

# System House

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

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## UK SCSI Market enjoys highest growth in Europe

The completion this month of our annual research co-production with Pierre Audoin Conseil and Nomos Ricerca, shows a European SCSI market worth some 62 billion ECU in 1994 (or 82.6 billion ECU if system software and hardware maintenance is included) and forecast to return to 10%+ growth rates through to 1998.

The research shows one of the most positive pictures for the UK, and its software and computing services market, ever:

- UK GDP growth of 2.9% in 1994 and an estimated 3.2% growth in 1995 are higher than those in Germany, France and Italy - the other large SCSI markets in Europe. Only Ireland, Denmark and Finland have faster growth.

- the UK SCSI market is estimated to have grown by 12.3% to 9.35 billion ECU (£7.25 billion) in 1994. This is higher than Germany (+9.6%), France (+6.7%) and Italy (+5.6%). Only the tiny Portuguese market grew faster.

- as can be seen in the chart, although recovery is forecast in most countries, growth in the UK still leads for the period 1995 to 1998.

- the single most significant reason for the high SCSI growth in the UK is outsourcing. However, this is expected to be a strong market in most European markets with a 21% growth forecast in the German market between 1995 and 1998.

- interestingly, the UK professional services market is also expected to have the fastest growth (+13.8% p.a.) of any

in Europe. Particularly low growth is expected in France (+6.4%) and Italy (+3.2%); historically their strongest market sector. Strong UK growth is mainly due to a major move to

application management and the switch to the use of contract IT staff from the likes of Parity and Computer People.

- the study also confirms the reducing growth rates in the application software products and tools market. Unit volume is increasing significantly, of course, but intensive price competition is now spreading throughout Europe, thus checking value growth. (see p10)

- the turnkey market has suffered throughout Europe as small to medium businesses have been particularly badly affected by recession. Although some recovery is predicted, growth will still be less than two thirds of the average.

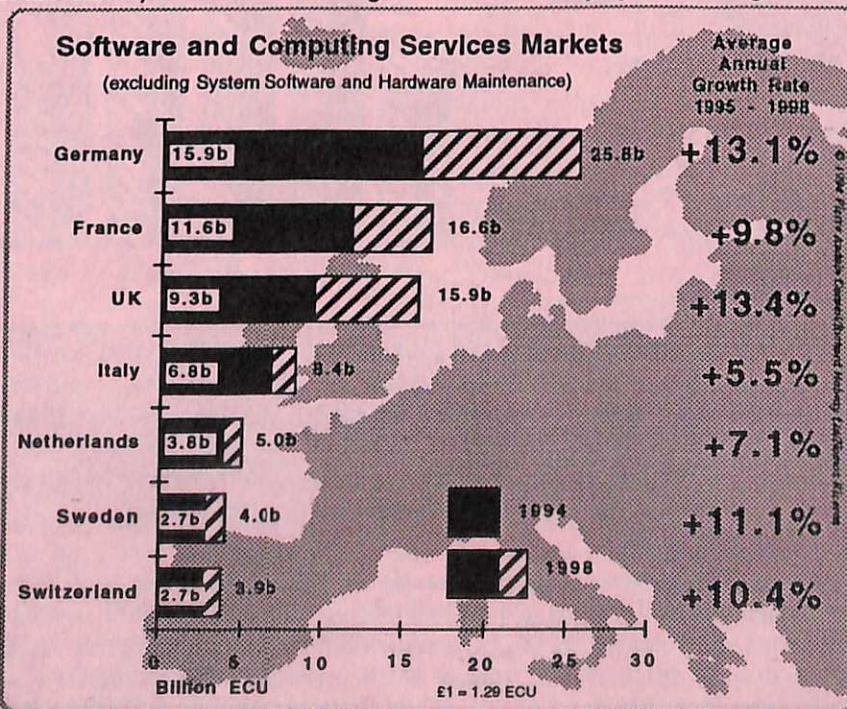
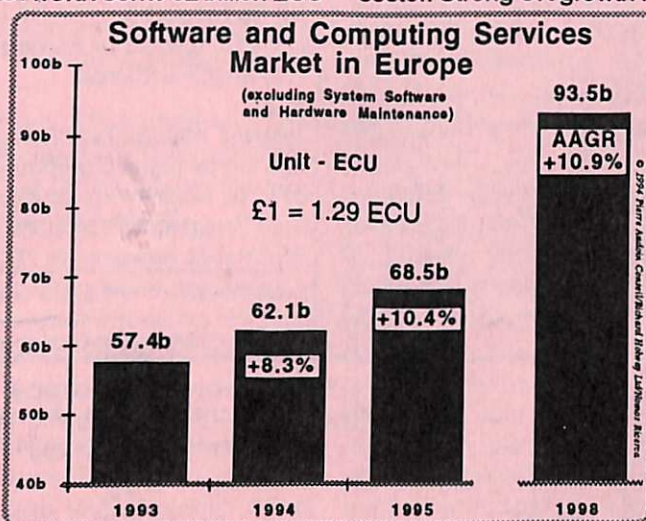
- Conversely systems integration will enjoy a higher than average growth due to the substantial demand for change

to new client server technologies in larger companies

All our SCSI revenues exclude system software and hardware maintenance. Both these markets are expected to be poor performers throughout Europe with the worst - indeed negative growth - expected in the UK.

**A problem or an opportunity?** SCSI expenditure per capita, at just

195 ECU in the UK, is lower than the European average. Germany spends 233 ECU per capita, France 263 ECU with Switzerland spending a massive 493 ECU per capita.



# Sanderson due for a rerating?

At this time of year, we are always inundated with requests for our predictions for 1995. As a part of this year's standard response, we said that Sanderson Electronics plc was about the most undervalued SCSi stock on the market - a remark that has been much repeated (although seldom sourced) in a variety of journals this month.

Readers with long memories may be surprised. We had criticised Sanderson, since almost our first issue, for its ever growing stake in General Automation (GA). This criticism led, at least in part, to Chairman Paul Thompson cancelling his *System House* subscription. But in 1993 Sanderson started to dispose of its GA holding. Since then our reviews have been universally positive. Totally unconnected, of course, we are now pleased to welcome Thompson back as a subscriber!

Latest results for the year to 30th Sept. 94 show PBT up 27% at £4.23m (only a smidgen below what we expected) on revenues up 44% at £34m. EPS advanced by a respectable - for an acquisitive company - 16%. Net cash was £1.7m and shareholder funds increased from £4.3m to £7.4m.

Sanderson's claim to have "probably the most extensive portfolio of software packages available from a single UK supplier" is probably true. These are represented by 11 UK operating subsidiaries - "the majority of which performed well". The products all now operate either under UNIX or DOS (Windows).

They have also built a strong base of recurring revenue, valued at £13m, which "covered 72% of overheads". Sanderson's operations in Australasia have been greatly enhanced with the purchase of SGA Pacific.

Sanderson has been one of the most acquisitive UK SCSi companies as the table shows. The acquisitions in the last year produced, what looks on the surface to be, an amazing gross profit of £5.3m on revenues of £9.6m. This is particularly incredible given Brook Street Computers' abysmal record prior to acquisition. But the

Sanderson results have at least one other area of concern. If you take out the contribution to profits from the new acquisitions, it looks as if profits elsewhere actually reduced marginally.

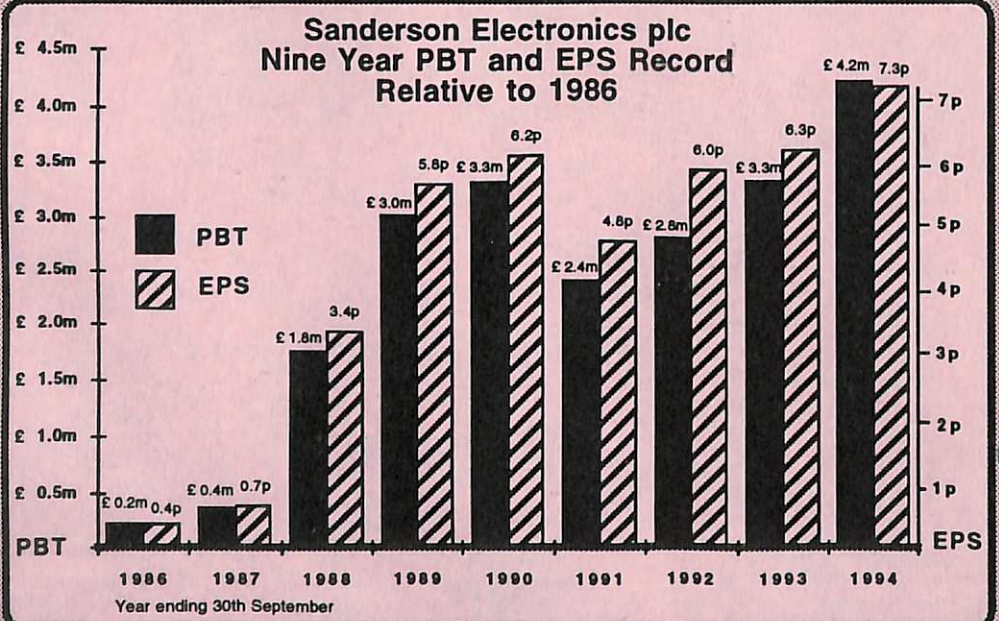
It was the disposal of all but 6% of its stake in General Automation, the last bit in exchange for a controlling (now

86% - p4) stake in SGA Pacific, which delighted us most. Sanderson now has a run rate revenue of £55m - but a capitalisation of just £30m. A quick look at the tables on page 9 would indicate that a ratio of capitalisation to revenue of 55% is way out of line with similar companies - most of which have proportionate valuations of twice that. Thompson avoids the over used *confidence* word in his predictions for the future; preferring "our business will make

## Sanderson Electronics Acquisitions since 1988

Company acquired	Consideration	Date
Majority stake in General Automation (US)	£4,250,000	1989-1990
AWA Computers	£500,000	Jul-89
System 800	£200,000	May-89
Xsoft	£325,000	Mar-89
CIE Systems (US)	£1,400,000	Jan-90
55% UCL (owned by Ferrari)	£55,000	Jul-90
49% Sheffield Micros	n/a	Nov-90
Harris	£100,000	Feb-91
Systems Applied Technology	n/a	Dec-92
75% Brook Street Computers/IMI	£225,000	Feb-94
80% ICL Commercial Systems	£970,000	Mar-94
Nord Group assets/receiver	£525,000	Mar-94
SGA Pacific (increase to 78%)	£3,400,000	Oct-94

Note: Sanderson has since disposed of the majority of its stake in General Automation.



further progress". Analysts are still expecting a 35% boost in PBT to £5.8m in the current year.

This analyst expects further acquisitions which, just like those in the past, will not overly dilute EPS. And, as we have this month so often been quoted as predicting, a rerating of the share price.

## Recovery sustained at Granada

Many attribute the disastrous £12m losses at TPM Granada Computer Services in 1991 to Derek Lewis, who is currently achieving similar success as the head of the Prison Service. But John Curran, with a programme of job cuts and pruning unprofitable small maintenance contracts, returned the division to profitability in 1992. In the year to 30th Sept. 94, profits have risen from £8.4m to £8.8m. Total revenues were up 13% at £165.5m.

The UK was the star performer with profits up 62% to £5.5m on revenues up 22% at £89m. Granada's partnerships with the main UK FM suppliers is clearly bearing fruit. These results would have been struck before the recent £30m contract awarded by CSC to maintain BAe's hardware. On the other hand, profits in Europe and the US fell by 34% to £3.3m on static revenues. Contrary to continued sale rumours, Granada continues to say that it is "committed" to the division.

## IBM offers free services

IBM is to offer customers moving from competitor's mid-range systems an inducement of up to \$150,000 worth of free services to assist them in the transition. IBM will also let customers return systems without obligation within six months.

*"It can be seen either as a mark of returning confidence or as an indication of desperation".* Source -Financial Times 2nd Dec. 94.

## "Critical review" at Axis

Six months ago, RHM Computing changed its name to Axis Resources, at least in part due to the acquisition of its parent Ranks Hovis McDougall by Tomkin plc. Although earning about £12m p.a. from FM, laser printing and payroll services, losses had exceeded £500K.

This month the Sunday Times carried an advert for a new MD for a company which could only have been Axis. The new MD's objective was *"to improve the profitability of the company and this would require a critical review of markets, service offerings, business processes and staffing levels"*.

Six months ago we identified AAH Meditel, ITnet, Peterborough Software & Datasure and Axis as classic examples of companies which would benefit from an MBO from their parent. Our views are unchanged.

## Easams and Parity

We understand that Tidu Maini has been appointed as the new MD of Easams - in place of the acting MD Keith Jennings who has moved to Parity. Our views on this are well known.

Maini is, however, a serious catch. He sat *"on the right hand of God"* (i.e. Bonelli) as Marketing Director of Sema. But as Sema currently makes a profit margin of just 4.2% (its highest in years) compared with Easams' 11.5% margin - we wonder who will teach who what!

At Parity, Jennings has acted fast to turn the newly acquired ACT Business Systems into an *"efficient market-oriented business"*. After the top layer of management went last month, a further 70 staff departed this month. One ex-ACT staffer, who is staying with Parity, commented to us that the move was *"not before time"*.

## Phonelink

Phonelink was launched in June 93 at 155p and rocketed to a high of 440p. They have since slumped back to 213p - still an unusually healthy 37% premium to the launch price. But let's put this into context.

Phonelink has a current capitalisation of £75.6m. That's more than twice the market capitalisation of Sanderson (see opposite)! They were at one time valued at over £150m! But latest results for the six months to 30th Sept. 94 show revenues increased by 36% to £797K and a losses before tax nearly seven times larger at £1.96m. Cash raised in the float reduced from £9.9m to £4.1m. *Your eyes do not deceive you.*

Phonelink's great white hope - Tel-Me - enables PC users to easily access a wide range of information sources from telephone directory enquiries to company reports. They have recently added an on-line office supplies service from WH Smith and hotel reservations via Expotel.

Phonelink is the epitome of the greenfield, extremely high risk investment. But none the worse for that.



## Azlan....The story so far...

Although the early pedigree of Azlan is intriguing, we will start the story in 1990 with the £4.3m CINVen backed MBO from Logitek. Azlan's financial results after the MBO were so superb that they floated on the Stock Exchange at a heady P/E of 27 in Nov. 93. Placed at 230p, Azlan shares rose to 281p. CINVen and the directors took the opportunity to off load around a third of their stock.

But almost at the same time as the launch, Madge Networks, one of Azlan's largest product lines, decided to sell direct in the UK. Dependency on the distribution of a third party product has been the downfall of so many UK companies, that we had hoped the message had finally got through. Within six months, Azlan was forced to issue a profits warning and their shares went into the now familiar free fall, hitting a low of 118p.

## Interims to 30th Sept. 94

Given that brokers SG Warburg had estimated PBT of £4.8m in the year to 31st Mar. 95 as late as 9th Sept. 94, in light of the interims, we await their new forecast with great interest. Results for the six months to 30th Sept. 94 show PBT down 43% at £1.1m on revenues increased by 32% at £37.7m. However, £5.3m of this was from acquisitions so the organic growth is c15%. EPS dived by 41%. Cash, however, remained strong at £4m.

It was the UK which really hit Azlan. Here revenues declined by 5.4% to £26.1m. Perhaps as an indicator that Azlan is joining the growing band of products companies to find the services route, they are pleased *"with the progress in developing Training and Services revenues in the U.K. and anticipate continued growth"*.

Recent acquisitions in Europe (Research & Development SA - France - £650K in May 94, Damguard Data - Denmark - £1.05m in June 94, Asonic - Germany - up to £2m in Oct. 94) boosted Azlan's European revenues from £2.4m to £13m in the period. Indeed, all the new acquisitions are reported to be progressing well.

Action has already been taken to address the cost base in the UK with positive results since the period end. A *"continuing strong performance"* is reported from continental Europe. Chairman Mike Brooke is *"confident of improving profitability throughout the rest of the year"*.

Azlan shares ended the month just 4% higher at 134p. Footnote. Dave Randall was replaced as Azlan's MD by Chris Martin in Sept. 94. After a spell as deputy chairman, this month it was announced that Randall is now *"just"* a non-exec.

## m.a.i.l.d

*"MAID has silenced its critics with news that the*

## EASY ACCESS TO THE HARD FACTS

*core business*

*continues to perform in line with its expectations at the time of flotation".* Source - CityService 6th Dec. 94. MAID for Windows *"our most important product"* will be launched on schedule in Q1 1995 and the CD-ROM product has *"been well received"* since its US launch in Nov. 94.

Launched at 110p in Mar. 94 - its share price had collapsed to a low of 43p before staging a remarkable 53% rise this month to end 1994 on 69p.

But our criticisms are far from *silenced*. To repeat, we are concerned that MAID capitalises R&D, so the financials are meaningless, and it faces strong competition from rather larger companies like Reuters. *Regardless, we wish them well.*

## Rolfe & Nolan "quietly confident"

Rolfe & Nolan (R&N) has reported revenues up 17% at £7.1m, PBT up 22% at £742K but EPS down 3% in the six months to 31st Aug. 94. The EPS reduction is due to overseas losses at BSI not being allowable against group profits.

R&N's financial record to the end of 1991 was putting it in line for a *System House* "boringly consistent" award. But in Feb. 92 they bought BSI in the US. There was nothing wrong with the logic of the BSI purchase but readers know of our concerns about performance related deals - which almost always go sour. We will not repeat the BSI story, which in our view rather proves the point, other than to report that the renamed "R&N (USA) Inc. made good progress with losses halved to £299K". In the US "new sales to both bureau and in-house customers remain difficult" in the current half too. A breakeven or small loss is expected next year.

In Malaysia, R&N's software has been selected for bureau operations servicing the new exchange opening in Kuala Lumpur.

R&N in Europe suffered a 4% fall in recurring revenues due to the reduction in market volumes (a situation which seems to have persisted into the second half) and the move by two users to internal systems.

R&N sets great store on the future potential of Lighthouse - the "new global treasury package". Net investment has increased from £77K to £230K in the period and "is likely to result in a further net cost in the second half". The delivery of the first implementation to Credit Suisse "progresses well, although some weeks behind schedule". Unfortunately this delay will mean a "deferral of some revenue to 1995/96, which had previously been expected in the current year".

The new CEO Peter Day told us he was "quietly confident...except for the Lighthouse timing difficulties". Day took over from Mike Warburg in the last period and seems similarly schooled in the art of never making a bullish statement.

R&N shares had been performing very well - albeit in a very thin market - up to the announcement. Although R&N shares have fallen 8% this month, that is still a 25% gain on the year.

## Now its all "bad moos" for Proteus

A four page expose in the Mail on Sunday on 11th Dec. 94 put Proteus International shares into free fall, crashing 62p to 178p the next day. Chairman Kevin Gilmore keeps promising but failing to deliver drugs developed using their software. Even prospects for the much hyped BSE test (hence silly headline) is being down rated. Given that Proteus has zero revenue but is spending £600K a month, you can understand shareholders' concern.

But Gilmore said he was "unworried" - not bad for someone who at £43m was previously the 289th richest person in the UK last according to the Sunday Times.

## Late acquisition news

As 1994 ended, Pegasus announced that it has bought QDC Systems, which produces manufacturing software, for an initial £401K with a deferred payment of up to £800K. Sanderson Electronics has increased its stake in SGA Pacific from 72% to 86%, paying GA £600K for the extra equity. SHL Systemhouse has sold its credit card processing business, acquired in 1992 as part of the UK AST Transact Ltd. purchase, to Stratus Computers Inc.

## Misys and the RM plc float debacle

We reviewed Research Machines (or RM plc as we must now call them) in last month's *System House*. We were concerned that no new money was being raised for the company in the float, with all proceeds going to the VCs and founders. Most of the other floats, where the principal reason was to provide an exit for the VCs, have ended in tears (for the new investors). We reckoned that a P/E of around 15 (implying a share price of about 210p) was about right - "leaving some scope for new investors to make some gain". Source - *System House* Dec. 94.

In the event the RM plc float turned out to be rather more interesting than we anticipated. On 7th Dec. 94, it was announced that Misys had (on 21st Nov. 94) offered to acquire RM plc at 235p valuing the company at £38m. "The RM board choose to rebuff this approach without discussion with Misys". RM's new Chairman, John Leighfield, said the proposal "does not value RM at anywhere near its true worth". He added, in a comment which we believe sums up the real reasons for the rebuttal, "if we had wanted a trade sale, we would have sought out a company which fits our culture and which would maintain our leading position in our market. Misys does not fit these criteria". Source - *Financial Times* 8th Dec. 94.

Misys followed this up with an offer at 210p for a 29.9% stake. This was also rejected.

On 11th Dec. 94, RM plc unveiled a placing price of 175p, valuing RM at £29.5m which equated to a P/E of 12.3. £5.5m was being raised for existing shareholders with effectively no new money for RM other than to cover the c£1m launch costs.

The VCs and other shareholders have therefore foregone nearly £2m on the shares sold at the float. RM shares opened at a 35p premium (i.e. 210p). Clearly existing shareholders believe they will be more than compensated by share price increases in the next couple of years. But, given the recent performance of other new issues (particularly those in the education market like RM), this must still be in considerable doubt.

**Comment** The Misys culture is very different to that of most other SCSI companies - and RM in particular. As a minor illustration, Misys Chairman Kevin Lomax did not have too many good words to say about his opposite numbers in other CSSA member companies. Indeed, he took Misys out of the CSSA a couple of years ago. On the other hand, RM's Chairman, John Leighfield, is a long standing supporter and, barring accidents, will be the CSSA President next year.

Most CEOs of acquired companies do not last long in Misys and all executives on the main board are "Lomax lieutenants". Perhaps RM's founder, CEO and not insignificant shareholder, Mike Fischer, who is still only 44, took this into account too. But on the other hand everyone we have spoken to who know RM intimately believe that really effective management could produce oodles more profit from RM than the existing team.

So is RM another case where Misys was to pay over the odds for a company? Although Misys' PBT has increased by 220% since 1989, EPS is up just 40%. In Apr. 94 Misys paid £40m for Kapiti - which many of our illustrious readers have told us was "over the odds". Kapiti, just like RM, had been planning a float. Kapiti shareholders were wise to take at least £25m in cash. At the time the Misys share price was 512p - it has since fallen to 409p - even less than the heavily discounted 425p right issue require to finance the Kapiti purchase. Perhaps the RM shareholders took into account that the Misys share price has underperformed our CSI index by 50% in the last five years.

Or is RM indeed a company in need of the Misys efficiency treatment? Remember, Strone MacPherson, Misys Dep. Chairman, was a long-term RM non-exec up to a few months ago. He ought to know how much more profit could be squeezed. Perhaps this was the real reason for the price Misys was prepared to bid?

On current evidence, this would appear, on balance, to be one occasion when Misys might just about have got its pricing - if not its tactics - right.

**Quoted Companies - Results Service**

Note: Shaded = Results announced this month.

ACT Group plc				Gresham Telecomputing plc					
	Interim - Sep 93	Final - Mar 94	Interim - Sep 94	Comparison		Interim - Apr 93	Final - Oct 93	Interim - Apr 94	Comparison
REV	£ 107,595,000	£ 250,630,000	£ 106,337,000	-1.2%	REV	£ 3,060,000	£ 5,823,000	£ 3,068,000	+0.3%
PBT	£ 11,531,000	£ 28,469,000	£ 1,006,000	-91.3%	PBT	£ 419,000	£ 551,000	£ 244,000	-41.8%
EPS	4.41p	12.15p	4.05p	-8.2%	EPS	0.86p	1.04p	0.43p	-50.0%
Admiral plc				INSTEM plc					
	Interim - Jun 93	Final - Dec 93	Interim - Jun 94	Comparison		Interim - Jun 93	Final - Dec 93	Interim - Jun 94	Comparison
REV	£ 17,710,000	£ 36,640,000	£ 24,560,000	+38.7%	REV	£ 9,505,000	£ 19,294,000	£ 8,043,000	-15.4%
PBT	£ 2,185,000	£ 4,608,000	£ 3,198,000	+46.4%	PBT	£ 410,000	£ 1,021,000	£ 505,000	+23.2%
EPS	13.30p	27.60p	18.50p	+39.1%	EPS	6.00p	14.80p	7.40p	+23.3%
Azlan Group plc				JBA Holdings plc					
	Interim - Sep 94	Final - Mar 94	Interim - Sep 94	Comparison		Interim - Jun 93	Final - Dec 93	Interim - Jun 94	Comparison
REV	£ 28,530,000	£ 61,506,000	£ 37,735,000	+32.3%	REV	£ 29,908,000	£ 74,467,000	£ 38,500,000	+28.7%
PBT	£ 1,882,000	£ 3,871,000	£ 1,079,000	-42.7%	PBT	£ -1,074,000	£ 4,610,000	£ 264,000	Loss to profit
EPS	6.30p	12.40p	3.70p	-41.3%	EPS	-2.87p	10.23p	0.19p	Loss to profit
Capita Group plc				Kalamazoo Computer Group plc					
	Interim - Jun 93	Final - Dec 93	Interim - Jun 94	Comparison		Interim - Sep 93	Final - Mar 94	Interim - Sep 94	Comparison
REV	£ 22,102,000	£ 50,168,000	£ 30,471,000	+37.9%	REV	£ 29,562,000	£ 60,911,000	£ 28,263,000	-4.4%
PBT	£ 2,038,000	£ 5,463,000	£ 2,710,000	+33.0%	PBT	£ 2,533,000	£ 6,355,000	£ 3,003,000	+18.6%
EPS	2.86p	7.85p	3.80p	+32.9%	EPS	4.20p	10.20p	4.98p	+18.6%
Cedardata plc				Kewill Systems plc					
	Interim - Sep 93	Final - Mar 94	Interim - Sep 94	Comparison		Interim - Sep 93	Final - Mar 94	Final - Mar 94	Comparison
REV	£ 2,608,000	£ 6,120,000	£ 3,726,000	+42.9%	REV	£ 15,999,000	£ 31,780,000	£ 16,405,000	+2.5%
PBT	£ 998,000	£ 2,715,000	£ 1,337,000	+34.0%	PBT	£ 1,757,000	£ 4,043,000	£ 2,166,000	+23.3%
EPS	2.30p	6.30p	2.80p	+21.7%	EPS	10.15p	23.00p	12.16p	+19.8%
CentreGold plc				Kode International plc					
	Final - Jul 93		Final - Jul 94	Comparison		Interim - Jun 93	Final - Dec 93	Interim - Jun 94	Comparison
REV	£ 67,985,000		£ 91,300,000	+34.3%	REV	£ 12,277,000	£ 24,916,000	£ 12,255,000	-0.2%
PBT	£ 2,715,000		£ 4,030,000	+48.4%	PBT	£ 710,000	£ 1,143,000	£ 515,000	-172.5%
EPS	5.63p		7.30p	+29.7%	EPS	4.30p	7.00p	-5.50p	-227.9%
Clinical Computing plc				Learmonth & Burchett Management Systems plc					
	Interim - Jun 93	Final - Dec 93	Interim - Jun 94	Comparison		Interim - Oct 93	Final - Apr 94	Interim - Oct 94	Comparison
REV	£ 1,180,000	£ 2,635,853	£ 735,000	-37.7%	REV	£ 13,114,000	£ 26,406,000	£ 11,023,000	-15.9%
PBT	£ 446,000	£ 1,129,000	£ -227,000	Profit to loss	PBT	£ 201,000	£ -731,000	£ -3,278,000	Profit to loss
EPS	3.70p	9.10p	-1.40p	Profit to loss	EPS	1.00p	-3.30p	-13.70p	Profit to loss
Coda Group plc				Logica plc					
	Interim - Apr 93	Final - Oct 93	Interim - Apr 94	Comparison		Final - Jun 93		Final - Jun 94	Comparison
REV	£ 9,321,000	£ 23,450,000	£ 13,327,000	+43.0%	REV	£ 217,434,000		£ 228,848,000	+5.2%
PBT	£ 427,000	£ 3,752,000	£ -2,546,000	Profit to loss	PBT	£ 9,026,000		£ 13,543,000	+50.0%
EPS	1.20p	10.60p	-8.00p	Profit to loss	EPS	8.70p		14.00p	+60.9%
Compel Group plc				Lynx Holdings plc					
	Final - Jun 93		Final - Jun 94	Comparison		Final - Sep 93		Final - Sep 94	Comparison
REV	£ 43,777,000		£ 54,542,000	+24.6%	REV	£ 10,807,000		£ 21,523,000	+99.2%
PBT	£ 604,000		£ 2,062,000	+241.4%	PBT	£ 619,000		£ 2,009,000	+224.6%
EPS	n/a		n/a	n/a	EPS	4.27p		4.50p	+5.4%
Computerised Financial Solutions plc				M.A.I.D. plc					
	Interim - Jun 93	Final - Dec 93	Interim - Jun 94	Comparison		Interim - Jun 93	Final - Dec 93	Interim - Jun 94	Comparison
REV	£ 1,638,000	£ 3,338,636	£ 1,404,000	-14.3%	REV	£ 2,601,746	£ 5,723,909	£ 3,971,619	+52.7%
PBT	£ 77,000	£ 330,233	£ -36,000	Profit to loss	PBT	£ 207,108	£ 603,176	£ 439,832	+112.4%
EPS	1.50p	7.30p	-1.40p	Profit to loss	EPS	0.24p	0.69p	0.39p	+62.5%
Computer People Group plc				McDonnell Information Systems plc					
	Interim - Jun 93	Final - Dec 93	Interim - Jun 94	Comparison		PF Interim - Jun 93	PF Final - Dec 93	PF Interim - Jun 94	Comparison
REV	£ 33,542,000	£ 68,748,000	£ 38,013,000	+13.3%	REV	£ 70,440,000	£ 148,480,000	£ 68,609,000	-2.6%
PBT	£ 364,000	£ 1,102,000	£ 733,000	+101.4%	PBT	£ 7,528,000	£ 21,248,000	£ 5,044,000	-33.0%
EPS	1.45p	4.37p	3.42p	+135.9%	EPS	4.86p	13.89p	3.48p	-28.4%
Cray Electronic Holdings plc				MR-Data Management Group plc					
	Final - Apr 93		Final - Apr 94	Comparison		Final - Jun 93		Final - Jun 94	Comparison
REV	£ 200,785,000		£ 271,718,000	+35.3%	REV	£ 40,788,000		£ 40,521,000	-0.7%
PBT	£ 29,014,000		£ 26,168,000	-9.8%	PBT	£ 8,759,000		£ 6,348,000	-27.5%
EPS	13.80p		8.60p	-37.7%	EPS	10.60p		8.00p	-24.5%
CRT Group plc				Macro 4 plc					
	Interim - Oct 93	Final - Apr 94	Interim - Oct 94	Comparison		Final - Jun 93		Final - Jun 94	Comparison
REV	£ 22,427,000	£ 47,348,000	£ 29,187,000	+30.1%	REV	£ 23,256,000		£ 24,367,000	+4.8%
PBT	£ 472,000	£ 532,000	£ 1,285,000	+172.2%	PBT	£ 10,497,000		£ 11,211,000	+6.8%
EPS	0.56p	-0.13p	1.42p	+153.6%	EPS	31.50p		34.20p	+8.6%
DRS Data & Research Services plc				Micro Focus plc					
	Interim - Jul 93	Final - Dec 93	Interim - Jul 94	Comparison		Interim - Jul 93	Final - Jan 94	Interim - Jul 94	Comparison
REV	£ 6,868,000	£ 11,577,000	£ 5,756,000	-16.2%	REV	£ 40,800,000	£ 83,842,000	£ 42,950,000	-5.3%
PBT	£ 1,535,000	£ 1,689,000	£ 1,484,000	-3.3%	PBT	£ 11,554,000	£ 21,761,000	£ 7,024,000	-39.2%
EPS	3.47p	3.83p	3.02p	-13.0%	EPS	53.50p	101.20p	32.90p	-38.5%
DCS Group plc				Microgen Holdings plc					
	Final - Jun 93		Final - Jun 94	Comparison		Interim - Apr 93	Final - Oct 93	Interim - Apr 94	Comparison
REV	£ 5,545,366		£ 6,375,180	+15.0%	REV	£ 26,137,000	£ 53,351,000	£ 29,056,000	+11.2%
PBT	£ 231,406		£ 426,144	+84.2%	PBT	£ 3,758,000	£ 6,700,000	£ 3,441,000	-8.4%
EPS	2.69p		4.32p	+60.6%	EPS	6.10p	10.50p	5.50p	-9.8%
Division Group plc				Microvitec plc					
	Interim - Apr 93	Final - Oct 93	Interim - Apr 94	Comparison		Interim - Jun 93	Final - Dec 93	Interim - Jun 94	Comparison
REV	£ 914,000	£ 2,078,000	£ 2,106,000	+130.4%	REV	£ 17,959,000	£ 35,170,000	£ 20,923,000	+16.5%
PBT	£ -10,000	£ -503,000	£ -892,000	Loss both	PBT	£ 570,000	£ 1,611,000	£ 1,120,000	+96.5%
EPS	-0.10p	-2.10p	-2.60p	Loss both	EPS	0.78p	2.05p	1.24p	+59.0%
Electronic Data Processing plc				Misys plc					
	Final - Sep 93		Final - Sep 94	Comparison		Final - May 93		Final - May 94	Comparison
REV	£ 14,341,000		£ 14,013,000	-2.3%	REV	£ 88,761,000		£ 93,358,000	+5.2%
PBT	£ 4,872,000		£ 4,123,000	-11.8%	PBT	£ 15,125,000		£ 18,612,000	+23.1%
EPS	11.71p		10.21p	-12.8%	EPS	26.80p		31.90p	+19.0%
Enterprise Computer Holdings plc				MMT Computing plc					
	Final - Mar 93		Final - Mar 94	Comparison		Final - Aug 93		Final - Aug 94	Comparison
REV	£ 58,231,000		£ 16,399,000	-71.8%	REV	£ 7,057,716		£ 10,861,498	+53.9%
PBT	£ -6,143,000		£ -2,052,000	Loss both	PBT	£ 1,725,549		£ 2,505,106	+45.2%
EPS	-7.40p		-2.60p	Loss both	EPS	9.00p		13.10p	+45.6%

**Quoted Companies - Results Service**

Note: Shaded = Results announced this month.

On Demand Information plc				Sanderson Electronics plc					
	Final - Jul 93	Final - Jul 94	Comparison		Final - Sep 93	Final - Sep 94	Comparison		
REV	£ 18,989,000	£ 14,487,000	-23.7%	REV	£ 23,581,000	£ 33,984,000	+44.1%		
PBT	-£ 1,450,000	-£ 2,617,000	Loss both	PBT	£ 3,327,000	£ 4,228,000	+27.1%		
EPS	-3.90p	-5.70p	Loss both	EPS	6.30p	7.30p	+15.9%		
Oxford Molecular plc				Sema Group plc					
	Interim - Jun 93	Final - Dec 93	Interim - Jun 94	Comparison		Interim - Jun 93	Final - Dec 93	Interim - Jun 94	Comparison
REV	£ 591,000	£ 1,409,000	£ 1,086,000	+83.8%	REV	£ 232,948,000	£ 501,992,000	£ 298,419,000	+28.7%
PBT	-£ 488,000	-£ 1,265,000	-£ 933,000	Loss both	PBT	£ 15,213,000	£ 24,855,000	£ 12,567,000	-17.4%
EPS	-4.40p	-8.90p	-3.50p	Loss both	EPS	10.46p	16.62p	9.13p	-12.7%
P & P plc				Sherwood Computer Services plc					
	Interim - May 93	Final - Nov 93	Interim - May 94	Comparison		Interim - Jun 93	Final - Dec 93	Interim - Jun 94	Comparison
REV	£ 121,800,000	£ 217,259,000	£ 118,900,000	-2.4%	REV	£ 11,837,000	£ 23,561,000	£ 11,957,000	+1.0%
PBT	£ 2,000,000	£ 4,107,000	£ 2,700,000	+35.0%	PBT	£ 541,000	-£ 1,998,000	-£ 88,000	Profit to loss
EPS	2.10p	4.30p	3.00p	+42.9%	EPS	3.40p	-35.78p	1.50p	-55.9%
Parity plc				Spargo Consulting plc					
	Interim - Jun 93	Final - Dec 93	Interim - Jun 94	Comparison		Interim - Jun 93	Final - Dec 93	Interim - Jun 94	Comparison
REV	£ 5,298,000	£ 19,768,000	£ 38,803,000	+632.4%	REV	£ 2,307,000	£ 4,869,000	£ 2,854,000	+23.7%
PBT	£ 60,000	-£ 228,000	£ 2,023,000	+3271.7%	PBT	£ 272,000	£ 483,000	£ 606,000	+122.8%
EPS	0.61p	-1.90p	3.54p	+480.3%	EPS	1.52p	2.58p	3.20p	+110.5%
Pegasus Group plc				Standard Platforms Holdings plc					
	Interim - Jun 93	Final - Dec 93	Interim - Jun 94	Comparison		Interim - Mar 93	Final - Sep 93	Interim - Mar 94	Comparison
REV	£ 5,300,000	£ 7,502,000	£ 2,275,000	-57.1%	REV	£ 865,617	£ 3,161,418	£ 749,995	-13.4%
PBT	£ 1,017,000	£ 6,930,000	£ 68,000	-93.3%	PBT	-£ 382,695	-£ 1,065,027	-£ 35,640	Loss both
EPS	9.10p	72.00p	0.70p	-92.3%	EPS	-9.60p	-26.70p	-0.90p	Loss both
Persona plc				Superscape VR plc					
	Interim - Jun 93	Final - Dec 93	Interim - Jun 94	Comparison		PF Final - Jul 93	PF Final - Jul 94	Comparison	
REV	£ 11,189,000	£ 22,862,000	£ 15,042,000	+34.4%	REV	£ 642,018	£ 859,192	+33.8%	
PBT	£ 825,000	£ 1,749,000	£ 1,005,000	+21.8%	PBT	-£ 21,450	-£ 238,024	Loss both	
EPS	5.30p	11.08p	6.00p	+13.2%	EPS	-0.50p	-6.10p	Loss both	
Phonelink plc				Total Systems plc					
	Interim - Sep 93	Final - Mar 94	Interim - Sep 94	Comparison		Interim - Sep 93	Final - Mar 94	Interim - Sep 94	Comparison
REV	£ 586,000	£ 1,241,000	£ 797,000	+36.0%	REV	£ 1,079,044	£ 2,092,429	£ 1,096,691	+1.6%
PBT	-£ 301,000	-£ 1,761,000	-£ 1,963,000	Loss both	PBT	£ 12,330	£ 141,918	£ 7,460	-39.5%
EPS	-0.80p	-5.00p	-5.50p	Loss both	EPS	0.07p	0.96p	0.04p	-46.6%
Proteus International plc				Trace Computers plc					
	Final - Mar 93	Final - Mar 94	Comparison		Final - May 93	Final - May 94	Comparison		
REV	£ 21,000	Nil	n/a	REV	£ 18,042,438	£ 18,628,990	+3.3%		
PBT	-£ 3,547,000	-£ 6,618,000	Loss both	PBT	£ 211,504	£ 409,901	+93.8%		
EPS	-13.52p	-24.36p	Loss both	EPS	1.10p	2.33p	+111.8%		
Quality Software Products Holdings plc				Unipalm plc					
	Interim - Jun 93	Final - Dec 93	Interim - Jun 94	Comparison		Final - Apr 93	Final - Apr 94	Comparison	
REV	£ 6,607,000	£ 13,346,543	£ 7,266,000	+10.0%	REV	£ 8,390,000	£ 10,753,000	+28.2%	
PBT	£ 143,000	£ 553,214	£ 604,000	+322.4%	PBT	£ 605,000	£ 272,000	-55.0%	
EPS	2.00p	6.70p	6.90p	+245.0%	EPS	2.90p	0.89p	-69.3%	
Radius plc				Vega Group plc					
	Interim - May 93	Final - Dec 93	Interim - Jun 94	Comparison		Interim - Oct 93	Final - Apr 94	Interim - Oct 94	Comparison
REV	£ 10,723,000	£ 23,273,000	£ 12,325,000	+14.9%	REV	£ 4,517,000	£ 9,703,000	£ 5,710,000	+26.4%
PBT	-£ 466,000	-£ 1,171,000	£ 808,000	Loss to profit	PBT	£ 767,000	£ 2,147,000	£ 1,020,000	+34.7%
EPS	-1.30p	-3.00p	1.80p	Loss to profit	EPS	3.54p	10.01p	4.76p	+34.5%
Real Time Control plc				Virtuality Group plc					
	Interim - Sep 93	Final - Mar 94	Interim - Sep 94	Comparison		Interim - Jun 93	Final - Dec 93	Interim - Jun 94	Comparison
REV	£ 3,579,000	£ 8,534,000	£ 8,491,000	+137.2%	REV	£ 2,444,000	£ 5,400,000	£ 4,120,000	+68.6%
PBT	£ 424,000	£ 1,387,000	£ 1,050,000	+147.8%	PBT	£ 65,000	-£ 365,000	-£ 695,000	Profit to loss
EPS	4.10p	13.30p	12.00p	+192.7%	EPS	0.30p	-1.70p	-2.70p	Profit to loss
RM plc				Vistec Group plc					
	Final - Sep 93	Final - Sep 94	Comparison		Interim - Oct 93	Final - Apr 94	Interim - Oct 94	Comparison	
REV	£ 66,212,000	£ 65,493,000	-1.1%	REV	£ 17,830,000	£ 45,018,000	£ 25,374,000	+43.9%	
PBT	£ 2,525,000	£ 3,769,000	+49.3%	PBT	£ 1,126,000	£ 3,409,000	£ 745,000	-33.8%	
EPS	n/a	14.20p	n/a	EPS	0.62p	2.06p	0.41p	-33.9%	
Rolfe & Nolan plc				Wakebourne plc					
	Interim - Aug 93	Final - Feb 94	Interim - Aug 94	Comparison		Interim - Jun 93	Final - Dec 93	Interim - Jun 94	Comparison
REV	£ 6,055,000	£ 12,720,000	£ 7,104,000	+17.3%	REV	£ 12,004,000	£ 22,275,000	£ 18,172,000	+51.4%
PBT	£ 609,000	£ 1,673,000	£ 742,000	+21.8%	PBT	-£ 18,944,000	-£ 18,649,000	£ 1,068,000	Loss to profit
EPS	3.00p	8.45p	2.80p	-3.3%	EPS	-144.60p	-143.80p	3.40p	Loss to profit
Sage Group plc				Microvitec buys two					
	Final - Sep 93	Final - Sep 94	Comparison	Microvitec has this month announced the acquisition of Justfree Ltd. (trading as Layer One) - a networking specialist - for an initial £775K (£250K in cash, the rest in Microvitec shares). A further consideration of £1.2m (i.e. max. £2m) will be paid if PBT reaches £890K in the two years to 30th June 96. Justfree had PBT of £161K in the year to 31st Mar. 94. Microvitec also announced the purchase of Perex (which manufactures touch screens) for £2.43m (via placing of Microvitec shares at 33.5p). Perex had reported a loss of £298K in the year to 31st Dec. 1993. However, management accounts show an operating profit of £449K in the 10 months to 31st Oct. 94. "The new acquisitions enhance prospects for next year". Source Investors Chronicle 16th Dec. 94.					
REV	£ 41,289,000	£ 50,888,000	+23.2%						
PBT	£ 9,656,000	£ 14,252,000	+47.6%						
EPS	32.50p	45.40p	+39.7%						

**Cox to head Unisys UK**

George Cox of Butler Cox fame, who was the Chairman of P-E International prior to and after their purchase by Cray, is to become the new CEO for Unisys UK. This clearly supports Unisys' major move to services as discussed in last month's issue.

Unisys also announced that a further 4000 jobs will go in Europe as "part of its effort to cut back its commercial hardware business and transform itself into an information services company". SCSI activities already represent around 25% of Unisys revenues. It looks as if those employed in hardware maintenance will be hardest hit.

## Acquisitions, disposals and liquidations

### Control Data buys KRCS operations in the south

A year ago, NASDAQ-quoted Control Data acquired IBM and Apple dealer Michael Business Systems, which had revenues of around £23m. This month they have bought the four southern offices of troubled Apple dealer KRCS. This will add a further £12m revenue.

KRCS bought SAMS in Apr. 92 making them the UK's largest Apple dealer with revenues of £25m. But events turned sour and a loss of £1.3m was reported in the first year of the new conglomerate. Additional financial assistance was obtained from Nat. West Ventures with considerable support from Apple - who are also understood to have brokered the disposal.

The exact terms of the deal are not disclosed but we understand that it was likely to have involved assets only with no property liabilities transferring. A limited commission on margins from first year sales is also likely. It demonstrates the considerable problems now facing those that are dependent on hardware margin for their daily bread. The Apple channel has been particularly badly hit in the last few years - catching up on the problems which hit the PC channel somewhat earlier.

### CSC buys Ploenzke

US Computer Sciences (CSC) has acquired Ploenzke for an undisclosed sum. Ploenzke is the fourth largest German-owned SCSI company with revenues in 1993 of around \$170m; this is three times larger than CSC's current \$50m revenues from Germany. Ploenzke's 1,400 staff are mainly engaged in fee-based IT professional services. Ploenzke is also "the largest independent SAP consultancy in the world". But Ploenzke's profits had slumped to just DM1m in 1993, due to the German recession.

CSC Ploenzke (as it will be known) will now be one of the top five suppliers of SCSI services to the German market. This acquisition will mean that CSC annualised revenues in Europe are estimated to exceed \$600m - nearly three times that of 1993.

### SCO in second UK purchase

Santa Cruz Organisation (SCO) has acquired Leeds-based Visionware Ltd. for \$14.75m (£9.46m), mostly in cash. As Visionware had 1994 revenues of around £8m and 130 staff, the price paid looks quite reasonable. It specialises in tools for integrating Windows PC users to UNIX client servers, thus extending SCO's "windows friendly" (now an SCO™) strategy.

This is SCO's second UK purchase. The first was IXI in Feb. 93. IXI was also in the GUI/UNIX interface business and had revenues of just £3.5m in the year prior to acquisition. IXI was an all share deal prior to SCO's listing. It was estimated to be worth about \$20m at the time, but considerably less by the time the market put a value on the shares. Although the deal does show that consideration multiples to revenue of between 1 and 1.5 are still being achieved, the relative valuations of products companies are on the way down.

**The others....** Cable & Wireless is to buy a 25% stake in the Amadeus airline reservation consortium. PC reseller, Osicom Technologies has gone into liquidation. For more acquisitions, see pages 4 and 6.

### Hold the presses - Sysdeco buys Atex

In 1992, Kodak's operation supplying pre press systems for newspapers was bought by a European consortium, most of which we understand were of UK origin. The new operation was renamed Atex. Atex systems are used throughout the world including The Times, Telegraph and Guardian in the UK. Atex had revenues of \$55m. This month, Oslo-quoted Sysdeco has acquired Atex for shares worth \$11.9m (£7.6m). Sysdeco also acquired Finnish advertising system company - Sypress - for \$7.7m cash + \$3.6m earnings related. Broadview acted for Atex and Sypress.

### Micromuse

Micromuse is a reseller of GUI software tools. It has grown rapidly - doubling revenues to £6.8m and achieving a quite healthy PBT of £374K in the year to 30th Sept. 93. Micromuse had contemplated a float but "unstable market conditions" caused this to be aborted. MD Chris Dawes now says he is having discussions with several VCs for "a seven figure investment".

Dawes stressed that Micromuse was not for sale... Source - MicroScope 7th Dec. 94.

### VC's rediscovering IT?

In the summer of 1994, Warwick Business School (sponsored by Interregnum) surveyed 54 UK VC firms - about half the total number of VCs who, in turn, represented 60% of the funds invested. The research showed that the value of investment in IT companies had increased by 33% (i.e. +£38m) in 1993 and the number of deals was up by 15% (i.e. +32).

The research clearly found "a significant renewal of interest" in IT investments. "64% of investors preferring later-stage deals and 67% of investors not specialising in technology, anticipated an intention to invest in the sector in the next year". The renewed interest was put down to increased competition for the financing of non-IT businesses which was making the IT sector look relatively more attractive.

But Dr. Gordon Murray is probably right to highlight the "danger that the UK industry will see a return of the debacle of the early 1980s - when several inexperienced UK VC funds invested heavily in new technology ventures only to exit from the market two to three years later at substantial investment losses".

Could it just be that the real reason for the increase in investment was that these same inexperienced VCs saw the high values put on IT new issues in 1993 and thought "we want some of that too"? 1994, as readers know only too well, has seen a significant reduction in the values put on new IT issues. Will we see this, short-sightedly, reflected in a reduction in VC IT investment in 1995?

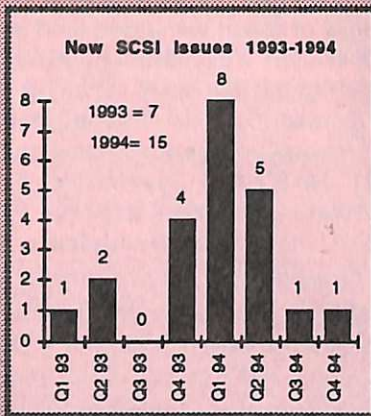
We are in the rather enviable - or some would say unenviable - position of working for both the IT companies and the VCs (who are becoming System House subscribers in ever increasing numbers). The VCs say they have oodles of money to invest but too few high quality companies in which to put it. The companies say that 30-40% IRR expectations are now unrealistic and that getting "greenfield" investment is still almost impossible.

Squaring the circle is of immense importance. In the US there has been a strong VC presence in the IT market for some time. We hope this will be the case in the UK too. As Dr. Murray says "the genesis and growth of new technology-based enterprises" depends on it.

# Corporate activity in 1994

There were a record 15 SCSi new issues in 1994 - over twice the 7 recorded in 1993. But:

- almost all the new issues took place in the first four months of 1994. There have only been two new issues in the last six months.
- it is depressing to report that, excluding RM which floated in mid Dec., only one new issue - Unipalm - is currently trading at any significant premium. The average discount is 23%.
- five new issues - Clinical Computing, DRS, Coda, MAID and MDIS - have lost over a third of their valuation since the time of issue.



1994 New Issues Company	Float Date	Issue Price	Price end 1994	Change
Cedardata	Mar-94	105p	101p	-3.8%
Computerised Financial	Feb-94	105p	103p	-1.9%
Clinical Computing	Feb-94	124p	67p	-46.0%
Coda	Feb-94	235p	77p	-67.2%
Compel	Sep-94	125p	109p	-12.8%
DRS Data & Research	May-94	110p	32p	-70.9%
JBA International	Jun-94	160p	152p	-5.0%
MAID	Mar-94	110p	69p	-37.3%
MDIS	Mar-94	260p	101p	-61.2%
Oxford Molecular	Apr-94	80p	60p	-25.0%
Persona	Mar-94	160p	160p	0.0%
RM	Dec-94	175p	206p	17.7%
Spargo	Jun-94	95p	91p	-4.2%
Superscape	Apr-94	198p	204p	3.0%
Unipalm	Mar-94	100p	118p	18.0%

It is not just new issues which have taken a beating in 1994, of the 48 quoted SCSi companies at the start of 1994, 25 or 52% are trading at a lower price than a year ago. Enterprise (which Sunday Telegraph tipster Nick Fox had recommended as his share for 1994!) was down 94%. Kode, Gresham, Proteus, Standard Platforms and Azlan also all lost 50% or more of their value in the year.

## Total frustration

With this month's *System House* comes our index covering the last two years. Please use this to reread our past reviews of Total Systems plc as we do not intend to restate the reasons for our total frustration with the company. Latest results for the six months to 30th Sept. 94 are equally depressing. Revenue is unaltered at £1.1m, PBT is reduced by 40% to just £7K and EPS halved. Cash balances, although still strong, are 22% down at £1.1m. Indeed, Total made an operating loss before interest receivable of £34K pushed them just into profit. Six months ago, Chairman Terry Bourne said "it is particularly galling that Total has the products, people and expertise to support and sustain a significant recovery". Now Bourne talks of "a frustrating period", a "difficult market" and "horrendously slow" approval processes from new customers.

Total provides IT professional services to a wide range of customers in the financial services, insurance, local govt. and commercial markets. Recently they have invested in building their own open systems based fund management product - Optima. "Founded in 1971... Total's history has been one of steady growth". That's one way of explaining why it has taken 23 years to reach a turnover of just £2m. Bourne tries to say that Total's results have suffered like "many companies". But we can't really see why Total's market is any different from MMT Computing, FI Group, Terence Chapman Associates etc. - all of which have prospered in the last few years.

Ominously Bourne does not use the "confidence" word as he has in almost every one of his Chairman's statements in the last five years. Indeed, he warns that the second half is unlikely to be "materially different" to the first. I.e. inferring little better than breakeven for the year.

Although Total shares are up 46% in 1994, they are still less than half the 85p new issue price in 1988. So disappointing performance is not just reserved for recent new issues.

There were also some large reductions in capitalisation with MDIS worth a massive £159m less. ACT dropped £79m, Proteus £61m and that company of "missed opportunities", Macro 4, down £59m.

At the other end of the scale RTC (due to a significant trading recovery) and Computer People (a combination of the Parity and Graham/Reeves effect) managed to double in price. Sema increased in value by £97m to £379m but Cray just managed to top the most valuable SCSi company ranking at £383m - somewhat lower than its 1994 peak.

Best Performing Shares In 1994	Price end 93	Price end 94	% change
Real Time Control	73p	171p	134.2%
Computer People	108p	242p	124.1%
Total	24p	35p	45.8%
Division	81p	117p	44.4%
MMT Computing	143p	205p	43.4%
Worst Performing Shares In 1994	Price end 93	Price end 94	% change
Enterprise	32p	2p	-93.7%
DRS Data & Research	110p	32p	-70.9%
Coda	235p	77p	-67.2%
Kode International	160p	53p	-66.9%
Gresham Telecomputing	111p	37p	-66.7%

Purchases of games/home entertainment software companies dominated by price. Pearson headed the list buying US Software Toolworks (£310m), Blockbuster paid £125m for Virgin Interactive and BCE bought Software Creations/Rage for £14.5m in total. Other large deals was Equifax purchase of UAPT Infolink, the on-line information supplier, for £51m and Hays purchase of computer storage company, Rockall Scotia for £20m. Acquisitions in the "conventional" SCSi arena, where considerations paid are estimated to have exceeded £10m, included:

SCSi Acquisitions >£10m In 1994 Involving UK companies			
Buyer	Acquired	M&A firm involved	Consideration
Misys	Kapiti		£40.0m
MDIS	Xerox Comp. Serv. (US)		£20.0m
Sage	Saari (France)	Regent	£18.5m
P&P	QA Training	Regent	£18.0m
MBO	ACT Support/Network SI	Broadview	£14.5m
Sungard (US)	Portfolio Administration	Broadview	Est. >£10m
Deluxe (US)	The Software Partnership	Broadview	Est. >£10m
Microsoft (US)	NextBase	Broadview	Est. >£10m



## CSI Index down 10% in 1994

Our CSI Index ended December down 1.2%; representing a reduction of 10.2% on the year - similar to the 10.3% fall in the FTSE 100. It is also interesting to note that our CSI Index is now showing a gain of only 50% since its start date getting on for six years ago in Apr. 1989. This is also identical to the rise in the FTSE 100!

Encouraging news from MAID (p3) led to a 53% rise in its share price this month - albeit still trading 37% lower than its issue price. Drug modelling company, Oxford Molecular was up 22%, but Proteus International (see p4), engaged in similar activities, fell 28%. DCS was up 20% in a long overdue re-rating. JBA rose by 19% - almost back to their launch price.

Enterprise fell a further 27% to end the year at just 2p as

news on the renewal of their bank facilities (which expired on 31st Dec. 94) is awaited. MDIS was down 20% - reversing the encouraging rally last month. The announcement of a £3.3m loss caused a 16% fall at LBMS (see p11). *Let's hope for a better 1995*

31-Dec-94	CSI Index 1499.18		
	FTSE 100	3065.50	
	FTSE SmallCap	1746.41	
CSI Index = 1000 on 15th April 1989			
Changes in Indices	CSI Index	FTSE 100	FTSE Small Cap
Month (28/11/94 - 31/12/94)	-1.20%	+0.60%	-1.10%
From 15th Apr 89	+49.92%	+49.27%	
From 1st Jan 90	+62.94%	+29.78%	
From 1st Jan 91	+111.79%	+41.90%	
From 1st Jan 92	+43.48%	+22.96%	
From 1st Jan 93	-5.92%	+7.69%	+25.88%
From 1st Jan 94	-10.21%	-10.32%	-6.54%

## System House CSI Share Prices and Capitalisation

	Share Price 31/12/1994 (£p)	Capitalisation 31/12/1994 (£m)	Historic P/E	Ratio Cap./Rev.	CSI Index 31/12/94	Share price % move since 28/11/94	Share price % move in 1994	Capitalisation move (£m) since 28/11/94	Capitalisation move (£m) in 1994
ACT	£1.00	£184.60m	10.5	0.74	1579.37	3.65%	-30.42%	£6.50m	-£79.10m
Admiral	£6.35	£72.40m	19.5	1.98	4601.45	-0.31%	30.93%	-£0.20m	£20.00m
Azlan	£1.34	£29.30m	10.8	0.48	582.61	-3.60%	-49.43%	-£1.10m	-£28.60m
Capita	£1.64	£89.50m	20.9	1.78	4924.92	-1.80%	-31.09%	-£1.70m	-£23.30m
Cedardata	£1.01	£30.90m	16.0	5.05	961.90	-0.98%	-3.81%	-£0.30m	-£1.26m
Centregold	£1.16	£46.70m	15.9	0.51	928.00	11.54%	-28.40%	£4.90m	-£18.50m
Clinical Computing	£0.67	£10.90m	10.7	4.14	540.32	-12.99%	-45.97%	-£1.60m	-£9.20m
Coda	£0.77	£20.20m	8.0	0.86	327.66	-2.53%	-67.23%	-£0.50m	-£41.45m
Compel	£1.09	£16.60m	10.5	0.30	872.00	0.00%	-12.80%	£0.00m	-£3.10m
Computerised Financial	£1.03	£4.84m	loss	1.45	1144.44	-2.83%	14.44%	-£0.14m	£0.61m
Computer People	£2.42	£59.30m	55.1	0.86	995.88	5.22%	124.07%	£26.10m	£44.30m
Cray Electronics	£1.62	£383.40m	18.8	1.41	944.44	2.22%	0.31%	£8.30m	£28.60m
CRT	£0.79	£53.20m	19.2	1.12	877.78	-5.95%	-19.39%	-£3.20m	£1.10m
DRS Data & Research	£0.32	£11.40m	7.6	0.98	290.91	3.23%	-70.91%	£0.40m	-£27.80m
DCS Group	£0.73	£6.91m	19.6	1.08	1216.67	19.67%	21.67%	£1.14m	£2.71m
Division Group	£1.17	£39.50m	loss	18.99	2925.00	-8.59%	44.44%	-£3.70m	£12.10m
Electronic Data Processing	£1.43	£37.50m	12.2	2.68	4378.44	0.00%	-27.78%	£0.00m	-£14.10m
Enterprise	£0.02	£1.55m	loss	0.09	16.00	-27.27%	-93.65%	-£0.58m	-£24.15m
Gresham Telecomputing	£0.37	£12.10m	33.2	2.08	397.85	-7.50%	-66.67%	-£1.00m	-£23.40m
INSTEM	£1.50	£6.80m	9.0	0.35	1500.00	-1.32%	11.11%	-£0.09m	£0.34m
JBA Holdings	£1.52	£50.20m	15.5	0.67	950.00	18.75%	-5.00%	£7.90m	-£2.60m
Kalamazoo	£1.09	£41.50m	12.3	0.68	3114.29	-8.40%	9.00%	-£3.80m	£3.40m
Kewill	£2.39	£29.00m	8.8	0.91	944.66	-5.53%	7.66%	-£1.70m	£2.50m
Kode International	£0.53	£4.99m	7.6	0.20	246.51	-14.52%	-66.88%	-£0.84m	-£9.91m
Learmonth & Burchett	£0.80	£17.40m	loss	0.66	666.67	-15.79%	-44.83%	-£3.30m	-£8.60m
Logica	£3.25	£200.80m	22.9	0.88	890.41	3.83%	19.05%	£7.40m	£32.90m
Lynx Holdings	£0.47	£19.80m	10.4	0.92	1175.00	0.00%	6.82%	£0.00m	£3.00m
MAID	£0.69	£56.10m	100.0	9.81	627.27	53.33%	-37.27%	£19.50m	-£33.00m
MDIS	£1.01	£101.00m	7.1	0.68	388.46	-19.84%	-61.15%	-£25.00m	-£159.00m
MR Data Management	£1.10	£61.40m	13.8	1.52	436.51	-4.35%	-46.34%	-£2.40m	-£52.20m
Macro 4	£4.38	£95.00m	12.3	3.90	1766.13	-0.45%	-35.40%	-£5.30m	-£59.00m
Micro Focus	£8.20	£118.10m	9.9	1.41	3961.35	-7.66%	-18.00%	-£9.80m	-£23.90m
Microgen	£1.02	£40.20m	10.2	0.75	435.90	-8.93%	-31.08%	-£3.90m	-£18.10m
Microvitec	£0.37	£23.30m	18.3	0.66	890.24	7.35%	12.31%	£1.60m	£2.10m
Misys	£4.09	£194.70m	12.8	2.09	1017.41	-2.15%	-19.01%	-£3.00m	-£1.20m
MMT	£2.05	£23.10m	16.2	2.13	1220.24	7.89%	43.36%	£1.70m	£7.80m
On-Demand	£0.67	£34.20m	loss	2.36	858.97	1.52%	-40.71%	£0.50m	-£23.40m
Oxford Molecular	£0.60	£22.10m	loss	15.67	750.00	22.45%	-25.00%	£4.00m	-£7.40m
P&P	£0.74	£57.90m	18.4	0.27	331.84	-2.63%	15.63%	-£1.50m	£22.40m
Parity	£1.26	£46.20m	39.2	2.34	6999.97	0.00%	14.55%	£0.00m	£6.00m
Pegasus	£1.50	£9.39m	15.1	1.25	408.72	-1.96%	-29.91%	-£0.18m	-£4.71m
Persona	£1.60	£19.30m	14.4	0.84	1000.00	13.48%	0.00%	£2.30m	£0.00m
Phonelink	£2.13	£75.60m	loss	60.92	1374.19	-9.36%	-41.48%	-£7.80m	-£53.60m
Proteus	£1.75	£54.40m	loss	n/a	2083.33	-27.98%	-58.43%	-£21.20m	-£61.00m
Quality Software	£3.83	£33.30m	55.2	2.49	1007.89	-0.26%	-5.43%	-£0.10m	£1.80m
Radius	£0.38	£10.60m	loss	0.46	275.36	5.56%	35.71%	£0.60m	£2.96m
Real Time Control	£1.71	£12.00m	13.0	1.41	3489.80	9.62%	134.25%	£1.10m	£6.89m
RM	£2.06	£34.70m	14.5	0.53	1177.14	17.71%	17.71%	£5.20m	£5.20m
Rolle & Nolan	£1.85	£22.40m	28.8	1.76	2202.38	-7.50%	25.42%	-£1.80m	£5.70m
Sage Group	£6.74	£140.90m	14.8	2.77	5184.62	-0.15%	32.16%	-£0.20m	£35.80m
Sandersen	£0.79	£30.40m	11.5	0.89	1344.68	-1.25%	-1.25%	-£0.50m	£1.90m
Sema Group	£4.08	£378.60m	24.6	0.75	1283.02	-4.00%	31.61%	-£15.80m	£96.50m
Sherwood	£0.80	£4.88m	loss	0.21	666.67	-13.98%	-27.27%	-£0.79m	-£1.83m
Spargo Consulting	£0.91	£11.40m	35.9	2.34	957.89	-2.15%	-4.21%	-£0.20m	-£0.50m
Standard Platforms	£0.14	£2.52m	loss	0.80	62.22	7.69%	-56.25%	£0.18m	£1.22m
Superscape	£2.04	£10.80m	loss	12.56	1030.30	3.55%	3.03%	£0.30m	£0.30m
Total	£0.35	£3.50m	36.4	1.67	660.38	-2.78%	45.83%	-£0.10m	£1.10m
Trace	£0.41	£5.73m	19.5	0.31	328.00	2.50%	7.89%	£0.14m	£0.34m
Unipalm	£1.18	£23.90m	132.6	2.22	1180.00	5.36%	18.00%	£1.20m	£3.66m
Vega Group	£2.63	£37.20m	26.6	3.84	2155.74	3.95%	20.09%	£1.40m	£6.30m
Virtuality	£2.21	£57.80m	loss	10.70	1300.00	8.87%	-33.23%	£4.70m	-£28.70m
Vistec	£0.13	£16.00m	7.1	0.36	565.22	-10.34%	-45.83%	-£1.90m	-£13.30m
Wakebourne	£0.79	£16.50m	loss	0.71	438.89	1.28%	31.67%	£0.20m	£4.00m

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

# CRT

CONSULTANCY • RECRUITMENT • TRAINING

We have included CRT Group in our CSI Index since the start of 1994 because of their growing computing services activities. CRT is involved in IT training (via Pitman, LINK and

The Training Corporation), IT contract staff & recruitment (which includes Software Personnel acquired in Feb. 90, Couva acquired in Dec. 93 and Systems Resources acquired in Aug. 94 for £6.35m) and CRT Multimedia.

Results for the six months to 31st Oct. 94 looked excellent, showing a 30% increase in revenue to £29.2m, a 172% increase in PBT to £1.3m and a 154% increase in EPS. Two months of Systems Resources contributed operating profits of £220K, but "business integration and restructuring costs of £300K have been incurred". Net cash was £790K compared with net debt of £1.31m last time. But stripping out Systems Resources shows a less healthy picture with base revenues down 24%, PBT down 12% at £1.45m and EPS down 5%.

CRT's main operating activities are as follows:

- **Recruitment** (which actually is predominately IT contract staff) "performed strongly" in line with our major review of the sector in *System House* Nov. 94. Even excluding System Resources, revenues grew organically by 37% and profits were up 59%. 1,899 contract staff (a reduced 283 from Systems Resources) were placed at 31st Oct. 94 compared with 1,291 (SR 293) last time.
- **Training**, although heavily weighted to the 2nd half, has also done well with a significantly increased number of students learning IT skills. Revenues were up 11% at £10.5m. However operating profits fell by 10%.
- **Multimedia Publishing** increased revenues by 17% - albeit from a small base - to £170K, but losses increased from £60K to £270K. "Encouraging progress" was reported.

CRT is now the third largest supplier of IT contract staff and recruitment services into the UK market. It's competitors - Parity and Computer People - have been the darlings of the Stock Exchange in the last year with share prices quadrupling and doubling respectively. That euphoria has yet to hit CRT, where the shares are down 19% in 1994. Given that CRT is on a run rate annual revenue of £75m, their current capitalisation of £53m - or a ratio of capitalisation to revenue of around 71% - looks a bit out of step.

CEO, Karl Chapman, "believes that CRT will improve profits and EPS performance in the full year" particularly as profits are usually weighted towards the second half when there will be a full contribution from Systems Resources. Brokers are estimating full year profits of up to £6.6m.

## PC Software Products sales nose dive

We have preached for a considerable time that the software products sector has gone "ex-growth", but even we had not forecast a decline. However, latest figures from the Software Publishers Association (SPA) show that revenues from PC software products in Europe FELL by 20% in Q3 94 although unit sales increased by 65%. Even Windows product sales fell by 7% against a 28% decrease in Mac software and a 65% drop in DOS software. SPA's MD, stating the obvious, said "the culprit is pricing".

## We believe you...

### Real Time Control benefits from "improving business climate"

Real Time Control (RTC) develops software and systems for retail EPOS applications. The recession hit them badly in 1993. But, in the Aug. 93 edition we wrote a rave review forecast "an end in sight for the difficult times at RTC".

As all readers know, we are not (indeed must not be) a share tipster. But you could have bought RTC shares upon reading that article for 75p - now they will cost you 171p or a pretty healthy 128% gain.

Results for the six months to 30th Sept. 94 showed revenues up 137% at £8.5m, PBT up 148% at £1.05m and EPS up an even more impressive 193%, as a result of a lower tax charge. Interest received increased 25% to £143K. An "improving business climate in the UK" is the major reason for the greatly enhanced performance.

Chairman Byron Carrell has a record of realistic/ cautious statements. He warns that "second half performance is unlikely to duplicate that of the first" although he is "confident that the full results will show good progress". We believe him.

### Vega "making good progress"

Of all the things *System House* has done, its boring awards have now achieved folklore status. We get people calling us expressing how boring they are and just a few analysts briefings have started with the words "our results are so consistently good, *System House* is likely to call them boring". We gave Vega one of our very rare boring awards last year. Latest results for the six months to 31st Oct. 94 are even more of a yawn.

Revenues were up 26% at £5.7m, PBT was up 35% at £1.02m and EPS was up 35%. That's a profit margin of 18% - up a point on last year. That must really prod shareholders in other people-based businesses to ask why they cannot achieve that too. Cash doubled to £1.5m. Of course, you could have predicted this merely by extrapolating Vega's performance over each of the last five years!

Chairman John Rigg admitted that "Vega is making good progress" - an understatement. In Mar. 94 they won a contract to develop an emulator for the Sea Harrier ("we've met all the milestones to date"). In Dec. 94 a £2m contract to develop a maintenance trainer for the RAF and a £1m Tornado/Eurofighter 2000 simulation contract for the MoD were announced. That's on top of "numerous other consultancy and systems engineering contracts" all for developments within the aerospace sector.

The confidence word, as we know, has been devalued in the last few years. But when Rigg "looks forward to the second half of the year with confidence", we tend to believe him too.

Vega was floated in June 92 at 122p. The shares ended 1994 on 263p. Vega's brokers Beeson Gregory has upgraded its forecast from £2.6m to £2.9m PBT for the full year - a high, but quite fair, prospective P/E of 19.

## Congratulations

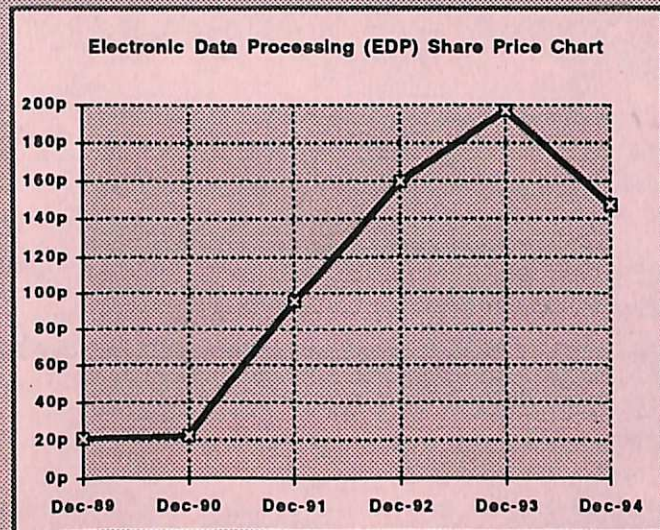


Yet again, one of our long term readers features in the New Year's Honours.

John Rigg, currently of Vega (see above) and Triad Special Systems, gets a well-deserved OBE. John was previously the founder of Marcol, now part of Cray.

## EDP reports "very tough trading environment"

Last we all believe that the "technology wonder stock" is a recent phenomenon, we should remember **Electronic Data Processing (EDP)**. We supported EDP in our very first edition, over five years ago, when you could have bought EDP shares for the equivalent of just 20p.



As they moved out of hardware into solutions based software, with their Merchant product for the wholesale distribution industry, and then into open systems development aids, with their Univision product, they could do no wrong. PBT, EPS and revenue went through the roof ... until 1992. There was even a point when we quipped "...they had so much money they didn't know what to do" as they bought two stately homes for £1.85m. EDP did try for a number of acquisitions to rid themselves of the cash but they either had to withdraw (e.g. ACS) or EDP were not prepared to pay the exalted prices demanded. Shareholders too could not believe their luck, with the share price up 8-times by Dec. 92.

But in Jan. 93 and Jan. 94 we ran the headline "EDP gravy train grinds to a halt". The revenue decline was not overly concerning as EDP moved away from hardware. But the PBT and EPS

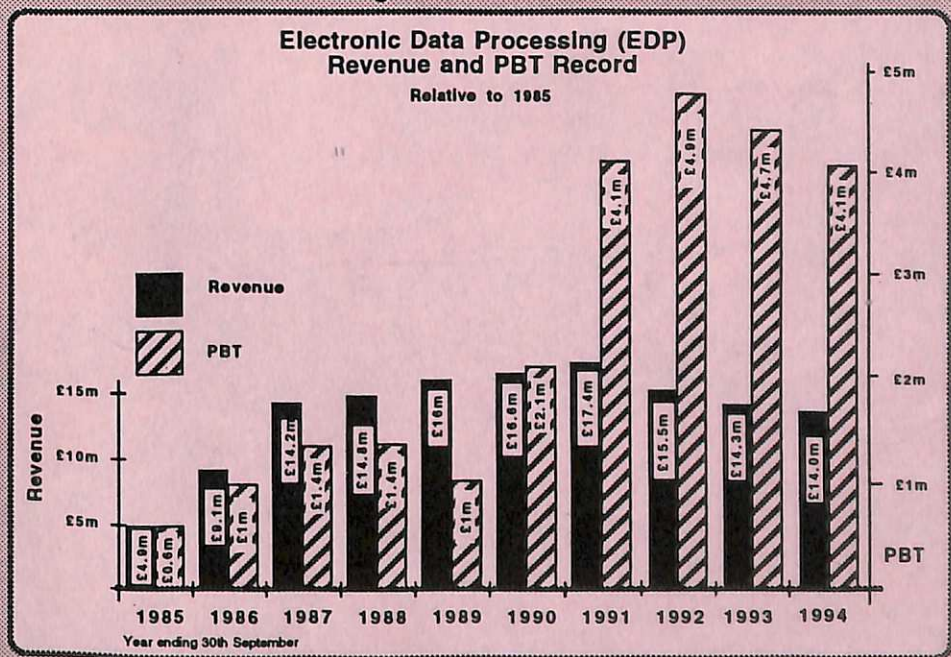
declines were of increasing concern. These were put down to increased R&D spend (fortunately written off as incurred), delays in the release of Univision and mounting losses at EDP's one acquisition - Via Systems.

Results for the year to 30th Sept. 94 show revenues down 2.3% at £14.0m, PBT down 11.8% at £4.1m and EPS down 12.8%. Cash, however, increased by £1.3m to £12.2m. A £160K increase in R&D spend (to £1.57m) was blamed. However, the new Univision and WinLink products have been "well received and will progressively impact on EDP's results in the next 18 months". WinLink, "which allows EDP's Pick-like database management systems to be available under MS Windows", is considered to be of particular importance for the future.

EDP confirms that it has had several acquisition discussions in the last 12 months but has "been unable to reach agreement on price". It reckons its new product line "should now stimulate many competitors to see the advantage of linking up with a software publishing and services house, such as ours".

But EDP's Chairman Michael Heller ends his statement on a cautionary note. "During this period of transition, in a trading environment that continues to be very tough, it is not easy to predict the outcome for 1994/95".

EDP shares ended 1994 down 28% on the year - but still showing a 7-times increase since the end of 1989.



### "Substantial improvement" anticipated at LBMS

The 1980s were good to **LBMS** but the 1990s have so far been terrible. This resulted in a financial restructuring which saw US investors taking a 20% stake (and what looks like control) in July 94.

Interims to 31st Oct. 94 were "dominated by the consequences" of this restructuring. Operating profits down 28% at £1.16m, a £337K increase in development costs to £2m and restructuring costs of £3.4m resulted in a loss before tax of £3.3m compared with a £201K PBT last time. That was despite a £1m profit on the sale of the LBMS Consultancy to Parity.

Revenues from continuing activities were down 5.8% at £10.6m "due entirely to a 37% decline in core business in

the UK where we bore the brunt of the organisational changes and where market conditions were very difficult". However, non UK revenues grew by 13% and 55% of revenues now come from the US.

But Chairman Rainer Burchett believes "the benefits of the measures we have taken will be visible very quickly". He is "confident of returning to profit in the second half". Profit margins at LBMS will show a "substantial improvement" next year where the US profit benchmark of 15-20% is clearly the goal.

But the legal threat from the Performing Rights Society, which had been suggested was for £16m damages, still hangs over the company.

# Total Facilities Management

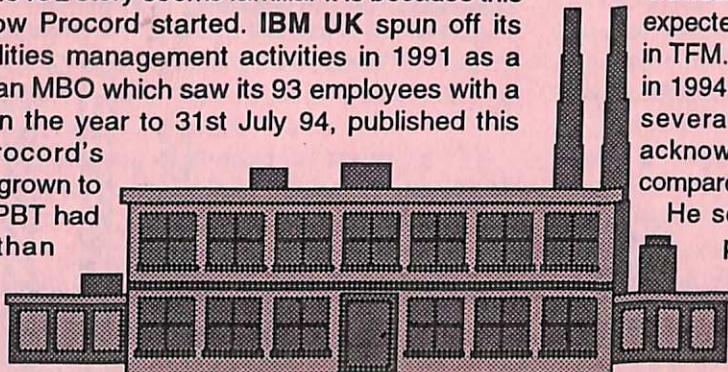
Lest we all start to believe our own PR, we should remember that the IT industry did not invent the terms outsourcing or Facilities Management. We understand that of the £12.3 billion which was spent by the corporate sector on the maintenance of its buildings in 1993, £2.6 billion was outsourced. Clearly most of this was spent on separate contracts for cleaning, security, repairs etc.

But, just like its IT cousins, there is now a growing market for **Total Facilities Management (TFM)**, where all aspects of building support services are outsourced to just one prime contractor. The UK market is currently estimated to be worth £230m and some project this will grow to be worth nearly £4 billion by 1999.

By now you might well be wondering "why a System House article on the subject?" The answer is quite simple...so many of our subscribers are already seriously engaged in this market, as follows:

**ICL.** This month ICL has formed a new subsidiary - **Workplace Management** to "manage a building's technology infrastructure, in addition to all building support services". ICL expects "to win a 10-15% share of the UK TFM market over the next five years worth £350-£400m p.a., placing it in the Top 3 of total buildings FM companies in the UK". To start them on their way they have "won the contract for ICL's main commercial and administration buildings worth £60m". ICL has also won its first non-ICL customer at an MoD site.

**Procord.** If the ICL story seems familiar it is because this is exactly how Procord started. **IBM UK** spun off its property facilities management activities in 1991 as a precursor to an MBO which saw its 93 employees with a 51% stake. In the year to 31st July 94, published this month, Procord's revenue had grown to £78.6m and PBT had more than doubled to £2.1m. In Aug. 94



**Controls Inc.**, an FM supplier in the US, acquired **Procord**. **Capita**. Capita's property services activities comprise Capita Project Management, EDM Associates, J E Greatorex and Goldcrest. They had revenues of around £11m in 1993 which, by a combination of organic growth and the purchase of Beard Dove, will grow to around £22m on an annualised basis. In addition Capita Managed Services is already involved in many contracts - like Cherished Numberplates, TV Licencing, debt collection etc. which have less well defined IT links.

**Serco** is probably the largest TFM operator in the UK with 1993 revenues of £187m. Their TFM contract at RAF Fylingdales "was the foundation of the business". Whereas ICL and IBM have moved from their IT base into TFM, Serco have moved in the opposite direction. Serco claimed to us that over £100m of their revenues are now IT related. **Currie & Brown** and **Rank Xerox** have this month joined forces to form **CBX** "to integrate the operations of buildings, including property management, facilities operations and project management". CBX is initially capitalised at £500K.

There have also been moves by other IT companies such as EDS and Hoskyns into non-IT FM markets in the last year. We see this as an accelerating trend which will continue to blur the definitions used in the industry.

IT companies embracing more of the business process on behalf of their clients must be welcome. But there are drawbacks. If a 10% profit margin is the norm expected in the IT services industry, it is unlikely in TFM. Procord managed a margin of just 2.6% in 1994 and Serco only 5% in 1993 - its best for several years. Capita's MD Paul Pindar acknowledges that IT FM margins are high compared to cleaning and other property services.

He sees Capita's future more in high value professional services.

But with so many *System House* readers now engaged in property management, we will clearly have to pay more attention in future.

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