

System House

The monthly review of the financial performance of the UK computing services industry
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“A number of the computing services companies here today will not be here in five year’s time”

Many might expect such a warning from Richard Holway - in fact it was given by Steve Matheson, Dep. Chairman of the Inland Revenue, in the closing session of this year’s CSA Annual Conference.

The mood at the conference was perhaps best summed up by Colin Rowland, the CSA President. “We have turned the corner but recovery is very weak”. But we would contend that the industry is changing in a way that will mean that recovery will not benefit many CSA members - what customers want is just not what they supply.

People based services will continue to be hard hit

A review of CSA members shows that a significant majority grew large by supplying people-based IT consultancy and bespoke development. The latest results from the Management Consultancies Association confirms that this sector has been far more badly hit in the “recession” than others. In 1992, total fee revenue fell by 5% to £696m but IT related fees fell 12.4% to £297m.

Our researches show that there are now 10,000 fewer staff employed by the Top 1000 CSI companies operating in the UK than at the start of 1991. We do not forecast any major reversal in this situation for many years - if ever.

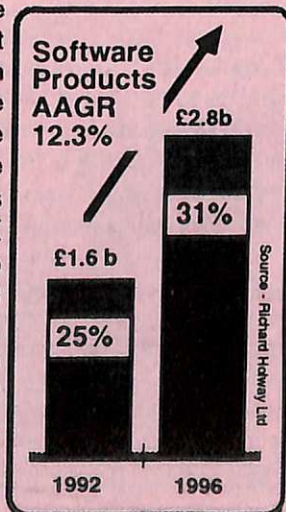
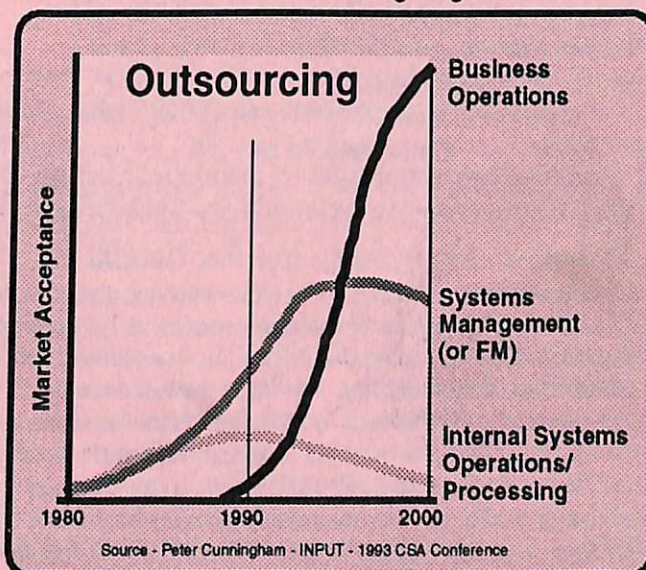
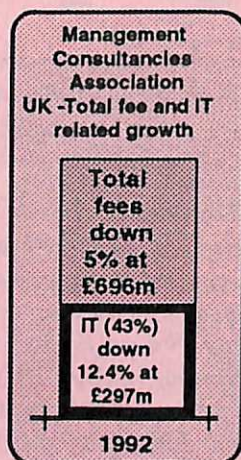
Software Products will grow to dominate the market

Our own researches show that in 1992 for the first time, software products is the largest single segment of the UK CSI market. By 1996 we estimate it will grow by 12% p.a. to represent 31% of the CSI market. As an example of this, the Software Publishers Association, the trade association for PC software vendors, reported that its members had increased UK revenues by 32% in 1992 to \$409m. None of the main PC software vendors, e.g. Microsoft, Novell, Lotus, Borland etc. are members of the CSA. Even our home grown application software vendors - Sage, Pegasus, Tetra, Coda etc. - are not currently CSA members.

Yet there are few who would not admit that today’s customers want PC based solutions; often employing standard PC software products.

Customers move away from conventional FM

Apart from people-based companies, the original CSA membership was based on bureau processing operations. Several of these have faded away as demand has dropped. The fastest growing companies in the mid 1980s were the FM suppliers but, as we have reported on many occasions, the market is now crowded and pricing is cut throat. Peter Cunningham from INPUT represented this trend at the CSA conference with the following diagram.



Customers now want partners for their business - not just for IT. This point was stressed by the CSA business advisory panel - “The value of IT is in contributing to changing the way that business is done”. The real success stories recently have been companies like Capita; which was one of the first to embrace the managed services opportunity with their business partnerships at Companies House, TV Licences, Cherished Number plates and debt collection at nearly 50 local authorities. But how many of the current, predominately FM, suppliers either recognise the trends or are able to move fast enough to take advantage of the opportunity?

The CSA must change too

With the whole structure of the industry changing fast, the CSA must also change. It is currently dominated by those representing yesterday’s services industry. It must itself move fast to be relevant to tomorrow’s software and services industry.

Consistent CMG

Computer Management Group (CMG) is pretty special amongst UK CSI companies.

It has a consistent record of profits growth. Although they suffered a rare dip in 1988, since when practically all other similar or larger sized competitors have also hit bad times, it has been growth every year for CMG. In the year ending 31st Dec. 92, revenues increased 13% to £116m and PBT was up 4.7% at £9.5m. Cash balances increased by £900K to end the year at £9.4m.

All of CMG's shares, except for the 4.3% held by Midland Montagu, are owned by its staff - indeed 80% are shareholders. The latest internal share market puts a value of £90m on the group - up from £76.6m last year - equivalent to an *undemanding* historic P/E of around 15. A commitment has been made to a full Stock Exchange listing by 1996. The *problem*, given the record of others, is that CMG now intends to use its undoubted "sound financial base...to make appropriate acquisitions". To date acquisitions have been small. (In 1990 DORA & Quadata in the Netherlands - £2m and Sysco, Germany - £7m. In 1992 CMG acquired a small German system house - Kernel - for an undisclosed sum). 68% of revenues are now made outside the UK, where revenues in Holland increased by 39% to £70.3m and Germany grew more modestly to £8.5m. But it appears that both UK revenues and profits are still in the doldrums. Last year, UK

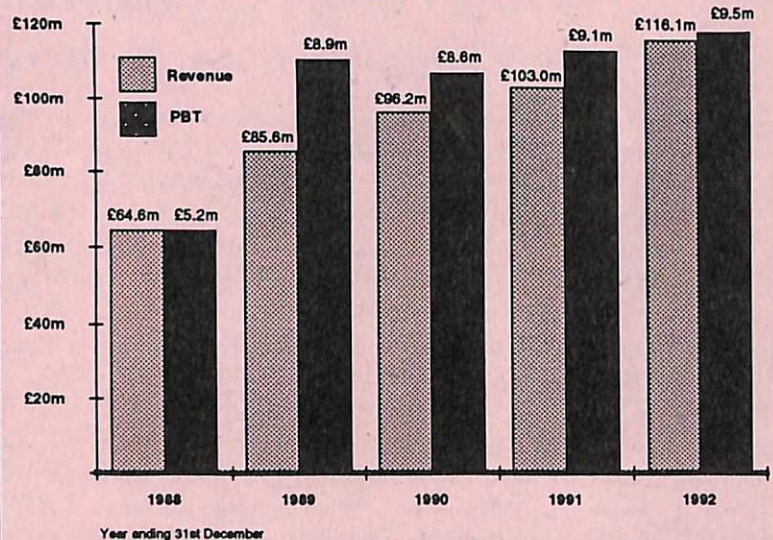
profits on £39m revenues were just £600K - albeit better than the £1m loss recorded in 1990. This year, UK revenues declined from £39.1m to £37.4m. Although UK profits showed an increase on 1991, the CMG spokesman

was reluctant to describe the increase as significant.

The original payroll business, where CMG has a 10% UK market share, still accounts for 13% of revenues but FM (30%), where major new contracts with BP and Guinness have recently been awarded, Consultancy (25%) and Systems Design & Implementation (32%) are now the dominant service areas.

One of the other reasons for CMG being special is that they increased staff numbers by 11% in the year to 1,714.

Computer Management Group (CMG)
Five Year Revenue and PBT Record



Given CMG's record, and the ever increasing valuations now being put on well run CSI companies, we reckon CMG's numerous employee shareholders are onto a very good thing.

Mixed results from Computer People

In Nov. 92, as a result of our interview with Rupert Bayfield, Chairman of Computer People, we wrote that his contract staff/recruitment company might be considered as a barometer of the industry. *We hope we were wrong.*

Latest results for the year to 31st Dec. 92 show revenues down 7% at £62.7m but PBT decimated (almost literally) - down 86% from £1m to £145K. This resulted in a loss per share of 0.97p, net borrowings increasing from £2.9m to £4.8m, gearing rising from 52% to 92% and the final dividend being pulled. Looking on the brighter side "it is significant that we have achieved revenue growth over the

previous six month period for the first time since 1990". UK revenues, 63% of revenues compared with 58% last year, grew but "a very competitive marketplace and a year-on-year fall in placement revenue meant that we could not avoid a fall in profits". In the US, revenues fell by 17% in dollar terms (as a "result of a fall in the average number of consultants working for us from 544 to 438 mainly due to the ending of a major client project"). "Improvements in margins and a reduction in overheads meant (US) operating profits were ahead of those achieved in 1991".

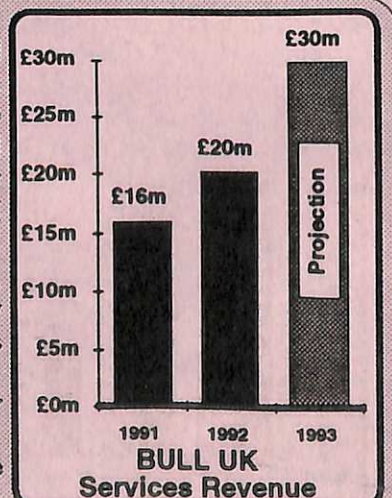
"We have made a good start to 1993, with revenues in both consulting and recruitment ahead of budget"

BULL - the Solutions Company

With ICL as the largest supplier of SCSI activities to the UK market and, as reported last month, IBM UK growing their presence in the sector by 22% to £207m in 1992, the industry must surely be aware that, what were once considered as hardware manufacturers, are now major players in the services market. BULL UK's SCSI activities had revenues of about £20m in 1992 and it expects these to grow to nearly £30m in 1993. Indeed, overall BULL expects only about 40% of its revenues in the UK to come from hardware in 1993.

Systems integration, which accounts for about half of Bull's SCSI revenues in 1992, grew by over 90% and the awarding of such SI contracts as the £100m UNICOM Army infrastructure project will clearly further boost revenues in the future. Other services include training, consultancy (both business and technical) and networking services. Around 375 staff were employed at the end of 1992 and this is projected to rise to over 530 in 1993.

Growth is all organic, so far, but Philip Crawford (MD BULL UK Services) does not rule out strategic acquisitions of niche market SI skill-based companies in the future.

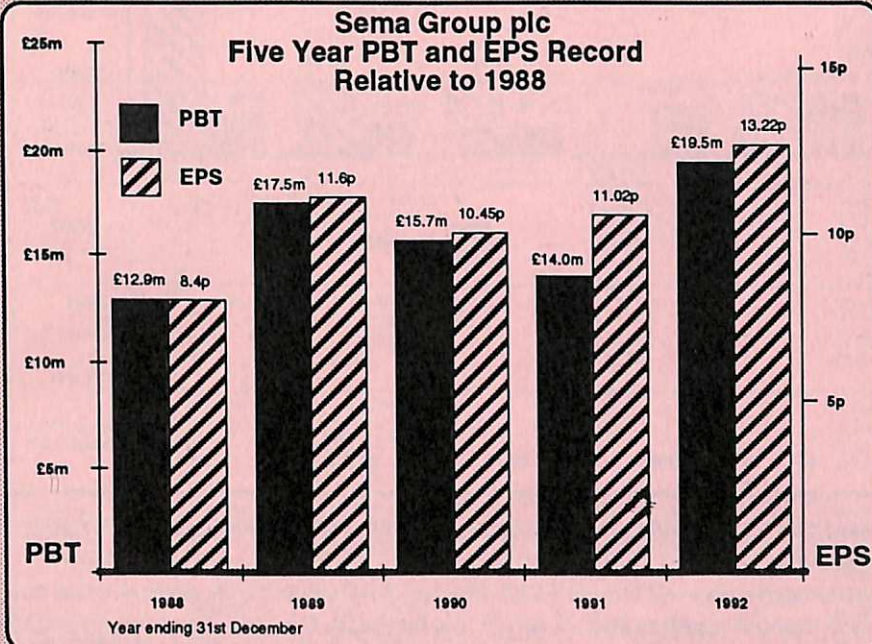


Best results since merger for Sema

Back in mid 1988, CAP technically "acquired" the French systems house, Sema Metra for £94m to form Sema Group. Was it an acquisition?.. a merger? In the event it was more like a reverse takeover. At that time, most of the management and 50% of the shareholders were UK. Now Sema has over 90% of its shares owned outside the UK and the French dominate the top management. Latest results for the year to 31st Dec. 92 show the best results since 1989. PBT was up 39% at £19.5m; before the exceptional gain of £15.4m on the sale of French market research subsidiary Sofres in early 1992. Revenues from continuing business were up 13% at £416.7m and the UK is now Sema's largest market (41% - £171m) ahead of France (37% - £154m). EPS improved by 20%. Sema ended the year with net cash of £5m; having increased its net worth by over £26m to £84m in the year - an improvement of 46% over 1991.

The highlights of 1992 were as follows:

- Germany is now the only unprofitable part of the group.
- the BAeSema defence systems joint venture was profitable in the year for the first time on revenues up 33% at £73m.
- Dowty's share in Dowty Sema was bought out.
- FM grew 19% to £59.7m and now represents around 15% of Sema's revenues. Although the UK dominates FM sales, this service is set for major expansion in Spain and Germany.
- Software products grew by just 2.3% to £38.8m.
- Systems integration, which is Sema's major activity (76% of revenues), grew by 15.2% to £318.2m.
- France Telecom acquired a stake in the company and now, together with



Paribas, hold 39.3% of the equity. Growth in the communications arena is now seen as a major objective.

Although Pierre Bonelli, Sema's CEO, believes "undoubtedly 1993 will prove another difficult year... we enter 1993 with confidence". Sema's results are in clear contrast to the other European majors, in particular CGS which reported its first operating loss for 1992. But Bonelli still has a long way to go to meet his objective of a 10% profit margin which he set back in 1990. This year Sema still only managed a margin of 4.6%.

Receiverships hit INSTEM

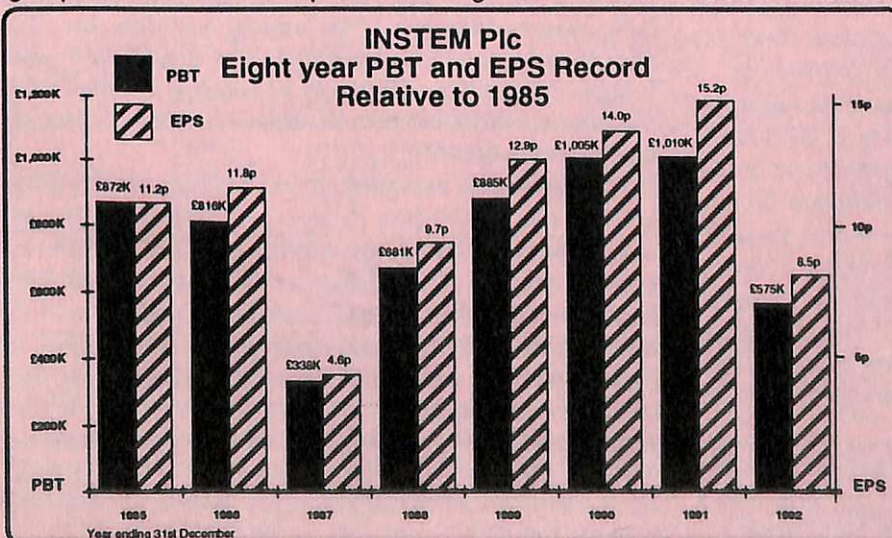
INSTEM focuses on computerised control systems for power stations, water boards and other customers like BNFL. In 1991 Chairman David Gare issued a number of profits warnings. In the event, PBT increased marginally. At the 1992 interim stage, PBT was still advancing and in Sept. 92, Gare forecast "a satisfactory outcome for the year". However, events turned against him in the second half. In Dec. 92 receivers were appointed to several of the groups customers and a profits warning was issued on

23rd Dec. 92. In the event these three receiverships cost INSTEM an exceptional charge of £386K resulting in a 43% reduction in PBT to £575K in the year to 31st Dec. 92. Even without this, however, profits would have shown a reduction from £1m to £961K as a result of "project orders being delayed" and projects which took longer than anticipated to complete. Revenues were down 9.7% at £14.3m and EPS fell 44%.

New "customer and market focused groups" have now been established for electricity transmission and

distribution, power generation, nuclear fuel enrichment & reprocessing and pharmaceutical research. Although electronic manufacturing services will continue to be offered to "selected OEM customers" - the area which caused the bad debts - future investment will be focused on the development of "own products and expertise in the area of computer services".

Gare is determined that INSTEM will "regain its position on the growth curve" in 1993. Given the major "outsourcing" opportunities in the public utilities arena and a strong balance sheet, we would have thought that he had a sporting chance of achieving that.



Day by Day, in every way, Kode gets better and better

Kode International has changed out of all recognition. Back in 1988 they were primarily a PCB manufacturer, software distributor, TPM and hardware distributor. It was this latter activity which caused the £1.5m loss in 1989 and led to the resignation of both the Chairman and CEO. Stephen Day was then appointed as CEO and since then the headlines have been rather more positive e.g. "Day lets the sun shine in on Kode". Source - Sunday Telegraph - 26th Nov. 1990.

Since his appointment several businesses have been sold (e.g. Xitan and Moore Reed, which accounted for about a third of Kode's 1988 revenues were sold in 1989, Comart was sold in 1990), resulting in a major revenue reduction. Staff and overheads, like property, have been cut. They also moved out of volume hardware distribution. All this has contributed to a significant profits recovery. Generally our rule for inclusion in *System House* is that companies should earn in excess of 50% of their revenues from software and computing services. Kode International, with its established PCB manufacturing activities, clearly did not pass this test

in the past. But in July 92, Kode strengthened its TPM activities by paying £3.2m for DCM (from Hillsdown). They also finally dropped their computer distribution activities.

Latest results for the year to 31st Dec. 92 are impressive. PBT is up 112% at £1m, EPS is up 121% and revenue rose by a third to £20.9m. DCM, only included for 5 months, contributed £2.6m of this revenue. Computing services (mostly TPM) therefore represented 35% of revenues. But on a "run rate" basis, CSI activities now represent around 50% of Kode's revenues. The DCM acquisition seems to have turned out even better than anticipated. The integrated activities "now offers a complete management service, ranging from computer maintenance to project management, system support and planning". However, Group FD, Geoff Harvey admitted "that the computer services division had made losses for the first three quarters of 1992. The business recovered to double turnover by the year end". Source - Computer Weekly 18th Mar. 93.

Day told us that acquisitions will still figure in future strategy. He had also taken to heart our oft repeated enthusiasm for "PC FM". This is to become a major focus for Kode; particularly as its customers move to networked systems. Day said "the present economic situation remains difficult, but we expect to achieve further growth in the year ahead".

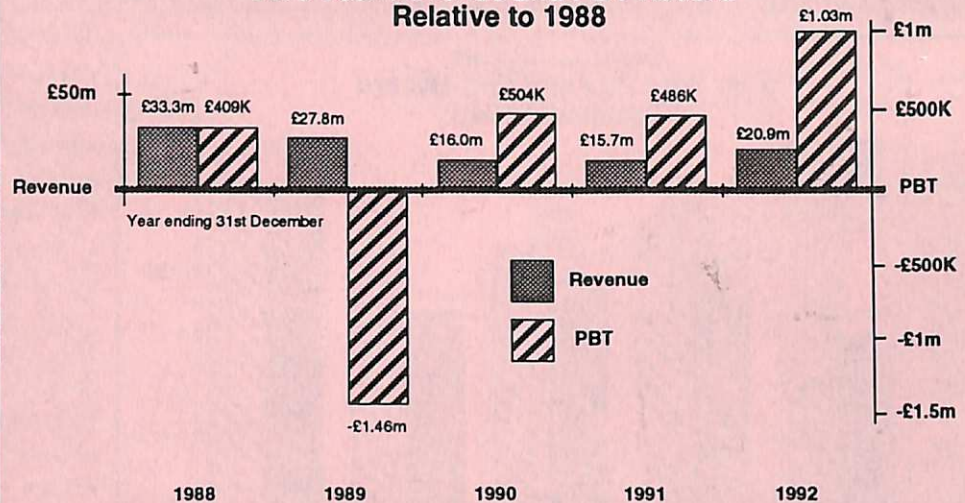
Failed expectations at Trace

Don't let them kid you. Trace Computers invented the phrase "we are in a good position to take advantage of the recovery in the economy when it comes". There was no real reason for Trace Computers' appalling financial results in the last few years - they managed to turn PBT of £1.8m in the year to 31st May 90 in a loss of £471K in 1991. This was followed by a modest recovery to a PBT of £502K in 1992. In the last month, Trace shares have risen this month by over 25% to 49p - quite why is beyond us.

Latest interim results to 30th Nov. 92 show revenues down 9% to £8.8m, PBT down 52% at £105K and EPS down 49%. Trace was the archetypal "let's go build a CSI group". Their "original businesses of insurance broking systems, property management systems and bespoke software development have continued to prosper, turning in good profits". Proteus (distribution systems), Prospect (recruitment and consultancy) and Trace Financial (stockbroking systems) showed minimal profits. Pink (networking) turned in a "small loss". Computer supplies made an even greater loss.

"The service companies as a whole have not produced the results we would wish" but, yet again in the time weary words "we look forward to the future with confidence".

Kode International plc
Five Year Revenue and PBT Record
Relative to 1988



P&P gets rid of distribution to Merisel

Back in Feb., P&P announced its intention to withdraw from "high volume, low margin product distribution" and, if possible, it intended to find a buyer for this part of the business. Full provision for the likely costs of winding down this activity contributed the lion's share of the £8.9m extraordinary charge in the 1992 accounts.

However, on 24th Mar 92 it was announced that Merisel (UK) was to take over this activity on 16th Apr. The Agreement "includes the transfer of stocks and sales related information along with assistance in transferring certain supplier distribution franchises from P&P to Merisel" but excludes debtors

No consideration was announced but rumour has it that Merisel paid £540,000 (Source - MicroScope 24th Mar 93). Assuming this to be approx. correct, the deal looks a real cracker for P&P. They get half a million cash, will not have to use anything like the £8m close down provision and will enable David Southworth's managers to concentrate all their time on the building of the new high margin service-oriented P&P. As Southworth told us "we won't entertain any business activity unless it can produce a net margin of 5%". PC FM, of which readers will know we are such a fan, is just one of several activities that are destined to contribute towards the new higher value-added P&P.

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	4 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 £ 3,986,000 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	Final - Dec 91 £ 67,660,000 £ 1,006,000 5.48p		Final - Dec 92 £ 62,735,000 £ 145,000 (0.97p)	Final Comparison -7.3% -85.6% Profit to Loss
Cray Electronics Holding plc	Results Revenue PBT EPS	Interim - Oct 91 £ 40,044,000 £ 536,000 0.47p	Final - Apr 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%
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	Final - Dec 91 £ 15,810,000 £ 1,010,000 15.2p		Final - Dec 92 £ 14,272,000 £ 575,000 8.5p	Final Comparison -9.7% -43.1% -44.1%
Kalamazoo Computer Group plc	Results Revenue PBT EPS	Interim - Sep 91 £ 26,488,000 £ 1,554,000 2.7p	Final - 8 mos - Mar 92 £ 38,300,000 £ 611,000 Nil	Interim - Sep 92 £ 27,576,000 (£ 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	Interim - Dec 91 £ 98,575,000 £ 2,155,000 2.1p	Final - Jun 92 £ 200,383,000 £ 7,062,000 7.0p	Interim - Dec 92 £ 104,208,000 £ 4,136,000 3.7p	Interim Comparison +5.7% +91.9% +76.2%
Macro 4 plc	Results Revenue PBT EPS	Interim - Dec 91 £ 8,829,000 £ 3,828,000 11.5p	Final - Jun 92 £ 19,016,000 £ 8,750,000 26.5p	Interim - Dec 92 £ 11,213,000 £ 4,935,000 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	Final - Dec 91 £ 36,873,000 (£ 3,847,000) (5.3p)		Final - Dec 92 £ 49,888,000 (£ 2,137,000) (3.4p)	Final Comparison +35.3% Loss both Loss both

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	Final - Dec 91 £ 68,750,000 £ 1,622,000 4.9p		Final - Dec 92 £ 71,108,000 £ 160,000 (0.22p)	Final Comparison +3.4% -90.1% Profit to Loss
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 (£ 2,408,000) (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	Final - Nov 91 £ 28,115,000 £ 366,000 0.8p		Final - Nov 92 £ 24,012,000 £ 1,231,000 2.9p	Final Comparison -14.6% +236.3% +262.5%
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%
Roife & 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	Final - Dec 91 £ 412,501,000 £ 14,015,000 11.02p		Final - Dec 92 £ 416,675,000 £ 19,458,000 13.22p	Final Comparison +1.0% +38.8% +20.0%
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 £ 119,000 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	Interim - Nov 91 £ 9,715,000 £ 221,000 1.52p	Final - May 92 £ 19,491,000 £ 502,000 2.89p	Interim - Nov 92 £ 8,835,000 £ 105,000 0.78p	Interim Comparison -9.1% -52.5% -48.7%
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%

Kewill calls it a day at Weigang The purchase of German **Weigang** in May 91 was perhaps **Kewill's** greatest ever mistake; putting years of unbroken growth into reverse culminating in a loss of £172K in the six months to 30th Sept. 92. Now they have sold it to **Seitz Industrie Loesungen** for an initial £400K plus a further £200K performance related. But it retains £2.3m bank and trade liabilities. Kewill shares rose 38p to 112p on the announcement.

Acquisitions, disposals and liquidations

Goodbye Hoskyns...

Back in July 1990, CGS bought a 69.5% stake in Hoskyns from GEC/Plessey for £199m valuing the company at £286m. They then promised to bid for the remaining shares at "a minimum of £4.69 or a maximum of 23 times P/E or £6.60 whichever was the lower" by 15th March 93. The maximum required an AAGR in EPS of 34% which inferred a Hoskyns PBT of £37m for the year to Oct. 92. At the time, although it looked a tough task, we pointed out to readers that Hoskyns had grown its EPS consistently by over 34% p.a. in the ten previous years. In addition they had never suffered a reversal. In the year to Oct. 90, Hoskyns EPS was 13p and PBT was £17.3m. Since then Hoskyns has been in reverse each year, leading to 1992 EPS of 5.8p and PBT of £9.5m. This lack of performance has been one contributor to CGS recording its first ever operating loss in 1992.

The deal equates to CGS paying an exit P/E of 81.

"Not bad if you can get it...and you can get it if...you are a canny Hoskyns manager". Plessey had already setup a "Golden Handcuffs" trust (GH#1) which was worth around £13m in 1990. CGS setup another trust (GH#2) - worth £13.4m in 1990 which would have grown to £19.4m on the exit price. We were therefore not surprised to see the press release this month headed "Hoskyns Board pleased to accept offer from CGS"! Chairman Geoff Unwin will benefit to the tune of £1.45m from GH#2 alone. This will be some compensation for him not qualifying for a bonus in any of the years since 1989.

Goodbye Hoskyns? Well not quite - just that Hoskyns will not be quoted on the London Stock Exchange anymore.

Rolfe & Nolan buys out remaining BSI stake

In Feb. 92, Rolfe & Nolan (R&N) bought 19.9% of **Brokerage Systems Inc.** ("a leading supplier of back office systems to financial institutions in the US") for an initial \$500K. This month they have bought the remaining 80.1% for \$1.675m; only marginally above the minimum previously agreed as BSI has made not insignificant losses in the period since.

R&N also issued a statement forecasting that "the second half would show an improved performance over the first half". Those readers who wish to be reminded of the problems of these kind of performance related deals should re-read our article in *System House* - Jan. 93. Indeed R&N CEO, Mike Warburg, told us this month that we would be quite justified in saying "we told you so". But, of course, we would not be so arrogant. But we were surprised that R&N shares have risen only 4% this month; given that BSI is now firmly under R&N control.

Boom year for Walker International

Walker International specialises in IBM financial software. In the year to 31st Dec. 92, revenues increased from £5.3m to £7.4m and PBT increased 100% to £2.6m - an impressive 35% profit margin. The US parent company, Walker Interactive Systems, increased revenues by 40% to \$63m and PBT was up 164% to \$11.9m.

It really does appear that many accounting software product suppliers have bucked the recessionary trend as illustrated by Coda, Sage et al.

The others... Planet Data Systems of Crawley has gone into liquidation owing over £176K. Aptec has acquired document imaging processing distributor, Paperlink, for an undisclosed sum. BA's Speedwing Travisoft, which provides software and services to travel agents, has merged with Speedwing Logica, the BA/Logica joint venture. Alphameric has raised £363K by a placing at 28p. American Express is to reduce its stake in First Data Resources from 54% to 22% - and raise \$1.2b in the process. FDR, acquired UK Signet in 1991 for £146m and subsequently made hundreds of staff redundant. Computer games retailer, Rhino, has bought Byteware (trading as The Games Store) from the receivers for £275K. London PC dealer Team Computer Systems (not to be confused with at least two other system houses called Team) has gone into liquidation. London PC Dealer, Software Circus, has ceased trading. UK information provider, Reuters, has bought German software house Euro-FIS from Inasys. "Consideration was not material to the net assets of Reuters". Comet Data has called in the receivers. Comms distributor M-Trade has appointed the receivers but its parent, M-Group, continues to trade. JWP Inc. has conceded that its foray into the world of computers was rather ill-fated. It is now trying to find a buyer for its Businessland chain bought two years ago. Bull UK (see p 2) has bought the UK arm of PICK provider Ultimate. Allied Lyons has sold its software operation Allied Aims, which had revenues of around £1m p.a., to Michael Business Systems for an undisclosed sum. MBS is understood to be looking at other purchases.

AST Trans-Act stays Canadian

SHL Systemhouse, the leading Canadian-owned systems integrator, has purchased UK-based AST Trans-Act, which was previously 75% owned by the Royal Bank of Canada (the remainder owned by the management). AST provides FM, systems and services to banking and finance customers - indeed AST will continue to provide services to the Royal Bank of Canada - one of its major customers. Other outsourcing customers include Diners Club, Marks & Spencer and Westpac.

No consideration was forthcoming. AST had revenues "exceeding £11m in 1992" but seems to have grown little in the last two years. In 1991 French Sligos purchased 51% of Nexus, which had the same revenues and a similar kind of profile. The deal valued Nexus at around £15m. In 1989, SHL acquired UK-based ComputerGroup, which brought on board founders Iain Macdonald as Chairman of SHL Systemhouse Europe and Mike McGoun as MD. Sales in Europe apparently now account for 18% (\$130m/£85m) of SHL's \$740m calendar 1992 revenues. Macdonald and McGoun are amongst the rare breed of acquired managers/shareholders - in that they have stayed on and prospered. There seems little doubt that their latest acquisition will not be the last.

Note: AST Trans-Act is the 10th *System House* subscriber to be acquired since 1st Jan. 92. What does this mean?

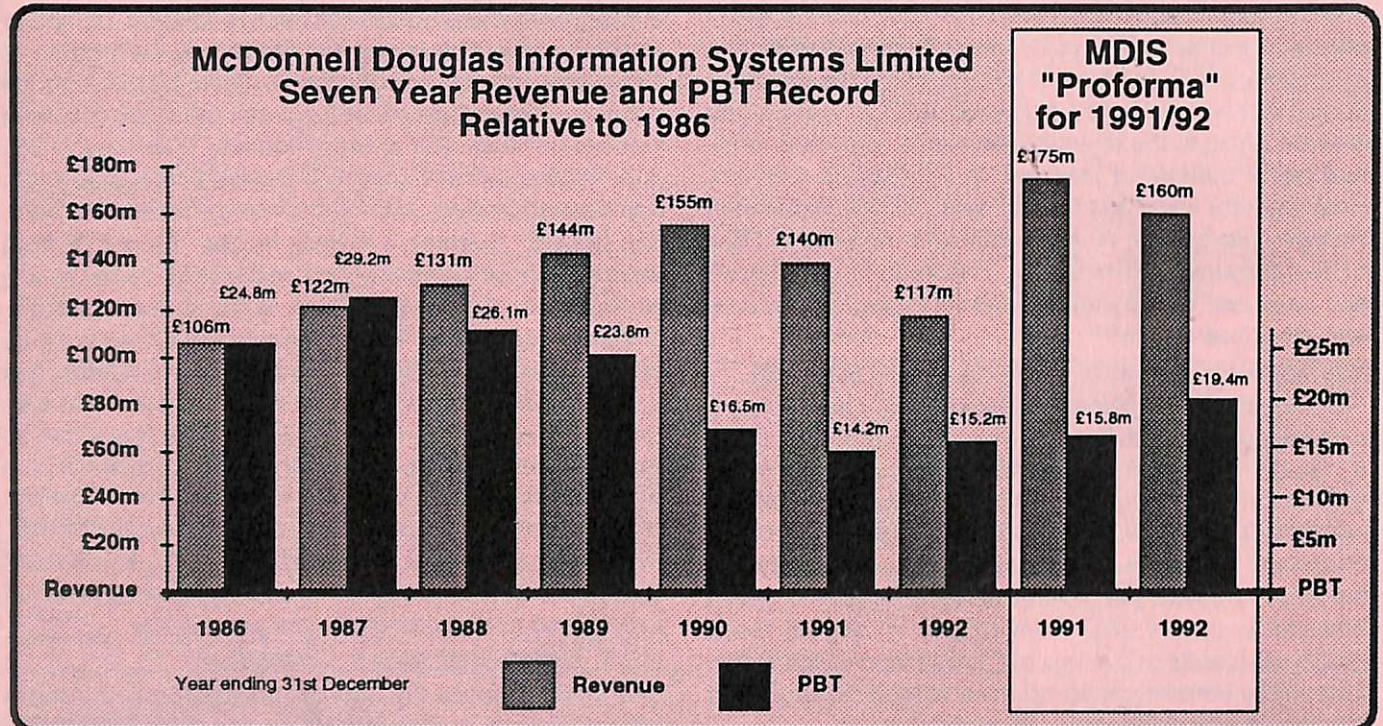
State of the Union

Systems Union is a company specialising in software for the accountancy profession. They have clearly had a bumper year with revenues up nearly 50% at £12.1m and PBT up 280% at £1.5m in the year to 31st Aug. 92.

Year ending	31-Aug-89	31-Aug-90	31-Aug-91	31-Aug-92
Revenue	£2.86m	£4.34m	£8.20m	£12.10m
PBT	£686K	£528K	£536K	£1,500K

"I am very proud that Britain once again has a substantial and very successful IT company of its own". Source - McDonnell Douglas Information Systems CEO, Jeremy Causley - 17th March 1993.

We hope our readers at Cray Electronics, Misys and ACT will not rush too quickly to the telephone. The insertion of the word "another" might have helped, but we are only too pleased to welcome MDIS to the fold. This month MDIS revealed their 1992 results. "Proforma" accounts show "Operating Profit" increased 23% to £19.4m despite a 9% reduction in revenue to £159.7m. These proforma accounts include all the international activities of MDIS - some 28% or £45.3m of revenues - which were the subject of the MBO. We understand that an exceptional charge for redundancies of £1.4m offset by a £500K pension credit, would have been included at the PBT level. At the same time MDIS issued their filed R&As, which relate to UK activities only. Both are shown in the chart below.



Our major "concern" about MDIS is the possible structure of the MBO deal. Neither Simon Palley at Baring Capital Investors - the lead consortium investors, which includes Samuel Montagu, Bank of Scotland and others - nor MDIS are allowed to divulge details of the deal. But we believe that disclosure is in the interests of staff, customers and the IT community. We hope that MDIS is not now saddled with large debt which will have an adverse effect on future performance. We have been assured that there is no deferred consideration. Our estimate is still around £140m. That would seem quite appropriate in the circumstances. But was it more? *We think we should be told but will probably now have to wait for next year's R&A.*

No real surprises at Microvitec

To nobody's surprise the *largest turnaround in the history of the industry* failed to materialise. **Microvitec** reported a loss before tax of £2.14m (£3.85m) on revenues up 35% at £49.9m. Perhaps the most significant happening of the last year was the disposal of **Logitek** in an MBO, raising £2.5m in cash. This means that gearing has been reduced from 80% to 40%, "the continuing businesses... returned an operating profit before interest of £1.2m - a significant turnaround from the loss of £2.5m recorded in 1991".

The future? "We have survived this most damaging three year recession and now, with a strong business base, look forward to benefiting from any recovery in economic activity".

Excellent results from Oracle

Oracle Corp. has announced Q3 profits up 74% at \$29m on revenues up 28% at \$370m. UNIX (up 43%) and desktop (up 35%) licences now represent 75% of revenues, whereas DEC VAX and IBM proprietary systems sales have been hard hit.

At last, the US is recovering with licence sales up 65% in Q3; much to the relief of Geoff Squire. But currency fluctuations restricted European growth to 4%.

EIT hangs on by fingernails

This month, the courts dismissed **EIT Group's** requests for an administrator to be appointed but won another month's adjournment for the winding up hearing, brought by DataProducts.

EIT has presented various business recovery plans to the court - the latest involved short term financing of £125K and reducing staff numbers to 80 which would produce profits of £421K by April 94. However, this plan was somewhat different to the plan presented to the courts only 11 days earlier causing the judge to comment "the whole thing is becoming a bit of a shambles". Whoever said judges were out of touch with reality?

EIT said that if the company was liquidated they would have a deficit of £12.5m compared with £9.9m if sold as a going concern. But clearly EIT has not found too many eager buyers yet. Even the proposed sale of EIT's TPM operations, Sysmatic, for £1m hit snags when its ownership was questioned. CEO Mike Burden was quoted on 28th Mar. 93 saying that he was close to a deal on a refinancing package. (Source - Sunday Telegraph - 28th Mar. 93)

Note: This article is mainly based on the excellent reporting of the EIT story by Billy MacInnes at MicroScope.

More spectacular gains

Although the CSI Index rose by a modest 2.1% in March, there were some major movements in certain stocks. **Kewill** rose by 54% on news of the sale of the disastrous German Weigang acquisition (see p6). **Learmonth & Burchett** were up another 46% making a 187% rise this year so far and trading on a rather bizarre 520 P/E. We still believe there is a bid premium but the company dismisses this speculation. **Gresham Telecomputing** is unstoppable - up 35% or a staggering 262% in 1993! Chairman Sid Green issues announcements, sells large blocks of shares but still the share price goes in just one direction. Despite recent rather poor results (p4), **Trace** were up 26%. It was good to see **Logica's** share price actually rising by 18% in March as a result of good UK results announced last month. Just think what would happen if they got rid of their US millstone!

At the other end of the scale, **Enterprise Computers** lost another 18% as news of the recent receiverships at three subsidiaries and continued staff layoffs sank in. **P-E International** was also down 15% on worse than expected full year results (p11). Has Cox cleared the decks or is their more bad news in store? **MMT Computing** was unexpectedly down 15% in anticipation of results in April. Considering the profit made recently on the **Total Systems** share sales, we would not have thought there was too much cause for concern.

It is interesting to note the performance of the other indices. The FTSE100, representing the largest companies, has not moved at all in 1993 but the FTSE Small Cap is up 12% - even more than the 8% gain in our CSI Index.

New CSI Index in April

As promised, we are revamping the CSI Index from next month - its fourth anniversary. **Hoskyns** and **Star** will be deleted. **Kode**, **Maddox**, **Microfilm** **Reprographics** and **QSP** will be added. Any other suggestions to us by mid April please.

Computing Services Index

30th March 1993

April 15th 1989 = 1000

1724.59

Changes in Indices	CSI Index	FTSE 100	FTSE Small Cap
Month - 28/2/93 - 30/3/93	+2.14%	-0.75%	+1.64%
From 15th Apr 89	+72.46%	+38.61%	
From 1st Jan 90	+87.44%	+20.51%	
From 1st Jan 91	+143.63%	+31.76%	
From 1st Jan 92	+65.05%	+14.18%	
From 1st Jan 93	+8.22%	+0.00%	+12.16%

System House CSI Share Prices and Capitalisation

	Share Price 30/3/1993 (£p)	Capitalisation 30/3/1993 (£m)	Historic P/E	CSI Index 30/3/93	Share price % move since 28/2/93	Share price % move in 1993	Capitalisation move (£m) since 28/2/93	Capitalisation move (£m) in 1993
ACT	£1.69	£238.30m	15.60	2705.08	0.60%	14.19%	£1.40m	£29.60m
Admiral	£4.43	£47.80m	18.31	3210.14	-2.42%	15.06%	-£ 1.20m	£6.50m
Capita	£4.85	£73.70m	25.13	4850.00	0.62%	14.39%	£0.40m	£9.80m
Computer People	£0.93	£12.90m	Loss	382.72	4.49%	25.68%	£0.50m	£2.60m
Cray Electronics	£1.33	£269.30m	41.56	777.78	-1.48%	22.02%	-£ 3.80m	£48.80m
EIT Group (suspended)	£0.10	£4.75m	Loss	380.00	0.00%	-38.71%	£0.00m	-£ 3.00m
Electronic Data Processing	£5.58	£48.50m	14.53	5693.85	4.69%	16.25%	£2.10m	£6.70m
Enterprise	£0.21	£17.30m	Loss	170.00	-18.27%	3.66%	-£ 3.90m	£2.10m
Gresham Telecomputing	£1.05	£33.40m	54.12	1129.02	34.62%	262.07%	£8.60m	£24.16m
Hoskyns	£4.65	£435.30m	80.17	2268.29	2.65%	3.10%	£11.70m	£13.60m
INSTEM	£1.05	£4.72m	12.35	1050.00	0.00%	23.53%	£0.00m	£0.90m
Kalamazoo	£0.41	£7.46m	Loss	405.00	9.46%	52.83%	£0.64m	£2.58m
Kewill	£1.12	£13.40m	5.63	442.69	54.48%	103.64%	£4.74m	£6.83m
Learmonth & Burchett	£3.64	£63.20m	520.00	3033.33	45.60%	186.61%	£19.80m	£42.00m
Logica	£2.08	£127.90m	29.71	569.86	17.51%	26.06%	£19.00m	£26.60m
Macro 4	£6.50	£146.30m	24.53	2620.97	1.88%	24.28%	£2.70m	£28.60m
Micro Focus	£23.83	£331.20m	21.64	11512.07	-3.72%	-11.41%	-£ 10.30m	-£ 37.30m
Microgen	£2.10	£82.50m	15.22	897.43	-7.08%	11.70%	-£ 6.10m	£9.20m
Microvitec	£0.27	£17.30m	Loss	646.34	-13.11%	10.42%	-£ 2.60m	£1.60m
Misys	£4.93	£190.30m	27.70	1226.36	-2.95%	37.71%	-£ 5.80m	£52.50m
MMT	£1.16	£12.30m	14.68	690.48	-14.71%	4.50%	-£ 2.10m	£0.50m
P&P	£0.62	£34.40m	68.89	278.03	12.73%	113.79%	£3.90m	£18.30m
P-E International	£0.56	£12.30m	Loss	230.45	-15.15%	14.29%	-£ 2.10m	£1.60m
Pegasus	£1.60	£10.30m	21.92	435.97	-6.43%	39.13%	-£ 0.70m	£2.99m
Proteus	£3.97	£107.20m	Loss	4726.17	-6.37%	-4.34%	-£ 7.30m	-£ 4.30m
Radius	£0.57	£15.50m	19.66	413.04	-6.56%	32.56%	-£ 1.10m	£3.80m
Real Time Control	£0.64	£4.48m	5.77	1306.12	4.92%	-25.58%	£0.21m	-£ 1.54m
Rolfe & Nolan	£2.73	£15.40m	17.17	3224.91	4.20%	13.75%	£0.60m	£1.80m
Sage Group	£5.87	£120.30m	19.00	4515.37	6.92%	20.29%	£7.80m	£20.30m
Sanderson	£2.64	£23.30m	11.00	1123.41	12.82%	16.30%	£2.70m	£3.30m
Sema Group	£2.79	£253.90m	21.10	877.36	2.57%	-12.81%	£6.40m	-£ 37.30m
Sherwood	£3.38	£20.60m	17.24	2816.66	-3.43%	32.55%	-£ 0.80m	£4.80m
Star (now Pizza Express)	£0.71	£37.60m	37.37	591.67	-7.79%	51.06%	-£ 3.10m	£34.40m
Total	£0.85	£8.50m	16.63	1603.79	-2.30%	11.84%	-£ 0.20m	£0.90m
Trace	£0.49	£6.85m	16.96	392.00	25.64%	36.11%	£1.40m	£1.85m
Vega Group	£1.29	£18.20m	17.84	1057.38	-2.27%	15.18%	-£ 0.40m	£2.40m
Vistec	£0.32	£38.80m	21.05	1398.52	23.08%	30.61%	£7.20m	£11.00m

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.

Radius comes full circle?

How you view the latest full year results from Radius depends on how long your memory is. On the surface an increase of 236% in PBT to £1.23m in the year to 30th Nov. 92 and a 263% increase in EPS to 2.9p looks impressive; albeit that revenue declined by 14.6% to £24m. But investors will remember that PBT hit a high of £2.9m, and EPS reached 8.7p, in 1988.

The background is boringly familiar. It reads - "company with fine and consistent growth record with USM quote, hits acquisition trail, catches cold, spends two years disposing of

"non-core" activities and stages recovery". But let's not be churlish - at least they have lived to fight another day.

Radius' revenues are obtained from a good spread of sources as shown opposite. Software products (now mostly UNIX) is the core business

- feeding the other associated services. Main vertical markets include systems for accountancy practices, local & central government and healthcare. We are pleased to learn that a third of revenues - £8.5m - are now regarded as recurring.

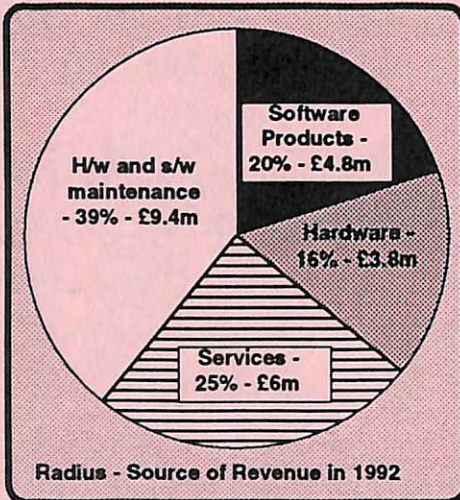
In 1992, Radius hit the acquisitions trail once again. Fortunately it was minor - spending £220K purchasing the computer maintenance activities of Novar. Now it says it wishes to acquire "an Oracle specialist". Source - Computergram - 4th March 1993.

As to the future, Radius reckons that "organisations re-investing in IT are demanding modern state-of-the-art software products. We are well positioned to benefit from this exciting opportunity". Assuming they lay off the acquisitions, that could well be the case.

Curate's egg at Logica

It might be considered unfair not to offer congratulations to Logica - the leading UK-owned CSI company - for boosting PBT by 92% to £4.1m and EPS by 76% in the six months to 31st. Dec. 92. Net cash also increased to £15.3m. Revenue, however, grew by just 6% to £104.2m. This led to an increase in profit margins from 3.2% to 6.8% - far ahead of Sema and Logica's other large competitors.

Our real disappointment was over the US operations. In 1989 Data Architects contributed £4m of profit to Logica's "record" £18.8m PBT. But that had plunged to a £2.7m loss in 1991. When we interviewed David Mann (*System House* Oct.91) we said "Mann gets alarmed when anyone suggests he should dispose of the US activities...although he could be criticised for delays in taking the required remedial action in the US, with a new president in place at last we should be able to look forward to the elimination of losses from the US in the current year". This was only literally true as Mann gained great pleasure in reporting US profits of



Letters to the Editor

Dear Mr Holway

I know from reading *System House* that you are suspicious of the motives of private companies which send you their annual reports. My motive for sending you a copy of IDS' 1992 accounts is simple - I share your view that Britain has an important role to play in the software market. IDS' aim is to become a highly profitable niche player in this market and so any exposure we can achieve will help our cause.

Yours sincerely

John Hamer
Managing Director

Hamer then prefaces his MD's statement with "To misquote many company chairmen - IDS was well placed for the downturn as it occurred". Clearly a keen reader!

Intercom Data Systems (IDS), established in 1981, is a privately owned UK software systems and products company. In the year to 31st Dec. 92, revenue increased by 27% to £4.4m and PBT of £601K was recorded (£253K loss last time). IDS is majority owned by its managers and founders. 3i also has a 15% stake. In 1992 IDS doubled its net worth and ended the year with £895K cash in the bank.

IDS' main areas of business are:

- Financial (e.g. the Fidessa market making system) - 35% of revenues
- Telecomms (e.g. 999 call identification) - 30% of revenues
- Government - 25% of revenues
- HelpDesk Systems - 10% of revenues.

We are more than pleased to report on UK companies staging major recoveries. But Hamer is clearly also aware of the *System House* readership and the "fate" which has befallen almost every other similar private company we have featured. *We just wish we were on a percentage.*

BDM reports major growth

British Data Management, which was floated in 1992, reported PBT up 113% at £1.66m in the six months to 31st Dec. 92. on sales of £7m. A spate of acquisitions in 1992 reduced EPS growth to 25%. BDM provides magnetic and data storage services and expects to benefit from Government market testing.

£500K on revenues of £24m in the year to 30th June 92. But the recovery was short lived. In the latest six months "revenues fell by 17% which resulted in an operating loss of £1.4m".

There are other concerns. Revenues from the Defence sector fell from £11.8m (12%) to £9.4m (9%), which in turn was probably the main reason for a reduction from 56% to 48% in the amount of work undertaken on a fixed-price basis. Government work also reduced. This during a time when other competitors have recorded major increases in work from this source. These reductions were balanced by strong performances from transport (where the joint venture with British Airways is proving to be a major success), finance and manufacturing.

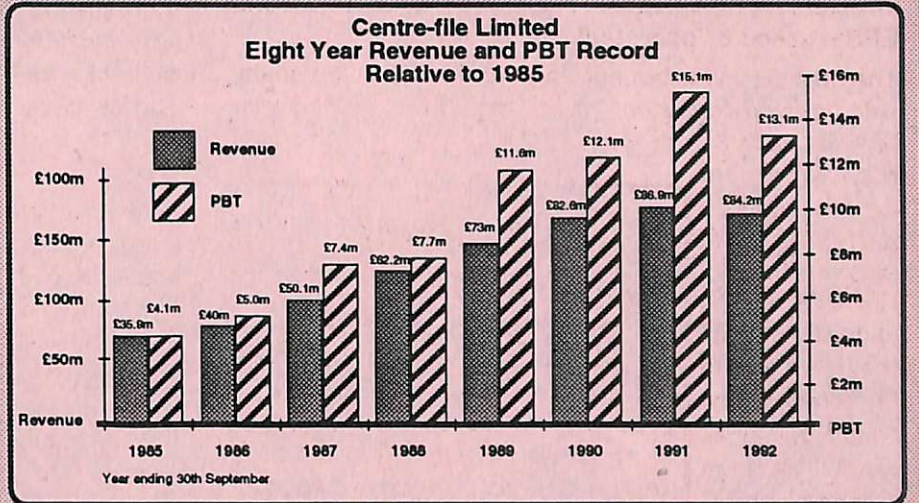
Mann admits that "action to reduce costs" may be required in the "weaker parts of the business". If Mann had been true to those words in the past, Logica's capitalisation could well be twice the lowly £100m it is today.

Profits down at Centre-file

Centre-file Ltd., one of the oldest established computer bureau operations in the UK, is the CSI subsidiary of the Nat. West Bank, which itself represents around 50% of revenues. The Centrepay payroll service is perhaps the best known Centre-file activity. In 1992, Centre-file acquired K3 Group. "This investment introduced application systems support services to the portfolio and took the Centre-file group into the insurance sector". Consideration was £5.4m (including acquisition costs) and K3 contributed £108K to Centre-file PBT in the period April 92 - Sept. 92.

Latest results for the year to 30th September 1992, released this month, show that Centre-file has suffered along with both the banking and CSI sectors; albeit not quite so severely. PBT was down 13% at £13.1 after a £1.2m exceptional charge relating to redundancies in the year. Revenues, all earned in the UK, down marginally by 3% to £84.2m.

Other Centre-file services include their direct marketing database software, network design, implementation and maintenance and other financial services related project management and associated development activities.



P-E International - a case for backing people

P-E, established in the 1930s, is one of the oldest in the sector. Their range of services is vast - from environmental systems to contract resourcing.

In 1990 they hit a high with PBT of £5.6m. Since then it has been a one way slide. In May 92, George Cox (ex Butler Cox) took the helm. He described the job to us as "tough" and the latest full year results to 31st Dec. 92 indicate just how tough. PBT dived by 90% from £1.6m (even though the 1991 results had been affected by a £541K exceptional cost) to just £160K. As a result of acquisitions, there was a loss per share of 0.22p. Revenues were up a fraction at £71.1m. Net borrowings increased from £2.8m to £4m. Indeed, since the year end, borrowings have increased "substantially" due to "payment of corporation tax and creditors". For this reason, P-E took the still unusual step of pulling the final dividend.

Under the previous Chairman, Hugh Lang, P-E had been on an acquisitions spree and had set up a number of small new businesses. "The recession has made life difficult for these units...the activities of these units were carefully examined. As a result firm action was taken..."

- **Marketing Quality Assurance Ltd.** was sold to its managers.

- **Marketing Interface Ltd.** was closed down.

- **Applied Skills for Management** (acquired in 1989 for £850K) was sold to its former owner. This resulted in "an extraordinary loss of £524K".

- the earn out at **AIMS** was renegotiated "enabling the Group to replace the joint MDs with one its own managers and to integrate the company's activities with the rest of P-E". Yet more evidence in our case against performance related purchases.

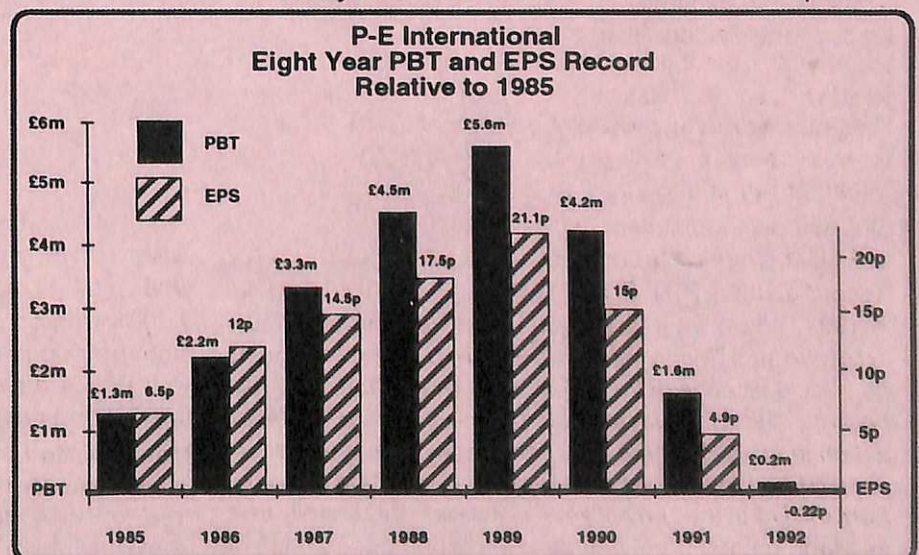
- Dutch consultancy, **Westvries**, acquired in 1990 for £1.7m, lost £394K in 1992.

But there were brighter spots. The FM operation, **Northern Computing Services** acquired in May 92, "was turned round from its loss-making position to profitability" as was **Integrated Engineering Products**, which entered 1993 "operating profitably and with a healthy order book".

Cox has continued the much needed restructuring with a major changes in top management, 47 "selective staff" redundancies and a reduction in property costs.

But it is the change of emphasis towards "more revenue from long-term contracts" that we believe will make the difference for P-E. We have already reported the £500K p.a. software FM contract with Standard Life - other 2 year+ contracts were won with DuPont, Southern Electric and The Scottish Office. Early signs are that the **IT Management Programme**, with its obvious similarities to the old Butler-Cox-type service, has started well.

P-E is "a people company which does not want to be quite so reliant on people-based income in the future". But they are dependent on one person - George Cox. He has an impressive record in maximising shareholder value. So was it therefore typical City uninformed knee jerk reaction that P-E shares fell on the results announcement? **Note - "January was better than 1992 and better than plan".**



"The worst thing in the history of the Corporation"

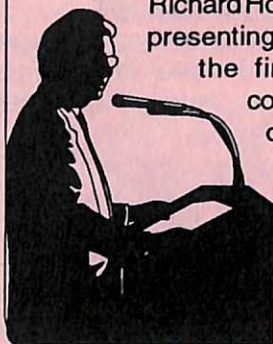
That was VP Horst Nasko describing the merger of Siemens AG and Nixdorf to form **Siemens Nixdorf Informationssysteme**. However, the UK business is said to be "booming". UK revenues were up 14% to £122m but a loss before tax of £2.2m was recorded. The UK company expects to be in profit by the end of the current year. Only c8% of revenues are made from software but c55% comes from services, maintenance and support. Source - Computergram - 1st March 1993.

Loss making, service oriented, home/German economy in recession, parent looking for "strategic partner"... Which likely candidate springs to mind? Two years ago we forecast that ICL/Fujitsu would acquire Siemens. Sorry we got the timing wrong.

European IT Observatory 93

Even though we have recently produced our own review of the **Software and Computing Services Industry in Europe**, we do find it hard to knock the **European IT Observatory 93** for value for money. 300 pages of review and country by country detailed 1992/94 IT forecasts for ECU30 (c£24) (*Warning - it will cost you more than that in banking charges to remit the fee so pay by credit card*). The reason for the giveaway price is that it was funded by the EC Commission - paid for over and over again by you and me. In typical EC fashion, they awarded the research contract to US IDC. Regardless, and this really grieves us, it must be the best £24 you could spend this year. Fax orders to EITO in Frankfurt - 010 49 69 6603 510.

21st July - A date for your diary



Richard Holway is repeating his evening soiree, presenting the findings of our latest analysis of the financial performance of the UK computing services industry, on behalf of the CSA. This will start at 6.00 pm on Wednesday 21st July.

The 1993 Holway Report will be published in June 1993. Richard Holway Limited will provide a "free" place at the seminar for every purchaser.

A Quality float?

Quality Software Products floated 2.85m (c37%) shares at 380p on the Stock Exchange on 24th March 1993 - the first new float since Vega almost a year ago. This valued QSP at £29.6m - an historic P/E of 23.5. But as they paid no tax, a fully taxed P/E of c36 would be more like it. Half of the money raised will be on behalf of existing shareholders. At that price, we cannot criticise shareholders wanting to cash in.

The issue was "heavily oversubscribed" and analysts are predicting the shares will be "£1 higher by the end of the year". Source - Sunday Times - 29th March 1993.

QSP develops and sells the OLAS financial accounting software, predominately in the past to IBM mainframe users. Indeed, IBM itself took an equity stake in 1989. Since 1988, QSP has been developing the open systems version of Universal OLAS which will be ready for shipping from May 93.

In the year to 31st Dec. 92, revenues increased by 18% to £13.1m but PBT dived by 25% to £1.2m. We understand most of the revenue increase came from associated services rather than new licence sales.

We have many concerns about QSP. In particular, QSP is one of the few companies to capitalise their R&D. Latest accounts show a net book value of £7.1m. *Readers should be aware that this is £3m greater than the total profits (£4.2m) earned by QSP over the last 4 years.* There are now very few UK CSI companies which still capitalise R&D. One of the last quoted company to so do was PPL which similarly came to the market with capitalised R&D exceeding cumulative profits. PPL called in the receivers.

We are also concerned about the seeming lack of restrictions on directors/associated trust share sales. Although we recognise that many of QSP's large corporate customers are looking to downsize to the type of open systems-based product due for release next month, QSP will be entering a crowded and highly competitive market. They might just find the same problems that IBM, DEC and others found in their similar market moves.

Potential investors should take care.

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