

System House

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

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Six of the best!



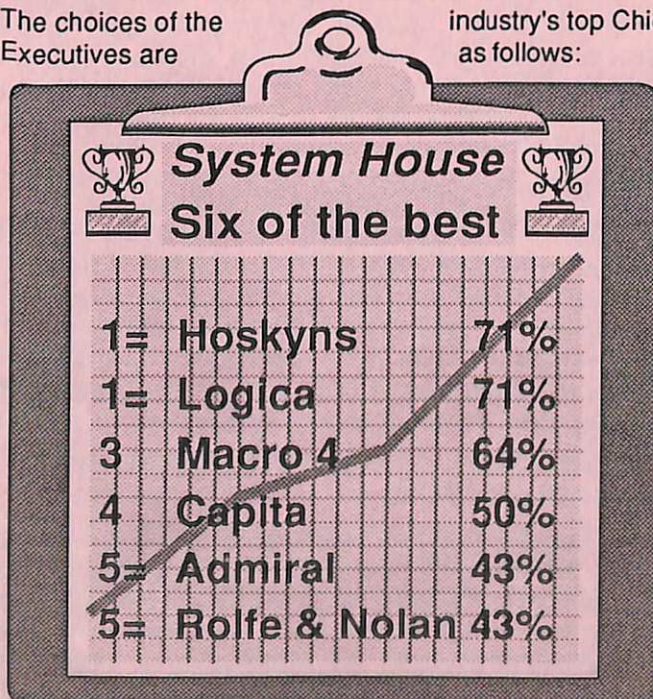
With the season of goodwill upon us, we wanted to present an article based on the very best companies in our industry. *But which are they?*

We have been to many analysts' briefings where questions are asked about competitive companies. CEOs can significantly influence the market's view of the industry and the stock market perception of other CSI companies. Most of the CEOs of quoted CSI companies are readers of *System House*, so we decided to ask them. Over 75% responded to our request to name "the six quoted CSI companies which are most likely to provide the best returns for shareholders in the medium term (say 3 years)". Respondents could not vote for their own company.

The replies were remarkably consistent in that over two thirds of the 40 quoted companies got no votes at all! One of the respondents commented that he would be interested in the "Six of worst" list but realised that printing it would probably be libelous. It is a reflection on how few good companies we currently have that respondent's votes were concentrated on just 12 companies. SD-Scicon was the only "Top Ten" company to get no votes.

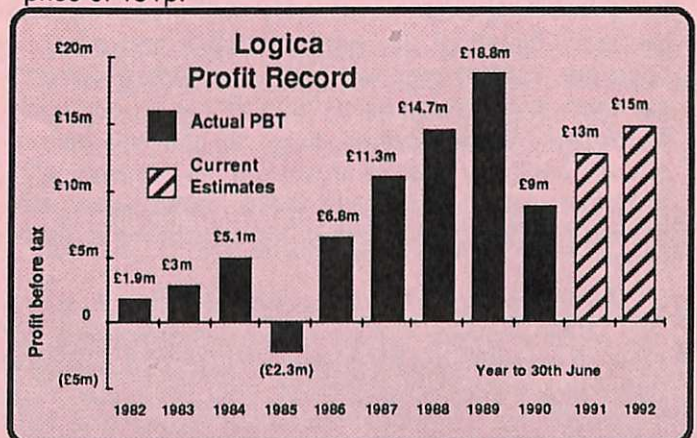
The choices of the Executives are

industry's top Chief as follows:



Hoskyns and Logica - the winners

It is not surprising to see Hoskyns as one of the joint winners; they have the most consistent record of any of the quoted companies. CGS has guaranteed that the shares will be worth at least £4.69 at the end of 1992 and we suspect they could finally be worth more. Logica is also held in high regard within the industry for the technical achievements of the company and respect for David Mann, but the record has been inconsistent to say the least. The year to June 1990 was disappointing with profits halved to £9m. But Logica was the most profitable CSI company in 1989 (£18.8m). Logica will be well into its usual "five year cycle" in three years time and therefore shareholders should be well rewarded; particularly if they buy at today's depressed price of 151p.

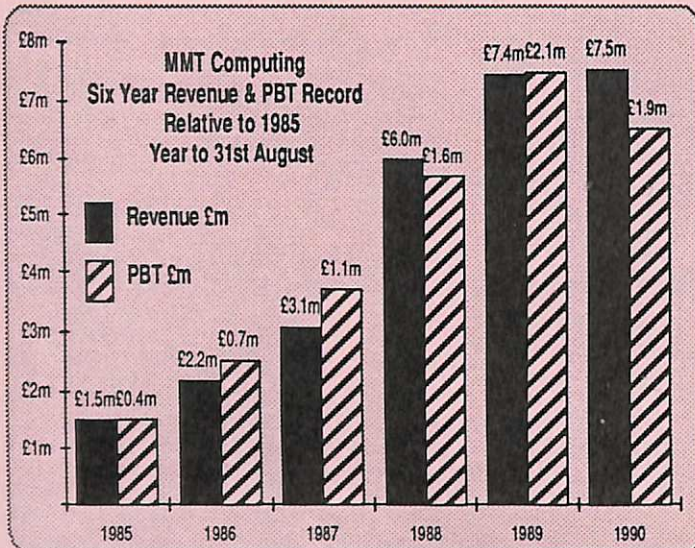


Macro 4 took the #3 slot as one of the most consistent performers around. They certainly are the safest with £8m cash in the bank and a rental stream which should guarantee profits in three years time even if they gave up selling today. The share price has hardly moved in the last three years and they must be in for a rerating by 1993.

The next three are also consistent performers - they have all outperformed the FTSE 100 since our index began in April 1989 (p9). Rolfe & Nolan has a capitalisation of just £8m and must be the riskiest of the choices. Capita and Admiral are amongst the highest quality companies in the UK today. *The choices are well founded.*

MMT disappoints

We have always thought highly of **MMT Computing**. Their latest full year results to August 90 therefore came as a disappointment. Revenue was static at £7.5m but PBT declined 13.3% to £1.865m and EPS reduced by 19%. The growth slowdown had been apparent at the half way point (System House June 90), but profits for the second half, at £850K, showed a marked turndown. Until these results, MMT had been a model smaller company with an exemplary and consistent growth record.



MMT is best known for their software facilities management operations which contributed revenues of around £2m from customers such as Marks & Spencer. The bulk of their £7.5m revenue, however, still comes from conventional system house activities.

MMT reported that current trading conditions are "very difficult". However, cash balances are reported to be "relatively high" at £2m. "We are carrying little or no fat and customer loyalty is strong".

It looks as if high start-up costs for MMT (Training) were the main cause of the profits shortfall and previous optimism that "an excellent order from British Telecom perhaps signals a breakthrough" was obviously misplaced. We understand, however, that the training operation is "now close to breakeven". In addition, MMT has been unable to dispose of its two London leases after moving into the new offices it has purchased at Angel Gate.

MMT has now upped its stake in **Quotient** to 11.51% and "the board remains confident that this investment will prove of long term benefit to MMT". In September, **Group Segin** took a 7.1% stake in MMT. This month they have increased their stake to 18.4% which seems to be very welcome to MMT. We understand that Segin has already assisted MMT in winning a new contract. Segin has been looking for a UK partner for some time and MMT would be a natural. A takeover could be on the cards.

Mike Tilbrook added that "We are in a position to respond better than most to an upturn in trading conditions which none of us doubt will come".

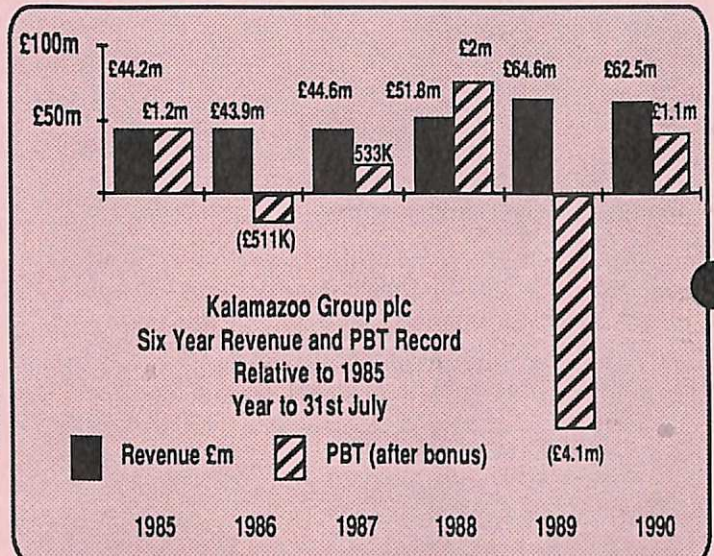
Hoskyns suits Burtons

DTI Secretary, Peter Lilley, decided not to refer the CGS acquisition of Hoskyns to the MMC. Meanwhile, Sir John Hoskyns took over from Ralph Halpern at Burtons. He was always a natty dresser but we never noticed the bimbos.

Kalamazoo back in the black

We haven't included **Kalamazoo** in our newsletter before as they previously made most of their revenues from stationery and supplies. The latest results for the year to July 1990, however, state that "Approximately 60% (c£38m) of both sales and profit contribution now come from computer related activities, centred on.... the supply of computer services to the motor trade, training and financial systems arenas".

Kalamazoo has had a decidedly chequered record in their metamorphosis into a computing services group, as the record below shows:



But they are now back to a £1.1m profit after last year's £4.1m loss. In addition, group borrowings have been reduced from £10.6m to £2.4m at year end; which is an excellent performance.

51.5% of Kalamazoo's shares are held by the Kalamazoo Trust - previously known as the Kalamazoo Workers Alliance. It now looks as if the future role of the Trust is under discussion with the appointment of Michael Keating as a non-executive director of both Kalamazoo and the Trust.

The majority of revenue now comes from consultancy, systems design, bespoke software, support, bureau processing and PC distribution. We, therefore, intend to add Kalamazoo to our index at the appropriate time as clearly they now qualify for inclusion - they have been members of the CSA for years.

Not all plain sailing for the French

Concept SA "stunned" the Paris Bourse with losses of \$36m on revenues of \$245m for the first half of 1990. The company blamed "the problems of managing exceptionally fast growth" brought about by the acquisitions of **CCMC**, Italian banking software company **CDS**, and comms firm **Cilec**. Operating losses of \$40m are expected for the full year and exceptional items could take the total loss to \$100m. Source - Computergram - 31st Oct.

Success for EDS

EDS increased PBT by 14% to \$575.5m on revenues of \$4.3b in the nine months to Sept 90. On 21st Nov it was announced that EDS in the UK was to run the processing operations for the **Switch** debit card operation of the troubled Midland Bank. They had wanted to acquire rival **Signet** but French **Group Segin** looks the likely winner.

Superb results from revamped ACT

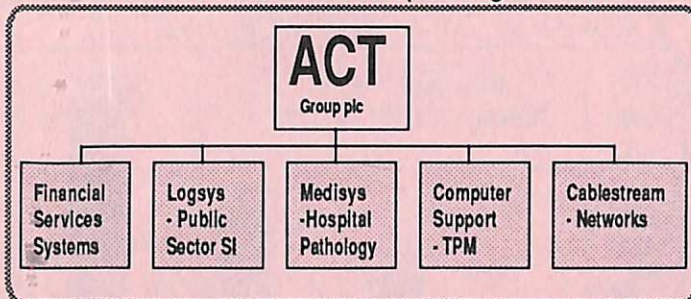
We have long predicted that ACT would be one of the brighter companies around now that they have returned to their computing services roots after the sale of the Apricot hardware activities for £39m to Mitsubishi back in June.

Latest interim results to Sept 90 show PBT increased by a massive 165% to £5.4m on revenues of £46.2m (£56.4m last year). EPS is up 116%. Software and services revenues increased profits from £2.2m to £4.2m on revenues up from £18.6m to £41.1m due mainly to the acquisition of ITL for £12.7m in Oct 89.

The picture looks even brighter when extraordinary items are included. A £16.7m profit was made on the sale of the hardware activities but this was slightly offset by a loss of £844K after the sale of the French subsidiary, Apricot Sigmex, to its local management.

Net assets have increased by 70% to £29.6m and cash at 30th Sept stood at £24.6m contributing interest of £1.2m in the half year compared to a small interest charge in 1989.

ACT is now structured into five operating divisions:



Recurring revenue now constitutes around 25% of turnover and it looks as if the hardware maintenance referral deal with Mitsubishi is really working. ACT contracts directly with the end user and Mitsubishi has no intention of setting up its own maintenance operations.

Wisely, ACT does not intend to use its cash mountain in a spending spree although MD Mike Hart says "small acquisitions may be considered in the medium term".

ACT's Chairman, Roger Foster, says "Current trading remains satisfactory and we believe the Group's focus on selected growth markets, combined with our large services organisation with its substantial recurring revenues, places us in a stronger position than many of our competitors in the current economic climate".

ACT seems genuinely to be bucking the market trend. Hart says that the order backlog was higher in Sept than in March and the last two months have seen no downturn. Although Medisys lost £99K, trading is currently booming and even their financial services operations are doing well. ACT has over 180 clients for its investment management software and eight new products have been released recently. "We are not into bespoke software and many clients are looking to products as a way of reducing costs".

We can honestly say that the statements from ACT and our interview with Mike Hart were the most bullish we have heard for months. We believe the optimism is genuine and has further reinforced our long held view that the "back to basics" ACT will increasingly become a major force in our industry.

We need success stories and we hope that ACT will not disappoint. Good luck to them!

Speeding Ferrari crashes

"The Chairman is confident that 1990 will prove a very rewarding year for shareholders" Ferrari Press Release March 90. "It is likely that Ferrari will approx. breakeven in the first six months". Ferrari Press Release July 90.

We are sure no one believed it as Ferrari's shares have already crashed from 90p to 12p this year. Latest results for the six months to June 90 show a loss before tax of £390K on revenues of £27.5m. It's actually worse than that as extraordinary items of £346K pushed the after tax loss up to £683K.

Interest charges increased to £540K in the six months compared to a minimal operating profit of £150K. The company blames "lower margins on hardware in the highly competitive market conditions and relatively lower levels of profitability in the acquired businesses".

New Chairman, Peter Marshall from Plessey, still believes that Ferrari has "a well balanced range of activities across the computer industry". If PCs, hardware maintenance, estate agents software, UCL's troubled activities and Pericom are well balanced we will have to get a new dictionary. Whether anyone, even the new ex-Plessey team, can sort out the mess is questionable.

"In life what lets you down is what you think you know that isn't so". We do hope that they will start to tell shareholders "what is so" in the future.

Kewill tells the truth

"Trading results for the year will show good profits growth and EPS will not only be maintained but possibly increased". Kewill Press Release Sept 1990.

In today's climate, the latest results for software products company, Kewill, for the half year to 30th Sept 90 are rather good. Revenues are up 97% at £15.9m due, in part, to the recent acquisitions of Micro-MRP (Dec 89 - £3.9m) and Han Dataport (Mar 90 - £8.4m). PBT was up 34.5% at £1.5m and EPS increased by 12.5%.

Cost reductions had already been actioned in anticipation of "difficult trading conditions in the UK" and this has "left the group in good shape for the final half of the year, whilst the current time also represents the strongest selling period".

The directors said "the strength of the group justifies the taking of suitable acquisition opportunities should these arise".

A closer analysis shows that UK profits were substantially reduced from £1.13m to £693K mainly due to reduced sales of the Trifid and Micros manufacturing products. The US contributed around £280K of group profits, where sales of the Micro-Max manufacturing system "increased against the same period last year and the installed base is now over 3000 sites". European activities, however, were the main contributor in making up the UK profits shortfall; Han Dataport made profits of £720K.

Operating costs are now reduced and "repayments of acquisition related borrowings are either on or ahead of schedule". Making a majority of your profits from outside the UK can't be a bad idea in current times. Kewill seem to have got that part of their strategy right. Analysts are predicting PBT up 31% at £3.5m for the full year and that, together with the interim results, must be considered as very encouraging. Share price rose 28% in the month.

A tale of two subsidiaries

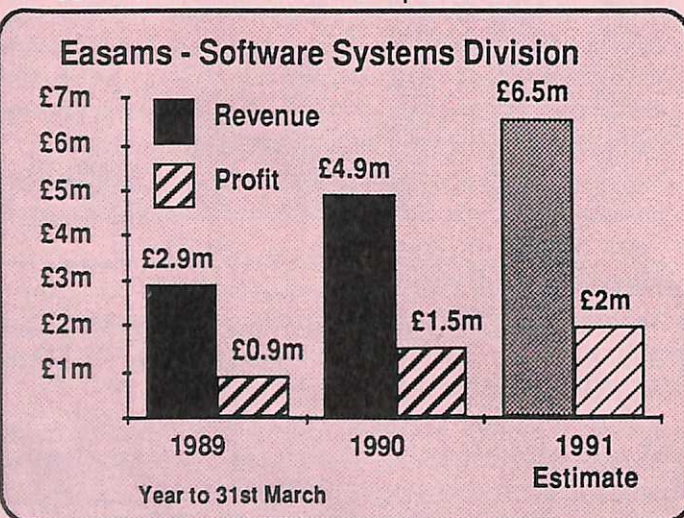
Easams

Easams Ltd is the IT subsidiary of GEC. Its main activity is military technology with four major divisions:

- Studies - 200+ staff - eg modelling, simulation
- Systems (eg Tornado avionics) - 300 staff
- Adcis - C³I - 200+ staff
- Software Systems - 160 staff - more details below.

In the year to March 31st 1990, Easams had revenues of £50m and PBT of £4.7m. Revenues for the current year could exceed £60m.

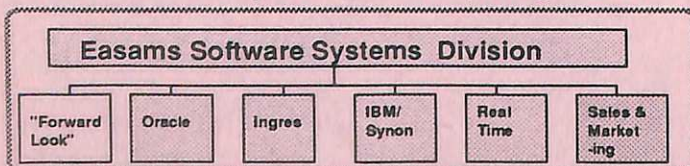
In 1986, Easams asked themselves why they were not experiencing the high growth rates of other CSI companies like Logica and Keith Jennings was charged with the responsibility of setting up a commercial systems house. From a team of just 6 people, the staff have grown to 160. The financial record is impressive.



For a project oriented systems house, the margins are remarkable at around 30%. Even allowing for sceptics, who disbelieve the profit performance of subsidiaries, the margins, at worst, are twice the industry average.

Jennings explains that "Although I would like to think we got the strategy right four years ago, GEC has made us very cost conscious". Easams has benefited from a new division which now makes a substantial contribution to profits but the software systems division has been able to use the technical expertise of the rest of the organisation.

Easams Software Systems has a unique organisation:



It is rare today to see companies organised by the 4GL technology they use. It's equally unusual to see 10% of staff dedicated to the investigation of the latest technology as embodied in Jennings' "Forward Look".

Jennings assures us that he is on budget to achieve £2m profit in the current year. Fixed priced contracts are a way of life and major problems have been avoided to date.

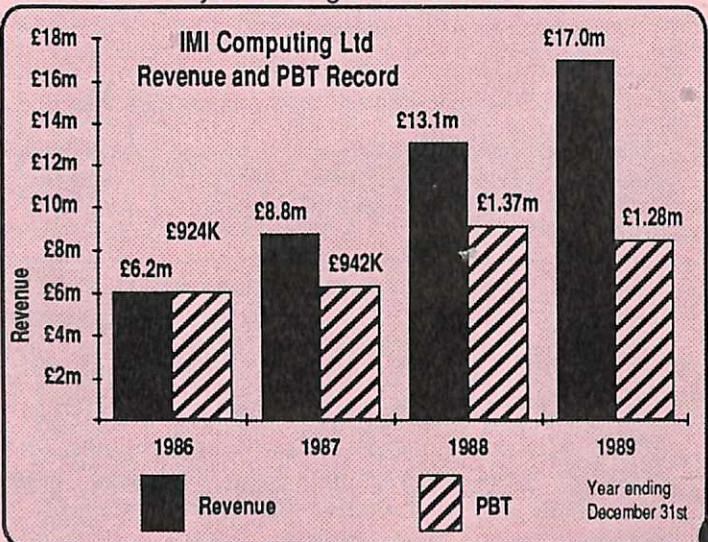
We came away from our meeting feeling that we had found another of those undervalued gems in our industry. Bearing in mind our past features, we wonder how long it will be before the jewel sparkles in its own right.

IMI buys Brook Street Computers

It is *surely* pure coincidence that we featured **Brook Street Computers** in our Sept 90 issue as an example of a small private company which seemed to be doing very well, that **IMI Computing** is a subscriber to *System House* and that IMI has now acquired Brook Street. It is a sign of the times, however, that we have received an increasing number of requests from private companies wishing to be featured in this publication!

Brook Street, which developed the UNIX based UNITY suite of financial software, had PBT of £549K on revenues of £2.32m to March 90. "Turnover for 1990 will exceed £3m". IMI is not revealing the price paid, but we believe it was an initial cash deal, with a reasonable earnout, which could net the shareholders over £5m. And that's pretty good in today's climate.

IMI Computing Ltd is the autonomous IT subsidiary of IMI plc - one of the UK's largest industrial groups with revenues over £1b. IMI Computing is an IBM systems house with 1989 revenues of £17m - up 29% on 1988. "Increased sales failed to generate increased profits which declined by 7%" to £1.28m, according to the Report & Accounts for year ending 31st December 1989.



The figures above exclude IMI Computing Inc (c£1m revenue). Sales to companies outside the IMI Group now represent 83% (£14.1m) of revenues. Exports from the UK operation increased 57% in the year to around £1.6m; of which £834K were to the US. In the last year a US subsidiary was established in Greenwich, Connecticut. Already over 55 OfficeVision systems have been installed for IBM in the US. In Feb 1989, Structured Data Designs, a Scottish software house, was purchased "for £1". "The Scottish Region has become one of the leading IBM agents in Scotland with sales approaching £1m." IMI sells the BPCS manufacturing software, from System Software Associates, as well as supplying a full range of IBM services from FM to systems design and implementation. They employed 384 staff in Dec 1989.

The Brook Street acquisition moves IMI into the UNIX arena and has already been successful in providing credibility for Brook Street in sales to larger corporations. On a note of unusual optimism, IMI Computing's MD David Williamson said "In the coming year we expect the IBM marketplace to continue to grow as business and commerce now need to improve productivity in order to combat more difficult trading conditions".

Richard Holway Limited - Results Service

Admiral plc	Results Revenue PBT EPS	Interim - June 89 £7,221,000 £1,104,000 6.1p	Final - Dec 89 £15,971,000 £2,653,000 16.2p	Interim - June 90 £9,785,000 £1,511,000 9.1p	Interim Comparison +35.5% +36.9% +49.2%
ACT plc	Results Revenue PBT EPS	Interim - Sept 89 £56,435,000 £2,023,000 1.86p	Final - Mar 90 £140,712,000 £8,026,000 7.07p	Interim - Sept 90 £46,162,000 £5,364,000 4.01p	Interim Comparison -18.2% +165.2% +115.6%
Butler Cox plc	Results Revenue PBT EPS	Interim - June 89 £4,194,600 £633,800 8.1p	Final - Dec 89 £9,370,000 £1,324,095 16.43p	Interim - June 90 £5,239,100 £400,100 4.7p	Interim Comparison +24.9% -36.9% -42.0%
Capita plc	Results Revenue PBT EPS	Interim - June 89 £3,630,000 £560,000 4.4p	Final - Dec 89 £6,880,000 £1,300,000 10.39p	Interim - June 90 £9,167,000 £956,000 5.9p	Interim Comparison +152.5% +70.7% +34.1%
Computer People plc	Results Revenue PBT EPS	Interim - June 89 £32,400,000 £1,810,000 9.5p	Final - Dec 89 £69,919,000 £4,219,000 21.8p	Interim - June 90 £38,988,000 £2,138,000 11.25p	Interim Comparison +20.3% +18.1% +18.4%
Electronic Data Processing plc	Results Revenue PBT EPS	Interim - Mar 89 £7,600,000 £373,000 3.41p	Final - Sept 89 £16,034,000 £1,040,000 8.45p	Interim - Mar 90 £8,330,000 £822,000 7.14p	Interim Comparison +9.6% +120.4% +109.4%
Ferrari Holdings plc	Results Revenue PBT EPS	Interim - June 89 (9 mons) £14,496,000 £604,000 2.9p	Final - Dec 89 (15 mons) £32,003,000 £1,419,000 6.6p	Interim - June 90 £27,503,000 (£390,000) (2.5p)	Not comparable due to different accounting periods
Hoskyns Group plc	Results Revenue PBT EPS	Interim - Apr 89 £87,300,000 £6,730,000 5.4p	Final - Oct 89 £188,706,000 £15,229,000 23.9p	Interim - Apr 90 £111,700,000 £8,160,000 6.3p	Interim Comparison +27.9% +21.2% +16.7%
INSTEM plc	Results Revenue PBT EPS	Interim - June 89 £4,012,000 £382,000 5.32p	Final - Dec 89 £8,003,000 £885,000 12.9p	Interim - June 90 £5,349,000 £505,000 7.07p	Interim Comparison +33.3% +32.2% +32.9%
Kewill plc	Results Revenue PBT EPS	Interim - Sept 89 £8,064,000 £1,125,000 11.03p	Final - Mar 90 £17,107,000 £2,668,000 27.11p	Interim - Sept 90 £15,924,000 £1,513,000 12.02p	Interim Comparison +97.5% +34.5% +9.0%
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	Final - Jun 89 £179,505,000 £18,835,000 20.0p		Final - June 90 £187,489,000 £9,011,000 9.0p	Final Comparison +4.5% -52.2% -55.0%
Logitek plc	Results Revenue PBT EPS	Final - Mar 89 £29,200,387 £2,752,013 15.28p		Final - Mar 90 £59,580,000 £3,830,000 16.27p	Final Comparison +104.0% +39.2% +6.5%
Macro 4 plc	Results Revenue PBT EPS	Final - Jun 89 (amended) £13,131,000 £6,132,000 17.3p		Final - June 90 £14,775,000 £7,353,000 20.6p	Final Comparison +12.5% +19.9% +19.1%

Richard Holway Limited - Results Service

Micro Focus plc	Results Revenue PBT EPS	Interim - July 89 £14,807,000 £2,459,000 12.4p	Final - Jan 90 £35,639,000 £8,223,000 37.4p	Interim - July 90 £23,298,000 £7,127,000 34.2p	Interim Comparison +57.3% +189.8% +175.8%
Microgen plc	Results Revenue PBT EPS	Interim - Apr 89 £22,982,000 £4,847,100 8.0p	Final - Oct 89 £45,071,000 £7,179,000 11.1p	Interim - Apr 90 £25,050,000 £4,530,000 7.1p	Interim Comparison +9.0% -6.5% -11.3%
Misys plc	Results Revenue PBT EPS	Final - May 89 £25,386,000 £5,630,000 22.8p		Final - May 90 £76,741,000 £11,070,000 23.5p	Final Comparison +202.3% +96.6% +3.1%
MMT plc	Results Revenue PBT EPS	Final - Aug 89 £7,443,898 £2,151,953 12.8p		Final - Aug 90 £7,524,390 £1,865,165 10.4p	Final Comparison +1.1% -13.3% -18.8%
NMW Computers plc	Results Revenue PBT EPS	Interim - June 89 £4,663,000 £48,000 0.1p	Final - Dec 89 £9,119,000 £87,000 0.2p	Interim - June 90 £4,423,000 £210,000 0.6p	Interim Comparison -5.2% +337.5% +500%
P&P plc	Results Revenue PBT EPS	Interim - May 89 £79,850,000 £5,000,000 10.5p	Final - Nov 89 £168,869,000 £11,066,000 20.8p	Interim - May 90 £109,400,000 £6,800,000 11.7p	Interim Comparison +36.8% +36.0% +11.4%
P-E International plc	Results Revenue PBT EPS	Interim - June 89 £27,444,000 £2,429,000 9.4p	Final - Dec 89 £58,017,000 £5,622,000 21.1p	Interim - June 90 £32,381,000 £2,753,000 10.3p	Interim Comparison +18.0% +13.3% +9.6%
Pegasus plc	Results Revenue PBT EPS	Final - Jul 89 £10,873,000 £3,084,000 36.7p		Final - July 90 £13,039,000 £2,554,000 30.4p	Final Comparison +19.9% -17.2% -17.2%
Proteus plc	Results Revenue PBT EPS	Final - Sept 88 nil (£436,000) not available		Final - Sept 89 £21,000 (£588,000) not available	Final Comparison Not comparable Loss both Loss both
Quotient plc	Results Revenue PBT EPS	Interim - June 89 £9,203,000 (£1,984,000) (10.73p)	Final - Dec 89 £19,095,000 (£1,577,000) (8.8p)	Interim - June 90 £9,924,000 £747,000 3.19p	Interim Comparison +7.8% Loss to profit Loss to profit
Radius plc	Results Revenue PBT EPS	Interim - May 89 £13,445,000 £1,015,000 2.5p	Final - Nov 89 £28,630,000 £2,000,000 4.74p	Interim - May 90 £14,521,000 £1,394,000 3.2p	Interim Comparison +8.0% +37.3% +28.0%
Rolfe & Nolan plc	Results Revenue PBT EPS	Final - Feb 89 £3,841,000 £757,000 9.35p (adjusted)		Final - Feb 90 £5,460,000 £1,142,000 13.8p (adjusted)	Final Comparison +42.2% +50.9% +47.6%
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% +23.4%
Sanderson Electronic 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%

Richard Holway Limited - Results Service

SD-SCICON plc	Results Revenue PBT EPS	Interim - June 89 £143,771,000 £1,060,000 0.37p	Final - Dec 89 £283,304,000 £7,230,000 0.59p	Interim - June 90 £138,192,000 (£9,794,000) (6.16p)	Interim Comparison -3.9% Profit to loss Profit to loss
Sema Group plc	Results Revenue PBT EPS	Interim - June 89 £137,682,000 £7,124,000 4.8p	Final - Dec 89 £293,021,000 £17,457,000 11.6p	Interim - June 90 £189,921,000 £7,185,000 4.5p	Interim Comparison +37.9% +0.9% -6.3%
Sherwood Group plc	Results Revenue PBT EPS	Interim - June 89 £12,171,000 £580,000 7.7p	Final - Dec 89 £25,397,000 £2,024,000 25.0p	Interim - June 90 £12,249,000 £883,000 9.5p	Interim Comparison +0.6% +46.6% +23.4%
Star plc	Results Revenue PBT EPS	Interim - Dec 88 £6,911,000 £464,000 3.5p	Final - Jun 89 £14,213,000 (£930,000) (11.7p)	Interim - Dec 89 £6,392,000 (£649,000) (9.5p)	Interim Comparison -7.5% Profit to Loss Profit to Loss
Synapse plc	Results Revenue PBT EPS	Final - Jul 89 £9,074,050 £1,096,967 20.19p		Final - Jul 90 £10,226,373 (£331,919) (8.9p)	Final Comparison +12.7% Profit to loss Profit to loss
Systems Reliability plc	Results Revenue PBT EPS	Interim - June 89 £44,606,000 £3,022,000 6.21p	Final - Dec 89 £134,586,000 £7,863,000 12.76p	Interim - June 90 £95,345,000 £5,012,000 6.25p	Interim Comparison +113.8% +65.9% +0.6%
Tele-computing plc	Results Revenue PBT EPS	Interim - Mar 89 £1,310,000 (£332,000) (6.97p)	Final - Sep 89 £2,519,080 (£777,000) (16.47p)	Interim - Mar 90 £1,232,000 (£44,000) (0.99p)	Interim Comparison -6.0% Loss both Loss both
Total Systems plc	Results Revenue PBT EPS	Final - Mar 89 £2,100,508 £96,543 0.59p		Final - Mar 90 £1,777,084 (£6,722) (0.08p)	Final Comparison -15.4% Profit to loss Profit to loss
Touchstone plc (was MBS)	Results Revenue PBT EPS	Interim - Jul 89 £64,398,000 (£7,101,000) (7.0p)	Final - Dec 89 £77,317,000 (£4,817,000) (4.7p)	Interim - Jun 90 £9,809,000 (£66,000) (0.0p)	Interim Comparison Not comparable Loss both Loss both
Trace plc	Results Revenue PBT EPS	Final - May 89 £9,814,976 £1,709,233 9.96p		Final - May 90 £13,933,504 £1,807,644 10.49p	Final Comparison +42.0% +5.8% +5.3%
Vistec Group plc	Results Revenue PBT EPS	Final - Apr 89 £11,961,000 £1,318,000 0.86p (5 months only)		Final - Apr 90 £36,048,000 £1,580,000 0.92p	Final Comparison Not comparable Not comparable Not comparable

FM - damn lies and statistics

At a recent CSA presentation on the importance of market research, a member of the audience remarked that he had difficulty taking the statistics seriously when the FM market in the UK was reported as valued at only £150m. Hoskyns alone has nearly £100m FM revenues and CSA members earned £223m from FM in 1989. Hoskyns estimate that the UK FM market will be valued at around £380m in 1990.

In addition it is one marketplace which seems to be doing very well in these recessionary times. In the last week alone Gloucester CC has signed a £5m pa FM deal with CSL, Bromley has signed with Mutual, Motherwell DC with McDonnell Douglas and the Midland with EDS (p2).

December 1990

Congratulations to Capita

Capita, one of our favourite companies, won the BBC Radio 4 Financial World Tonight's award as the "Best new company of the year". Launched onto the USM in April 1989 at 100p, the shares are now some 62% higher at 162p. Latest interim results show PBT up 71% at £956K.

Given the high regard for Capita in the industry (see p1) and the excellent outlook for outsourcing in the local government market (see comment opposite), Capita seems well placed for the future.

We need more success stories like Capita if our industry is to polish its present rather tarnished image.

Acquisitions, disposals and liquidations

DEC buys Data Logic's financial systems business

We have reported before on the difficulty **Data Logic**, a division of Raytheon, was having in disposing of its trading room systems business. The business was hit hard after Black Monday - as were many other financial services companies in the CSI. On 30th Oct 90 it was announced that **DEC** was to acquire the division "for around £3m". Approximately 100 of Data Logic's staff have been transferred. Data Logic's Chairman and CEO, John Ockenden, said the outcome was "very satisfactory". DEC's press release seemed very defensive "We are not entering the applications business. This acquisition will enhance our ability to support ... our software application partners". Fifteen years experience of DEC doublespeak allows us to translate this into "We want to get into the applications business but don't want our partners to jump out of the lifeboat until it has sunk". At least we are an experienced cynic!

People always seem to be telling us that Mr Ockenden is no longer at Data Logic. You may remember him turning on Simon Hill at the CSA conference saying that CW's "reports of his demise were premature". More recently rumours started again with press reports of Mr Ockenden's appointment as non-executive chairman of the Finite Group. We can however confirm that Mr Ockenden is still at Data Logic and congratulate him on the richly deserved IDC accolade as "computer person of the year". Data Logic and its remaining 500 staff will now concentrate on their communications and professional services activities.

We have reported before on the inevitability of the hardware manufacturers moving into services. They have tried it organically, and failed because the ethos in services is so different to that in a hardware company. Now many, including IBM, are buying their way into the CSI sector. Although we fear their purchasing power, we are increasingly sceptical of their ultimate chances of successfully running such businesses.

We feel that DEC has lost its way and will be in for a very rough ride in the next few years. Their conventional markets are under major attack. They are losing the workstation battle and their mid range is being eroded by UNIX and networked systems. On top of that there is an acute recession in the industry anyway.

P-E International and AIMS

P-E International has purchased **Aims Systems** - the methodology company. Initial consideration is £633K cash with a deferred profit relating element which could boost the consideration by a further £2.3m. Aims had training and consultancy revenues of £1.5m to Aug 90.

Amadeus and Sabre link

Airline reservation systems providers, **Amadeus** and **Sabre** are to combine their operations. Highly successful UK systems company **Autofile** is a provider of systems to both so it is not surprising that Brian Leeder, Autofile's director of sales, believes that far from being detrimental it will "make our position much stronger".

FI Group in first acquisition

FI Group (see *System House* Nov 90) has made its first acquisition in its 28 year history with the purchase of **AMP Recruitment**. AMP supplies contract computer staff and had revenues of £3.3m. No consideration was disclosed.

FI's Chief Executive Hilary Cropper, says that FI "has entered the first phase of a more aggressive period of planned expansion...we want to take a bigger market share of the IT spend within major corporations. We are therefore looking to acquire companies that can compliment our own services".

We hope that FI will bear in mind the record of other acquisitive groups. Using FI's strong cash position for purchases in today's difficult environment could provide significant opportunities but is not without considerable attendant risks.

The others.... Pamela Gray, who used to be the head of ill-fated Sphinx, has "merged" her UNIX consultancy venture, **Marosi**, with **US MSSL**. "Times are really tough and people are cutting down...leading to less spending on training and information services". Receivers have been appointed at mid-range leasing specialist, **Armour Leasing**. High interest rates and a downturn in the mini computer market were blamed. **ICL** has bought the Swedish software house, **Databoln Information Systems**, for £10m. **ICL** won a High Court order to appoint a liquidator at **Traderpoint White Horse Office Systems**. They incurred ICL's displeasure when they launched a direct sales catalogue - the Little Green Book - earlier this year. ICL is said to be owed "a substantial sum". Source - *Computing* 1st Nov 90. **US Inference** has rescued **Expertech** (see *System House* - Nov 90) from the receiver. The buy-out includes ICL's 16% share. Receivers have been appointed at Southampton based distributor - **Addons**. Olivetti, Commodore and Star seem to be the major creditors and debts were rumoured as £3.5m Source - *MicroScope* 21st Nov 90. However, "a major distributor" is rumoured as a likely buyer. **Praxis** has sold its electronics design division which was "not as profitable as we would have wished" to **US Computer General** for an undisclosed sum. Praxis claims to be bucking the current recession. Chairman, Martyn Thomas, said "Much to our surprise our profits are well up". The **Local Area Network Research Association (LANRA.)** has been closed after being rescued by **Romtec** in May 89. Both Johathan Chapple (Lanra) and Russ Nathan (Romtec) are ex-Hoskyns. Nathan said "We never got enough support from the industry - it's RIP to Lanra". The press carried adverts seeking buyers for Local Authority systems house, **West Wiltshire Software**, rescued from defunct **WW Info. Systems**. "Proceeds could be as high as £8m".

Sanderson buys into Sheffield

Sanderson has bought a 49% stake in the **Sheffield Computer Group** (previously Sheffield Micros). As the consideration was not disclosed to the SE it can be considered as minimal. Sheffield employs some 50 staff and has revenues around £3m. It is a major IBM RS6000 reseller in the AIX arena. It looks to be a good move; giving Sanderson a UNIX presence to balance its PICK activities.

Lotus has acquired WP company, **Samna**, for \$65m despite Lotus Chairman, Jim Manzi, saying earlier in the year that "70% of US mergers have failed."

Another depressing month

If a week is a long time in politics, it's certainly a long time for CSI shares on the SE. Thatcher's resignation contributed to a 5.3% increase in the FTSE 100 but the CSI Share Index dived by 6.9%. Shares in the sector have now underperformed the FTSE 100 by a third since April 1989.

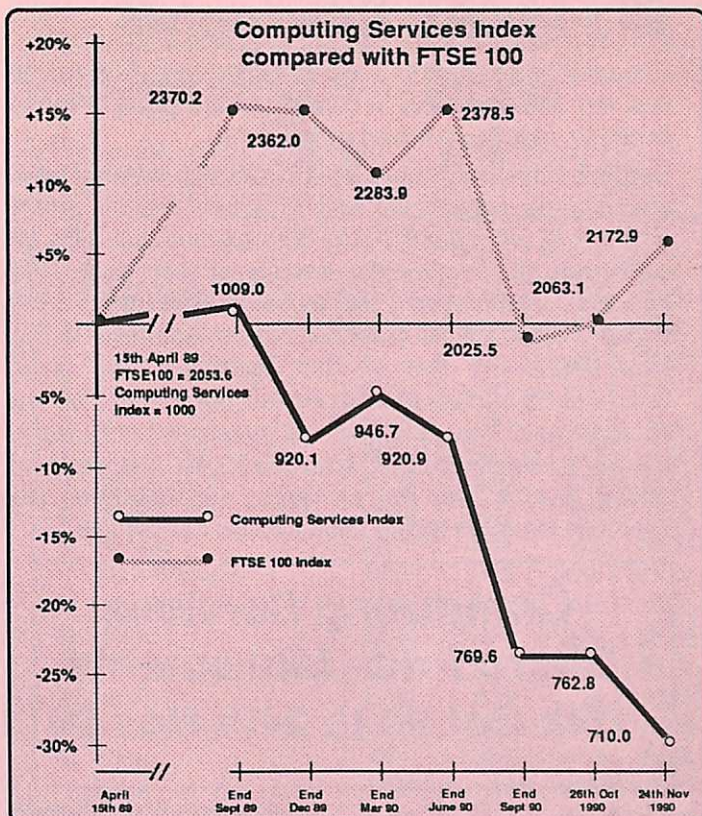
Sema

The major shock of the month was Sema whose shares took a 25% or 133p nosedive just as we went to press. The directors issued a statement saying "they were not aware of any change in the financial or trading position which might account for the fall". However, a significant restructuring has been rumoured for weeks involving some well known names in our industry. In addition, "hopes of a full bid (from CGS) are fading". This had kept the Sema price unrealistically high for the last year.

Computing Services Share Price Index 24th Nov 90

Index Rank	15th April 1989 = 1000	Share Price 24/11/90	Index 24/11/90
1	Micro Focus	7.13	3444.44
2	Rolfe & Nolan	1.50	1771.93
3	Hoskyns	3.62	1765.85
4	Admiral	2.25	1630.43
5	Capita	1.62	1620.00
6	Sage Group	2.01	1546.15
7	Sema Group	4.01	1261.01
8	ACT	0.67	1072.43
9	Macro 4	2.33	939.52
10	Proteus	0.78	928.57
11	Sherwood	1.10	916.66
12	INSTEM	0.90	900.00
13	Kewill	1.85	731.23
14	Computer People	1.68	691.36
15	Electronic Data Processing	0.66	673.47
16	P-E International	1.58	650.21
17	Butler Cox	1.12	640.00
18	MMT	1.00	595.24
19	Learmonth & Burchett	0.65	541.67
20	Sanderson	1.25	531.92
21	Microgen	1.19	508.54
22	P&P	1.13	506.73
23	Pegasus	1.70	463.22
24	Trace	0.56	448.00
25	Systems Reliability	0.55	440.00
26	Logica	1.51	413.70
27	Quotient	0.47	408.69
28	Synapse	1.08	372.42
29	NMW	0.22	366.67
30	SD-Scicon	0.28	352.56
31	Vistec	0.08	349.63
32	Radius	0.48	347.82
33	Total	0.14	264.15
34	Telecomputing	0.23	247.31
35	Misys	0.90	223.88
36	Star	0.20	166.67
37	Logitek	0.28	161.69
38	Touchstone (was MBS)	0.05	106.38
39	Ferrari	0.12	97.96

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.



Eating snake oil

Two years ago DEC's Ken Olsen was attacked about the increasing use of UNIX as a means to establish networks that could connect not only different sizes of computers but different brands. He replied "Snake oil, some customers do say that. But because of its design, UNIX is less secure against outside tampering than DEC's VMS operating system". He then went on to say "the open system will be as exciting as a Russian truck". He was also confronted with the view that RISC architecture heralded an alternative to DEC to which Olsen retorted "RISC is irrelevant". Source - BusinessWeek May 16th 1988.

Although DEC's forced conversion to the new ways of the world is hardly news, it did strike us as illuminating to read the latest DEC press release (31st Oct 90). DEC's UNIX manager, John Rea, said "We are making no secret about our ambitions for the UNIX market over the next few years...by 1993, we want a 20% share of the UNIX market...we'll be doing as much business then in UNIX as in VMS...DEC now offers customers the best value in the RISC UNIX marketplace...furthermore DEC's new 5500 and 5100 workstations provide customers with the most comprehensive multi-vendor support in the industry".

Olsen has been running DEC for 33 years since its formation in 1957. His achievements in building a mid range computer manufacturer which beat IBM at its own game are legendary. Perhaps we should say "we all get it wrong sometimes" and "isn't it good that DEC can recognise the writing on the wall and readjust?". But that really would not be good enough to satisfy our many readers who depend on DEC and their market awareness for their living.

Last year in the US, UNIX systems sales increased by 40% against an overall multiuser sales increase of just 9% (Source - DMR Group). UNIX is clearly here to stay and unless DEC can find a way of embracing this and make money, their future will increasingly be in doubt.

Big losers this month

The only bright spot in a thoroughly depressing month was the 28% increase in Kewill's share price after the excellent results reviewed on page 3.

Logitek shares are down 64% in a month that has seen their shares suspended and a revised interim profits forecast of just £500K (p10). Touchstone lost 44% on continued gloom over the viability of their core TPM business. Sanderson's shares have fallen from a 1990 high of 313p to just 125p; 34% in the last month alone. Full year results are due on 3rd December and, given Sanderson's superb record, we still hope not to be too disappointed. The company said the share price drop in the last six weeks resulted from just 20,000 shares being traded, out of over 8m on issue, and illustrates the ludicrous situation facing most smaller companies.

Computing Services Share Price Movements 26th Oct 90 to 24th Nov 90

Rank		% Change 26/10/90 to 24/11/90	% Change 20/4/90 to 24/11/90	Historic P/E
1	Kewill	27.59	-35.76	6.82
2	Telecomputing	15.00	-34.29	Loss
3	Synapse	10.20	-8.47	Loss
4	Admiral	7.14	2.27	13.89
5	Rolfe & Nolan	4.90	22.95	10.87
6	Radius	4.35	4.35	8.05
7	Hoskyns	1.97	4.62	15.15
8	Sage Group	0.50	6.91	15.95
9	ACT	0.00	-21.18	9.48
10	INSTEM	0.00	0.00	6.98
11	Learmonth & Burchett	0.00	-44.44	28.26
12	Macro 4	0.00	-21.28	11.31
13	Microgen	0.00	9.17	10.72
14	Star	0.00	-58.33	Loss
15	SD-Scicon	-1.79	-65.19	n/a
16	Micro Focus	-3.39	27.78	19.06
17	Capita	-4.14	-2.99	15.59
18	Butler Cox	-4.27	-43.72	6.82
19	NMW	-4.35	-29.03	110.00
20	P&P	-5.04	-49.78	5.43
21	Pegasus	-5.56	-41.98	5.59
22	Electronic Data Processing	-5.71	-1.49	7.81
23	Vistec	-5.88	-40.74	8.70
24	Total	-6.67	-12.50	Loss
25	Trace	-11.11	-45.63	5.34
26	Sherwood	-12.00	-24.14	4.40
27	P-E International	-13.66	-37.80	7.49
28	Proteus	-14.29	-7.14	n/a
29	Misys	-14.29	-60.00	3.83
30	Ferrari	-14.29	-82.22	1.82
31	MMT	-14.53	-38.65	9.62
32	Logica	-17.03	-49.33	16.78
33	Computer People	-17.24	-37.31	7.71
34	Sema Group	-24.91	-9.89	34.57
35	Quotient	-29.85	-55.24	Loss
36	Systems Reliability	-30.38	-47.12	4.31
37	Sanderson	-34.21	-57.34	5.43
38	Touchstone (was MBS)	-44.44	-72.22	Loss
39	Logitek	-64.10	-80.28	1.72

Computing Services Index 24th November 1990

April 15th 1989 = 1000

710.01

Sema witnessed, perhaps, the most dramatic fall (see p9) - they got only two votes in our survey (p1) which must prove that the opinions of industry CEOs should be taken seriously. Logica was dragged down in sympathy - 17% in the month. Given their 1st equal position in our survey, Logica must currently be considered "cheap".

Quotient fell 30% on market sentiment that their recent profits recovery may be shortlived. Although clearly our industry is facing a tough time, some of the fluctuations in share prices are rather too dramatic. The appeal of our money remaining in the building society is overwhelming.

Correction

We made an error in the P/E quoted for Rolfe & Nolan last month. On 26th July 90, R&N had a 1:1 capitalisation issue. We adjusted the historic share price but not the EPS. R&N therefore has a rather higher P/E of 11.

Changes in Indices	Computing Services Index	FTSE 100
Month 26th Oct 90 to 24th Nov 90	-6.92%	+5.32%
19 months 15th April 89 to 24th Nov 1990	-29.00%	+5.81%
1st Jan 90 to 24th Nov 1990	-22.83%	-8.01%

Logitek

"The board is confident that the coming year will be one of great opportunity leading to increased earnings".
Logitek Press release July 1990.

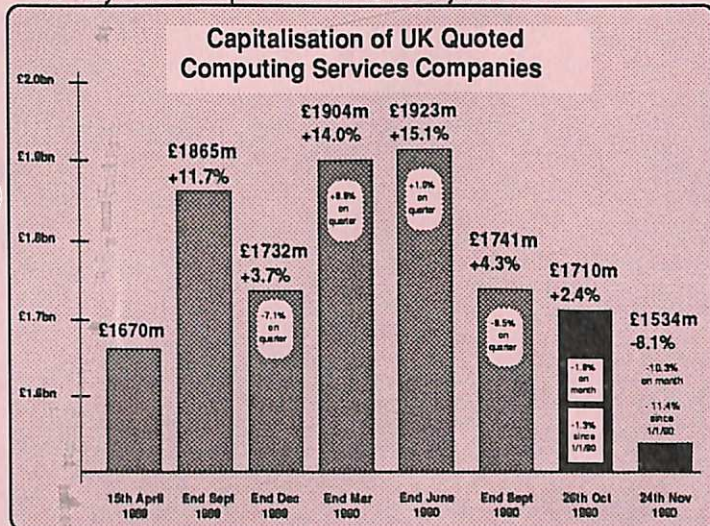
Beware statements such as this. On 9th November, Logitek's shares were suspended after a 20p fall from 76p to 56p (from a year high of 143p). This was apparently due to Henry Cooke Lumsdens' downgrading of forecasts for full year profits' from £5.2m to £3.8m. James Warhurst, the analyst involved, was somewhat surprised that his words of wisdom produced such a dramatic effect and tried to restore confidence by saying that half year figures "will reduce profits slightly" and the full year will be "flat".

Well, we shouldn't believe that either. On 19th November, Logitek issued a statement saying "PBT for the six months to 30/9/90 is likely to be significantly below the £1.3m for the period last year, at around £500K". In addition, "the directors believe that PBT for the full year will fall short of the £3.8m reported last year." Problems at Microtex and CSM Systems, rationalisation measures and increased interest payments were blamed. Regardless of "director's confidence in short and long term prospects", we are very sceptical of businesses that are highly borrowed, have short term order books and are highly reliant on distributors. The shares have since dived to 28p.

£176m loss in month

This has been the worst month since our records began with £176m wiped off the value of quoted CSI shares. Nearly £500m has been wiped off share values in the last 6 months. Sema lost £117m on the month and are now capitalised only 10% or £36m more than Hoskyns. We would suspect that gap might be closed shortly.

Logica lost £19m to £92m and Systems Reliability shed £17.5m to just £40m-less than the amount they have spent on acquisitions in the last two years. SD-Scicon, who got "nil points" in our survey, are looking more vulnerable by the day. Their capitalisation is now just £55m



THORN-EMI

THORN-EMI reported profits down from £64.1m to £58.3m for the half year to Sept 90. Profits for the technology division also reduced slightly from £21.5m to £20.9m. They refused to give figures for THORN EMI Software (which includes Software Sciences and Datasolve) but Sue Wright told us that their results "compare favourably with last year on both profits and revenue". The trouble with this rather guarded statement is that we had been lead to believe they were making a loss this time last year. Colin Southgate had commented that "Software had benefited from management initiatives taken last year". We wish they could be a little more open.

Mixed fortunes for CSI on the other side of the pond

Computer Sciences Corporation (CSC) "the world's largest independent computing services company" announced Q2 revenues up 13% at \$420m but profits were flat at \$21.4m. CSC acquired UK based Inforem in November 1989 and seems to be one of the fastest growing IT consultancies in the UK. John Thompson, Chairman of CSC Europe, reported continued improvements in European operations. CSC's president, William Hoover "looks forward to strong performance in the second half". ASK has laid off 270 staff, mostly from newly acquired Ingres, and Oracle has shed 400 after its \$39m Q1 loss.

On the other hand, database company, Informix, saw Q3 profits double in the 9 months to Sept 90 to \$6.7m on revenues of \$130m. Computer Associates also lifted Q2 profits by 191% to \$27.9m on revenues up 10% at \$311m.

Computing Services Capitalisation - 24th Nov 90

Rank		Capitalisation 24/11/90 £m	% Change since 15/4/89	% Change since 26/10/90	£m Change since 26/10/90
1	Sema Group	£361.59	27.28	-24.39	(£116.61)
2	Hoskyns	£325.70	97.63	1.97	£6.30
3	Logica	£91.76	-58.44	-17.03	(£18.84)
4	Micro Focus	£89.33	246.23	-3.33	(£3.07)
5	P&P	£84.70	13.39	-5.04	(£4.50)
6	ACT	£62.70	58.33	0.00	£0.00
7	SD-Scicon	£55.38	-64.77	-1.81	(£1.02)
8	Macro 4	£51.50	-4.45	0.00	£0.00
9	Microgen	£46.07	-47.88	-0.06	(£0.03)
10	Systems Reliability	£40.07	-7.88	-30.31	(£17.43)
11	Sage Group	£33.10	56.13	0.61	£0.20
12	Misys	£27.90	-63.19	-14.42	(£4.70)
13	P-E International	£26.17	-33.91	-13.62	(£4.13)
14	Admiral	£25.57	75.16	7.00	£1.67
15	Computer People	£22.85	-25.58	-17.22	(£4.75)
16	Capita	£20.60	154.32	-4.19	(£0.90)
17	Kewill	£17.64	4.98	27.80	£3.84
18	Proteus	£16.80	-6.93	-14.29	(£2.80)
19	Radius	£11.10	-65.20	4.72	£0.50
20	Sanderson	£10.80	-45.18	-34.15	(£5.60)
21	MMT	£10.60	-38.73	-14.52	(£1.80)
22	Pegasus	£10.44	-47.28	-5.10	(£0.56)
23	Vistec	£8.97	307.73	-5.88	(£0.56)
24	Learmonth & Burchett	£8.66	-40.68	9.62	£0.76
25	Rolfe & Nolan	£8.09	85.13	4.93	£0.38
26	Trace	£7.34	-54.41	-11.14	(£0.92)
27	Touchstone (MBS)	£6.49	-89.38	-44.52	(£5.21)
28	Ferrari	£6.46	-67.04	-14.21	(£1.07)
29	Quotient	£6.44	-58.74	-29.81	(£2.73)
30	Butler Cox	£5.98	-35.84	-4.32	(£0.27)
31	Sherwood	£5.77	-6.29	-12.00	(£0.79)
32	Electronic Data Processing	£5.70	-32.67	-5.69	(£0.34)
33	Logitek	£4.73	-76.72	-64.20	(£8.48)
34	NMW	£4.52	-63.25	-4.44	(£0.21)
35	INSTEM	£4.05	-10.00	0.00	£0.00
36	Synapse	£3.81	-62.65	10.12	£0.35
37	Telecomputing	£1.46	-67.04	14.96	£0.19
38	Total	£1.40	-73.58	-6.67	(£0.10)
39	Star	£1.36	-83.25	0.00	£0.00

Hard times for the manufacturers too

Data General reported continued reductions in sales, mounting losses and job cuts. Losses for the year to end Sept 90 were \$140m on sales down 7% at \$1.22b. 2000 jobs have been cut recently - 90 in the UK. Now DG is insisting that staff take three days unpaid leave.

Analyst John Logan at Aberdeen Group said "It's painfully obvious that DG has been a rudderless ship for many months". Although he predicted survival "the question is, in what form?". DG's future depends on the success of their new UNIX systems - but its getting a crowded market.

Hewlett-Packard also reported a 18% fall in profits for Q4 on revenues up 6% at \$3.6b. Full year profits to 31st Oct 90 were down 11% at \$739m on revenues up 11% at \$13.2b. HP has reduced its workforce by 3,000 to 92,000 in the year

Warning - CSI can seriously damage your wealth

We were quoted in Computer Weekly on 15th Nov. 90 as saying "The next year will be very bloody. I could identify 25% of the currently quoted CSI companies which have little chance of survival in their present form - and that list includes some big names. The bloodbath among private companies will be even worse". We had one telephone call of criticism from a CEO who said "Why are you always so optimistic - it will be much worse than that".

The companies unlikely to survive the next 12 months should be easy for *System House* readers to identify. We do not believe they will all go into receivership - rather we believe that as troubles worsen most will be forced into the hands of other groups for some very low prices.

The real dangers lie with the private companies. KPMG have recently reported that liquidations in Q3 rose by 64% to 3,247. We understand that one of the fastest increases was in the computing services sector. Due to IBM's decision to halve commissions on mid range systems and the general trading climate, there seems to have been an IBM agent a week going out of business - including some big names like Nova. IBM is now reported to be urgently reviewing its policies. ICL has fared little better with its VARs.

We have said on many occasions that companies with short order books, large borrowings and management with no experience of dealing with recession will be particularly badly hit. Companies with the reverse of those characteristics have a higher chance of survival and future prosperity. It is interesting that our "Six of the Best" list on page 1 is dominated by such companies. Any investor who ignores this deserves his inevitable fate. But we repeat our warning to CSI companies which deal with others in the industry - take increased care over credit and control your cash very tightly. You are likely to be having a rough time anyway, but if your customers can't pay their bills it could be terminal.

Another major French CSI group

Three of France's CSI companies - **Group Segin**, **Sodinforg** and **FITB** are to merge creating a group with a market capitalisation of FF750m and sales of FF2.3b.

Axime - the name chosen for the new company - will have 70% of its business in the banking and financial services sectors.

Readers should not underestimate this new group. Group Segin has already acquired a 17% stake in **MMT** and are the main contender to acquire **Signet**. Unlike the maverick investors in UK CSI companies, Axime is backed by long term and experienced shareholders. The main backers will be **Paribas** - who are also investors in **Sema** and **Admiral - Credit du Nord** (20.5%) and **Compagnie Generale des Eaux** (20%).

On a personal note, we find it frustrating to see CGS, Axime, Sligos and CAP Sesa all now larger than any independent UK CSI company. The City must ask itself what responsibility it should take for our current situation rather than putting all the blame, all the time, on the companies themselves.

We are now bound to have a pro-European Prime Minister, and we need at least one pan-European CSI company controlled from the UK. We cannot see it happening but would supply the champagne if it ever did.

Special Offer

This month we are making a special offer to existing subscribers of *System House* of a copy of the 900+ page **1990 Holway Report for just £560 - saving you £265**. This, in essence, means that you will save your next annual subscription to *System House*.

The 1990 edition contains details of the 1989 financial results for over 500 of the UK's leading CSI companies. The 1991 edition will be published in June 1991 and will probably cost around £910. **Order form below.**

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