959.64
20	Learmonth & Burchett	1.08	900.00
21	Systems Reliability	1.05	840.00
22	Trace	1.03	824.00
23	Logica	2.99	819.18
24	MMT	1.37	815.48
25	Logitek	1.41	814.23
26	Electronic Data Processing	0.75	765.30
27	Pegasus	2.55	694.83
28	NMW	0.36	600.00
29	Headland	0.23	534.88
30	Ferrari	0.60	489.80
31	Microgen	1.11	474.36
32	Vistec	0.11	458.89
33	Telecomputing	0.42	451.61
34	Misys	1.60	398.01
35	Optim	0.17	358.70
36	Synapse	1.00	344.83
37	Star	0.40	333.33
38	Total	0.18	330.19
39	MBS	0.15	319.15
40	Radius	0.38	275.36

Note: Index set at 1000 on 15th April 1989. Any new entrants to the market are allocated an index of 1000 based on the issue price.



Proteus comes to the USM

Dealings in the shares of Proteus commenced on 29th May; after a placing by Allied Provincial at 84p valuing the company at some £18.05m. Only half the computing services companies currently quoted have capitalisation higher than £18m. Proteus develops software product (Prometheus) for the modelling and design of biomolecular structures and offers associated design services.

However, the issue is not for the fainthearted. Proteus has incurred costs of £1.67m to date and lost £588K in their last year to Sept 89. No revenue has so far been earned. However, revenue of £5.1m is projected for the next 12 months. Based on this projection "the price earnings multiple at the placing price would be some 9 times".

Financial problems?

Black Monday occurred almost three years ago but the after effects are increasingly being felt by the computing services industry. **Hoskyns**, **SD-Scicon** and **Data Logic** have been amongst leading companies to announce redundancies in their financial services divisions in the last month.

The problem is that although the stock market has recovered to pre-Black Monday levels, trading volumes continue to slump as the private investor, in particular, can earn more in the safety of a building society account. Low volumes are hitting the bureau processing sector as well. **Quotient's** chairman, Tim Simon, said at their AGM "We are effected by the low trading volumes in the bond and equities sector of the market along with volatile currency and interest rates". Brian Bibby, **NMW's** chairman, repeated this message at their AGM on 25th May - "This year has seen lower levels than last with a particularly marked reduction over the last four to six weeks".

Sector misses out on FTSE 100 rise

May witnessed the worst underperformance of computing services stocks since our index began. The FTSE 100 raced ahead - up by 3.6% - but the Computing Services Index slumped by another 2%. The sector underperformance over the last 13 months is now nearly 19%.

Telecomputing put on 20% now that the dispute with Bernard Panton is resolved. Sema is up 19% on continued bid speculation. Sema's rating - at an historic P/E of over 40 - seems artificially high. NMW benefitted from the stake built up by SCH (see this page).

Computing Services Share Price Movements 20th Apr.90 to 25th May 90

Rank		% Change 20/4/90 to 25/5/90
1	Telecomputing	20.00
2	Sema Group	19.10
3	NMW	16.13
4	Electronic Data Processing	11.94
5	INSTEM	11.11
6	Microfocus	10.75
7	Total	9.38
8	Quotient	6.67
9	Sage Group	3.72
10	Optim	3.13
11	Rolfe & Nolan	2.06
12	Microgen	1.83
13	P-E International	1.57
14	SD-Scicon	1.27
15	Capita	1.20
16	Systems Reliability	0.96
17	Logica	0.34
18	Trace	0.00
19	Kewill	-0.35
20	Logitek	-0.70
21	Hoskyns	-1.73
22	Admiral	-2.27
23	Macro 4	-4.39
24	Computer People	-4.48
25	P&P	-4.89
26	Sanderson	-5.12
27	Learmonth & Burchett	-7.69
28	Butler Cox	-8.04
29	Ferrari	-11.11
30	Pegasus	-12.97
31	Sherwood	-13.79
32	ACT	-14.12
33	Synapse	-15.25
34	MMT	-15.95
35	MBS	-16.67
36	Star	-16.67
37	Radius	-17.39
38	Vistec	-22.22
39	Headland	-23.33
40	Misys	-28.89

Computing Services Index 25th May 1990

April 15th 1989 = 1000

928.90

At the other end of the scale, Misys slumped by another 29% to 160p. Misys hit 450p only 6 months ago and now have a capitalisation of just £50m. The locked in shareholders of the many companies acquired by Misys in the last two years must be feeling pretty sick. Misys year ends on 31st May so we will have to wait until August to learn whether there was any real justification for the slump.

Headland also lost 23% to 23p. As the Sunday Times "Share of the Decade", they had risen to 48p in February.

The worst performing shares in May were all companies which had undertaken multiple acquisitions in the last year whereas the best performing shares have stuck with organic growth. But acquisition activity continues apace as can be seen from the extensive list on page 8.

Another growth area, at present, is computing services companies going into receivership. We will await the official statistics with interest but suggest all readers take increased care.

Changes in Indices	Computing Services Index	FTSE 100
Month 20th April 90 to 25th May 90	-1.98%	+3.59%
13 mons 15th April 89 to 25th May 90	-7.11%	+10.32%

Specialist Computer Holdings buys into NMW

It was announced on 16th May 1990 that Specialist Computer Holdings (SCH) had acquired a 8.3% holding in quoted NMW Computers.

Chairman Peter Rigby says that SCH "are the only group in the UK that offers IBM related services from PCs through 6150 to AS/400 and our IBM mainframe services"

Source Microscope 31st May 1989. Latest published results to March 89 show revenue of £47m. The PC operation, Specialist Computer Centres, made PBT of £2.2m on revenues of £31.8m.

Financial services bureau, NMW, on the other hand, had experienced a loss of £1.3m in 1988 but has recovered to a profit of £87K in 1989.

As we have said in previous editions, NMW was the only company with a capitalisation less than their nett asset value.

NMW's shares increased over 20% on the news. The next few months could be very interesting. **We wonder what Rigby's intentions really are?**

Note: Richard Holway, the editor of System House, is a non executive director of NMW.

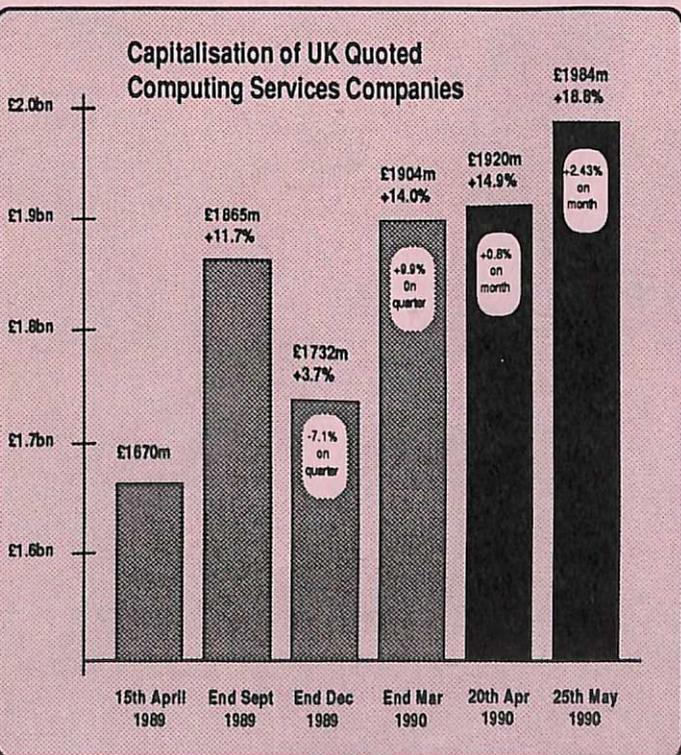
Capitalisation Monitor

The total capitalisation of quoted computing services companies increased by £64m in the month to just short of £2 billion. **Sema** alone put on £76m.

When GEC put their stake in **Hoskyns** up for sale, the difference in capitalisation between Hoskyns and Sema narrowed to just £23m. That difference has since widened to £184m. Sema's capitalisation has increased by £146m, to £473m, since the start of 1990. With some of Hoskyns' current trading difficulties coming to light, it now appears that the £350m price tag was considerably over the top and this could explain the delay in the announcement of the Hoskyns' sale. In fact, we have heard rumours that the sale may be off altogether; but if we printed all the rumours we hear about Hoskyns we could fill another magazine.

Ferrari put on £14.1m, even though their share price fell by 5%, due to the capital restructuring surrounding the Pericom purchase.

In April 1989, **Misys**' capitalisation was £67m and their share price stood at £4.02. Misys shed £20.4m in the month and now have a capitalisation of just £50m and a share price of £1.60. Since April 89, Misys has "spent" £50m on TIS, Mentor, Team and Enterprise.



Watch out there's a hardware manufacturer about!
IBM has taken stakes in over 90 international system houses in the last 18 months. In May they added a "5% to 8.3%" stake in US **Valld Logic Systems** paying \$11.2m and a 10% stake in Canadian PC business forms company **Delrina**.
 Now **DEC** seems to be joining the act with an announcement of a possible 18% stake in **Ingres**.

Computing Services Capitalisation- 25th May 90

Rank		Capitalisation 25/5/90 £m	% Change since 15/4/89	% Change since 20/4/90	£m Change since 20/4/90
1	Sema Group	£472.66	66.37	19.09	£75.76
2	Hoskyns	£288.60	75.12	-1.74	(£5.10)
3	Logica	£181.72	-17.70	0.34	£0.62
4	SD-Scicon	£161.25	2.58	1.29	£2.05
5	P&P	£84.91	13.66	3.42	£2.81
6	Microfocus	£80.80	213.18	10.68	£7.80
7	ACT	£68.30	72.47	-14.09	(£11.20)
8	Macro 4	£62.61	16.15	-4.42	(£2.89)
9	Misys	£50.27	-33.68	-28.89	(£20.43)
10	Systems Reliability	£48.46	11.41	9.64	£4.26
11	Microgen	£42.97	-51.39	1.83	£0.77
12	P-E International	£42.00	6.06	1.45	£0.60
13	Computer People	£34.73	13.12	-4.59	(£1.67)
14	Ferrari	£32.30	64.80	77.47	£14.10
15	Sage Group	£31.80	50.00	3.58	£1.10
16	Kewill	£27.30	62.50	-9.90	(£3.00)
17	Logitek	£23.80	-19.40	-0.83	(£0.20)
18	Sanderson	£23.38	18.70	-4.94	(£1.22)
19	Admiral	£23.30	59.59	-2.10	(£0.50)
20	MBS	£19.50	-68.09	-16.67	(£3.90)
21	Pegasus	£15.58	-21.30	-12.94	(£2.32)
22	Quotient	£15.30	-1.90	7.01	£1.00
23	Capita	£14.82	83.02	0.85	£0.12
24	MMT	£14.50	-16.18	-15.70	(£2.70)
25	Trace	£13.50	-16.15	0.00	£0.00
26	Optim	£13.20	90.48	3.13	£0.40
27	Learmonth & Burchett	£13.16	-9.89	-7.35	(£1.04)
28	Vistec	£11.80	108.85	-21.85	(£3.30)
29	Headland	£11.13	-4.03	-23.23	(£3.37)
30	Butler Cox	£9.80	5.12	-7.58	(£0.80)
31	Radius	£8.77	-72.51	-17.26	(£1.83)
32	NMW	£7.40	-39.81	16.22	£1.03
33	Rolfe & Nolan	£6.65	52.18	2.00	£0.13
34	Sherwood	£6.55	6.38	-13.89	(£1.06)
35	Electronic Data Processing	£6.47	-23.52	11.94	£0.69
36	INSTEM	£4.50	0.00	11.11	£0.45
37	Synapse	£3.53	-65.39	-15.14	(£0.63)
38	Star	£2.72	-66.50	-16.56	(£0.54)
39	Telecomputing	£2.67	-39.80	59.70	£1.00
40	Total	£1.75	-66.98	9.37	£0.15

Windows start to close for Apple

The launch of Windows 3.0 by **Microsoft** on 22nd May will, we believe, be remembered as an important event in the development of our industry. Windows basically provides the graphic user interface (GUI), that all Apple Mac fanatics love, on Intel machines. Windows will be offered free by many hardware suppliers and only costs \$149 if you have to buy it from Microsoft.

Apple hardware has always been expensive but people have continued to buy it because of its GUI and the ease of use which goes with it. Will people continue to support Apple if they can get the same facilities on cheaper and often more powerful kit? We suspect that Apple is in for a hard time.

"Analysts estimate that Windows and its related products could boost Microsoft's revenues by as much as \$500m in the next fiscal year" Source FT 23rd May 1990

Accounting system price war?

It's surprising how many of our readers sell either Tetra or Multisoft accounting systems. They have had an eventful month.

Firstly, Roy Sunley has quit as Tetra's MD to be replaced by Sean Dowling. Sunley had spent 18 months at troubled Tetra during which he disposed of two directors and over 40 staff, disposed of TPM Focalpoint and closed down the direct sales operation - Powerscourt.

Then, in early May, came the news of a 30%+ price cut in their Chameleon product, to just £750 per module. Multisoft quickly followed.

We all know the amount of support that accounting product users require - and their reluctance to pay for it. Cutting prices - and therefore the absolute profits earned by dealers - will only exacerbate the current financial problems of many of those dealers.

The market is limited anyway. You can boost volume by price cutting with mass volume products like spreadsheets and word processing but we doubt if price cutting will greatly increase volume in the accounting software market.

We think Tetra and Multisoft will rue the day the price wars started.

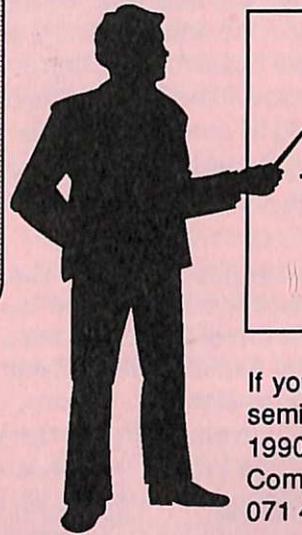
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