

System House

The monthly review of the financial performance of the UK computing services industry
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1992 A Significant Year

On the surface, 1992 will be remembered by the UK computing services industry either as an annus horribilis or as a year when nothing much was achieved. But we contend that 1992 will be seen by industry historians as a significant watershed year.

Firstly, the computing services industry actually caught its cold in 1989, went to bed in 1990, took the medicine in 1991 and started its recovery in 1992. Profits dived by 22% between 1989/90 but only declined by 10% between 1990/91. We predict that there will be no decline, perhaps even a minor increase in profits, when we compile our 1991/92 statistics. The effects of previous cost cutting are already showing through. There are many examples of substantial recovery in 1992 - Cray Electronics, Gresham Telecomputing, LBMS, Logica, Microvitec, Misys, Sherwood, Star, Total and Trace have all staged substantial profits recoveries.

Secondly, major acquisition activity substantially reduced in 1992. Companies concentrated on adjusting both their technology and cost structures to meet the real needs of the marketplace in the 90s. For example, in 1991, seven CSI companies were delisted from the Stock Exchange. In 1992 only one quoted CSI company was acquired (NMW Computers by ACT) but we actually had the first new entry for three years - Vega. 1992 was also the first year since the mid 1980s when there was no £100m+ acquisition.

Thirdly, in 1992 the value of the software and services market in Europe, at c\$59 billion, finally overtook that of the US. With a forecast AAGR of 11.2% to 1996, it is also faster growing.

..and finally. In 1967 Bob Dylan wrote:

"The order is rapidly fading..."

The old road is rapidly ageing...

'Cos the times they are a changin'."

For the IT industry it has taken 25 years to come about. In 1992, the importance of ageing players like IBM, DEC and many others has rapidly faded. In the order, they have been replaced by the software giants, like Microsoft and Oracle, by the innovative workstation providers like Apple and Sun, and by the new computing services giants like CGS and EDS. Anyone who doubts this should remember that by the end of 1992, IBM's value had sunk to just \$28 billion but Microsoft's had risen to \$26 billion. **Any bets on the order next year?**

“Quotes of the Year”

“ICL's choice of Fujitsu as a partner will seem inspired to historians” - Charles Burrows of James Capel - Feb. 92. “We look on what Peter Bonfield has done with ICL as a role model for IBM UK”. Remark attributed to newly installed IBM UK CEO, Nick Temple. “He tries to avoid holidays...Bonfield wants to prove that UK technology can be world class”. Profile of Peter Bonfield in The Times - 22nd Aug. 92. “If it wasn't for computing services we would be in a very bad state indeed”. Nick Temple addressing the CSA in July 92. John Akers describes IBM's 1991 \$2.8b losses as “disappointing”. Jan. 92. John Akers says he is “disappointed” with IBM's \$2.8b Q3 losses. Oct. 92. We have yet to learn of the Akers' description for IBM's \$6b+ Q4 loss.

“We manage our business...we take the tablets before we get the headache”. Clay Brendish of Admiral - Mar. 92. “Admiral continues to hold its own in difficult times”. Aug. 92, after announcing yet another double-digit % increase in EPS.

“The only reason (Logica's) Philip Hughes can afford to be a Labour supporter is that he is rich enough already”. Overheard at CSA Annual Conference in Mar. 92 during the General Election campaign in which Hughes played a prominent role.

“It would be foolhardy to claim that spectacular performance was likely” - Gresham Telecomputing Press Release Mar. 92. Gresham shares are top performer in CSI sector in 1992 - up 222% - see page 9.

“They paid a huge sum for it, bless their little hearts”. Colin Southgate of Thorn-EMI on his sale (yet again) of what is now known as Data Sciences. Source - The Times - 18th Apr. 92.

“ACT's performance is remarkable”. - Source - FT 19th Mar. 92.

“Our long standing doubts over ACT's growth strategy and accounting quality remain”. Source - James Capel - 20th Nov. 92.

“Decent businesses don't want to sell and the rest are rubbish”. Richard Jowitt, CEO at EDP, June 92. “EDP has paid a total consideration of \$1.2m for two US UNIX database companies”. - System House - Dec. 92.

“DOS isn't done until Lotus won't run”. Slogan on Microsoft noticeboard in 1983 according to “Hard Drive”, the biography of Microsoft's Bill Gates published in 1992. The US, and now the UK's OFT, are currently investigating Microsoft.

“As we went to press the \$ had weakened to £1=\$2 - bad news for Micro Focus, Sage and Macro 4”. System House Sept. 92. The following month, after Black Wednesday, with the £ at c\$1.5, “the best performers this month were Micro Focus, Sage and Macro 4”. System House Oct. 92.

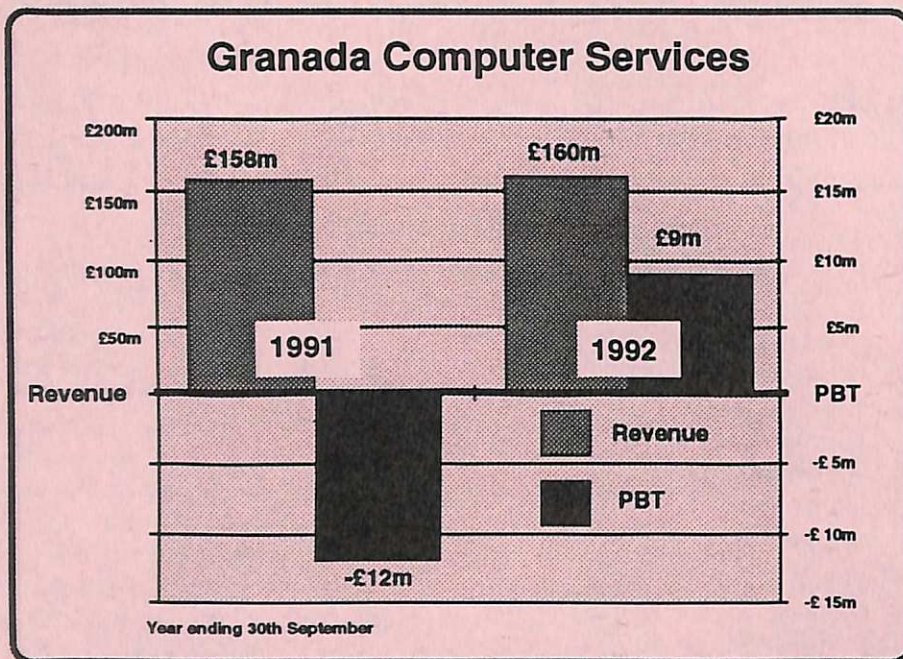
“The best way to save a barrel of Apples is throw the rotten ones out”. System House commenting on news that Apple had written off debts of £1m owed by Second City Systems when they were acquired by EIT in Aug. 92.

Curran performs miracles for Granada

We have written many reviews of **Granada Computer Services**. Their £200m spent in the second half of the 80s on acquiring such TPM companies as DPCE, Mainstay and CFM, their seemingly total inability to merge the purchases into an effective machine, the rapidity of change in policy and leadership and then, finally, the £11.8m operating loss

(i.e. before the undoubtedly horrendous interest charges on their debt) in the year to 30th Sept. 91. There must have been great temptation for Granada to sell the lot for a pittance just to stem the haemorrhage. Instead they appointed John Curran, former European CEO at mainframe supplier National Advanced Systems, as CEO.

In March 92, just a few months into his appointment, Curran addressed the CSA Annual Conference with perhaps the most up beat session of the lot. He had slashed staff numbers, 20% of the 3000 workforce received their cards in just one week, and had got rid of an enormous number of small/unprofitable maintenance contracts. The one-off restructuring cost was a massive £15m. They also sold (it was actually more like an FM deal) the in-house Granada Information Systems to Hoskyns whilst retaining the associated



maintenance. The half year results had signalled the recovery, and latest annual results for the year to 30th Sept. showed a £21m swing in profitability - from an operating loss of £12m to a profit of £9m; on a like for like basis. Revenues were roughly static at £160m. (Note: the £198m revenues reported last year included several businesses which have been discontinued or sold). Business to existing customers expanded by £16m (£9m in the UK) but clearly the new realistic pricing that Curran has insisted upon "was less successful than we had hoped in attracting new customers". UK revenues actually fell from £79.8m to £76.5m.

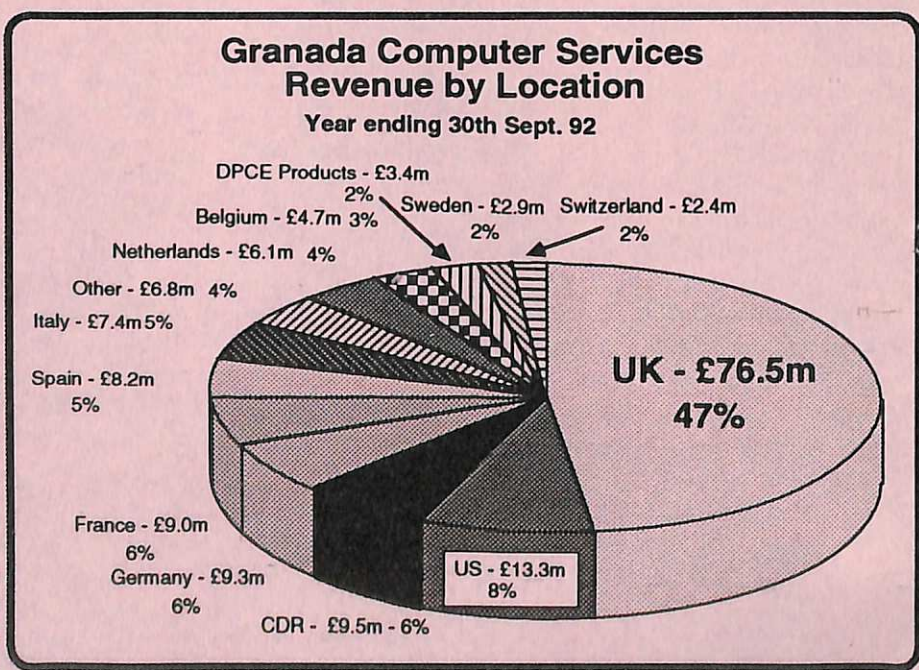
Granada is still one of that far too rare breed of UK CSI company which makes a majority of its revenues outside the UK. In fact, Granada is still the largest TPM supplier in Europe and was indeed the highest ranked UK-owned CSI company by European revenues (1991). The glow of nationalistic pride should quickly disappear when we tell you that this put them only 23rd in our European CSI ranking tables! Granada's revenues in France, its biggest overseas market, declined from £13.2m to £9m this year largely as a result of the "disposal of unprofitable contracts". Practically all Granada's revenues come from TPM (91%) with the remainder from Disaster Recovery (6%) and Product Sales (3%).

Our discussions with EDS-Scicon (reported last month) indicated the view that their customers were looking for more than just FM. Curran's customers

are looking for more than TPM. Part of Curran's strategy is to build partnerships with the likes of EDS-Scicon, Sema and CGS "offering a complete computing service - FM plus maintenance all in one package". Source - FT 30th Nov. 92.

Granada's group chairman Alex Bernstein said that Granada Computer Services "can become a substantial profit contributor to the Group as it is in a market which continues to show healthy real growth". We have to take issue here as our forecasts for the UK TPM market for the years 1992 to 1996 show an AAGR of -0.3%. That's a real decline.

We have put forward the view for the last year that Granada should sell this TPM activity. Curran has performed a miracle in the short term and "has made significant improvements to...the value of the company". The problem is that even successful TPM businesses currently command a fraction of their value just a few years ago.



Vega still sparkling

Vega Group was the only new CSI floatation in 1992. In June, 31% of the equity was placed at 122p putting a value of £17.2m on the group.

Although established in 1978, the resurgence of Vega began in 1989 when John Rigg, who had just sold his Marcol operation to Cray, bought 47% of Vega's equity for c£950K. This was diluted later when he brought in Grosvenor, one of the canniest venture capitalist operations around. Performance has been pretty exemplary since, with PBT of £1.43m on revenues of £6.27m in the year to 30th Apr. 92. Yes, that is a **profit margin of 23%**.

Vega concentrates on consultancy and engineering services to the space market with the European Space Agency, its largest client, representing c57% of revenues.

First results since the floatation are also excellent. Revenues were up 31% at £3.6m and PBT increased 22% to £631K in the six months to 31st Oct. 92. EPS increased by 16%. There are no borrowings.

Vega says it has been relatively unaffected by the recession. Indeed their prospectus pointed out that *"contracts with terms of more than three years represent c70% of turnover"*. In the last six months Vega won both new and repeat contracts worth £3m. Although these were in addition to the £15m of contracts stated in the prospectus, that still does not seem to us enough to sustain long term growth. This new order intake and the current increased competitive pressure in their market, where Data Sciences, Logica, Marcol and Science Systems also compete strongly, could well start to affect Vega when other currently less fortunate companies are staging a recovery. Perhaps the City shares this view as Vega shares fell on the results announcement; back to 122p, the launch price in June.

Running out of superlatives for Vistec

We try to understand but we often fail. Can some reader explain why, when Vistec Group announced increased EPS of 0.86p per share for the year to Apr. 89, their shares traded at 23p. But three years later, when the full year EPS had risen 77%, the shares traded at just 20p. Now Vistec announce yet another EPS increase - this time up 30% - for the six months to 31st Oct. 92. And their shares trade at...just 24p. The results also show PBT up 29% to £1.3m and revenue increased by 31% at £18.7m.

Vistec sell IBM compatible hardware, distribute software and provide maintenance/support services...all areas which many others have found rather difficult in the past few years. Bob Morton, who has really transformed the fortunes of Vistec since he took over in the late 80s, attributes its success to *"tight control of operating costs and its focus on core business"*. Morton now owns around 20% of Vistec stock.

Morton also seems to have avoided the dreaded acquisition indigestion. His list of acquisitions is long. Although some, 01 Computers and National Computer supplies in particular, were deemed disasters, they have not been allowed to effect shareholder value. Indeed, the Sphinx UNIX software distribution activity bought from Pegasus has been a major success. With £4.1m cash, he is still on the look out for more acquisitions.

"When I can find one which will grow at 30% compound, I will think about it" he said in an interview with the Daily Mail on 1st Dec. 92.

Recovery continues at Total

Total Systems was launched onto the USM in Mar. 88 at 85p and reported PBT of £835K for the year which had just ended. There then followed three years of sharp falls in both PBT (they reported a loss of £47K in 1990) and in the share price, which reached a low of just 10p at the end of 1990. However, that really does now seem to be history and it almost seems possible that Total might recover both its profit and even its share price to those heady days of the launch in 1988.

Latest results for the six months to 30th Sept. 92 show PBT up 21% at £424.5K on revenue up a more modest 5.9% to £1.36m. EPS increased by 19%.

Total provides systems development and now, increasingly, software products. The financial sector is its main market where its new fund management system, Optima, is reported to be selling well. All this sounds very encouraging if it wasn't for Chairman Terry Bourne repeating his quite alarming statement *"We still seek acquisitions where these can be made without damaging our existing asset base"*. For such a small company as Total to consider this route at present could be close to corporate suicide.

One of the many shareholders who must be quite pleased at present is Mike Tilbrook of MMT. MMT started buying Total shares at just 14p and has now built a stake of 6.5%. Total ended the month at 76p - up a massive 123% this year - one of the best performers in the sector.

Shareholders power wins day at Pegasus

We had to re-edit our major review of accounting software supplier, Pegasus, and our interview with their recently appointed CEO, Jonathan Hubbard Ford, in last month's *System House* when, on our press day of 25th Nov., he *"relinquished his duties"*. Founder Derek Moon took the helm announcing that the board was *"readjusting marketing initiatives started by the Chief Executive"*.

After this Pegasus' brokers, SG Warburg, told the board that, unless Hubbard-Ford was reinstated, certain institutional shareholders holding more than 50% of the equity would force an EGM. Moon made his views clear by firing Warburg and appointing Henderson Crosthwaite to find a buyer for the group.

A week later, on 15th Dec 92, the severity of the situation clearly hit home. No *"unconditional offer had been forthcoming"*. Moon resigned together with three other directors. Hubbard-Ford (and Warburg) were reappointed. Moon even agreed to waive his £50K compensation payment. Neil Pearce, the non-exec. representing Advent, which had backed Hubbard Ford from the start, was the only director to keep his seat. Etam non-exec., Philip Sellers, becomes non-exec. Chairman.

As we said last month, Pegasus has many assets. Hubbard Ford's early actions in tackling their major problems had been impressive; e.g. the sale of a stake in the Stockforms subsidiary. The policy of *"refocusing on core business"* was always the one that made the most sense. It feels rather good to see shareholder power working in this way.

Euro PC software sales bound ahead

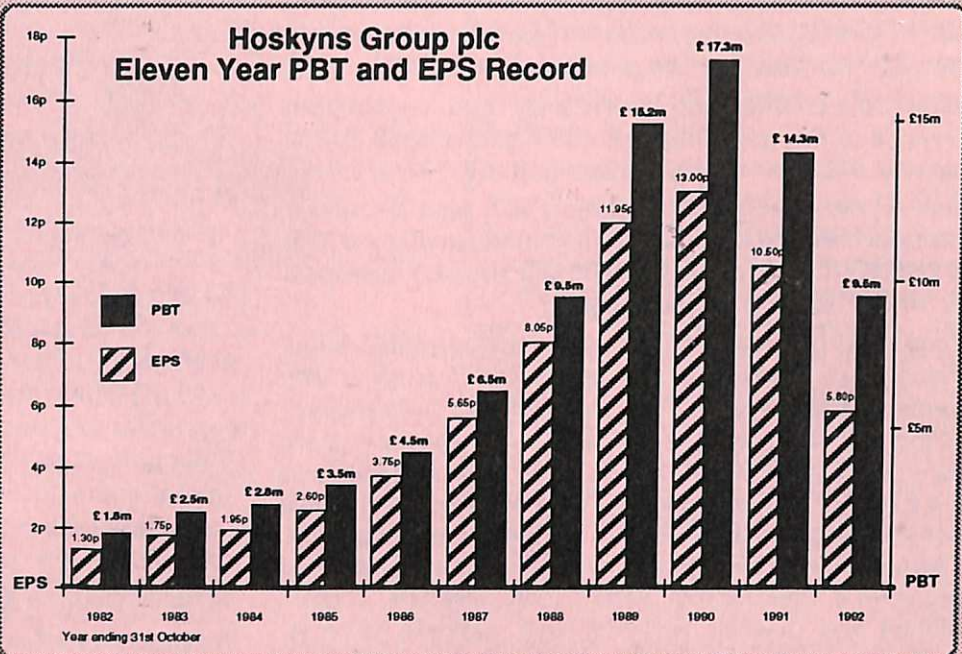
Sales of US PC software in Europe increased by 33% to \$380m in Q3 say the Software Publishers Association. The UK (\$97m) was the second largest market (after Germany \$112m) and had an above average 40% growth.

Hoskyns "below average" performance

Hoskyns runs in our blood so any criticism of their performance has to be well considered. Latest results for the year to 31st Oct. 92 show PBT down 34% at £9.5m on static revenues of £198m. EPS, however, was 45% lower. EPS is now lower than in 1988 and is well under a half of its 1990 peak. Although the UK CSI market has hardly been in boom times, it has *on average* performed much better than Hoskyns in the last couple of years. Since CGS acquired its 70% stake, Hoskyns financial performance has slumped.

A large part of the reason for this is the artificial boost to Hoskyns results from the Plessey FM contracts (removed when CGS took control) and the ending of the LBRB FM contract. But perhaps Hoskyns was also tardy in taking the cost-cutting steps required. The 150 job losses this year cost them £2.5m. Even so "Hoskyns headcount has risen from 2,930 to 3,338 over the last year mainly as a result of new outsourcing contracts and the recruitment of leading-edge technology specialists". UK revenues declined to £163m - putting Hoskyns yet further down the league of UK CSI suppliers. They could well be out of the Top Ten when we compile our 1992 rankings. Hoskyns no longer refers to "FM revenues". However, outsourcing contracts have been signed with 25 new organisations in the last year "double 1991 and worth over £160m".

Anyway, CGS seems to have confirmed their offer for the remaining 30.5% of Hoskyns shares at the minimum of 469p per share. **On the latest results that's an exit P/E of 81 - as they say they don't come better than that.**



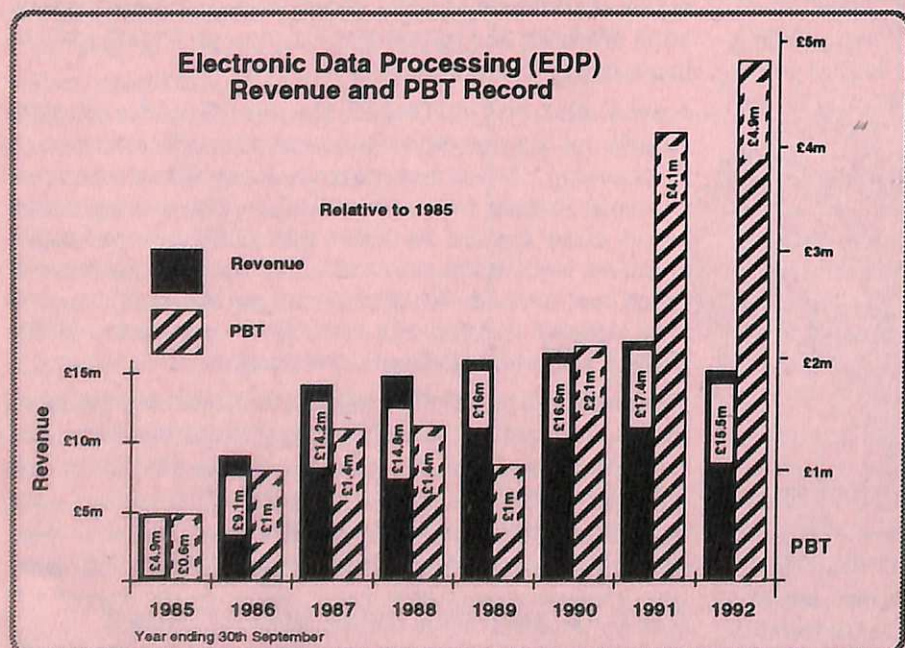
It is highly unlikely that we will be able to report Hoskyns' results next year. Anyway, Hoskyns reports a significant improvement in its order book over 1991 and trading profit improved by 14% in the second half of the current year. The future for the company, its management and staff will now depend on them becoming true Europeans.

Expectations fail at EDP

In today's climate, if you had just announced a 19% increase in PBT to £4.88m, a 17% increase in EPS, albeit with an 11.3% decrease in revenue, and cash reserves of £10.1m for the year to 30th Sept. 92, you might have expected a rapturous reception from all and sundry. In the event, EDP's shares fell. One of the main reasons was that the cash pile resulted in interest receivable increasing from £554K to £1m in the year. The problem was that EDP has seen its share price rise by 66% in 1992 - and such modest EPS rises were clearly below expectations.

The revenue decrease is easily explained. EDP is moving, quite correctly, from a hardware to a software supplier. CSI activities now contribute £8m, or over 50%, of revenues. In the last year £530K was spent on R&D (only around 3.5% of revenues) mainly developing the long-awaited Univision product. This operates under both UNIX and PICK (the EDP long established operating environment).

With the cash pile mounting, the worst thing that EDP could do is to waste it on acquisitions. This year they spent a total of



£1.2m buying two US UNIX database companies. They have also spent £2m on their Sheffield HQ. It still scares us that they are looking for further suitable candidates to get rid of their cash pile. Both the company and analysts seem to agree that profits will be flat in the current year. The EDP gravy train is at least at a temporary halt.

Richard Holway Results Service

ACT Group plc	Results Revenue PBT EPS	Interim - Sep 91 £ 52,588,000 £ 7,648,000 5.13p	Final - Mar 92 £ 119,447,000 £ 17,020,000 10.83p	Interim - Sep 92 £ 72,120,000 £ 9,543,000 5.34p	Interim Comparison +37.1% +24.8% +4.1%
Admiral plc	Results Revenue PBT EPS	Interim - June 91 £ 11,686,000 £ 1,667,000 10.3p	Final - Dec 91 £ 26,104,000 £ 3,472,000 21.9p	Interim - Jun 92 £ 13,656,000 £ 1,960,000 11.6p	Interim Comparison +16.9% +17.6% +12.6%
Capita Group plc	Results Revenue PBT EPS	Interim - Jun 91 £ 11,104,000 £ 1,382,000 7.1p	Final - December 91 £ 24,711,830 £ 3,448,487 15.71p	Interim - Jun 92 £ 13,732,000 £ 1,769,000 7.6p	Interim Comparison + 23.7% +28.0% +7.0%
Computer People Group plc	Results Revenue PBT EPS	Interim - Jun 91 £ 34,834,000 £ 669,000 3.53p	Final - Dec 91 £ 67,660,000 £ 1,006,000 5.48p	Interim - Jun 92 £ 29,895,000 (£ 135,000) (0.73p)	Interim Comparison -14.2% Profit to Loss Profit to Loss
Cray Electronics Holding plc	Results Revenue PBT EPS	Final - Apl 91 £ 107,286,000 £ 3,509,000 2.5p		Final - Apl 92 £ 84,786,000 £ 4,787,000 3.2p	Final Comparison -21.0% +36.4% +28.0%
EIT Group plc	Results Revenue PBT EPS	Final - Mar 91 £ 485,052 (£ 246,437) (4.15p)		Final - Mar 92 £ 7,028,738 (£ 190,510) (1.3p)	Final Comparison +1349% Loss both Loss both
Electronic Data Processing plc	Results Revenue PBT EPS	Final - Sep 91 £ 17,420,000 £ 4,083,000 32.83p		Final - Sep 92 £ 15,455,000 £ 4,877,000 38.4p	Final Comparison -11.3% +19.4% +17%
Enterprise Computer Holdings plc	Results Revenue PBT EPS	Interim - Sep 92 £ 57,604,000 (£ 3,398,000) (4.6p)	Final -15 mos to Mar 92 £ 157,857,000 (£ 8,330,000) (9.8p)	Interim - Sep 92 £ 35,524,000 (£ 3,392,000) (4.3p)	Interim Comparison -38.3% Loss both Loss both
Gresham Telecomputing plc	Results Revenue PBT EPS	Interim - Mar 91 £ 732,000 (£ 79,000) (1.26p)	Final - Oct 91 £ 6,296,000 £ 355,000 1.0p	Interim - Apr 92 £ 3,954,000 (£ 284,000) 0.57p	Interim Comparison +440.2% Loss to Profit Loss to Profit
Hoskyns Group plc	Results Revenue PBT EPS	Final - Oct 91 £ 200,663,000 £ 14,299,000 10.5p		Final - Oct 92 £ 197,661,000 £ 9,513,000 5.8p	Final Comparison -1.5% -33.5% -44.8%
INSTEM plc	Results Revenue PBT EPS	Interim - Jun 91 £ 7,870,000 £ 507,000 7.21p	Final - Dec 91 £ 15,810,000 £ 1,010,000 15.2p	Interim - Jun 92 £ 7,062,000 £ 551,000 7.96p	Interim Comparison -10.3% +8.7% +10.4%
Kalamazoo Computer Group plc	Results Revenue PBT EPS	Interim - Sep 91 £ 26,500,000 £ 1,500,000 2.7p	Final - 8 mos - Mar 92 £ 38,300,000 £ 600,000 Nil	Interim - Sep 92 £ 27,600,000 (£ 86,000) Loss	Interim Comparison +4.1% Profit to Loss Profit to Loss
Kewill Systems plc	Results Revenue PBT EPS	Interim - Sep 91 £ 21,459,000 £ 1,685,000 13.56p	Final - Mar 92 £ 41,824,000 £ 2,421,000 19.91p	Interim - Sep 92 £ 15,418,000 (£ 172,000) (3.58p)	Interim Comparison -28.2% Profit to Loss Profit to Loss
Learmonth & Burchett Management Systems plc	Results Revenue PBT EPS	Interim - Oct 91 £ 10,051,000 (£ 281,000) (1.7p)	Final - Apr 92 £ 21,404,000 £ 303,000 0.7p	Interim - Oct 92 £ 10,713,000 £ 753,000 3.1p	Interim Comparison +6.6% Loss to Profit Loss to Profit
Logica plc	Results Revenue PBT EPS	Final - Jun 91 £ 197,758,000 £ 3,676,000 (1.6p)		Final - Jun 92 £ 200,383,000 £ 7,062,000 7.0p	Final Comparison +1.3% +92.1% Loss to Profit
Macro 4 plc	Results Revenue PBT EPS	Final - Jun 91 £ 18,028,000 £ 7,647,000 23.0p		Final - Jun 92 £ 19,016,000 £ 8,750,000 26.5p	Final Comparison +5.5% +14.4% +15.2%
Micro Focus plc	Results Revenue PBT EPS	Interim - Jul 91 £ 25,387,000 £ 8,961,000 43.1p	Final - Jan 92 £ 55,869,000 £ 18,146,000 83.1p	Interim - Jul 92 £ 30,053,000 £ 9,420,000 45.9p	Interim Comparison +18.4% +5.1% +6.5%
Microgen Holdings plc	Results Revenue PBT EPS	Interim - Apr 91 £ 24,604,000 £ 4,328,000 7.2p	Final - Oct 91 £ 47,735,000 £ 7,283,000 12.2p	Interim - Apr 92 £ 24,974,000 £ 4,368,000 7.2p	Interim Comparison +1.5% +0.9% Same
Microvitec plc	Results Revenue PBT EPS	Interim - Jun 91 £ 12,484,000 (£ 2,212,000) (4.8p)	Final - Dec 91 £ 36,873,000 (£ 3,847,000) (5.3p)	Interim - Jun 92 £ 25,533,000 £ 62,000 0.1p	Interim Comparison +104.5% Loss to Profit Loss to Profit

Richard Holway Results Service

Misy plc	Results Revenue PBT EPS	Final - May 91 £ 67,253,000 £ 5,626,000 11.5p		Final - May 92 £ 68,023,000 £ 9,118,000 17.8p	Final Comparison +1.1% +62.1% +54.8%
MMT Computing plc	Results Revenue PBT EPS	Final - Aug 91 £ 5,920,484 £ 1,256,967 6.8p		Final - Aug 92 £ 6,220,000 £ 1,500,000 7.9p	Final Comparison +5.1% +19.0% +16.2%
NMW Computers plc	Results Revenue PBT EPS	Interim - Jun 91 £ 4,977,000 £ 278,000 0.9p	Final - Dec 91 £ 10,588,000 £ 207,000 (0.9p)	Interim - Jun 92 £ 4,872,000 £ 1,233,000 (5.7p)	Interim Comparison -2.1% Profit to Loss Profit to Loss
P & P plc	Results Revenue PBT EPS	Interim - May 91 £ 120,700,000 £ 3,300,000 3.9p	Final - Nov 91 £ 228,324,000 £ 711,000 0.9p	Interim - May 92 £ 119,300,000 £ 1,000,000 1.0p	Interim Comparison -1.2% -69.7% -74.4%
P-E International plc	Results Revenue PBT EPS	Interim - Jun 91 £ 33,565,000 £ 1,833,000 6.7p	Final - Dec 91 £ 68,750,000 £ 1,622,000 4.9p	Interim - Jun 92 £ 35,508,000 £ 514,000 1.5p	Interim Comparison +5.8% -72.0% -77.6%
Pegasus Group plc	Results Revenue PBT EPS	Final - Jul 91 £ 8,493,000 £ 1,669,000 19.9p	Interim - Jan 92 £ 3,367,000 £ 320,000 3.8p	2nd Interim - Jul 92 £ 7,560,000 £ 655,000 7.6p	12 month Comparison -11.0% -60.7% -61.8%
Proteus International plc	Results Revenue PBT EPS	Final - Mar 91 £ 7,000 £ (1,502,000) (7.01p)		Final - Mar 92 £ 3,000 £ (2,410,000) (11.05p)	Final Comparison -57.1% Loss both Loss both
Radius plc	Results Revenue PBT EPS	Interim - May 91 £ 14,708,000 £ 801,000 1.7p	Final - Nov 91 £ 28,115,000 £ 366,000 0.8p	Interim - May 92 £ 11,988,000 £ 525,000 1.0p	Interim Comparison -18.5% -34.5% -41.2%
Real Time Control plc	Results Revenue PBT EPS	Final - Mar 91 £ 7,571,000 £ 1,199,000 10.9p		Final - Mar 92 £ 6,835,000 £ 1,192,000 11.1p	Final Comparison -9.7% -0.6% +1.8%
Rolfe & Nolan Computer Services plc	Results Revenue PBT EPS	Interim - Aug 91 £ 3,277,000 £ 704,000 8.5p	Final - Feb 92 £ 6,737,000 £ 1,390,000 15.9p	Interim - Aug 92 £ 5,307,000 £ 707,000 8.9p	Interim Comparison +61.9% +0.4% +4.7%
Sage Group plc	Results Revenue PBT EPS	Final - Sep 91 £ 20,002,000 £ 6,638,000 25.5p		Final - Sep 92 £ 27,274,000 £ 8,853,000 30.9p	Final Comparison +36.4% +33.4% +21.2%
Sanderson Electronics plc	Results Revenue PBT EPS	Final - Sep 91 £ 20,503,000 £ 2,403,000 19.2p		Final - Sep 92 £ 21,398,000 £ 2,805,000 24.0p	Final Comparison +4.4% +16.7% +25%
Sema Group plc	Results Revenue PBT EPS	Interim - Jun 91 £ 200,869,000 £ 6,566,000 4.7p	Final - Dec 91 £ 412,501,000 £ 14,015,000 11.02p	Interim - Jun 92 £ 195,393,000 £ 7,729,000 5.3p	Interim Comparison -2.7% +17.7% +12.8%
Sherwood Computer Services plc	Results Revenue PBT EPS	Interim - Jun 91 £ 12,139,000 £ 575,000 6.6p	Final - Dec 91 £ 22,321,000 £ 2,446,000 19.6p	Interim - Jun 92 £ 10,710,000 £ 1,748,000 16.7p	Interim Comparison -11.8% +204.0% +153.0%
Star Computer Group plc	Results Revenue PBT EPS	Final - Jun 91 £ 13,718,000 £ (886,000) (12.6p)		Final - Jun 92 £ 7,333,000 £ 119,000 1.9p	Final Comparison -46.6% Loss to Profit Loss to Profit
Total Systems plc	Results Revenue PBT EPS	Interim - Sep 91 £ 1,285,264 £ 351,002 2.38p	Final - Mar 92 £ 2,796,777 £ 756,880 5.11p	Interim - Sep 92 £ 1,361,536 £ 424,536 2.85p	Interim Comparison +5.9% +20.9% +19.7%
Trace Computers plc	Results Revenue PBT EPS	Final - May 91 £ 19,698,904 £ (471,377) (1.98p)		Final - May 92 £ 19,312,000 £ 502,000 2.94p	Final Comparison -2.1% Loss to Profit Loss to Profit
Vega Group plc	Results Revenue PBT EPS	Interim - Oct 91 £ 2,756,000 £ 517,000 2.5p	Final - Apr 92 £ 6,269,000 £ 1,433,000 7.23p	Interim - Oct 92 £ 3,623,000 £ 631,000 2.9p	Interim Comparison +31.5% +22.1% +16%
Vistec Group plc	Results Revenue PBT EPS	Interim - Oct 91 £ 14,271,000 £ 1,010,000 0.56p	Final - Apr 92 £ 32,287,000 £ 2,714,000 1.52p	Interim - Oct 92 £ 18,703,000 £ 1,305,000 0.73p	Interim Comparison +31.1% +29.2% +30.4%

Acquisitions, disposals and liquidations

PC strategy pays off for ICL

We have reported ICL's bold move, buying PC distributor **Technology plc** for an initial £30m in June, together with the resulting withdrawal of its IBM agreement and the resourcing of IBM products from Bull.

This month, ICL has bought one of Ireland's largest dealers - **BA Systems** - from the receiver for an undisclosed consideration. Source - PC Europa Dec 92. Will IBM repeat their decision to cut off supplies?

If you believe Dataquest's latest survey, that would certainly be against IBM's interests. ICL has seen their share of the UK business PC market by value rise from 5.1% (Q3 1991) to 10.7% (Q3 - 1992). Indeed, ICL overtook IBM which saw its share fall from 16.6% to 10.7%.

It's these kind of bold moves that has signalled ICL out as the IT company with exactly the right strategy to succeed in the 90s. More power to them. We can't wait for the day we can buy some shares.

Sage acquires Yorkshire Business Forms

Sage (see results p10) has this month acquired **Yorkshire Business Forms** (YBF) for an initial £1.05m plus an additional £2.95m dependent on profits in the next two years. YBF are print brokers of business forms. In the year to 31st May 92, they managed PBT of £170K. YBF will be merged with Sage's existing forms business.

Sherwood acquisition and placing

Sherwood Computer Services has acquired the City division of **Weir Systems**, which supplies systems to the Lloyds market. The £800K consideration will be met through a placing at 230p and a further £150K worth of shares will be placed. Weir broke even on revenues of £726K in the 9 months to 30th Sept. 92.

P-E expands in US

P-E International has taken over responsibility for the future development, management and marketing of **US DuPont's** quality consulting and training services. This will increase P-E's US revenues by £1.6m in 1993.

KPMG Peat Marwick

KPMG Peat Marwick reported fees from management consulting down 8% to £78m in the year to 30th Sept. 92. In contrast, as we reported last month, Andersen Consulting is set to increase their UK earnings by in excess of 17% to £200m for the year to 30th Dec. 92.

Tide of rumour hits EIT

EIT has apparently laid off 42 staff; taken on as a result of its controversial acquisition of **AppleCentre, Second City**. Reports surfaced this month that much of the proceeds of EIT's recent rights issue have been retained by their bankers. We have also had several recruitment operations on the 'phone with tales of employees wishing to leave EIT "before it is too late".

380 staff go at EDS-Scicon

This month **EDS-Scicon** announced that 380 jobs (getting on for 10% of the UK workforce) were surplus to requirements or "non-core", but invited these staff to apply for 100 existing vacancies.

The others... The Home Office intends to privatise the **Police National Computer** in the latest in its programme to outsource £1.4b of services. **Independent Computer Maintenance** has bought **Team**, the TPM and disaster recovery subsidiary of **SUS**, from the receivers for an estimated £2.5m. Source - Computing 3rd Dec. 92. **BAeSema**, owned jointly by British Aerospace and Sema Group, has bought out the remaining 50% it did not already own in **Dowty Sema**. No consideration has so far been disclosed. **US ADP** has acquired **UK Modems** (£2.5m annual revenues) which supplies systems to the motor trade. No consideration was disclosed. **Barbour Index** has acquired the business and assets of hospital management database provider, **Dargan Bullivant Associates**, for £600K in cash. Computer dealer **Orchard Computer Products** has appointed the receivers. They collapsed "as a result of bad management... Orchard's directors were misled into continuing operations because of illusory profits during the first half of 1992". Source - Computergram - 15th Dec. 92. **Transacton Point Ltd**, an ICL reseller, has appointed the receivers but **Aran Ltd** (a DEC reseller) has since acquired its products, contracts etc. from the receiver. In yet another example of the "new-type FM deal", **Warburg** has signed a £1m deal with **Computacenter** to look after its 1000 desktop systems. **Cannon Street Investments** has sold used computer broker **PST** to its founder, Howard Stoward, for £4.5m (a third of the price he sold it for in 1987). Another Apple dealer, **Midland Computer Brokers**, ceased trading in Nov. 92. **Sanderson** (see results p 10) acquired **System Applied Technology** which will be renamed **Sanderson Computer Based Training**. **Electrocomponents** has completed the sale of its loss making PC operations. After earlier sales of their operations in France and Sweden, this month they have sold their **Misco** businesses to **US Global Computer Supplies** for £10m cash.

Cash call at Callhaven

We obviously missed the announcement that **Barney Gibbens** had stepped down as Chairman of "troubled" Apple Centre operator, **Callhaven**, to be replaced by sales and marketing director **Roger Cox**. Clearly, Gibbens and ex-Systeme Cox did not exactly hit it off. Gibbens stays as a consultant. Callhaven are raising £800K to £1m by a rights issue with the Shah family taking up 50% and the rest coming from City institutions.

Tadpole share price goes into orbit

Despite subscribers who think we should include **Tadpole** as a CSI company, we think otherwise. Its claim to fame is as a hardware designer and manufacturer of a new notebook computer for IBM using the new Apple-IBM-Motorola PowerPC RISC chip.

We are however more than happy to report the main story. On 7th Dec dealings started in Tadpole's shares after a placing by **Henry Cooke Lumsden** at 65p. A week later the shares were trading at 194p - over three times higher.

Now if we have learned one thing it is that this is not good. If the price is justified then HCL got the pricing of the placing dramatically wrong. If they got it right, then the price cannot be sustained.

In so many ways it is a crying shame. Tadpole needs a stable market. But we wish the company well as one of the very few UK-owned companies competing at the very "leading edge" of computer technology.

It's over

On Friday Nov. 27th the OFT decided not to submit the ACT bid for NMW Computers to the MMC. On Monday 30th Nov. ACT declared the bid unconditional having received acceptances for 87.9% of NMW's shares. Chairman Brian Bibby and Richard Holway resigned as did most of the executive directors including CEO Nigel Banister - but he has been awarded a short term consultancy role. A further 20+ other staff were made redundant and the NMW Charterhouse legal and debt operations, together with certain property liabilities, were sold in an MBO for a nominal amount.

Given that ACT has cash balances in excess of £20m, it came a minor surprise that on the following day they announced that £8.85m had been raised by a placing of new shares at 137p. The funds will be used to finance in part the £3.8m purchase of NMW and "to retire NMW's bank indebtedness".

Now, unrestrained by the strictures of the Takeover Code, we can say that the 18p per share price paid for NMW was probably fair given the considerable problems which had arisen. Much of this had been caused by the purchase of AS/400 legal/insurance system house, Charterhouse. Any reader who suggests we should have followed our own oft-repeated acquisitions advice is stating the proverbial obvious. In defence, NMW was seeing earnings from its conventional stockbroker services eroded by in-house systems and continually falling volumes. It would have died anyway if it had not taken some action to secure a new future revenue line.

It should also be borne in mind that NMW was trading at just 17p before Charterhouse was acquired. The resulting bid speculation, first as a result of Peter Rigby's stake building and then when ACT bought his stake for 40p, sent the share price ever upward.

There is little doubt that NMW fits well with ACT. Putting ACT (via Quotient) and NMW's stockbroker activities together will enable considerable cost savings to be made. But ACT will have to work hard to ensure that their different attitudes do not alienate the very customers which make the deal worthwhile.

ACT's acquisition indigestion?

Acquisitions are sometimes a bit like drugs. If you're a real addict, as long as you can find new supplies everything seems OK, but when you stop you really have to pay for your past excesses. Acquisition accounting can also sometimes make one really believe in flying pink elephants.

A recent leading broker's report criticised ACT's acquisition accounting policies and suggested that these policies had made a major contribution to current trading profits.

Misys paid dearly with their share price when they were forced to stop acquisitions for two years. But they have ended up (in our view) a much stronger company as a result. Perhaps ACT should heed the warning.

Star entering new orbit?

You may remember that Ron Blechner from Star Computer wrote to us earlier this year saying System House "accords our small company far more significance than we deserve". On 22nd Dec. Star's shares, which had risen by 5p to 47p on the day, were suspended after revealing that the company "was in talks which might lead to a substantial acquisition".

Back in the black at LBMS

Learmonth & Burchett Management Systems (LBMS), the software development tools company, reported PBT of £753K (compared with a loss of £281K last year) on revenues up 6.6% at £10.7m for the six months to 31st Oct. 92. That's a profit margin of 7%. "We hope it will not be long before we return to profit margins in double figures". EPS was 3.1p (loss 1.7p). Training and consultancy activities were somewhat depressed. The company took the opportunity to announce a 1:4 rights issue at 100p to raise £3.8m to "redeem convertible/preference shares and eliminate most of the group's borrowings, leaving it with a small net cash balance".

It also intends to expand US operations - which LBMS estimates will contribute a majority of profits in 1995. "Market conditions in the UK continue to be very difficult". At present the US contributes c25% of turnover but is likely to represent over 50% of group revenue and profits by 1995. A rather measly 5% comes from Europe. Here LBMS "feels it needs a greater degree of control than it currently exercises over distributors" and now "intends to invest in joint ventures or direct sales operations". A further 10% of revenue currently comes from Australasia. Overseas sales now account for 40% of sales - compared with 30% for the whole of last year.

Rainer Burchett, LBMS's Chairman, sees "real evidence of an upturn in the UK economy" - he is clearly the only one. "We anticipate the Group as a whole being able to match the impressive rate of advance being shown by our non-UK operations".

Nightmare for IBM

It is unlikely that any reader will have missed the news from IBM this month. The nightmare (or dream, depending on your point of view) has continued. It looks as though Q4 losses will exceed \$6b and 25,000 further jobs are to be lost - at least 1000 in the UK. But beware, as every silver lining has a cloud. John Akers also said in the same announcement "IBM's services and software businesses are showing excellent growth and the company is continuing to move aggressively into these areas".

Akers has continued to stress that he has no intention of resigning saying they would have to carry him out of IBM in a box. This caused a "wag" at the meeting to remark "that will probably be the only box IBM ships that week". We freely acknowledge that this anecdote was stolen from Computergram...who stole it from...

Clarification David Laking, MD at Peterborough Software pointed out that our report on the interim results from the computing services operations at CE Heath to 30th Sept. gave the impression that profits in his operations had declined. Far from it. Peterborough Software profits "held up to last year". It was the Datasure operation which showed a profits decline. But Laking added that even here "this was a decline in profit and not an elimination". "Continued involvement in electronic networking, where Datasure is a market leader, is expected to be rewarding in the future". The combined computer services operations of CE Heath reported profits reduced from £2.1m to £1.7m.

From TPM to Prisons

Derek Lewis (46), previously CEO of Granada and widely regarded as the architect of their ill-fated move into computer maintenance, has been appointed Chief of the Prison Service at a salary of £125K "plus a performance related element".

What a year....assuming you bought CSI shares!

Our CSI Index increased by 53% in 1992 compared to a more modest 14% increase in the FTSE 100. 1992 really was the year when investment in smaller companies outperformed the larger companies.

The **Top Five increases and decreases in share price** in 1992 were as follows:

Top Five - Gainers			Top Five - Losers		
1	Gresham Tel.	+222%	1	Kewill	-83%
2	Proteus	+144%	2	P-E Int.	-61%
3	Total	+124%	3	NMW	-53%
4	LBMS	+119%	4	Kalamazoo	-44%
5	Star	+104%	5	Comp. People	-36%

The **Top Five increases in capitalisation** in 1992 were as follows:

1	Micro Focus	+£166m	£369m
2	Cray Electronics	+£153m	£221m
3	Sema Group	+£93m	£291m
4	Proteus	+£73m	£111m
5	Misys	+£69m	£138m

That changed the order dramatically. Although **Hoskyns** (£422m) still leads the capitalisation league, **Micro Focus** is the clear #2, but **Cray** and **ACT** are gaining fast on **Sema** for the #3 position.

This month, **P&P** was the star performer - up 45% in the

month. We always felt that their share dive had been overdone. The profits recovery at **Total**, see results p 3, contributed to a 36% increase this month. **Kewill** another lost 25% (that's a 83% down this year) on losses reported last month and continued problems at German Weigang.

Note: We printed the CSI Index incorrectly last month. The correct index was 1495.58.

Computing Services Index

31st December 1992

April 15th 1989 = 1000

1593.59

Changes in Indices	CSI Index	FTSE 100
Month 26th November 92 to 31st December 92	+6.55%	+3.82%
44 months 15th April 89 to 31st December 92	+59.36%	+38.61%
1st January 91 to 31st December 92	+125.12%	+31.76%
1st January 92 to 31st December 92	+52.52%	+14.18%

System House CSI Share Prices and Capitalisation

	Share Price 31/12/1992 (£p)	Capitalisation 31/12/1992 (£m)	Historic P/E	CSI Index 26/11/92	Share price % move since 26/11/92	Share price % move in 1992	Capitalisation move (£m) since 26/11/92	Capitalisation move (£m) in 1992
ACT	£1.48	£208.70m	13.67	2368.95	5.71%	-2.63%	£23.10m	£22.80m
Admiral	£3.85	£41.30m	17.58	2789.85	7.84%	28.76%	£3.00m	£9.00m
Capita	£4.24	£63.90m	26.99	4240.00	10.42%	61.83%	£6.10m	£24.60m
Computer People	£0.74	£10.30m	13.50	304.53	-1.33%	-35.65%	£-0.10m	£-5.70m
Cray Electronics	£1.09	£220.50m	34.06	637.43	19.78%	67.69%	£36.40m	£152.60m
EIT Group	£0.16	£7.75m	Loss	620.00	19.23%	29.17%	£1.25m	£2.37m
Electronic Data Processing	£4.80	£41.80m	12.50	4897.93	3.23%	66.09%	£1.30m	£16.80m
Enterprise	£0.21	£15.20m	Loss	164.00	24.24%	28.13%	£3.00m	£2.80m
Gresham Telecomputing	£0.29	£9.24m	29.00	311.82	-3.33%	222.22%	£-0.31m	£6.37m
Hoskyns	£4.51	£421.70m	77.76	2199.99	0.67%	14.18%	£2.80m	£62.20m
INSTEM	£0.85	£3.82m	5.59	850.00	-14.14%	13.33%	£-0.63m	£0.45m
Kalamazoo	£0.27	£4.88m	Loss	265.00	0.00%	-44.21%	£0.00m	£-3.50m
Kewill	£0.55	£6.57m	2.76	217.39	-24.66%	-82.54%	£-2.14m	£-23.53m
Learmonth & Burchett	£1.27	£21.20m	181.43	1058.33	17.59%	118.97%	£6.80m	£13.47m
Logica	£1.65	£101.30m	23.57	452.06	5.10%	-14.51%	£5.10m	£-17.00m
Macro 4	£5.23	£117.70m	19.74	2108.87	6.30%	37.99%	£7.20m	£34.20m
Micro Focus	£26.90	£368.50m	32.37	12995.16	8.91%	73.77%	£30.10m	£166.10m
Microgen	£1.88	£73.30m	15.41	803.42	11.24%	16.77%	£7.40m	£11.00m
Microvitac	£0.24	£15.70m	Loss	585.37	-12.73%	65.52%	£-2.30m	£6.72m
Misys	£3.58	£137.80m	20.11	890.54	14.01%	76.35%	£16.90m	£68.60m
MMT	£1.11	£11.80m	14.05	660.72	2.78%	33.73%	£0.30m	£2.99m
NMW	£0.18	£3.90m	Loss	300.00	-2.70%	-52.63%	£0.00m	£-3.75m
P&P	£0.29	£16.10m	32.22	130.05	45.00%	-27.50%	£5.00m	£-5.50m
P-E International	£0.49	£10.70m	10.00	201.65	-2.00%	-60.80%	£-0.20m	£-16.60m
Pegasus	£1.15	£7.31m	15.13	313.35	27.78%	-23.33%	£1.59m	£-1.86m
Proteus	£4.15	£111.50m	Loss	4940.46	0.97%	144.12%	£1.10m	£73.40m
Radius	£0.43	£11.70m	53.75	311.59	10.26%	10.26%	£1.10m	£1.10m
Real Time Control	£0.86	£6.02m	7.75	1755.10	7.50%	-16.50%	£0.42m	£-1.19m
Rolfe & Nolan	£2.40	£13.60m	15.09	2835.09	8.11%	25.00%	£1.10m	£2.70m
Sage Group	£4.88	£100.00m	15.79	3753.84	14.02%	46.55%	£14.30m	£34.10m
Sanderson	£2.27	£20.00m	9.46	965.96	0.00%	84.55%	£0.00m	£9.20m
Sema Group	£3.20	£291.20m	29.04	1006.29	-5.88%	47.47%	£-18.20m	£93.00m
Sherwood	£2.55	£15.80m	13.01	2124.99	4.94%	90.30%	£0.90m	£8.87m
Star	£0.47	£3.20m	24.74	391.67	17.50%	104.35%	£0.48m	£1.63m
Total	£0.76	£7.60m	14.87	1433.98	38.18%	123.53%	£2.10m	£4.20m
Trace	£0.36	£5.00m	12.24	288.00	9.09%	0.00%	£0.48m	£0.13m
Vega Group	£1.12	£15.80m	15.49	918.03	-4.27%	-8.20%	£-0.70m	£-1.41m
Vistec	£0.25	£27.80m	16.12	1070.74	-2.00%	81.48%	£-0.60m	£12.50m

Note: CSI Index set at 1000 on 15th April 1989. Any new entrants to the Stock Exchange are allocated an index of 1000 based on the issue price. The CSI Index is not weighted; a change in the share price of the largest company has the same effect as a similar change for the smallest company.

Sage is exceptional

"Sage boss knows his onions" was how the Daily Mail headlined on 9th Dec. 92 the announcement of full year results to 30th Sept. 92. These showed PBT up 33% at £8.85m, revenue up 36% at £27.3m and EPS up 21%. Cash increased from £1.2m to £7.2m (yes, by £6m). Results do not come better - or more consistent - than this, as the record below only too clearly shows. If we are not careful we will merely rewrite every "rave" article on Sage which has appeared in *System House* in the last three years.

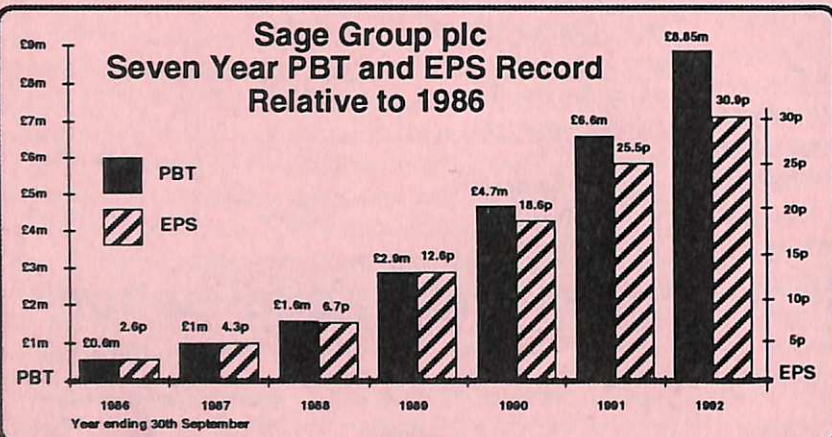
Why are Sage different from, say, the much troubled Pegasus, that we featured last month? Other than the quality of management, of which we have written ad nauseum, all the best performing companies make the majority of their revenues from their existing client base. Pegasus sell their accounting products via dealers and therefore (largely at their own choosing) have little recurring revenue. Sage, on the other hand, now makes 51% of its revenues (48% in the UK and 61% in the US) from its existing client base. It does this by the sales of supplies, maintenance contracts and training (up 24% in the last year) and upgrades to existing clients. Anyone who ignores this is plainly mad. The most successful software company ever - Microsoft - also makes the vast majority of its revenues from sales to existing clients. Even here at *System House* we have spent more with Microsoft in the last year upgrading Excel, Word and Powerpoint than we spent on buying the products originally!

Our views on pitfalls associated with acquisitions are well known. Sage seem to have avoided them all by following the advice to "stick to the knitting". The DacEasy (US) and CIEL (France) acquisitions were exactly right and early results have certainly exceeded our expectations. We hope that Remote Control and the latest acquisition, Yorkshire Business

Forms (see p 7), will also go well - although, to be fair, we are not too sure about them at present. But they are both small so should not wreak too much damage even if they do go wrong.

As we have already suggested would happen, Sage's MainLan networking offerings have now been dropped, the closure costing £421K this year - proving the "stick to the knitting" principle yet again.

David Goldman says "In last year's report the belief was expressed that an upturn in the economy would come in 1992. It did not! This year no prediction is being made, except to say



that Sage is confident its business will continue to grow at a healthy rate and produce a satisfactory outcome". Analysts expect PBT of £10.9m next year.

Sanderson "Short of expectations"

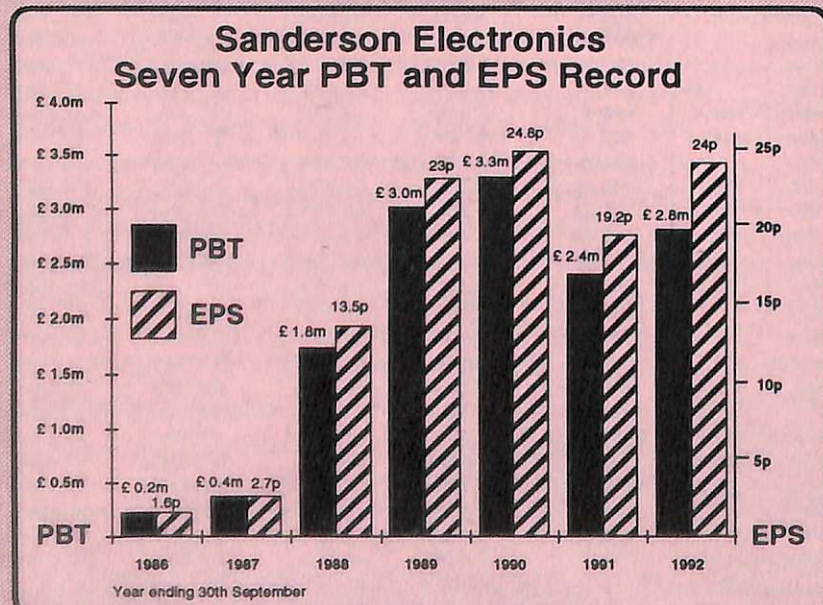
Sanderson Electronics reported PBT up 16.7% to £2.8m on revenues up just 4% at £21.4m in the year to 30th Sept. 92. EPS increased 25%. However, the results fell "£500K short of expectations and the shares ...tumbled 46p to 226p". Source - Daily Telegraph 16th Dec. 92. The UK produced "a very good performance...despite the recession". Overall operating profits improved by 38%. But losses at their US

subsidiary, **General Automation**, deteriorated to £400K. Sanderson acquired the remaining 45% of GA that it did not own for \$350K in Jan. 92. GA had reported profits of \$383K to Sept. 91. The closure of a German subsidiary added losses of \$800K and the Australian subsidiary lost \$1.7m.

Sanderson was initially a PICK based solutions provider to a wide range of industries. Seventeen industry areas, from solicitors through local government to hotels, are listed. Sanderson claims to own "what is probably the most extensive portfolio of software packages available from a single supplier in the UK". Now all their "software products have been developed to run under UNIX". A very respectable £9.5m, or 44%, of revenues, is made from maintenance and support.

Sanderson is, in the words on which we wish we had a ©, "well placed to expand when the UK business conditions for capital goods improve". "Analysts are looking for profits of £3.9m next year and believe the shares are underpriced". Source - FT 16th Dec. 92.

In a move to "increase public awareness" Sanderson is the first CSI company to sponsor a Premier league team - Sheffield Wednesday; now ranked #15 in the league.



Perils of performance related deals

Rolfe & Nolan "the leading futures and options back office computer bureau and software specialist" had managed very well thank you with year upon year of consistent organic growth...sound, risk adverse, almost boring (as in the Admiral definition of the word). Then in Feb. 92, R&N bought 19.9% of Brokerage Systems Inc. (BSI) "a leading supplier of back office systems to financial institutions in the US" for an initial \$500K. In their last year BSI had reported losses of \$640K. Overborrowed and out of cash, the deal was clearly a rescue. But R&N also agreed to a performance related deal on their exercise of an option for the remaining 80.1% equity. It comprised two alternative options - a one-shot \$3.5m payment by May 93 or a two year earn-out for a minimum of \$1.2m or a maximum of \$5m based on the results for the two years to Nov. 93. The former depended entirely on BSI making profits in year one at a level which the stockholders insisted would be achieved, but R&N considered to be cloud cuckoo land. The earn-out alternative was a face-saving compromise necessary to enable the deal to be concluded at all.

If you ask anyone who has acquired a company what they found when they got their feet under the desk you will almost always get the following comments "the exciting new products were not quite as functionally complete as we had been led to believe, the customers weren't quite as happy as we were told and the debtor list was not quite as solid as had been claimed". As a condition of the deal, R&N took control of BSI from day one - appointing their Brian Cooke as CEO and Patrick Thornton-Smith to head up Sales & Marketing. They found BSI displayed all these characteristics and, like others in similar situations before them, spent most of the first year remedying them.

As R&N had anticipated, the confidently forecast profits never materialised. Instead, BSI has contributed losses of £106K to the first six months of R&N's results (they have to include 100% of these losses rather than just the 19.9% proportion of the shares they own). Full year losses at BSI (to end Nov. 92) are expected to be considerably higher but we understand that a profit for BSI is being forecast for the year just started. In these circumstances exercising the \$3.5m option is clearly out of the question. Instead R&N is now negotiating to exercise the one-shot option for a considerably lower figure; although they cannot get away with less than the \$1.2m minimum agreed. "I am very conscious of your regularly repeated advice in *System House* about the problems of performance-related deals and intend to do all I can to avoid going down that route" says CEO Mike Warburg.

We asked Warburg if he would do the deal again. His reply was immediate "Definitely...it was a golden opportunity to establish R&N in the all important North American market as a major player at one stroke. It has enabled R&N to win business we just could not have won if we had not been a global player".

Of course all this had an effect on R&N's interim results for the six months to 31st Aug. 92. Revenues were up 62% at £5.3m, in part because of BSI although R&N's own revenues were up 19%. The £106K losses at BSI meant that PBT was static at £707K. EPS rose by 4.7%. Cash balances increased from £2.3m (in Feb. 92) to £2.9m. Without BSI R&N's PBT would have risen a very healthy 15%. Indeed R&N seems to have been one of the companies to benefit recently from the ERM debacle and all that. "Recent financial and political uncertainties affecting the major European currencies and economies have resulted in record volumes being processed by the London Datacentre during Sept. and Oct. In addition, six further bureau orders have recently been received, including three of particular significance - one from a leading Spanish financial institution; our first order from that country".

BSI will contribute an increased loss in R&N's second half and there currently seems to be yet another slowing down of new order intake. But next year looks increasingly bright.

"Annus Horribilis" at Enterprise

In Mar 92, **Enterprise Computer**, then still under the control of ex-Hillsdowne Robert Evans, announced that they had returned to a profit of £1.7m in the six months to 31st Dec. 91. A "strong balance sheet" was reported and analysts were even suggesting a PBT of £5m for the newly changed FY to 31st Mar 93. In June 92 the US **Hanna Group** bought out Evans' stake at 35p per share and ex-Guinness Shaun Dowling was installed as CEO. The shares then slumped to a 1992 low of 14p (although they have recovered since to end 1992 at 21p).

As we wrote at length in the Sept. 92 issue of *System House* all was not as it seemed. A revised loss of £8.3m was announced for the 15 months to 31st Mar 92 and it seemed that every stone Dowling turned over revealed more nasties. In the six months to 30th Sept. 92, revenues declined by 38% to £35.5m, mainly due to previous disposals. It is worth remembering that Enterprise (then called Systems Reliability) had recorded revenues of £183m for 1990, when they were at the height of their acquisitions binge. But losses have continued at £3.4m; £1.9m relating to stock losses and rationalisation costs. The interim dividend has been passed. The most serious loss (£958K) occurred at **Enterprise Digital** (which Evans

had said only in March had "performed well"). Now it is reported that "stock write down and provisions at the previous year end were not sufficient" Enterprise Digital is no longer trading.

However, it looks as if some of the problems were not quite as bad as feared. Dowling now expects to recover the value of the preference shares invested in SRH (the subject of an MBO in May 91). Their **Bleasdale** subsidiary is now being retained due to their "exceptional skills in manufacturing and systems integration".

The "strong balance sheet" mentioned just nine months ago is no more. Shareholder funds have slumped from £6.2m to £4.4m. and cash of £5m at 31st Mar 92 has been reduced to zero.

Enterprise claims to be "the largest supplier of second user IBM computers". Dowling has now "remodelled the business into one which delivers a complete range of hardware and software products from mainframe to desktop networks". After reducing overheads by £4m pa, he also believes that "all those steps which needed to be taken, have been taken, and that both the losses and the cash drain are behind us...the second half has started rather more optimistically and I hope to report a general improvement at the year end".

Not the best way to end the year at SAM...

One of our long-standing subscribers is **SAM Systems** based in Manchester. Directors Bill Seddon and Denis Moody have spent 20 years building their systems business and have this year launched their UNIX-based Unison manufacturing and distribution product range.

This month their offices were, literally, shattered by an IRA bomb. Three staff were hurt and the combined effects of being banned from their offices and the subsequent clearing up cost at least a week's production. The effects could have been worse if it hadn't been raining causing hold ups on Manchester's motorways. This meant that quite a few staff had not arrived at the offices when the bomb exploded at 8.40 am.

We are pleased to report that all staff were quickly back at work but a third of the office windows are still boarded up and there is a belief that they will still be finding bits of broken glass in ten years time. A person in the industry commented to us that if there were two people who could take this sort of thing in their stride it would be Bill and Denis. We are sure that the many *System House* subscribers who know them well will wish to join with us in wishing SAM a more peaceful new year.

..or at INSTEM

INSTEM, which focuses on systems for the control of power stations, has been hit hard by the recent appointment of receivers at two of its electronics division customers. This caused the company to issue a profits warning on 23rd Dec. 92. The anticipated exceptional charge "may reduce the company's profits for the FY to 1st Jan 93 to a level significantly lower than in the previous year". Last year INSTEM made PBT of £1m and PBT had advanced by 9% to £551K at the half way point when Chairman David Gare said he expected "a satisfactory outcome for the year".

Their shares fell by 35p to 65p but have recovered since.

System House Awards for 1992



The **Road to Damascus Award** to **EDS-Scicon** for their sudden and unexpected conversion to press relations openness. "Corporate HQ says we cannot issue separate UK financial results" - *System House* Jan. 92. Last month we published a full expose of EDS-Scicon's latest results. (By the way, both the leading UK trade magazines

'phoned asking how we had got this scoop!)

The **By a Single Leap and Bound Award** to **Cray Electronics** who, with annualised CSI revenues of c£250m, are now the largest UK-owned CSI company after their acquisition of **Dowty IT**.

The **Please Take Your Own Medicine Award** to Richard Holway for the acquisition of **Charterhouse** by **NMW Computers** which, at the very least, contributed to them "falling into the hands" of **ACT** in Nov. 92.

The **Most Inspired Acquisition Award** to **ICL** for its purchase of **Technology plc**. All the early signs were that the £30m+ purchase was going to be a major disaster. Technology is now sourcing both IBM and DEC hardware elsewhere on better terms and ICL has increased its market share as a result (see *System House* Dec 92).

The **Goodbye Awards** to Tony Cleaver of **IBM (UK)** and Geoff Shingles of **DEC (UK)** not to mention Ken Olsen and John Akers (sorry a bit premature on that one!).

The **"We'll Meet Again" Award** to J Hubbard Ford for joining, leaving and joining again as CEO of **Pegasus**.

The **Sage of the Year Award** to David Goldman of.....**Sage**. He not only won the Entrepreneur of the Year Award from Coopers Deloitte but also managed to increase EPS yet again by 20%+ (see page 10).

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