

System House

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

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Major profits growth revival in 1992

We are in the very last stages of compiling our statistics of the financial performance of *software and computing services companies operating in the UK* for 1992 for the **1993 Holway Report** to be published in June 1993. This is the sixth annual edition of the report which this year is enlarged to cover 1000 UK CSI companies representing total revenues in excess of £8 billion. We have no doubt that this is the most extensive and, as has been proved year after year, the most accurate factual survey of the financial performance of the UK CSI market.

The majority of 1992 results are now in our possession (even though quite a few of these have not been publicly announced). These show that CSI revenues continued to grow; by 5% in 1991/92, albeit at a slightly lower rate than the 6% recorded in 1990/91. The days of 20%+ revenue

growth experienced in the 1980s are thing of the past - we do not believe the industry will experience double figure growth again in the 1990s. But the really good news is that profits have recovered in a major way - up 25%. This is the first year to show a growth in PBT

since 1989. But readers must be aware that the industry has still not recovered to the *absolute* level of profits recorded in 1989 and has even further to go to show recovery to 1989 levels in *real* terms.

The chart shows that company profits were in decline way before recession hit the UK. The after effects of acquisitions, overstaffing, inability (or unwillingness) to realise the radical changes taking place, etc. all contributed to reductions in profits in the latter years of the 1980s. Recession in the early 1990s caused the already sick patient to develop pneumonia; leading to death for more than a few. But many "took the pills" - i.e. cutting costs and changing

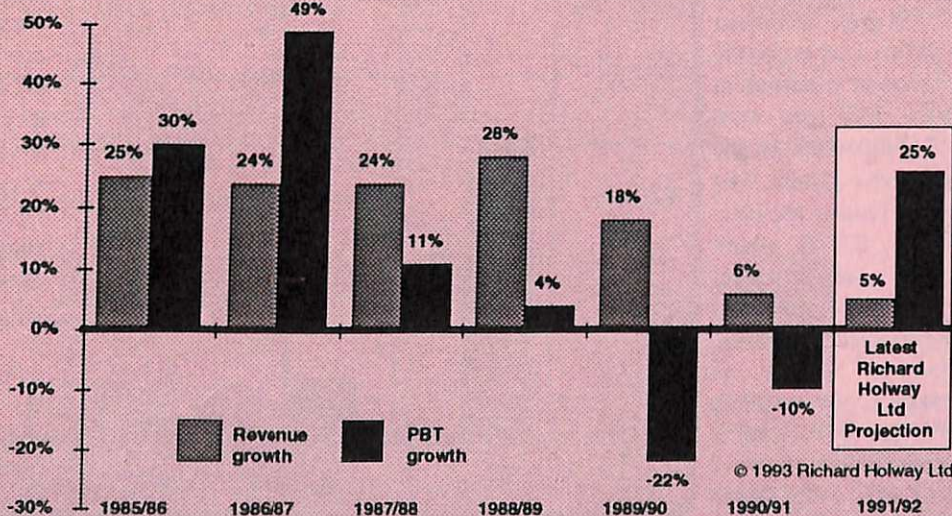
direction. 1992 saw many companies demonstrating clear signs of recovery. If readers find this profits recovery difficult to believe, reread the last few issues of *System House*. They are full of companies reporting static or even reduced revenues - but 20%+ increases in profits.

But it would be unfair to forget the many companies which have prospered in the recession. **ACT** (PBT +£4.3m), **MicroFocus** (PBT +£4.1m), **Computer Associates UK** (PBT +£4.1m), **Microsoft UK** (PBT +£3.9m), **Misys** (PBT +£3.5m), **Sage** (PBT +£2.2m) are just a few of the larger organisations to show major profits growth in 1992.

Smaller CSI companies have suffered most in 1992. In 1991/92 over 60% of the companies in our database reported decreased profits - the vast majority of them had revenues of less than £10m. This contrasted sharply with

the previous year when these smaller companies had constituted the best performers. Products companies - both in the applications and systems software arenas - have been the best performers. Companies relying on people

Average Revenue and PBT Growth of Software and Computing Services Companies Operating in the UK between 1985-1992



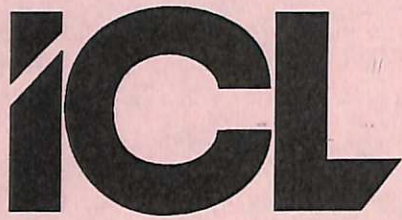
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based services have performed worst of all.

The rise in share prices of quoted CSI companies has already anticipated this recovery. Indeed CSI companies have been the amongst the best Stock Exchange performers - up 142% since the start of 1991 compared to a rather modest 30% increase in the FTSE100.

The future?

Our predictions are for a marginally increased 7-9% revenue growth in 1992/93 with another year of major profits recovery. We would not be surprised to see PBT rising by 30%+ in 1992/93.



“extends its dominant position as the lead supplier of computing services to the UK market”

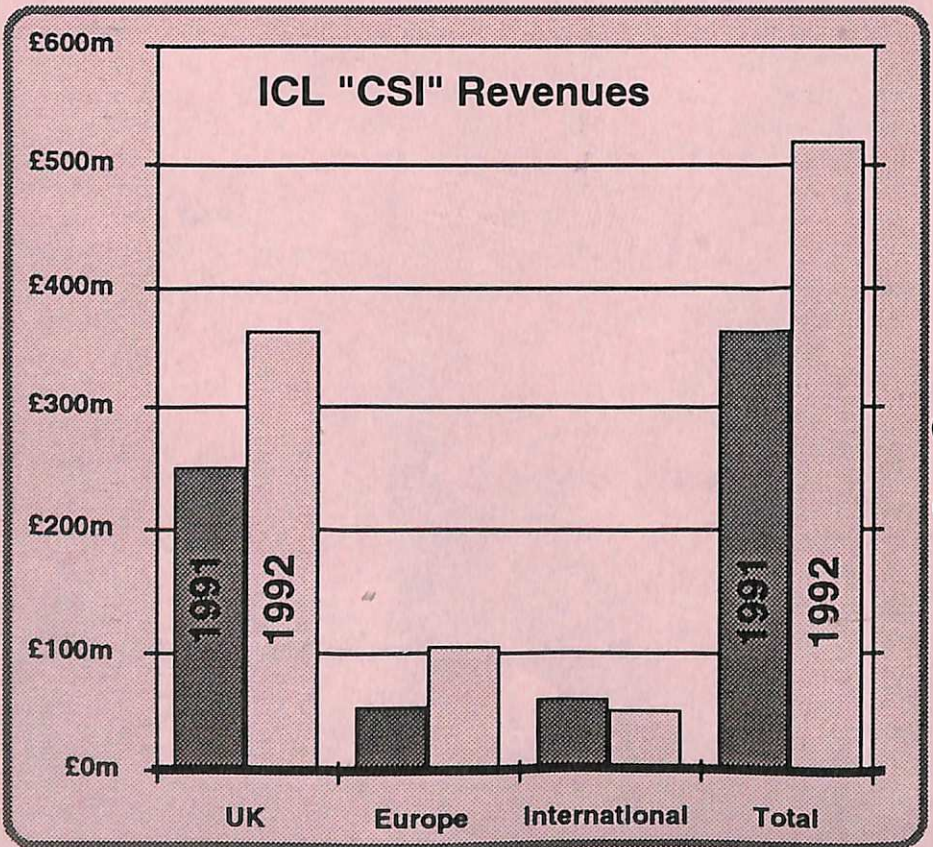
Last year our presentation to the CSA Annual Conference presented ICL as the clear lead supplier of computing services to the UK market. We have very harsh CSI revenue definitions for *hardware manufacturers* but even so ICL's UK CSI revenues in 1991 (c£250m) exceeded its nearest rival (EDS-Scicon) by nearly £20m. Using the same harsh definitions, ICL increased its CSI revenues to over £360m in 1992. We understand that EDS-Scicon's UK revenues for 1992 were about £250m, which means that ICL has opened a CSI lead, in the UK, in excess of £100m on its nearest rival. Using the same harsh definitions, IBM earned UK CSI revenues of £207m in 1992.

ICL's 1992 performance has been much reported. Even though PBT decreased by 38% to £38.6m, ICL is still the most profitable (only profitable?) mainstream computer group in Europe. Although revenue increased by 32%, perhaps only 4-5% of this was from organic growth. 1992 acquisitions, including £110m from **Technology plc**, contributed an additional £181m of revenues in addition to full year contributions from Nokia Data and Sorbus.

ICL's UK CSI revenues come from a number of sources. ICL's **application software portfolio**, together with other non-operating software products, earned revenues of around £125m. ICL's **services** revenues (excluding hardware maintenance/support) were around £240m in 1992. ICL is particularly strong in its business solutions for the key vertical markets of **Retail, Financial Services, Central & Local Government, Transport and Manufacturing**. This business specialisation means that ICL is usually one of the top suppliers in the particular sector. Retail systems increased by 41% and ICL has now installed over 200,000 EPOS terminals. To extend this leading position, ICL acquired **PSI**, a retail systems integrator in the US and Europe. Financial services increased by 52% in 1992 via such operations as **Omnia**, which supplies software to UK building societies. In 1992, ICL established its own manufacturing systems house in the UK - **MSPL** - which we understand has revenues of around £20m. ICL is still the largest IT supplier to local government in the UK.

ICL seems to have avoided many of the acquisitions problems which have affected others. In 1991, ICL acquired local government FM supplier **CFM** for around £6m. CFM grew revenues by over 55% to £45m and currently has contracted forward revenue in excess of £200m. ICL has now established **ICL Enterprises** as the umbrella organisation for certain of its services offerings. These include; ICL's system house, **C&TS**, which provides the typical people/project activities such as management consultancy and systems integration; **Secure Systems**, which is responsible for the MOD secure office project **CHOTS**; **Peritas** (which claims to be the UK's largest independent IT training operation) and **Workplace Technologies** (environmental services). ICL Enterprises currently employs 900 staff and earned revenues of £95m in 1992. Revenues are forecast to grow to £128m in 1993 and £250m by 1996.

ICL's hardware maintenance and support operations are not included in our definition of CSI revenues earned by hardware manufacturers. This part of the definition is becoming increasingly difficult to defend as we include TPM companies like Granada in our analyses and rankings. The previous defence that buyers of ICL hardware were locked into ICL maintenance clearly doesn't wash and ICL now maintains a wide range of non-ICL kit. We must, however, comment on the superb performance of TPM supplier, **Sorbus**, which in the UK and Europe is jointly owned



How we define CSI revenues
 For hardware manufacturers, we exclude revenues from:

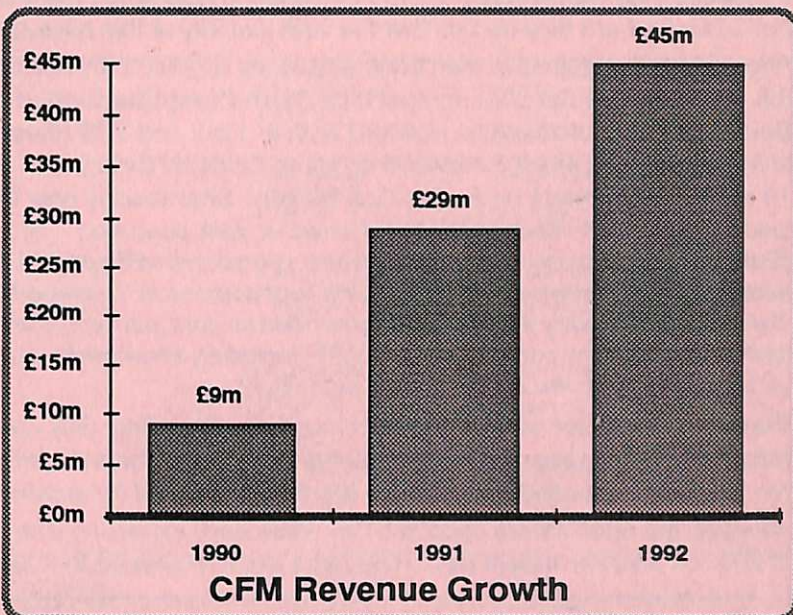
- operating software
- hardware (whether from ICL or otherwise)
- hardware maintenance (whether of ICL hardware or otherwise).

We accept that the definition is both harsh and inconsistent as we include revenue from all the above sources from non-hardware manufacturer CSI companies.

by ICL and Bell Atlantic. Their 50.0+% stake means ICL can consolidate the Sorbus revenue figures. Sorbus had a cracking year, growing UK revenues by 62% to £33.8m and European (ex UK) revenues by 20% to £33m - i.e. £66m in total. ICL's other UK hardware support operations had a modest 3-4% growth, reflecting our oft-repeated warnings about hardware maintenance. ICL's £200m UK maintenance revenues are about the same as IBM's.

Clearly the UK is ICL's dominant market for CSI but perhaps their greatest opportunity lies in Continental Europe. Here pure CSI revenues nearly doubled to over £100m in 1992. In part this was due to contributions from previous acquisitions like **Databolin** (Sweden - manufacturing, commercial software), **Comdes** (Holland - healthcare, financial services etc.) and **Nokia Data**. ICL claims total continental Europe revenues exceeded £1b in 1992 for the first time but this included product manufactured there and exported for sale in the UK. Considering that Germany and France are the two biggest IT markets in Europe, it illustrates ICL's *opportunity* that revenues from these countries were not significantly above £100m in either country.

ICL has been one of the most acquisitive IT companies over the past three years. But they have never bought a "major CSI company" as we had expected. We doubt if they now will as *an old style UK generalistic system house* would add little to ICL. We suspect that acquisitions in ICL's chosen niche markets will continue and purchases are now more likely in Europe than in the UK. Any major purchase will also be influenced by the timing of ICL's eagerly awaited float onto the UK Stock Exchange.



Why is ICL one of the major success stories of the last decade?

ICL is now run as 26 business centres each with P&L responsibility. ICL embraced open systems when everyone else was still defending their proprietary bases. ICL started the move to services many years ago, using a combination of acquisitions, partnerships and organic growth. ICL sees its own hardware as an *optional* module in the much more

important task of providing its customers with the most suitable business solution. Nowhere is this more evident that in its inspired purchase of **Technology plc** in 1992. ICL is a lead supplier in each of its chosen markets rather than a general "we can do everything for everybody" type of company. ICL is run by a set of businessmen unlike their rivals which have in the past often been run by technicians.

If all these points seem strangely familiar it's because almost all the other major hardware manufacturers - including IBM - now want to adopt similar policies.

	UK	Europe	Intl	Total
Total Revenue	£1,150m	£850m	£478m	£2,478m
"CSI" Revenue As per the Richard Holway definition	£365m	£105m	£50m	£520m
"Software & Services" As per the ICL definition				
<i>Software:</i>				
"Non-operating" software	£125m	£35m	£20m	£180m
Operating Software	£85m	£20m	£20m	£125m
Total Software	£210m	£55m	£40m	£305m
<i>Services:</i>				
CFM	£45m			£45m
Peritas	£16m			£16m
Workplace Technologies	£24m			£24m
CHOTS and Consultancy/Tech. services	£50m			£50m
Other services	£105m	£70m	£30m	£205m
Total services	£240m	£70m	£30m	£340m
<i>Support (ie hardware maintenance):</i>				
Sorbus	£34m	£33m		£66m
Other Computer Support	£196m	£168m	£120m	£484m
Total Computer Support	£230m	£200m	£120m	£550m
Total "Software & Services"	£680m	£325m	£190m	£1,195m
% from "Software & Services"	59.1%	38.2%	39.7%	48.2%

But they say it takes 10 years to change the culture of a company.

Robb Wilmot and the current CEO, Peter Bonfield, started that change at ICL in 1980.

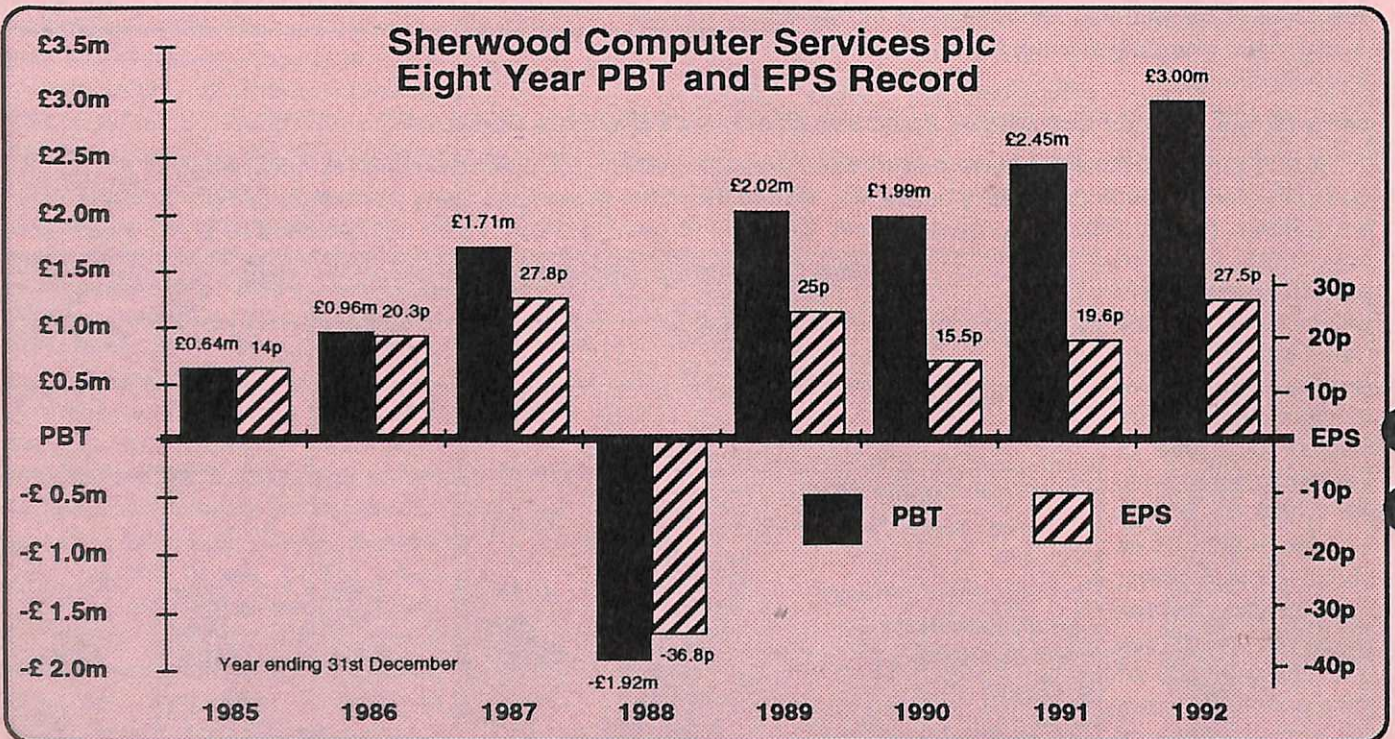
Record PBT at Sherwood

Sherwood Computer Services has reported "record" PBT up 23% at £3m on revenues down by 5.5% to £21.1m in the year to 31st Dec. 92. Net assets increased from £5.1m to £7m. EPS increased by a massive 40%. The revenue reduction was mainly due to the sale of a 75% stake in its **Guardian** disaster recovery operation to ICL in May 91. Guardian contributed £285K to Sherwood's profits in the period - somewhat similar to its losses whilst last under Sherwood control. It therefore comes as no surprise that Sherwood's directors "are very pleased with its progress". Sherwood also claim "costs of £1.2m incurred in obtaining quality certification BS5750". That seems somewhat high but CEO, Richard Guy told us that the vast majority of this related to cost of internal resources used.

Sherwood's operations in the Lloyds insurance market "continued to achieve significant growth". This was helped by the purchase of three of its competitors: **Cairn Computer Systems** (consideration c£200K), the city division of **Weir Systems Ltd** (consideration c£800K) both in 1992 and **THS (Guernsey) Ltd** (consideration c£300K) in 1993. In the financial services arena Sherwood acquired **Consort Data Ltd** in Sept. 92 for £1m - £250K in cash and the rest over 18 months dependent on profits. Guy reckons Sherwood is now the only CSI company making profits in the Lloyds insurance market. Sherwood also formed a joint operation - Sherwood International Ltd - with **Beta Computers (Europe) Ltd** - to acquire the rights to Beta's pension and life administration software. Results from the local government sector seem to have been disappointing (our sources at Sherwood use a different word) but the directors say they are "taking the necessary action to strengthen this sectors' performance in 1993". Conversely, central govt. sales have gone well with major new contracts from MAFF, including a system for cow passports. ("We had to find a way of getting them into the photo booths in Woolworth" said Guy!)

We suspect a major new FM contract may be in the offing. Guy confirms that order intake is improving as confidence returns - we have heard similar comments from many others recently. "Despite difficult economic conditions, prospects for 1993 are encouraging and ... we are well positioned for another successful year".

Although the results were good, the City was clearly expecting even more and the shares were marked down in excess of 20% on announcement day. They have since recovered to end the month down just 8% at 310p.



K2

Watford based **K2 Group**, which claims to be "a leading supplier of complete turnkey solutions in the open systems environment", has announced a 60% increase in revenues to £4.3m and "operating profits" increased from £122K to £201K in the year to 31st Oct. 92. Readers might like to note that K2 has "flourished against a background of the worst recession for 50 years". Seems a bit strong...particularly as there is absolutely no evidence that there has been a recession in the UK computing services industry.

Gresham Telecomputing... "What goes up..."

In Oct. 91 **Gresham Telecomputing** shares hit a low of 6p. They started 1993 at 29p. In Feb. 93, Chairman Sid Green issued a notice saying he knew of no reason for the recent share increase to 85p. He demonstrated this by selling a large block of his own shares. What happens...the shares just go up and up. On 23rd April 93 they hit 180p. This has now broken all sector records previously held by **MicroFocus** and represented a 500% gain in the first four months of 1993 alone. Again Green was forced to issue an announcement discounting rumours "of imminent agreements for the distribution of the company's new products...we continue to have discussions with virtually all organisations". Green also reminded investors of his previous warning that "lead times" to success on new products "will be significant". It had minimal effect. The shares ended the month on 171p. Gresham now has a capitalisation of £54.5m, representing an historic P/E of 88. But it is difficult to see what more Green can do.

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 £ 3,986,000 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 +134.9% 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%
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
Kode International plc	Results Revenue PBT EPS	Final - Dec 91 £ 15,693,000 £ 486,000 3.9p		Final - Dec 92 £ 18,335,000 £ 1,031,000 8.6p	Final Comparison +16.8% +112.1% +120.5%
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%
MR Data Management plc (was Microfilm Reprographics)	Results Revenue PBT EPS	Interim - Dec 91 £ 16,338,000 £ 3,809,000 4.58p	Final - Jun 92 £ 33,711,000 £ 8,227,000 10.6p	Interim - Dec 92 £ 18,629,000 £ 4,020,000 4.89p	Interim Comparison +14.0% +5.5% +6.8%
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%
Maddox Group plc	Results Revenue PBT EPS	Final - Dec 91 £ 222,809 (£ 311,542)		Final - Dec 92 Results not released pending disposal announcement	Final Comparison
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%

Richard Holway Results Service

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
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 £ 1,600,000 (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
Quality Software Prod. Holdings plc	Results Revenue PBT EPS	Final - Dec 91 £ 11,105,698 £ 1,501,039 21.9p		Final - Dec 92 £ 13,118,000 £ 1,201,000 16.2p	Final Comparison +18.1% -20.0% -26.0%
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%
Rolfe & Nolan Computer Services plc	Results Revenue PBT EPS	Interim - Aug 91 £ 3,277,000 £ 704,000 8.5p	Final - Feb 92 £ 6,737,000 £ 1,390,000 15.9p	Interim - Aug 92 £ 5,307,000 £ 707,000 8.9p	Interim Comparison +61.9% +0.4% +4.7%
Sage Group plc	Results Revenue PBT EPS	Interim - Mar 92 £ 14,489,000 £ 4,340,000 14.53p	Final - Sep 92 £ 27,274,000 £ 8,853,000 30.9p	Interim - Mar 93 £ 20,983,000 £ 5,380,000 17.68p	Interim Comparison +44.8% +24.0% +21.7%
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	Final - Dec 91 £ 22,321,000 £ 2,446,000 19.6p		Final - Dec 92 £ 21,103,000 £ 3,004,000 27.5p	Final Comparison -5.5% +22.8% +40.3%
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%

Acquisitions, disposals and liquidations

IBM CGI bid hits opposition...

Readers of *System House* will know that for many years we have suggested that the only way that IBM can recover its margins is to buy into the CSI sector. We even suggested, sometime ago, that they look at EDS or CGS. But as IBM's nett worth plummeted their ability to mount such a bid reduced. We also criticised the "let's put a consultant's badge on a salesman" policy. IBM did take many small stakes in CSI companies, a surprisingly large number of which failed, but the mega move never materialised. Then, just as we thought it was all over and within a few days of the appointment of new CEO Lou Gerstner, IBM launched a bid for French **Compagnie General d'Informatique (CGI)**. This values CGI at FF2.5b (c£300m) equivalent to 1.25 times revenue and around 17 times 1992 net profit. The bid comes just months after IBM France bought a 51% stake in **Axore** - the French FM specialist.

CGI is the tenth largest supplier of CSI activities to the French market; where it made about two thirds of its FF2b total revenues in 1992 and reported profits of FF148m. It is also one of the more important European software vendors with its CASE and MIS products.

However, the deal has not exactly been welcomed. Messrs. Mallet, Chapot and Debuissou - the original founder directors of CGI - have agreed to sell their combined 25.3% holding to IBM. The deal is basically for IBM convertible bonds with a 4.5 year maturity. Given the insecurity hanging over IBM at present, it is not surprising that other shareholders, who were not consulted, are somewhat concerned. But the deal has to be accepted by two thirds of the shareholders and is conditional on French Treasury approval. In this regard it should also be remembered that CGI makes about 15% of its revenues from its subsidiary - CR2A-Decision - whose major customer is the French Ministry of Defence. On one day this month, a block of 10% CGI shares were bought by a mystery buyer. Could there be a rival bid in the wings in order to ensure that another French company does not fall to foreign ownership or is it just a blocking move?

Source - We are indebted to our French partners - **Pierre Audoin Conseil** - for their input to this feature.

...as CGS stake is put up for sale

CGIP has put its 9% stake in **Cap Gemini Sogeti** up for sale to finance recent non-IT acquisitions. The stake is crucial as it could well determine the ownership of the ultimate control of CGS. German **Daimler-Benz** has a warrant to subscribe to further CGS shares in 1995 which could give them control. But Daimler-Benz has already reported financial problems of their own. A sale of their current stake, plus that of CGIP, could provide control of Europe's largest CSI company. Perhaps BT could buy EDS and CGS....

EDS acquires Apiron

EDS has been awarded Europe's largest outsourcing contract to supply services to Sweden's KF co-operative. The deal is claimed to be worth at least \$1b over 10 years. The deal also involves the acquisition of **Apiron Information** which had revenues of c£64m in 1992 and employs 600 IT staff. This will form the basis a new EDS European centre, in Stockholm, servicing the retail sector.

The others... Ingram Micro has acquired the business and certain assets of **Terminal Five** from **The Leading Technology Group**. Terminal Five is a major HP PC hardware distributor. Ingram claims to be "the world's largest distributor of microcomputer products". **Peritronics** has gone into liquidation, reportedly owing **Star Micronics** a uninsured debt of £813K. Star's sales director described this as "a bit of a bad news story...a sum like that is quite significant". Source - *MicroScope* 14th April 93. **JWP** has agreed to an MBO of its UK operation (formerly **Businessland**) - assuming the right price can be agreed. **ICM**, which apparently made profits of £2m on revenues of £15m in 1992, has acquired **AppleCentre Croydon** for an undisclosed sum. **ECI Ventures** has backed a £5.4m MBO of the process control activities of **FKI plc**. The liquidator of **Olympic Technology** has agreed a rescue package to create **Olympic Computers**. Bob Woodland (ex of now defunct Ferrari) has seen another of his ventures hit the dust. This month **Skytech** ceased trading leaving debts of £1.4m. US **GBC** backed off a rescue at the last minute but has apparently since recruited a number of ex-Skytech staff. There were unconfirmed reports that networking distributor **Azlan**, itself an MBO from Logitech before it was acquired by Microvitec, is for sale. Azlan also announced PBT of £2.95m on revenues up 40% at £41m in the year to 31st Mar. 93. Mike Brooke and Gordon Skinner are Azlan directors and CINVen has a 60% stake. Source - *MicroScope* 21st Apr. 93. **KRCS**, the Apple dealer which acquired **SAMS** last year, has picked up some assets of **Second City Systems** - the EIT subsidiary which went bust in Feb. 93. **Appropriate Technology (Aptec)** has acquired DIP specialist **Paperlink** from US **Xionics International**. Paperlink had revenues of £2m in 1992. **Capita** (see p8) has acquired **Goldcrest** which provides management services to the health and education sectors. Consideration was £450K. Goldcrest reported PBT of £156K on revenues of £763K in 1992. Goldcrest will be merged with one of Capita's previous acquisitions - Estate Design and Management. **Premier Systems** has appointed the receiver with debts of £1m as a direct result of the collapse of **Taurus**.

Data Sciences and Datasolve

When we met the new **Data Sciences** CEO, Andy Roberts, this month (see p11) we asked him about the latest position on the much rumoured **Datasolve** "disposal". We were assured that no decision had been taken or announcement imminent. Roberts clearly wants to review all the options which could include a sale - "there are no front runners at present" - but would more likely involve a new partnership deal. He confirmed what many in the industry report that "margins in operational FM for legacy systems are a major issue at present" with certain players quoting uneconomic prices in order, one assumes, to buy market share.

DEC boosts UK CSI revenues by 30%

As already reported, **DEC (UK)** reported a loss of £29.1m on revenues down 9% at £880m in the year to 30th June 92. Hardware sales were the main reason. But figures we have received this month show that **DEC (UK)** CSI revenues increased by 30% to £102.2m in 1992. This is using our same harsh definitions as in the ICL article p2/3. Interestingly, **DEC Europe** has appointed former ICL CEO, Robb Wilmot's **Oasis** to redesign their European sales and marketing operation.

Datapro proves there is life after acquisitions

One of the side effects of our now five year-old campaign to point out the pitfalls of acquisition binges, is the increasing number of companies which delight in pointing out to us their acquisition successes. As we have said before, acquisitions are like cars. Cars do not usually cause accidents. This is the reason we campaign for better drivers and safer roads. One of the best "drivers" around is Martin Baldwin - the Chairman of **Datapro Computers**.

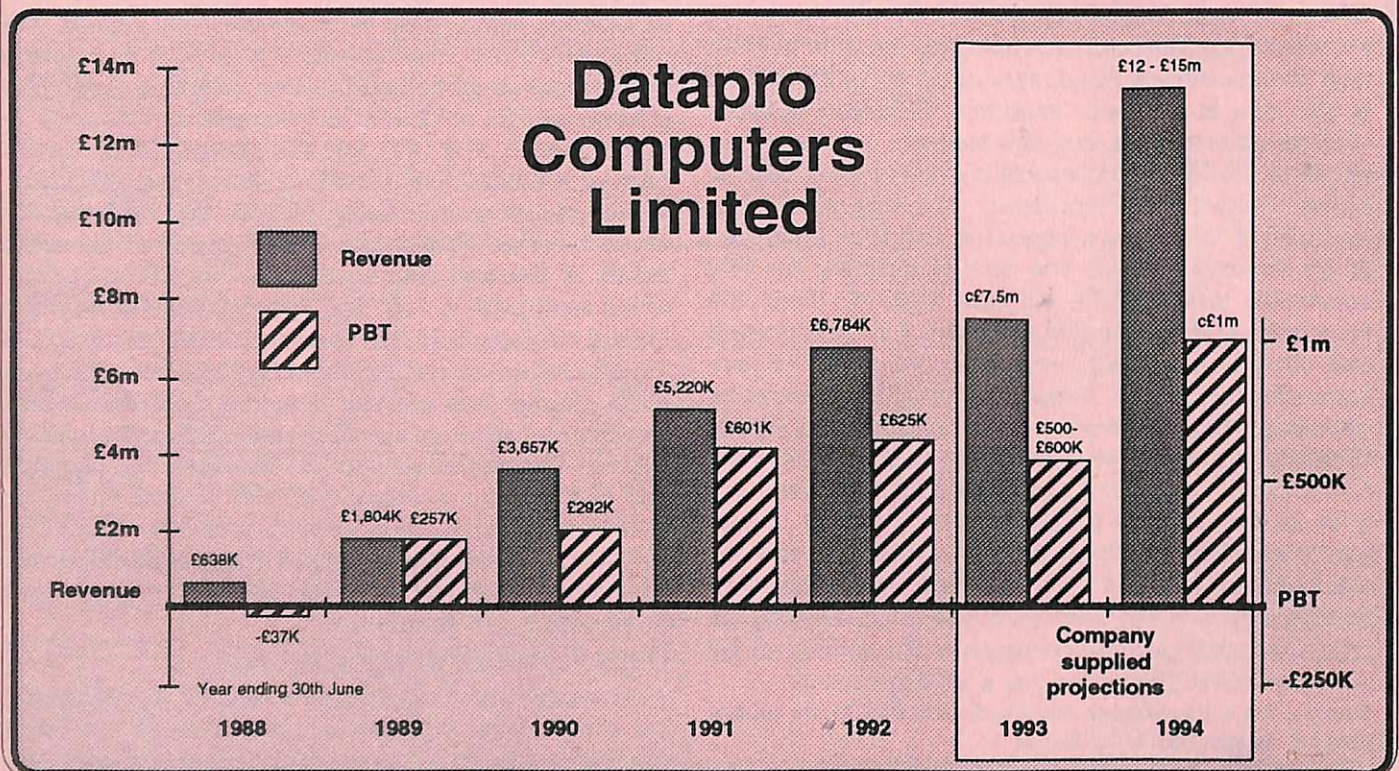
Datapro owes its very soul to acquisitions. They were created by the acquisition of IBM dealer **Ellipsys** in 1986 and have undertaken around another dozen acquisitions since, including six in 1991 alone. These have included **Midas, Southern Micro, Microtek, Systrex, Carrington, Phoenix, Wordfactory** and the maintenance operations of **CSS, SMM and BATS**.

After an "acquisitions rest" for the last 18 months, Datapro has this month announced its biggest ever purchase of **ABS Computers Ltd** and its associated software house **Shortlands Computing Services** from **Trafalgar House**.

The deal put a value of around £5m on the acquired companies. The acquired companies specialise in the UNIX market with products such as the Pharoah asset management system, the PCMS patient care system and the Shortlands financial systems. The deal adds around £2m p.a. in hardware maintenance plus a further £1m in software support contracts which should push Datapro to a revenue of between £12 and £15m and PBT of around £1m in the year to June 1994.

In 1990 **3i** invested £500K for a 20% stake in Datapro. This seems to have been one of 3i's better investments in the sector - which only proves what we have been saying for far too long "When considering an investment, the three most important assets are...management, management and management".

When we asked Baldwin what his plans were now he said he would lay off the purchases "for a few weeks" but confirmed that when it came to acquisitions, his "greed is unlimited". Can a float be too far away?



Second year of losses at PA Consulting

PA Consulting has recorded a loss before tax of £1.5m on revenues up 3% at £175m in the year to 31st Dec. 1992. Losses of £3.8m were recorded in 1991 compared with PBT of £2.1m in 1990. Last year the major part of the loss was attributed to "potential future losses on unlet accommodation resulting from their move to a single office site in London". Interestingly the same reason is now given for the 1992 losses. In 1991 a provision of £3.9m was made on unlet property - a further £4.7m was provided in 1992. Bank borrowings increased from £15.2m to £21.1m PA tells us that "we did experience some strengthening in our IT business and believe the figure to be approx. 30% of total revenues at £53m including exchange gains". Last year they reported IT revenues of £46m, £34.3m earned in the UK. We would estimate that UK IT fees had been static in 1992.

As we reported last month, other members of the MCA reported IT related fees down 12.4% in 1992.

Capita to fund public sector MBOs

Capita, with the backing of VCs **Electra, Schrodgers** and **ECl**, has established **Capita Corporate Finance** to provide £100m of investment for MBOs by Government agencies and other public service organisations.

Capita, which has been one of the forerunners in the move to managed services, has been one of the most consistently successful companies in the sector. Profits from FM activities increased by 250% to nearly £2m, representing over half PBT of £3.45m, for the year to 31st Dec. 92.

We suspect that the new venture will have a significant IT element. Market testing will see the privatisation of the IT activities of the Dept. of Transport and Companies House. These are two organisations where Capita already has a significant presence via its managed services operations. We have great respect for Capita, but several readers have commented to us that, at present, Capita's FM pricing is "cut throat" (polite version). We will watch margins with great interest.

Is Gresham unstoppable?

The **Gresham Telecomputing** share price rise has now reached legendary proportions - up 63% in the last month alone, making a 490% rise in the first four months of 1993 and nearly thirty times higher than their low of 6p in 1991. The shares had hit 180p in the month before Chairman Sid Green issued yet another *We know of no reason for the share price rise-type* statement (see p 4). Exactly a month ago, on 31st Mar. 93, **Kewill** announced that it had sold its German Weigang operations, which had forced this otherwise fine company with one of the most consistent financial records around, to its knees. The relief on the announcement caused a rise of 41% in Kewill's share price in April.

We have said goodbye to **Hoskyns** this month and have deleted **Star** (now **Pizza Express**) from our CSI Index. In their place we have added **Maddox**, **MR Data Management** and **Quality Software Products (QSP)**. QSP has been one of the best performers in the last month. They were floated on 24th Mar. 93 at 380p since when they have risen to a high of 538p although the share price has slipped back a little to end April on 491p - a gain of 29% on the launch price. Readers will know of our deep concerns about QSP and their capitalisation of R&D (see last month's review). On the other hand, another of our new comers, Maddox, was the worst performer in the month; suffering a 19% fall. Maddox is being transformed, by such acquisitions as Wakebourne, into a maintenance organisation. The 1992 results are much delayed. Their brokers say the delay is due to a "pending announcement of a disposal".

You may find this as difficult to believe as we do, but **EIT Group**, whose shares were suspended back in Feb. 93, is still hanging on by its fingertips. This month they managed to block a winding up petition served by Dataproducts by issuing an application for an administration order. The case will be heard in the first week of May. The dispute with EIT's bankers was said to have been resolved.

Computing Services Index

30th April 1993

April 15th 1989 = 1000

1713.65

Changes in Indices	CSI Index	FTSE 100	FTSE Small Cap
Month - 28/2/93 -30/3/93	-0.63%	-1.17%	+2.88%
From 15th Apr 89	+71.37%	+36.98%	
From 1st Jan 90	+86.25%	+19.10%	
From 1st Jan 91	+142.09%	+30.21%	
From 1st Jan 92	+64.01%	+12.84%	
From 1st Jan 93	+7.53%	-1.17%	+15.39%

System House CSI Share Prices and Capitalisation

	Share Price 30/4/1993 (£p)	Capitalisation 30/4/1993 (£m)	Historic P/E	CSI Index 30/4/93	Share price % move since 30/3/93	Share price % move in 1993	Capitalisation move (£m) since 30/3/93	Capitalisation move (£m) in 1993
ACT	£1.66	£234.10m	15.33	2634.92	-1.78%	12.16%	-£ 4.20m	£25.40m
Admiral	£4.38	£47.30m	18.10	3173.91	-1.13%	13.77%	-£ 0.50m	£6.00m
Capita	£1.69	£79.80m	8.76	5075.08	4.32%	19.86%	£6.10m	£15.90m
Computer People	£1.00	£13.90m	Loss	411.52	7.53%	35.14%	£1.00m	£3.60m
Cray Electronics	£1.43	£289.70m	44.69	836.26	7.52%	31.19%	£20.40m	£69.20m
EIT Group (Suspended)	£0.10	£4.75m	Loss	82.61	0.00%	-38.71%	£0.00m	-£ 3.00m
Electronic Data Processing	£5.58	£48.50m	14.53	5693.88	0.00%	16.25%	£0.00m	£6.70m
Enterprise	£0.25	£20.40m	Loss	200.00	17.65%	21.95%	£3.10m	£5.20m
Gresham Telecomputing	£1.71	£54.50m	88.14	1838.71	62.86%	489.66%	£21.10m	£45.26m
INSTEM	£1.25	£5.62m	14.71	1250.00	19.05%	47.06%	£0.90m	£1.80m
Kalamazoo	£0.51	£9.40m	Loss	1457.14	25.93%	92.45%	£1.94m	£4.52m
Kewill	£1.58	£18.90m	7.94	624.51	41.07%	187.27%	£5.50m	£12.33m
Kode International	£1.78	£16.50m	20.70	827.91	-2.20%	78.00%	-£ 0.40m	£7.21m
Learmonth & Burchett	£3.33	£59.80m	475.71	2775.00	-8.52%	162.20%	-£ 3.40m	£38.60m
Logica	£2.26	£139.00m	32.29	619.18	8.65%	36.97%	£11.10m	£37.70m
Macro 4	£6.65	£149.60m	25.09	2681.45	2.31%	27.15%	£3.30m	£31.90m
Maddox Group	£0.07	£29.00m	n/a	1444.44	-18.75%	-10.34%	-£ 6.70m	-£ 3.30m
Micro Focus	£20.50	£285.00m	18.62	9903.38	-13.97%	-23.79%	-£ 46.20m	-£ 83.50m
Microgen	£1.98	£78.00m	14.35	846.15	-5.71%	5.32%	-£ 4.50m	£4.70m
Microvitec	£0.27	£17.60m	Loss	658.54	1.89%	12.50%	£0.30m	£1.90m
Misys	£4.77	£184.60m	26.80	1186.57	-3.25%	33.24%	-£ 5.70m	£46.80m
MMT	£1.09	£11.60m	13.80	648.81	-6.03%	-1.80%	-£ 0.70m	-£ 0.20m
MR Data Management	£1.85	£101.40m	17.45	734.13	-1.60%	-4.64%	-£ 2.20m	-£ 4.90m
P&P	£0.73	£40.50m	81.11	327.35	17.74%	151.72%	£6.10m	£24.40m
P-E International	£0.62	£13.60m	Loss	255.14	10.71%	26.53%	£1.30m	£2.90m
Pegasus	£1.68	£10.80m	23.01	457.77	5.00%	46.09%	£0.50m	£3.49m
Proteus	£3.90	£105.30m	Loss	4642.86	-1.76%	-6.02%	-£ 1.90m	-£ 6.20m
Quality Software	£4.91	£38.29m	30.31	1292.11	29.21%	29.21%	£8.69m	£8.69m
Radius	£0.59	£16.10m	20.34	427.54	3.51%	37.21%	£0.60m	£4.40m
Real Time Control	£0.64	£4.48m	5.77	1306.12	0.00%	-25.58%	£0.00m	-£ 1.54m
Rolfe & Nolan	£2.65	£15.00m	16.67	1577.38	-2.93%	10.42%	-£ 0.40m	£1.40m
Sage Group	£5.97	£122.40m	19.32	4592.31	1.70%	22.34%	£2.10m	£22.40m
Sanderson	£3.01	£26.50m	12.54	1280.85	14.02%	32.60%	£3.20m	£6.50m
Sema Group	£2.96	£269.40m	22.39	930.82	6.09%	-7.50%	£15.50m	-£ 21.80m
Sherwood	£3.10	£18.90m	11.27	2583.33	-8.28%	21.57%	-£ 1.70m	£3.10m
Total	£0.83	£8.30m	16.14	1556.60	-2.94%	8.55%	-£ 0.20m	£0.70m
Trace	£0.49	£6.85m	16.96	392.00	0.00%	36.11%	£0.00m	£1.85m
Vega Group	£1.27	£17.90m	17.57	1040.984	-1.55%	13.39%	-£ 0.30m	£2.10m
Vistec	£0.29	£35.20m	19.08	1260.87	-9.38%	18.37%	-£ 3.60m	£7.40m

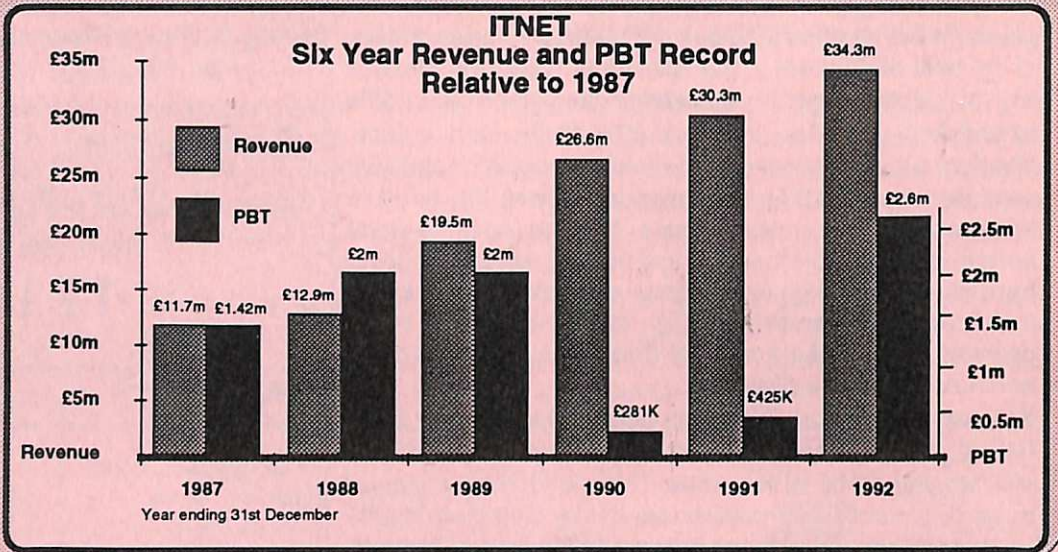
Note: CSI Index set at 1000 on 15th April 1989. Any new entrants to the Stock Exchange are allocated an index of 1000 based on the issue price. The CSI Index is not weighted; a change in the share price of the largest company has the same effect as a similar change for the smallest company.

Major Profits growth at ITNET

ITNET is the wholly owned CSI subsidiary of **Cadbury Schweppes**. Although revenue growth has been consistent, both operating profit (perhaps a more useful guide to wholly owned subsidiaries) and PBT has varied greatly as the chart below shows. Latest results reaching us this month show that revenues increased by 13% to £34.3m and PBT was up more than six times to £2.6m in the year to 31st Dec. 1992

ITNET is now a major player in the UK FM market where it is particularly strong in the local government marketplace. For example, a £38m/5 year FM deal with Westminster was announced in Dec. 92 and, this month, a £15m/5 year managed service contract was secured with Hertfordshire County Council. This was won in

competition with Capita which has been criticised by several competitors recently for its "cut throat" pricing for such contracts. This contract was in addition to £10m datacentre FM contract and a £1m PC/LAN support contract (right in line with the major growth area discussed on p12) awarded by Herts in 1992. In the commercial sector, a "multimillion" FM deal with the admin. systems division of the Prudential was also announced this month.



Jobs, pay and dividends

The latest US **Executive Pay Survey** in **BusinessWeek** determined that the two executives who gave their shareholders the most for their pay were Raymond Noorda of **Novell**, total pay just \$275K in 1992, and Bill Gates of **Microsoft**, pay \$822K - both in the IT sector. Conversely the executive who gave least was Ken Olsen at **DEC**, total pay \$2.97m.



The problem with such surveys is that they fail to take account of shareholdings and dividends. Noorda owns

10% of Novell thus making him a billionaire and we all know Bill Gates' worth. Poor old Olsen had given much of his DEC equity to his church.

The Businessweek survey also unfairly gave UK Geoff Squire at **Oracle** its worst pay to performance ranking. This was in the year when Squire was widely credited as the main mover in changing losses of \$12m into profits of \$61m - a trend which has continued in 1993. Businessweek reports that Squire had received a 71% pay increase from \$475K to \$740K - but a good percentage of this increase was accounted for in the change in the \$/£ exchange rate.

Our own pay survey is due out in June; as usual eagerly awaited by the main libel lawyers. Early results show that Chairman/highest paid director pay has been largely static but increased dividends have boosted the pay of shareholder directors. P Barbour at **Microgen** leads our rankings yet again with no pay but £447K in dividends. Paul Thompson at **Sanderson** earned a very modest £59K but received £303K in dividends making £362K in total. Kelly (**Macro 4**) and Goldman (**Sage**) both saw dividends boosting their earnings to over £300K.

Sage keeps powering ahead

Sage Group, the developers of accounting software particularly for the "low end" market, produced the expected results for the six months to 31st March 93. Revenues were up 45% at £21m, PBT advanced 24% to £5.4m (ahead of expectations which ranged from £4.9m to £5.2m). EPS was up 22%.

Cash was down from £4.1m to £3.1m, but that was after spending £5.1m on cash elements of acquisitions CEIL (France), Remote Control International (US) and Yorkshire Business Forms (UK). These acquisitions contributed revenues of £5.5m in the period which means that organic growth was a still respectable 11%. The UK was the best market with software sales up 20% due to the launch of Sterling +2 and "the continuing growth of the higher priced Sovereign range in the mid-market sector". UK revenues of £10.4m represented 50% of total revenues but nearly 80% of operating profit.

"The US contribution was held back by the repositioning of DacEasy into less price sensitive market sectors" and Remote Control reported a loss of £370K. As a consequence, US operating profit was halved to £620K. Ciel, in mainland Europe, "exceeded expectations" - contributing revenues of £2.8m and operating profits of £550K. Further acquisitions in Europe are not ruled out and Spain is a particular target.

Sage's real strength, as we have reported on many occasions, is their high level of recurring revenues from support and further sales to existing clients. These revenues were up 36% at £9.5m in the period.

Chairman David Goldman said he "believes that the momentum of the first half will be maintained to give a satisfactory outcome for the full year". He hasn't been wrong before. Indeed, shareholders have little to complain about. Sage was floated in Dec. 89 at 130p. Last year, on the day of the interim announcement, the shares rose to close at 484p. This year the announcement triggered a 17p fall - all the way to 602p or a 12 month gain of 25%.

A new lease of life for Data Sciences...

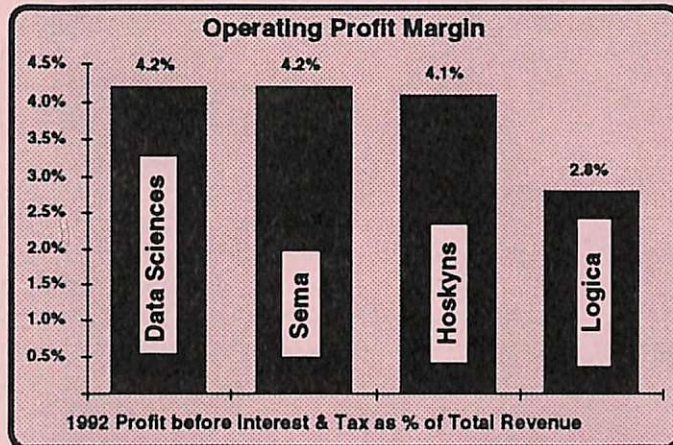
Data Sciences was formed on 31st July 1991 as a result of an MBO, from Thorn EMI plc, of Software Sciences and Datasolve - two companies which had formerly constituted Thorn EMI Software. They are one of the finest UK-owned CSI companies with particular emphasis on the defence/aerospace (34% of revenues) and manufacturing (21%) arenas. Over 40% of their revenues are derived from Systems Integration - one of the fastest growing segments of the marketplace. The MBO was backed by "clients of CINVen" who now hold 68% of the equity - Thorn-EMI retained a 20% stake. The press release at the time stated that the "consideration for the acquisition was £50m in cash together with a deferred consideration of £32m payable after 4 years". Many in the industry believed that the price was too high - a view not helped by Thorn-EMI's Chairman, Colin Southgate, saying "They paid a huge amount for it, bless their little hearts". Source - The Times 18th April 1992. The press comment did rather overstate the price paid.

Actual net cash paid was £47.6m and the deferred consideration was £20.3m at 1991 values. A total consideration of £67.9m - or just 60% of revenues - compares rather favourably with other recent deals. The way the deal was constructed has caused further misunderstandings. £26.6m came as equity, £27.5m as senior debt from Nat. West but the deferred consideration has been handled by way of a deep discount loan, guaranteed by CINVen. This started out as £20.3m in mid 1991 with an undertaking to pay £32m in mid 1995.

The amortisation results in a notional charge to the P&L account but there is no cash cost. In addition, there are very considerable tax savings both in 1992 and in future years. Bearing this in mind, you can look at Data Sciences' latest accounts in a number of different ways:

- a profit before interest and tax of £5m puts them at the top of the league compared with their conventional competitors.
- if the deferred element had been dealt with without going through the P&L, they would still have made a profit before tax (but after net interest of £3.5m) of £1.5m
- applying the normal rules, and taking the notional £3.6m charge into account, produces a *loss before tax* of £2.0m.

The other point to make about Data Sciences is their current "cash comfort position". On 13th Feb. 93, Data Sciences "secured a further £5m working capital facility from its major shareholders" in return for "additional ordinary shares". The R&A shows that the equity was enlarged by 11.2% on that date. The company tells us that this means that they currently have cash and unutilised facilities of around £18m. They

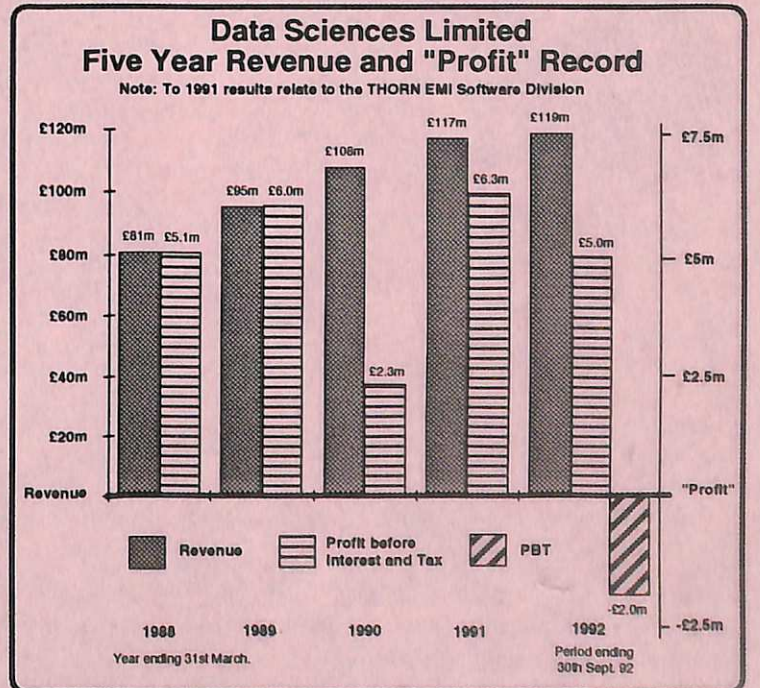
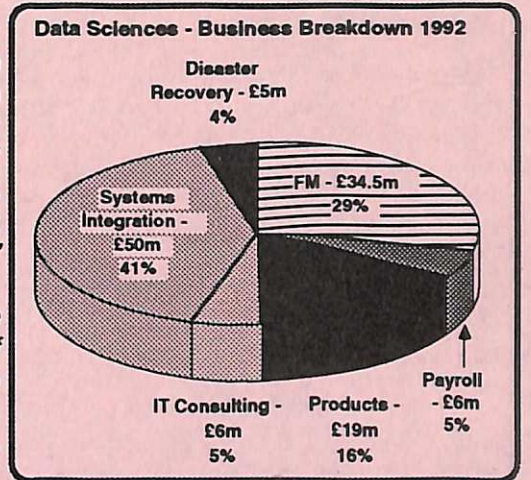


also have a 29.5% investment in **Pilot Executive Software Inc.** which has a book value of £1.7m. With a planned IPO in the US later this year, the stake could well be worth around four times this value.

Andy Roberts appointed as new CEO

Mike Smith relinquished his Chairman/CEO position in Jan. 93 due to ill health. On 20th April it was announced that **Andy Roberts** had been appointed as the new Data Sciences CEO. We had the honour to be the first "outsider" granted an interview. He was formerly MD of ICL Mid range systems and "is widely credited with ICL's successful move into the open systems market in the mid 1980s". His ambition is to make Data Sciences "one of the top three CSI players in Europe". On our calculations he would need revenues of over £600m - or around five times current revenues - to achieve that goal. But that doesn't really matter. Roberts is like a breath of fresh air. He is young - 40 years old and therefore some ten years younger than the CEOs of his "conventional" competitors. He is steeped in open systems rather than the proprietary millstones of his competitors. He wants to adopt the same business principles that have made ICL succeed (see p 2/3). I.e. a small "3-4 people" HQ, then a flat structure of businesses with "bottom line responsibility". He sees Continental Europe (currently only 15% of revenues) as the major opportunity.

When asked why he made the move, he said he "fancied a destroyer of his own". A few years ago we felt like that too! It's early days, but Roberts seems exactly right. Data Sciences, like many other conventional system houses, needs to change. We suspect Data Sciences staff will welcome a new dynamism, a new direction. *We hope he is given the time and the backing to make his objectives reality.*



EDS growth

We understand that EDS-Scicon increased UK CSI revenues by 10% from £232m in 1991 to £255m in 1992. No profit figures are available until the full audited accounts are filed in June.

Worldwide, EDS increased revenues in Q1 1993 by 4% to \$2.073 billion but net profits increased nearly 14% to \$151.4m - a margin of 7%.

ICL, DEC, PCs and Technology

Less than a year ago ICL acquired Technology plc in what was the most controversial acquisition of 1992. IBM and DEC cut off supplies...but Technology just sourced "better configured, lower cost" RS/6000s from Bull. This month, after a rethink, DEC has reappointed Technology to its Corporate Reseller Programme. Talk about "own goals"!

ICL says it has two aims in the PC market:

- to be #1 for personal systems in Europe
- to be #1 in client-server technology.

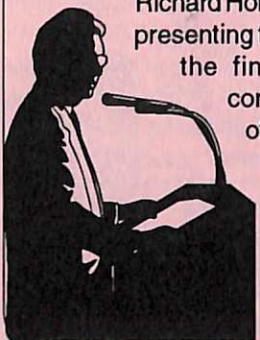
In the last year, helped by the Technology purchase, ICL has boosted PC sales by 40% (by volume) and has risen from #9 to #6 in the Euro rankings.

Romantic quote of the month

Bill Gates was in London for a day this month involving four speeches and assorted interviews.

Asked if his impending marriage would adversely affect Microsoft he said "It takes a lot of time being single: I think being married will be very efficient". Source - Computergram 28th April 1993.

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.

Hardware maintenance market in decline

The UK hardware maintenance market was worth around £1.7b in 1992; representing around a fifth of total CSI revenues. Hardware vendors represented the lion's share - c65%. Source - Richard Holway Report - Software and Computing Services Industry in Europe - Jan. 93. *System House* readers, many of whom are involved in hardware maintenance, will know that we have long warned that it was in terminal decline and our own report estimated that the market would be static over the next four years - representing a significant 15% decline in real terms. But others have disagreed. For example: Granada "the market continues to show healthy real growth". Source - Granada press release Dec. 92. The market is growing at "about 5% p.a.". Source - Alan Cane in the FT 30th Nov. 92.

It was therefore comforting to see that IDC's latest report, which resulted from 600 interviews with senior IT executives, estimates the market "will decline by approx. 28% in real terms by 1994, a much more rapid rate of decline than previously predicted". Report author, Graham Browne, added "Vendors that have traditionally regarded maintenance as a key cash generator will be forced to act rapidly to avoid crisis".

On a more positive note, the report confirms that those TPM companies which move into the "high growth" network management arena could prosper. In our experience, users are particularly unwilling to pay premium rates for straight PC hardware maintenance. But corporates have a more complex support requirement/problem for their PCs embracing multi vendor application and systems software, networks, version control, security and disaster recovery, user training etc. Few like the term PC FM, but it encapsulates the business needs of current clients.

But how many of today's TPM companies have the systems expertise and management ability successfully to make such a move? We suspect that the market will be subject to several years of great turmoil with many small players, and some large players, falling by the wayside. As in any market "in a time of crisis" (as the IDC report is subtitled), new players will emerge and reap considerable rewards for their shareholders.

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