

System House

The monthly review of the financial performance of the UK computing services industry
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We never thought we could beat the tale which goes "if you had bought MicroFocus

shares in April 89, you could have multiplied your money by a factor of 12". But how about the one that goes, "if you had bought Gresham Telecomputing shares when they sank to 6p in Oct. 91 they are now worth 14 times more". Yes - Gresham shares traded at 85p this month - that's a threefold rise in 1993 alone.

This month we met with Chairman & CEO, Sid Green. He doesn't know who is buying and thus forcing the price up. Green owns 38% of the shares and the directors control around 63% of the equity. The only event he can point to is a meeting with institutions and private investors about a month ago, since when the share price has gone into orbit.

So what is it about Gresham and Green that can send investors rushing for their cheque books?

A brief history - missing out the potentially libelous bits

Telecomputing was the creation of Bernard Panton. There are few prepared to say a good word for him and all the rest are completely unprintable. But to be fair, in the early days he presided over the building of a group with a well respected ICL TP product. Faced with mounting losses, Panton sold a 29.8% stake to Ferrari in Nov. 89 at 87; which itself appointed the receivers in Mar. 91.

In Feb. 91, Telecomputing shares were suspended at 11p and it was announced that Gresham Group was mounting a reverse takeover. Green's Gresham, also in the ICL systems software market, was to own 82% of the enlarged group. When the stones were turned, more nasties were revealed. Perhaps the nadir was reached when DTI inspectors were appointed to investigate the previous management's running of Telecomputing.

Out of the abyss....

In July 92, Green issued a statement saying that he "did not intend to dwell further or report on these matters again". Neither will we other than to repeat his assurance to us that there are no further issues which have not been resolved or fully provided for in the company's accounts. He also said at the same time "the patience of our shareholders will be well rewarded". To be fair, we don't think even Green realised at the time just how well they would be rewarded!

Latest results for the year to 31st Oct. 92 (on a proforma basis) show revenues reduced from £10.75m to £7.25m, PBT increased marginally to £767K and EPS nearly doubled.

GRESHAM TELECOMPUTING

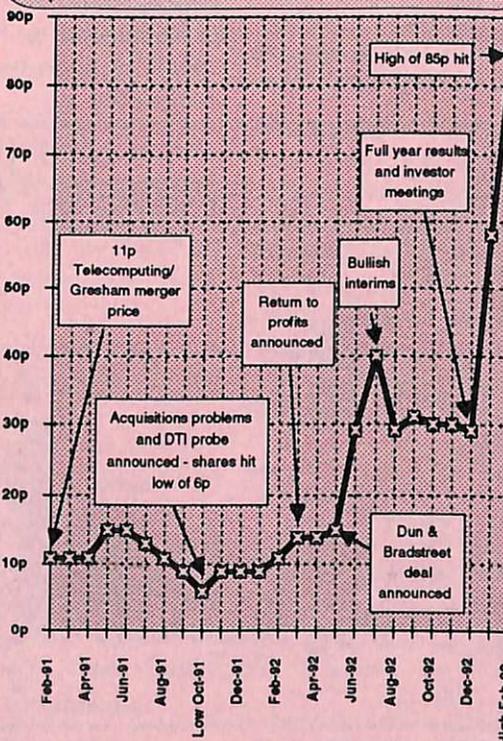
Main activities are:

- software products - £3.2m revenue - Gresham's "core".
- software development - £800K revenue.
- IT staff recruitment - £1.8m revenue.

Other revenue came from hardware broking (now ceased). Until recently Gresham's market consisted exclusively of ICL mainframe users. But the real excitement comes from their new open systems offerings. In particular, **tp+** which "brings true transaction processing to UNIX systems" has been selected by Dun and Bradstreet for the UNIX versions of its financial accounting software. It believes that "more than 20% of its world-wide 14,000-strong customer base" will move to UNIX based solutions. Another offering is **Dataserve**, designed to make mainframe data available to other platforms.

But Green believes all this could be eclipsed by **ISAM-XA**, which he describes as "the future of the group". The product allows conventional ISAM files to be used in distributed open systems. "There is no comparable product from any other source". Indeed ICL, Bull and others are negotiating marketing agreements. Although this product is shipping, its impact on Gresham's results has yet to be felt. Both **tp+** and **ISAM-XA** come from the "old" Telecomputing. So how does a company with £7m revenue, a very "average" 10% profit margin and a dodgy past, achieve a value of £25m? Perhaps it is because Green puts out the same mix of integrity and technical enthusiasm as you get from Logica's David Mann. He is self-effacing enough to state that Technical Director, Alan Davies, is the one who brings him the ideas; but realistic enough to admit that he is the one who can recognise the good

Gresham Telecomputing Share Price Movements
"the patience of our shareholders will be well rewarded"



ideas from the bad.

...onto the future

We got a little anxious when Green told us that he was considering making an acquisition. Indeed, it looks as if his advisers are demanding it as the only sensible thing to do with a share price that has hit the stratosphere. Advice like that gives advisers a bad name. For a small well focused company, with enormous potential, to go down the acquisitions route is as blatant a case of corporate suicide as we have ever come across. Gresham could be the next UK Micro Focus - remember Micro Focus did it without acquisitions.

Green could become a takeover target himself. At a reasonable premium to the current exalted share price, he would be duty bound to other shareholders not to put up too much resistance.



P&P plc

Back in 1990, P&P reported PBT of £13.1m and announced a rights issue at 185p when their shares were trading at well over 200p. They also realised at that point that their future was in value added CSI type activities, rather than in hardware distribution. The road since then has been decidedly rocky. The move to systems was "expensive to implement" and at the same time "P&P's corporate customers revised and delayed their capital expenditure". Profits, EPS and the share price went into free fall as can be seen from the chart below. The City found it difficult to forget and forgive a rights issue at 185p when the shares were trading at a 1992 low of 16p.

The move to services has been equally tough. At the interim stage, half of P&P's staff worked in services but they contributed less than 10% of revenues. But "PC FM" deals like that with ICI were "seen as a model for future partnership relationships". Indeed, we have long suggested that the FM of the 1990s will involve PCs, networks and application software maintenance.

Latest results for the year to 30th Nov. 92 show revenue reduced by 2.4% at £222.8m but PBT up 183% from £711K to £2.01m. EPS was also up 111%. Service revenues increased by 10%.

But P&P has now taken the radical step to withdraw, over the next year, from its "high volume low margin product distribution" activities. These businesses will either be run down or sold. This has given rise to a £8.93m extraordinary charge which therefore means that P&P recorded a net loss of £7.88m in the year - certainly one of the highest in the sector for 1992.

The rest of the news from P&P is really very encouraging. Firstly the accounts show shareholder funds of £40m - compared with a

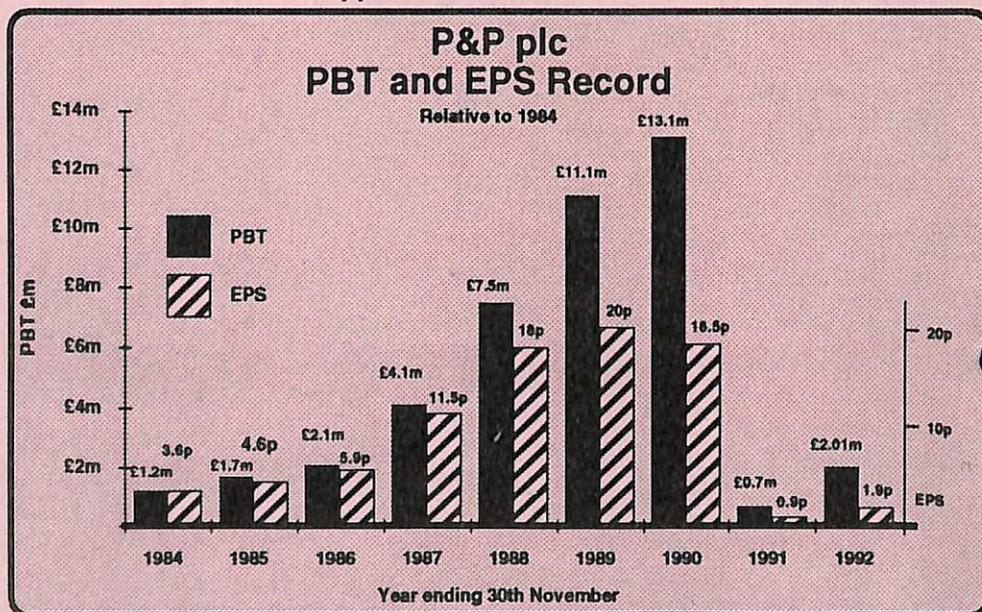
market capitalisation of £25m. Not surprising, therefore, that analysts are putting out "strong buy" notices and the shares have performed well to end the month on 55p. Net cash also increased, albeit marginally, from the interim stage to £3m. Operating expenditure has reduced by 10% pa - a clear case of the medicine having been taken, so the cure can surely not be far behind.

P&P will continue their well respected "higher margin specialist distribution sales" via Power Systems (open systems), Principal (the Apple software distributor) and Nordic Datadistribution in Sweden (purchased in 1990 for £6.4m) "all of which contribute well to Group results".

With the "casting out of the cross" behind them, future prospects look increasingly rosy - certainly in the eyes of the board who report "an encouraging start to the new financial year". P&P's stockbrokers are forecasting PBT of £2.8m to Nov 93. The FT complemented P&P's management for showing "its competence in coming to grips with costs" and said they would not be surprised if 1993 showed "a strong advance". Source - FT 10th Feb. 93. Indeed, Group MD David Southworth told us that he was looking "forward with confidence to a much happier future rather than backwards over an illustrious past".

Two years ago, in P&P's heyday, we were bold enough to report that they had "a clear and lasting differentiation from its competitors".

P&P is different in that its "strong management" has taken, in our opinion, the right tough measures - particularly the move to services. **We therefore remain a strong supporter.**



Redefining FM at Sligos

Sligos SA is the second largest supplier of computing services to the French market (after CGS) and the third largest French-owned system house (after CGS and Sema). Sligos grew its FM revenues by 15% in 1992 to \$268m - out of a total revenue of \$652m.

But the problems of definition get worse and worse. In the UK many companies have renamed their FM services. Sligos has gone one step further and includes application project management as well as software maintenance in its total. If we go on this way, either no one will do FM (because the term is so discredited) or every element of IT spend will be included as FM.

Changes at Data Sciences

We reported in *System House* last month that Data Sciences was seeking a buyer - for at least its Datasolve operations. This month it was announced that Mike Smith, who had been off sick since Christmas, was giving up his CEO role and that Oliver Smith, who ran their systems division, is to retire in April. We understand that a new CEO has been found and that an announcement is imminent.

Sorbus PBT up 52%

Sorbus, the TPM operation jointly owned by ICL and Bell Atlantic, increased PBT in the UK by 52% to £3.8m on revenues up 62% at £33.8m. Staff numbers rose by 160 to 620 and many major blue chip clients were won.

Instant profit at Star

Back in mid 1991 Star Computer had the dubious honour of a sub-£1m capitalisation and a share price of 15p. You may remember that Gordon Skinner, ex-TIS/Misys, then bought a stake. In Dec. 92, Star's shares were suspended at 47p and, shortly afterwards, a reverse takeover was announced with Pizza Express at 40p a share.

On 18th Feb. 93, the new shares started trading and soared to 96p; before ending the day on 81p - a mere 440% gain in 18 months.

We don't usually print order announcements...

We have launched many campaigns. The moves to FM on networked PCs, which we believe will be the salvation for P&P as described opposite, is one. Another was the move to application software "FM". There is no better example of this than the "£12.65m strategic partnership deal" struck this month between FI Group and Whitbread to "provide system development, enhancement and maintenance of their IT systems over the next five years". This is the single largest contract ever awarded to FI and will involve them taking over 100 employees. FI is probably now the leader in this fast growing market, which we estimate grew by 20% in 1992 and will be worth over £800m pa by 1996. They made their first moves in 1990 and were awarded a £1.5m "software factory" deal with Thames Water in 1991. The FI service was then named "Mainstay". Now, as this type of business grows more and more for FI, a new division - FI Partners - has now been established led by Lyn Barrat.

...but we do print financial results

FI Group, unusually for a private company, issues interim results. These show PBT up 15% at £588K on revenues up 5.9% to £13.3m in the six months to 31st Oct. 92. You can look at the figures in two different ways; they represent a reduction on the figures reported two years ago in 1990, but are still better than most in the industry.

Chairman, Sir Peter Thompson, is "optimistic about the prospects for the future...as FI Systems goes into the second half with a record order book".

"Boring" Coda

There was a time when the ultimate accolade was to be described as exciting. *Have none of it. Boring* is a much more rewarding description. After all it was given by the FT to Admiral and Macro 4; since when their share prices have rocketed.

So our ultimate "boring" award goes to Coda "the UK-based supplier of international accounting software for the mid-range". You don't get a more boringly superb financial record than that shown for Coda opposite. In the latest year to 31st Oct. 92, revenues were up again by 40% at £17.9m and PBT increased by 15% to £3.25m. DEC business is still the largest element - representing £11.1m of revenue - up 22%. US revenues increased by 49% to \$10.6m

These boring results were achieved despite staff numbers increasing from 164 to 222 and R&D spend of £2.7m. Indeed Coda had "braced itself for a

Rises for Reuters

Whether Reuters Holdings is, or is not, a CSI company is becoming a sterile argument as the definitions get more blurred. Certainly much of their business information and news activities is IT-based and software product oriented. Despite earlier difficulties, products Dealing 2000-2 and Globex are reported to be progressing well. In the year to 31st Dec 92, Reuters increased revenues by 6.9% to £1,568m, PBT increased by 12.6% to £383m and EPS was up 13%. Instinet, which is a rival to the Stock Exchange's own systems, increased revenues by 57% to \$59.6m and contributed \$14.8m to profits

As 80% of Reuters revenues is non sterling, the effective 17% devaluation should have had a major positive effect - just like Micro Focus, Sage etc. But, like Macro 4 had tried in previous years, they hedged their currency bets - and lost out as the market moved in the opposite direction. Observers reckon their cautiousness cost them £100m last year. Mind you it could have gone the other way if John Major's earlier prediction of sterling as the European benchmark currency had come about....

Pegasus above expectations

"The last 18 months have seen momentous changes...the decline in the Company's performance has been halted and the Board and management are focused to deliver significantly enhanced shareholder value".

The results announced this month were for a 17 month period to 31st Dec. 92 and therefore comparisons are not exactly meaningful. PBT was £620K (£1.5m) on revenues of £10.3m (£8.2m) and EPS was 7.3p (18.1p).

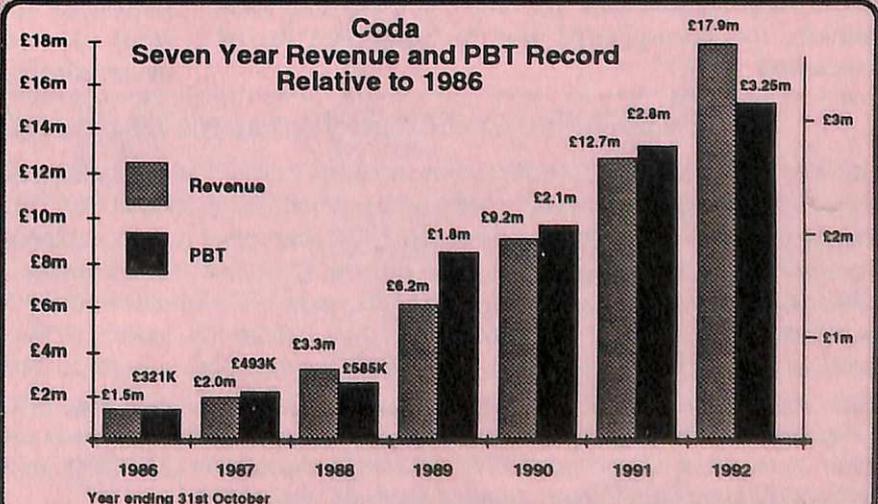
We were particularly pleased to see that Pegasus will in future put "emphasis on additional recurrent sources of related revenue to reduce reliance on new software sales". Better late than never, even if it does create mayhem in the dealer channel. Pegasus will also rationalise what they admit is a rather too extensive product range "resources will be focused on the most profitable sectors"

This all seems very sensible. Investors seem to think so too. Pegasus shares have risen 38% to 171p this month; making a near 50% gain in 1993 so far.

reduction in profit". It really is too bad that they didn't achieve it!

It is a testimony to Coda's strong position that over 50% of revenues are now earned outside the UK.

We give our usual advice to Rodney Potts - sell your boring company now before things get too exciting.



"Increased leveraged revenue" for P-E

P-E International is one of the oldest companies in the sector. Established in 1934, it now operates in 40 countries and its services range from IT, human resources, total quality management and environmental consulting (particularly via its David Bellamy Associates purchase) through to FM, systems development and contract resourcing.

The peak performance was hit in 1990 when PBT of £5.6m was reported. Since then both PBT and EPS have slumped. Interims to 30th June 92 showed PBT of just £514K. In May 92, George Cox, who had built Butler Cox and then sold it to US CSC in May 91 for £14.3m, was appointed as Executive Chairman; replacing Hugh Lang who stepped down when reaching the age of 60.

Cox took on what he described as a "tough" job. He found many separate groups all running in their own rather detached manner. He found that clients of one service/division had no idea that they could get other services from P-E. Clients were happy to buy what they had bought before, but were seldom sold anything new. He said that although P-E had great potential it "needed new direction". He described the numerous acquisitions undertaken by P-E as "lots of good deals, not all of which had gone very well" - yet further proof that good acquisitions are made post acquisition, rather than on the basis of the deal alone. However the largest P-E acquisition, Handley-Page (Jul. 91 - £9.8m), is reported to have performed well.

Cox has set about making P-E into a more coherent operation with each operation able to draw on the undoubted strengths of the others and of the company in total. Perhaps a good example of this is the software FM contract awarded this month to P-E by Standard Life worth £500K pa.

This month, in an echo of the activities of the old Butler Cox, he has launched a new club **The P-E Centre for Management Research** for IT managers. For £20K p.a. (special introductory offer available at £15K) the service will provide "insight into developments, trends and lessons of experience and best practice in the management and exploitation of IT".

Peter Sole has joined to head the new operation and four top ex-Butler Cox professionals have joined the team. In an interesting move for a quoted company, the team will have a 25% stake in the new operation; which P-E has the option to acquire after three years.

Given the combination of Cox' and P-E's enviable track records, the future could well be rewarding for all concerned.

IBM (UK) boosts software and service revenues by 22%

"It would be over dramatic to say that IBM's new emphasis on computing services represents the major opportunity for the world's largest computer manufacturer to restore its failing fortunes - but only just". So says Alan Cane writing for the IBM newsletter UK News.

Even on our very harsh definitions of manufacturers CSI revenues (which exclude maintenance, hardware and systems software) IBM (UK) has grown its CSI revenues well above the average in 1992 - by 22% to £207m. Services, bespoke systems, consultancy etc., grew by 28% to £76m, services, such as disaster recovery, grew by 29% to £44m and Information Services, such as VANs and LYMNET, grew by 38% to £23m. Application software grew by a more modest 7% to £53m; whereas revenues from IT education fell, like most others in the industry, by 19% to £7m. Although not included in these figures, hardware maintenance also fell by 3% to £203m - right in line with our predictions and, dare we say it, somewhat at odds with other more learned projections. We have not completed our rankings for 1992 yet, but clearly IBM (UK) will be within the top five suppliers of CSI services to the UK market. On the same basis, ICL had CSI revenues of £250m in 1991. We hope to report on ICL's 1992 CSI activities next month.

IBM's UK consultancy and services organisation is already 1700 strong, "£270m worth of systems integration contracts and extensions were signed in 1992; giving a growth of over 50% over 1991", and FM services earned £3.9m in just six months from a standing start.

IBM's international report and accounts, detailing their \$6.8b loss for 1992, shows that their SI business (ISSC) had revenues of \$1.8b in 1992 but only managed a meagre profit of just \$30m.

Andersen Consulting exceeds its own expectations

It was only back in Nov. 92 when we interviewed Vernon Ellis from **Andersen Consulting** who agreed that we should use the words "UK revenues are expected to exceed £200m in the year to 31st Dec. 92" - 70% derived from IT. In the event revenues grew 25% from £172m in 1991 to £215m in 1992. As usual no profit figures were given but UK MD Keith Burgess did say "The industry average profit margin is 10-12%. we are at the high end, but margins are under pressure". 80% of revenues came from professional services and the vast majority of the remainder from outsourcing (FM). Burgess added "We think we are doing remarkably well in difficult circumstances". Source - FT 23rd Feb. 93.

No adjectives good enough to describe Micro Focus..

...so we will let the facts about **Micro Focus** speak for themselves. Latest full year results to 31st Jan. 93 (reported ahead of most other companies 1992 results) show revenues up 21% at £67.7m, PBT up 23% at £22.3m (a margin of 33%) and EPS up 27%. Acquisitions have been few and minor - none is planned in the next year. On top of that a "cash mountain" of £53m has been amassed - up from £31m last year. However, (like Macro 4 p10), the weakness of sterling was the main contributor to this major increase. Shareholders have been rewarded well. Micro Focus had a capitalisation of just £17m in 1988 but hit over £350m this month. 57% of revenues come from the US where their NASDAQ listing is at least in part responsible for their high valuation. Over 45% of shares are now US owned.

With only 10% of COBOL programmers using Micro Focus' development tools, where the company has virtually no competition, the future looks remarkably bright. Chairman Paul O'Grady expects to "maintain or exceed current growth rates". Analysts are forecasting PBT of £34m for the current year maintaining the company at the top of the profits table for UK CSI companies. More detailed analysis next month.

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	Final - Dec 91 £ 26,104,000 £ 3,472,000 21.9p		Final - Dec 92 £ 30,870,000 £ 3,966,000 24.2p	Final Comparison +18.3% +14.8% +10.5%
Capita Group plc	Results Revenue PBT EPS	Final - December 91 £ 24,711,830 £ 3,448,487 15.71p		Final - Dec 92 £ 33,098,452 £ 4,406,012 19.3p	Final Comparison +33.9% +27.8% +22.9%
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	Interim - Oct 91 £ 40,044,000 £ 536,000 0.47p	Final - Apl 92 £ 84,786,000 £ 4,787,000 3.2p	Interim - Oct 92 £ 81,862,000 £ 17,833,000 10.33p	Interim Comparison not comparable not comparable not comparable
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	Final - Oct 91 £ 6,296,000 £ 355,000 1.0p		Final - Oct 92 £ 7,250,000 £ 767,000 1.94p	Final Comparison +15.2% +116.1% +94.0%
Hoakyns 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
Leamonth & 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	Interim - Dec 91 £ 8,830,000 £ 3,600,000 11.5p	Final - Jun 92 £ 19,016,000 £ 8,750,000 26.5p	Interim - Dec 92 £ 11,210,000 £ 4,900,000 14.8p	Interim Comparison +27.0% +28.9% +28.7%
Micro Focus plc	Results Revenue PBT EPS	Final - Jan 92 £ 55,869,000 £ 18,146,000 83.1p		Final - Jan 93 £ 67,700,000 £ 22,300,000 110.1p	Final Comparison +21.1% +23.2% +27.4%
Microgen Holdings plc	Results Revenue PBT EPS	Final - Oct 91 £ 47,735,000 £ 7,283,000 12.2p		Final - Oct 92 £ 49,316,000 £ 8,243,000 13.8p	Final Comparison +3.3% +13.2% +13.1%
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

Misys plc	Results Revenue PBT EPS	Interim - Nov 91 £ 32,304,000 £ 3,585,000 7.0p	Final - May 92 £ 68,023,000 £ 9,118,000 17.8p	Interim - Nov 92 £ 41,147,000 £ 6,757,000 11.9p	Interim Comparison +27.4% +88.5% +70.0%
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%
P & P plc	Results Revenue PBT EPS	Final - Nov 91 £ 228,324,000 £ 711,000 0.9p		Final - Nov 92 £ 222,752,000 £ 2,012,000 1.9p	Final Comparison -2.4% +183.0% +111.1%
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 (Restated) £ 8,493,000 £ 1,512,000 18.1p		Final - Dec 92 £ 10,269,000 £ 620,000 7.3p	Final Comparison (Note yr end) +20.9% -59.0% -59.7%
Proteus International plc	Results Revenue PBT EPS	Interim - Sep 91 £ 2,000 (£ 1,119,000) (5.12p)	Final - Mar 92 £ 3,000 (£ 2,410,000) (11.05p)	Interim - Sep 92 £ 0 (£ 1,205,000) (4.73p)	Interim Comparison Not comparable 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	Interim - Sep 91 £ 3,002,000 £ 507,000 4.9p	Final - Mar 92 £ 6,835,000 £ 1,192,000 11.1p	Interim - Sep 92 £ 3,134,000 £ 258,000 2.5p	Interim Comparison +4.4% -49.1% -49.0%
Roffe & 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 - Now Pizza Express	Results Revenue PBT EPS	Interim - Dec 91 £ 3,470,000 (£ 240,000) (3.6p)	Final - Jun 92 £ 7,333,000 £ 1,199,000 1.9p	Interim - Dec 92 £ 3,790,000 £ 55,000 0.8p	Interim Comparison +9.2% 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

Merger of Apollo and Galileo reservation systems

In March 1992 it was announced that the owners of the **Galileo** and **Apollo** air reservation systems had agreed to merge their operations to create **Galileo International**. The deal was eventually finalised on 1st February 1993. The ownership of the new operation is 50% from a consortium of North American airlines, lead by **United Airlines** and including USAir and Air Canada. This consortium of North American airlines had been 50% shareholder in Covia Corp; the owners of Apollo. The other 50% is owned by a consortium of European airlines lead by **British Airways**, and including KLM Royal Dutch Airlines, Swissair, Alitalia, Aer Lingus, Olympic Airways, TAP Air Portugal and Austrian Airlines. United Airlines, with 38% of the stock of Galileo International is the largest shareholder followed by British Airways with 15%.

The deal is estimated to have had a value of £175m. However the new operation cannot be registered until the Combination Agreement has been approved by European and US regulators - approval is expected to take several months.

Galileo had an exemplary record; growing revenue from £19.8m in the year to 31st December 1989 to £65.9m in 1990, £71.1m in 1991 and a forecast £105m in 1992. Even so, the main loser in the deal will be "the UK's largest data centre" - the Galileo operation in Swindon. Computer operations will be absorbed over the next 12 months by a combined facility in Denver, Colorado.

Galileo International now claims 30% of the world airline reservation market. The rival reservations systems are Amadeus and Sabre (owned by American Airlines). Their owners are understood also to have been in merger talks which have so far proved unsuccessful.

Callhaven rights fails to meet expectations

We now understand that the fund raising from Apple Centre **Callhaven** has been far from successful. It originally wanted £1m with £400K already pledged by the Shah family. In the event only £600K was subscribed by the closing date and the offer has been extended until 31st Mar. 93. Unaudited accounts for the first seven months of the current FY indicate a deficit of £433K.

Logica in Italy

Logica has formed a new operation - **Logicasiel** - with Italy's largest SI company - **Finsiel**. The new operation will be owned 40% by Logica and 60% by Finsiel. The deal resulted from Finsiel's purchase of Logica's Italian partner - Data Management. Logicasiel will have 240 staff and revenues of c30b Lire (£15m). Finsiel is the 5th largest supplier of computing services in Europe but almost all its 1282 billion Lire revenue comes from Italy.

Another new CSI group in the making?

The founder of **Bachman IS (UK)**, and former head of **Arthur Young's IES** subsidiary, Philip Hill, has reputedly secured a £20m funding package from VCs ECI "to start a new empire". Source Computergram 2nd Feb. 93. He wants to buy "three or four software companies for £4m apiece... specialising in serious UNIX applications". His own consultancy, CEC, will form part of the new group.

Santa Cruz acquires IXI

As we went to press it was announced that US **Santa Cruz (SCO)** had acquired UK **IXI Ltd** in what is surely one of the most strategically important moves in the UNIX world. IXI is the leader in desktop windowing software for UNIX. Linking with SCO, which has a 70% worldwide share of the Intel based open software market, will provide an organisation of immense importance to the future of the industry. Consideration for IXI, which had revenues of only about £3.5m in 1992, is not known. This is understandable, as the valuation of an all share deal in a private company is difficult. But SCO described the deal as "a major acquisition". A clue is, however, contained in the fact that **Tomem Electronics** bought a 5.3% stake in IXI in 1991 for £720K - valuing IXI at around £14m even then. As "all shareholders" supported the deal, we would suspect the consideration could well be over £20m.

The transaction confirms the high values placed on other UK systems software companies like Micro Focus, Macro 4, Gresham etc. as described elsewhere in this edition. The only downside is that the UK has lost ownership of one of its more exciting new companies.

Broadview represented IXI and must be very pleased with the result.

The others... Maddox has acquired **Computer Profiles** for £150K + £50K debt (full details and Maddox profile on p11). **Dataflex** has gone into voluntary receivership (see p 12). USM quoted **Standard Platforms** has disposed of its US **DocuFile** subsidiary to its management led by Martin Caniff. In Europe, **CGS** has merged its **Cap Sesa Defence** subsidiary with **Matra MS21** (part of Matra Hachette). The new jointly owned company will be called **Matra Cap Systemes**, will employ 900 engineers and aims for revenues of Ffr900m in 1993. **Digital Building Systems (DBS)** has appointed the receivers. DBS employed 25 staff in Stockport and specialised in estimating software for the building industry. The **Dept. of Transport** has advertised in the FT for potential buyers for the **DLVA's** IT operations, which currently employs 500 staff. "Only companies with annual revenues in excess of £60m need apply" - which should cut the list down to a few dozen. **Vision Technology Group**, which operates four **PC World** superstores, has been bought by **Dixons** for £8.5m. VTG had revenues of £49.3m in the year to 31st Aug. 92 but reported PBT of just £400K. US **Raxco** has "merged" with UK **UIS**. The company markets **DEC VAX/VMS** and **Ultrix** software in the area of security and resource management, file and retrieval software. European operations will be based in UIS' offices in Epsom. Source - Computergram 16th Feb. 93. Rumours have surfaced that **Granada** has found a buyer willing to pay £100m for their TPM operations.

BIT expands in Scotland

BIT Holdings, describes its own expansion as "impressive". Put another way they have been in business for ten years and have just announced revenues of £5.5m, and net profits up 50%. In 1991 BIT acquired **Microskil** and this month they have expanded further with the acquisition (probably more like a rescue) of Edinburgh-based software house **Digifile** "specialists in electronic filing systems which allow scanned images to be stored and retrieved as an alternative to microfiche". (Given the recent financial performance of **Microgen** and **Microfilm Reprographics** with its 35% profit margin, perhaps COM isn't too bad a market anyway!)

Microvitec, Logitek and an MBO

The *Logitek* story is a classic. Without any significant acquisition activity, they grew earnings consistently to 1990 when they reported PBT of £3.8m. In 1989 they hit the acquisitions trail buying **Advansys** (£10.1m), **Microtex** (£1m), **Focalpoint** (£1m) and **Microdrive** (£2.9m). In mid 1990 they appointed ex-MBS Mike Brooke as Group MD. At the same time as the then Chairman Jim Pickup reported that these acquisitions "have been successfully integrated into the group". The board was confident at that time that "the coming year will be one of great opportunity...leading to increased earnings". Unfortunately it wasn't to be as the shares were suspended on 9th Nov. 90. James Warhurst, from brokers Henry Cooke Lumsden, suggested at the time that full year figures would be "flat". Actually this meant an 8% reduction to just £145K. By Jan 91 Logitek shares had fallen from a 1990 high of 143p to just 12p, Mike Brooke had resigned and a provision "arising from a dispute with a major customer" was announced.

Then in March 91, Microvitec, which had itself only just announced interim losses of £2.4m, announced a 34p share bid valuing Logitek at £6.2m. Logitek responded by announcing that its Novell networking arm **Azlan** would be sold to an MBO (involving Mike Brooke) for £4.3m cash. At the same time Logitek issued a profits warning and closed its loss-making CSM Systems subsidiary. It was therefore somewhat amazing that Microvitec renewed its bid offering £3.5m for what was left of a clearly troubled Logitek.

In Mar 92 Microvitec's Chairman James Bailey said that the integration of Logitek had been successful and that losses had been reduced substantially. Indeed, James Warhurst not only wrote to us affronted by our criticisms of Microvitec but also issued a "strong buy" on Microvitec shares at 35p saying in his research document "a confidently forecast turnaround of £6.3m (1991/92) in profits is a significant achievement and demonstrates that management have the current business firmly under control". We reported that, if achieved, this would be the largest turnaround in the history of the sector.

Far from a £6.3m turnaround, interims to 30th June 1992 reported PBT of just £2K as interest payable leapt from £185K to £462K "primarily as a result of debt acquired with Logitek" which was "operating in a hostile environment".

The whole saga ended (?) this month when Logitek was sold in an MBO, lead by Robert Adams, for £2.5m - £200K of which was deferred for two years. However, Microvitec will still hold 20% of the new MBO vehicle - Logitek Distribution. The net assets of the business being disposed of were "approx. £3m and it is loss making". Logitek distributes systems and software from ICL, Wyse and Gandalf and had revenues of c£25m.

Microvitec's Chairman, James Bailey, said "Logitek Distribution is high volume, low margin business which has required a disproportionate amount of management time and working capital compared to its potential for profits. This disposal therefore enables us to concentrate on developing our core activities which we believe hold the greatest potential for growth".

So the clock is turned back two years except that Microvitec shares hit a low of 13p in between. Still, devoid of Logitek they have now bounced back to 29p. Perhaps James Warhurst will now issue another strong buy notice?

You build 'em up and then you knock 'em down

Back in 1988 whizz kid ex-Hillsdowne Robert Evans took on **Systems Reliability** (subsequently renamed **Enterprise Computers**) and went on a £70m acquisitions binge. The acquisitions list was long - indeed they were one of the most frequent buyers in the period 1988 - 90. In 1992, Enterprise reported perhaps the largest loss for the year - £8.3m in the 15 months to 31st Mar. 92. Evans quit and sold his shares to the Hanna Group at 35p. The new owners started turning over the stones, finding what one is now accustomed to find under stones. A further £3.4m loss was announced in the six months to 30th Sept. 92.

This month Enterprise has put three of its subsidiaries into receivership - **Enterprise Digital** (described less than a year ago as "performing well" but now the excuse is that management "continued in the hands of the pre-purchase directors in accordance with the terms of an earn-out agreement - debts were substantial and had been created by unsound trading in the DEC market place", **Enterprise Computer Services (France)**, said to have made "substantial losses in 1992", and **Chase International Computer Services** "purchased by Enterprise in 1989 and ceased trading in July 1990 after making substantial losses".

Chairman Dowling hopes "to report a general improvement at the year end". Surely it can't get any worse anyway?

RIP EIT?

We have received a large number of calls this month "congratulating" **System House** on its warnings over the last two years about the **EIT Group**. We gained no pleasure, only sadness tempered with annoyance, when the EIT shares were suspended at 9.5p early in Feb. 93. As we go to press, the story has still to be resolved. As another payroll date passes, was the month's frantic search for white knights successful or will the receivers be appointed?

At the AppleCentre subsidiary, **Second City (SCS)**, attempts to get all the creditors to agree to administration failed and the company went into liquidation on 18th Feb. owing nearly £2m. SCS was only acquired in Sept. 92 for £400K. At the time we were incredulous that Apple had written off a total of £1m to an AppleCentre which had made losses for three years and had had two sets of accounts qualified. But the story gets even worse. At the creditors meeting it was divulged that Apple is owed another £600K. Indeed Apple was one of the creditors which agreed to continue supplying SCS - "so far as possible we would anticipate business between us continuing normally". We can think of quite a few AppleCentres that would like this kind of "normal" business arrangement - i.e. Apple supplies, but we don't pay.

Many people and organisations should be severely criticised for their part in the wholly predicable EIT fiasco. This is exactly what we intend to do next month when the full story is in the public domain.

Sherwood sent to the Tower

Sherwood has bought insurance software house, **Tower Hill Services**, for £300K cash from the **English & American Group**. Sherwood has also formed a joint operation, **Sherwood International Ltd.** with **Beta Computers (Europe)** to acquire the rights to Beta's pension and life administration software.

Static month, except...

The CSI Index stayed the same in a month when the FTSE 100 rose by 2.2% and the Small Cap Index increased 2.8%. However, as usual, this disguises some major movements in specific stocks. **Learmonth & Burchett** continued their rise - up 68% this month and have doubled since the start of the year. Although a return to profits is a reason, persistent rumours that LBMS is to become a bid target has been the real reason for the meteoric rise.

We kept **Star Computer** (now **Pizza Express**) in our index for this month only. Star's existing shareholders will be especially pleased with a 400% rise in just 18 months and the new shareholders who subscribed last month at 40p have nothing to complain about as the new Pizza Express shares hit 88p before ending the month on 77p. **Pegasus** (up 38%) benefited from the apparent ending of civil war and "not as bad as expected" results announced this month. **Sherwood** also advanced by 37% on takeover announcements (p8) and great expectations for full year results about to be announced. **P-E** (p4) was up 35% as the sense of the new policies of Chairman, George Cox, sank in. **Gresham Telecomputing** (p1) hit 86p and Sid Green had to issue a notice saying he had no idea why. Shares then fell back to end the month on 78p

At the other end of the scale **Micro Focus** was ravaged by profit takers after what we, and most others, felt were excellent full year results (p4).

But the real losers are the poor **EIT** (p8) shareholders. Their shares were suspended at 9.5p - even that was a third of their high back in the old hype days. The figure in our index next month could be much rounder than that.

Finally, just days before **MMT's** interim accounts date, it was announced that they had reduced their 5.2% holding in **Total** to less than 3%. Total has been one of the best performers since canny Mike Tilbrook took his stake. We reckon he has made a profit of around £300K on the deal. Given his track record, we suggest readers watch carefully where Tilbrook decides to place these funds.

Computing Services Index

28th February 1993

April 15th 1989 = 1000

1688.49

Changes in Indices	CSI Index	FTSE 100	FTSE Small Cap
Month - 31/12/92-31/1/93	-0.08%	+2.17%	+2.78%
From 15th Apr 89	+68.85%	+39.66%	
From 1st Jan 90	+83.51%	+21.42%	
From 1st Jan 91	+138.53%	+32.75%	
From 1st Jan 92	+61.60%	+15.04%	
From 1st Jan 93	+5.96%	+0.76%	+10.35%

System House CSI Share Prices and Capitalisation

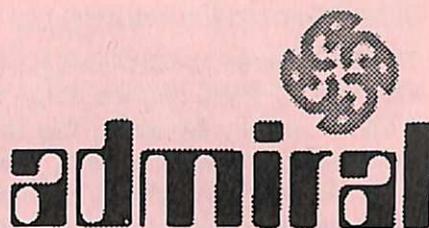
	Share Price 28/2/1993 (£p)	Capitalisation 28/2/1993 (£m)	Historic P/E	CSI Index 28/2/93	Share price % move since 31/1/93	Share price % move in 1993	Capitalisation move (£m) since 31/1/93	Capitalisation move (£m) in 1993
ACT	£1.68	£236.90m	15.51	2689.07	0.00%	13.51%	£0.00m	£28.20m
Admiral	£4.54	£49.00m	18.76	3289.85	10.73%	17.92%	£4.70m	£7.70m
Capita	£4.82	£73.30m	24.97	4820.00	11.06%	13.68%	£7.30m	£9.40m
Computer People	£0.89	£12.40m	16.24	366.25	4.71%	20.27%	£0.60m	£2.10m
Cray Electronics	£1.35	£273.10m	42.19	789.47	-5.26%	23.85%	£15.20m	£52.60m
EIT Group (suspended)	£0.10	£4.75m	Loss	380.00	-9.52%	-38.71%	£0.50m	£3.00m
Electronic Data Processing	£5.33	£46.40m	13.88	5438.75	12.21%	11.04%	£5.10m	£4.60m
Enterprise	£0.26	£21.20m	Loss	208.00	19.54%	26.83%	£3.50m	£6.00m
Gresham Telecomputing	£0.78	£24.80m	40.21	838.70	34.48%	168.97%	£6.30m	£15.56m
Hoskyns	£4.53	£423.60m	78.10	2209.75	0.00%	0.44%	£0.00m	£1.90m
INSTEM	£1.05	£4.72m	6.91	1050.00	23.53%	23.53%	£0.90m	£0.90m
Kalamazoo	£0.37	£6.82m	Loss	370.00	25.42%	39.62%	£1.38m	£1.94m
Kewill	£0.73	£8.66m	3.64	286.56	0.69%	31.82%	£0.06m	£2.09m
Learmonth & Burchett	£2.50	£43.40m	357.14	2083.33	67.79%	96.85%	£17.50m	£22.20m
Logica	£1.77	£108.90m	25.29	484.93	-5.35%	7.27%	£6.10m	£7.60m
Macro 4	£6.38	£143.60m	24.08	2572.58	9.81%	21.99%	£12.90m	£25.90m
Micro Focus	£24.75	£341.50m	22.48	11956.51	-13.31%	-7.99%	£52.50m	£27.00m
Microgen	£2.26	£88.60m	16.38	965.81	2.73%	20.21%	£2.80m	£15.30m
Microvitec	£0.31	£19.90m	Loss	743.90	8.93%	27.08%	£1.60m	£4.20m
Mllys	£5.08	£196.10m	28.54	1263.68	12.39%	41.90%	£22.10m	£58.30m
MMT	£1.36	£14.40m	17.22	809.53	8.80%	22.52%	£1.10m	£2.60m
P&P	£0.55	£30.50m	61.11	246.64	27.91%	89.66%	£6.70m	£14.40m
P-E International	£0.66	£14.40m	13.47	271.61	34.69%	34.69%	£3.70m	£3.70m
Pegasus	£1.71	£11.00m	23.42	465.94	37.90%	48.70%	£3.12m	£3.69m
Proteus	£4.24	£114.50m	Loss	5047.60	-5.36%	2.17%	£6.50m	£3.00m
Radius	£0.61	£16.60m	76.25	442.02	-3.17%	41.86%	£0.60m	£4.90m
Real Time Control	£0.61	£4.27m	5.50	1244.90	-7.58%	-29.07%	£0.35m	£1.75m
Rolfe & Nolan	£2.62	£14.80m	16.48	3094.97	9.17%	9.17%	£1.20m	£1.20m
Sage Group	£5.49	£112.50m	17.77	4223.07	2.81%	12.50%	£3.00m	£12.50m
Sanderson	£2.34	£20.60m	9.75	995.75	-6.77%	3.08%	£1.50m	£0.60m
Sema Group	£2.72	£247.50m	24.68	855.35	-2.86%	-15.00%	£7.30m	£43.70m
Sherwood	£3.50	£21.40m	17.86	2916.66	37.25%	37.25%	£5.80m	£5.60m
Star (now Pizza Express)	£0.77	£40.70m	40.53	641.67	63.83%	63.83%	£37.50m	£37.50m
Total	£0.87	£8.70m	17.03	1641.53	4.82%	14.47%	£0.40m	£1.10m
Trace	£0.39	£5.45m	13.27	312.00	8.33%	8.33%	£0.42m	£0.45m
Vega Group	£1.32	£18.60m	18.26	1081.97	1.54%	17.86%	£0.30m	£2.80m
Vistec	£0.26	£31.60m	17.11	1136.30	0.00%	6.12%	£0.00m	£3.80m

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.

Consistency rules

We have always considered Admiral as somewhat of a rarity, but the latest results make them positively unique. Full year results to 31st Dec. 92 show revenues up 18% at £30.87m, PBT up 15% at £3.99m and EPS up 11%. Cash increased from £3.8m to £4.4m at year end and stands at £5m now. All on its own that's pretty good - but not unique.

It should also be remembered that Admiral's growth has been largely organic. There have

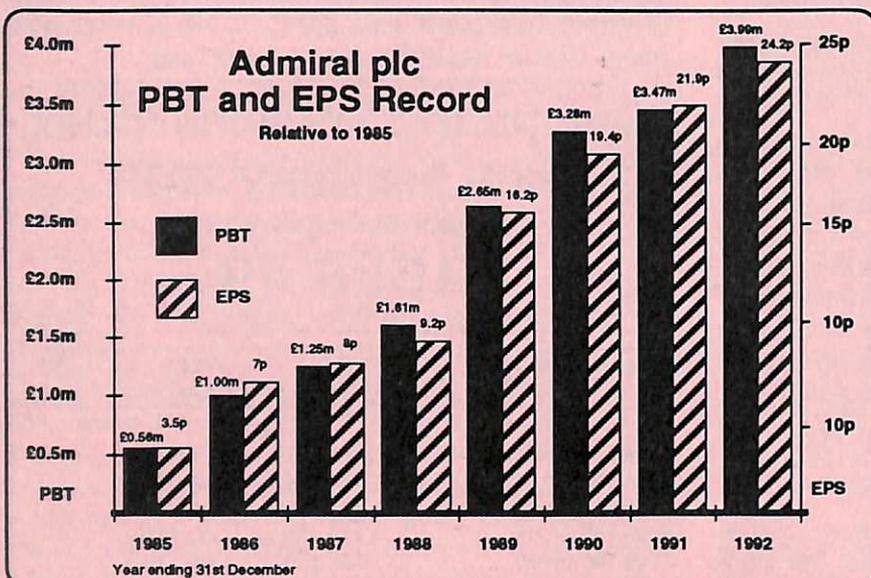


been a few relatively small acquisitions and it is refreshing to record that even these have been profitable. In 1992, Admiral bought the goodwill and IPRs of Tandem software products house, **CBC**, from the receivers for £400K. Admiral reported that 1992 had ended "on a high note with the sale of a number of these products to major customers".

But Admiral has seen some major changes too. Back in 1985, the company was highly dependent on work from the defence sector, which contributed 50% of group revenues. By 1992, the proportion has halved, although it should still be noted that the actual billings are four times higher. The finance sector is now Admiral's single largest market, although its greatest opportunities probably lie within the government sector as a result of market testing. But perhaps the greatest

achievement is growth in industry (12%) and commerce (9%), where customers include ASDA and COMET.

If we had to criticise Admiral, it would be for the very policies which have made them so strong. They really do seem to be risk adverse. For example, they are still



What is unique is that Admiral continues to recruit whilst almost everyone else is busy "downsizing". Average staff numbers increased from 484 in 1991, to 551 in 1992, with a total of 602 at year end and 620 now. As a salutary example of the problems faced by the CSI industry at present, Ceri James, Admiral's MD, recounted that a few months ago they had advertised a management vacancy in the Sunday Times. They received over 1000 responses of which 500 came from CSI people who did not at present have jobs.

Admiral is also uniquely consistent. Its unbroken record of PBT and EPS growth, as shown in the chart, is as near perfect as you will ever find. The shareholders have been rewarded too. Launched onto the Stock Exchange in 1987 at 150p, valuing the company at c£15m, the shares now stand at 470p and capitalisation is in excess of £50m. Chairman Clay Brendish is rightly proud that 80% of the customers Admiral had in 1987 are still customers of the group today.

Perhaps the other consistent Admiral theme is **Quality**. It formed part of their mission statement in 1987 and they were one of the very first CSI companies to be awarded BS5750.

Sterling's weakness helps Macro 4

Macro 4 produced results exceeding expectations for the six months to 31st Dec. 92. PBT was up 29% to £4.94m (against analysts expectations of £4.5m) on revenues up 27% at £11.2m. EPS also increased by 29%. They earn c80% of revenues outside the UK and, without the weakening of sterling, results would have been "in line with original expectations". However, the second half of the year will not show the usual increase as the sterling trick is unlikely to be repeated and interest receivable will be less on Macro 4's ever growing cash mountain. This totaled £16.2m - up £0.6m in the period despite the £2.6m

Admiral plc Revenue Source	1985		1991		1992	
	%	£	%	£	%	£
Defence	50%	£2.2m	37%	£9.7m	27%	£8.3m
Finance	26%	£1.2m	31%	£8.1m	34%	£10.5m
Government	2%	£0.1m	21%	£5.5m	18%	£5.6m
Other	22%	£1.0m	11%	£2.9m	21%	£6.5m

deliberating a move to FM - we "need to take care" says Brendish. With their skills, client base and the current market opportunities in the Government sector, we would have thought this a natural for the group and cannot really understand their foot dragging on this issue.

But this is a minor complaint for what is an enviable performance. "Admiral continues to succeed... We continue to invest in people... The future can only show a healthy return on our investment". With Admiral's track record, it would be a brave man who took issue with that.

special dividend paid in Nov. 92 - and earned them £715K interest in the six months.

But even Macro 4, with about the safest revenue base you can imagine, reports that trading conditions continue to be "difficult...cancellations continue to have an impact on the installed customer base". Operations in Australia and Scandinavia have been particularly severely effected by economies in "deep recession".

We still believe that Macro 4 is one big wasted opportunity. Few would argue that now was the best time they will ever find to use their significant resources to expand. But perhaps this requires management with different skills.

Higher Profile for Maddox

Maddox Group moved to a full listing the Stock Exchange in March 1992 when they changed their name from Pathfinder Personnel Services Ltd. This was after entrepreneur, Hugo Biermann moved into the Maddox driving seat. The way they are moving, they will have to form part of our CSI Index in the future. Their main activities are recruitment, maintenance (IBM and Compaq) and product distribution (non-CSI related to cable distribution where they acquired Cable & Flexibles Ltd. and Seacoast Electric Co. Inc. in Mar 92).

In Aug. 92, Maddox, via their Enterprise Group subsidiary, acquired Wakebourne for £10m cash plus repayment of certain debts (total £13.3m). Wakebourne had been formed in 1984 by Frank Emerson and Frank Timpany after Tycom had collapsed. In Sept. 1989, they sold the company to Atlantic Computers for £14m. Atlantic Computers appointed the receivers in Apr. 90. Shortly after this, the management effected an MBO, again for a consideration of £14m. Wakebourne is a major supplier of PC-based TPM services to the UK corporate sector. At the time it was estimated that Wakebourne would have revenues of £13.2m (1991 = £9.7m) and net profits of £2.6m (1991 = £2.3m) in the year to 31st May 1992. Wakebourne operates via three divisions - Express Computer Maintenance (PC TPM), Connect Data (cable and LAN products - acquired in Feb. 91 for £106K) and Cytex (PC workshop repairs). Maddox raised the funds required via a placing of 206m shares to raise £16.5m.

In 1993, their acquisition appetite has increased. In Jan. 93, Maddox was reported as being a possible buyer of the maintenance operations of Touchstone and, in February 1993, they paid £150K and assumed £50K of liabilities, for Computer Profiles and its sister company Software Profiles of Coventry, which had appointed the receivers with debts reputed to be around £2m. Compel, Kalamazoo and Specialist Computer Centres were understood to have also expressed an interest in buying Profiles.

The Profiles story has similarities with that of Wakebourne. Chris Creighton-Thomas had formed the operation as Computer Factors back in 1971, which was sold to UCL in 1987. UCL was bought by Ferrari which finally went bust, like Atlantic. Before that, Creighton-Thomas had effected his own MBO for £325K in 1989. This time, he is not on the list of the 28 Profiles staff to keep their jobs.

Profiles revenues had been £3.6m in the year to Dec. 92. CP's main product was the UNIX based Diamond business management and accounting software. They are RS/6000 and BULL VARs.

Maddox has decided to concentrate its future activities "in the provision of services to the fast growing PC network market". Indeed they have since disposed of their cable activities. It is estimated that the Maddox Group will achieve PBT of £3.4m in the year to 31st Dec. 92 (1991 = loss of £218K) which their brokers, Williams de Broe, estimate will increase to £6.5m in 1993. Maddox currently has a market capitalisation of £42m - but their share price has moved little from Aug. 92, when they acquired Wakebourne and their brokers issued a "Buy" notice. More acquisitions are planned by Maddox to increase their presence in the IT sector. Clearly a CSI company to watch, but remember the obvious similarities with Ferrari, Enterprise, EIT....

Excellent performance from Capita

The bare facts are that Capita's revenues increased by 34% to £33.1m, PBT was up 28% at £4.41m and EPS increased 23%. The Group had no borrowings and cash balances of £9.6m at the year end of 31st Dec. 92. And that's up £2.9m despite spending £3.9 on the cash element of acquisitions.

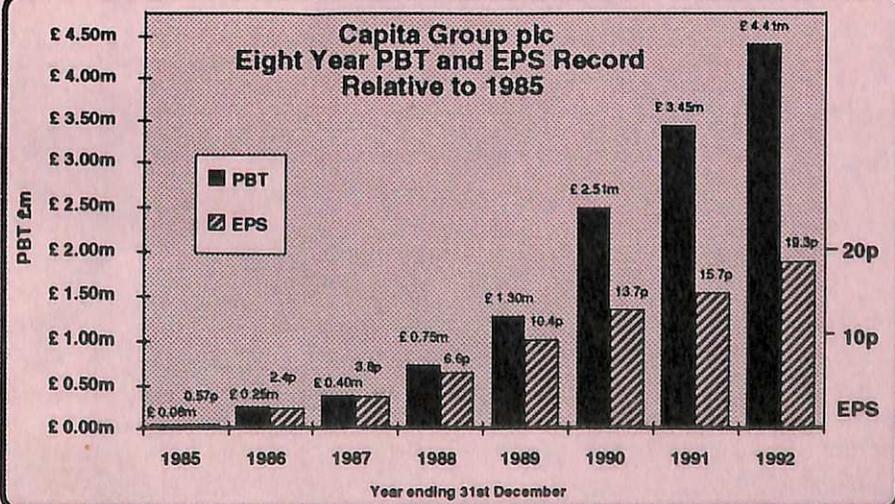
Capita has restructured into just two divisions - Outsourcing (computer services, managed services, estate services or - if you can stand the "F" word - FM) and Advisory Services (consultancy, training, marketing, etc). Outsourcing increased revenues by a massive 59% (£17.8m) compared with a growth of 13% (£15.3m) for Advisory Services. It was a different story on profits.

Outsourcing was up 25% at £1.96m, but Advisory increased by 31% to £1.49m. "We have invested heavily in our computing services business....we decided to spend £500K more than budgeted on sales and marketing". Now, we are the first to applaud marketing spend...but an overspend of £500K? Anyway, forward revenue for the Outsourcing division was £76m as at 31st Dec. 92.

"We have been awarded work which will ensure that Telecom Capita's turnover will more than double in 1993...we view the future with confidence". Indeed, a few days later they announced a £24m 5 year FM contract with the Borough of Bromley - a deal claimed to be "three times the size of any previous white collar outsourcing deal".

"We are delighted by Estate Design and Management's performance". But Capita is now to buy out the deferred consideration with shares worth £707K. It is a mute point whether this is yet another brick in the wall of our campaign against performance related acquisitions. The original deferred consideration could have cost £4m. A year ago Capita bought out the £4m deferred consideration at JE Greatorex for £288K.

Chairman and CEO Rod Aldridge views "the future with considerable optimism". Readers should remember when viewing both his performance and his optimism that Capita is run by accountants.



EDS

Record highs at EDS

EDS has announced revenues up 16% to \$8.2b and net profit up 16% to \$548m in the year to 31st Dec. 92. EPS on GM Class E Stock (the EDS barometer) was also up 17%. Non-GM revenues were \$4.84 bn - or 59% of the total. In Europe, EDS had revenues of \$1.4b, up a massive 43% on 1991, due mainly to acquisitions such as SD-Scicon. UK revenues were not disclosed but we reckon they were about \$400m; about 28% of the total Euro revenues. Main achievements in Europe included winning "the largest systems- management contract awarded in 1992 in France" with Mory TNTE and completing its acquisition of Software and Systems "Germany's oldest software and services company".

But BT falls

BT  BT's Q3 profits fell 7% "below City expectations". Not our usual news item, but these are not usual times. With still no official word on the state of the BT/EDS acquisition, what BT does is of greater interest. Chairman Iain Vallance expects BT's 20% stake in US McCaw Cellular to raise \$1.8b and represents a profit of £250m. But the plan to sell another 22% tranche of the Government's BT holding in the summer this year could be upset by the EDS purchase. As the Lex column in the FT said (12th Feb. 93) "if BT were to buy a stake it would make sense to do it soon. Such a controversial move may queer the Government's pitch. But why should Government funding needs get in the way of strategic decisions by a privatised company?"

Congratulations

Nigel Banister, the ex-CEO at NMW Computers before its acquisition by ACT last year, has been appointed CEO at the National Computing Centre (NCC) where John Ockenden is Chairman.

What NeXT?

"The new, very black, NeXT..It's very hard to see it taking off" - Bill Gates of Microsoft Oct. 89.

"NeXT's box may not be a volume world beater, but NeXTstep, the software which sits between UNIX and the application software, could well be". Richard Holway in the very first System House - Nov. 89.

This month, Steve Jobs has pulled out of hardware, probably selling this part to Canon which already owns 16% of NeXT, in favour of NeXTstep. This decision became inevitable when Jobs decided to make NeXTstep available for INTEL processors. Why buy the proprietary NeXT box when you can get the bit you really want to run on your existing PC? If Jobs had made the move three years ago, the outlook might have been very different. Now he faces massive competition in the race for the "next generation" of operating systems after MS DOS.

Continuing story of bad debts

Company failures are not something we just write about - it happens to us too. We lost money when Memory failed and when Logitech went bust. This month Dataflex Services went into voluntary liquidation owing more than £300K - and us over £1000.

It seems to be yet another story involving the sole UK distributor of a US product - the DataAccess 4GL. Although an MBO is a possibility, Data Access is setting up its own UK operation. They won't pay our bill though.

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We are delighted that the report was returned from the printers on 1st March and is now available for immediate despatch. Order form enclosed.

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