

System House

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"To float or sell, that is the question"

Well, it is certainly the most common question that our subscribers have asked us in the last couple of months.

Background

There have been surprisingly few SCSi flotations - about 90 in total since the early 1970s. It might have been

expected that a float would be the preserve of the larger company - but, in fact, the vast majority of floats were of quite small companies. Even now, two thirds of all quoted SCSi companies have a capitalisation of less than £50m. On the other hand, the "trade sale" has been a far more popular route either to release shareholder funds or provide access

to resources for growth. Most trade sales probably go unrecorded. Even on the basis of those that have come to our notice, there are probably 50-100 times as many SCSi trade sales than floats.

1994 was a "record" year for SCSi floats with 15 taking the plunge. Almost all of these took place in the first four months. We recorded over 200 trade transactions worth around £750m in 1994. But this was a reduction in both number (220) and value (£1 billion) recorded for 1993.

Since then, due to what CMG referred to as "poor sentiment towards the sector", the number of new issues dried up. The "poor sentiment" was as a result of the many "disappointing" results for both new and established players. The result was that average values - as measured by historic P/E's - fell sharply. Indeed

those valuations fell to below the average P/E's achieved in trade sales. In the first half of 1995, according to Broadview Associates, there were around 110 SCSi transactions worth nearly £1 billion. I.e. the six months exceeded our total for 1994 as a whole. During that same

six months, there were NO new floats.

Any view that trade sale activity will abate is not supported by this month's issue of *System House*, which contains more pages of news of sales than any issue we have ever produced!

But since mid 1995, "sentiment" towards the SCSi sector has improved dramatically. Our CSI Index has increased by a

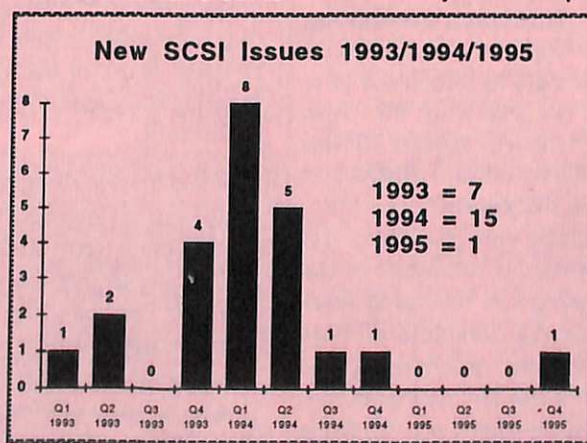
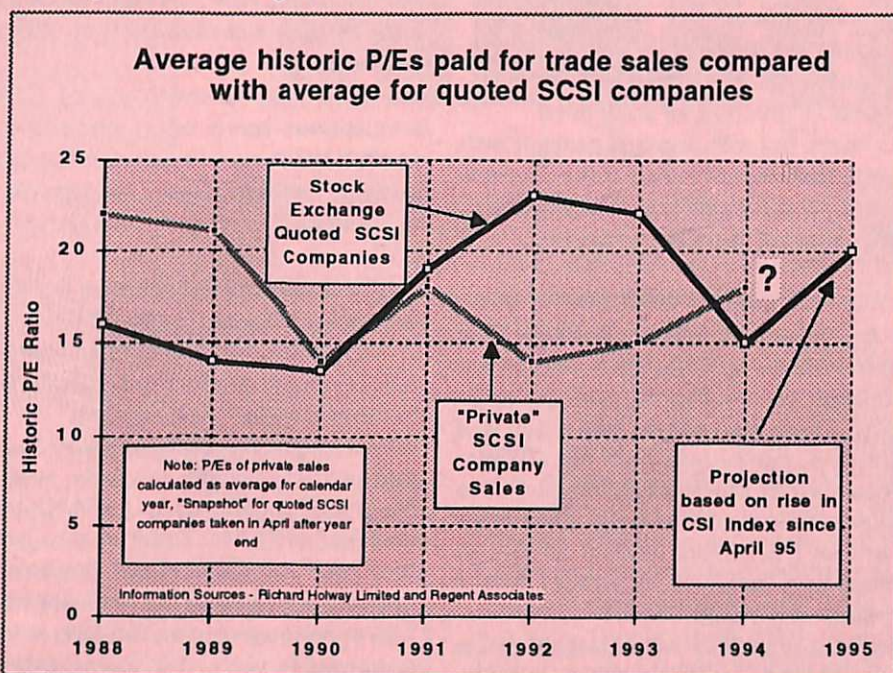
record 41% since May 95. Average historic P/E's have risen from just 15 in April to 20-21 now. We would suspect

that quoted valuations are now above the average P/E's achieved in trade sales again.

This, in turn, has meant several companies dusting off their float plans. The first result is that the delayed CMG float is now planned for late November. It looks as though this will be the only main market SCSi float of 1995 - a record low! (Note: There were a (surprisingly) few AIM floats. Even here, most were moves from the 4.2

market.) There are several other companies seriously considering the possibility of a float in 1996. FI Group, Data Sciences, Heath (Peterborough & Datasure) and Triad are among them.

"To float or sell?"...for our comment see page 2



"To float or sell" continued from page one **Comment.**

From the heady days of 1993/94, when the "window of opportunity" for a float was open so wide that many companies that should have avoided the temptation jumped through, the window was locked and bolted for well over a year. Now it is at least ajar again. There are, however, many factors which could mean that the window of opportunity is short lived. The UK stock market is at an all time high but pundits are warning of a growth slowdown in 1996. An election must be called by May 1997 which could well cause uncertainty in the second half of 1996. And sentiment towards high tech. is highly volatile. There are already criticisms that US high tech. stocks are over valued which has seen a major easing of prices in the last month on the US exchanges. There is still room for some mega disasters - like MDIS, Cray et.al. which contributed towards the problems in 1994 - to reoccur to put an abrupt dampener on the party.

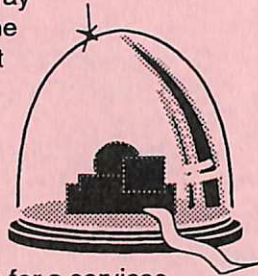
"To float?"

Q1 1996 seems like the best period to aim for. Prices should, however, be more realistic than the last round. We would guess 15-16 average P/Es or around 1x revenue for a services company, will be the norm. But with average profit growth of 25%+ likely in 1996, that should hold out the promise of decent rewards for new investors too. The success or otherwise of the CMG float will be a key indicator.

"or to sell?"

We know there are many companies which floated which now wish that they had taken the trade sale route. With guaranteed cash in the bank and sans the hassle which analysts such as us subject quoted companies, the route seems very appealing. There also seems little doubt that overseas, particularly US, companies both have higher valuations themselves and can therefore bid higher prices than their UK equivalents. Indeed the latest Broadview Associates report shows US buyers leading all foreign nations in their purchases in the UK SCSI sector - 26% of the total in H1 1995 and up 50% on 1994.

We suspect that trade sale activity will increase as the industry "consolidates" and that, although there will be some, those choosing the float route will still be rare.



NatWest disposes of Centre-file

Centre-file is one of the oldest surviving names on the UK SCSI scene. As a wholly owned subsidiary of NatWest, they had grown by providing bureau payroll services and other HR activities. Revenues had grown consistently - if not dramatically - to £95m in 1994. Over half - £53m - of this revenue directly related to the NatWest. But "development costs...restructuring and losses incurred on desktop services and the Group Property Project" caused the first ever losses of £3.6m to be reported in 1994.

There then followed an in-depth review and a decision was taken earlier this year to dispose of the non-NatWest activities. This month, the results of that disposal programme were unveiled;

- the **personnel and payroll services (P&PS)** division was sold to US **Ceridian** for £33.1m cash. 264 staff will transfer as will the Centre-file name which will continue to be used. We understand that P&PS represented 20% - or c£21m - of Centre-file's revenues and was making a profit margin of 12-15%. Its main competitors are Peterborough, ADP, CMG, Data Sciences payroll services etc. Ceridian will also market HR services to NatWest customers.

Ceridian was formed out of CDC in 1992. Twelve acquisitions have been undertaken since. It recently announced it was to acquire the transaction processing bureau Comdata. Then Ceridian will have 1995 revenues of about £800m and current growth rates are upwards of 25%.

Paul Wyman will continue to head the "new" Centre-file operation. He was clearly elated to be "part of a company which really understood the business" and is likely to be able to operate under the same kind of autonomy awarded to other Ceridian acquisitions.

- the **K3 Group**, which supplies systems to the insurance and building society markets, was acquired by Centre-file in 1992 for £5.4m. In 1994 K3 had revenues of £6.7m and PBT of £1.1m. This has now been sold on to **IBM UK** for £7m. K3's 150 staff will become part of IBM UK's fast growing Services division under Brian Sellwood.

- an announcement on the sale of the workflow business, now trading under the name **Integrated Work**, is also likely very soon.

The remaining bits of the "old" Centre-file will trade as **Management Computing Services Ltd.** in the period until everything is sold or transferred back into NatWest's IT dept. Many of the Centre-file management - like MD Noel Dearing and John Lowrie - will then take well-earned retirement.

CGS slowly recovers

CGS seems - possibly, perhaps and maybe - on the road to recovery despite continued difficult economic conditions, particularly in France, described by CGS as "downright gloomy". Losses in the six months to 30th June 95 were a now minimal FF19m on revenues up 7.7% at FF5.5b. IT outsourcing was one of the "stars".

However, as we all know, the franc has "appreciated". As over 75% of CGS' revenue is generated outside France, at constant exchange rates, actual growth was 11%. Indeed operating profits increased by 34% to FF324m. "Positive net income for 1995 is expected, exclusive of minority interests, whereas 1994 closed with a loss of FF94m".

ANDERSEN CONSULTING

Andersen Consulting reported revenues up 24% to \$4b in the year to 31st Aug. 95 - now nearly equal to the

revenues of **Arthur Andersen**. A new name - **Andersen Worldwide** - is now proposed for the parent.

It would appear that growth in Europe was much stronger than the relatively weak performance recorded in the previous year. Andersen Consulting UK seems to have won few significant new outsourcing contracts in 1994 when, out of total revenues of £284m, outsourcing was marginally up at about £55m. But the UK has won new outsourcing contracts worth at least £25m p.a. so far in 1995. These include the £7m p.a. contract with Thames Water, the £5m p.a. deal with Conoco and the extension of the BP Exploration contract. In addition the UK won the £110m deal to replace the DSS NI systems. This will lead to a 7 year outsourcing deal.

Profits dive at MR Data Management

MR Data Management is the second largest COM bureau in the UK. The chart below shows how a consistent, if unexciting, record with profit margins consistently exceeding 20%, has been shot to pieces. Several profit warnings have been issued in the last year causing their share price to plunge from a 1994 high of over 200p to end October 95 at 68p. That's a 38% fall in 1995 so far.

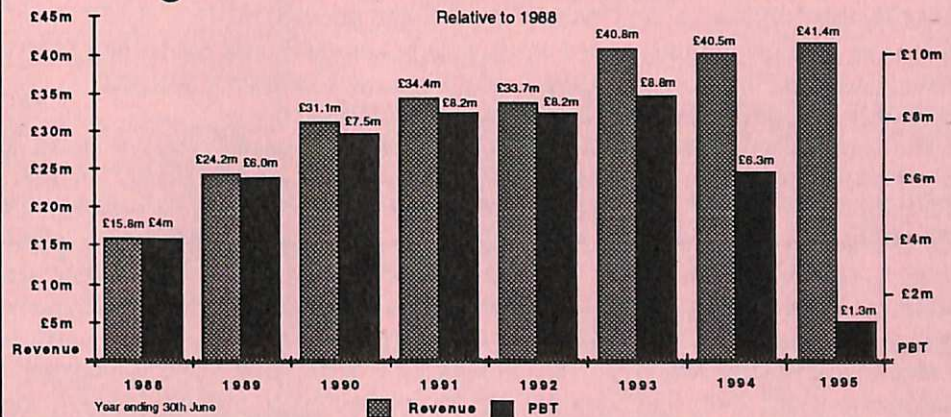
The latest warning in June anticipated profits for the year to 30th June 95 of £3.5m. In the event PBT of £1.3m was announced on revenues up a minimal 2% at £41.4m. EPS dived from 8.0p to 1.6p. The exceptional items of £2.8m were from increased redundancy costs, E.g. £200K+ was paid to departing CEO Mike Elliott, who had presided over MR for the two years during which the profits had plummeted, and a re-assessment of tangible assets value.

MR also announced that its MR-Memex free text retrieval database software business would be sold. Memex had lost £900K in the year. "Two US and one other potential buyer had already expressed an interest". Costs of up to £1.5m have been cut in the core COM, CD-ROM, microfilm and scanning activities. The laser printing activities "have been increasingly successful". MR will now "pursue actively facilities management and outsourcing opportunities in data management and data processing".

It would be easy to conclude that MR's problems all relate to rapid changes in technology which have made COM less attractive. But this side of MR's business - as with their rivals Microgen - has held up well. MR tried to expand outside COM but its acquisition of Taylor Woodrow Data Graphics caused the dreaded acquisition indigestion. Police force orders for its Memex products got postponed and the costs relating to new services - like the long overdue move to CD-ROM - required higher investment than anticipated.

Whether new Executive Chairman, Colin Haylock, who had had an exemplary record as CEO at WS Atkins, will be given the time necessary to make the required changes is open to question.

MR Data Management plc Eight Year Revenue and PBT Record



Services and the "hardware vendors"

As IBM now makes more money from software and services than it does from hardware, perhaps we shouldn't refer to them as a hardware manufacturer any more. Latest results for Q3/95 show flat hardware sales at \$7.8b, with actual declines in mainframe and AS/400 revenues. Maintenance revenues grew by 2% to \$1.9b, software by 14% to \$3.1b but services was up a massive 36% to \$3.1b. Service order backlog for outsourcing contracts etc. now exceeds \$30b. Desktop services is a particular hot spot here. The recent \$600m/10 year deal with Campbell Soups in the US which involves IBM running their data centres, network and 7,000 PCs is an example. IBM's outsourcing and SI activities will have revenues of \$9b in 1995 - only a whisker behind EDS' \$10b. And IBM's business is growing at 33% p.a. compared to EDS' 20%.

It's a completely different story at Digital in Q1 FY96. PC hardware sales increased by 32% and Alpha sales, as servers to networks, were up 40%. DEC VAX sales declined again and now represent just 5% of Digital's total revenues. Digital's services revenues reduced and now represent 45% of the total. Reducing hardware maintenance as DEC VAX sites "go dark" and the moves out of consultancy were key reasons. Although not in the IBM league, we have described on many occasions the success that BULL - and its Integrigr activity - is having in the UK SCSI sector. This month BULL UK announced a 60% increase in UK SCSI sales in Q3/95 Outsourcing revenues hit an impressive £11m in the quarter before the Data Sciences deal. This month BULL UK also announced the acquisition of RAK Computer Services - a £2m rev. desktop services business based in East Anglia.

Data Sciences subcontracts to Integrigr

This month Data Sciences announced that it was to subcontract its IBM mainframe processing business to Integrigr (BULL). Integrigr gets a 10 year contract and the accounts transferred are worth around £8m p.a.

The new deal probably puts Brian Gunn's Integrigr on a run rate approaching £50m p.a. - a quite incredible performance considering they started almost from scratch as recently as Jan. 94.

Our only surprise at the deal is that it has taken so long. It was on the cards when we first interviewed Andy Roberts, as the new CEO at Data Sciences, back in mid 1993. Roberts made great play then of his focus on the new technologies. The MVS MIPS business is increasingly the preserve of a few large players. You are either in it big or not at all. Data Sciences' own operations - essentially the Datasolve operation based in Sunbury - had already seen staff reduce from 350 to 250 over the last two years. So the deal with Integrigr seems to make sense for all parties. Brian Appleby, the long standing and respected head of this part of the operation at Data Sciences, will continue to be i/c of the datacentres.

With the last bit of "unfinished business" now complete, the decks are clear for a Data Sciences' float decision (see page 1). Their year ended on 30th Sept. 95 and results could well contain some pleasant surprises.

It might be the first float for the "new" CINVen who are the major institutional backers of Data Sciences. CINVen, with £1b in funds under management, were successful this month in their MBO from British Coal for "less than £5m".

Quality Software Products share price doubles since launch...

You would think that after the number of times we have pointed out both to Quality Software Products (QSP) and to the media, the perils of reporting headline result without reference to minor details like capitalised R&D, that someone would by now be taking note. But no, the QSP interim statement for the six months to 30th June 95, and all the associated press comment, merely reported that:

- revenues increased by 39% to £10.1m.
- PBT was up 33% at £805K.
- EPS was up 32%.
- there was to be a 7-for-20 rights issue at 535p per share to raise £14.7m.
- that it was to acquire US Global Software for £7.2m (£4.4m in shares, balance in cash). Global is QSP's US distributor.
- QSP will use the remainder of the rights issue proceeds to develop the US, establish overseas operations in Italy, New Zealand and Dubai and to reduce gearing to about 10%.

All these announcements were treated very positively by the media and QSP's share price increased by 6% this month to 665p. This compares with a new issue price of 380p in Mar. 93.

But the media gave little or no coverage to the following points:

- The Global deal is rather complex. Global is a US software products distributor and developer with revenues of around \$25m which is now suffering from "a shortage of working capital". Its non QSP activities are being spun-off to Global's management. The bit that QSP will be left with (now to be called QSP Inc.), for which they will be paying £7.2m, had revenues of £773K between Feb. 94 and June 95 and lost £4m, representing the cost of the "cold start" in the US. QSP Inc. will have net liabilities of \$6.5m. QSP justifies the deal because of the opportunities to accelerate sales of Universal OLAS in the US "where the new business pipeline is stronger in a market much larger than the UK" and means that it will not have to pay Global a commission on licence sales and will be able to get 100% of the associated services revenues. Roy Stoves, QSP's group MD and co-founder, will now move to run the US. But readers may still think that paying £7.2m for a loss-making activity with on-going revenues of less than £1m is a bit steep.

- QSP's revenues from licence sales increased by only 18% to £2.6m or 25% of total revenues. Given that QSP says that 17 new OLAS orders were won in the second half of 1994 and a further 20 in the first half of 1995, the increase in licence revenue seems rather low to us. QSP also confirmed that revenues from new licence sales were taken into the accounts "once the licence/contract is signed". This policy is frowned upon. Most other products companies which sell direct, take revenue upon delivery and acceptance by the customer. Indeed you may remember the problems caused at Oracle a few years back when they were forced to change their policy on revenue recognition. Clearly problems would be created if some of these orders did not make it through to implementation.

- revenues from services almost doubled to £5m and, with maintenance of £2.5m, now account for three quarters of QSP's revenues. Now we are a strong supporter of services revenues, but know that such companies justify lower market ratings than those currently being awarded to QSP as a products supplier. Current broker forecasts are for PBT of £3.5m for 1995 equating to a prospective P/E of 18 - and that's before taking into account the old capitalised R&D issue.....

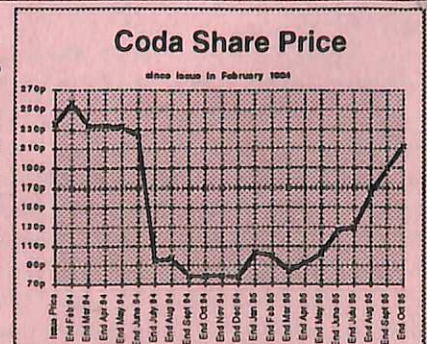
- indeed, the media failed yet again to highlight the increase of £1.3m in intangible assets - rather more than the £805K PBT for the period. Indeed intangible assets are now £14.9m - within a whisker of QSP's current total net assets of £15.7m. This QSP describes as being in line with its "policy of prudent but active financial management". To give QSP their due, they submitted a very detailed response to our initial draft of this article and we have incorporated some of their points above. QSP says "on capitalised R&D, we both agree strongly that the real issue is a lack of a standard in the UK...we have applied a principle that started as a requirement of acquisition rules applied in 1989 when 3i made a large VC investment. Its continuance ensures that we match income with expenditure through a major product development period rather than show periods of unrealistic profits and losses.

On net assets, don't forget that this will increase to around £23m as a result of the rights issue. This gives a positive gap of £8m as compared to the position on flotation when our intangibles were £1.2m greater than net assets".

Lest there be doubt, we have never suggested that QSP has done anything underhand or against any law. Indeed, if it wasn't for the problems caused by the accounting conventions used, there is much to be positive about...not least that QSP is UK-owned and now employs over 500 staff throughout the world. The directors are "optimistic" for future progress and clearly the investment community currently still shares their view.

..Coda bounces back Our views on Coda are as well known as our views on QSP above. We were so impressed that we gave them a rare *System House* boring award. Coda reacted to the honour by plunging to an £8m loss in FY94. But since then the recovery has been swift. This month a major deal involving 100 subsidiaries of Turkey's Koç taking Coda-Financials was announced as well as deals worth £1m+ with Mattel, Dauphin etc. The share price has recovered dramatically from its low of 75p just a year ago. We had hoped it might break its launch price of 235p but it closed on 202p - that's still a 162% rise so far in 1995! Analysts are forecasting profits of £2m for the year.

Note: Coda fully expenses R&D, takes licence revenue on delivery/acceptance by client etc.



Quoted Companies - Results Service

Note: Shaded = Results announced this month.

Admiral plc					INSTEM plc				
	Interim - Jun 94	Final - Dec 94	Interim - Jun 95	Comparison		Interim - Jun 94	Final - Dec 94	Interim - Jun 95	Comparison
REV	£ 24,560,000	£ 49,473,000	£ 30,204,000	+23.0%	REV	£ 8,043,000	£ 16,812,000	£ 11,205,000	+39.3%
PBT	£ 3,198,000	£ 7,719,000	£ 5,589,000	+74.8%	PBT	£ 505,000	£ 1,153,000	£ 577,000	+14.3%
EPS	18.50p	45.20p	31.80p	+71.9%	EPS	7.40p	16.80p	8.40p	+13.5%
Azlan Group plc					JBA Holdings plc				
	Final - Mar 94		Final - Mar 95	Comparison		Interim - Jun 94	Final - Dec 94	Interim - Jun 95	Comparison
REV	£ 61,506,000		£ 90,488,000	+47.1%	REV	£ 38,500,000	£ 90,687,000	£ 49,464,000	+28.5%
PBT	£ 3,871,000		£ 3,906,000	+0.9%	PBT	£ 264,000	£ 6,131,000	£ 754,000	+185.6%
EPS	12.40p		12.50p	+0.8%	EPS	0.19p	12.13p	1.43p	+652.6%
Capita Group plc					Kalamazoo Computer Group plc				
	Interim - Jun 94	Final - Dec 94	Interim - Jun 95	Comparison		Final - Mar 94		Final - Mar 95	Comparison
REV	£ 30,470,000	£ 73,800,000	£ 43,420,000	+42.5%	REV	£ 60,911,000		£ 60,719,000	-0.3%
PBT	£ 2,710,000	£ 7,903,000	£ 4,010,000	+48.0%	PBT	£ 6,355,000		£ 6,815,000	+7.2%
EPS	3.80p	10.50p	5.00p	+31.6%	EPS	10.20p		11.80p	+15.7%
Cedardata plc					Kewill Systems plc				
	Final - Mar 94		Final - Mar 95	Comparison		Final - Mar 94		Final - Mar 95	Comparison
REV	£ 6,120,000		£ 8,932,000	+45.9%	REV	£ 31,780,000		£ 33,667,000	+5.9%
PBT	£ 2,715,000		£ 3,572,000	+31.6%	PBT	£ 4,043,000		£ 5,067,000	+25.3%
EPS	6.30p		7.90p	+25.4%	EPS	23.00p		28.39p	+23.4%
CentreGold plc					Learmonth & Burchett Management Systems plc				
	Interim - Jan 94	Final - Jul 94	Interim - Jan 95	Comparison		Final - Apr 94		Final - Apr 95	Comparison
REV	£ 52,554,000	£ 91,314,000	£ 41,037,000	-21.9%	REV	£ 26,406,000		£ 23,761,000	-10.0%
PBT	£ 2,600,000	£ 4,033,000	-£ 3,883,000	Profit to Loss	PBT	-£ 746,000		-£ 5,251,000	Loss both
EPS	4.70p	7.30p	-6.44p	Profit to Loss	EPS	-3.10p		-24.70p	Loss both
Clinical Computing plc					Logica plc				
	Interim - Jun 94	Final - Dec 94	Interim - Jun 95	Comparison		Final - Jun 94		Final - Jun 95	Comparison
REV	£ 735,000	£ 1,471,684	£ 924,000	+25.7%	REV	£ 209,952,000		£ 250,135,000	+19.1%
PBT	-£ 227,000	-£ 688,596	-£ 357,000	Loss both	PBT	£ 13,543,000		£ 20,310,000	+50.0%
EPS	-1.40p	-4.30p	-2.20p	Loss both	EPS	14.00p		21.70p	+55.0%
Coda Group plc					Lorien Group plc				
	Interim - Apr 94	Final - Oct 94	Interim - Apr 95	Comparison		Interim - May 94	Final - Nov 94	Interim - May 95	Comparison
REV	£ 13,327,000	£ 23,388,000	£ 15,229,000	+14.3%	REV	£ 7,800,000	£ 17,904,000	£ 11,500,000	+47.4%
PBT	-£ 2,546,000	-£ 7,992,000	£ 993,000	Loss to Profit	PBT	£ 142,403	£ 169,000	£ 414,315	+190.9%
EPS	-8.00p	-27.70p	2.70p	Loss to Profit	EPS	2.39p	2.65p	6.17p	+158.2%
Compel Group plc					Lynx Holdings plc				
	Final - Jun 94		Final - Jun 95	Comparison		Interim - Mar 94	Final - Sep 94	Interim - Mar 95	Comparison
REV	£ 54,542,000		£ 70,019,000	+28.4%	REV	£ 7,257,000	£ 21,523,000	£ 12,605,000	+73.7%
PBT	£ 2,062,000		£ 2,684,000	+30.2%	PBT	£ 460,000	£ 2,009,000	£ 741,000	+61.1%
EPS	9.60p		11.10p	+15.6%	EPS	1.15p	4.50p	1.27p	+10.4%
Computerised Financial Solutions plc					M.A.I.D. plc				
	Interim - Jun 94	Final - Dec 94	Interim - Jun 95	Comparison		Interim - Jun 94	Final - Dec 94	Interim - Jun 95	Comparison
REV	£ 1,404,000	£ 3,120,711	£ 1,276,000	-9.1%	REV	£ 3,972,000	£ 8,887,000	£ 5,762,000	+45.1%
PBT	-£ 36,000	£ 350,617	-£ 66,000	Loss both	PBT	£ 440,000	£ 1,285,000	£ 408,000	-7.3%
EPS	-1.40p	3.97p	-1.50p	Loss both	EPS	0.39p	1.14p	0.33p	-15.4%
Cray Electronic Holdings plc					MMT Computing plc				
	Final - Apr 94		Final - Apr 95	Comparison		Interim - Feb 94	Final - Aug 94	Interim - Feb 95	Comparison
REV	£ 271,718,000		£ 264,838,000	-2.5%	REV	£ 4,815,000	£ 10,861,498	£ 6,442,000	+33.8%
PBT	£ 26,168,000		£ 835,000	-96.8%	PBT	£ 1,215,000	£ 2,505,106	£ 1,387,000	+14.2%
EPS	8.60p		-0.30p	Profit to loss	EPS	6.40p	13.10p	7.40p	+15.6%
CRT Group plc					MR-Data Management Group plc				
	Final - Apr 94		Final - Apr 95	Comparison		Final - Jun 94		Final - Jun 95	Comparison
REV	£ 47,348,000		£ 72,762,000	+53.7%	REV	£ 40,521,000		£ 41,429,000	+2.2%
PBT	£ 532,000		£ 5,972,000	+1022.6%	PBT	£ 6,348,000		£ 1,309,000	-79.4%
EPS	-0.13p		6.30p	Loss to profit	EPS	8.00p		1.60p	-80.0%
DCS Group plc					McDonnell Information Systems Group plc				
	Final - Jun 94		Final - Jun 95	Comparison		PF Interim - Jun 94	PF Final - Dec 94	Interim - Jun 95	Comparison
REV	£ 6,375,180		£ 8,694,833	+36.4%	REV	£ 68,609,000	£ 148,911,000	£ 79,145,000	+15.4%
PBT	£ 426,144		£ 609,530	+43.0%	PBT	£ 5,044,000	£ 9,064,000	-£ 1,673,000	Profit to loss
EPS	4.32p		5.02p	+16.2%	EPS	3.48p	4.57p	-2.42p	Profit to loss
DRS Data & Research Services plc					Macro 4 plc				
	Interim - Jul 94	Final - Dec 94	Interim - Jul 95	Comparison		Final - Jun 94		Final - Jun 95	Comparison
REV	£ 5,756,000	£ 8,798,000	£ 4,269,000	-25.8%	REV	£ 24,367,000		£ 25,035,000	+2.7%
PBT	£ 1,484,000	£ 1,487,000	£ 512,000	-65.5%	PBT	£ 11,211,000		£ 11,602,000	+3.5%
EPS	3.19p	3.07p	0.95p	-70.2%	EPS	34.20p		35.20p	+2.9%
Delphi Group plc					Micro Focus plc				
	Interim - Jun 94	Final - Dec 94	Interim - Jun 95	Comparison		Interim - Jul 94	Final - Jan 95	Interim - Jul 95	Comparison
REV	£ 38,013,000	£ 97,685,000	£ 83,168,000	+118.8%	REV	£ 42,950,000	£ 89,885,000	£ 36,800,000	-14.3%
PBT	£ 733,000	-£ 391,000	£ 4,101,000	+459.5%	PBT	£ 7,020,000	£ 8,723,000	-£ 4,470,000	Profit to loss
EPS	3.42p	-7.76p	11.66p	+240.9%	EPS	33.10p	32.00p	-30.30p	Profit to loss
Division Group plc					Microgen Holdings plc				
	Interim - Apr 94	Final - Oct 94	Interim - Apr 95	Comparison		Interim - Apr 94	Final - Oct 94	Interim - Apr 95	Comparison
REV	£ 2,106,000	£ 5,270,000	£ 2,489,000	+17.2%	REV	£ 29,056,000	£ 58,774,000	£ 34,868,000	+20.0%
PBT	-£ 892,000	-£ 1,440,000	-£ 1,575,000	Loss both	PBT	£ 3,441,000	£ 6,173,000	£ 4,470,000	+29.9%
EPS	-2.50p	-4.30p	-3.80p	Loss both	EPS	5.50p	10.00p	7.30p	+32.7%
Eldos plc					Microvitec plc				
	Interim - Jun 94	Final - Dec 94	Interim - Jun 95	Comparison		Interim - Jun 94	Final - Dec 94	Interim - Jun 95	Comparison
REV	£ 188,196	£ 254,225	£ 96,128	-48.9%	REV	£ 20,923,000	£ 44,146,000	£ 26,550,000	+26.9%
PBT	£ 47,834	-£ 107,623	-£ 267,533	Profit to loss	PBT	£ 1,120,000	£ 2,560,000	£ 1,607,000	+43.5%
EPS	1.93p	-4.16p	-10.03p	Profit to loss	EPS	1.24p	3.00p	1.47p	+18.5%
Electronic Data Processing plc					Misys plc				
	Interim - Mar 94	Final - Sep 94	Interim - Mar 95	Comparison		Final - May 94		Final - May 95	Comparison
REV	£ 7,179,000	£ 14,013,000	£ 6,326,000	-11.9%	REV	£ 93,358,000		£ 153,395,000	+64.3%
PBT	£ 2,061,000	£ 4,123,000	£ 1,807,000	-12.3%	PBT	£ 18,612,000		£ 26,345,000	+41.5%
EPS	5.12p	10.21p	4.55p	-11.1%	EPS	31.90p		35.10p	+10.0%
Gresham Computing plc					Moorepay Group plc				
	Interim - Apr 94	Final - Oct 94	Interim - Apr 95	Comparison		Interim - Jun 94	Final - Dec 94	Interim - Jun 95	Comparison
REV	£ 3,068,000	£ 6,507,000	£ 3,803,000	+24.0%	REV	£ 1,991,972	£ 3,873,089	£ 2,342,152	+17.6%
PBT	£ 244,000	£ 708,000	£ 521,000	+113.5%	PBT	£ 412,773	£ 686,336	£ 666,324	+61.4%
EPS	0.43p	1.32p	0.98p	+127.9%	EPS	3.79p	6.28p	5.88p	+55.1%

Quoted Companies - Results Service

Note: Shaded = Results announced this month.

On Demand Information plc					Sanderson Electronics plc				
	Interim - Jan 94	Final - Jul 94	Interim - Jan 95	Comparison		Interim - Mar 94	Final - Sep 94	Interim - Mar 95	Comparison
REV	£ 11,847,000	£ 14,487,000	£ 5,120,000	-56.8%	REV	£ 14,217,000	£ 33,984,000	£ 27,078,000	+90.5%
PBT	-£ 669,000	-£ 2,617,000	-£ 1,333,000	Loss both	PBT	£ 2,169,000	£ 4,228,000	£ 2,805,000	+29.3%
EPS	-1.60p	-5.70p	-2.60p	Loss both	EPS	4.00p	7.30p	4.60p	+15.0%
Oxford Molecular plc					Sema Group plc				
	Interim - Jun 94	Final - Dec 94	Interim - Jun 95	Comparison		Interim - Jun 94	Final - Dec 94	Interim - Jun 95	Comparison
REV	£ 1,086,000	£ 2,765,000	£ 2,832,000	+160.8%	REV	£ 298,419,000	£ 596,111,000	£ 321,892,000	+7.9%
PBT	-£ 933,000	-£ 2,906,000	-£ 2,112,000	Loss both	PBT	£ 12,567,000	£ 32,034,000	£ 15,208,000	+21.0%
EPS	-3.50p	-8.60p	-4.30p	Loss both	EPS	9.13p	20.98p	10.55p	+15.6%
P & P plc					Sherwood Computer Services plc				
	Interim - May 94	Final - Nov 94	Interim - May 95	Comparison		Interim - Jun 94	Final - Dec 94	Interim - Jun 95	Comparison
REV	£ 118,900,000	£ 263,930,000	£ 171,700,000	+44.4%	REV	£ 11,957,000	£ 25,069,000	£ 10,988,000	-8.1%
PBT	£ 2,700,000	£ 8,016,000	£ 6,200,000	+129.6%	PBT	-£ 88,000	£ 79,000	£ 615,000	Loss to profit
EPS	2.80p	8.10p	5.30p	+89.3%	EPS	0.30p	-10.73p	5.90p	+1866.7%
Parity plc					Spargo Consulting plc				
	Interim - Jun 94	Final - Dec 94	Interim - Jun 95	Comparison		Interim - Jun 94	Final - Dec 94	Interim - Jun 95	Comparison
REV	£ 38,003,000	£ 88,791,000	£ 61,512,000	+61.9%	REV	£ 2,854,000	£ 6,016,000	£ 3,329,000	+16.6%
PBT	£ 2,023,000	£ 4,176,000	£ 3,069,000	+51.7%	PBT	£ 606,000	£ 1,211,000	£ 192,000	-68.3%
EPS	3.51p	7.19p	4.82p	+37.3%	EPS	3.20p	6.29p	0.90p	-71.9%
Pegasus Group plc					Standard Platforms Holdings plc				
	Interim - Jun 94	Final - Dec 94	Interim - Jun 95	Comparison		Interim - Mar 94	Final - Sep 94	Interim - Mar 95	Comparison
REV	£ 2,275,000	£ 4,808,000	£ 3,038,000	+33.5%	REV	£ 749,995	£ 1,305,476	£ 699,119	-6.8%
PBT	£ 68,000	£ 243,000	£ 172,000	+152.9%	PBT	-£ 35,640	-£ 143,280	-£ 314,850	Loss both
EPS	0.70p	12.70p	1.80p	+157.1%	EPS	-0.90p	-1.10p	-1.50p	Loss both
Persona plc					Superscape VR plc				
	Interim - Jun 94	Final - Dec 94	Interim - Jun 95	Comparison		Final - Jul 94	Final - Jul 95	Comparison	
REV	£ 15,042,000	£ 31,537,000	£ 24,780,000	+64.7%	REV	£ 859,192	£ 1,590,000	+85.1%	
PBT	£ 1,005,000	£ 2,059,000	£ 1,350,000	+34.3%	PBT	-£ 238,024	-£ 1,746,000	Loss both	
EPS	6.00p	11.42p	7.50p	+25.0%	EPS	-6.10p	-32.80p	Loss both	
Phonelink plc					Total Systems plc				
	Final - Mar 94	Final - Mar 95	Comparison						
REV	£ 1,241,000	£ 2,085,000	+68.0%	REV	£ 2,092,429	£ 2,289,437	+9.4%		
PBT	-£ 1,761,000	-£ 3,702,000	Loss both	PBT	£ 141,918	£ 53,516	-62.3%		
EPS	-5.00p	-10.40p	Loss both	EPS	0.96p	0.34p	-64.6%		
Proteus International plc					Trace Computers plc				
	Final - Mar 94	Final - Mar 95	Comparison		Interim - Nov 93	Final - May 94	Interim - Nov 94	Comparison	
REV	Nil	Nil	n/a	REV	£ 9,200,000	£ 18,628,990	£ 9,500,000	+3.3%	
PBT	-£ 6,618,000	-£ 7,925,000	Loss both	PBT	£ 216,000	£ 409,901	£ 223,000	+3.2%	
EPS	-24.23p	-25.47p	Loss both	EPS	1.20p	2.33p	1.21p	+0.8%	
Quality Software Products Holdings plc					Unipalm plc				
	Interim - Jun 94	Final - Dec 94	Interim - Jun 95	Comparison		Final - Apr 94	Final - Apr 95	Comparison	
REV	£ 7,266,000	£ 16,494,732	£ 10,115,000	+39.2%	REV	£ 10,753,000	£ 17,767,000	+65.2%	
PBT	£ 604,000	£ 2,512,400	£ 805,000	+33.3%	PBT	£ 272,000	£ 442,000	+62.5%	
EPS	6.90p	27.50p	9.10p	+31.9%	EPS	0.89p	1.48p	+66.3%	
RM plc					Vega Group plc				
	Interim - Mar 94	Final - Sep 94	Interim - Mar 95	Comparison		Final - Apr 94	Final - Apr 95	Comparison	
REV	£ 28,745,000	£ 65,493,000	£ 33,596,000	+16.9%	REV	£ 9,703,000	£ 12,516,000	+29.0%	
PBT	£ 155,000	£ 3,769,000	£ 1,041,000	+571.6%	PBT	£ 2,147,000	£ 2,910,000	+35.5%	
EPS	0.60p	15.50p	4.00p	+566.7%	EPS	10.01p	13.49p	+34.8%	
Radius plc					Virtuality Group plc				
	Interim - Jun 94	Final - Dec 94	Interim - Jun 95	Comparison		Interim - Jun 94	Final - Dec 94	Interim - Jun 95	Comparison
REV	£ 12,325,000	£ 24,866,000	£ 13,424,000	+8.9%	REV	£ 4,120,000	£ 9,126,000	£ 6,269,000	+52.2%
PBT	£ 808,000	£ 1,451,000	£ 835,000	+3.3%	PBT	-£ 695,000	-£ 1,397,000	-£ 583,000	Loss both
EPS	1.19p	2.87p	1.96p	+64.7%	EPS	-2.70p	-5.30p	-2.20p	Loss both
Real Time Control plc					Vistec Group plc				
	Final - Mar 94	Final - Mar 95	Comparison		Final - Apr 94	Final - Apr 95	Comparison		
REV	£ 8,534,000	£ 13,463,000	+57.8%	REV	£ 45,018,000	£ 50,172,000	+11.4%		
PBT	£ 1,387,000	£ 1,782,000	+28.5%	PBT	£ 3,409,000	-£ 327,000	Profit to loss		
EPS	13.30p	20.00p	+50.4%	EPS	2.06p	-0.38p	Profit to loss		
Rolfe & Nolan plc					Wakebourne plc				
	Final - Feb 94	Final - Feb 95	Comparison		Interim - Jun 94	Final - Dec 94	Interim - Jun 95	Comparison	
REV	£ 12,720,000	£ 14,288,000	+12.3%	REV	£ 18,172,000	£ 35,336,000	£ 18,848,000	+3.7%	
PBT	£ 1,573,000	£ 1,512,000	-3.9%	PBT	£ 1,068,000	£ 1,865,000	-£ 356,000	Profit to loss	
EPS	6.40p	6.70p	+4.7%	EPS	3.40p	5.70p	-1.10p	Profit to loss	
Sage Group plc					UK ISDN supplier Fivemere has been sold to US Network Express Inc. for \$10m cash. Fivemere had revenues of about £5.3m in 1994.				
	Interim - Mar 94	Final - Sep 94	Interim - Mar 95	Comparison					
REV	£ 25,400,000	£ 50,888,000	£ 50,622,000	+99.3%					
PBT	£ 6,864,000	£ 14,252,000	£ 11,740,000	+71.0%					
EPS	4.44p	9.08p	7.46p	+68.0%					

Softwright now US owned - Back in 1991, Softwright Systems' shareholders, which included Jane Tozer and Paul Frew, raised £741K to buy out Micro Focus' 54% stake. Since then revenues grew to £4.3m and PBT to £353K in FY94. Softwright is "the leading provider of business object technology and systems in Europe". This month they have merged with US System Software Associates (SSA) "the leading provider of business enterprise information system to the industrial sector".

All parties are keeping mum about the valuation other than "the shareholders are very happy". Given current US IT valuations, you can be assured that the management will have made a hefty gain on the MBO price!

We are also assured that the deal will be good for staff and customers. Softwright will continue to be operated as a separate business but will be able to access wider markets as a result of the deal.

Although we are pleased in particular for Jane Tozer, who has contributed so much to our industry over the years, it is still disappointing to see yet another of our innovative software companies falling to US predators just because they seem to value such talent far more highly than UK investors.

Acquisitions, disposals and liquidations

Glasgow-based training company **Facillitec** has merged with PC dealer **Informtech**. **Firecrest**, which is listed on AIM, has acquired a 74% stake in Internet access provider - **Nethead**. Nethead, which lost £32K last year, is to offer interactive services for the sale of houses, cars and travel. US **IQ Software** has acquired UK **Soft Systems** (the developers of the Vision analysis tool) for £1.46m and 248K IQ shares. FM supplier - **Serco** - has acquired **Testech** for £755K in shares. Testech had revenues of £1.5m and a loss of £365K in 1994. Administrators have been appointed at **Prodis plc**, which distributes computer games. Prodis trades as **SDL (UK)** and **Silca Systems** and had annual revenues of £44m. **Space Computer Systems** (sadly a *System House* subscriber) has appointed the receivers. Given that they had revenues of £21m, PBT of £719K and net assets of £4.3m in the financial year to 31st Mar. 94, their demise came as a surprise (even) to us! **Software Warehouse** has bought the **Flex UK** brand name from the liquidators. **Pearson's** (see p10) has bought US software developer **Micro-Logic**. Case tool supplier **Ipsys** has appointed the receivers. **McAfee**, the US client/server network management software company, has acquired its UK agent **IPE Ltd** as well as their agents in France and Germany.

There is news that **British Steel** is about to sell its **CMS** FM division as part of a larger IT outsourcing deal. As well as British Steel, CMS has outsourcing contracts with Breckland District Council and Cambridge City Council. It was also rumoured that **Perot** is about to win a £100m billing contract with BT. Is there now no stopping Perot? **Women in IT (WIT)** has closed due to a lack of cash. Its main spokeswoman, Jean Irvine, has recently moved from running the Post Office's IT back to personnel from whence she came.

Kalamazoo

After last month's profits warning, **Kalamazoo** (the UK's leading supplier of motor trade systems) has this month bought **Autodata** - a Finnish software developer for the motor trade with revenues of c£730K and PBT of £75K in 1994 - from **Scribona AB** of Sweden for £1.1m - £750K initially and the rest over the next three years.

Sema to acquire Cisi

Sema has finally admitted that it is "in an advanced stage of negotiations" to acquire French systems integration and outsourcing **Cisi** for "about £60m".

Cisi has revenues of around FF1.4b and posted a loss in 1994. It is particularly active in the defence, space and outsourcing (where it had a strategic alliance with **BULL**) arenas - strong markets for Sema too. Interestingly, **CGS** holds a 36% stake in Cisi and a 28.2% stake in Sema.

The sale is being resisted by the strong French union lobby. *Les Echos* reported "union sources" saying that "six of the Top 10 French information systems companies are for sale". It exhorted Cisi's shareholders "not to cede to private, often foreign capital interests". Source - Computergram 16th Oct. 95.

Our sympathy is limited.

The UK Top Ten has already "ceded..to foreign interests"...quite a few of them French!

Morse in £46m MBO

Founder John Britten has sold his **Morse Group** in an MBO which seems to have valued the group at £46m. Morse is Sun's largest UK reseller and an HP, Compaq and other PC supplier. The management team, which seems to have been headed by non-exec. Chairman Bill Passmore, has 50% of the equity with 3i. and Prudential paying £10.9m for each of their 25% stakes. Morse made an excellent £5.2m PBT on revenues of £48.3m in the year to 30th June 1994 - the last available. The new team seems likely to seek a listing soon.

A busy month for Regent Associates...

October was an interesting month for M&A specialists **Regent Associates**:

- they acted for **Ceridian** in the Centre-file deal (see p2)
- they acted for **AT&T ISTEEL** in the sale of **Chorus Software** to **Datalink International** of the Channel Islands. Chorus claims to be the UK's 2nd largest supplier of accounting software for the IBM AS/400.
- they acted for **ICL** in the 3i. backed MBO's of **Workplace Technologies** and **Workplace Management**. Workplace was born out of ICL's property services operations but has expanded to offer services, such as network cabling to other companies. It had 1994 revenues of £35.7m, PBT of £2m, and employs around 120 people. Workplace is following in the footsteps of **IBM's** property services operation **Procord** - "spun-out" in an MBO in 1991. Procord's revenues had grown to £78.6m by 1994 when they were sold to US **Johnson Controls Inc.** Backers and the MBO team were well rewarded for their 3 years investment.
- they acted for the shareholders of **Cambridge BusinessCentre** (previously known as **AppleCentre Cambridge**) in its sale to **Rapid Networks**. Its owner Claude Cowan is to retire. We are not sure of the consideration but all the parties seem pleased.

...a busy six months for Broadview

Broadview Associates European IT M&A Report for the first half of 1995 showed the value of the 547 deals recorded were up by 237% to \$17.5b. The UK was again the most active recording 180 deals (up a third). The most active sectors were data communications, distribution and telecomms. There were, however, 181 deals worth \$2.7 in the SCSI sector. Here the rankings were headed by the £190m acquisition of **ACT** by **Misys**. Indeed, products and services in the financial services sector were particularly in demand.

Ahhh!...Macro 4 makes an acquisition

"Given **Macro 4's** track record, we were quite terrified to read that Chairman **Terry Kelly** was researching opportunities for...acquisitions". Source *System House* Oct. 95. Oh dear...it has now come to pass. This month **Macro 4** has acquired **Primary Systems Ltd** for £2.57m (£2.1m now and the rest based on sales targets being met in the year to 30th June 96). Primary "develops systems administration and management solutions for the UNIX market" and had revenues of about £900K in the year to 31st May 95.

Comment. The problem we have is that this acquisition looks absolutely right but is long overdue. Although it's relatively small in comparison to **Macro 4**, as many readers know to their cost small acquisitions that go wrong can cost you a packet too. As in all things, success all depends on management...oh dear.

Azlan "What a difference a year makes"

Just over a year ago - in mid 1994 - Azlan had to issue a profits warning after the loss of the Madge distribution agreement. Shares fell to a low of 118p. The adjective "recovery" is now somewhat redundant. Azlan's share price has rocketed to end October up 37% at 460p.

The rise this month was as a result of;

- Azlan issuing a trading statement stating that revenues for the six months to 30th Sept. 95 would show revenues up 91% to "in excess of" £72m and PBT up nearly threefold at "over £4m".

- to the "good news" list of new pan European distribution signings this month was added a "strategic alliance" with Netscape and, in the UK, for Supernet ("which has Europe's largest on-line Internet server").

It has clearly not escaped investors that Azlan - currently on a prospective P/E in the low teens - compares somewhat favourably with the mega high ratings attached to almost every other company with the faintest link to the Internet.

Microvitec shares leap

Last month when **Microvitec** unveiled an excellent 44% increase in PBT at the half-way point, it said the "strategic decision to position and refocus the business in the areas of networking and software" was the reason. However, this month Microvitec announced a £20m order for monitors from Amiga computers - representing "a quantum leap for the monitor business".

After years trading between 30p and 35p, Microvitec share price leapt recently; by another 11% to 49p this month.



Exciting times at DCS

We have chronicled the exciting times for **DCS**, and its CEO Ray Spence, since it focused on being a SCSI company in Feb. 94. Since then half a dozen acquisitions have been undertaken including the largest of the bunch - **Computer Systems for Industry (CSI)** - for a max. of £8.2m in June 95.

Latest results for the year to 30th June 95 showed revenues up 36% at £8.69m, PBT up 43% at £609K and EPS up 16%. The majority of revenues (59%) still came from motor dealer systems, with importer systems (24%) and distribution & warehousing (17%) making up the rest. CSI, which amongst other activities adds outsourcing to the DCS portfolio, did not figure in the period. The acquisition, however, was said to be performing "splendidly". The enlarged group now has combined turnover of in excess of £22m, 475 people, 1,500 customers and 13 UK offices.

DCS also announced that its associate in France - **GBM** - has bought **GSI Motor Trade France**; adding 300 customers and £2.7m revenue. DCS bought a 20% stake in GBM for £750K in July. DCS has options to increase its stake to 34% and thereafter to 100%.

Brokers Greig Middleton forecast full year profits of £2.25m which infers at the current price of 100p a prospective P/E of 11. For the increasing number of readers who study such ratios, with the new acquisition DCS will now have a market cap. to sales ratio of 0.85. Readers might well agree with the Investors Chronicle (13th Oct. 95) that its value now looks decidedly low.

It's only a game..

Eidos

We reported last month on the details of the Eidos "reverse acquisition" of computer games developers **Domark**, **Simis** and **The Big Red Software Company** for £12.9m. The shares were suspended at 400p and the placing (raising £5.5m, to fund part of the offer) was at 375p per share. They returned on 18th Oct. and ended October on 478p. The normally humourless Extel news service, one of the many to which we subscribe, reported that "one punter paid over 600p at the outset".

Probe Entertainment

Also this month yet another UK-owned games developer - **Probe Entertainment** of Croydon - has "fallen" to US **Acclaim Entertainment** for "at least £20m" - other reports put the consideration at £60m. Not bad considering Probe had revenues of only £4m. Readers will naturally be aware that Probe is best known for the particularly violent **Mortal Kombat** game.

We (and we suspect most of our readers) have certain hang-ups. Such as computer games software is not part of our industry, it's all youths in black T-shirts and it's just a fad that will pass. Indeed exactly what you all said about the PC industry in the early 1980s!

Now according to the researchers, UK developers have 40% of the world computer games market. All the acquisitions so far have been by Japanese or US companies. So, perhaps, we should all be pleased that at least your children's (grandchildren's?) purchases of Eidos' new "Deathtrap Dungeon" will at least benefit the UK economy.

and what is up at games distributor CentreGold?

A new issue in Oct. 93 at 125p, the shares had since plunged to a low of 38p after repeated bad news. Basically they were left with warehouses full of cartridge-based games just as everyone wanted CD-ROMs. The problem is that they now might be faced with warehouses of CD-ROMs just as everyone wants to play "party games" on the Internet.

So it was interesting that the Sunday Telegraph (23rd Oct. 95) suggested US groups **Sierra On line** and **Spectrum Holobyte** and French **Ocean** as potential bidders. Analysts are suggesting "a take-out price of 93-95p valuing **CentreGold** at £38-40m". Source - AFX-Extel newswire service 23rd Oct. 95.

Given that CentreGold has put back its full year results announcement to mid November, when losses of £7.5m are currently expected, it's no wonder that takeover rumour is rife. Anyway, it did no end of good to CentreGold's share price which ended October up 11% at 69p.

Share buy-back at DRS

DRS, which supplies optical mark systems to schools was floated in Apr. 94 at 110p. It has been a disaster since its "window of opportunity" closed as Govt. funding ended.

This month DRS has bought 800K of its shares "which would be cancelled in due course" at 21-22p. This follows their purchase of 300K shares in September at 19.75p. which also "will be cancelled in due course".

DRS shares ended October on 22p.

Bayfield departs Delphi

Founder **Rupert Bayfield** has finally departed from **Delphi** (nee **Computer People**) and has sold most (1.5m) of his shares at 320p. **Anthony Vickers** and **Anthony Lambie** also sold 850K shares between them.

CSI Index breaks 2000 barrier

Our CSI Index rose by 3.5% to a new record of 2054 in Oct. 95. That's almost a 40% rise in 1995 so far.

JBA was the main mover, up a massive 53% after the superb results announced last month. It means that JBA is now showing a 140% rise since its new issue in June 94. Readers may remember that chairman Alan Vickery wrote to us a few months back saying it "was pretty frustrating not to be in control of your share price". Clearly no complaints anymore!

A 21% increase in **Lynx** ' share price translated into a 48% increase for **Vistec** shareholders after this month's bid (see p10). **Azlan** was also up 37% for the reasons explained on p8. **Oxford Molecular** (+43%) and **Proteus** (+23%) both benefited from recent announcements of progress/JVs with their molecular modelling software.

Poor old **Micro Focus** lost another 20% this month. Back in 1992, at £300m, they were the most valuable company in the sector. They are now "worth" just £90m. **Unipalm** also fell 18% as punters expectations evaporated with the UUNet bid (p11).

30th Oct. 95	CSI Index		2054.47
	FTSE 100		3510.00
	FTSE SmallCap		1940.76
CSI Index = 1000 on 15th April 1989			
Changes in Indices	CSI Index	FTSE 100	FTSE Small Cap
Month (28/9/95 - 30/10/95)	+3.52%	+0.89%	-1.45%
From 15th Apr 89	+105.45%	+70.92%	
From 1st Jan 90	+123.29%	+48.60%	
From 1st Jan 91	+190.23%	+62.47%	
From 1st Jan 92	+96.63%	+40.79%	
From 1st Jan 93	+28.92%	+23.31%	+39.89%
From 1st Jan 94	+23.05%	+2.68%	+3.86%
From 1st Jan 95	+37.04%	+14.50%	+11.13%

System House CSI Share Prices and Capitalisation

	Share Price 30/10/95 (£p)	Capitalisation 30/10/95(£m)	Historic P/E	Ratio Cap./Rev.	CSI Index 28/9/95	Share price % move since 28/9/95	Share price % move in 1995	Capitalisation move (£m) since 28/9/95	Capitalisation move (£m) in 1995
Admiral	£7.83	£96.30m	20.5	1.95	5673.91	5.10%	23.31%	£4.70m	£23.90m
Azlan	£4.60	£100.70m	36.8	1.11	2000.00	36.50%	243.28%	£26.90m	£71.40m
Capita	£2.42	£132.90m	22.4	1.80	7267.27	0.83%	47.56%	£1.40m	£43.40m
Cedardata	£1.75	£53.50m	22.3	5.99	1666.67	25.00%	73.27%	£10.70m	£22.60m
Centregold	£0.69	£29.70m	9.5	0.33	552.00	11.29%	-40.52%	£3.00m	-£17.00m
Clinical Computing	£0.43	£6.97m	6.9	4.74	346.77	0.00%	-35.82%	£0.00m	-£3.93m
Coda	£2.02	£52.90m	21.0	2.26	859.57	6.88%	162.34%	£3.40m	£32.70m
Compel	£1.72	£26.20m	14.8	0.37	1376.00	6.83%	57.80%	£1.60m	£9.60m
Computerised Financial	£0.75	£3.67m	23.5	1.18	833.33	-1.32%	-27.18%	£0.10m	-£1.17m
Cray Electronics	£0.44	£104.30m	Loss	0.39	257.31	2.33%	-72.76%	£2.30m	-£279.10m
CRT	£1.20	£81.00m	19.0	1.11	1333.33	2.56%	51.90%	£2.00m	£27.80m
DCS Group	£1.00	£18.90m	28.1	2.17	1666.67	1.01%	36.99%	£0.20m	£11.99m
Delphi Group	£3.23	£82.00m	40.0	0.84	1329.22	-9.27%	33.47%	-£8.40m	£22.70m
Division Group	£1.10	£48.30m	Loss	9.17	2750.00	0.00%	-5.98%	£0.00m	£8.80m
DRS Data & Research	£0.22	£7.59m	31.2	0.86	200.00	10.00%	-31.25%	£0.41m	-£3.81m
Eidos	£4.78	£37.30m	Loss	149.20	4780.00	19.50%	56.72%	£26.50m	£28.48m
Electronic Data Processing	£1.45	£38.00m	15.0	2.71	4439.68	3.57%	1.40%	£1.30m	£0.50m
Gresham Computing	£0.39	£12.80m	20.9	1.97	419.35	0.00%	5.41%	£0.00m	£0.70m
INSTEM	£1.69	£7.61m	9.5	0.45	1690.00	8.33%	12.67%	£0.59m	£0.81m
JBA Holdings	£3.83	£130.60m	40.2	1.44	2393.75	53.20%	151.97%	£45.40m	£80.40m
Kalamazoo	£0.95	£18.50m	8.0	0.30	2714.29	10.47%	-12.84%	£1.70m	-£23.00m
Kewill	£3.30	£40.90m	11.8	1.21	1304.35	2.48%	38.08%	£1.00m	£11.90m
Learnmonth & Burchett	£3.74	£84.50m	Loss	3.56	3116.67	3.89%	367.50%	£3.10m	£67.10m
Logica	£4.82	£300.80m	22.5	1.20	1320.55	-1.03%	48.31%	-£2.60m	£100.00m
Lorien	£1.50	£8.55m	56.6	1.07	1500.00	-3.23%	50.00%	-£0.29m	£3.25m
Lynx Holdings	£0.63	£32.30m	14.7	1.50	1575.00	21.15%	34.04%	£5.90m	£12.50m
Macro 4	£4.18	£90.70m	11.3	3.62	1685.48	-7.73%	-4.57%	-£7.60m	-£4.30m
MAID	£2.84	£230.90m	249.1	25.97	2581.82	10.94%	311.59%	£22.80m	£174.80m
McDonnell IS (MDIS)	£0.78	£77.50m	17.0	0.53	298.08	0.65%	-23.27%	£0.50m	-£23.50m
Micro Focus	£5.98	£90.30m	18.7	1.00	2888.89	-19.52%	-27.07%	-£21.90m	-£27.80m
Microgen	£1.60	£63.00m	13.7	1.07	683.76	-8.05%	56.86%	-£5.60m	£22.80m
Microvitec	£0.49	£35.70m	16.2	0.81	1182.93	11.49%	32.88%	£3.70m	£12.40m
Misys	£5.99	£502.00m	17.0	3.27	1490.05	3.72%	46.45%	£19.20m	£307.30m
MMT	£1.83	£21.00m	12.9	1.93	1089.29	-5.18%	-10.73%	-£1.20m	-£2.10m
Moorepay	£1.33	£10.10m	21.9	2.61	1602.41	3.91%	60.24%	£0.38m	£3.80m
MR Data Management	£0.68	£37.90m	48.3	0.91	269.84	-8.11%	-38.18%	-£3.40m	-£23.50m
On Demand	£0.79	£40.30m	Loss	2.78	1012.82	-2.47%	17.91%	-£1.00m	£6.10m
Oxford Molecular	£2.63	£136.10m	Loss	49.13	3287.50	43.32%	338.33%	£41.10m	£114.00m
P&P	£1.46	£116.10m	14.8	0.44	654.71	7.35%	97.30%	£8.10m	£58.20m
Parity	£1.62	£67.90m	19.8	0.76	8999.97	4.52%	28.57%	£3.00m	£21.70m
Pegasus	£2.30	£14.50m	16.5	3.01	626.70	17.35%	53.33%	£2.20m	£5.11m
Persona	£2.65	£32.10m	23.2	1.02	1656.25	-2.21%	65.63%	-£0.70m	£12.80m
Phonelink	£1.68	£67.10m	Loss	32.11	1083.87	-8.20%	-21.13%	-£6.00m	-£8.50m
Proteus	£0.79	£25.80m	Loss	n/a	940.48	23.44%	-54.86%	£4.90m	-£28.60m
Quality Software	£6.65	£78.10m	23.2	4.74	1750.00	6.06%	73.63%	£23.60m	£44.80m
Radius	£0.51	£14.20m	14.1	0.57	369.57	-13.56%	34.21%	-£2.20m	£3.60m
Real Time Control	£1.75	£12.20m	8.7	0.91	3571.43	-3.31%	2.34%	-£0.50m	£0.20m
RM	£3.39	£57.10m	18.6	0.87	1937.14	7.96%	64.56%	£4.30m	£22.40m
Rolle & Nolan	£2.53	£30.90m	37.7	2.16	3011.90	0.00%	36.76%	£0.00m	£8.50m
Sage Group	£2.64	£282.20m	21.8	5.55	10153.85	-4.21%	95.85%	-£12.70m	£141.30m
Sanderson Electronics	£1.25	£51.60m	16.2	1.52	2127.66	7.76%	58.23%	£4.00m	£21.20m
Sema Group	£4.98	£465.60m	23.7	0.78	1566.04	5.06%	22.06%	£22.90m	£87.00m
Sherwood	£1.67	£11.90m	Loss	0.47	1391.67	-6.18%	108.75%	-£0.70m	£7.02m
Spargo Consulting	£0.70	£8.75m	17.2	1.45	736.84	11.11%	-23.08%	£0.87m	-£2.65m
Standard Platforms	£0.16	£4.85m	Loss	3.70	68.88	-11.43%	10.71%	-£0.63m	£2.33m
Superscape	£3.76	£21.10m	Loss	13.27	1898.99	-4.57%	84.31%	-£1.00m	£10.30m
Total	£0.21	£2.10m	21.8	0.92	396.23	5.00%	-40.00%	£0.10m	-£1.40m
Trace	£0.39	£5.46m	18.0	0.29	312.00	0.00%	-4.88%	£0.00m	-£0.27m
Unipalm	£4.54	£93.50m	306.8	5.26	4540.00	-17.60%	284.75%	-£20.00m	£69.60m
Vega Group	£3.40	£48.30m	25.3	3.86	2786.89	7.94%	29.28%	£3.60m	£11.10m
Virtuality	£2.58	£71.50m	Loss	7.83	1517.65	4.88%	16.74%	£3.40m	£13.70m
Vistec	£0.22	£26.50m	Loss	0.53	934.78	48.28%	65.38%	£8.60m	£10.50m
Wakebourne	£0.27	£5.94m	3.8	0.17	150.00	-3.57%	-65.82%	-£0.22m	-£10.56m

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.

Lynx buys Vistec

Since disposing of their leisure activities to concentrate on SCSI, **Lynx** has gone from strength to strength. We have reported on half a dozen acquisitions in 1994/95 alone. The largest of these was **Heywood & Partners** (pension admin. systems) for £4.5m in Mar. 95.

This month Lynx emerged as the buyer of **Vistec** for £22m in shares. The bid valued each Vistec share at 17.8p - a modest 1.5p premium on the previous closing price.

Vistec had really performed well over the last seven years under the guidance of "company doctor" Bob Morton and had moved steadily from its hardware base into software and services with a number of acquisitions. Some went well, but others (we well remember Morton describing what he found after buying **01 Computers** as "a can of worms") did not fair so well. Two profit warnings were issued in the last year and a loss of £327K was reported in the year to 30th Apr. 95 compared with PBT of £3.4m previously. Problems at the two most recent acquisitions - **ISO** and **Data Logic** - were cited. Vistec revenues, however, had advanced by 11% to £50.2m.

It is a very big step for Lynx. The new group will have revenues of around £90m - just over half from Vistec. Morton will be the largest shareholder in the new group with 8% of the equity and will stay on as a non-exec.

Lynx' MD, Richard Last, assured us that the acute problems at Vistec were over. The new group will have a quite wide spread of activities incorporating Lynx' automotive, financial, pensions administration, communications and UNIX VAR activities with Vistec's Sphinx UNIX software distribution and support and TPM operation.

We have reported on attempts to build multi facet SCSI companies by repeated acquisitions on many occasions. Some, like Misys and Sanderson Electronics, have clearly been successful but not without the odd period of pain. Many others have either failed in their aims or are not even around now to tell the tale. We are certain that Last, as a long time *System House* subscriber, is well aware of the risks. We, of course, wish him well. The market reacted well marking Lynx up 21% with Vistec improving by 48% to 22p as direct result.

Another MBO team makes a packet

Just two years ago in July 1993, **BISS** was formed as a result of an MBO from **BICC**. BICC received £4m in cash plus £1.8m in vendor prefs. 3i. and Lloyds Dev. Capital backed the deal and also put in a further £1.75m in working capital.

BISS is a "leading integrator of networked computer systems". 1994 revenues of around £20m and operating profits of £1.3m were claimed although the filed accounts showed a somewhat lower figure. "Over the past five years (BISS) has grown in excess of 20% p.a."

This month the MBO team and their backers received a rich reward for two years work when **Wang Laboratories** purchased BISS for \$14m now and \$2m in Mar. 97 - around £10.05m in total. The merged BISS and Wang businesses "will create one of the largest vendor independent network integration companies in the UK. It will ...have total revenues of over £40m and 200 employees".

EDS continues to prosper

EDS announced a 21% increase in revenues in Q3 to \$3.1b. PBT increased by 14% to \$384m.



Superscape rights

Virtual reality software specialist, **Superscape**, has raised £8.7m in a 1-for-2 rights issue at 330p. 40% of the new funds raised will be spent on marketing. As Superscape says "new competitors, maybe with inferior software but larger marketing organisations, are expected to enter the marketplace".

Superscape simultaneously announced what they claim to be "the world's first \$1m+ order for VR software and services outside the entertainment industry" from Northern Telecomm.

Superscape was placed in Apr. 94 at 198p. When the 330p rights issue was announced the shares had risen to 436p but then slipped back to end October on 376p.

Superscape also reported its results for the year to 31st July 95. These showed revenues up 85% at £1.59m but loss before tax increased from £238K to £1.75m. Cash, which was at a high of £3m after the float, had reduced to £1.4m by July 95.

But, as CEO John Chiplin says, "In 1995 it is hard to imagine industries that have greater growth potential than the VR industry". Although we have great support for the leadership that the UK has in VR, we think he may be going a little over the top by suggesting that Superscape could "be one of the major worldwide IT suppliers of the next decade". The problem, of course, is that if Chiplin is right his chances of remaining as an independent UK-owned company are remote. There are, perhaps, indications of a likely outcome in the recent £670K investment made in Superscape by Robert Madge's investment fund. Madge Networks, you may remember, is a UK company which, after publicly criticising the attitudes of UK institutions towards high tech. companies, decided to launch on NASDAQ instead of London. He has done rather well as a result.

20%+ margin at Druid Group

Druid was set up in 1987 with four equal equity partners. In Dec. 1993 David Thompson, now MD, organised a Candover and Phoenix backed MBO of the IT consulting bit and brought in David Tebbs (from BIS) as Chairman, and Robert Kimber (Computer People) as FD.

We have just been sent the first full financial results since the MBO which show increased revenues of £5.56m, PBT of £1.3m in the year to 30th Jun. 95. That's a pretty impressive 23.5% margin and shows - yet again - what can be achieved by the specialist consultants.

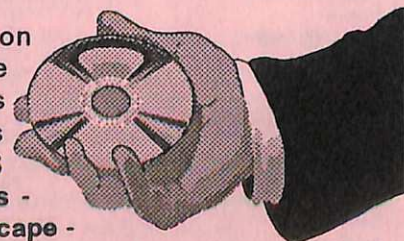
Druid specialises in distribution and logistic systems and has developed its own methodology offerings - Leylines and Keystones.

Current trading and orders all look "encouraging".

Pearson Group

We have written on many occasions of the disappointing results following **Pearson's** acquisition of **US Software Toolworks** - now renamed **Mindscape** - for £310m in 1993. An amazing price considering Mindscape lost £300K in the year to 30th June 95.

This month Pearson shares improved from 597p to 630p; in part as a result of positive news over sales of Windows 95 and the boost this might have on Mindscape's CD-ROM titles. Although winning Channel 5 helped too!



Rocketing with the Internet

"There is no question that the speed with which the INTERNET has emerged has caught all industries related to (computing) technology by surprise"

Lou Gerstner - IBM - Source - Business Week 30th Oct. 1995

Well if you look at the lamentable success of IBM's Prodigy against CompuServe, America On-Line, Demon (see below) and others, it has certainly surprised IBM. The Yankee Group estimates that more than 25m people will have access to the Internet by the end of 1995 - up tenfold since 1990. And it's not just "anoraks". There were just 1,000 businesses connected in 1990 - now that number exceeds 25,000. Indeed, you can now even communicate with *System House* electronically (on 100665.3460@CompuServe.com)!

Although we have seen estimates of \$400 billion Internet-related revenues by 2000, currently service providers and those engaged in providing the enabling software technology, is still minimal. At present the key beneficiaries seem to be the modem manufacturers...and small consultancies specialising in advising on "how to get wired".

But if the Internet came as a surprise to IBM, many other shareholders - particularly in UK companies - have done very well recently out of the Internet opportunity. For example:

Demon raises £5.5m

With the obvious (investment) success of **Unipalm** (see this page), you will not be surprised to learn that UK Internet access provider **Demon** had little trouble raising £5.5m from private and institutional investors this month. Apax was the largest single new investor. The placing at £20 a share values Demon at £26.7m. It looks a superb investment opportunity given that Demon actually made a profit of £353K on revenues of £2.7m in the year to 30th Apr. 95. Demon is the largest UK-owned Internet access provider. A year ago it had 10,000 users - now it claims 45,000 and is growing at 8% per month.

There are no plans for a float. They probably don't need to as they can confidently expect a bid from the US.

Voss Net success on AIM

Voss Net is one of the latest new entrants onto the fast growing AIM market.

Its main product is a database product called **GotVoss** which enables suppliers to provide shops, farmers, medical suppliers etc. with pricing information. This is made available to customers via the Internet. It also uses the Internet to sell products such as yachts and houses. A new Internet based air-charter seat service is planned. Past performance is far from impressive. For the record Voss Net had revenues of just £50K and made a loss of £146K in 1994. Interims to the 30th Jun. 95 showed revenues of £162K and a loss of £18K.

Bearing this in mind, readers can understand "the Internet" affect when we tell you that Voss Net joined the AIM market in Aug. 95 at 130p and a market cap. of £3.5m and closed Oct. 95 at 176p - up 35% since the float. Voss Net used the AIM float to raise £648K of new funds.

"US bid for Unipalm is a letdown"

Daily Mail 12th Oct. 95.

Unipalm was one of the many new issues in Q1 1994. The new issue at 100p valued Unipalm at £20m. In itself that was rather interesting as Unipalm had reported revenues of just £8.4m and PBT of £66K in the year to 30th Apr. 93. All this revenue had been made from Unipalm's core TCP/IP networking software but the real excitement was the Internet connectivity activity - Pipex. Latest full year results to 30th Apr. 95 showed total revenues of £17.8m - £14m from TCIP/IP and £3.8m from Pipex.

Although overall profits of £442K were reported, losses of £3.8m came from the Pipex operation and Unipalm was at pains to say that they did not anticipate this side making profits much before 2000.

Then US interest in anything remotely connected with the Internet sent associated stocks into the stratosphere causing new hysteria with companies such as Netscape. Then the bid rumours started over Unipalm and the share price rocketed, reaching 578p at one point. Unipalm behaved impeccably. In Aug. 95 they quickly issued a statement confirming bid talks but pointing out that negotiations were at an early stage. Pundits suggested 600p, 800p...even 900p. Again Unipalm responded in September with an announcement that, if the bid did come, it would be around 450p.

Indeed, this month the **UUNet** bid (where Microsoft is a 15% shareholder) was at 450p valuing Unipalm at £97m or an historic P/E of 304. And for some reason punters feel cheated!

UUNet made losses of \$6.95m on minuscule revenues of \$12.4m last year. The deal is all share and Unipalm intends to arrange a share dealing service in the UK.

The deal will not be finalised until mid-Nov. and a rather unusual arrangement has been put in place to counter the volatile UUNet share price in the meanwhile. The minimum equivalent price is 409p and the maximum 486p. But there is might still just be time for a counter bid to be made.

Of course you would expect us to make the usual comment about UK technology being plundered by foreign predators. It will indeed be interesting to see whether Unipalm, which had done very nicely with a development centre at the science park in Cambridge (England, will now, as is the norm, declare that these things can better be done across the pond.

But you really can't blame founder Peter Dawe for accepting the deal. He founded Unipalm in 1987 on an initial investment of £7,000. His shares are now worth £22m and he's still only 41!

Others... If you are interested in looking at other quoted companies in our CSI Index with links of any kind with the Internet, see our past reviews of **MAID** (share price up 316% so far in 1995), **On Demand** (up 18%) and **Phonelink** (down 21%). Other less obvious beneficiaries would be **Azlan** (already up 243% - see p8) and **Persona** (up 66%) both of which specialise in network product distribution.

And finally... in the US **Netscape's** share price hit \$88 putting a value of \$3.5 billion on the company. Netscape had revenues of \$17m in 1994....

CGT on long term investments

Just a few months ago we had a meeting with an ex-director of what was, in 1988, one of the leading UK-owned software and computing services companies. It is now 80%+ owned by the French. He told us that when he asked their largest UK institutional investor for backing he was told "we have backed you continually for the last 15 years". Further investigation, however, showed that this UK institution had bought and sold its shareholding over a dozen times, whereas the French company's backers had been in solidly throughout the period.

You may therefore be surprised that our plea to Kenneth Clarke (our letter dated 13th July 95) should elicit the following response.

"The fact that an investor sells his shares at once, or holds on to them for twenty years, does not affect the company in any way". Source R. Evers - Inland Revenue - Letter to Richard Holway 21st July 95.

Every Chairman of a quoted SCSi company in the UK will know how crazy that statement is. Indeed that's why most Chairman put most of their efforts into ensuring that existing shareholders, in particular the institutions, stay loyal. We would say that the single most important reason for the large number of UK SCSi companies which have fallen to overseas predators is short termism on behalf of investors. The reason why companies like CAP, SD-Scicon and many others "fell" was because their long term investors fled, causing the share price to plummet, when short term bad news was announced. They were replaced by investors hoping for a short term gain on bid speculation.

As readers know only too well from our previous research, in 1985, seven out of the Top Ten SCSi suppliers to the UK market were UK-owned. In 1995, just one Top Ten ranking company - Misys - will be UK owned.

We therefore put forward to the Chancellor, Kenneth Clarke and the DTI, in a series of papers which included much evidence, that short term gains (say within a year) should be taxed MORE highly, but long term gains (say over five years) should be TAX FREE. A "taper" between the two could also be appropriate.

The Government, in its many responses to our repeated letters, argued that "70% of the CGT yield comes from assets held for more than three years" and that the Govt. "was not attracted" to our proposals.

Every industry person we have spoken to on this agrees with our proposals. Applied to private companies it could also avoid the ludicrous situation of many of our entrepreneurs deciding to move abroad in an attempt to avoid a 40% tax on the proceeds of the sale of their companies resulting from efforts over several decades.

We then got support from IoD DG Tim Melville-Ross, who, in their budget submission, recommended that "CGT on assets held over three years... should be abolished". The CBI also seems to support that view. In a very conflicting statement at the latest Conservative Party Conference, John Major made the abolishing of CGT a long term Conservative Party objective.

But, if you believe the opinion polls, the long term does not belong to Major. The office of the Labour Shadow Chancellor, Gordon Brown, told us "we are looking very favourably upon this proposal".

Now software adds to Wakebourne woes

Wakebourne warned of losses in April, when "stock discrepancies" were uncovered, and again last month. Results for the six months to 30th June 95 show profits of £53K before exceptional costs of £409K - i.e. a pre tax loss of £356K. revenues were up 4% at £18.8m.

But now, on top of all the problems in the TPM business uncovered previously, there has been "a significant and unexpected downturn in the application software business". £160K of provisions had to be made against such projects. Also "slower than anticipated growth" was recorded in network services.

The balance sheet now shows net liabilities of £1.7m but could get worse as a further £2m write-down in spares value is anticipated. Contrary to statements made just a month ago, "financial benefits" are not expected until next year. Wakebourne shares fell another 4% to 27p this month - that's a 66% fall so far in 1995.

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