

# System House

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

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## "Poor stock market sentiment"

When CMG decided to delay its float in Feb. 95, it blamed "poor stock market sentiment particularly towards the computing services sector". How right they were.

For ten years now we have taken a "snapshot" of the

average historic P/E's of all SCSi companies quoted on the London market. Taking the snapshot on 15th April each year ensures that all end year results are included and means that, at least, the trend line is relevant. Analysis this year shows a dramatic 30% drop in average historic P/E's - from 22 to 15. That is the steepest fall on record and takes the sector back to the black days of 1990.

Alongside this has come a 17% reduction in our CSI index compared with a 5% increase in the FTSE 100 in the same 12 month period - a 26% relative under-performance.

This year we have also analysed the prospective P/E's of these companies from the consensus broker's views as published in the mid-April 95 edition of The Estimate Directory. The average is again an historically record low of 13.

The effect of this on the new issue market has been dramatic. There were a record 17 SCSi floats between Oct. 93 and June 94. The average P/E (excluding the froth stocks) exceeded 25. But there have been just two new issues since then and those have both been at a P/E

of around 12. We currently know of no new issues planned for the next quarter.

The much quoted reasons for this are the number of companies issuing profit warnings soon after float or,

worse still, unexpectedly bad maiden results. Bad news from established companies - like Cray (see p8) this month - have made the situation even worse.

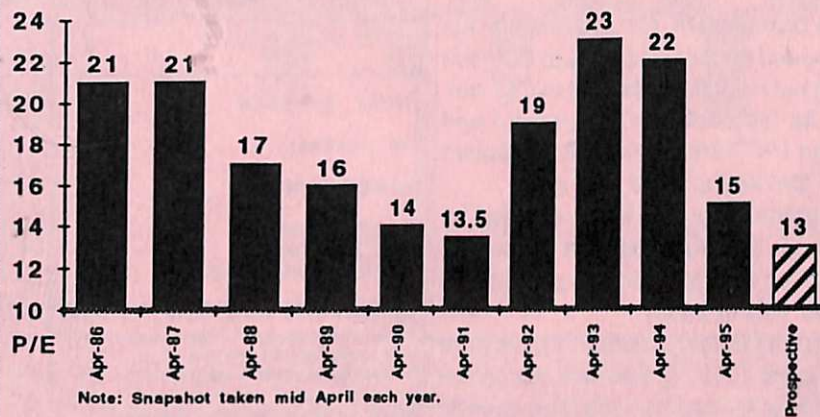
But why tar the whole industry with the same brush?

The average quoted SCSi company grew its PBT by 12% in 1994.

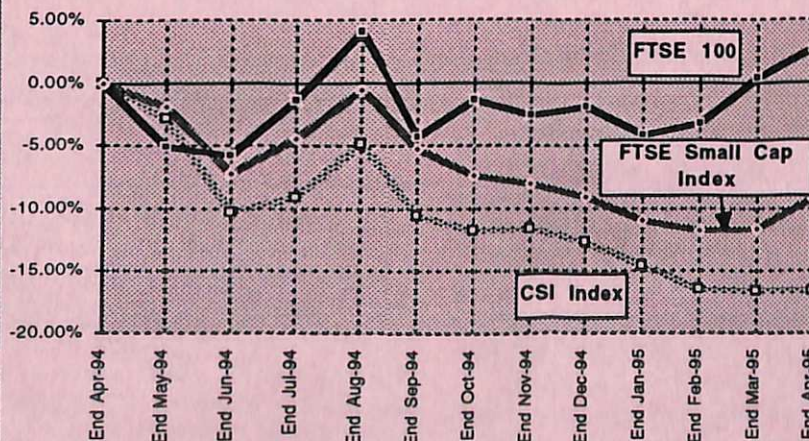
With double digit growth forecast thru to 1998, all the indicators are set fair for our industry and we are confident that the best of our companies will prosper in the next two years.

Even the brokers quoted in The Estimate Directory seem to agree. Their consensus view is that SCSi PBT will rise on average by 40% in 1995 and 36% in 1996, with roughly

### Historic & Prospective P/E's of Quoted UK SCSi Companies



### CSI Index compared with FTSE 100 and FTSE Small Capitalisation Index



similar increases in average EPS.

At the start of 1991 we went on record saying "there has never been a better time to invest in SCSi companies". Our CSI Index has increased by 106% since then and had, at one time, recorded a gain of 140%.

Current poor market sentiment plus high EPS growth forecasts is as good a reason as any for us now to reissue that prophecy.

### IMI's computing foray costs £35m

IMI plc's results for the year announced in Mar. 95 confirmed that the sale of Redland (Uniplex) cost them £35m plus a further £8.3m operating loss in the year. In 1993, the sale of Brook Street Computers had cost £5.9m.

IMI says it has "virtually withdrawn from the computing area". But Irene Brown's IMI Computing, which specialises in AM and workflow systems, is still there - although revenues are minute (£5-£10m?) compared with IMI's £1.1 billion. An MBO or sale candidate?

### Booming IT contract staff

We know that "one swallow doth not a summer make", but repeated sightings of growth in the IT staff agency market cannot be ignored. This month CRT reported that its Software Personnel operation "currently has 1,023 (805 - March 94) contractors on customer sites, an increase year-on-year of more than 25%". Their permanent recruitment business recorded "placements increased by approx. 50%". Parity also reported that "1995 has started strongly with good performances from both subsidiaries - CSS Trident & Parity Solutions".

### SHL Systemhouse blames UK for profits slump

SHL Systemhouse reported revenues up 14% to C\$332m in Q2 (to 28th Feb. 95) but net income halved to C\$2.6m. Expenses relating to its "streamlining" programme and "operating losses in the UK" were blamed. A breakeven in the UK is expected "before the fiscal year end".

SHL told us that in Europe revenues had increased by 11% to £94m last year (to 31st Aug 94). The majority of this was in the UK where 587 staff are employed and revenues rose a similar 11% to £85m.

SHL in the UK was born out of its purchase of PC hardware reseller ComputerGroup in 1989. To this was added the AST Transact processing bureau in 1992 and several training companies in 1993/94. A management exodus in 1994 saw Ed Lukes take up responsibility for Europe. He has cut costs and sold the credit card processing activities of AST Transact to Stratus in Dec. 94. We feel that SHL's future in Europe (where it still makes only 10% of its revenues) will come from the expansion of its US Transformational Outsourcing™ and postal service system integration activities, rather than in its low margin hardware reselling operations.

### CentreGold even worse than expected.

As previously reported, computer games software developer/distributor CentreGold issued a profits warning on 21st Feb. 95 which sent the share price crashing from its Oct. 93 new issue price of 125p to just 45p. The warning forecast a loss for the six months to 31st Jan. 95 of £3.6m. In the event it was £3.88m on revenues down 22% at £41m. £3m of the loss was for video cartridge stock write-offs. At least "no further provisions are anticipated".

"With the acquisition of Core Design and the establishment of Silicon Dreams, over 50% of the products which we are developing for Xmas 95, will have been created internally".

CentreGold is "confident that a significant improvement in operating profitability will be achieved in the second half". A loss of over £1.5m is forecast for the year.

As well as cashing in at launch time, their CEO Geoff Brown sold 1.4m shares at 98p only last Oct.

CentreGold ended Apr. 95 on 50p.

### "The transformation is gathering momentum"

So said Lou Gerstner when announcing a four-fold increase in IBM's profits to \$1.3 billion or Q1 1995. He commented that "Europe is the weakest part of our business" as revenues grew by only 3% compared with 15-17% growth elsewhere. But as an indication of the true transformation, services revenues grew by a further 33.2% (to \$2.4 billion) and software revenues were up 11.2%.

The same high growth in services is being experienced in the UK too. This month, with some help from IBM, we present "Richard Holway's estimates" of IBM UK SCSI revenues for 1994. Overall, IBM UK returned to a profit of £100m compared to a loss of £141m in 1993. Revenues were up 8.5% at £4.4 billion with UK revenues up a similar percentage at £1.87 billion. The number of IBM UK employees, however, fell by 2,200 to 9,183 at the 1994 year end. IBM UK has cut staff numbers by over 40% since 1990.

We estimate that IBM's SCSI revenues in the UK market grew by 45% in 1994 - a growth which IBM's then UK CEO Javaid Aziz again described as "excellent".

IBM (UK) Ltd £m	1993 (estimate)	1994 (estimate)	Growth 1993/1994
TOTAL REVENUE	£4,060m	£4,400m	8%
UK REVENUE	£1,725m	£1,868m	8%
UK HARDWARE	£910m	£910m	0%
Rentals & Financing	£125m	£100m	-20%
Operating Software	£240m	£240m	0%
Hardware Maintenance (Own)	£195m	£180m	-8%
<b>Software and Computing Services:</b>			
• Appl. Software (excl. Operating Software)	n/a	£35m	n/a
• Professional Services incl. SI	n/a	£240m	n/a
• FM/Processing/Info Services	n/a	£90m	n/a
<b>Total SCSI (excl own Hardware Maintenance &amp; Op. Software)</b>	<b>£252m</b>	<b>£365m</b>	<b>45%</b>
<b>Total Software &amp; Services (incl. own h/w maintenance &amp; op. s/w)</b>	<b>£687m</b>	<b>£785m</b>	<b>14%</b>

Within their SCSI sector, FM/Processing and Information services represented £90m. On the surface this would seem to represent a massive growth from last year's £17m revenues. However, much of this was due to revenue reclassification as IBM now includes parts of SADD (Systems and Applications Management) in this category. As others include AM too, it is not such a distortion.

The main IBM outsourcing operation is ISSC. Worldwide, IBM's ISSC provides a wide range of outsourcing services, from network services through datacentre FM to disaster recovery to over 3000 customers.

There is every evidence to suggest that IBM's outsourcing/FM activities really are starting to motor in the UK. IBM has been a strong player in the US outsourcing market but has failed to win any of the mega contracts in the UK, like the Inland Revenue and BAe, for which it has bid. But we were told that IBM UK has been successful in winning "a multitude of smaller contracts" - particularly in the Desktop Services market.

Perhaps the best indication of IBM UK's current fondness for services came after the surprise resignation of CEO Javaid Aziz (to join Silicon Graphics as Senior VP for Europe) in February 1995. Barrie Morgans, who had been responsible for all IBM UK services activities in the last few years, was appointed UK GM in his place.

## A suitable case for Clinical treatment

When the textbooks get written about the "great SCSI new issue debacle of 1994" they will, of course, feature Azlan, Coda, DRS and MDIS. But the real case study should surely be Clinical Computing.

Clinical Computing is involved in what it described in its placing document as "an overlooked market". It sells, under the brand name PROTON, "a suite of software products for the storage and management of detailed records aimed at the needs of particular clinical departments ... aimed at helping doctors look after patients". Their DEC VAX VMS-based medical database

software "covers 20 clinical disciplines and is installed at over 600 sites in the UK, USA and eight other countries". US sales represent 51% of total revenue. We are delighted to see that R&D spend is written off as incurred.

25% of the equity in Clinical Computing was placed at 124p per share on 17th February 1994. This valued Clinical at £20.1m, raised £5m of which only £3.1m (net of expenses) was new money for the company. The shares rose quickly to a 50% premium and a high of 186p. Clinical was formed in 1979 and was therefore an "old stager" compared to other

new issues. Revenue grew at a fairly pedestrian pace to £1.3m in 1986 but then declined to £700K in 1990 "during a period of significant early development work on PROTON and the diversion of some of the company's resources to a project in Holland".

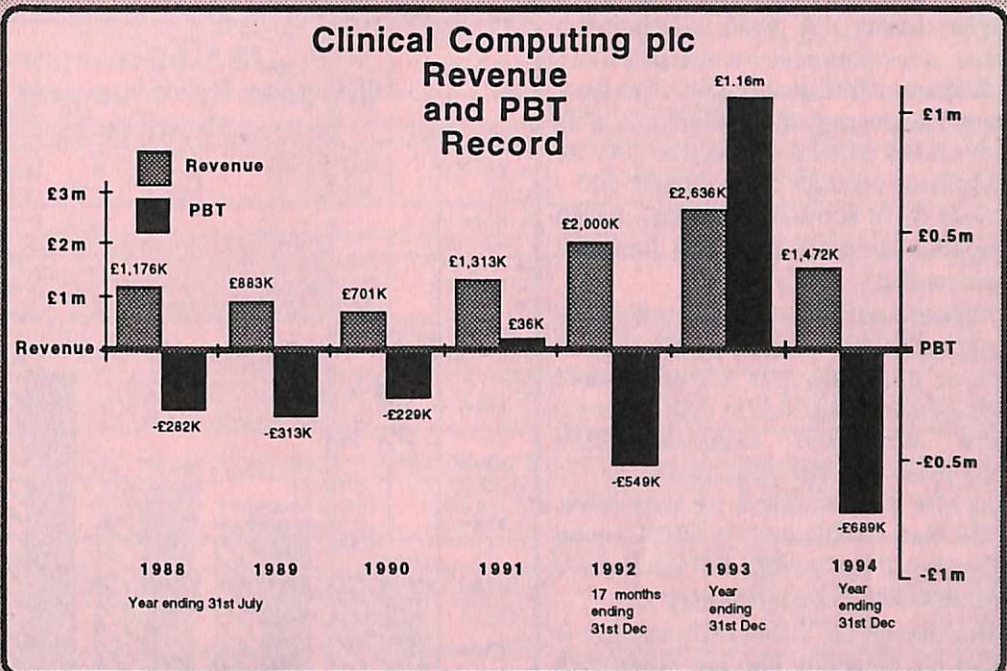
Then revenues grew sharply "reflecting increasing sales in the US" to £2.64m in the year ending 31st Dec. 93. And, as can be seen, Clinical had made a significant loss in four out of the six years prior to their float. But (surprise, surprise) PBT of £1.16m was reported in 1993 representing a massive 44% profit margin. But this still meant that Clinical had made a cumulative loss over the previous six years! CEO Jeremy Woan (who had been the deputy CEO of Tadpole during their float) said that the 1992 deficit was "due almost entirely to non-recurring directors emoluments of £737,816. Since then the directors involved, Gordon and Venn, had agreed to contracts with annual salaries of £85K and £75K respectively". Source - FT 15th Feb. 94. How the board of directors of a 31 person company can justify being paid over £1m including "exceptional bonuses" which then drove their company to a £549K loss was totally beyond us. But exchanging one year's salary for capital valued at 20 times the salary you give up makes good sense. Gordon sold shares worth £1.2m in the float which still

left him with a holding worth £6.5m at the time.

The maiden interims, announced in July 94, had signalled the awfulness to come with a 37% reduction in revenues and a loss declared. The shares had by then fallen to 73p.

But this was nothing compared to the results for the full year to 31st December 1994. These showed revenues down 44% at £1.47m and a loss before tax of £689K, compared with that PBT of £1.16m in 1993. The shares plunged 47% to end April 95 on just 29p - a mere 23% of their price when issued in Feb. 94.

"The fall in turnover resulted from the length of the order



and procurement process (typically 18 - 24 months), compounded by a particularly difficult healthcare computing market in the UK... In addition, the business re-engineering and management change during 1994 on occasions diverted energy from the daily management of certain sales prospects".

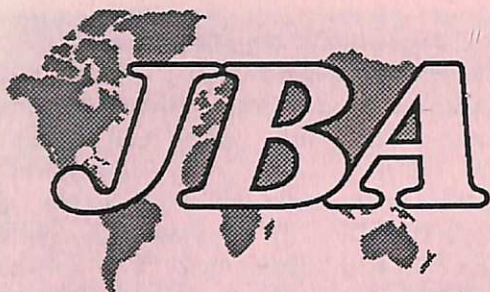
The "significant interest in its products in the USA which has continued in the current financial year" as stated in the Placing Document was translated into "in the USA, internal development delays and reviews at a major customer deferred the ordering of system upgrades which had been anticipated".

No real improvement is expected in 1995 either "with so many of the current sales prospects being generated only in the last year, the real benefits of the internal investment may not appear until 1996".

Anyway, you will be heartened to learn that "given Clinical Computing's poor return for shareholders in 1994" the shareholding directors "will waive their dividend entitlement until fully taxed EPS exceed 6.27p" (i.e. the same as in 1993). No dividend was declared for 1994 anyway.

So that's alright isn't it? Well, no it isn't because the hopes and aspirations of many other SCSI companies have, yet again, suffered as a consequence.

**EDS continues strong growth** EDS has reported a 24% increase in revenues (to \$2.24 billion) and a 15% increase in profits (to \$197m) in Q1 1995. The UK will have made a major contribution to this excellent performance in the first quarter as its mega deals of last year came fully on stream. We estimate EDS UK will grow by over 60% from £310m to over £500m in 1995. And that's before the Lucas FM/acquisition deals where "negotiations" were confirmed last month. But EDS will have to keep an eye out for CSC... See page 10.



Dear Richard

If after having read the details of our latest results you think we have done well, it would be nice to have someone say so in the media. It is pretty frustrating to not be in control of your share price and see other members of the sector determine your worth.

Best regards

Alan Vickery

Chairman JBA Holdings plc

We are well aware of our reputation. We only ever seem to get quoted for our criticisms. But *System House* has been full of praise for many companies. No one ever seems to repeat our many rave reviews of Admiral, FI Group, Sage and many others. And we agree with Vickery, no one has yet chosen to quote from our reviews of JBA.

*Could that be because JBA is one of a rare band of new issues that has met all expectations?*

What makes JBA even rarer is that it is a UK-owned software products company which just happens to be a world leader and make over 60% of its revenues from outside the UK. Its principal product is Business 400 - made up of some 30 modules - which include far more than just financial accounting.

JBA sees no reason to hide its IBM AS/400 activities. Indeed it points out that "over 250 new IBM AS/400 based installations were sold in 1994 mirroring the increased revenues IBM experienced for the AS/400". To counter any criticisms we may have, JBA had announced its UNIX based System 21 ("taking our customers forward into the 21st century").

The reason for Vickery's frustration is that his company has got tarred with the same brush as that applied to the SCSI new issue failures.

JBA was one of the last SCSI new issues back in June 1994. At the time

of the float, Vickery admitted that the price was lower than he had earlier anticipated. The launch at 160p valued JBA at £52.8m and was equivalent to an historic P/E of 16.3. QSP and Coda had earlier launched with P/E's over 20.

The maiden full year results from JBA for the year to 31st Dec. 94 were (unlike so many others) in line with expectations. Revenues were up 22% at £90.7m, PBT increased 33% to £6.1m and EPS was up 19% "even though the weighted average number of shares rose by 21% in 1994 following the flotation in June". Margins increased from 6.8% to 7.5%. JBA has fully expensed £13.4m of R&D on Business 400 and System 21 in 1994. But the £2.5m R&D on JBA Open Toolcase was capitalised which meant that intangible assets increased by £4m to a still quite modest £6.4m in 1994. JBA could well have another winner in this "large scale object oriented software development tool".

Margins, post R&D, were 25%. Software product licence revenues grew by 50% in the UK. Total sales were also up 50% in the USA but by a lower 28% in Continental Europe

The future looks equally bright with 1995 seen as "another year of sustained growth".

So why is Vickery so frustrated? Launched at 162p, JBA shares ended April 95, ten months later, on....159p. In other words a P/E of just 12.9. Quite what more Vickery needs to do is beyond us.

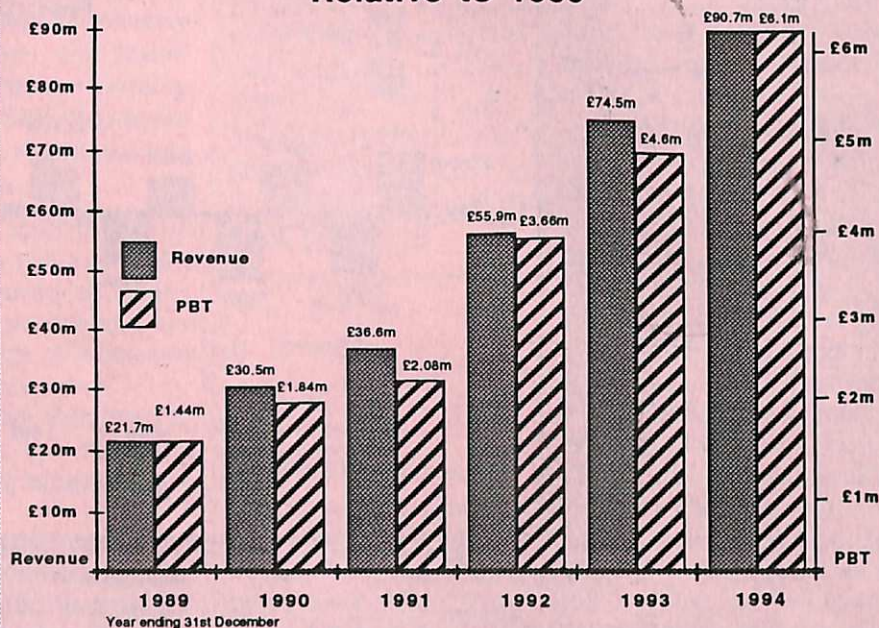
#### JBA on the acquisitions trail?

JBA has made no secret of its ambition "to expand geographic coverage by the acquisition of a small number of well founded software houses". As we know the best aid to digestion is taking small meals often. JBA seems to be practising our guide for the avoidance of acquisition indigestion to the letter. The "small meals" digested recently were:

- HB&A (Australia) in Jan. 95 for A\$1m plus up to a further A\$1.7m according to profits.
- Ratioplan, JBA's partner in Germany, where negotiations are underway involving an initial consideration of £1.75m in shares "which can be increased to a max. value of DM22m in 1999 based on a challenging profit growth plan".
- EDS (no, not the EDS), JBA's distributor in the Asian area, where discussions are underway to take a larger stake. Conversely, JBA Spain has been sold and talks are taking place to sell JBA's Mexican unit.

**Poor old Enterprise** As we reported last month, Enterprise Computer had put together a rescue refinancing package. It told shareholders to accept the dilution or we'll cease trading. They hadn't banked on a claim relating to a guarantee given on the lease of a property occupied by a former subsidiary - a mere £16,500 a quarter thru to 2010. Enterprise shares were suspended (at 0.75p) and the EGM cancelled pending "a rejig of the arithmetic".

### JBA International plc Six year Revenue and PBT Record Relative to 1989



**Quoted Companies - Results Service**

Note: Shaded = Results announced this month.

ACT Group plc (now acquired by Misy's)					Gresham Computing plc				
	Interim - Sep 93	Final - Mar 94	Interim - Sep 94	Comparison		Final - Oct 93	Final - Oct 94	Comparison	
HEV	£ 107,595,000	£ 250,830,000	£ 108,337,000	-1.2%	HEV	£ 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				
HEV	£ 36,640,000	£ 49,473,000	£ 49,473,000	+35.0%	HEV	£ 19,294,000	£ 16,812,000	-12.9%	
PBT	£ 4,608,000	£ 7,719,000	£ 7,719,000	+67.5%	PBT	£ 1,021,000	£ 1,153,000	+12.9%	
EPS	27.60p	45.20p	45.20p	+63.8%	EPS	14.80p	16.80p	+13.5%	
Azlan Group plc					JBA Holdings plc				
HEV	£ 28,530,000	£ 81,508,000	£ 37,735,000	+32.3%	HEV	£ 74,467,000	£ 90,687,000	+21.8%	
PBT	£ 1,882,000	£ 3,871,000	£ 1,079,000	-42.7%	PBT	£ 4,610,000	£ 6,131,000	+33.0%	
EPS	6.30p	12.40p	3.70p	-41.3%	EPS	10.19p	12.13p	+19.0%	
Capita Group plc					Kalamazoo Computer Group plc				
HEV	£ 50,168,000	£ 73,800,000	£ 73,800,000	+47.1%	HEV	£ 29,562,000	£ 28,263,000	-4.4%	
PBT	£ 5,463,000	£ 7,903,000	£ 7,903,000	+44.7%	PBT	£ 2,533,000	£ 3,003,000	+18.6%	
EPS	7.90p	10.50p	10.50p	+32.9%	EPS	4.20p	4.98p	+18.6%	
Cedardata plc					Kewill Systems plc				
HEV	£ 2,608,000	£ 6,120,000	£ 3,726,000	+42.9%	HEV	£ 15,999,000	£ 16,405,000	+2.5%	
PBT	£ 998,000	£ 2,715,000	£ 1,337,000	+34.0%	PBT	£ 1,757,000	£ 2,166,000	+23.3%	
EPS	2.30p	6.30p	2.80p	+21.7%	EPS	10.15p	12.16p	+19.8%	
CentreGold plc					Kode International plc				
HEV	£ 52,554,000	£ 91,314,000	£ 41,037,000	-21.9%	HEV	£ 24,916,000	£ 24,806,000	-0.4%	
PBT	£ 2,600,000	£ 4,033,000	£ 3,883,000	Profit to Loss	PBT	£ 1,143,000	£ 9,117,000	Profit to loss	
EPS	4.70p	7.30p	-6.44p	Profit to Loss	EPS	7.00p	-96.50p	Profit to loss	
Clinical Computing plc					Learmonth & Burchett Management Systems plc				
HEV	£ 2,635,853	£ 1,471,684	£ 1,471,684	-44.2%	HEV	£ 13,114,000	£ 26,406,000	+15.3%	
PBT	£ 1,129,000	£ 688,596	£ 688,596	Profit to loss	PBT	£ 201,000	£ 3,278,000	Profit to loss	
EPS	9.10p	-4.30p	-4.30p	Profit to loss	EPS	1.00p	-13.70p	Profit to loss	
Coda Group plc					Logica plc				
HEV	£ 23,450,000	£ 23,388,000	£ 23,388,000	-3%	HEV	£ 106,522,000	£ 228,848,000	+14.5%	
PBT	£ 3,752,000	£ 7,992,000	£ 7,992,000	Profit to loss	PBT	£ 3,211,000	£ 13,543,000	+124.9%	
EPS	10.60p	-27.70p	-27.70p	Profit to loss	EPS	3.30p	14.00p	+136.4%	
Compel Group plc					Lynx Holdings plc				
HEV	£ 24,305,000	£ 54,542,000	£ 28,272,000	+16.3%	HEV	£ 10,807,000	£ 21,523,000	+99.2%	
PBT	£ 993,000	£ 2,062,000	£ 1,194,000	+20.2%	PBT	£ 619,000	£ 2,009,000	+224.6%	
EPS	5.02p	10.35p	5.56p	+10.8%	EPS	4.27p	4.50p	+5.4%	
Computerised Financial Solutions plc					M.A.I.D. plc				
HEV	£ 3,338,636	£ 3,120,711	£ 3,120,711	-6.5%	HEV	£ 5,723,000	£ 8,887,000	+55.3%	
PBT	£ 330,233	£ 350,617	£ 350,617	+6.2%	PBT	£ 603,176	£ 1,285,000	+113.0%	
EPS	8.39p	3.97p	3.97p	-52.7%	EPS	0.69p	1.14p	+65.2%	
Computer People Group plc					McDonnell Information Systems plc				
HEV	£ 68,748,000	£ 97,685,000	£ 97,685,000	+42.1%	HEV	£ 148,480,000	£ 148,911,000	+0.3%	
PBT	£ 1,102,000	£ 391,000	£ 391,000	Profit to loss	PBT	£ 21,248,000	£ 9,064,000	-57.3%	
EPS	4.37p	-7.76p	-7.76p	Profit to loss	EPS	13.89p	4.57p	-67.1%	
Cray Electronic Holdings plc					MR-Data Management Group plc				
HEV	£ 114,308,000	£ 271,718,000	£ 135,044,000	+18.1%	HEV	£ 19,602,000	£ 40,521,000	+8.7%	
PBT	£ 7,804,000	£ 26,168,000	£ 10,085,000	+29.2%	PBT	£ 2,660,000	£ 6,348,000	+17.9%	
EPS	2.49p	8.60p	3.03p	+21.7%	EPS	3.20p	8.00p	+25.0%	
CRT Group plc					Macro 4 plc				
HEV	£ 22,427,000	£ 47,348,000	£ 29,187,000	+30.1%	HEV	£ 12,104,000	£ 24,367,000	+1.5%	
PBT	£ 472,000	£ 532,000	£ 1,285,000	+172.2%	PBT	£ 5,400,000	£ 11,211,000	+5.3%	
EPS	0.56p	-0.13p	1.42p	+153.6%	EPS	16.00p	34.20p	+4.4%	
DCS Group plc					Micro Focus plc				
HEV	£ 2,604,000	£ 6,375,180	£ 4,007,000	+53.9%	HEV	£ 83,842,000	£ 89,885,000	+7.2%	
PBT	£ 41,000	£ 426,144	£ 105,000	+156.1%	PBT	£ 21,761,000	£ 8,723,000	-59.9%	
EPS	0.56p	4.32p	0.88p	+57.1%	EPS	104.30p	32.00p	-69.3%	
Division Group plc					Microgen Holdings plc				
HEV	£ 2,078,000	£ 5,270,000	£ 5,270,000	+153.6%	HEV	£ 53,351,000	£ 58,774,000	+10.2%	
PBT	£ 503,000	£ 1,440,000	£ 1,440,000	Loss both	PBT	£ 6,700,000	£ 6,173,000	-7.9%	
EPS	-2.10p	-4.30p	-4.30p	Loss both	EPS	10.50p	10.00p	-4.8%	
DRS Data & Research Services plc					Microvitec plc				
HEV	£ 11,133,000	£ 8,798,000	£ 8,798,000	-21.0%	HEV	£ 35,170,000	£ 44,146,000	+25.5%	
PBT	£ 1,950,000	£ 1,487,000	£ 1,487,000	-23.7%	PBT	£ 1,611,000	£ 2,560,000	+58.9%	
EPS	4.02p	3.00p	3.00p	-25.4%	EPS	2.10p	3.00p	+42.9%	
Electronic Data Processing plc					Misy's plc				
HEV	£ 14,341,000	£ 14,013,000	£ 14,013,000	-2.3%	HEV	£ 42,086,000	£ 93,358,000	+51.9%	
PBT	£ 4,672,000	£ 4,123,000	£ 4,123,000	-11.8%	PBT	£ 8,012,000	£ 18,612,000	+40.4%	
EPS	11.71p	10.21p	10.21p	-12.8%	EPS	14.00p	31.90p	+15.7%	
Enterprise Computer Holdings plc					MMT Computing plc				
HEV	£ 9,900,000	£ 16,399,000	£ 2,930,000	-70.4%	HEV	£ 7,057,716	£ 70,861,498	+53.9%	
PBT	£ 25,000	£ 2,052,000	£ 5,190,000	Profit to loss	PBT	£ 1,725,549	£ 2,505,106	+45.2%	
EPS	n/a	-2.60p	n/a	Profit to loss	EPS	9.00p	13.10p	+45.6%	

## Quoted Companies - Results Service

Note: Shaded = Results announced this month.

On Demand Information plc				Sanderson Electronics plc				
HEV	Final - Jul 93	Final - Jul 94	Comparison	HEV	Final - Sep 93	Final - Sep 94	Comparison	
PBT	£ 18,989,000	£ 14,487,000	-23.7%	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				
HEV	Final - Dec 93	Final - Dec 94	Comparison	HEV	Final - Dec 93	Final - Dec 94	Comparison	
PBT	£ 1,409,000	£ 2,785,000	+96.2%	PBT	£ 501,992,000	£ 596,111,000	+18.7%	
EPS	-8.90p	-8.60p	Loss both	EPS	£ 24,855,000	£ 32,034,000	+28.9%	
P & P plc				Sherwood Computer Services plc				
HEV	Final - Nov 93	Final - Nov 94	Comparison	HEV	Final - Dec 93	Final - Dec 94	Comparison	
PBT	£ 217,259,000	£ 263,930,000	+21.5%	PBT	£ 23,561,000	£ 25,069,000	+6.4%	
EPS	£ 4,107,000	£ 8,016,000	+95.2%	EPS	£ 1,998,000	£ 79,000	Loss to profit	
Parity plc				Spargo Consulting plc				
HEV	Final - Dec 93	Final - Dec 94	Comparison	HEV	Final - Dec 93	Final - Dec 94	Comparison	
PBT	£ 19,768,000	£ 88,791,000	+349.2%	PBT	£ 4,869,000	£ 6,016,000	+23.6%	
EPS	-1.88p	£ 4,176,000	Loss to profit	EPS	£ 483,000	£ 1,211,000	+150.7%	
Pegasus Group plc				Standard Platforms Holdings plc				
HEV	Final - Dec 93	Final - Dec 94	Comparison	HEV	Final - Sep 93	Final - Sep 94	Comparison	
PBT	£ 7,502,000	£ 4,808,000	-35.9%	PBT	£ 3,161,416	£ 1,305,476	-58.7%	
EPS	£ 6,930,000	£ 243,000	-96.5%	EPS	-£ 1,065,027	-£ 143,280	Loss both	
Persona plc				Superscape VR plc				
HEV	Final - Dec 93	Final - Dec 94	Comparison	HEV	PF Interim - Jan 94	PF Final - Jul 94	PF Interim - Jan 95	
PBT	£ 22,862,000	£ 31,537,000	+37.9%	PBT	£ 390,121	£ 859,192	£ 478,371	
EPS	£ 1,748,000	£ 2,059,000	+17.8%	EPS	-£ 73,280	-£ 238,024	-£ 844,662	
Phonelink plc				Total Systems plc				
HEV	Interim - Sep 93	Final - Mar 94	Interim - Sep 94	Comparison	HEV	Interim - Sep 93	Final - Mar 94	Interim - Sep 94
PBT	£ 586,000	£ 1,241,000	£ 797,000	+36.0%	PBT	£ 1,079,044	£ 2,092,429	£ 1,096,891
EPS	-£ 301,000	-£ 1,761,000	-£ 1,963,000	Loss both	EPS	£ 12,330	£ 141,918	£ 7,460
Proteus International plc				Trace Computers plc				
HEV	Interim - Sep 93	Final - Mar 94	Interim - Sep 94	Comparison	HEV	Interim - Nov 93	Final - May 94	Interim - Nov 94
PBT	Nil	Nil	Nil	n/a	PBT	£ 9,200,000	£ 18,628,990	£ 9,500,000
EPS	-£ 2,733,000	-£ 6,618,000	-£ 3,666,000	Loss both	EPS	£ 216,000	£ 409,901	£ 223,000
Quality Software Products Holdings plc				Unipalm plc				
HEV	Final - Dec 93	Final - Dec 94	Comparison	HEV	Interim - Oct 93	Final - Apr 94	Interim - Oct 94	
PBT	£ 13,346,543	£ 16,494,732	+23.6%	PBT	£ 4,943,000	£ 10,753,000	£ 7,804,000	
EPS	£ 553,244	£ 2,512,400	+354.1%	EPS	£ 148,000	£ 272,000	£ 149,000	
Radius plc				Vega Group plc				
HEV	Final - Dec 93	Final - Dec 94	Comparison	HEV	Interim - Oct 93	Final - Apr 94	Interim - Oct 94	
PBT	£ 23,273,000	£ 24,866,000	+6.8%	PBT	£ 4,517,000	£ 9,703,000	£ 5,710,000	
EPS	-£ 1,171,000	£ 1,451,000	Loss to profit	EPS	£ 757,000	£ 2,147,000	£ 1,020,000	
Real Time Control plc				Virtuality Group plc				
HEV	Interim - Sep 93	Final - Mar 94	Interim - Sep 94	Comparison	HEV	Final - Dec 93	Final - Dec 94	Comparison
PBT	£ 3,579,000	£ 8,534,000	£ 8,491,000	+137.2%	PBT	£ 5,400,000	£ 9,126,000	+69.0%
EPS	£ 424,000	£ 1,387,000	£ 1,050,000	+147.6%	EPS	-£ 365,000	-£ 1,397,000	Loss both
RM plc				Vistec Group plc				
HEV	Final - Sep 93	Final - Sep 94	Comparison	HEV	Interim - Oct 93	Final - Apr 94	Interim - Oct 94	
PBT	£ 66,212,000	£ 65,493,000	-1.1%	PBT	£ 17,630,000	£ 45,018,000	£ 25,374,000	
EPS	£ 2,525,000	£ 3,769,000	+49.3%	EPS	£ 1,126,000	£ 3,409,000	£ 745,000	
Rolfe & Nolan plc				Wakebourne plc				
HEV	Interim - Aug 93	Final - Feb 94	Interim - Aug 94	Comparison	HEV	Interim - Jun 93	Final - Dec 93	Interim - Jun 94
PBT	£ 6,055,000	£ 12,720,000	£ 7,104,000	+17.3%	PBT	£ 12,004,000	£ 22,275,000	£ 18,172,000
EPS	£ 609,000	£ 1,573,000	£ 742,000	+21.8%	EPS	-£ 18,944,000	-£ 18,649,000	£ 1,068,000
Sage Group plc				of intercompany loans and balances, Admiral will receive £3m cash". So, in total, Admiral has made an exceptional profit of £4.2m which seems quite good. BUT, the business was 12% of Admiral's on-going operating profits. 12% of Admiral's current capitalisation of £72m is a rather higher £8.6m. Working out the effect of the Powersoft deal on Admiral has taxed the City brokers who have all forecast lower profits in 1995 than in 1994. Admiral's brokers, Warburg, had forecast £7.5m; down on the £7.7m last year. This caused <b>shock and horror in the Holway camp</b> . Admiral was one of the three remaining quoted SCSI companies that had NEVER reported a profit or EPS reversal. Now the exceptional £2.25m profit on the disposal will exceed the £1.9m included last year. Ceri James told us that he was well aware of Admiral's record in the Holway Report and "didn't think we will do anything to spoil it". We sincerely hope not.				
HEV	Final - Sep 93	Final - Sep 94	Comparison	HEV	Final - Sep 93	Final - Sep 94	Comparison	
PBT	£ 41,289,000	£ 50,888,000	+23.2%	PBT	£ 9,656,000	£ 14,252,000	+47.6%	
EPS	32.50p	45.40p	+39.7%	EPS	32.50p	45.40p	+39.7%	

### Admiral and Powersoft

In Aug. 94 Powersoft paid Admiral £2.1m for a 51% stake in a joint venture to distribute PowerBuilder products in the UK. In 1993, this activity had earned Admiral £2.4m and operating profits of £536K. The disposal contributed exceptional profits of £1.9m in 1994. Powersoft had an option to purchase the remaining 49% in two tranches up to June 96 for an amount not exceeding £14m. Then Sybase acquired Powersoft in Nov. 94 for a stock swap worth around \$900m. Admiral then had the right to bring forward the sale of the remaining 49%. This has now been completed for £2.5m which "will contribute an exceptional profit to Admiral of £2.25m...after repayment

## Acquisitions, disposals and liquidations

### Avid buys Parallax

US Avid Technology has acquired UK Parallax Software, "a leading developer of paint and compositing technology". In other words they produce amazing graphics for films like Jurassic Park as well as working for "more than 600 customers in 50 countries" including the BBC, ITN, NBC and MTV.

At the same time Avid bought US Elastic (which specialises in morphing). The two deals, which have combined revenues of \$12m, were for a consideration of \$45m. The bulk - \$38m (£23.75m) - related to Parallax. Broadview acted for Parallax.

### Another purchase for Kalamazoo

This month Kalamazoo has bought Wembrook Computer Services Ltd., which designs and develops manufacturing systems like their Stockholder accounting software. No consideration was disclosed but Wembrook only had revenues of £500K so its probably not significant. This is Kalamazoo's 5th purchase in the last 12 months.

### RM turns Key

RM plc has acquired Key Solutions, a specialist provider of schools management and admin. software, for up to £2m. Consideration will be in four tranches - £1m in cash now, £600K in loan notes or shares and two further cash payments of £200K by June 98.

That's quite a price to pay for a company with revenues of just £500K to May 94. Revenues of £1m and operating profits of £100K are "expected" in the current year.

### Axxia Systems born in MBO

Digital has sold its Kienzle Systems operation in the UK in an MBO. The newly born Axxia Systems is majority owned by managers with a minority investment from 3i. Axxia has revenues of £6.7m, 50 staff, 350 customers and develops systems for solicitors.

### Donkey Kong nets millions

Nintendo has bought a 25% stake in UK Rare Ltd. in a deal rumoured to be around £12m. As we have said on many occasions before to our comparatively staid readers, games software is an area where we lead the world. Rare's Donkey Kong game has sold 7.4m copies and earned \$300m. Rare employs 80 staff and is run and owned by the three Stamper brothers - all in their 30s. We are in the wrong business!

### Xylogics pays £5.5m for Scorpion

US NASDAQ quoted Xylogics has acquired UK Scorpion Logic, which develops ISDN routing systems, for around \$9m (£5.5m). That's another exceptional price as Scorpion had revenues of only \$3m and PBT of \$300K last year. However, Xylogics will now abandon its own system development in favour of Scorpion's system.

### A free advert

We do not carry adverts but the FT and others do. That was the chosen medium for Sanderson Electronics' adverts asking companies with revenues between £5m and £25m to contact Chairman Paul Thompson with a view to being acquired. We will be intrigued to learn of the response.

You can contact Chairman Paul Thompson on 0114 282 7777.

We Buy  
Companies

### Three for the very brave...

There were two new SCSi issues and a major new share placing, this month. But all involved the 4.2 matched bargain market. We cannot therefore include them in our CSI Index but will keep you informed of progress.

**Warning!** Readers might need to sit down before reading the valuations obtained. They were:-

**Erros plc** has developed a system which enables "applications to be created rapidly and easily, in most cases without recourse to programming". The initial implementations are IBM AS/400-based where IBM has "a worldwide non exclusive licensing agreement". Erros is a start-up, so revenues of £30K and a loss of £158K in the year to 30th Sept. 94 are of no import. However projections in the placing document show revenues of £4.1m and PBT of £1.74m for the year to 30th Sept. 97 - a profit margin of 42% is not completely unknown but neither are happy royal marriages.

Anyway the placing at 210p raised £1.5m and put a value on the company of £7.5m. Any brave investors should call Williams de Broe on 0171 588 7511.

**Multimedia Corporation Ltd. (MMC)** "is one of Europe's leading authors and developers of multimedia titles and software. It specialises in infotainment and edutainment consumer titles, mainly on CD ROM, and in the design and management of large image databases". MMC was the MBO vehicle of the BBC's Interactive TV Unit in 1990. MMC reported a loss of £49K on revenues of £907K in the year to 31st Dec. 93 (surprisingly the latest figures available!).

Dealings began on 11th April 95 at 360p when c100,000 shares were placed which valued MMC at £8m. It was even more staggering to learn the price had increased to 385p on 12th April!. More details from Shore Capital Stockbrokers Ltd. on 0171 734 7202

**OmniMedia plc** - which previously was loosely associated with Callhaven - raised £720K on the 4.2 market in Aug. 94 by placing 2m shares at 36p. This month they have placed a further 3.6m new shares at 64p raising £2.3m. That roughly values OmniMedia at £10m. OmniMedia also provides interactive multimedia software like "The Greatest Toyshop on Earth". They also plan a NASDAQ or IPO within 6 months. Contact Raphael Zorn 0171 628 4000.

### BEC Group

A year ago we wrote about Cygnus Computer Group about to sell MFT and BEC. As we almost always fax such articles to the company concerned, we had to delete the BEC bit as Cygnus insisted it was not true. (The MFT bit was correct). It was, of course, a matter of timing not substance. This month L K Global has acquired BEC and its well established manufacturing systems.

### Schroders and DPP

Schroder Ventures has backed an MBI led by Keith Reilly at IT staff agency DPP International. DPP had revenues of £12m to June 94 but does not seem to have been able to take advantage of the upturn in the market like Parity and Computer People....so far, at least!

**The others...**The takeover of CHC by Dose Systems has fallen through as two hospitals cancelled HISS deals worth £1.4m. Ablex has undertaken a £2m MBO/MBI from Racal Electronics. Software engineering company, Venturon Ltd, which had revenues of £750K, has appointed the receivers. Reuters has paid \$2m for a minority stake in Aim 21 Inc. (an advertisement system).

## "The mother of all profits warnings"

First thing on Monday 24th April, Jon Richards CEO of Cray 'phoned to tell us of the profits warning they had just released to the Stock Exchange. With just a week to go, it appears that profit forecasts of some £30m for the year to 30th April 95 were too high. Indeed PBT of "between £3 - £4m is likely now after £6m restructuring costs". Richards had stepped in to take executive control of Cray Communications back in Dec. 94 when its CEO Ray Piggott left. He found affairs far worse than expected. Costs and investment had been increased but orders had not kept pace. On top of that, manufacturing delays occurred which has caused a £25m revenue shortfall. "We got the strategy right - but the implementation wrong". A whole raft of senior management have been ejected and another 200 losses now announced. A justifiably contrite Richards predicted that we would describe the statement as "the mother of all profits warnings". Statistically, that's correct. The announcement more than halved the share price and knocked an unprecedented £215m off Cray's valuation this month.

It also gets our vote as the most unexpected major reversal on record. We have a high respect for Roger Holland and his team and have said so loudly and repeatedly. On 11th Jan. 95, Holland 's expectation was for "further growth and increased profits for the future". Indeed he added that "Cray retains the momentum, built up over the last five years, to improve profits and earnings". You can now knock that on the head. 1995/96 forecasts are now only for around £16m - compared with the £26m PBT made in 94. Richards said that it would now take at least two years for the communications division to recover to the profits levels previously anticipated.

**BUT**, Richards stressed that the performance at Mike Shone's **Cray Systems** has been "terrific", making the £6m PBT expected and P-E made a further £1.5m.

But the most severe damage has been done to the credibility of the Cray top management team. "It failed to control divisional management. It also delayed reporting problems to shareholders, even though the business was faring badly enough for the divisional chief executive to depart last December. The top management was rewarded with huge bonuses for what, until the profits warning, looked like a fairy-tale turnaround at Cray...Unless it swiftly demonstrates a firm grip on the business, it too should be replaced". Source - Lex Column in Financial Times 25th April 1995. Every other review rounded squarely on top management too.

### Conclusion

In 1989 when the current management team "rescued Cray from almost certain receivership", the share price was around 60p and its market capitalisation under £60m.

The share price went on to hit a high of 202p in 1994 with a capitalisation in excess of £400m. It really was a fairy-tale and we were well in there with our fulsome praise of the Cray team. They even seemed to be able to avoid the dreaded "acquisition indigestion". At last we seemed to have a SCSI company with the quality of management and the City reputation required to build a world-class, and world-sized company. We even supported the bonus scheme which had netted the current executive team around £14m to date - taken in shares which have been retained.

So the latest warning is a major blow. Coming on top of all the other warnings and disappointments it really makes us wonder if the UK can ever make it. It is more difficult to argue against "poor City sentiment towards the sector" (see page one feature) when even the seemingly best of our top management have the power to shock to this magnitude.

**The bell that tolled for Cray on 24th April 1995, might actually have tolled for all of us.**

## PCL Group prospers

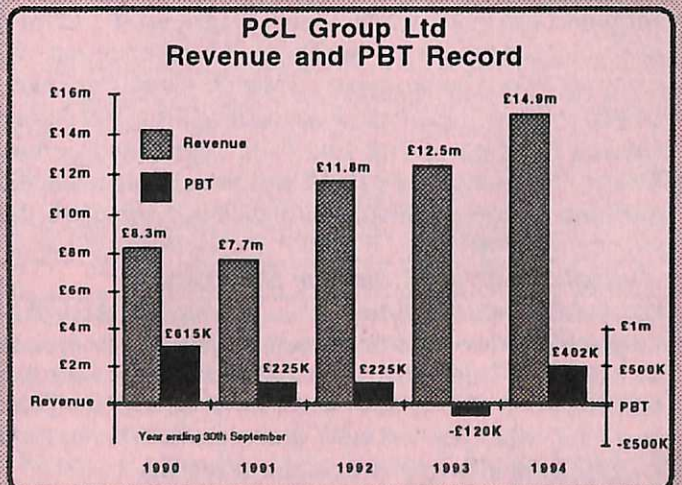
In our quest to feature more private UK SCSI companies, we report this month on PCL Group, which figures in the lower ranks of our FM providers in the UK.

PCL was formed in 1974 as a wholly owned subsidiary of P&O. In 1984, Trevor Clarke and other managers effected an MBO. In 1988 Swiss Re acquired a 51% stake in PCL but, one year later, "considered that the IT market was no longer strategic to its own goals". In December 1991, PCL acquired the data capture and laser print company, Alpha-Numeric, for £1m. The acquisition was funded by a £500,000 investment by 3i in exchange for 12.5% of the equity. The rest of the funds came from bankers Barclays and Lloyds. Also in 1991 the repurchase of Swiss Re shares was completed. Since that time the 3i equity participation has increased to 20% - but no other external investors have any involvement. In 1993 PCL added CU Data and CCP. In 1994 they acquired First Symbol and sold The Lasershop for a profit of £363K.

PCL has three major divisions:

- Imaging and Data Capture
- Direct Marketing Services
- Computer Management Services (CMS).

CMS supplies predominately mainframe-based FM services. Annualised FM revenues are around £8m. "The operation was significantly enlarged in 1994 with the opening of the Hull data centre". CMS won its first local authority FM contract in 1994 with Royal Borough of Windsor and "also contracted a number of FM contracts for the provision of PC and client server services". Other recent deals include the Police National Computer (£10m), Thomson Directories £1.8m/3 years and Hallmark Cards. Under the leadership of Trevor Clarke, PCL has prospered with revenues up another 19% in 1994 to £14.9m. PCL also returned to profits of £402K after the losses of £120K in 1993. But we must point out that almost all the profits related to the £363K profit on the disposal of Lasershop in 1994. A healthy cash balance of £2.03m at 30th Sept. 94 compared with just £1096 at the end of 1993.



Clarke says order books are "well ahead of the same period last year" and that "the market background is improving, albeit slowly and unevenly".

It has been rumoured that PCL intends to float on the London Stock Exchange around 1996 but this will obviously depend on market sentiment towards SCSI companies at that time.

We also warned Clarke of the usual fate of private companies featured in *System House*.



## Big gains, big losses but CSI Index static

Azlan shares rocketed by 46% on news that it was to distribute IBM's networking products in Europe. It was, however, interesting to read in the Daily Mail that apparently it was due totally to broker mark-up as not a single share had changed hands. But remember Azlan is still 60p lower than its 230p new issue price. **Standard Platforms** (success of rights issue), **LBMS** (return to the black) and **Unipalm** (mega-hype re. Internet) all put on 20%+ gains.

But perhaps April was the month of the mega losers. The profit warning from **Cray** (p8) sent the shares down 55%; writing an unprecedented £215m off their value. Awful maiden results sent **Clinical Computing** (p3) tumbling by 47% and the warning from **Wakebourne** (p10) sent

them down 39%. **MR Data** fell 14% as CEO Mike Elliott and an exec director left after disagreements with Chairman John Redmond. MR shares had halved during Elliott's two year stewardship.

30th Apr. 95		CSI Index		1457.02
CSI Index = 1000 on 15th April 1989		FTSE 100	3216.70	
		FTSE SmallCap	1770.20	
Changes in Indices		CSI Index	FTSE 100	FTSE Small Cap
Month (31/3/95 - 30/4/95)		+1.66%	+2.51%	+4.42%
From 15th Apr 89		+45.70%	+56.64%	
From 1st Jan 90		+58.35%	+36.19%	
From 1st Jan 91		+105.83%	+48.89%	
From 1st Jan 92		+39.45%	+29.02%	
From 1st Jan 93		-8.57%	+13.01%	+27.60%
From 1st Jan 94		-12.73%	-5.90%	-5.27%
From 1st Jan 95		-2.81%	+4.93%	+1.36%

## System House CSI Share Prices and Capitalisation

	Share Price 30/4/95 (£p)	Capitalisation 30/4/95 (£m)	Historic P/E	Ratio Cap./Rev.	CSI Index 30/4/95	Share price % move since 31/3/95	Share price % move in 1995	Capitalisation move (£m) since 31/3/95	Capitalisation move (£m) in 1995
ACT	£1.10	£194.20m	11.6	0.77	1746.03	0.00%	10.55%	£0.00m	£9.60m
Admiral	£6.34	£72.30m	19.3	1.46	4594.20	1.28%	-0.16%	£0.90m	-£0.10m
Azlan	£1.72	£37.50m	13.9	0.61	747.83	45.76%	28.36%	£11.80m	£8.20m
Capita	£1.55	£84.90m	15.9	1.15	4654.65	4.73%	-5.49%	£3.80m	-£4.60m
Cedardata	£1.00	£30.60m	15.9	5.00	952.38	8.70%	-0.99%	£2.40m	-£0.30m
Centregold	£0.50	£21.50m	6.8	0.24	400.00	-7.41%	-56.90%	-£1.90m	-£25.20m
Clinical Computing	£0.29	£4.70m	Loss	3.20	233.87	-47.27%	-56.72%	-£4.21m	-£6.20m
Coda	£0.93	£24.40m	9.7	1.04	395.74	10.71%	20.78%	£2.40m	£4.20m
Compel	£1.14	£17.40m	11.0	0.32	912.00	0.00%	4.59%	£0.00m	£0.80m
Computerised Financial	£0.92	£4.32m	23.2	1.38	1022.22	-3.16%	-10.68%	-£0.14m	-£0.52m
Computer People	£2.34	£57.30m	Loss	0.59	962.96	0.00%	-3.31%	£0.20m	-£2.00m
Cray Electronics	£0.73	£173.10m	8.5	0.64	426.90	-55.35%	-54.80%	-£215.00m	-£210.30m
CRT	£0.91	£60.90m	22.2	1.29	1005.56	2.84%	14.56%	£1.70m	£7.70m
DRS Data & Research	£0.24	£8.62m	6.3	0.98	218.18	9.09%	-25.00%	£0.72m	-£2.78m
DCS Group	£0.81	£7.70m	22.7	1.21	1350.00	6.58%	10.96%	£0.48m	£0.79m
Division Group	£0.90	£39.50m	Loss	7.50	2250.00	-5.26%	-23.08%	-£2.20m	£0.00m
Electronic Data Processing	£1.40	£36.70m	13.7	2.62	4286.59	-0.71%	-2.10%	-£0.20m	-£0.80m
Enterprise	£0.0075	£0.59m	Loss	0.04	6.00	0.00%	-62.50%	£0.00m	-£0.96m
Gresham Telecomputing	£0.27	£8.83m	20.7	1.36	290.32	-6.90%	-27.03%	-£0.65m	-£3.27m
INSTEM	£1.44	£6.48m	8.6	0.39	1440.00	0.00%	-4.00%	£0.00m	-£0.32m
JBA Holdings	£1.57	£51.80m	12.9	0.57	981.25	-4.85%	3.29%	-£2.70m	£1.60m
Kalamazoo	£0.98	£18.70m	11.1	0.31	2800.00	0.00%	-10.09%	£0.00m	-£22.80m
Kewill	£2.80	£34.40m	10.3	1.08	1106.72	4.09%	17.15%	£1.90m	£5.40m
Kode International	£0.57	£5.42m	Loss	0.22	265.12	-10.94%	7.55%	-£0.66m	£0.43m
Learmonth & Burchett	£1.49	£32.50m	Loss	1.23	1241.67	26.27%	86.25%	£6.80m	£15.10m
Logica	£3.53	£218.20m	19.0	0.95	967.12	8.62%	8.62%	£17.40m	£17.40m
Lynx Holdings	£0.41	£20.80m	14.7	0.97	1025.00	2.50%	-12.77%	£4.00m	£1.00m
MAID	£0.78	£63.40m	68.4	7.13	709.09	-2.50%	13.04%	-£1.60m	£7.30m
MDIS	£0.87	£87.00m	19.1	0.60	334.62	7.41%	-13.86%	£6.00m	-£14.00m
MR Data Management	£0.90	£50.20m	11.1	1.24	357.14	-14.29%	-18.18%	-£8.40m	-£11.20m
Macro 4	£3.83	£83.10m	10.8	3.41	1544.35	-2.54%	-12.56%	-£2.20m	-£11.90m
Micro Focus	£7.25	£104.40m	22.6	1.16	3502.42	2.98%	-11.59%	£3.00m	-£13.70m
Microgen	£1.14	£44.90m	12.3	0.76	487.18	4.59%	11.76%	£2.00m	£4.70m
Microvitec	£0.33	£24.30m	11.1	0.55	804.88	1.54%	-9.59%	£0.40m	£1.00m
Misys	£3.65	£312.80m	11.4	3.35	907.96	2.82%	-10.76%	£143.80m	£118.10m
MMT	£1.85	£20.90m	14.7	1.92	1101.19	-1.60%	-9.76%	-£0.30m	-£2.20m
On-Demand	£0.81	£41.30m	Loss	2.85	1038.46	15.71%	20.90%	£5.60m	£7.10m
Oxford Molecular	£0.54	£23.40m	Loss	8.45	675.00	-3.57%	-10.00%	-£0.90m	£1.30m
P&P	£0.92	£72.70m	11.3	0.28	412.56	4.55%	24.32%	£3.90m	£14.80m
Parity	£1.23	£51.50m	17.1	0.58	6833.31	9.82%	-2.38%	£4.60m	£5.30m
Pegasus	£1.53	£9.64m	12.3	2.00	416.89	10.87%	2.00%	£0.95m	£0.25m
Persona	£1.70	£20.60m	14.9	0.65	1062.50	-3.95%	6.25%	-£0.80m	£1.30m
Phonelink	£2.45	£87.00m	Loss	70.10	1580.65	2.08%	15.02%	£1.80m	£11.40m
Proteus	£1.16	£37.90m	Loss	n/a	1380.95	10.48%	-33.71%	£3.60m	-£16.50m
Quality Software	£3.98	£34.60m	14.5	2.10	1047.37	7.86%	3.92%	£0.80m	£1.30m
Radius	£0.38	£10.60m	13.2	0.43	275.36	15.15%	0.00%	£1.43m	£0.00m
Real Time Control	£1.57	£11.00m	11.9	1.29	3204.08	-4.27%	-8.19%	-£0.50m	-£1.00m
RM	£2.05	£34.50m	13.2	0.53	1171.43	7.89%	-0.49%	£2.50m	-£0.20m
Rolle & Nolan	£1.60	£19.50m	25.5	1.53	1904.76	0.00%	-13.51%	£0.00m	-£2.90m
Sage Group	£8.28	£176.40m	18.1	3.47	6369.23	4.81%	22.85%	£8.10m	£35.50m
Sanderson	£0.83	£32.90m	12.0	0.97	1412.77	-3.49%	5.06%	-£1.10m	£2.50m
Sema Group	£3.87	£360.70m	18.2	0.61	1216.98	-2.03%	-5.15%	-£7.00m	-£17.90m
Sherwood	£1.20	£8.52m	Loss	0.34	1000.00	-13.67%	50.00%	-£1.35m	£3.64m
Spargo Consulting	£0.81	£10.10m	12.9	1.68	852.63	-1.22%	-10.99%	-£0.10m	-£1.30m
Standard Platforms	£0.14	£4.38m	Loss	3.34	62.22	27.27%	0.00%	£0.94m	£1.86m
Superscape	£1.58	£8.37m	Loss	9.73	797.98	-10.73%	-22.55%	-£1.01m	-£2.43m
Total	£0.28	£2.80m	29.1	1.34	528.30	0.00%	-20.00%	£0.00m	-£0.70m
Trace	£0.39	£5.46m	18.5	0.29	312.00	0.00%	-4.88%	£0.00m	-£0.27m
Unipalm	£1.53	£31.40m	171.9	2.92	1530.00	25.41%	29.66%	£6.40m	£7.50m
Vega Group	£2.80	£39.50m	28.3	4.07	2295.08	10.67%	6.46%	£3.80m	£2.30m
Virtuality	£2.12	£56.60m	Loss	6.20	1247.06	8.72%	-4.07%	£4.50m	-£1.20m
Vistec	£0.12	£14.50m	6.4	0.32	510.87	-24.19%	-9.62%	-£4.60m	-£1.50m
Wakebourne	£0.39	£8.47m	Loss	0.24	213.89	-38.89%	-51.27%	-£5.43m	-£8.03m

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.

## An exemplary performance from Computacenter...

Depending on your definitions, **Computacenter** could currently be described as the largest UK-owned SCSI company still in private ownership. We referred to them in the March edition when a 26% increase in their revenues, to £418m in 1994, put them into the #1 dealer rank - not just in the UK where all but £1m of their revenue is earned - but as #1 in the whole of Europe.

This month Computacenter has supplied the rest of the financial results for the year ending 31st Dec. 94. These showed operating profit up 29.5% at £11.24m and PBT up 26% at £10.46m. In our opinion that is an exemplary performance. Some might consider that an operating margin of 2.7% is not that good. Indeed, as the chart shows, their margin has slipped from 6.2% in 1989. But most dealers would currently be delighted to be making any profits - let alone 2.7%.

But Computacenter increasingly would not like to be referred to as a dealer. The vast majority of their gross profit, and in 1994 about £80m of their revenues, now come from services rather than hardware/software resale. Computacenter is quite successfully turning itself into a systems

integrator, PC FM provider, IT trainer etc. rather than just being Compaq, IBM, et al's largest direct reseller. As others (e.g. P&P) know only too well, such a change takes longer and costs more than you ever first imagined. But even in hardware supply, Computacenter has moved into long term relationships - like the recent deal to supply PCs and services to the Home Office in a £5m/3 year deal - and linked up with outsourcing leaders like CSC.

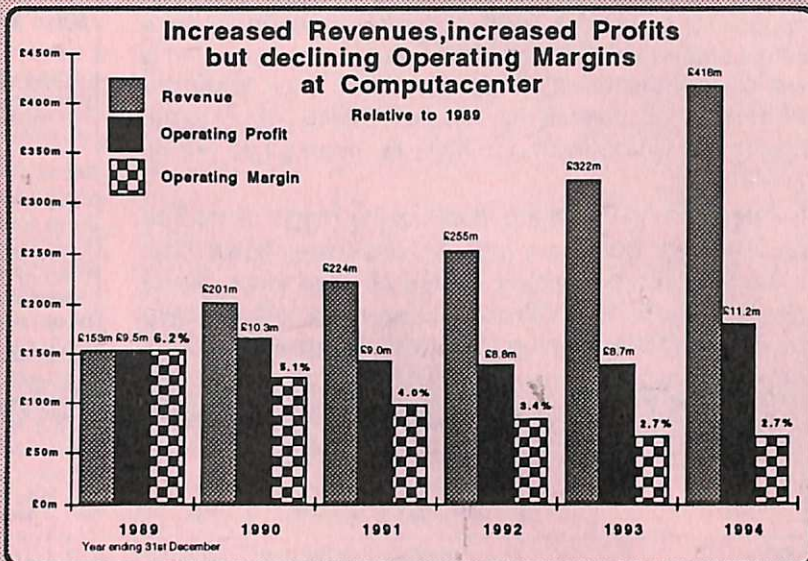
There have been *Computacenter for sale?* or *Computacenter to float?* rumours for as long as we have produced *System House*. Currently Computacenter is engaged in buying back shares from one of its VC investors - Apax. Chairman Peter Ogden, who owns 40% of the equity, was reported as saying he had no plans to sell or float. - "my view is that the company is better served in private hands". Source - Microscope 22nd March 1995.

Given the current sentiment towards the sector, we would not disagree.

### ...and from Specialist Computer Holdings too

**Specialist Computer Holdings (SCH)**, the second largest PC dealer in the UK, has indicated that revenues to 31st March 1995 have increased by nearly 70% to £250m and that revenues to 31st March 1996 were likely to top £500m. SCH made PBT of £5.2m last year but no figures are so far available for 1995. But interestingly Rigby criticised the Coopers & Lybrand study which had identified SCH as a firm with hypergrowth characteristics. He said "there is little point in growing the business unless profits equal or exceed the rate increase in turnover or employees". Source - Computing 20th April 1995. **Hear, hear!**

Also this month it was announced that **SCH** has acquired two Scottish based businesses - **Scotbyte Computers** and its consumables organisation, **Scotbyte Supplies**. SCH intends to open a Byte superstore in Hermiston Gait, Scotland in Sept. 95.



### Oxford Molecular "profitability by end of year"

**Oxford Molecular** was a new issue at 80p on 28th April 94 which valued the developer of computer-aided molecular design software and systems for the pharmaceutical and biotechnology industries at £29.5m. The £9.35m net proceeds were retained in the business.

In Aug. 94, US **IntelliGenetics** was acquired for £5.9m. In Jan. 95, they acquired a similar US company - **CACHe** - for £5.7m in shares.

Maiden results for the year to 31st Dec. 94 were, if anything, better than expected. Revenues almost doubled to £2.765m. This included £750K from IntelliGenetics. But the "old" Oxford Molecular grew by an impressive 43% too. The loss before tax of £2.9m (loss £1.27m in 1993) was exactly as expected.

So Oxford can look back on a year involving two acquisitions, a new issue which left them with £4.4m cash at the year end, a much higher profile in the US and the first year of operations in Germany and staff numbers tripled from 33 to 104. Chairman Rod Hall expressed "great satisfaction...on a year of excellent progress". We would not wish to disagree. But the announcement which really cheered our heart was "our goals for the current year are focused and few. The top priority, as we move forward, is to achieve profitability towards the end of the year together with a positive cash flow". That really makes them stand out from the others to which they might be compared...like Proteus.

Regardless of these differences, Oxford Molecular ended April 1995 on 54p - down 33% on their new issue price of 80p exactly a year earlier.

### Staggering growth at CSC UK

If you are surprised then you clearly have not really been reading *System House*. **CSC** has estimated to us that their UK revenues for the year to 31st Mar. 95 will be £210m - up a mere 170% from £76.6m reported in 1994. Of this £160m will relate to outsourcing - up four-fold.

Whatever may happen in the remainder of the year, that will put CSC in 2nd place to EDS in the FM rankings and well into the Top Ten suppliers of SCSI services to the UK market.

### Wakebourne warning

**TPM Wakebourne** has warned that profits will be £1.8m for 1994 compared with estimates of £2.3m. Stock discrepancies were blamed. Revenues increased 50% to £35m.

# ANDERSEN CONSULTING

Andersen Consulting reported worldwide revenues up 20% at \$3.45 billion for the year to 31st December 1994. However, the major growth came from Asia/Pacific - up 27% and "the Americas" - up 23%.

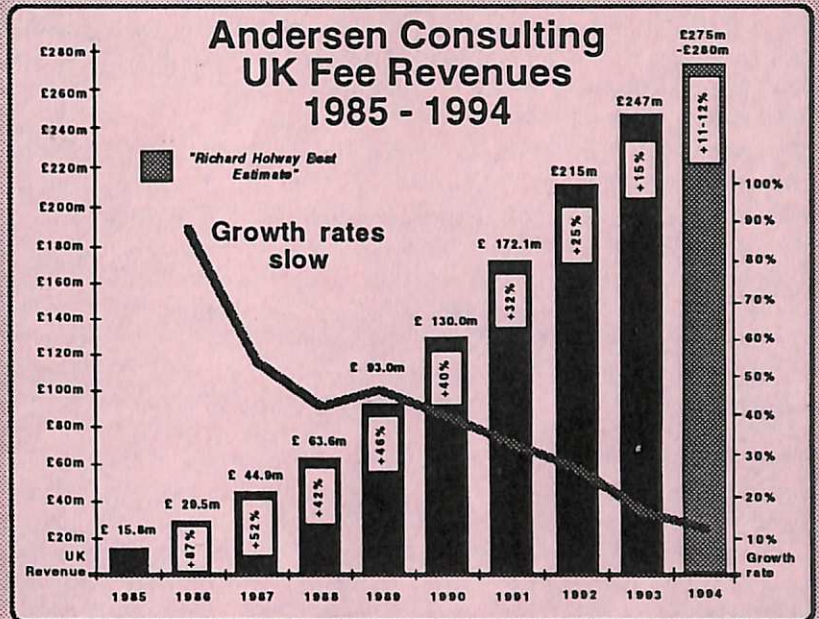
European revenues however, increased by a much lower 13% (12.5% in local currency) to \$1,142 million. Andersen now wishes to report on a European -

rather than country - basis. "As contracts are increasingly awarded on an international basis, to just look at results by country isn't that helpful".

But to be fair to Andersen Consulting, they were very helpful in assisting us in making the usual "Richard Holway estimate" which would be around £275m-£280m - on a like-for-like basis with the £247m reported for 1993. We believe that Andersen's UK growth has slowed from the heady late 1980s early 90s.

The reason for this slower growth is that Andersen Consulting really seems to have lost out in the UK outsourcing market to EDS, CSC and many others. We estimate that UK FM revenues were £65m-£70m in 1994, which means that EDS, Hoskyns, IBM, Sema all have larger FM revenues. In 1995, CSC is bound to overtake them too and the others will widen the gap at the top. Andersen Consulting has won none of the mega deals in the UK and has faced criticism in some that it has won - most notably at the Stock Exchange. Andersen says that this

is because it is looking only for high-value contracts and is not "chasing low margin work maintaining hardware". Interestingly Joellin Comerford, worldwide head of outsourcing at Andersen Consulting, was recently reported as saying they were waiting for the second generation of outsourcing contracts that will be appearing in 1995 to boost profits. "Users got into trouble first time around because they changed service levels or added new functions. Now they want to enhance their business and don't want to get into trouble again". Source - Computer Weekly 16th March 1995.



## Capitalised R&D concerns at CFS

Computerised Financial Solutions (CFS), one of the many new issues in the years 1993/94. CFS was floated on 3rd February 1994 at 90p per share valuing the company at £4.23m. CFS provides credit management software, with particular emphasis on the motor industry, and has an impressive list of blue chip customers.

IBM UK bought 26% of CFS in Nov. 90 for £260K (plus £360K for prefs). The placing raised £214K for IBM plus valuing its remaining 15% holding at £695K. IBM's stake has since reduced to 14% and further reduced when Rotch Group acquired a 4.9% interest from IBM in Jan. 95. Rotch evidently expect to purchase the balance of the IBM stake in due course.

Maiden full year results to 31st Dec. 94 showed revenues down 6.5% at £3.1m but PBT up 6% at £351K. Losses of "just under £100K" were incurred due to the start up operation in the USA.

However, our big concern is the continued capitalisation of the majority of R&D costs (a further net £660K in 1994) has increased intangible assets to £1.4m, which is far more than total assets of £1.1m. Or, putting it another way, if they hadn't capitalised R&D CFS would have reported a maiden loss of around £300K and been technically insolvent.

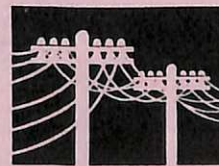
Chairman Tom Brockbank said "(past) efforts are now being translated into more tangible rewards and we look forward to achieving a creditable result for 1995".

After a full year as a quoted company, the share price is 92p - little changed from the launch price of 90p. It certainly seems unlikely that the capitalised R&D argument has been noticed by many investors.

## Static performance for AT&T Istel in Europe

AT&T Istel, this month, provided figures showing that European revenues were static in 1994 at £250m but that UK revenues seem to have increased by 30% from £130m to £170m. We do not have any profit figures, but latest accounts filed at Companies House, for 1993, show a loss of £31m. We have always treated filed results of overseas divisions of \$70 billion US corporations with healthy suspicion!

### AT&T to buy BR Telecommunications?



British Rail Telecommunications runs 10,000 miles of copper and optical cable and has revenues of £170m - 80% from the railway operators. It is being sold by Swiss Bank as part of the BR privatisation.

The FT has suggested this month that AT&T is the most logical bidder.

### Mixed signals

The latest CSSA Quarterly Business Trend Survey for Q1 95 shows that CEOs "are growing less optimistic about the future prospects of their businesses". The number forecasting worse times ahead is the highest since 1992. Staff numbers in CSSA companies increased by 14% and, as discussed on page 2, "the Recruitment and Contract Staff sector reported a record high growth".

This is born out by the latest figures from MSL which shows a 31% increase in the number of recruitment ads for IT executives in Q1.

Against all the current trends, Stratagem's TPM subsidiary, Firstpoint, reported a 106% increase in PBT to £733K in the first half.

## Whither the CSSA?

We remember well the CSA annual conference held around a decade ago. Over 300 industry figures attended. The CEOs of all the leading companies were there. Logica's Philip Hughes delivered his famous "we all drink out of the same soup bowl" speech. Gary Fernandes, then head of International operations at EDS, upset them all by arriving by helicopter...and Richard Holway gave his first, of five subsequent, speeches to a CSA conference.

In April, the CSSA held its annual conference in Gleneagles - normally the most popular venue. Only 140 industry figures attended. Not one of the Top Ten UK SCSI providers sent its CEO and only two CEOs out of the Top 20 could spare the time to attend even a part of the conference. Indeed leaders like EDS, Andersen Consulting, ACT/Misys, Oracle and Microsoft sent no representatives - however junior.

It's a very sorry tale. We spend most of our time with the CEOs of our industry. An increasing number think the CSSA is becoming less relevant. They believe that the trade body (be it the CSSA or whoever) must offer:

- the chance to network at the highest level. With so few of the major companies now bothering to attend and even fewer CEOs prepared to invest their time, the answer to this point is depressingly self fulfilling
- a voice of influence for the industry. Doug Eyeions, the CSSA Director General, announced in his last address to conference before his retirement later this year, that Michael Heseltine at the DTI had decreed that he would deal with "just one trade body per industry". He also decided that the body would be the Federation of the Electronics Industry (FEI)...and not the CSSA. "The CSSA has been pressed to merge with the FEI if it is to be represented...which representative body will speak for the new multimedia businesses of the ICT industry in the future? The large electronics companies? Or the users?"

The FEI represents some 260 members with revenues of £60 billion. The CSSA has over 400 members with combined revenues of a somewhat lower £7 billion. There are just 12 members which both associations have in common. These include leaders in our industry like ICL, IBM. They also include EDS.

Alan Stevens of EDS will become FEI's president on 10th May 95. Stevens was also due to be the CSSA president this year until a "conflict of interest" saw Geoff Squire drafted into the role. Stevens confirmed that "EDS' UK MD, Tom Butler, wanted to deal with just one voice for the industry...a voice that values every part of the value chain not just one part of it". EDS has confirmed that it will not be renewing its CSSA membership.

The FEI has got big by "merger". E.g. the EEA and the Electronics Components Industry. Perhaps it will takeover the CSSA? But the CSSA still represents over 400 companies which the FEI would consider as SMEs. On the other hand we have to face reality. Representation via the FEI as an umbrella organisation is better than no representation at all.

If the current situation persists, which CEOs will attend future CSSA annual conferences? With leading companies such as Misys, Sage, EDS not even members and even most members' CEOs not bothering to attend, a momentary sighting of EDS' Les Alberthal arriving at this year's CSSA conference by helicopter would have been seen as a miracle, not an insult.

*In our own attempt to correct that situation.....*

5.30 pm Wednesday
19th July 1995
Make note to
attend
Richard
Holway's
CSSA
Presentation
at London Portman
Hotel.

.... on 19th July 1995, Richard Holway will be giving his annual presentation on the financial state of the industry on behalf of the CSSA. Starting at 5.30 pm, the evening at the London Portman Hotel includes dinner and drinks. Last year over 150 CEOs attended and the CEOs that have already booked for this year are *very impressive*. Also as usual a FREE place for every one who orders an advance copy of the 1995 Holway Report.

**Holway<sup>INC</sup> Report**

The 1995 Holway Report will be available from early June. See enclosed brochure and order form.

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