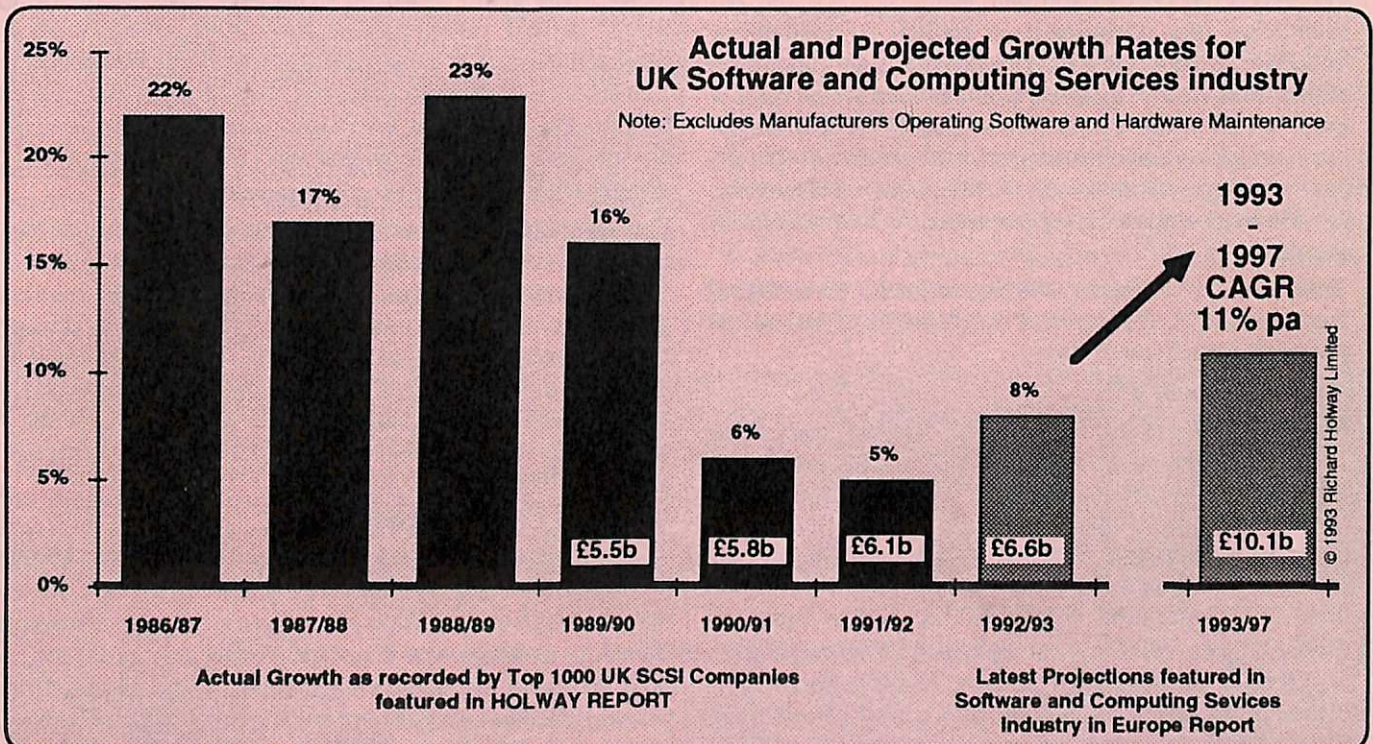


System House

The monthly review of the financial performance of the UK computing services industry
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UK Market on course for growth

The UK Software and Computing Services (SCSI) Market experienced double digit % growth throughout the 1980s. But this high growth came to a shuddering halt in 1991. Our researches, based on our database of the results from over 1000 SCSI companies operating in the UK market, showed that growth was just 6% in 1990/91 and 5% in 1991/92. Our exhaustive analysis of the results declared in 1993 to date and current analysts estimates indicate a modest improvement in 1993 - to 8%. However, this is far better than for the rest of Europe. Our partners PAC in Paris and Nomos in Italy together estimate European SCSI growth at just over 2% in 1993 - with France, Germany and Italy being particularly badly affected. Our current forecasts also show that UK SCSI growth will accelerate to a CAGR of 11% in the years 1993 to 1997. We, however, do not anticipate that the UK market will achieve 20%+ p.a. growth again.



However, when in-house personnel costs, hardware and related expenditure are taken into account, the UK IT market will grow at just 4% between 1993-1997. **This equates to practically no real growth in the UK IT market** at all when an estimated average 3.5% p.a. inflation is taken into account. Indeed the major reason for the growth in the SCSI market is the significant switch from in-house to outsourced services - particularly in the Facilities (FM) and Application Management (AM) markets. Hardware maintenance and processing (bureau) services will see actual declines. People-based activities such as IT consultancy and bespoke software development will also struggle to grow in real terms.

Taking the forecasts on further to the end of the millennium demonstrates the major task facing the hardware manufacturers. In 1960, hardware spend represented the vast majority of IT spend. By 2000, hardware will represent around 30% of the IT market. By then software products will still only represent around 17% of the market and services will represent over 50%. **Clearly the place to be.**

Information in this article is based on the latest edition of our Software and Computing Services Industry in Europe Report to be published in December. See enclosed brochure.

UK SCSI Market By Product/Service	CAGR 1993/97	Market value In 1997
Operating Software	-0.4%	£865m
Hardware Maintenance - Supplier	-4.0%	£890m
Hardware Maintenance - TPM	-5.4%	£280m
IT Consultancy	5.5%	£670m
IT Training	9.3%	£200m
Bespoke software	2.6%	£620m
Software Maintenance/AM	19.9%	£1,200m
Systems Integration	9.9%	£1,050m
Software Products	12.3%	£3,100m
Turnkey Solutions	9.9%	£1,210m
Network Services/Processing	-3.4%	£270m
FM/Outsourcing	25.2%	£1,525m

"Encouraging improvement" in sad story

The **Enterprise** (nee Systems Reliability) story is not exactly made in heaven. If we ever needed a story of rampant acquisitions followed by near disaster, the biggest losses in recent history and not exactly whiter-than-white corporate ethics - Enterprise would be it. We have written up the sorry saga many times (*System House* Sept. 92, Jan. 93 and Mar. 93 will give you the background). This month they have announced results for the year to 31st Mar. 93. Due to disposals, revenues were down from £158m to £58.2m and loss before tax reduced from £8.3m to £5.9m. Operating losses, however, increased from £1.3m to £4.8m although overhead costs halved as staff numbers reduced from 300 to 151. The US is expected to represent about a half of Enterprise's revenues by 1995.

In May 91, the group sold a stake in its **Systems Reliability** TPM operation in an MBO for £12m. The problem was that its actual ownership and size of the remaining stake was questioned. It looks as if this has now been resolved. The other issue was its stake in **Systems International** which has also been resolved this month (see p7). The resolution of these issues enabled Enterprise, at long last, to publish its R&A for the year to 31st Mar. 93.

Enterprise has undertaken a radical re-positioning "reducing its dependence on the second-user mainframe market in favour of systems and services which have a lower sales value but a better quality of sustainable business with enhanced margins". Last month we reported their strategic alliance with TPM-supplier **Granada** to provide an all-embracing support service to their respective clients.

"Early results for the current year show an encouraging improvement". Let's hope that the disasters of the last few years are now behind them.

Azlan to market

Azlan won one of our "Best of the Privates" awards for 1992 (*System House* July 1993). With a 38% increase in PBT to £2.95m for the year to 31st Mar. 93 they were in danger of winning it again. However, they will disqualify themselves by a Stock Exchange float with dealing starting on 24th Nov. 93. Warburg's have been appointed and a £40m price tag is rumoured. Funds will be used to repay the CINVEN prefs resulting from the £6.5m MBO from Logitek in 1991 but managers are planning to sell around a third of their holdings too. Non-exec. director Mike Brooke told us that interim results to end of Sept. 93 will show PBT of £1.9m - so the price tag seems extremely possible. A few months ago we reported rumours that Swiss telecoms company, **Ascom**, had bid £30m for Azlan only to see its holding board veto the move. That seems to have been true too.

We have been reported in other journals saying that Azlan is one of those companies in exactly the right place at the right time. Directors Mike Brooke and Gordon Skinner have an uncanny knack of getting into - and out of - companies at exactly the right time too.

Barclays forms Edotech

Whether **Barclays Computer Operations** will achieve their ambition of being the "number one player in the UK FM market by 1996" (*Source* - CSA Reference Book 1993) remains to be seen. This month they formed a new company **Edotech** to provide computerised direct mail marketing services to other companies.

Sema buys SKD

SKD-Företagen was a Swedish state owned supplier of professional services, processing and FM services mainly into the public sector. As part of the Swedish Govt. privatisation programme, most (75%) of SKD has now been acquired by **Sema Group** for £20.5m. The acquired businesses of SKD had revenues of £92.3m in 1992 and will boost Sema's revenues (£416m in 1992) by a fifth. The addition of SKD's FM revenues (57% = £53m) will increase Sema's FM revenues to around £120m, or 20%, on 1992 run rates making Sema one of the largest FM suppliers in Europe.

Although Sema is listed on the London Stock Exchange it is c90% owned by non-UK shareholders. However, the UK (c45% of 1992 revenues) was the main reason for the 22% increase in operating profit for the first six months of 1993. In July 93, France Telecom bought a 27% stake in Sema's UK FM subsidiary and declared that this operation, under Frank Jones, would be used as the vehicle for exploiting FM throughout Europe. There are no plans at the present time for SKD's FM operations to come within this group.

It had, in the words of Sema's Barbara Reid, been "a busy week". A few days earlier they had announced the establishment of a new joint venture with **Persatech** in South Africa. The new company, **OutSource Pty Ltd.**, will provide FM and other services. The new company has already won a 3 year FM deal with BP Southern Africa.

Cash rich Pegasus unmoved

Our article last month commenting on the zero publicity about the sale by **Pegasus** of its remaining 75% stake in **Stockforms to Deluxe** was quickly followed by three identical announcements in the FT. We underestimated the proceeds - they were £6.98m - and Pegasus cash balances are now £9.3m. And still Pegasus shares moved up only 5% to a capitalisation of just £14m. What an opportunity for a software company looking for a quote via a reverse takeover!

Miracle goes under

It with great personal sadness that we learned that **Miracle Products** had appointed the receivers on 4th Oct. 93. You may remember that Miracle was created, after **Headland** failed, by ex **Mega** and **Wootton Jeffreys** people who had lost so much by selling their companies to Headland. Losing your life's investment once is hard - when it happens again it is disastrous. **CACI** has bought the DG based Miracle accounting system from the receivers and **Enterprise Systems** has bought their UNIX based Tapestry system.

On the up?

The **CSA** quarterly trend survey has never been a particularly accurate pointer. For what it's worth, CSA members recorded a slight increase in business in Q3 and forecast modest increases in Q4.

However, "the survey results from the contract staff and recruitment sectors are encouragingly positive". This seems to fit with the **Computer People** barometer (see p10), **Comac's** hopes (see p8) and the **MSL Index** which recorded a surge in recruitment ads for high tech executives - up 117% for Q3 and up 133% on Q3 1992. Overall computing jobs, covering all job categories, was up 67% on Q3 1992. This is some encouragement to the 100 senior staff at **DEC UK** which have lost their jobs this month.

Whither IBM?

Keith Harpham of M&A specialists **Broadview Associates** gave an excellent "content-rich" presentation at their annual seminar for the CSA on 21st Oct. He said that both he, and the majority of IBM's major users polled at an earlier conference, thought that IBM would be broken up into separate units and possibly sold within five years. That's completely against Lou Gerstner's current plan and rather more in line with the thoughts of the late John Akers.

One event of momentous significance which could hasten this break-up is Moody's classification of IBM's debt rating. If they are downrated much more they will hold the status of "junk bonds", Harpham said, which would mean that pension funds, life assurance companies etc. would be forced to sell. The one way slide in IBM's share price could then go into free fall. This can't be all that appealing to CGI's French shareholders who have just accepted c£300m of IBM convertible bonds for their FM company. We have advocated for a long time that IBM should buy its way into the computing services industry. EDS would have been an astute move a few years ago. But with IBM's current capitalisation of \$25b, compared with over \$100b five years ago, and EDS capitalised at \$6.6b, that now looks impossible. Even IBM finds it impossible to grow its SCSI revenues (and profits) fast enough to compensate for reductions in hardware business.

But almost every one of IBM's divisions is a world leader, and almost every researcher puts them as the world's leading supplier of software and services. The break up value just must exceed the current capitalisation. They would not be short of bidders. *And just think of the commission for Broadview resulting from the break-up!*

Booming Oracle

This month **Oracle UK** provided us with the detailed results for the year to 31st May 1993. As already reported, UK revenues were up 57% at £160m - that's a 12-times increase since 1987 and clearly puts Oracle in the Top Ten suppliers to the UK SCSI market. This month it was revealed that PBT increased 43% to £6.4m. Oracle now has 1564 UK employees. If Oracle UK is the worldwide testbed that many believe, take note. Oracle UK's services revenues were the highest anywhere in the world - at 49% compared with Europe (43%) and worldwide (40%). UNIX software product licences were also higher (66% of all licence revenues) than in any other region. Oracle UK makes 9.4% of its revenues from application software products - like its Council Tax system. This again is twice as high as its worldwide results.

The problem with Oracle is that they move so fast that these full year results are now ancient history. Q1 FY 93/94 showed UK revenues up a massive 46% at £34.5m with UNIX/desktop licences now accounting for 84% of licence revenues.

US industry analyst reviews of Oracle Corp. are liberally sprinkled with words like "booming", "exceptionally strong", "revising estimates upwards", etc.

But remember "Oracle's plan is to turn itself into a business solutions company". Although Oracle actively courts its CSI partners, we see it increasingly competing in the same market space.

Services were 46% of worldwide revenues in Q1. If current forecasts come true, Oracle's services revenues will be well in excess of \$1 billion in FY93/94.

All change in distribution

Changes in our industry have affected every part - from the hardware manufacturers to the management consultants, from PC dealers to distributors. Indeed the recent acquisition of the **Computerland** franchise in the US by **Merisel** is a recent example. Earlier this year, **P&P** sold its loss making £40m hardware distribution to Merisel for a consideration rumoured to have been just £540K. P&P now concentrates on direct sales and services. **Ingram Micro** - one of the biggest European distributors, recently bought **Winprime Group** and now sell direct in the UK. **Bonsai** has recently changed its name to **KF Group** and has shut down its distribution arm - **Lightening Distribution**. Much troubled **Metrologie International** has recently announced plans to sell off its direct sales arm to concentrate on its core distribution activities.

The reseller market has polarised into:

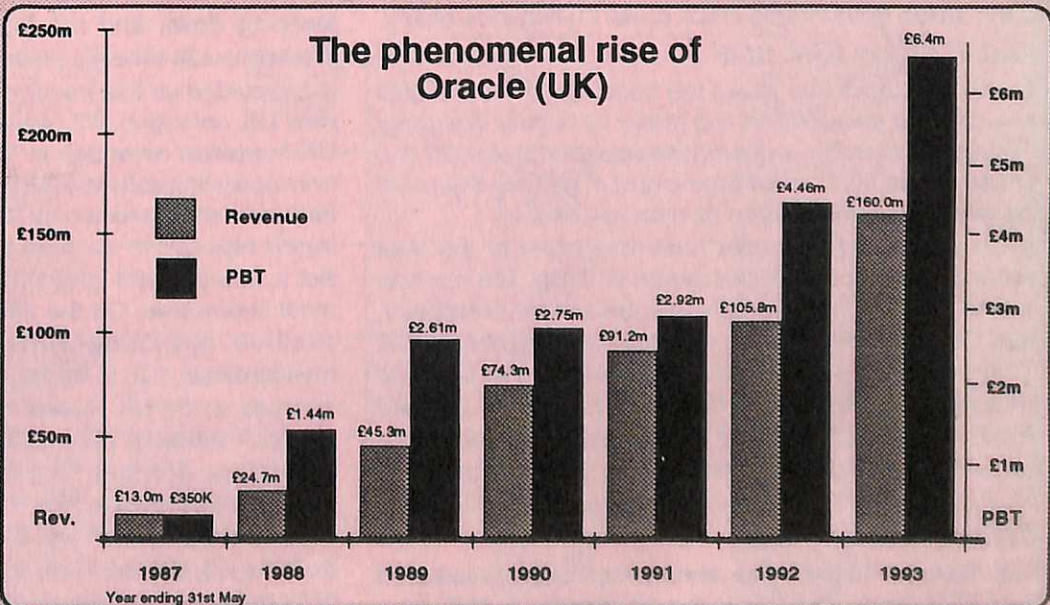
- specialised systems integrators selling direct to end users with high value added
- large PC dealer chains, high street retailers selling PCs and PC super stores
- large and highly experienced distributors.

The losers have been:

- the smaller PC dealer, where many have already failed
- the medium sized generalised mixed distributor/direct sale operation.

Apart from the financial pressure on medium sized distribution operations, they have the added problem of channel conflict.

The inevitable changes will cause pain, blood and probably some deaths for some time to come.



Low profile MR continues consistent performance

MR Data Management is one of the lesser known quoted UK CSI companies. A trifle surprising as they have a capitalisation of over £120m, have one of the best profit margins in the business and have been highly active on the acquisitions front. Talking to MR, you get the feeling they would like to retain their low profile.

MR is "the second largest supplier of COM bureau services in the UK and the largest supplier of document microfilming services in Europe". Their main competitor is Microgen. Lately their COM activities have been expanded to cover laser printing and text retrieval software. Their Memex system has attracted significant interest from various police authorities and their Word-processing Archive and Retrieval (WAR) system provides free text retrieval to WP systems such as WORD.

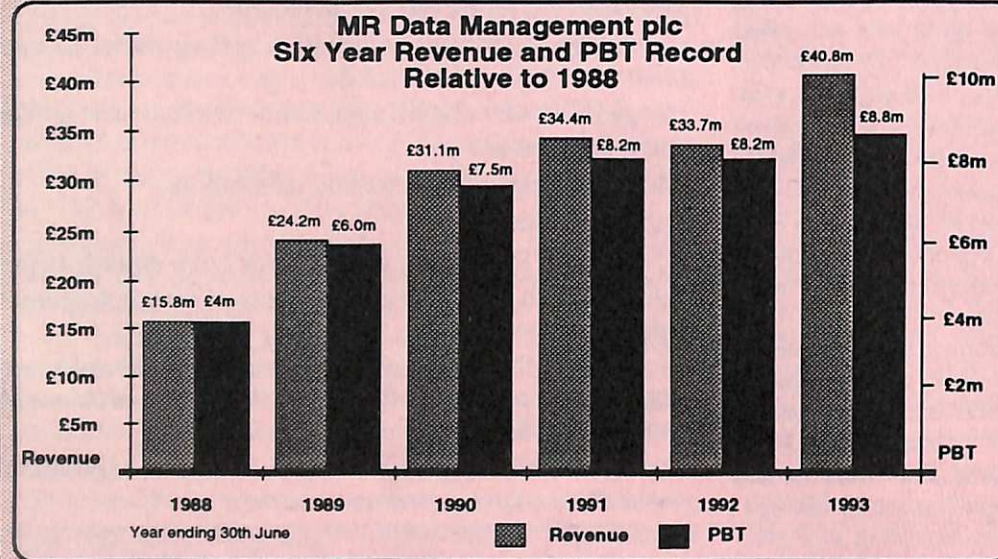
Acquired	Date	Consideration
Micro Reid	Jan-92	£10K
DPTS	Mar-92	£65K
Sol Microfilm	Apr-92	£740K
Fort Knox	Jul-92	\$1.2m
COM activities of NCR	Sep-92	£1.3m
Taywood Data Graphics	Jan-93	£1.8m

The latest results for the year to 30th June 1993 show PBT up 6% at £8.76m, revenues up 21% at £40.8m and EPS static. Balance sheet remained strong with £6.9m cash.

Since the start of 1992, MR has completed six acquisitions and intends to continue this process. The latest (Taywood

from Taylor Woodrow) extends MR's scanning services into the specialist area of Geographic Information Systems where MR already has a joint venture with Ordnance Survey.

In yet another indication of improved business activity MR "has begun to witness more promising signs of an upturn in the level of orders". For the current year, MR "remains optimistic" and is "in excellent shape, with a strong balance sheet and carefully controlled costs". With performance like this, maybe we ought to give a higher profile to those that shun publicity.



PC software product sales up 8%

The Software Publishers Association which represents US software product companies selling in Europe, reported that UK revenues rose by 8% in Q2. European revenues rose by 10%. Sales in France grew 9% but Germany/Austria (the largest market) grew by just 3%. The fastest growth market was Italy - up 160%. The SPA put this down to the Italian government crack down on software piracy.

Kewill signs IBM deal

Kewill Systems had about the best record around until they did *one acquisition too many* by buying Weigang. This resulted in a £5.7m loss in the year to 31st Mar. 93 and Kewill shares fell to an all time low of 47p. They then sold the offending subsidiary to its management.

Since then Kewill's shares have been one of the best performers - they closed this month on 248p. The rise was helped by the announcement that its Austrian subsidiary, Han Dataport, had signed an agreement whereby IBM Germany would sell their CAD software. IBM is reckoned to have a 25% share of the German CAD market. Richard Broad, Kewill's FD, said the deal was very significant but he "did not expect to see the benefits working through to the results before 1994 or 1995". Source - FT 26th Oct. 93.

CGS losses mount

Cap Gemini Sogeti has announced losses increased from FF118m to FF197m in the six months to 30th June 93. It warned that it did not expect any recovery until 1994. Ominously they reported that recovery in the UK, where CGS operates as Hoskyns, was running out of steam.

ICL

John Gardner, who held the roles of CEO ICL UK and as head of services, including manufacturing and outsourcing, surprised observers by announcing that he was

stepping down and moving to a part time role. Paul Whitam is to take his place.

ICL provided us this month with a detailed breakdown of their UK revenues. ICL were almost alone in increasing UK hardware revenues in 1992 by 8%. ICL's revenues from operating software fell by 25% to £90m and from own hardware maintenance by 9% to £195m - confirming the trends reported in our front page article.

But it was the 56% growth in SCSI activities which was most impressive. On the strict definitions we use, which exclude operating software and own hardware maintenance, ICL is by far the largest supplier of SCSI services to the UK market with 1992 SCSI revenues of £350m - ahead of EDS-Scicon (£250m) and Andersen Consulting (£215m). Contrary to what readers may have seen in other journals, IBM UK's SCSI revenues, using the same definition, were just £207m in 1992.

Both the ICL UK and ICL's services revenues are the envy of many larger competitors. Gardner's contribution towards this should not be underestimated and his departure cannot be good news for Peter Bonfield as he prepares for a Stock Exchange float in the next two years.

ACT Group plc	Results Revenue PBT EPS	Final - Mar 92 £ 119,447,000 £ 17,020,000 10.83p	Final - Mar 93 £ 152,926,000 £ 20,478,000 11.33p	Final Comparison +28.0 +20.3% +4.6%	
Admiral plc	Results Revenue PBT EPS	Interim - Jun 92 £ 13,656,000 £ 1,960,000 11.6p	Final - Dec 92 £ 30,870,000 £ 3,986,000 24.2p	Interim - Jun 93 £ 17,710,000 £ 2,185,000 13.3p	Interim Comparison +29.7% +11.5% +14.7%
Capita Group plc	Results Revenue PBT EPS	Interim - Jun 92 £ 13,732,000 £ 1,769,000 2.53p	Final - Dec 92 £ 33,098,452 £ 4,406,012 6.43p(Restated)	Interim - Jun 93 £ 22,102,000 £ 2,038,000 2.86p	Interim Comparison +61.0% +15.2% +13.0%
Comac Group plc	Results Revenue PBT EPS	Interim - Jun 92 £ 4,900,000 £ 43,727 0.44p	Final - Dec 92 £ 11,118,158 £ 394,723 3.94p	Interim - Jun 93 £ 5,300,000 £ 59,950 0.65p	Interim Comparison +8.2% +37.1% +47.7%
Computer People Group plc	Results Revenue PBT EPS	Interim - Jun 92 £ 29,895,000 (£ 135,000) (0.73p)	Final - Dec 92 £ 62,735,000 £ 145,000 (0.97p)	Interim - Jun 93 £ 33,542,000 £ 364,000 1.45p	Interim Comparison +12.2% Loss to profit Loss to profit
Cray Electronics Holding plc	Results Revenue PBT EPS	Final - Apl 92 (restated) £ 84,786,000 £ 2,352,000 1.9p	Final - Apl 93 £ 200,785,000 £ 29,014,000 13.8p	Final Comparison +136.8% +1133% +626%	
Division Group plc	Results Revenue PBT EPS	Interim - Apl 92 £ 498,564 £ 73,100 0.7p	Final - Oct 92 £ 1,081,913 (£ 107,783) (1.0p)	Interim - Apl 93 £ 913,508 (£ 10,212) (0.1p)	Interim Comparison +83.0% Profit to Loss Profit to Loss
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	Interim - Mar 92 £ 7,468,000 £ 2,407,000 18.83p	Final - Sep 92 £ 15,455,000 £ 4,877,000 38.4p	Interim - Mar 93 £ 7,350,000 £ 2,341,000 18.07p	Interim Comparison -1.6% -2.7% -4.0%
Enterprise Computer Holdings plc	Results Revenue PBT EPS	Final - 15 mos to Mar 92 £ 157,857,000 (£ 8,330,000) (9.8p)	Final - Mar 93 £ 58,231,000 (£ 5,888,000) (7.4p)	Final Comparison Not comparable Loss both Loss both	
Gresham Telecomputing plc	Results Revenue PBT EPS	Interim - Apl 92 £ 3,954,000 £ 284,000 0.57p	Final - Oct 92 £ 7,250,000 £ 767,000 1.94p	Interim - Apl 93 £ 3,060,000 £ 419,000 0.86p	Interim Comparison -22.6% +47.5% +50.9%
INSTEM plc	Results Revenue PBT EPS	Interim - Jun 92 £ 7,062,000 £ 551,000 7.96p	Final - Dec 92 £ 14,272,000 £ 575,000 8.5p	Interim - Jun 93 £ 9,505,000 £ 410,000 6.01p	Interim Comparison +34.6% -25.6% -24.5%
Kalamazoo Computer Group plc	Results Revenue PBT EPS	Final - 8 mos - Mar 92 £ 38,300,000 £ 611,000 Nil	Final - Mar 93 £ 56,700,000 £ 1,800,000 1.6p	Final Comparison Not comparable Not comparable Not comparable	
Kewill Systems plc	Results Revenue PBT EPS	Final - Mar 92 £ 41,824,000 £ 2,421,000 19.91p	Final - Mar 93 £ 33,341,000 £ 435,000 (0.60p)	Final Comparison -20.3% -82.0% Profit to Loss	
Kode International plc	Results Revenue PBT EPS	Interim - Jun 92 £ 9,637,000 £ 330,000 2.5p	Final - Dec 92 £ 20,915,000 £ 1,031,000 8.6p	Interim - Jun 93 £ 12,277,000 £ 710,000 4.3p	Interim Comparison +27.4% +115.2% +72.0%
Learmonth & Burchett Management Systems plc	Results Revenue PBT EPS	Final - Apl 92 £ 21,404,000 £ 303,000 0.7p	Final - Apl 93 £ 23,645,000 £ 1,610,000 7.0p	Final Comparison +10.5% +431.4% +900.0%	
Logica plc	Results Revenue PBT EPS	Final - Jun 92 £ 200,383,000 £ 7,062,000 7.0p	Final - Jun 93 £ 217,434,000 £ 9,026,000 8.7p	Final Comparison +8.5% +27.8% +24.3%	
MR Data Management plc	Results Revenue PBT EPS	Final - Jun 92 £ 33,711,000 £ 8,227,000 10.6p	Final - Jun 93 £ 40,790,000 £ 8,760,000 10.6p	Final Comparison +21.0% +6.4% +0%	
Macro 4 plc	Results Revenue PBT EPS	Final - Jun 92 £ 19,016,000 £ 8,750,000 26.5p	Final - Jun 93 £ 23,256,000 £ 10,497,000 31.5p	Final Comparison +22.3% +20.0% +18.9%	
Maddox Group plc	Results Revenue PBT EPS	Final - Dec 91 £ 222,809 (£ 311,542) (1.43p)	Final - Dec 92 £ 24,171,000 £ 1,134,000 0.39p	Final Comparison Not comparable Loss to Profit Loss to Profit	
Micro Focus plc	Results Revenue PBT EPS	Interim - Jul 92 (restated) £ 30,644,000 £ 9,628,000 44.5p	Final - Jan 93 (restated) £ 68,882,000 £ 22,777,000 106.6p	Interim - Jul 93 £ 40,800,000 £ 11,554,000 53.5p	Interim Comparison +33.1% +20.0% +20.2%

Microgen Holdings plc	Results Revenue PBT EPS	Interim - Apr 92 £ 24,974,000 £ 4,368,000 7.1p	Final - Oct 92 £ 49,316,000 £ 8,243,000 13.8p	Interim - Apr 93 £ 26,137,000 £ 3,758,000 6.1p	Interim Comparison +4.7% -14.0% -14.1%
Microvitec plc	Results Revenue PBT EPS	Interim - Jun 92 £ 25,533,000 £ 62,000 0.1p	Final - Dec 92 £ 49,888,000 (£ 2,137,000) (3.4p)	Interim - Jun 93 £ 17,959,000 £ 570,000 0.8p	Interim Comparison -30.0% +818% +700%
Misys plc	Results Revenue PBT EPS	Final - May 92 £ 68,023,000 £ 9,118,000 17.8p		Final - May 93 £ 88,761,000 £ 15,125,000 27.4p	Final Comparison +30.5% +65.9% +53.9%
MMT Computing plc	Results Revenue PBT EPS	Interim - Feb 92 £ 3,009,000 £ 712,000 3.9p	Final - Aug 92 £ 6,220,000 £ 1,500,000 7.9p	Interim - Feb 93 £ 3,165,000 £ 865,000 4.8p	Interim Comparison +5.2% +21.5% +23.1%
P & P plc	Results Revenue PBT EPS	Interim - May 92 £ 119,300,000 £ 1,000,000 1.0p	Final - Nov 92 £ 222,752,000 £ 2,012,000 1.9p	Interim - May 93 £ 121,800,000 £ 2,000,000 2.1p	Interim Comparison +2.1% +100% +110%
P-E International plc	Results Revenue PBT EPS	Interim - June 92 £ 35,308,000 £ 515,000 1.5p	Final - Dec 92 £ 71,108,000 £ 160,000 (0.22p)	Interim - June 93 £ 34,198,000 (£896,000) (4.1p)	Interim Comparison -3.1% Profit to Loss Profit to Loss
Pegasus Group plc	Results Revenue PBT EPS	Interim - Jul 92 £ 4,193,000 £ 335,000 3.7p	Final - Dec 92 £ 10,269,000 £ 620,000 7.3p	Interim - Jun 93 £ 5,300,000 £ 1,017,000 9.1p	Interim Comparison (Note yr end) +26.4% +203.6% +145.9%
Phonelink plc	Results Revenue PBT EPS	Final - Mar 92 £ 819,709 £ 140,420 0.5p		Final - Mar 93 £ 922,557 £ 30,905 0.1p	Final Comparison +12.5% -78.0% -80.0%
Proteus International plc	Results Revenue PBT EPS	Final - Mar 92 £ 3,000 (£ 2,408,000) (10.86p)		Final - Mar 93 £ 21,000 (£ 3,547,000) (13.52p)	Final Comparison +600% Loss both Loss both
Quality Software Prod. Holdings plc	Results Revenue PBT EPS	Interim - Jun 92 £ 6,000,000 £ 227,000 3.9p	Final - Dec 92 £ 13,118,000 £ 1,201,000 16.2p	Interim - Jun 93 £ 6,600,000 £ 143,000 2.1p	Interim Comparison +10.0% -37.0% -46.2%
Radius plc	Results Revenue PBT EPS	Interim - May 92 £ 11,988,000 £ 525,000 1.0p	Final - Nov 92 £ 24,012,000 £ 1,231,000 2.9p	Interim - May 93 £ 10,723,000 (£ 466,000) (1.3p)	Interim Comparison -10.6% Profit to Loss Profit to Loss
Real Time Control plc	Results Revenue PBT EPS	Final - Mar 92 £ 6,835,000 £ 1,192,000 11.1p		Final - Mar 93 £ 6,114,000 £ 492,000 4.9p	Final Comparison -10.5% -58.7% -55.9%
Rolfe & Nolan Computer Services plc	Results Revenue PBT EPS	Final - Feb 92 £ 6,737,000 £ 1,390,000 15.9p		Final - Feb 93 £ 11,232,000 £ 1,216,000 17.7p	Final Comparison +66.7% -12.5% +11.3%
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	Interim - Mar 92 £ 10,610,000 £ 1,801,000 16.0p	Final - Sep 92 £ 21,398,000 £ 2,805,000 24.0p	Interim - Mar 93 £ 12,057,000 £ 1,803,000 14.2p	Interim Comparison +13.6% +0.1% -11.3%
Sema Group plc	Results Revenue PBT EPS	Interim - Jun 92 £ 195,393,000 £ 28,534,000 5.3p (Adjusted)	Final - Dec 92 £ 416,675,000 £ 19,458,000 13.22p	Interim - Jun 93 £ 232,948,000 £ 15,213,000 7.05p (Adjusted)	Interim Comparison +19.2% -46.7% +33.0%
Sherwood Computer Services plc	Results Revenue PBT EPS	Interim - Jun 92 £ 10,710,000 £ 1,748,000 16.7p	Final - Dec 92 £ 21,103,000 £ 3,004,000 27.5p	Interim - Jun 93 £ 11,837,000 £ 541,000 3.4p	Interim Comparison +10.5% -69.1% -79.6%
Standard Platforms plc	Results Revenue PBT EPS	Final - Mar 92 £ 1,606,610 (£ 847,471) n/a		Final - Mar 93 £ 2,700,000 (£ 405,368) n/a	Final Comparison +66.8% Loss Both n/a
Total Systems plc	Results Revenue PBT EPS	Final - Mar 92 £ 2,796,777 £ 756,880 5.11p		Final - Mar 93 £ 2,869,359 £ 832,906 6.08p	Final Comparison +2.6% +10.0% +19.0%
Trace Computers plc	Results Revenue PBT EPS	Final - May 92 £ 19,312,000 £ 502,000 2.87p		Final - May 93 £ 18,042,000 £ 211,000 1.12p	Final Comparison -6.6% -58.0% -61.0%
Vega Group plc	Results Revenue PBT EPS	Final - Apr 92 (amended) £ 6,269,000 £ 1,387,000 6.69p		Final - Apr 93 £ 8,089,000 £ 1,705,000 7.99p	Final Comparison +29.0% +27.0% +19.4%
Vistec Group plc	Results Revenue PBT EPS	Final - Apr 92 £ 32,287,000 £ 2,714,000 1.52p		Final - Apr 93 £ 38,665,000 £ 3,503,000 2.07p	Final Comparison +19.8% +29.1% +36.2%

Acquisitions, disposals and liquidations

SHL Systemhouse in third training deal

In July, SHL Systemhouse Europe bought Clarion Training (100 trainers) and the Micro Solutions Training College. This month they have added Skytech Training. Readers may remember that ex-Ferrari boss, Bob Woodland, at one time had a 60% stake in Skytech and was hell bent on doing another Headland, EIT, Ferrari... it too hit financial difficulties and called in the receivers. Before this happened the profitable training arm was spun off as a separate unit. Woodland will be staying on a consultant to the £4m Skytech Training operation but says he will not benefit in any other way from the deal.

Playing the game - what is a SCSI company?

Throughout the first part of the 1980s, most large CSI companies considered PCs to be "toys". We are sure that some readers think that including virtual reality specialist Division in our listings seriously devalues the standing of our august industry. Except that those very readers would give their eye teeth to have announced a \$500K order for a system to simulate all features of the home environment (lighting, heating, acoustics etc.) from Matsushita.

Those same readers would also have been delighted with the reception given to Virtuality Group - which produces games software. They hope that their virtual reality operating system will become a standard - à la Microsoft. Indeed, it will be used in all Sega VR machines from next year. Last year Virtuality made PBT of £217K on revenues of £5.2m. On 19th Oct. about 20% of the equity was placed at 170p - valuing the group at £44.4m. Buoyed by strong individual investor interest after the success of Division, the shares then rocketed to 312p before closing their first day's trading at 289p - a 70% premium.

So how should we treat CentreGold which came to the Stock Exchange this month with a floatation of 51% of the equity at 125p valuing the company at £50.3m? CentreGold publishes, licenses and distributes computer games for IBM PC, Sega and Nintendo. In the year to 31st July 93 revenues were £68m with PBT of £2.72m. *The prospectus states that the Sega/Nintendo UK games market was worth £900m in 1992 - 80% more than the FM market!* Investors were clearly excited. The 8.35m shares on offer were oversubscribed by 14.5 times. CentreGold shares rose 34% to 167p when trading began on Thurs. 28th Oct.

NCC for float?

Reports that the National Computing Centre plans a Stock Exchange float look a little optimistic. Although new Chairman John Ockenden has produced an operating profit of £37K for the year to 31st Mar. 93 on revenues of £12.7m, restructuring costs of £674K meant the fifth consecutive year of pre-tax losses.

But the appointment of new executives, including CEO Nigel Banister, staff cuts and a new business like approach all point to better times ahead. The NCC intends to expand its consultancy and software testing activities.

On Demand to float in November

On Demand Information (ODI), which produces corporate databases for companies, plans a float in Nov. valuing the company at c£50m. Not bad for a company which reported losses of £1.2m on revenues of £22.8m in the year to 31st Jul 92! More next month. ODI is the eighth company we know that is planning a float in the next six months.

The others... Proteon Inc. has acquired Clifton Applied Technologies Ltd. which specialises in media access control level consultancy for token ring. No consideration was disclosed. Merisel has bought ComputerLand's US operations for c£72m - quite why anyone would pay that kind of serious money, we are not sure. European Omnilogic has completed its MBO, which includes UK distributor Omnilogic CPU (formerly CPU Peripherals), from parent SCOA Group for the nominal sum of one franc. The new group will be 70% owned by UK investors - Talisman Management and Equity and Corporate Finance - and will have annual revenues of c\$250m. Pilkington has sold its £20m p.a. networking operation, PCSL, in an MBO. VC capital was supplied by Murray Johnstone and the Welsh Office. Recovery at Alphameric seems well established. In contrast to the extremely perilous state of health a few years ago, they have now hit the acquisitions trail - buying software and consultancy company, City Technologies Ltd., for £40K cash. PC reseller Olico Holdings has gone into liquidation. In a now rather familiar statement the liquidator reported that, after the annual audit, Olico "found it owed rather more than it thought. It came as a nasty surprise". Source - Microscope 6th Oct. 93. When will they ever learn? CAD distributor Termtek (rev. c£3.5m) has acquired digitiser distributor Numonics UK (rev. £250K). We are pleased to see that The Last Word (rev. c£3m) has been bought from the receiver by Future Holdings (rev. c£8m). Tadpole has raised £1.2m through a placing of 400,000 shares at 300p - unusually a premium to the market place. Albert E Sharp (rather than HCL) handled the placing now James Warhurst and his team have jumped ship. Datel Computing has acquired the IPR to Modus, following the collapse of Systems Research. TPM DCM Systems has formed a joint network consultancy with CTU (BAe's IT consultancy). Irish Reflex Group has acquired a 75% stake in UK logistics management software house CPMS Holdings for £325K + a £175K capital injection. Racal has passed its loss-making Racal Redac CAD and manufacturing software unit to US Viewlogic Systems for \$600K and up to \$1.4m on future sales. The close down mean a one-off charge of up to £8m for Racal. Dutch UNIX software house BAAN International has acquired its two UK distributors Agility Business Software and CEP Business Systems' Triton division "for a seven figure sum". Dacoll has bought Scottish PC dealer MicroAge from the receivers. IMC has bought software distributor Riva. Supplyline Direct has gone into voluntary liquidation. Readers may remember Enterprise's battle over who owned the 50% stake in PC dealer Systems International. This was settled out of court this month when SI Chairman, Michael Kianfar, bought Enterprise's stake for the princely sum of £29K. See p2. ICL has taken a 12% stake in US Xscribe Corp. who will gain exclusive rights to ICL's legal systems in the US.

Phoenix soapbox

David Drury was a director of Sky High Computers - which went into liquidation in Jan. 92. He then setup the Computerland franchise in Leeds - which appointed the receivers in Oct. 92. He has now established Churchill Systems. "The industry should be warned that he is back trading". Source - PC Dealer - 20th Oct. 93.

Diamond Computer Systems, which failed owing £2.7m, has been bought by its former financial controller....

Comac buys CSS

Earlier this year Comac shares hit a low of 18p. In June it was announced that Philip Swinstead was making his comeback buying a 19.4% stake for £720K and becoming CEO. Comac shares shot up like a rocket from 44p to 94p within days. Comac supplies contract computer staff and had revenues of £11.1m in 1992 and PBT of £447K. At the time Swinstead declared that, in future, companies will increasingly use IT contractors on a freelance basis.

This month he has certainly *staked all* on that hope by buying **Computer Search and Selection (CSS)** for £18.5m (£4m shares and £14.5m in cash/loan notes). Comac also announced a 4 for 1 rights issue at 85p to raise £21.8m to fund the cash portion, eliminate the group's £2.5m debts and provide further working capital. CSS "is the largest independent contract agency for freelance IT consultants in the UK". Although revenues have grown significantly in the last three years, this seems to have been mainly due to the acquisitions of **4GL Systems** (from the receivers in Nov. 90), **Intercity Consultants** (for £650K in Feb. 91), "the loss making" **Trident** (£1.6m), **System Support Services** (£1) and **On-line** (£130K) all in Feb. 92 and **CSBC** (£107K) in Apr 92. The profit record shows, to their credit, how effective they have been at shedding costs after these purchases. Comac is paying a consideration equating to a P/E of c14. The enlarged group will be "the largest independent UK IT agency" but its "overall market share will be less than 10%".

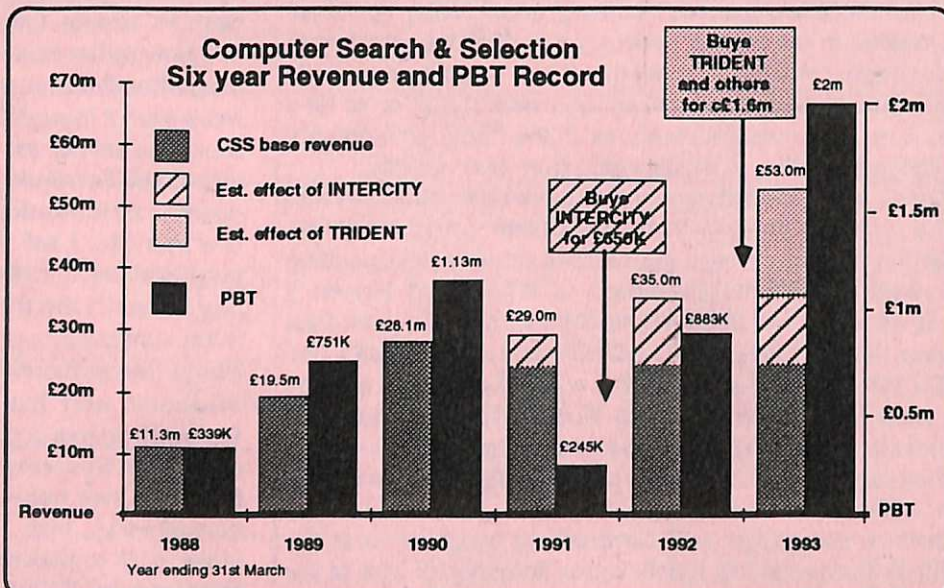
Comment

- Comac is acquiring a company nearly five times its size. The record of such disproportionately large acquisitions in the sector is universally disastrous.
- But of course, we must not forget the Swinstead/Friend/Scroggins effect - all ex SD-Scicon directors. At the age of 24, Swinstead founded and built Systems Designers and his organic achievements were substantial. However, SD-Scicon's record on acquisitions is not exactly reassuring. SD acquired SPH in 1984. This boosted SD staff by 80%. Warrington in the US was acquired in 1985. SD profits slid nearly 50% in 1986 in a year when most others in the industry were experiencing strong profits growth. The even bigger acquisition of SCICON in 1988 led to the £19.8m loss in 1990. SD-Scicon was finally forced to admit defeat after the hostile bid from EDS.
- So what of Swinstead's forecast that the freelance staff market will be one of major growth in the future? It would appear that CSS has experienced little organic growth in the last three years. Without the benefit of such acquisitions, their main quoted competitor, **Computer People**, has experienced trading problems in the same period. **VNG Professional Services** has this month lodged accounts showing a loss of £119K on revenues of £33.2m for the year to 31st Dec. 92. At present there is an enormous over supply of freelance consultants and everyone reports intense pressure on fee rates. But will this change in the future? There is no doubt that outsourcing - be it FM, AM

or SI - is the major growth market in the IT sector. But this is where the supplier takes on a significant level of responsibility for the success of the project/activity. Indeed, the current results from most of the people-based fee earning companies, and some market research company projections, for the professional services market, show actual *declines* in market size.

Only five years ago Swinstead was justifying the acquisition of SCICON on the basis that the industry had moved away from the supply of "temporary staff" and "time and materials charging mechanisms" towards "fixed price quotations and the need for an engineering approach to software projects". Source - Listing particulars - Feb. 88. Clearly Swinstead's two years out of the industry have completely changed his view. The problem is that his new view does not coincide with what most others tell us.

Richard Pindar, at competitor **Computer People** (see page 10), welcomed the move. "We now have another



publicly quoted company in our sector and that will raise the profile".

But readers should always bear in mind *The Times* (29th Mar 91) "SD-Scicon retains its ability to astound the City...latest results stunned even seasoned SD-Scicon followers". We hope that Comac shareholders will not be equally stunned in the future.

Footnote: Readers may remember our tussle with Mr Swinstead when we published that he was voted a 47% increase in remuneration in the year SD-Scicon declared losses of £19.8m. After the publication of our article, and a week before the AGM, it was announced that he was waiving the increase for the time being. At Comac Swinstead (who owns 19.5% of the equity - the only Comac director to own any shares) has a service contract for an annual salary of £75K p.a. but had "waived the salary" until 13th Oct. 93.

Raving from the grave

Just when you thought you had heard the last of EIT Group...this month EIT said that they hope to emerge from administration and be re-listed on the Stock Exchange early in 1994. A precursor to this is the publication of accounts to 30th Sept. in Nov.

EIT said they had decided not to sell off Decisionware and that their TPM operation, Sysmatic, was trading profitably. Source - MicroScope 27th Oct. 93.

Share price movements

The CSI Index dropped by 1.3% this month against a gain of 5.5% in the FTSE100 which reached record heights. The CSI Index has only risen by a very modest 6.8% this year. **Kalamazoo** was the largest gainer - up 15% on positive statements made by the chairman at the recent AGM. The 12.5% rise in **EDP** was said to be "puzzling the group and its brokers Henry Cooke Lumsden who were at a loss to explain the sudden movement". James Warhurst (ex of HCL and now at Albert E Sharp) however could explain, saying that AES "had been buying EDP stock aggressively on behalf of institutional clients. The sharp price rise was a consequence of a short market". Source - FT 25th Oct. 93. How long before EDP changes its brokers? **Logica** also put on 11% due to recent full year results and positive reaction to new CEO Martin Read.

At the other end of the scale **Maddox** lost 31% to a share price of just 2.25p. As we reported last month Maddox had guaranteed overdraft facilities at C&F which has appointed the receivers. There is no further news on talks which "may or may not lead to an offer". **Enterprise** fell 24% (see results p2). If all the dirty linen has now been aired then this might be the nadir. **Total** was also down 19% - that's a 38% fall this year to a capitalisation of £4.7m. Terry Bourn did not much like our review in July 93 when we suggested that meeting his avowed intent of undertaking acquisitions would be "corporate suicide". Another company which wholly unfairly doesn't like us is **Quality** (QSP). Their shares have fallen

another 16.5% this month - almost back to the launch price. Our views on their capitalisation of R&D and future prospects are shared by the many readers that have 'phoned us. We have been summoned to a meeting with QSP in Nov. Lastly poor **MicroFocus** - down another 13% this month and now recording a £150m capitalisation loss this year so far. At one stage US investors held nearly 50% of stock - now that is down to c20% after US analysts issued sell notices. Perhaps a lesson to all those UK companies looking wistfully at the high NASDAQ ratings for SCSi companies. *The faster the rise, the steeper the fall.*

Computing Services Index

30th October 1993

April 15th 1989 = 1000

1701.38

Changes in Indices	CSI Index	FTSE 100	FTSE Small Cap
Month (27/9/93 - 30/10/93)	-1.31%	+5.52%	+1.49%
From 15th Apr 89	+70.14%	+54.41%	
From 1st Jan 90	+84.91%	+34.25%	
From 1st Jan 91	+140.35%	+46.78%	
From 1st Jan 92	+62.83%	+27.19%	
From 1st Jan 93	+6.76%	+11.40%	+28.88%

System House CSI Share Prices and Capitalisation

	Share Price 30/10/1993 (£p)	Capitalisation 30/10/1993 (£m)	Historic P/E	CSI Index 30/10/93	Share price % move since 27/9/93	Share price % move in 1993	Capitalisation move (£m) since 27/9/93	Capitalisation move (£m) in 1993
ACT	£1.60	£295.00m	17	2539.68	-9.60%	8.11%	-£ 31.40m	£86.30m
Admiral	£4.60	£49.70m	20	3333.33	1.10%	19.48%	£0.60m	£8.40m
Capita	£1.85	£87.70m	29	5555.56	-1.07%	31.21%	-£ 0.90m	£23.80m
Comac Group	£0.90	£5.78m	22	2093.02	-4.26%	400.00%	-£ 0.25m	£4.62m
Computer People	£1.10	£15.30m	Loss	452.67	8.91%	48.65%	£1.30m	£5.00m
Cray Electronics	£1.44	£316.30m	15	839.18	1.06%	31.65%	£12.10m	£95.80m
Division Group	£0.82	£27.70m	Loss	2050.00	5.13%	105.00%	£1.40m	£14.20m
Electronic Data Processing	£6.28	£54.60m	17	6408.16	12.54%	30.83%	£6.10m	£12.80m
Enterprise	£0.29	£23.20m	Loss	228.00	-24.00%	39.02%	-£ 7.40m	£8.00m
Gresham Telecomputing	£1.52	£48.60m	78	1634.41	-8.98%	424.14%	-£ 4.80m	£39.36m
INSTEM	£1.35	£6.46m	10	1350.00	-8.78%	58.82%	-£ 0.62m	£2.64m
Kalamazoo	£0.86	£15.80m	20	2457.14	14.67%	224.53%	£2.00m	£10.92m
Kewill	£2.53	£30.20m	Loss	1000.00	8.12%	360.00%	£2.30m	£23.63m
Kode International	£1.65	£15.30m	20	767.44	-8.33%	65.00%	-£ 1.40m	£6.01m
Learmonth & Burchett	£2.52	£45.20m	36	2100.00	-3.82%	98.43%	-£ 1.80m	£24.00m
Logica	£2.79	£171.60m	32	764.38	10.71%	69.09%	£16.60m	£70.30m
Macro 4	£6.99	£158.10m	21	2818.55	7.04%	33.65%	£10.40m	£40.40m
Maddox Group	£0.02	£10.00m	14	500.00	-30.77%	-68.97%	-£ 4.50m	-£ 22.30m
Micro Focus	£15.40	£218.70m	14	7439.61	-12.99%	-42.75%	-£ 30.90m	-£ 149.80m
Microgen	£1.59	£62.60m	11	679.49	-3.05%	-15.43%	-£ 2.00m	-£ 10.70m
Microvitac	£0.28	£18.00m	Loss	670.73	-9.84%	14.58%	-£ 1.90m	£2.30m
Misys	£5.27	£204.50m	19	1310.95	5.61%	47.21%	£10.90m	£66.70m
MMT	£1.28	£13.50m	16	758.93	-0.39%	14.86%	-£ 0.10m	£1.70m
MR Data Management	£1.88	£104.20m	n/a	746.03	-13.36%	-3.09%	-£ 15.80m	-£ 2.10m
P&P	£0.69	£38.30m	37	309.42	-2.82%	137.93%	-£ 1.10m	£22.20m
P-E International	£0.73	£16.00m	Loss	300.41	4.29%	48.98%	£0.70m	£5.30m
Pegasus	£2.19	£14.10m	56	596.73	4.78%	90.43%	£0.60m	£6.79m
Phonelink	£2.80	£99.40m	n/a	1806.45	9.80%	80.65%	£8.90m	£44.40m
Proteus	£4.56	£124.90m	Loss	5428.57	4.83%	9.88%	£5.70m	£13.40m
Quality Software	£4.00	£31.10m	19	1052.63	-16.49%	5.26%	-£ 6.20m	£1.50m
Radius	£0.35	£9.55m	12	253.62	0.00%	-18.60%	£0.00m	-£ 2.15m
Real Time Control	£0.68	£4.76m	14	1387.76	1.49%	-20.93%	£0.07m	-£ 1.26m
Rolfe & Nolan	£2.60	£14.70m	15	1547.62	4.00%	8.33%	£0.60m	£1.10m
Sage Group	£4.32	£88.60m	14	3323.08	-4.42%	-11.48%	-£ 4.10m	-£ 11.40m
Sanderson	£3.12	£27.80m	13	1327.66	-10.09%	37.44%	-£ 3.10m	£7.80m
Sema Group	£3.23	£293.90m	26	1015.72	-2.71%	0.94%	-£ 8.20m	£2.70m
Sherwood	£1.45	£8.85m	4	1208.33	-2.03%	-43.14%	-£ 0.18m	-£ 6.95m
Total	£0.47	£4.70m	8	886.79	-18.97%	-38.16%	-£ 1.10m	-£ 2.90m
Trace	£0.40	£5.67m	n/a	320.00	-11.11%	11.11%	-£ 0.71m	£0.67m
Vega Group	£1.62	£22.90m	19	1327.87	1.25%	44.64%	£0.30m	£7.10m
Vistec	£0.29	£34.70m	16	1239.13	-3.39%	16.33%	-£ 1.20m	£6.90m

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.

A new definition to the word "Confidence"

There is something about Trace Computers. Many companies in the sector have a bad year. They then do something about it (which costs them dear the following year) then they recover (or appoint the receivers). Trace came to the Stock Exchange in June 1989 at 125p - since then it's been a three year slide ending this month on 40p..

But Trace has also been the archetypal acquisition example - Image, Prospect, Gordon & Gotch, Micrologics, Wespac, Proteus etc...most trading at a loss when acquired.

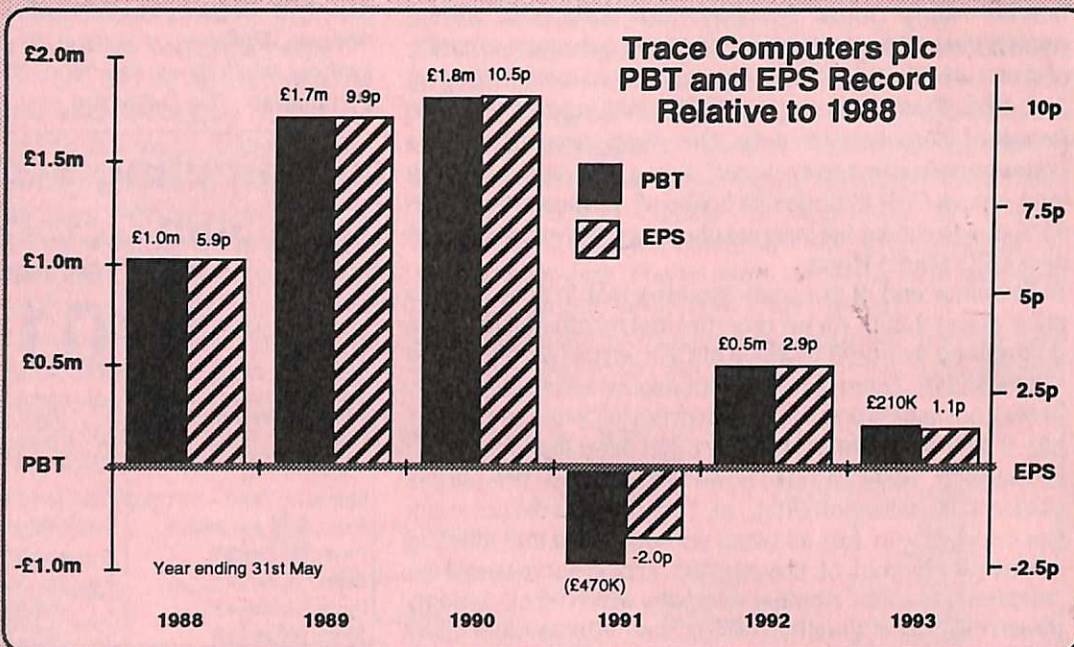
Statements from Chairman Robert Carefull at Trace are equally interesting. "We are confident about our future". Sept. 90. "Confident about Trace's medium to long term future". Mar 91.

"Trace is confident for the future". Oct. 92. "We look forward to the future with confidence". Mar 93. So all shareholders will be immensely relieved that Carefull now remains "confident for the future". Oct. 93. Carefull clearly does not re-read his past statements.

Latest results for the year to 31st May 93 (issued later than others as usual) showed revenues down 6.6% at £18m, (due to the "scale down of our computer supplies business"), PBT down 58% at £251K and EPS down 61%.

He does not read Business Week either. After learning that new IBM CEO Lou Gerstner had "banished the term LOB

- line of business". - Source - BW 4th Oct. 93 - Trace "is continuing with substantial investment in our core business area of line of business software packages. R&D...is running at nearly £2m p.a.". But what is the Trace LOB? We study Trace closely and we would be hard put to put



a label on it.

"The cancellation of the Taurus project" was cited as a major reason for £1m reduction at the gross profit level as Trace Financial produced a "significant loss" for the year. Trace believes that they "are well placed to take advantage of the recovery in the economy". Source - Trace Computers press releases 1990, 1991, 1992, 1993. That's what we call consistency!

Remember our hard learned adage "There are only three ingredients to CSI success - management, management and management".

Computer People barometer?

For the last four years we have held up **Computer People** as a barometer of the industry. Computer People supply

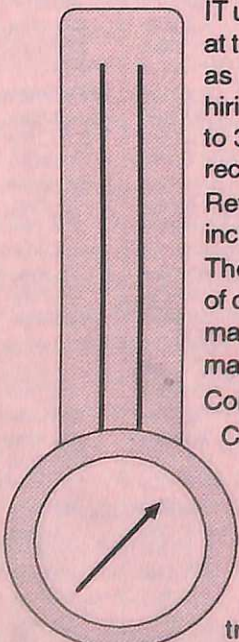
IT users with contract consultants in the UK and US and offer a recruitment service. They are therefore at the very sharp end of the business. They hit a profits peak in 1988/89 (just the same as the industry as a whole) then slid like a stone (as did the industry). But last October, their Contract Recruitment hirings graph registered its first upward movement since 1989. The latest results for the six months to 30th June 1993 would seem to bear out the widespread and growing feeling that the worst of the recession is over and that modest recovery is firmly established.

Revenues were up 12.2% at £33.5m and PBT of £364K (loss £135K last time). Operating profits increased from £5K to £606K.

The UK led the recovery - representing 65% of revenues compared with 60% last time. The number of consultants on assignment increased by 20% but the intense fee rate margin pressure, reported by many others, led to a lower 7% increase in profit contribution. Recruitment advertising sales were a massive 69% up on H2 1992.

Conversely US revenues declined by 17% due to a 16% decline in the number of consultants on fees. Corporate costs have also reduced significantly due to the property disposals reported last year but net borrowings were still stubbornly high at £4.9m with a 93% gearing.

Mike Bayfield, who has now moved into a non executive Chairman role, reports that all the pointers on the Computer People barometer continue to point to finer weather ahead. "These favourable trends are all helping our profits to continue to recover". If you believe the Swinstead (Comac) line that in future more and more IT departments will use independent contractors and you believe the trend surveys which all seem to point to an upturn, then Computer People could well become one



of the brightest spots around.

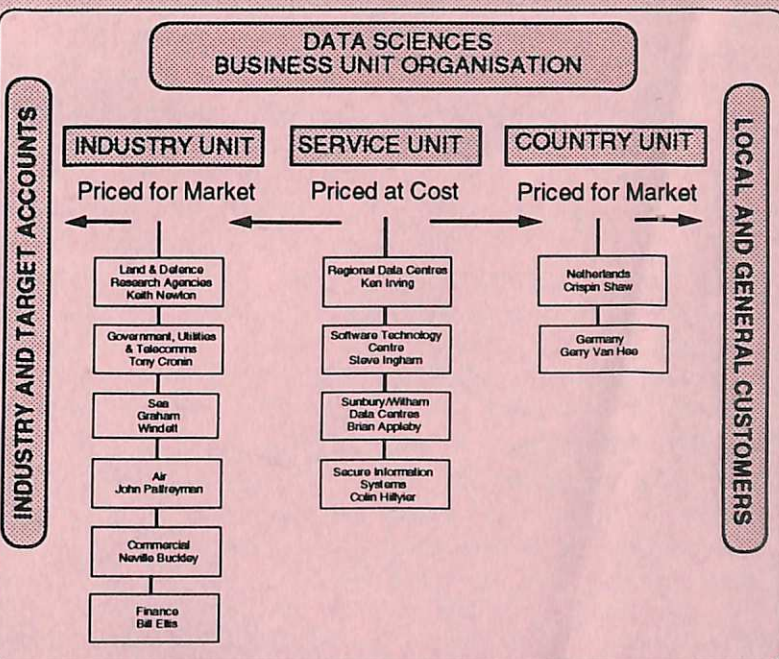
Velcros and bungy jumping

We covered Data Sciences' financial performance in our extensive review in *System House* - May 93 and we do not intend to repeat this now. But this month we met with Andy Roberts again - five months after his appointment as CEO was announced. Roberts is "like a breath of fresh air" in our rather greying industry. You just got this feeling of buzz which had been absent at Data Sciences for so long. The average age of the Data Sciences management team is now 36. We produce below our understanding of Roberts' new organisation. The importance of this statement is that it was so incredibly simple and straightforward that we were at last able to understand it sufficiently to draw our own diagram. Our august readers, many of whom have tried to explain their own organisational structure only to find a glazed look on our face, will understand. If we can understand it then, Data Sciences staff have a chance too. Roberts has also read the Readers Digest guide to more colourful speech. He describes the way staff inter-relate with different units as "velcros and bungy jumping". The term describes the way service unit staff would be seconded to industry or country units but return, as on elastic, to their home base when their services were no longer required. He should take out a copyright (provide he hadn't stolen it anyway!) as we can see it being adopted elsewhere.

"All the wood behind the one arrow" is another Roberts' favourite - used four times in the interview before we gave up counting. *System House* has bored you with tales of companies (Logica, P-E International et al) which have failed to capitalise on their customer positioning in one area to sell their services from another area. The new Data Sciences organisation is designed to change all that and ensure that customers are sold the full range of Data Sciences services.

And then comes the standard Richard Holway interview question. In one sentence describe what Data Sciences does. "We are a software technology based IT services company providing software engineering, systems integration and facilities & application management". Nobody has ever done that before. (Years ago when we asked Ferrari exactly the same question - the answer took two hours).

But will the new management broom be given the time to finish sweeping the floor? Well when we met, Roberts was celebrating some notable recent sales successes like £20m orders signed in Aug. 93 and a major "classic" FM deal with the ECGD. The Data Sciences orderbook started the new financial year on 1st Oct. 93 at 80% of FY93 revenues - and most would give their eye teeth for that. We expect an announcement shortly concerning a restructuring of the loan package used in the MBO. Logica and Data Sciences have many similarities. They both now have new energetic CEOs. It has taken Roberts five months of what look like 15 hour days to get a new sense of purpose into the organisation. That means Read at Logica has at least four months to go. Most in the industry would wish them both well.



Centre-file and PC FM

Centre-file launched a set of desktop services this month which look surprising like what we describe as PC FM. This will put them into competition with "the likes of P&P, Computacenter and SHL Systemhouse". Source - MicroScope 27th Oct. 93.

Merisel UK increases profits

Distributor, **Merisel UK** (see p3), has announced PBT up 76% at £2m and revenues up 54% at £91.6m for the year to 31st Dec. 92 - but that's still only a 2% margin.

Another set of superb results from Easams

The GEC bid for **Ferranti** (see p12) is bound to have significant repercussions on **Easams** - the GEC systems company. Given the results they provided us with this month, Easams should have little to fear and much to gain. Easams increased revenues by 20% to £79m (90% from the UK) and PBT by a massive 83% to £13.7m in the year to 31st Mar. 93. That's a stunning 17% profit margin - the best in the SI/people-based business.

Systems integration accounts for 51% of Easam's revenues and, although defence represents 75% of revenues, commercial sector revenues grew strongly to nearly £20m.

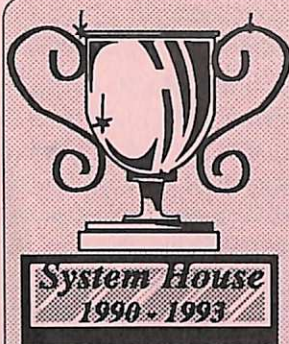
Disaster Disposals

As part of the corporate strategy review, **Data Sciences** has sold a controlling stake in its disaster recovery operation - **DataShield** to French **Sogerif**. Data Sciences retains a 20% stake and the consideration for the 80% was £4m. John Kirby retains his position as MD. Sogerif SA is one of the leading disaster recovery companies in France and Belgium with revenues of FF75m in 1992 and FF105m projected for 1993. Seems like a sensible disposal and fund raiser.

Also this month **Safetynet** has purchased **Systems On site(SOS)** - the IBM mid-range disaster recovery operations of **Comdisco**. No consideration was disclosed.

AT&T EDS ?

We were rather pleased (smug?) that we ran the **EDS/BT** story before anyone else in the UK. We can now only repeat other well publicised rumours that **AT&T** is to buy a 60% stake in EDS from General Motors. EDS Chairman Les Aberthal said the report was "absolute rumour" with "no fact in it whatsoever". Source - Computergram 15th Oct. 93. Same words as EDS used to describe the BT talks.



Six of the Best - an update

Exactly three years ago - in Nov. 90 - we ran our first and only "user survey". We asked every CEO who was a subscriber to name "the six quoted CSI companies which are most likely to be provide the best returns for shareholders in the medium term (say three years)". Over 75% of our readership responded, which quite amazed us. We ran the survey because we believed that "insiders" would know best.

The results are both mixed and inconclusive but probably indicate readers should stick to the day job

and avoid speculating in CSI company stocks!

During the last three years our CSI Index has risen by 124% - by a peculiar coincidence exactly the same as the average for the six stocks our readers selected. But only two of the stocks selected beat the average - Capita (+233%) and Macro 4 (+177%).

The joint favourites - Hoskyns and Logica - were amongst the poorest performers as both registered EPS declines in the three year period. However, the Hoskyns CGS bid guarantee and continued bid speculation surrounding Logica meant that both registered quite acceptable gains even if their underlying performance did not support this.

Our readers failed to pick any of the actual Top Six performers in the last three years. A portfolio of the six best performers would have produced a 470% gain; four times greater than for the CSI Index and a massive nine times greater than the 51% increase in the FTSE 100 experienced in the period.

But of course our readers avoided losing their shirts too. They could have opted for EIT, Headland or Ferrari - all of which have appointed the receivers - or invested in P-E international, P&P, Computer People or Enterprise - all of whose shares are worth under half what they were three years ago.

The only thing we can say about picking the winners in the next three years is that the task would be as difficult as it was three years ago.

Rank		Votes	Share rise	EPS rise
1=	Hoskyns	71%	39%	-52%
1=	Logica	71%	66%	-3%
3	Macro 4	64%	177%	53%
4	Capita	50%	233%	86%
5=	Admiral	43%	117%	49%
5=	Rolfe & Nolan	43%	114%	28%

Rank	Share Price rise over last 3 yrs	
1	EDP	758%
2	Gresham Tele	626%
3	Proteus Int.	418%
4	Misys	362%
5	Cray Elect.	330%
6	Kalamazoo	305%

IBM quotes of the month...

"If in the IBM lab in Austin everybody decides they want to come to work in jeans and sandals, God bless 'em". Lou Gerstner - CEO IBM. Source - Businessweek 4th Oct. 93. Thomas Watson must be turning in his grave.

When Gerstner was asked to describe IBM's vision he replied "the last thing IBM needs right now is vision".

"IBM is like a music-publishing company run by deaf people". Source Paul Carroll in "Big Blues" published this month.

...quotes for next month...

By mid Nov. we will all know who has won the three biggest UK FM deals currently up for grabs - Inland Revenue (£100m p.a.), BAe (£90m p.a.) and DVOIT (£26m p.a.). EDS-Scicon, CSC and IBM are the main contenders. We reported last month on the UK FM revenues - or lack of them - of the latter two of these contenders.

We are not sure exactly how EDS will celebrate if...but the sparkling apple juice could certainly flow at Stockley Park.

...and finally

As we went to press GEC confirmed its 1p per share bid for Ferranti or c£10m. With debts, it will cost GEC at least £110m. It was then suggested that "a counter-bid remains a possibility, from the likes of Racal or a software and computer services firm that could sell on the defence side". Source - Computergram - 29th Oct. 93. We didn't have time to check what Cray Electronic's Chairman Roger Holland was doing this weekend.

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