

System House

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

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July 1990

Recession hits industry?

There seems to be mounting evidence that the UK computing services industry is entering a period of major recession.

Although, as we have reported on many occasions, company performance has been lamentable in the last two years, there has so far been no evidence that this has been caused by general market conditions. Indeed, the most commonly used reasons for poor performance have been;

- the after effects of acquisitions
- problems experienced with overseas' activities, particularly in the US
- fixed price project overruns
- plain inadequate management

Perhaps the only companies which could genuinely blame market conditions are those servicing only the financial services sector, such as **Quotient** and **NMW**. But there is mounting evidence (since the start of 1990) that the UK computing services industry is in for a period of major recession.

The evidence.....Almost every recent company statement makes reference to UK trading problems:

Headland blamed "a recent deterioration in trading conditions in the UK computer software industry".

Hoskyns "The current economic climate in the UK...has undoubtedly affected the growth rates of the sectors in which we operate".

LBMS "a general downturn in the IT services sector...causes clients to review their investment plans".

Mlsys "Trading conditions in the months ahead would worsen considerably and in consequence his outlook was cautious". Keven Lomax quoted in the FT 2nd Jan 1990.

Sanderson "immediate progress in the UK depends upon the effects of current uncertainty and high interest rates which are influencing capital expenditure".

P-E International "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".

Logica warned of "some weakness" in the sale of UK product related professional services.

MMT "the marketplace is difficult at present".

Synapse blamed "a sluggish UK market in line with many other software organisations".

.....We could go on.

Redundancies

Every week we learn of new redundancies. This month we report of 90 job losses at **Headland**, 25 at **LBMS**, 17 at **Persona**, 17 at **Synon**. Last month we reported on job losses at **Hoskyns**, **SD-Scicon** and **Data Logic**. The people leaving are long serving and respected - the kind of staff that these companies have previously complained are in very short supply.

Debtor days

Average debtor days were running at 100 days in 1989 - up on 1988 - and interest payable on these increased debtors had risen by a massive 62% as interest rates have soared. Source - 1990 Holway Report. Of course, it is impossible to determine the current situation but the companies we are involved with all report lengthening debtor days and increased problems in obtaining payment.

Company failures

Latest reports for May show a significant increase in the number of company failures throughout the UK but a disproportionate increase in the failures within the computing services sector. That is bad for the companies themselves but it is becoming a nightmare for companies having to increase their bad debt provisions. VARs seem to be particularly vulnerable at present.

Reduced capital expenditure

Two of the largest markets served by the UK computing services industry are suffering major capital expenditure cutbacks. The **banking/financial services** sector has already started to take its toll and major cutbacks in **defence** will hurt many companies. Then we can add travel, construction, retail.....

We could well be entering a period of single figure growth rates after a decade of 20%+ growth per year.

The next period should be approached with great caution. Companies with major recurring revenue, good client relationships, positive cash balances and management who have been through recession before will be the safest havens in the period to come.

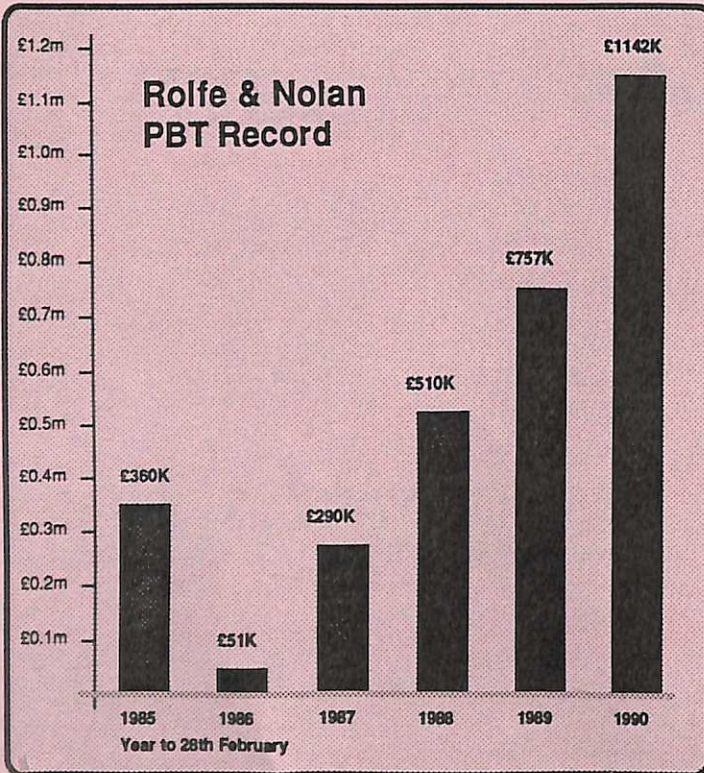
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Review of the Latest Company Results

Financial services bureau, Rolfe & Nolan, bucks trend

Rolfe & Nolan produced another set of excellent results for the full year to Feb 90. PBT increased 51% to £1.142m on revenues up 42% at £5.46m. EPS rose 48%. Cash has risen 70% to £2.72m. Apart from a major reversal in 1986, the Rolfe & Nolan record has been excellent.



Rolfe & Nolan provides bureau and software products to the financial services sector. Unlike many including NMW, Quotient, Hoskyns, Logica and SD-Scicon, they seem to be able to make continued progress in this troubled sector. However, even R&N reported that "the UK market for new bureau clients remained flat, with relatively few new entrants and some customers withdrawing from the marketplace".

Chief Executive, Michael Warburg, was particularly pleased with performance with a "near trebling in revenue to £1.6m" in continental Europe and now reports 25% of the group's revenue coming from overseas - the bulk in licence sales.

"R&N is attempting to expand its bureau division both by linking countries close to the UK to the British bureau and examining the possibility of opening new bureaux in Austria, Switzerland and West Germany". Source - FT 30th May 1990.

The board reports that "The prospects for further growth are good, though substantially dependent on the achievement of further licence sales in Continental Europe. The current year has started well".

The results caused the share price to increase by 13% in the month and the company is now one of the very few showing a 60%+ rise since our index began in April 1989.

We are sure that Rolfe & Nolan will elicit envy from many other companies.

Bright future for ACT

Sir John Harvey Jones must be feeling rather smug at the moment even though Roger Foster must be rather less pleased that the credit for the inevitable decision has been stolen from him for all time.

ACT (previously Apricot) showed PBT up 33.5% at £8m and EPS up 13.7%. The software and services part made £8.9m on revenues of £59.3m - an impressive 15% profits margin. This is the part of the business that remains with ACT after the £39m sale of the hardware manufacturing to Mitsubishi.

Roger Foster said he was "looking forward to a period of greater stability and more consistent growth. Our activities are now focussed in areas with the capability of much higher quality earnings". And so say all of us.

It was also reported that ACT was in negotiation with Mitsubishi, "as soon as the hardware deal was completed" for a wider co-operation where ACT "will provide software expertise to compliment Mitsubishi's hardware and extensive distribution channels". Source - FT 6th June 1990.

It was also reported that Singer and Friedlander has increased its stake in ACT to 20.2% but had informed ACT "that they are holding the investment on a long term basis in the expectation of future growth". It looks as though Singer and Friedlander has made at least 25% on the investment since last November.

We believe that ACT will now be one of the brighter stocks on the market for the next period and we wish them well now they have truly returned to the computing services sector.

LBMS reports major profits downturn

Development methodology, tools and training operation, LBMS, reported final profits for the year to April 90 down 69% at just £450k on revenues up 45% at £18.5m.

Unfortunately, LBMS has lately issued a series of predictions which have not come to pass. In March 1990 they had to admit that "in Dec 89, the indications were that PBT in the second half of the year would significantly surpass those for the first half (LBMS made £513K in the first half) the board is now of the opinion that there is unlikely to be a material increase in the second half".

In fact, it would now appear that LBMS lost £60k in the second half. LBMS made four acquisitions in the last year and Chairman Burchett admitted that this had "diverted top management attention from our traditional core business" contributions from which have suffered "a temporary and unexpected dip".

LBMS suffered from the deferral of certain large software orders and "a general downturn in the IT services sector as the more pessimistic economic outlook causes clients to review their investments plans".

It looks as though it will take some time for the cost saving measures (LBMS laid off 25 staff and announced cost cuts of £1.2m) to work through into increased profits.

LBMS now joins our increasing band of companies admitting the effects of acquisition indigestion.

Headland crumbles

"More hype, less speed" really ought to be the maxim for the industry. It would be difficult to find a company which has issued more hype than Headland - at present it would be difficult to find a more depressing performer.

We have read countless times that Headland would "become an international computing services operation within five years with a turnover of £100m". Last July, Alan Cane of the FT headlined another Headland hype story with "Rebirth of a Shooting Star". We wrote to the respected Mr Cane saying that the only thing guaranteed about shooting stars was that they eventually fell to earth. Then Headland was picked as one of the "Ten Shares for the Decade" by the Sunday Times.

Readers of *System House* will know of our incredulity. In the May 90 issue, after the disastrous final results for 1989 were declared, we wrote "we suspect the worst is still to come". And so it has come to pass.

On 30th May, Headland announced that "it expected to make a significant loss in the first half of the current year". In addition, 90, or 25%, of its staff were to lose their jobs; Now, Bristow is back as CEO. Development costs for the DEC VMS version of Miracle and "a recent deterioration in trading conditions in the UK computer software industry" were blamed.

Ominously, "these factors have placed a strain on the Group's cash resources". According to *Microscope* 6th June 90, analysts say that bank debts have risen to £6m, the service charges on which must be proving quite crippling. In addition, "the Group's 1989 accounts will be delayed" so we could be seeing another retrospective readjustment.

Nic Birtles, who joined Headland from Ingres in 1989, has been demoted to Sales Director only a few months after Bristow relinquished the mantle to go save Alphameric. "I'm not much of a job changer but I love challenges" Birtles told *Computing* on his appointment - unfortunately he got both. Tony Nichols of Multisoft becomes Operations Director. Multisoft, which also suffered job losses, we understand had been budgeting a 25% growth but achieved just 5%.

Chris Stevens, who wrote the original Multisoft software, and Chris Sharp have left to form a new company - Four Front. They made the rather cutting remark that the current job losses shouldn't have a great effect on Multisoft's R&D efforts as "The commitment to R&D has been on and off for sometime. It isn't losing a lot of R&D people, because there weren't a lot before this happened"

Source - *Microscope* 6th June 1990.

We tend to believe that Headland now has the wrong people in the management slots and is developing the wrong products. Multisoft seems to be about the only useful part of the group now, but even they need to concentrate on the core product to fight off increased competition from a revitalised Tetra.

Headland seems to be giving the whole sector a bad name. Their shares crashed 35% to 15p on the news and they managed to drag other, rather better managed, companies in the sector with them.

We still suspect that even worse news could surface and we would not be surprised if Headland was sold. But at least it may put a stop to the hype for a while.

July 1990

Excellent results at Hoskyns, but growth slows

Hoskyns, the largest supplier of computing services to the UK market, announced revenue up 28% at £112m and PBT up 21% at £8.2m in their interims to April 90. EPS increased 17%. However, last year's interim comparisons showed PBT up 80% and EPS up 75%.

Hoskyns now claims to be largest computer services education and training supplier in the UK and have opened new offices in the US to offer these training services. This accolade can be added to that of "largest UK FM supplier"; Hoskyns signed 15 new FM contracts in the last 6 months, three of which were with ex-Plessey companies.

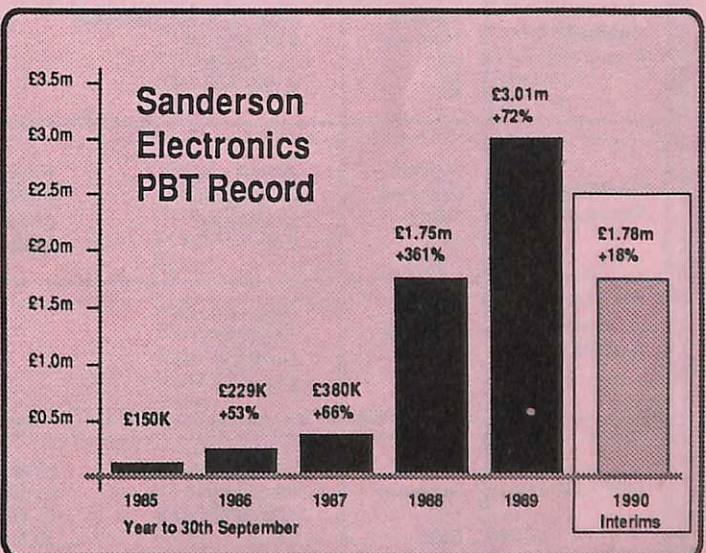
However Executive Chairman, Geoff Unwin, commented that "The current economic climate in the UK, driven by high interest rates and subsequent low business confidence, has undoubtedly affected the growth rates of the sectors in which we operate. In addition, uncertainty over the ultimate ownership of the Group has not helped and we hope to see an early resolution to this matter.... The Group itself is healthy and continues to display a reassuring resilience and we expect to report another year of solid performance".

We still expect Hoskyns to produce over £16m this year.

Sanderson PICKs the right recipe

Sanderson Electronics was launched onto the USM in May 1988 at 130p. Their shares now stand at 272p, over 110% higher. Few other companies can equal that.

Latest interims show an 18% increase in PBT to £1.78m with EPS up 22%. Surprisingly, revenue only increased by 4% to £6.5m.



Showing again the value of high quality recurring revenue; maintenance, software licence and support now earns Sanderson's £15m pa. But the main reason for their continued success is their "stick to the knitting" approach with their focus on PICK systems. Sanderson now has 49% of US Pick hardware vendor **General Automation** and the right to increase this to 51% for a further £130K. This and other purchases have, however, cost Sanderson an increase in interest payable to £146K against a credit of £32K last time.

Chairman, Paul Thompson, says that "Immediate progress in the UK depends upon the effects of current uncertainty and high interest rates which are influencing capital expenditure decisions". Source - Sanderson Press Release.

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	Final - Mar 89 £105,773,000 £6,012,000 6.22p		Final - Mar 90 £140,712,000 £8,026,000 7.07p	Final Comparison +33.0% -33.5% -13.7%
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	Interim - Apl 89 £87,300,000 £6,730,000 5.4p	Final - Oct 89 £188,706,000 £15,229,000 23.9p	Interim - Apl 90 £111,700,000 £8,160,000 6.3p	Interim Comparison +27.9% +21.2% +16.9%
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	Final - Apr 89 £12,774,000 £1,453,000 7.9p		Final - Apr 90 £18,470,000 £450,000 2.3p	Final Comparison +44.6% -69.0% -70.9%
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%
Logitek 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%
Roife & Nolan plc	Results Revenue PBT EPS	Final - Feb 89 £3,841,000 £757,000 18.7p		Final - Feb 90 £5,460,000 £1,142,000 27.6p	Final Comparison +42.2% +50.9% +47.6%

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	Interim - Mar 89 £6,187,000 £1,509,000 11.5p	Final - Sep 89 £12,008,000 £3,013,000 23p	Interim - Mar 90 £6,446,000 £1,780,000 14.0p	Interim Comparison +4.2% +18.0% +21.7%
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%

Proteus makes impressive USM debut

Proteus came to the USM on 29th May (see June System House) at 84p and quickly rose 13% to 95p. Given the current state of the market, the obvious risks in the operation and the lack of any profits or trading record, the welcome given by the USM is particularly surprising.

We will add Proteus to our results service in due course.

World Software buys into Sherwood

World Software, who bought Volmac's share in Sema and sold it to Schneider who are in the Paribas camp rather than friendly to CGS, has acquired 71% of Sherwood's preference shares which, assuming full conversion, represents 17.8% of the Sherwood's enlarged issued share capital.

The preference shares were bought from B&C.

Computing Services Shareholdings

Since 1st June 1990, it has been mandatory to notify the Stock Exchange of any shareholdings in excess of 3% - the previous limit was 5%. We have spent the last month collecting these notifications which we are producing in a report.

Perhaps the most interesting notification was the 4.5% holding that **Paribas** has in **Admiral**. They also have a 39% stake in **Sema** - which makes Paribas, in value terms, the largest "non-trade" investor in the sector. You will have to draw your own conclusions of the possible significance of these stakes.

The largest single stake held by a UK investment house is **CIN's** 6.8% stake in **Sema** valued at around £33m. Given the recent share price performance of **Sema**, the British Coal and British Rail Pension Schemes - which are managed by **CIN** - should be rather pleased.

But the largest and most widespread investor is clearly the **Scottish Amicable** with a massive thirteen declared shareholdings in the sector. Their stakes over 3% are currently valued at over £38m in the following companies:

• Admiral	4.34%
• ACT	5.67%
• LBMS	4.69%
• Logica	7.16%
• Logitek	4.20%
• Macro 4	8.58%
• Microfocus	9.71%
• MIsys	4.40%
• MMT	8.48%
• P&P	4.50%
• Pegasus	6.80%
• Quotient	8.34%
• Telecomputing	8.35%

However, nine of these companies are showing a decrease in value in since April 1989.

The **Prudential** is the second largest investor - by number - with stakes valued at £23m in seven companies:

• Headland	5.48%
• Microfocus	7.00%
• Microgen	8.03%
• NMW	4.60%
• Pegasus	6.70%
• Rolfe & Nolan	7.20%
• SD-Scicon	7.82%

Although the results of the above companies have been mixed, on a weighted investment basis the Pru is probably showing a very handsome profit since April 1989.

Investors In Industry - 3i - is perhaps showing the most canny investment strategy. 3i invests in many unquoted computing services companies but often decides to sell when those companies are acquired or go public. However, their continued investments in **Capita**, **Sanderson** and **Sherwood** are all showing a profit since April 1989. 3i might wish they had sold their **Vistec** stake.

Another canny investor has been **Morgan Grenfell** whose £30m stakes in **SD-Scicon** and **Sanderson** are both showing growth in the last year.

On the other side of the coin, **TR Technology** has seen two of its three declared stakes plummet in the last year. They have holdings currently worth £2m invested in:

• Capita	7.70%
• Headland	7.27%
• NMW	4.69%

But it is probably **Sun Alliance** and **Close** who have most to cry over with their single declared stakes in **Headland**.

Although there are pension fund investments in many computing services companies, the **DRG Pension Fund** has done well so far with its investments in **Butler Cox**, **Instem** and **Sherwood**. The **Mars Pension Fund** has investments in **Instem**, **Rolfe & Nolan**, **Sherwood**, **Telecomputing** and **Total**. The **British Rail Pension Fund** has investments in **Telecomputing**, **Microgen** and

SD-Scicon.

Of course, the largest body of shareholders are still current or ex-directors of the companies in our industry. **Pete Fisher** of **P&P** (c£20.5m) and **Pam Fisher** also of **P&P** (c£19.2m) are the clear leaders. Other major shareholders include **Philip Swinstead** with a stake currently valued at over £11m in **SD-Scicon**, **Reynolds** of **Microfocus** (c£13.8m), **P Thompson** of **Sanderson** (c£8.7m), **Clay Brendish** from **Admiral** (c£7.8m), **P O'Grady**, Chairman of **Microfocus** (c£7.5m), **P Barbour** of **Microgen** (c£6.7m), **A Wylie** of the **Sage Group** (c£5.7m),

and **A Lambie** of **Computer People** (£5.4m)

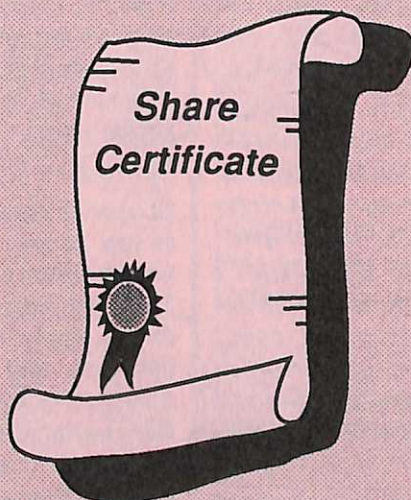
That just leaves the three largest, and currently most newsworthy investments, in the UK computing services industry:

• Cap Gemini Sogeti	Sema	24%
• GEC (ex Plessey)	Hoskyns	70%
• British Aerospace	SD Scicon	22.7%

You can be assured that you will read much more about these investments in the months to come as two are currently up for sale and the "hostile" **CGS** stake has boosted the **Sema** share price for some considerable time.

As readers will know, we believe that each of our top four CSI companies will be in foreign ownership within the next three years. Therefore, these key investments will determine the eventual control of our largest companies and have a significant influence on the whole of the sector.

Richard Holway Limited will be publishing the complete list of investments in UK computing services companies in excess of 3% in July. The report will cost a modest £95. See back page for ordering details.



Acquisitions & disposals

Capita, the rapidly expanding quoted system house and FM supplier, has acquired consulting engineers **JE Greatorex** (JEG). The maximum consideration is £9m of which £5m is payable on completion. "On the basis of JEG PBT of £1.047m for the year to end 1989 and a tax charge of 35% this represents an historic exit P/E of 7.35 times and the deferred consideration, payable when JEG achieve PBT of £2.05m represents a future exit P/E of 6.15 times" Source Capita Press Release.

Granada Computer Services, the amalgam of CFM, DPCE, Mainstay and others involved in the TPM field, has acquired New Jersey based **Essex Computer Services**. Essex has revenues of just \$5m. Researchers Input reckon that Granada is now the largest TPM in Western Europe with revenues of \$310m. Given Granada's declared problems in assimilating the previous acquisitions, we remain sceptical.

Logitek continued its acquisition activity (they purchased **Advansys** for £10.1m in July 89) with the purchase of **Microdrive**. Microdrive, which made PBT of £170K on revenues of £836K to year ending March 89, supplies software products to the publishing sector. Maximum consideration is £2.926m. £1.34m will be paid initially with the remainder related to profits over the next two years.

Trace is yet another acquisitive company with **Image**, **Prospect**, **Gordon & Gotch** and **Micrologic** all purchased in the last year. This month they added **UNIX VAR**, **Proteus**, for a sum which the company does not consider to be "significant". Proteus had revenues of £4m last year. Trace's latest interims showed PBT up just 10% and EPS down 4%. We hope they have the ability to assimilate companies this rapidly.

Microgen has disposed of **Microgen Equipment & Supplies** (MESL) which distributed microfiche readers and consumables, for £1.5m. MESL reported PBT of £56K on revenues of £7.8m to October 1989.

Quotient has acquired **Datacorp Ltd**, which specialises in management information systems for dealing rooms. Consideration was £100k in cash. Datacorp had net assets of £471K and made a profit of £50K to Dec 89.

Other Acquisitions

Second City Systems of Birmingham has bought the business of **Joint Venture Systems** from the liquidator. This acquisition will put SCS "within range of a £10m turnover target for 1990". **Thorn EMI Computer** purchased **CCA Microrentals** from the receiver. **SD-SciCon** sold its flight simulation business to Spanish company, **Ceselsa**, for £200,000. **Optim**, itself purchased by SRH last month, acquired 26% of **Midas Systems** which specialises in software for the motor trade, for £100K. The remaining shares can be purchased in equal tranches over the next 3 years. **Technology plc** (the old **Realnew** operation that bought out **MBS'** product sales activities) has acquired DEC authorised distributor **Synergy** for an "undisclosed sum". Lewis said that he had bid unsuccessfully for **Hawke** and currently has a bid in for **Rapid Recall**. Source *Microscope* 13th June 1990. **TSL Computers** has acquired Swedish software distributor **Systprog**. **Deverill** has purchased IBM System centre, **Next Computer**.

BIS buys FM supplier - Perthcrest

When everyone involved from all sides of an acquisition is a subscriber to *System House*, we have to tread carefully in our remarks. On June 4th, **GW Thornton** announced that it had sold its subsidiary, **Perthcrest**, to **BIS** for £3.485m in cash. Perthcrest supplies mainly ICL based FM services and numbers Three Rivers, Rochford, Breckland and Spelthorne amongst its local authority FM clients. In the 9 months to 30th Sept 89, Perthcrest made PBT of £192K on revenues of £3.1m.

Thornton's paid £800K for Perthcrest in Oct 88, plus additional payments of around £140K since. The deal from Thornton's perspective therefore looks quite excellent. The exit P/E was around 20 which is a superb achievement these days.

BIS, on the other hand, had strategic reasons for paying "over the odds". They now have a foothold in the local authority FM market which most pundits agree is the place to be in the next few years.

That is a diplomatic way of saying that the deal looks good for both parties and will allow Perthcrest to expand in a way which was proving difficult within the Thornton Group.

It will be interesting to see what happens to Thornton's other IT subsidiary - **ACT Computer Services**. Bought from **Apricot** some years ago, the name is going to get a trifle confusing in future now that **Apricot** has reverted to a similar trading name.

Schroder's backs Tetra

Schroder Ventures, which has backed many companies in the sector, has invested £2m in **Tetra**. Schroder Ventures has a knack of backing the right companies and Tetra will, we are sure, benefit from such patronage. The exact equity stake remains a secret. Tetra, which develops and supplies business software, now has revenues of £24m pa and reports "sales growth...for the first quarter of 1990 up 68%". "Schroder had only made its decision to invest in Tetra following extensive discussions with industry consultants...the feedback was very good" said Carl Parker of Schroder. Source - *Microscope* 13th June 1990.

We can personally confirm the accuracy of this statement, which is more than we can do for the report on the back page of last month's *System House*. We reported that Tetra had reduced their module price to £750 and that Multisoft had followed suit. Tetra had introduced a new UNIX range - **Tetra 2000** - at around this module price but had not reduced the **Chameleon** prices. Multisoft has increased prices in the last month. We apologise for these errors.

Tetra believes it has lately been the subject of a campaign of misinformation. We will certainly be on our guard in future.

Macro 4 has bought part of its German agent, **Dialogika**, for DM2.6m (£936K) which includes the assignment of all German revenue and assets.

Little interest in Data Logic sale

It is reported that **Data Logic** has found no buyers for its financial services division. A sales price of between £3 - £4m was estimated. **Thorn EMI** and **Sema** are understood to have walked away from the deal. Source - *Computer Weekly* 14th June.

Computing Services Share Price Index

Microfocus continues to defy the laws of gravity with the fifteenth consecutive monthly rise. The shares are now 3.27 times higher than in April 1989 when our index began. Only ten out of the 40 companies have managed to outperform the FTSE 100 index.

There are now nine - or 22% - of companies with share prices less than 40% of that in April 89. **Misys** and **Headland** have been added to the club in the last month, but **MBS** has taken our wooden spoon this month.

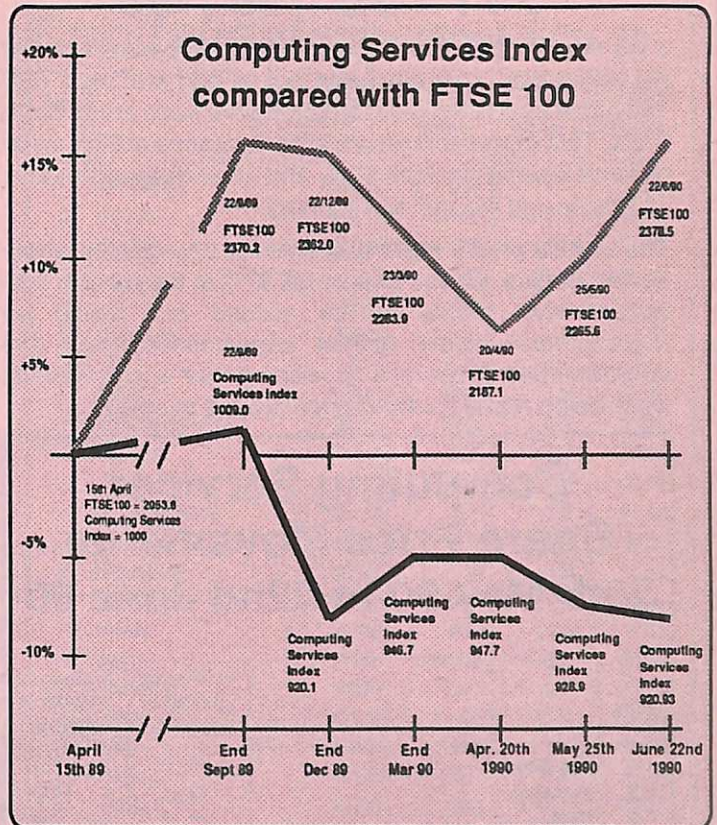
In the two months since the anniversary of our index in April 90, **Sema** has been the major gainer - up 24%. **Headland** has halved in value; closely followed by **Ferrari** with a 42% share price fall.

Computing Services Share Price Index 22nd June 90

Index Rank	15th April 1989 = 1000	Share Price 22/6/90	Index 22/6/90
1	Microfocus ●	6.78	3275.36
2	Sema Group ●	5.51	1732.70
3	Capita ●	1.67	1670.00
4	Rolfe & Nolan ●	2.78	1654.76
5	Admiral ●	2.25	1630.43
6	Sage Group ●	2.05	1576.92
7	Hoskyns ●	3.21	1565.85
8	ACT ●	0.82	1301.59
9	Sherwood ●	1.45	1208.33
10	Macro 4 ●	2.98	1201.61
11	Sanderson ●	2.70	1148.94
12	Kewlll ●	2.90	1146.25
13	Computer People ●	2.61	1074.07
14	Butler Cox ●	1.83	1045.71
15	P-E International ●	2.54	1045.27
16	P&P ●	2.28	1022.42
17	SD-Scicon ●	0.79	1012.82
18	INSTEM ●	0.98	980.00
19	Quotient ●	1.04	904.34
20	Systems Reliability ●	1.00	800.00
21	MMT ●	1.34	797.62
22	Electronic Data Processing ●	0.77	785.71
23	Logitek ●	1.36	785.35
24	Trace ●	0.98	784.00
25	Pegasus ●	2.42	659.40
26	Learmonth & Burchett ●	0.78	650.00
27	Microgen ●	1.27	542.73
28	NMW ●	0.32	533.34
29	Logica ●	1.87	512.33
30	Vistec ●	0.10	437.04
31	Telecomputing ●	0.39	419.35
32	Misys ●	1.50	373.13
33	Headland ●	0.15	348.84
34	Total ●	0.18	339.63
35	Optim ●	0.15	326.09
36	Ferrari ●	0.39	318.37
37	Synapse ●	0.92	317.24
38	Radius ●	0.43	311.59
39	Star ●	0.36	300.00
40	MBS ●	0.14	297.87

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.

July 1990



Standstill for Thorn EMI Software

Thorn EMI Software consists of **Thorn Software**, **Software Sciences** and **Datasolve**. In the year ending 31st March 1989, these operations had revenues of £123m and employed 2,500 staff. Latest equivalent figures, kindly supplied by Thorn EMI, are revenues up just 9% at £134m and 2,600 staff employed. This represented just 3.3% of Thorn EMI's £3.7 billion revenue.

During the year, however, various operations have been discontinued (eg the training business whose assets and staff were transferred to Hoskyns). Thorn EMI's other computing services operation is **Computeraid** (micro maintenance and supply), which is run as a separate business.

There has been rumour for some time that the software businesses will be sold, as THORN EMI returns to its core businesses of music, retail and rental. When Mike Smith, ex CAP MD, moved to the CEO role in Thorn EMI Software there were grand plans to grow the operation rapidly by acquisition. These have failed to materialise and the organic growth of the company must be giving considerable cause for concern.

We have predicted for sometime that our top four computing services companies will be in foreign ownership within the next three years.

It now looks as if a fifth, Thorn EMI Software, could easily be added to the list.



Congratulations to David Baldwin, Chairman of HP, for his CBE. Also to **David Fairburn** of James Martin and **Alan Mordain** of Quality Software for their OBEs.

Sector misses out AGAIN on FTSE 100 rise

If you thought that May's underperformance was the worst we would see, June has been just as bad with the FTSE 100 index up 5% but the Computing Services Index down 0.9%. This represents an underperformance of 26% since our index began in April 1989 and an underperformance of 12% in just the last two months.

The Logica profits warning seemed to depress the whole sector. Logica, whose shares fell 37% in the month, has warned that profits in the second half would be "significantly" below market expectations, their US operations would turn in a "significant loss" and provisions were being made for fixed price project overruns.

Computing Services Share Price Movements 25th May 90 to 22nd June 90

Rank		% Change 25/5/90 to 22/6/90	% Change 20/4/90 to 22/6/90
1	Sherwood	16.00	0.00
2	Microgen	14.41	16.51
3	Radius	13.16	-6.52
4	ACT	12.33	-3.53
5	Rolfe & Nolan	12.10	14.40
6	Microfocus	9.71	21.51
7	P&P	6.54	1.33
8	Macro 4	5.30	0.68
9	Sage Group	5.13	9.04
10	Admiral	4.65	2.27
11	Sema Group	3.96	23.82
12	Total	2.86	12.50
13	Electronic Data Processing	2.67	14.93
14	Computer People	1.95	-2.61
15	Kewill	1.05	0.69
16	Butler Cox	0.00	-8.04
17	Capita	-1.18	0.00
18	SD-Scicon	-1.25	0.00
19	P-E International	-1.55	0.00
20	INSTEM	-2.00	8.89
21	MMT	-2.19	-17.79
22	Sanderson	-2.88	-7.85
23	Logitek	-3.55	-4.23
24	Vistec	-4.76	-25.93
25	Systems Reliability	-4.76	-3.85
26	Trace	-4.85	-4.85
27	Pegasus	-5.10	-17.41
28	Hoskyns	-5.59	-7.23
29	Misys	-6.25	-33.33
30	MBS	-6.67	-22.22
31	Telecomputing	-7.14	11.43
32	Quotient	-7.14	-0.95
33	Synapse	-8.00	-22.03
34	Optim	-9.09	-6.25
35	Star	-10.00	-25.00
36	NMW	-11.11	3.23
37	Learmonth & Burchett	-27.78	-33.33
38	Headland	-34.78	-50.00
39	Ferrari	-35.00	-42.22
40	Logica	-37.46	-37.25

Computing Services Index 22nd June 1990

April 15th 1989 = 1000

920.93

Headland also suffered a 35% reduction in their share price because of their profits warning (see page 3). Their shares have halved in just two months. Headland now joins an increasing number of companies with a share price under 40% of that in April 1989. Another company in the "40% club" is Ferrari; who also lost another 35% this month. Perhaps investors are having second thoughts about the Pericom acquisition. LBMS were 27% lower on reduced profits (see page 2).

Sherwood led the list of gainers with a 16% increase after backing in Schrodgers latest monthly report and their forecast of a £2.7m profit this year. Rolfe & Nolan gained 12% on excellent full year results as did ACT, up 12% (for both see page 2). Investors in Microgen, whose interims are due shortly, obviously hope for better news after the recent fraud problems. The shares put on 14%. Radius increased 13% but are still 7% down on the last two months and are a continuing member of our infamous "40% club".

Changes in Indices	Computing Services Index	FTSE 100
Month 25th May 90 to 22nd June 90	-0.83%	+4.98%
14 months 15th April 89 to 22nd June 90	-7.91%	+15.82%
2 months 20th April 90 to 22nd June 1990	-2.83%	+8.75%

Coda keeps driving on

We have been a fan of Coda, the mid range financial accounting software people, for a long time as *System House* readers will know. Coda has just released their half year figures to end April 1990 with PBT up 98% at £760K. The Coda record is superb:

Coda Results

to Oct 31st	1986	1987	1988	1989	Interims 1990
Revenue	£1.5m	£2.0m	£3.3m	£6.2m	£4.09m
PBT	£321K	£493K	£585K	£1834K	£760K

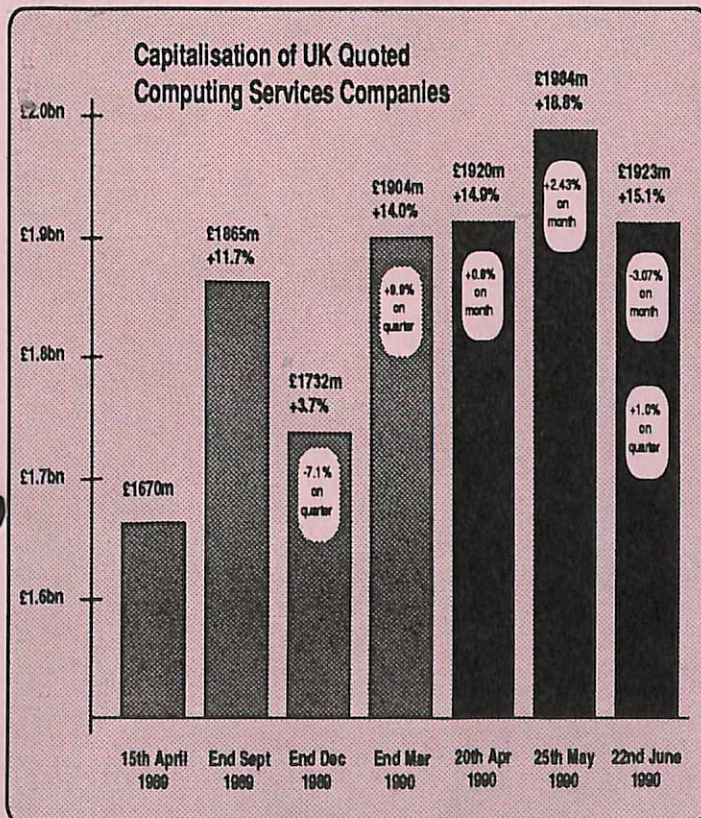
Performance has been exceptionally strong in the US VAX market with a 287% increase in revenue to \$2.02m revenue. Even UK DEC VMS sales increased 93% to £2.7m. With DEC VMS, HP 3000 and IBM AS/400 versions of Coda's IAS product, and more than likely a UNIX version on the way, MD Rodney Potts said "We continue to set ourselves ambitious turnover and profits targets. Coda is now firmly established in North America - Europe is our next challenge".

Capitalisation Monitor

For the first time in six months, the total capitalisation of UK quoted computing services companies decreased in the last month by £61m to £1.92 billion. **Logica** was the major loser falling by £68m to £113m and giving up its number three position to **SD-Scicon** (which also lost £4m in the month). Other major losers were **Hoskyns** (down £16m) and **Ferrari** (down £11m).

Sema continued to gain and this month put on another £18m to £491m. They now have a capitalisation approaching twice that of **Hoskyns**; whereas when **GEC** put **Hoskyns** up for sale the gap was a minimal £23m.

How it has all changed for **Misys**. If they were still running at their highest share price of £4.50, they would now be valued at £140m - exceeding **Logica's** capitalisation. Instead, they are now capitalised at just £46m. Now **P&P** and **Microfocus** are the nearest contenders to **Logica's** number four spot. And that would upset an order "unchanged since records began".



TR Technology barometer

TR Technology has investments in several of our readers' companies. Although latest results show EPS up 12% and net revenue of £3m, net asset value per share declined from 151.7p to 118.3p in the last year.

TR's chairman said that technology stocks "had been out of favour for some considerable time reflecting investors preference for asset stocks and the poor relative earnings potential. But the current year has started well and there was growing evidence of an upturn in the technology market particularly in the US"

Computing Services Capitalisation- 22nd June 90

Rank		Capitalisation 22/6/90 £m	% Change since 15/4/89	% Change since 25/5/90	£m Change since 25/5/90
1	Sema Group	£490.48	72.64	3.76	£17.78
2	Hoskyns	£272.45	65.32	-5.60	(£16.15)
3	SD-Scicon	£157.18	-0.01	-2.49	(£4.02)
4	Logica	£113.68	-48.51	-37.43	(£68.02)
5	P&P	£90.39	21.01	6.47	£5.49
6	Microfocus	£88.02	241.15	8.93	£7.22
7	ACT	£76.70	93.69	12.30	£8.40
8	Macro 4	£65.91	22.29	5.29	£3.31
9	Systems Reliability	£51.40	18.16	6.20	£3.00
10	Microgen	£48.36	-45.29	12.47	£5.36
11	Misys	£46.50	-38.65	-7.37	(£3.70)
12	P-E International	£41.86	5.71	-0.33	(£0.14)
13	Computer People	£35.41	15.33	1.74	£0.61
14	Sage Group	£33.40	57.55	5.03	£1.60
15	Kewill	£27.60	64.29	1.10	£0.30
16	Admiral	£24.32	66.55	4.36	£1.02
17	Logitek	£22.96	-22.24	-3.52	(£0.84)
18	Sanderson	£22.80	15.74	-2.56	(£0.60)
19	Ferrari	£21.52	9.82	-33.36	(£10.78)
20	MBS	£18.20	-70.21	-6.67	(£1.30)
21	Pegasus	£14.83	-25.11	-4.94	(£0.77)
22	Quotient	£14.63	-6.24	-4.40	(£0.67)
23	Capita	£14.30	76.54	-3.38	(£0.50)
24	MMT	£14.18	-18.02	-2.19	(£0.32)
25	Trace	£12.80	-20.50	-5.19	(£0.70)
26	Optim	£12.00	73.16	-9.09	(£1.20)
27	Vistec	£11.52	103.88	-2.38	(£0.28)
28	Learmonth & Burchett	£9.96	-31.76	-23.94	(£3.14)
29	Butler Cox	£9.78	4.94	0.00	£0.00
30	Radius	£9.70	-69.60	10.59	£0.93
31	Sherwood	£7.60	23.42	15.89	£1.04
32	Rolfe & Nolan	£7.51	71.85	12.93	£0.86
33	Headland	£7.24	-37.59	-34.77	(£3.86)
34	Electronic Data Processing	£6.65	-21.39	2.78	£0.18
35	NMW	£6.58	-46.50	-11.08	(£0.82)
36	INSTEM	£4.50	0.00	0.00	£0.00
37	Synapse	£3.25	-68.14	-7.93	(£0.28)
38	Telecomputing	£2.48	-44.02	-7.12	(£0.19)
39	Star	£2.45	-69.83	-9.93	(£0.27)
40	Total	£1.80	-66.04	0.00	£0.00

Bad eyes Apple says bye byes to Camelot

There was probably great glee at Stockley Park on the collapse of Apple grey importer Camelot "leaving debts of around £250K". There was even more celebration in the Apple Centres that we know.

But the news for Apple must have been tempered by a US TV programme which reported "worrysome" levels of radiation coming from Apple Macintosh screens. Apple shares fell 3% the following day. Source - Computing 14th June 1990. Apple (UK) has also suffered recently with resignations from the corporate sales team.

Yet more redundancies at Granada

"Granada is planning some blood-letting of its middle management layer, with up to 100 jobs at risk" Source - Computing 7th June 1990. We are not surprised. The days of the dedicated TPM are rapidly drawing to a close.

Problems of being a "smaller company"

Star was left without a market maker for 2 days last month when Fish Conway Fenton closed its market making operations. Stockbrokers, Henderson Crosthwaite, and merchant bank, Singer & Friedlander, managed to fix them up quite quickly with Phillips & Drew but as Chairman, David Blechner said "If they hadn't been able to do that, we would have had to deal with it on a matched bargain basis through our company secretary, which is absurd. I'm quite sure that there are dozens of other companies in similar positions" Source - Times 11th June 1990.

There are 11 quoted computing services companies with capitalisation of less than £10m and five less than £5m. With the flight from beta and gamma stocks into alphas - see our Share Price Index for further proof - the problems for these smaller companies are intensifying. As Blechner said "It's not fair on investors. They deserve a proper market so they can buy and sell".

Even if you find someone to deal for you, the market for these smaller companies is somewhat false. A buy or sell order for just a few shares can effect the share price significantly. **But out of every problem comes an opportunity. Many pundits are saying that smaller companies will prove to be good investments in the next year and a number of new unit trusts have been setup for that express purpose.**

In next month's System House

In August's *System House* we will continue our review of the financial performance of the UK computing services industry in 1989.

Plus all the usual features, comment and rumours.

Shareholdings Report Published

Since 1st June 1990, it has become mandatory for all shareholdings in excess of 3% to be notified to the Stock Exchange.

We have just published a report on the notifications received in the first month and combined these with details of larger shareholdings previously notified.

The report makes fascinating reading and is offered to System House subscribers for just £95. Please see order form below.



Richard Holway presents the 1990 Holway Report at CSA Seminar on 17th July 1990

If you would like to attend a half day seminar on the main findings of the 1990 Holway Report, 'phone the Computing Services Association on 071 405 2171.

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