

# System House

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## 1994 - A Bumper Year for Acquisitions

1994 proved to be a bumper year for software and computing services acquisitions involving UK companies.

As we showed last month, although there were an unprecedented 15 new issues these were concentrated into the first four months of 1994. As new IT issues went decidedly out of favour, so trade sales and purchases took over. As the average P/E's of quoted SCSl companies fell by over 20%, the average P/E paid in trade sales increased by a similar percentage

to an average of 18 - a figure last achieved in 1991. Peter Rowell of Regent Associates said "over the past six months we have seen a number of high quality companies made available for acquisition when normally they would have followed the flotation route had it been more receptive".

Regent Associates confirmed that "the whole software and services sector is really buoyant at present. Software

providers, with specialist skills in specific vertical or horizontal markets, continue to be the most sought after organisations".

Indeed there was a 73% increase in transactions involving software product suppliers. In addition, and we hope coming as no

surprise to readers, FM companies (+40%) and those involved in IT training (+29%) were also in strong demand. 1994 was the first year on record when no publicly quoted SCSl company was acquired. Conversely, quoted

companies were responsible for 68 purchases - or 47% of the total - up a massive 84% on 1993. We were

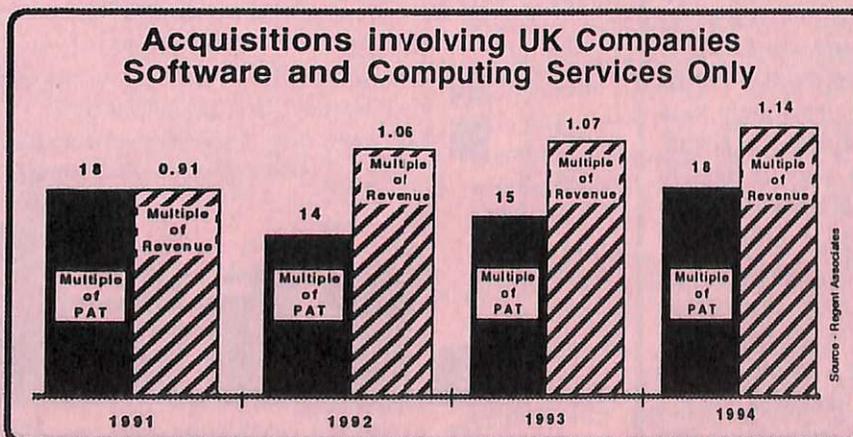
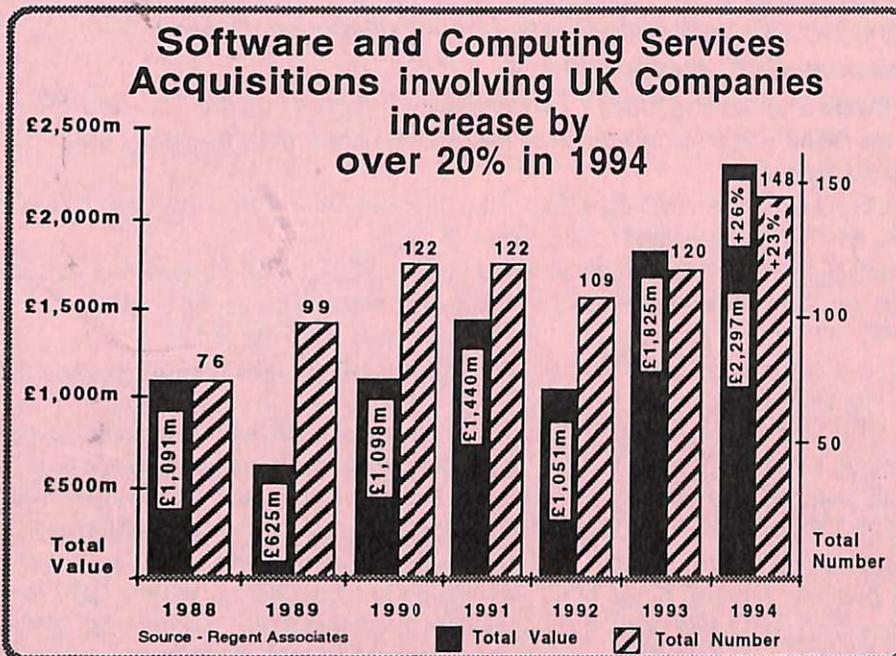
delighted to see an increase of 70% in the number of overseas companies purchased by UK-owned companies and a further decrease in the proportion of UK companies purchased by foreign concerns. This was due to a marked reduction in the acquisition activities of US companies;

although partially compensated by an increase in European buying activity.

The trends established in 1994 are likely to continue in 1995. There is unlikely to be a resurgence of new issue activity in the short term with no SCSl floats likely in Q1, although CMG still seems a likely candidate in a few months time. The trade sale, particularly as prices are now similar to that achieved in a float, is likely to resume

its popularity as a means of realising shareholder value. Regent Associates make the interesting observation that in the last four years there have been just 29 new IT flotations but over 1,000 trade sales with considerations > £500,000.

There are probably quite a few who now wish they had taken that option a year ago rather than subjecting their companies - and themselves - to the adverse publicity which has so often accompanied quoted SCSl companies.



## Just as we thought the message was getting through...

Several years ago, when we started our campaign along the lines "the software products sector has gone ex-growth...the highest margins and the best place to be in the future is high quality/high utilisation/high skill people businesses", we were greeted with a mixture of incredulity and mirth by many. As all the evidence in the last few years has backed our assertion, we have no need to apologise.

One of our long term readers is leading US broker **Donaldson, Lufkin and Jenrette**. Their latest research document on **Oracle's** excellent Q2 results reads as follows:

**"Service revenue increased a strong 55% (and now represents 46% of total revenue). Within this, support revenues grew by 45% (to 20% of total) but the stand-out item was consulting revenue which increased by 62% (to 26% of total revenues). Oracle sees a significant opportunity in the consulting area and is pursuing that avenue through the aggressive hiring and training of consultants. The company expects consulting revenue to continue to grow at a fast pace, and expects its profitability to improve as it leverages the investments it has made during the past several quarters. We believe the services business is losing the stigma of low profit and volatility, for which it was known in the past. We view it as a solid source of revenue growth and profits for software companies".**

Oracle's services revenues have grown significantly in the last four years from under 25% of total revenues to an estimated 50% in the current year. And as service revenues grow so does Oracle's profit margins - to an estimated 22% in the current year. But as an increasing number of people are realising, the only way to make 20%+ profit margins these days is from high quality/high utilisation/high skill people businesses.....

## ...our prime example, CSE, disappoints....

The **Centre for Software Engineering (CSE)** - "the Confidence Builders" - is the UK's leader in testing safety critical systems. Just like the clients and projects with which they are involved, they normally shun publicity. Unfortunately, two events in 1994 changed that:

- they got embroiled in public concern over the safety of the Chunnel, where they had been responsible for testing the software used in the 541 VAX systems and 8 million lines of code.
- they headed our rankings of the profit margins achieved by the 1250+ SCSi companies in our database for 1993. It wasn't a flash in the pan appearance either. CSE's profit margin was 45% in 1991, 43% in 1992 and 50% in 1993 when they made PBT of £1.1m on revenues of £2.2m in the year to 30th June 1993.

We have used CSE ever since as our prime example of how specialist IT consultancies can earn the kind of margins previously reserved for software products companies.

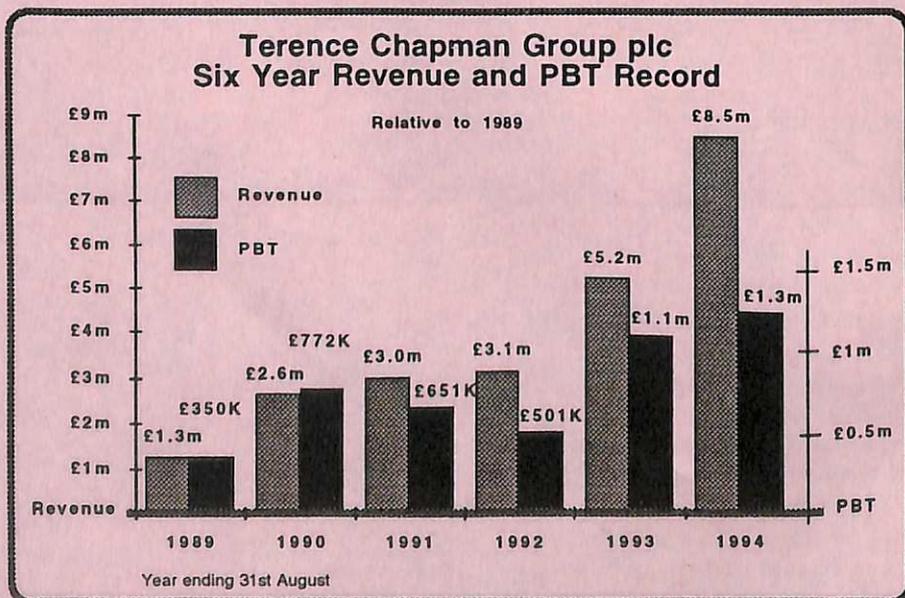
However, recently CSE filed their accounts for the year to 30th June 94 which showed a rather different picture. Revenues had slumped 44% to £1.2m but cost of sale and admin. costs increased. Hence, the £1m operating profit made in the previous year had been reduced to breakeven. It was only interest on the now reduced £850K cash that delivered the £56K PBT. So much for such companies "losing the stigma of low profitability and volatility" - see above. MD (and 55% shareholder) Dr. Phil Bennett said the results "reflected expenditure invested in developing new markets in the Far East and Europe". A new office has opened in Hong Kong, where CSE has a role in testing the systems for the new airport, and a new office is anticipated for mainland Europe. He described the 1993 revenues as "exceptional" due to the "Channel Tunnel success" which he hoped to exploit "in other major international infrastructure projects". Bennett says he is "quietly confident for 1994/95" - with the objective now clearly back on the "quietly".

## ...and margins slip at Terence Chapman

One of the other examples we used of high profit margins from people-based businesses was the 20%+ margins achieved at banking and finance sector consultancy - **Terence Chapman**. In Jan. 94 they purchased **Synergo** and their UNIX-based stockbroking system for "a seven figure sum". At the time Terence Chapman had been forecasting profits "in excess of £1.4m" for the year to 31st Aug. 94. But in the event profits increased by just 15% to £1.26m with the "first time 8 month contribution" from previously loss making Synergo probably the culprit.

Revenues, of course, shot up by 65% to £8.5m, meaning that last year's 21% profit margin slid to a still highly respectable 15%. EPS rose by 24%.

Terence Chapman is in the final stages of raising almost £3m of committed new money which will be used to fund further acquisitions. However, we are told that no specific acquisition has been lined up as yet. The fund raising is rather novel as it is structured around the reward to be achieved when Terence Chapman floats "within the next two years". Let's hope sentiment towards the sector has improved by then.



**Sorry**

We made an error in our reporting of CRT Group's results for the six months to 31st Oct. 94 in last month's *System House*. We

should have said that revenues from continuing operations, excluding the revenues from System Resources acquired during the period, increased by 24%. Indeed on a like-for-like basis, CRT's revenues were up 51% in the period and means a £75m p.a. run rate at present.

This month CRT's Chairman - John Robinson - and non-exec. Sir Douglas Hague have signalled their intention to resign. CRT is seeking two new non-execs "with experience in the information technology, software, media and publishing field". That would seem to cover most *System House* readers.

**Gresham "reinvigorated"**

There really is nothing new in the current IT froth stock debacle. When Gresham and Telecomputing "merged" back in Feb. 91 the share price was 11p - it sank to just 6p a few months later. But then excitement over the ISAM-XA product, fuelled by a deal with Dun & Bradstreet, sent the shares into orbit. They reached a high of 186p in mid 1993. We then quipped that Gresham was the new Micro Focus. As we all know, Micro Focus then went into free fall - the share price fell from over £30 to just £8. Of course our prediction was spot on (although for exactly the wrong reasons!). Gresham's share price has since crashed from that high of 186p to just 35p as Gresham admitted that its open system market forecasts had been "over optimistic" and announced major reductions in revenues and profits for 1993.

The last year has seen new management taking over from Sid Green and a sort of refocus back onto some of its previously more boring (but profitable) activities like consultancy, contract IT staff, recruitment and, of course, its mainframe systems software product base. Results for the year to 31st Oct. 94 show revenues up 12% at £6.5m, but £515K of the increase was due to the acquisition of Interwork. PBT rose 29% to £708K (again largely because of the acquisition). But, encouragingly, EPS rose 27%.

"Gresham is committed to being a products company first, with services playing an important but synergistic role". ISAM-XA is still regarded as having great potential and a new networking product will soon be released.

A imminent move from the USM to the main market will be accompanied by a name change to Gresham Computing. Therefore Gresham enters 1995 with no links with Bernard Panton's Telecomputing, with Gresham's founder Sid Green now involved only as a non-exec. but otherwise "with a clear focus and reinvigorated".

**SNI UK at standstill**

Siemens Nixdorf Information Systems (SNI) has reported UK revenues up 12% at £160m in the year to 30th Sept. 94. In 1993 a modest profit of £209K was report - this year "breakeven" is claimed.

The revenue rise was entirely due to SNI's acquisition of ACT Cablestream's networking operations in Jan. 94 for up to £7m. Cablestream had revenues of £14m in 1993. SNI also acquired a 51% stake in Dunlop Automotive Composites.

**LBMS "doth protest too much, methinks"**

Back in Aug. 94, you may remember that a US consortium headed by Bessemer Ventures took a 19.4% stake - and effective control - of Learmonth & Burchett Management Systems (LBMS). Our views were quoted widely at the time. For example in Computing 1st Sept. 94 we said "It is a shame to see an innovative UK company being Americanised. It has happened before at Micro Focus and Blyth Software (Omnis), for example, and each time we've seen research and development activities crossing the Atlantic. It is a step in the wrong direction".

This caused great consternation at LBMS who :

- 1) 'phoned us to complain that this was untrue.
- 2) put out a statement saying that one of the benefits of the new investment was "to strengthen the main product development centre in the UK".
- 3) made statements to the press denying our claims. For example David Hsieh, head of worldwide marketing at LBMS, pointed out that two thirds of all development work was done in the UK. "We have no plans to move anyone. We are actually moving one development project back to the UK". Source - Computing 9th Sept. 94.

Just five months later in a Press Release dated 19th Jan. 95, LBMS announced that .... "the two currently remaining corporate functions left in London, product management and development, will be largely relocated to Houston".

There is only one thing we dislike more than being wrong (which we sometimes are!) and that's being accused of being wrong when we were right.

Apart from that, you may ask does it matter? Our campaigning for a strong UK-owned software industry is well known and has earned us both supporters and critics. (You may remember when we were publicly branded a *Little Englander* by a certain well known Frenchman). The very best jobs in our industry are located in or close to development centres. The LBMS move to the US means another setback for the UK and for the employment prospects of our sons and daughters.

**Farewell Athesa...Hello Integris**

The FM joint venture between BULL and Cisi, which traded as Athesa, has been ended. Athesa UK had been surprisingly successful in its first year generating £5m revenues and a run rate of £30m from at least six notable wins including Brighton Council, Eastern Electricity with the largest, Honeywell Controls, worth £7m over five years. It will in future be known as Integris UK. You may remember that BULL sold its \$450m US SI business to Wang in Sept. 94 for \$160m. The deal excluded the US outsourcing business which traded as... Integris.

**Takeover rumours fade for Unipalm**

One of the very few new issues of 1994 still showing a premium is Unipalm. Launched in Mar. 94 at 100p, the shares ended Jan. 95 on 126p. But that's off the high of 146p.

Interim results to 31st Oct. 94 show revenues up 58% at £7.8m, PBT unchanged at £149K but EPS down 6%. Given a current capitalisation of £26m, this is all a little academic. The real excitement is over the Internet connection activity - Pipex. This made a loss of £462K in the period but you will be relieved that profits are forecast by 2000! Unipalm's share price had been bolstered by takeover rumours. With increased competition from the likes of Microsoft (who also recognise the Internet potential) this now looks less likely.

## Bad news continues at MDIS

McDonnell Information Systems (MDIS) seems to have honed the art of the surprise announcement into an art form. Perhaps it was our 15 years at Hoskyns which taught us that it is not actually a capital offence for the division you run to have a hard time. What is unforgivable, however, is not to forecast accurately.

Launched in May 94 at 260p, last Sept. MDIS issued its maiden interim results - and a profits warning. Their brokers - Nat. West Securities - cut profit forecasts from £25.7m to £17m. The shares collapsed to 107p.

At the time CEO Jerry Causley stressed in public, and to us personally, that "the important thing to remember is that business has been delayed, not lost". Indeed fortunes would revive as "MDIS will pick up a lot of new business once the current log jam in decision making is cleared". Indeed, we were given a long list of delayed contracts which would soon be secured. We had a robust discussion about forecasting at MDIS and felt this was at least one area of weakness that would be addressed.

We pondered "£5m profits in the first half, an improvement in the second from delayed contracts...£14m for the year looks about it". Indeed, the share price even started to recover, reaching 120p in Nov. 94.

Then, on 10th Jan. 95, MDIS produced an almost carbon copy of the Sept. 94 announcement. The reasons:

- not one "further major order" for the PRO-IV IBS banking product was secured in the second half
- further delays in orders from Police forces
- an increase of 10% in R&D costs
- what seems to have been an unexpected £2.5m loss at Xerox Computer Services (the Chess product); acquired in Oct. 94 for up to \$30m. Although Xerox Corp. will knock this off the purchase price, it still has to be taken into MDIS's P&L account.

Analysts are busy revising their forecasts again. This analyst reckons that MDIS will report little advancement on the £5m interim figure and that could well be before the £2.5m Xerox hit.

The shares tumbled by another 33% this month to just 68p. They might well have fallen further had not "MDIS for sale?" rumours started.

MDIS' FD, Ian Knox, fell on his sword. But surely it's the top managers, who feed the bean counter the forecasts, who are the real culprits?

It is all turning into an unholy disaster with implications for confidence in the industry which go far beyond MDIS. It's about time something serious was done.

### Virtuality bucks new issue trend

Not all new issues are disappointing. Shares in Virtuality, which specialises in "low cost virtual reality systems", were placed at 170p in Oct. 93. They closed this month up a further 2% at 226p. Although it is easy to dismiss a company with a market capitalisation of £59m but revenues of less than £10m as pure hype, Virtuality seems better versed at pleasing investors than most of the more established new issues.

This month they have announced that losses for 1994 will be "less than £1.5m" - at the lower end of expectations. They have also won a £400K contract with Japan's largest advertising production company to supply VR systems to a new ecological centre.

And they are British... (well so far anyway).

## Cray "below expectations"

Although Cray announced a 29% increase in PBT to £10.1m and a 22% increase in EPS, these were marginally below City expectations. Demand for working capital has reduced cash from £17.2m to just £2m in the period. "Quite why a non-capital intensive business needs so much working capital is unclear". Tempus in The Times 12th Jan. 95.

CRAY ELECTRONICS	6 months to 31st Oct 93	6 months to 31st Oct 94	Change %
<b>REVENUE</b>			
Cray Communications	£74,900K	£82,500K	+10%
Cray Systems	£21,800K	£34,900K	+60%
P-E International	£2,800K	£17,600K	+529%
<b>Total continuing ops</b>	<b>£99,500K</b>	<b>£135,000K</b>	<b>+36%</b>
Discontinued ops	£14,800K		
<b>TOTAL Revenue</b>	<b>£114,300K</b>	<b>£135,000K</b>	<b>+18%</b>
<b>OPERATING PROFIT</b>			
Cray Communications	£6,700K	£7,800K	+16%
Cray Systems	£1,200K	£1,900K	+58%
P-E International	£0K	£200K	
<b>Total continuing ops</b>	<b>£7,882K</b>	<b>£9,935K</b>	<b>+26%</b>
Discontinued Ops	-£180K		
<b>Total Operating Profit</b>	<b>£7,702K</b>	<b>£8,800K</b>	<b>+14%</b>
Net interest	£102K	£150K	
<b>PBT</b>	<b>£7,804K</b>	<b>£10,085K</b>	<b>+29%</b>
<b>EPS</b>	<b>2.49p</b>	<b>3.03p</b>	<b>+22%</b>

Organic growth at Cray Communications was a modest 10%. Although Comms. now represents only half of revenues, the division still produces nearly 80% of operating profit. "Network systems integration...is experiencing the greatest increase in demand".

The other half of revenues come from Cray Systems where 13% growth was achieved if acquisitions are stripped out. SAM Systems, acquired in July, seems to have settled in well. The old Autofile-type/reservations activities seem to be really motoring again with a £2m deal with First Choice, a \$1m deal with American Airlines and others secured in the last six months. However, the Previously loss-making P-E International (management consultancy), returned profits of £200K on revenues of £17.6m - still a long way from producing the margins we expect from the Cray team. "The public sector is increasingly competitive and procurement policies are getting tougher".

**The future?** Chairman Roger Holland says "Cray retains the momentum, built up over the last five years, to improve profits and earnings". We would still like to see a major acquisition to add to the systems side. But this might be difficult if the share slide is not reversed. Brokers Hoare Govett have cut its profit forecast by £3m to £30m. Indeed a year ago when the interims were announced, Cray's share price was 189p. It went on to hit a high of 202p in 1994. Now, at the end of Jan. 95, it is down at 152p.

### Losing "patients" at Proteus

Perhaps the ultimate IT froth stock has been Proteus International. A new issue in May 90 at 84p, the share price reached a high of over 500p in 1992. Since launch they have earned no revenue and losses have mounted. In the six months to 30th Sept. 94 losses increased from £2.73m to £3.67m on zero revenues.

The real problem is that, despite raising a further £10.4m in the rights issue in Mar. 94 at 240p, cash is running out fast and Proteus has admitted that more will be needed before the drugs developed using their software product start earning. Shareholders have been told this before and their patience is understandably evaporating too.

The share price has already collapsed to 184p.

**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		Final - Oct 93	Final - Oct 94	Comparison	
REV	£ 107,595,000	£ 250,630,000	£ 106,337,000	-1.2%	REV	£ 5,823,000	£ 6,507,000	+11.7%	
PBT	£ 11,531,000	£ 28,469,000	£ 1,006,000	-91.3%	PBT	£ 551,000	£ 708,000	+28.5%	
EPS	4.41p	12.15p	4.05p	-8.2%	EPS	1.04p	1.32p	+26.9%	
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	£ 74,487,000	£ 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	Interim - Sep 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		£ 91,314,000	+34.3%	REV	£ 12,277,000	£ 24,916,000	£ 12,255,000	-0.2%
PBT	£ 2,715,000		£ 4,033,000	+48.5%	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					
	Final - Oct 93		Final - Oct 94	Comparison		Final - Jun 93	Final - Jun 94	Comparison	
REV	£ 23,450,000		£ 23,388,000	-3%	REV	£ 217,434,000	£ 228,848,000	£ 228,848,000	+5.2%
PBT	£ 3,752,000		-£ 7,892,000	Profit to loss	PBT	£ 9,026,000	£ 13,543,000	£ 13,543,000	+50.0%
EPS	10.60p		-27.70p	Profit to loss	EPS	8.70p	14.00p	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	£ 21,523,000	+99.2%
PBT	£ 604,000		£ 2,062,000	+241.4%	PBT	£ 619,000	£ 2,009,000	£ 2,009,000	+224.6%
EPS	n/a		n/a	n/a	EPS	4.27p	4.50p	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	-2.8%
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					
	Interim - Oct 93	Final - Apr 94	Interim - Oct 94	Comparison		Final - Jun 93	Final - Jun 94	Comparison	
REV	£ 114,308,000	£ 271,718,000	£ 135,044,000	+18.1%	REV	£ 40,788,000	£ 40,521,000	£ 40,521,000	-0.7%
PBT	£ 7,804,000	£ 26,168,000	£ 10,085,000	+29.2%	PBT	£ 8,759,000	£ 6,348,000	£ 6,348,000	-27.5%
EPS	2.49p	8.60p	3.03p	+21.7%	EPS	10.60p	8.00p	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	£ 24,367,000	+4.8%
PBT	£ 472,000	£ 532,000	£ 1,285,000	+172.2%	PBT	£ 10,497,000	£ 11,211,000	£ 11,211,000	+6.8%
EPS	0.56p	-0.13p	1.42p	+153.6%	EPS	31.50p	34.20p	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		Final - Oct 93	Final - Oct 94	Comparison	
REV	£ 5,545,366		£ 6,375,180	+15.0%	REV	£ 53,351,000	£ 58,774,000	£ 58,774,000	+10.2%
PBT	£ 231,406		£ 426,144	+84.2%	PBT	£ 6,700,000	£ 6,173,000	£ 6,173,000	-7.9%
EPS	2.69p		4.32p	+60.6%	EPS	10.50p	10.00p	10.00p	-4.8%
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		Interim - Nov 93	Final - May 94	Interim - Nov 94	Comparison
REV	£ 14,341,000		£ 14,013,000	-2.3%	REV	£ 42,086,000	£ 93,358,000	£ 63,922,000	+51.8%
PBT	£ 4,672,000		£ 4,123,000	-11.8%	PBT	£ 8,012,000	£ 18,612,000	£ 11,245,000	+40.4%
EPS	11.71p		10.21p	-12.8%	EPS	14.00p	31.90p	16.20p	+15.7%
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	£ 10,861,498	+53.9%
PBT	-£ 6,143,000		-£ 2,052,000	Loss both	PBT	£ 1,725,549	£ 2,505,106	£ 2,505,106	+45.2%
EPS	-7.40p		-2.60p	Loss both	EPS	9.00p	13.10p	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	+28.1%
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	£ 3,161,416	£ 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					
	Interim - Sep 93	Final - Mar 94	Interim - Sep 94	Comparison		Final - May 93	Final - May 94	Comparison	
REV	Nil	Nil	Nil	n/a	REV	£ 18,042,438	£ 18,628,990	+3.3%	
PBT	-£ 2,733,000	-£ 6,618,000	-£ 3,666,000	Loss both	PBT	£ 211,504	£ 409,901	+93.8%	
EPS	-10.03p	-24.23p	-11.94p	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		Interim - Oct 93	Final - Apr 94	Interim - Oct 94	Comparison
REV	£ 6,607,000	£ 13,346,543	£ 7,266,000	+10.0%	REV	£ 4,943,000	£ 10,763,000	£ 7,804,000	+57.9%
PBT	£ 143,000	£ 553,214	£ 604,000	+322.4%	PBT	£ 148,000	£ 272,000	£ 149,000	+0.7%
EPS	2.00p	6.70p	6.90p	+245.0%	EPS	0.50p	0.89p	0.47p	-6.0%
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	£ 757,000	£ 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	+147.6%	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	£ 17,630,000	£ 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	£ 1,573,000	£ 742,000	+21.8%	PBT	-£ 18,944,000	-£ 18,649,000	£ 1,068,000	Loss to profit
EPS	3.00p	6.45p	2.90p	-3.3%	EPS	-144.60p	-143.80p	3.40p	Loss to profit
Sage Group plc									
	Final - Sep 93	Final - Sep 94	Comparison		Final - Sep 93	Final - Sep 94	Comparison		
REV	£ 41,289,000	£ 50,888,000	+23.2%	REV	£ 41,289,000	£ 50,888,000	+23.2%		
PBT	£ 9,656,000	£ 14,252,000	+47.6%	PBT	£ 9,656,000	£ 14,252,000	+47.6%		
EPS	32.50p	45.40p	+39.7%	EPS	32.50p	45.40p	+39.7%		

**...and profits from services**

As we are sure you know, IBM surprised pundits by announcing a \$3b profit for 1994 compared with a \$96m loss in 1993. But you may have missed that whereas hardware revenues grew by 6.6% (to \$32.3b) and maintenance revenues reduced by 1% to \$7.2b, **services revenues were up a massive 26% to \$9.7b**. Given the problems with proprietary operating software, IBM's software revenues were up a creditable 3.6% at \$11.3b. **IBM UK** also did well with total revenues up 8.5% at £4.4b with UK revenues rising by a similar % to £1.87b. Profits of £96m were recorded against a loss of £174m in 1993 with 9,183 employed at the year end - 2200 fewer than a year earlier. Although no breakdown is so far available, growth in UK services was highlighted as "excellent".

**IBM sells further CFS stake...**

Computerised Financial Solutions (CFS) was a new issue in Feb. 94 at 90p. IBM UK had bought a 26% stake in Nov. 90 at £260K and used the float to reduce its holding to 14%. This month, IBM has sold a further 4.9% to **Rotch Property** at 104p and will sell its remaining 9.15% stake in two tranches in Oct. 95 and Apr. 96. Rotch is already a CFS trading partner, holding a 50% stake in CFS' Retail Financial Services subsidiary.

CFS latest figures show a £36K loss on revenues of just £1.4m in the six months to 30th June 94. CFS capitalises R&D and intangible assets now exceed total net assets.

## Acquisitions, disposals and liquidations

### Two more for Kalamazoo

Hard on the heels of the "up to £5.8m" purchase of WIS in Nov. 94, Kalamazoo Computer Group has this month acquired

- security printing company - GMT Tickets - for £500K in cash plus a further £200K deferred.
- the Dutch motor dealer customer base of MAI Systems Corp. for an undisclosed sum.

### DEC gets £6.5m for Desisco

Digital has sold its City trading systems operation Desisco (which markets DecTrade) to Management Technologies Inc. (MTI) for £6.5m.

Although MTI is a NASDAQ quoted company, in July 94 it acquired Winter Partners' international banking systems business which was headquartered in the UK and had revenues of around £11m. Desisco was also centred on the UK where the negotiations were undertaken. MTI now claims revenues of £26m and over 200 professional staff. The many recent disposals by DEC seem to indicate that software and services now hold little interest.

### Oxford Molecular in £5.9m purchase

Oxford Molecular develops computer-aided molecular design software. Although they made full year losses of £1.2m on revenues of just £1.4m they were valued at £29.5m when they were floated in Apr. 94 at 80p. In Aug. 94, Oxford Molecular bought US "bioinformatics software developer" IntelliGenetics for £5.2m from ATC. This month Oxford has acquired a similar US company - CAChe - for £5.93m in shares. As CAChe was jointly owned by SONY, the purchase takes Oxford further into the US and Japanese markets.

Oxford also reported that it was "performing well" but said that "US revenues had not achieved budgets". Oxford shares ended the month up 12% at 67p - a discount of 16% on the launch price.

### Another profits warning and disposals at ACT

ACT Group's share price crashed by 26% as a another profits warning was issued on 30th Jan. due "to delays in new products and disappointing levels of new business" at ACT Financial Systems (the UK part). The UK is now expected to "make a small trading loss". Not only are 60 more ACT staff to lose their jobs, but Mike Hart (Group MD) and Paul Newton have gone. Kieran Nagle (from Kindle) takes over as CEO. ACT stressed that the international operation (60% of revenues) was still growing and profitable.

When we interviewed Roger Foster, just two months ago, he was anticipating a better second half. Now analyst's forecasts have been slashed from £26m to £15m. Foster was also indignant when questioned about the wisdom of their share repurchase plan. On 22nd Nov. 94 ACT spent £9.27m buying 9m of its own shares at 103p. Those shares are now worth £2.5m less.

ACT Managed Services, which comprises the old BIS-Perthcrest local authority FM operation and the NMW stockbroker bureau in Nantwich, have been known to be for sale for some time. In Nov. 94 ACT Group told us that the operation was "breakeven" on annual sales of around £8m. Olivetti has now emerged as the most likely purchaser. Source - Computer Weekly - 26th Jan. 95.

**The others...** Electronics Arts Inc. has acquired Surrey-based computer games developer Bullfrog Productions Ltd. for an undisclosed sum. Bullfrog claims to have had "six consecutive number one hits" with such CD-ROM titles as Theme Park and Magic Carpet. ICL VAR Danetre Business Systems has gone into receivership - for the second time in four years. ICL Inc. has bought the Surpass Plus retail software from BellSouth Corp. Terms were not disclosed. US Forefront has acquired Rapid Recall and has confirmed that it is looking for further UK acquisitions. The UK arm of Healthcare systems supplier Community Health Computing has gone into administration.

### PMSC buys Creative

Creative Insurance Services specialises in software and services for the general insurance industry with their INSURE/90 product for the AS/400. They operate in the UK, Australia and Southeast Asia. We understand that revenues of £9.5m and PBT of £1m were made in 1993. In April 94, its owners Swiss Re sold Creative in an MBO. This month Creative has changed hands again with its purchase by US Policy Management Systems Corp. (PMSC).

Creative has declared revenues of £11.5m for 1994 and PBT was "considerably in excess of £1.5m". We would therefore estimate the price paid to be in excess of £10m. If we are right then this looks to be about three times more than that paid in the MBO less than a year ago and must have put a smile on the faces of the MBO team and Schroder Ventures, who backed the buy out.

Donald Coggiola of PMSC said "we are committed to becoming the leader in all segments of the worldwide software and services industry and the acquisition of Creative certainly moves us closer towards the attainment of that goal".

### JBA buys..and sells

JBA has bought Australian software group HB&A for an initial £540K plus a further £830K based on future performance. HB&A made PBT of £120K on revenues of £3.3m in the year to 30th June 94.

JBA also announced that it was selling its Spanish subsidiary to PHM Servicios Financieros for "a nominal sum in a deal expected to have a neutral effect on results".

### People

Chris Winn, who had served as a main board director of ACT Group for 11 years to 31st Dec. 94, has joined Sanderson Electronics as an executive director. Winn had been responsible for much of ACT's non financial services activities - almost all of which have been sold in the last couple of years. Also from ACT, Gerry O'Keefe has joined Logica as UK sales and marketing director. Logica at one time won our "most expensive board" award which prompted a letter from the then MD David Mann pointing out this was only because they had more directors than the others! Last year restructuring meant that Logica slipped outside the Top Ten. But, in a clear attempt to regain their position, Logica has this month announced a further three non execs "worthies". Frank Barlow (MD of Pearsons), Elizabeth Filkin (adjudicator at the Inland Revenue and Customs & Excise) and Richard Wakeling (professional non exec at Costains, Laura Ashley etc.) First there was Geoff Squire, then there was Mike Evans and now Mike Harrison has quit Oracle UK to join Informix as VP Northern Europe.

## ICL sells Guardian

Sometimes events in this business take us by surprise. In May 1991, Sherwood Computer Services sold a majority 75% stake in its then loss making disaster recovery business - Guardian - to ICL for an initial £434K. Given ICL's highly successful move to services on multi vendor platforms, this looked absolutely right. Indeed, Guardian prospered under ICL, making £1.6m PBT on revenues of £6.2m in 1993 - a highly impressive 26% profit margin. In May 94, Sherwood, by now in deep financial trouble, sold its remaining 25% stake for £825K - £150K less than the maximum agreed in 1991. This looked, even at the time, like the steal of the century for ICL.

So we were extremely surprised to hear that on 31st Dec. 94, ICL had sold Guardian in a transaction funded by ECI Ventures and Bank Paribas. Surprised, because Guardian seemed exactly the type of service ICL should be offering and could have been used as a springboard in Europe, where ICL is rather under represented in the services sector. Guardian seemed about the best performing services gem in ICL's crown.

Although the price paid for Guardian has not been released, we did some simple calculations. Revenues of £9m are claimed and a 26% profit margin was made in 1993. That would result in a PBT of £2.3m in 1994. A P/E of 15 - about the average for service company transactions in the last year - would infer a price tag in excess of £20m. Some rumours put the price as high as £26m. That's over 20 times what Sherwood had received in total and nearly 8-times more than its theoretical value just eight months ago.

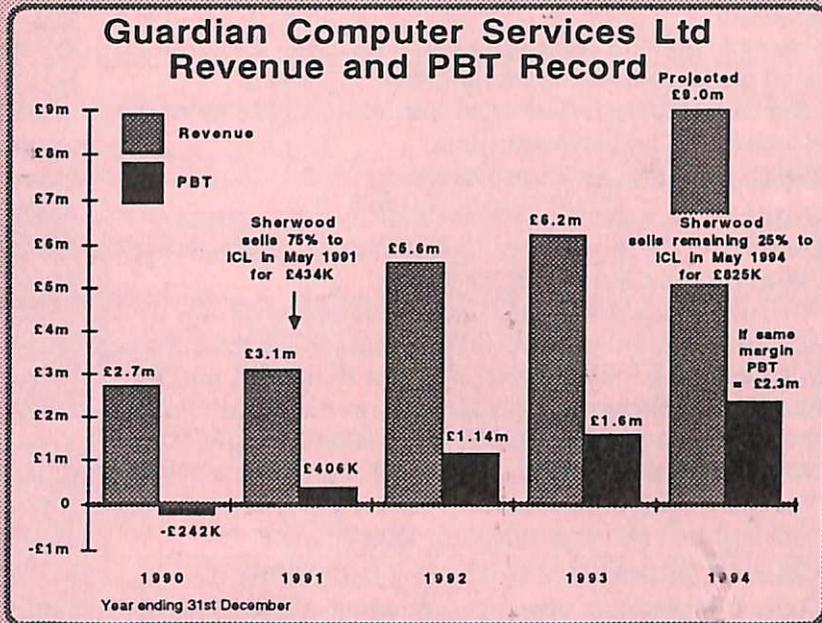
ICL told us that Guardian did not fit with their strategy of "building long term relationships with clients via, for example, managed services" and that selling multi vendor disaster recovery services would be easier if Guardian was not associated with a hardware manufacturer. However, suggestions that the sale was required to meet ICL's financial targets for 1994 were strenuously denied to us from a high level. You may remember that ICL transacted a very similar deal at the end of 1993 when it sold its stake in INS to GEIS.

But ECI Ventures and the management team seem delighted too. Richard Raworth has joined as the new Guardian Chairman. The disaster recovery marketplace is very much in vogue at present, although they need to be careful with the rapid technological changes taking place. Guardian is now likely to exploit the potential in Europe. We are told that acquisitions of any magnitude were unlikely as was any idea of a float in the near term. Certainly ECI and Paribas have reputations as long term investors.

Regent Associates, who acted for ICL in the deal, are clearly delighted too. Regent had, rather unfairly, been thought of as the M&A specialist doing the smaller deals. But Regent can now claim to have acted in three of the largest UK-brokered SCSI deals undertaken in 1994.

Perhaps the only slightly miffed party might be Sherwood. Although it looks as if everything was done by the book, it is ironic that the subsidiary they sold in 1991 is now valued at nearly five times Sherwood's current capitalisation.

**Footnote** Peter Bonfield was quoted in an interview with Tribune Desfossé saying that ICL's results for 1994 (to be announced in early March) "would be similar to those achieved in 1993 when PBT amounted to £24m". I.e. about equal to the gain made on the Guardian disposal.



## THORN EMI Computeraid completes MBO

After years of "on-off" rumour, THORN-EMI Computeraid has achieved its MBO.

The MBO was effected by two of the people who could claim to have founded Computeraid. Maurice O'Brien co-founded TPM Karlin Computer Services back in 1978 which was bought by Software Sciences in 1979 when it was part of BOC. In 1980 it became part of Datasolve, where Chris Wood was MD, and was renamed Computeraid. Both Software Sciences and Datasolve were acquired by THORN-EMI in 1982 - now both part of Data Sciences. Wood, who maintains his role as Chief Information Officer, THORN Group, will be Chairman of the new operation and O'Brien continues his unbroken 16 year stint as MD. All the senior managers, most of whom have been with the company for many years, invested in the MBO and, in time, all staff will be able to benefit from any success. As usual, THORN-EMI retains a 20% stake

and the prefix will be maintained for the first year. CINVen backed the deal with funds of £2.3m. Contrasting this to the price paid by Misys (see p12) for similar companies in the past is a salutary lesson.

Computeraid has revenues of around £33m and has been doing well in an otherwise troubled hardware maintenance sector. Indeed they have traded profitably every year since inception. Value added services and FM have been particularly strong performers and are clearly the areas earmarked for future success.

O'Brien told us he was very pleased with the positive support he had received from customers - many of which have remained loyal to Computeraid for a long period. It looks a fairly priced and well structured deal. Having been involved with every party to this transaction for a long time (indeed they are all avid *System House* readers!) we sincerely wish the new Computeraid well.

## Another month of ups and downs

The CSI index and the FTSE100 both fell 2% in January. **Enterprise** were up a massive 62% - (from 2p to 3.25p!). They had doubled until they put out an announcement saying they were *still* in discussions with their bankers. As they say, a share for the ultra brave! **Coda** were up 32% as Rodney Potts and GA went a-buying (p10).

**P&P** shares rose 12% after it said that its full year results to 30th Nov. 94, to be announced on 2nd Feb, would "beat current expectations". Now that really does make a change! **Kewill** shares also rose 6% on another positive Stock Exchange announcement. HAN Dataport (Germany) is to take over the business of Microway which collapsed last Nov. This will "lift operating profits to Mar. 95 near to the £1m level achieved in the previous year". Chairman Kevin Overstall looks forward "to a satisfactory result for the year".

Although **MR** shares were up 10%, this was off the peak when rumours of a takeover bid from **Hays** were rife. However, **MDIS** (p4 - down 33%) and **ACT** (p7 - down 26%) recorded the largest falls on further profit warnings.

30th Jan 95	CSI Index	1468.22	
	FTSE 100	2995.90	
	FTSE SmallCap	1710.59	
CSI Index = 1000 on 15th April 1989			
Changes in Indices	CSI Index	FTSE 100	FTSE Small Cap
Month (31/12/94 - 30/1/95)	-2.07%	-2.27%	-2.05%
From 15th Apr 89	+46.82%	+45.89%	
From 1st Jan 90	+59.57%	+26.84%	
From 1st Jan 91	+107.41%	+38.67%	
From 1st Jan 92	+40.52%	+20.17%	
From 1st Jan 93	-7.87%	+5.25%	+23.30%
From 1st Jan 94	-12.06%	-12.36%	-8.46%
From 1st Jan 95	-2.07%	-2.27%	-2.05%

## System House CSI Share Prices and Capitalisation

	Share Price 30/1/95 (£p)	Capitalisation 30/1/95 (£m)	Historic P/E	Ratio Cap./Rev.	CSI Index 30/1/95	Share price % move since 31/12/94	Share price % move in 1995	Capitalisation move (£m) since 31/12/94	Capitalisation move (£m) in 1995
ACT	£0.74	£ 137.30m	7.8	0.55	1174.60	-25.63%	-25.63%	£-47.30m	£-47.30m
Admiral	£6.35	£ 72.40m	19.5	1.98	4601.45	0.00%	0.00%	£0.00m	£0.00m
Azlan	£1.33	£ 28.90m	10.7	0.47	576.09	-1.12%	-1.12%	£-0.40m	£-0.40m
Capita	£1.50	£ 82.20m	19.1	1.64	4504.50	-8.54%	-8.54%	£-7.30m	£-7.30m
Cedardata	£0.97	£ 29.70m	15.4	4.85	923.81	-3.96%	-3.96%	£-1.20m	£-1.20m
Centregold	£1.05	£ 45.10m	14.4	0.49	840.00	-9.48%	-9.48%	£-1.60m	£-1.60m
Clinical Computing	£0.63	£ 10.20m	10.1	3.88	508.06	-5.97%	-5.97%	£-0.70m	£-0.70m
Coda	£1.02	£ 26.70m	10.6	1.14	434.04	32.47%	32.47%	£6.50m	£6.50m
Compel	£1.09	£ 16.60m	10.5	0.30	872.00	0.00%	0.00%	£0.00m	£0.00m
Computerised Financial	£1.03	£ 4.84m	loss	1.45	1144.44	0.00%	0.00%	£0.00m	£0.00m
Computer People	£2.32	£ 56.60m	52.8	0.82	954.73	-4.13%	-4.13%	£-2.70m	£-2.70m
Cray Electronics	£1.52	£ 360.80m	17.7	1.33	888.89	-5.88%	-5.88%	£-22.60m	£-22.60m
CRT	£0.79	£ 53.20m	19.2	1.12	877.78	0.00%	0.00%	£0.00m	£0.00m
DRS Data & Research	£0.31	£ 11.10m	7.4	0.96	281.82	-3.13%	-3.13%	£-0.30m	£-0.30m
DCS Group	£0.66	£ 6.27m	17.7	0.98	1100.00	-9.59%	-9.59%	£-0.64m	£-0.64m
Division Group	£1.04	£ 45.70m	loss	21.97	2600.00	-11.11%	-11.11%	£6.20m	£6.20m
Electronic Data Processing	£1.40	£ 36.70m	13.6	2.62	4286.59	-2.10%	-2.10%	£-0.80m	£-0.80m
Enterprise	£0.033	£ 2.57m	loss	0.16	26.00	62.50%	62.50%	£1.02m	£1.02m
Gresham Telecomputing	£0.38	£ 12.40m	28.8	1.90	408.60	2.70%	2.70%	£0.30m	£0.30m
INSTEM	£1.50	£ 6.75m	9.0	0.35	1500.00	0.00%	0.00%	£-0.05m	£-0.05m
JBA Holdings	£1.61	£ 53.10m	16.4	0.71	1006.25	5.92%	5.92%	£2.90m	£2.90m
Kalamazoo	£1.09	£ 41.50m	12.3	0.68	3114.29	0.00%	0.00%	£0.00m	£0.00m
Kewill	£2.54	£ 30.70m	9.3	0.97	1003.95	6.28%	6.28%	£1.70m	£1.70m
Kode International	£0.52	£ 4.89m	7.4	0.20	241.86	-1.89%	-1.89%	£-0.10m	£-0.10m
Learmonth & Burchett	£0.77	£ 16.80m	loss	0.64	641.67	-3.75%	-3.75%	£-0.60m	£-0.60m
Logica	£3.13	£ 193.40m	22.1	0.85	857.53	-3.69%	-3.69%	£-7.40m	£-7.40m
Lynx Holdings	£0.44	£ 18.50m	9.9	0.86	1100.00	-6.38%	-6.38%	£-1.30m	£-1.30m
MAID	£0.65	£ 52.80m	94.2	9.23	590.91	-5.80%	-5.80%	£-3.30m	£-3.30m
MDIS	£0.68	£ 68.00m	4.8	0.46	261.54	-32.67%	-32.67%	£-33.00m	£-33.00m
MR Data Management	£1.21	£ 67.50m	15.1	1.67	480.16	10.00%	10.00%	£6.10m	£6.10m
Macro 4	£4.18	£ 90.70m	11.7	3.72	1685.48	-4.57%	-4.57%	£-4.30m	£-4.30m
Micro Focus	£8.33	£ 120.00m	10.1	1.43	4024.15	1.59%	1.59%	£1.90m	£1.90m
Microgen	£1.17	£ 46.10m	11.7	0.78	500.00	14.71%	14.71%	£5.90m	£5.90m
Microvitac	£0.36	£ 26.10m	17.8	0.74	865.85	-2.74%	-2.74%	£2.80m	£2.80m
Misys	£4.19	£ 199.40m	13.0	2.14	1042.29	2.44%	2.44%	£4.70m	£4.70m
MMT	£1.98	£ 22.40m	15.7	2.06	1178.57	-3.41%	-3.41%	£-0.70m	£-0.70m
On-Demand	£0.67	£ 34.20m	loss	2.36	858.97	0.00%	0.00%	£0.00m	£0.00m
Oxford Molecular	£0.67	£ 29.10m	loss	20.64	837.50	11.67%	11.67%	£7.00m	£7.00m
P&P	£0.83	£ 64.90m	20.6	0.30	372.20	12.16%	12.16%	£7.00m	£7.00m
Parity	£1.15	£ 48.20m	35.8	2.44	6388.87	-8.73%	-8.73%	£2.00m	£2.00m
Pegasus	£1.55	£ 9.77m	15.6	1.30	422.34	3.33%	3.33%	£0.38m	£0.38m
Persona	£1.74	£ 21.10m	15.6	0.92	1087.50	8.75%	8.75%	£1.80m	£1.80m
Phonellink	£1.81	£ 64.30m	loss	51.81	1167.74	-15.02%	-15.02%	£-11.30m	£-11.30m
Proteus	£1.84	£ 57.00m	loss	n/a	2190.48	5.14%	5.14%	£2.60m	£2.60m
Quality Software	£3.83	£ 33.30m	55.2	2.49	1007.89	0.00%	0.00%	£0.00m	£0.00m
Radius	£0.35	£ 9.73m	loss	0.42	253.62	-7.89%	-7.89%	£-0.87m	£-0.87m
Real Time Control	£1.77	£ 12.40m	13.4	1.45	3612.24	3.51%	3.51%	£0.40m	£0.40m
RM	£2.06	£ 34.70m	13.3	0.53	1177.14	0.00%	0.00%	£0.00m	£0.00m
Rolle & Nolan	£1.84	£ 22.40m	29.3	1.76	2190.48	-0.54%	-0.54%	£0.00m	£0.00m
Sage Group	£6.68	£ 139.60m	14.7	2.74	5138.46	-0.89%	-0.89%	£-1.30m	£-1.30m
Sanderson	£0.85	£ 32.70m	12.3	0.96	1446.81	7.59%	7.59%	£2.30m	£2.30m
Sema Group	£3.99	£ 371.50m	24.1	0.74	1254.72	-2.21%	-2.21%	£-7.10m	£-7.10m
Sherwood	£0.88	£ 5.46m	loss	0.23	733.33	10.00%	10.00%	£0.58m	£0.58m
Spargo Consulting	£0.89	£ 11.10m	35.1	2.28	936.84	-2.20%	-2.20%	£-0.30m	£-0.30m
Standard Platforms	£0.13	£ 2.25m	loss	0.71	55.55	-10.71%	-10.71%	£-0.27m	£-0.27m
Superscape	£2.02	£ 10.70m	loss	12.44	1020.20	-0.98%	-0.98%	£-0.10m	£-0.10m
Total	£0.38	£ 3.80m	39.5	1.82	716.98	8.57%	8.57%	£0.30m	£0.30m
Trace	£0.50	£ 7.00m	23.8	0.38	400.00	21.95%	21.95%	£1.27m	£1.27m
Unipalm	£1.26	£ 25.80m	141.6	2.40	1260.00	6.78%	6.78%	£1.90m	£1.90m
Vega Group	£2.58	£ 36.40m	26.0	3.75	2114.75	-1.90%	-1.90%	£-0.80m	£-0.80m
Virtuality	£2.26	£ 59.20m	loss	10.96	1329.41	2.26%	2.26%	£1.40m	£1.40m
Vistec	£0.14	£ 16.60m	7.4	0.37	586.96	3.85%	3.85%	£0.60m	£0.60m
Wakebourne	£0.69	£ 15.20m	loss	0.65	383.33	-12.66%	-12.66%	£-1.30m	£-1.30m

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.

## Coda "Extremely disappointing" is an understatement

In the long history of *System House*, we have never got our reporting more wrong than that relating to Coda a year ago. A glance at the first eight years on the chart below indicates at least one reason why we believed that they were "a veritable castle with deep foundations". Unfortunately, the foundations have since turned to sand. Launched in Feb. 94 at 235p, £19m of the £25m raised went to existing shareholders. The maiden interims in July contained the first warning. This was followed in Sept. 94 by another. "It now seems unlikely that Coda will achieve better than a break-even result before ESOP charges". In the event it was much, much worse. So much for break even, the full year showed an operating loss of £3.1m. The ESOP cost an additional £5m resulting in a Loss before Tax of £8m. Although cash remained at £2.3m, that means that the £5m of new money raised by the float has evaporated.

In essence, Coda's success in the past - and their current problems - were due to proprietary systems - HP, AS/400 and, in particular, DEC VAX systems. Revenues from these decreased by 10% last year. Although opens systems revenues increased by 150%, they are still only 15% or £3.6m of the total. Accelerating the roll out of these new products required a 67% increase in R&D spend to £5m - representing a high 20% of revenues.

Although we would normally be highly supportive of the substantial increases in support and consultancy revenues which Coda have achieved, it is the 23% decline in new licence revenues which is truly alarming.

In addition the "US operation performed badly in 1994 (i.e. revenues down 23%) and recorded a significant loss on reduced revenues".

"Our principal aim for 1995 is to restore profitability" says Chairman Rodney Potts. General Atlantic, who bought 10% at the time of the float, at one stage were sitting on a £4m loss. GA are now being allowed a type of "double or quits" deal to increase their holding to 20%.

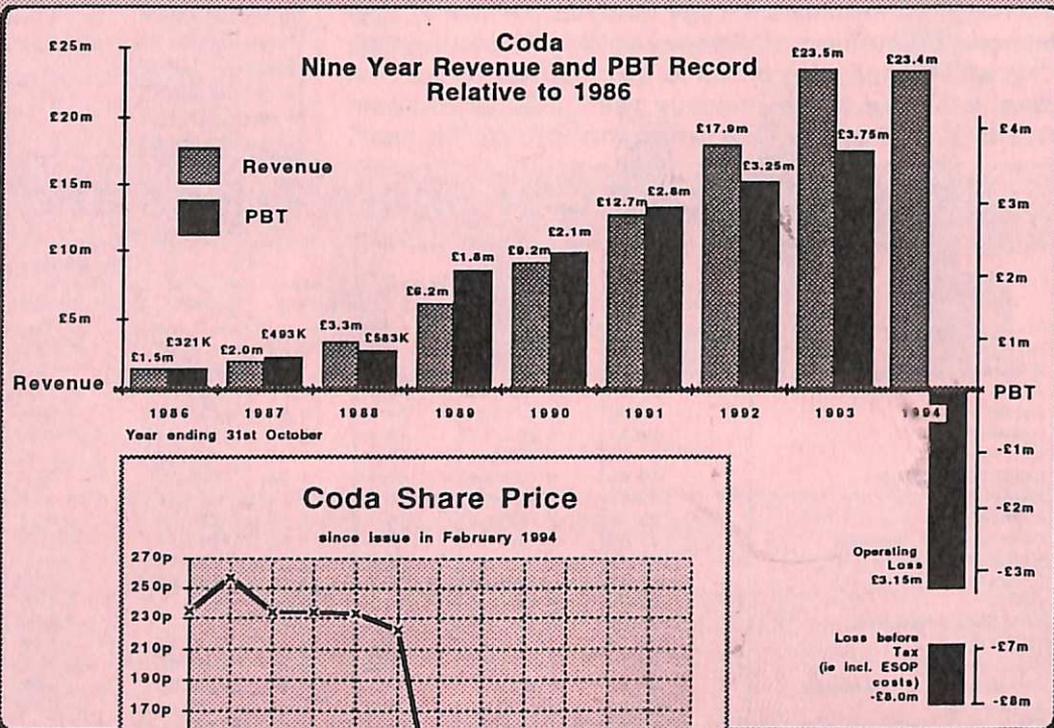
### Comment

It is rare for us to feel quite so personally betrayed as we do over Coda.

• did Coda and SG Warburg (Coda's brokers) know the

likely outcome to 30th Apr. 94 when they floated just two months earlier in Feb. 94? If not, why not?

- why did the downturn in DEC VAX licence sales come as a such surprise to Coda?
- why was Coda's forecasting so deficient that they still believed they might breakeven on 8th Sept. 94 - just seven weeks before the year end?
- after that, why was no further profits warning issued?
- why did SG Warburg issue a forecast of a loss of just



£500K on 7th Oct. 94, just three weeks before the year end?

Clearly the next year must see an improvement ("if it doesn't, Richard, you certainly won't be

interviewing me again" said Potts.) But we remain deeply concerned. The open systems financial accounting products marketplace is becoming a jungle. Is Coda fit enough to survive - let alone win?

Potts and GA obviously think so. On 18th Jan. 95, Potts bought a further 200,000 shares at 88p boosting his holding to 21.5%. (A commendable display of confidence? Well it should be remembered that Potts took £5m out at the time of the float. If he had now put it all back in he could then have doubled his shareholding to over 40%!) General Atlantic also bought another 880,000 shares boosting their holding to 13.5%. As a result Coda's share price was one of the best performers this month - ending 32% higher at 102p.

**Servicetec** We have a surprisingly high number of subscribers engaged in hardware maintenance - a sector whose decline we have forecast since our very first edition in 1989. Readers might be interested that this month **Servicetec** has filed their results for the year to 31st Mar. 94. These show revenues down 10% at £21.1m with PBT down 20% at £664K. These results were struck before the purchase of Computacare for £201K in Mar. 94 or the sale of ServiceCAL for £225K in Apr. 94.

In Sept. 94, **Servicetec** undertook a significant financial restructuring to replace short term debt with long term financing. This was perhaps hastened by horrendous Net liabilities of £9.5m reported at the last year end.

## Data Sciences - "Good performance but can, and will, do better"

In April 93, Data Sciences appointed Andy Roberts as their "new" CEO. We interviewed him then and every six months since. All the earth-shattering changes were made within his first six months. He put all the bad news behind him with the £18.8m loss for the year to 30th Sept. 93.

We have explained in detail the CINVen led financial restructuring which swapped a deep discount loan note for pref. shares (thus removing the notional interest from the P&L account). We have regaled you with the "velcros and bungy jumping" organisation, the new emphasis on selling all of Data Sciences offerings to all its customers under the "all the wood behind the one arrow" slogan, the major investment in training (particularly sales and marketing) and the resulting enthusiasm it has engendered.

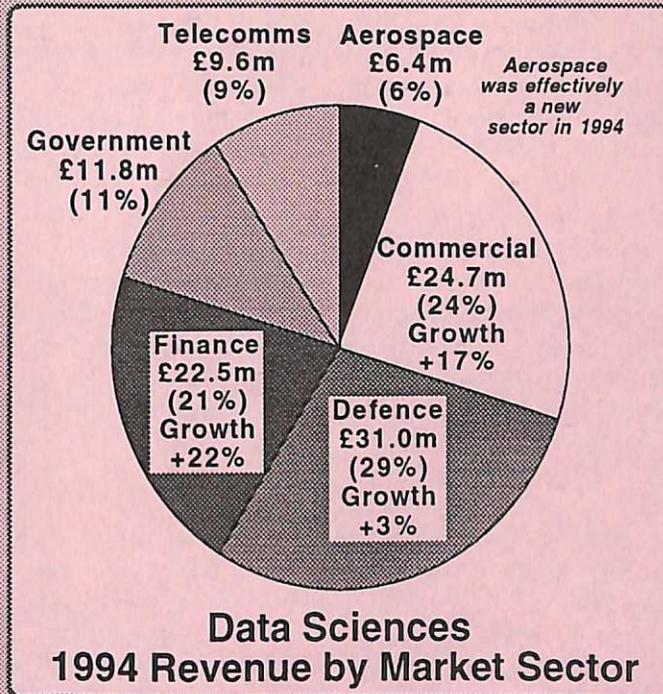
So unlike all the other analysts Roberts met when he announced the 1994 results this month, we spent our three hours with him talking about last year and the future...rather than the events of 1993.

In the year to 30th Sept. 94, Data Sciences' financial results were no better and no worse than they needed to be. Revenues from continuing operations grew by a pretty average 11% to £107m (£86.3m in the UK). Under the new accounting rules, operating profits of £4.26m were achieved compared with a loss of £11.23m last time. But that hides all the provisions etc. On a like-for-like basis, underlying operating profit improved from £3.4m in 1993 to £4.26m.

PBT of £2.06m was recorded compared with that £18.8m loss in 1993. The financial restructuring meant that shareholders funds (excluding goodwill) increased from £4.9m to £40m. 11% revenue growth and a 4% operating margin gets a clear

"average - can do better" on our report card.

And that is what it is all about. Data Sciences has made the changes, got rid of the dead wood and recruited the new growth. Although its people investments will continue, the major costs have already been incurred. It now has a well balance market portfolio as shown in the chart. Its order back log has increased and could now claim forward contracted revenues in excess of £200m. The £13m/5 year outsourcing deal with the Dental Practices Board announced this month is



Data Sciences' largest deal in many-a-year and is one of best examples of the "we can do it" attitude which now pervades Data Sciences.

The current year, in our opinion, is the one that really matters as that will decide when Data Sciences comes to the Stock Exchange. A 15-20% organic revenue growth and margins nudging 6% would make Data Sciences a very attractive candidate in a year's time. Our report card would then read "Good - but can do even better" - and that's exactly the kind of message they will need for a successful float.

## A tale of decline

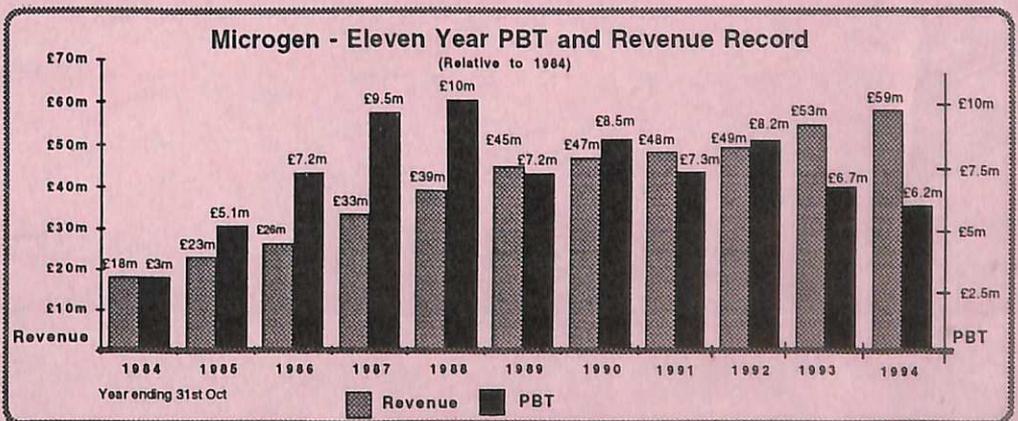
Microgen is predominately a COM bureau. Their fortunes have closely followed the rise..and fall in the use of microfiche. Latest results show revenues up 10% at £58.8m but PBT down 8% at £6.2m and EPS down 5%. A year ago analysts were expecting profits of £7.9m. We said at the time that Microgen MUST put all

its efforts into developing new business areas. Unfortunately, the one acquisition it made in the year was of SCS - a Scottish COM bureau.

Microgen now fully admits that changes in technology are "having an impact on our business" and new initiatives include optical and CD-ROM based storage services.

To Microgen's credit over 50% of revenues - and 70% of profits - are earned overseas.

Chairman Douglas Lee "views the future with confidence". The downturn was fully expected. After a 31% share price fall in 1994, Microgen put on 15% in January to close at 117p.



## Bleasdale Computers

You can buy shares in Bleasdale Computer System plc at 8p subject to Rule 4.2(a), valuing them at £540K. Alternatively, you could buy troubled Enterprise Computers stock at 3.25p, valuing them at £2.6m. Enterprise own 79% of Bleasdale stock.

However, Bleasdale, who install PC-based network systems in the UK and Germany, seem to be doing quite well with revenues of £4.7m and PBT of £186K in the year to 31st Mar. 94. That's a low 3 P/E.

**"People ask you for criticism, but they only really want praise"** W Somerset Maugham

Surprising as it may seem, Kevin Lomax at Misys is clearly a sensitive chap. When we wrote eulogies about Misys, we received all the usual analyst invitations. This year, for the first time ever, no invite arrived for the interim briefing.

That was a bit of a shame...not least because the results were in many ways impressive. Revenues for the six months to 30th Nov. 94 increased by 52% to £63.9m, PBT was up 40% at £11.25m and cash balances increased by £2m to £35m. But EPS was up a more modest 16%...and that, dear readers, is the sole cause of our criticism and our current *persona non grata* status.

In the last five years (i.e. since the interims to 30th Nov. 89) whereas PBT has increased 120%, EPS has grown by 47%. The share price in the same five years (from end Jan. 90 to 95) has grown by just 24% (from 338p to 418p). But you might be tempted to suggest that this was at least better than the other quoted SCSI companies at the time.

**Not true.** On an *exactly like-for-like* basis, the average then-quoted SCSI company has increased EPS by 50% in the period (and that is *despite* some massive declines at Sherwood, Total, Trace etc.). Whereas Misys grew EPS by 47%, Sage managed a 260% increase. The very services-type of company which Lomax eschews did surprising well - like Admiral (EPS up 166%), Capita (+160%) and Sema (+90%). And if you had invested in our CSI Index shares - including all the recent new issue failures - your investment would be 55% higher compared with Misys' 24%. If you had gone for Sage instead, you would have quadrupled your investment.

So why this disparity between EPS and PBT growth? We have suggested that it is due to Misys paying too much for many of its acquisitions. Several *System House* readers called us to say that the £40m paid for Kapiti in April 94 was over the odds. But now Misys makes a particular point that Kapiti has "*performed strongly and above expectations and has enhanced EPS*" in the period. You may remember that buried deep in the Misys rights issue document at the time was a *kind of* profits forecast for Kapiti of "*not less than £4m*" for calendar 94, but even with Kapiti included for the first time Misys Computer

Systems *only* increased operating profit by £1.7m in the half year to £5.8m. So we are delighted that the new acquisition has gone so well... as goodness knows what would have happened to EPS without it.

Misys reports "*attrition*" in their third party maintenance operations. Misys has spent over £20m buying hardware maintenance operations like TIS Computer Maintenance, Star, Principality, Sign Express, Specialist and others in the last five years.

Misys still positions itself as a "*supplier of application software packages to vertical markets*". Without wishing to downgrade the importance of product, Misys' real strength is in their provision of solutions where around 55% of their revenues now come from services. Their expertise in their chosen markets of banking, insurance, construction, manufacturing, hotels, electronic component distribution and travel agencies is where the real future advantage of Misys lies.

"*Good progress*" is anticipated from the Computer Systems division (which includes Kapiti) in the second half. The outlook for Financial Services (i.e. the Countrywide insurance broker offerings), however, was described as "*satisfactory*".

The recent RM plc bid has indicated that Misys' acquisition hunger is far from satiated and we would not be surprised to hear further announcements soon. We just hope that they too will lead to "*enhanced EPS*".

A bout of selling meant Misys share price was largely unaltered on the result announcement and closed January on 419p - 22% down from 537p this time last year.

**Seriously uncool**

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