

System House

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Outsourcing in Europe

Our partners in Europe - **Pierre Audoin Conseil** - have just published probably the most extensive study ever undertaken of the outsourcing marketplace in Europe.

It confirms that the total outsourcing marketplace is forecast to grow at around 25% - nearly three times the rate of growth forecast for the whole SCSl marketplace in Europe. Out of such an extensive study, which reviews each country in detail, provides profiles of each of main players, lists all the major contracts and provides a wealth of statistical information by industry, type of outsourcing contract etc., it is difficult (if not a little unfair) to

pick on just one topic. However, the very significant differences between the "captive" and "non-captive" outsourcing markets in Europe caught our attention.

For some time we have contended - and many have contacted us with their support - that the UK is the largest outsourcing market in Europe whereas other tables have put both Germany and France ahead of the UK. The PAC study provides the answer. We have never included IT activities provided for a parent ("captive outsourcing") within our statistics. Until their recent "demergers" we went to great pains to exclude, for example, **ITnet's** work for Cadbury Schweppes or **EDS' work** for GM. On the basis of "non captive" outsourcing the PAC report does indeed show that the UK is a larger outsourcing market than France and is now neck-and-neck with Germany. However, if captive outsourcing is included, the PAC study shows the German market to be some 75% larger than the UK. The diagrams show the wide differences in the make up of outsourcing markets in Europe. At 15% of the total, the UK has one of the smallest captive markets, with even the UK's largest organisations preferring to use

work to wholly owned IT services subsidiaries. Indeed, the trend has been to sell off such subsidiaries as the recent

MBO at **ITnet**, the sale of **Lucas' IT activities to CSC**, British Steel's sale of **CMS to Hoskyns**, or British Coal's sale of **Compower to Origin** et al demonstrate.

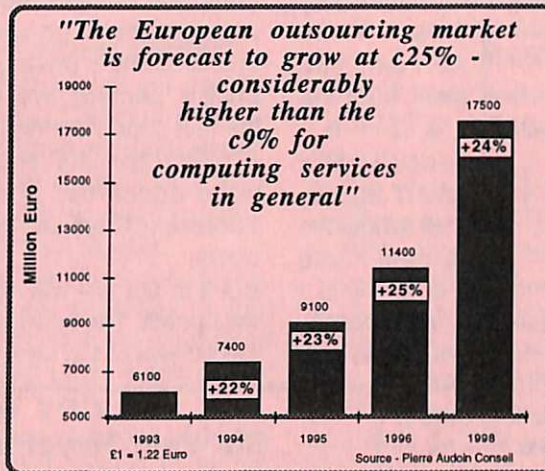
At the other end of the scale over 75% of the outsourcing market in Italy is "captive". The largest outsourcing suppliers in Italy are **Finsiel** (state owned and providing "captive" services to central and local government), **Syntax** (until last month owned by **Olivetti**), **ITS** (**FIAT**), **Cedacri Nord** (owned by the 12 banks which use its services) and **Enidata** (**ENI**).

In Germany, around half the outsourcing market is captive. As **debis Systemhouse** - a subsidiary of **Daimler-Benz** -

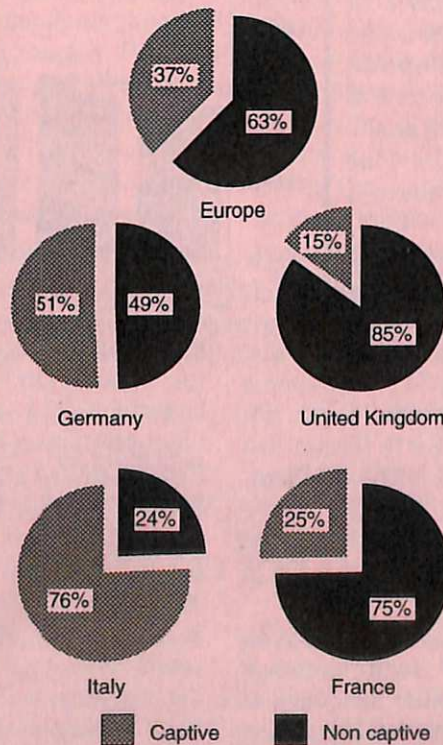
is the largest supplier of outsourcing to the German market it is not surprising that a significant majority of outsourcing revenues in Germany have come from the manufacturing sector (compared to just 25% in the UK). Although such companies as **EDS** and **IBM** figure high in the ranks, significant "captive" outsourcing revenues are also earned by such companies as **Lufthansa Systems**, **BB-Data** (Berliner Bank), **SBS** (Siemens Nixdorf) and **DeTeCSM** (Deutsche Telekom).

It could be argued that this "captive" outsourcing revenue in Europe provides the greatest opportunity - or threat - depending on your outlook. Moves towards privatisation will see many state owned outsourcers moving into the "independent" sector. As we have already illustrated, many "non-IT" companies might well wish to boost shareholder value by demerging or selling their outsourcing activities. *Whether the buyers will be American or European will be an added interest!*

Note : The PAC "Outsourcing in Europe" Report is available now (in



Significant differences in make up of outsourcing markets throughout Europe



English!) and costs £6000. Contact us on 01252 724584 for further details.



CRT Group is involved in IT training (via **Pitman, LINK and The Training Corporation**), IT contract staff & recruitment (which includes **Software**

Editorial comment - many readers will know of our "legendary" ability to keep board meetings to their allotted time. How on earth would anyone be able to control a board with THAT many egos?

What now?

It is interesting that these notable US persons have decided to invest in the UK. Indeed we are assured by Karl Chapman that UK acquisitions are more than likely to be the home for the £100m cash burning a hole in CRT's bank account after the acquisition. But what type of company? Karl Chapman's view was that broadly he (and the new board) would want to keep the balance between IT staff, training and multimedia "about the same...although it might get a bit out of alignment from time to time".

Personnel acquired in Feb. 1990, **Couva** acquired in Dec. 1993 and **Systems Resources** acquired in Aug. 1994 for £6.35m) and **CRT Multimedia**.

Results for year to 30th April 96

CRT announced revenues up 42% - at £103.3m - and operating profits up by 25% to £8.26m. An exceptional £1.5m property provision hit PBT which increased by 9% to £6.5m. However, the sale of the property will boost profits by £200K in the year to come. EPS declined by 9.5%.

CRT Group plc	FY96	FY95	Change %
Recruitment			
• revenue	£70.2m	£47.5m	48%
• profit	£3.5m	£2.7m	30%
Training			
• revenue	£30.8m	£24.6m	25%
• profit	£6.3m	£5.7m	11%
Multimedia			
• revenue	£2.2m	£0.6m	267%
• profit	-£ 0.20	n/a	n/a

As can be seen from the table, recruitment and IT agency staff is both the largest and fastest

growing activity (due in part to acquisitions). Interestingly, the number of IT agency staff on customer sites was only up by 19% at 2,200. But Training (which comprises LINK, Pitman and The Training Corp.), with a 20% profit margin, is by far the most profitable part. But without wishing to downrate CRT's performance, 20% margins are now the norm in IT training. Once the "poor relation" of the SCSI sector, IT training is now amongst the most profitable, fastest growing and certainly (see later) the highest valued.

But past performance is all probably now a bit academic. On 2nd Aug. 96, it was announced that a US start-up operation - **Education Technology** - was to invest in CRT to the tune of £109m securing a 50.1% stake at 160p per share. CRT shares rocketed by 64p to 214p on the announcement and have risen further since to end Aug. up 47% at 221p.

Education Technology? We assume you were like us and hadn't heard of them before. ET was formed in Jan. 96 and this is their first investment.

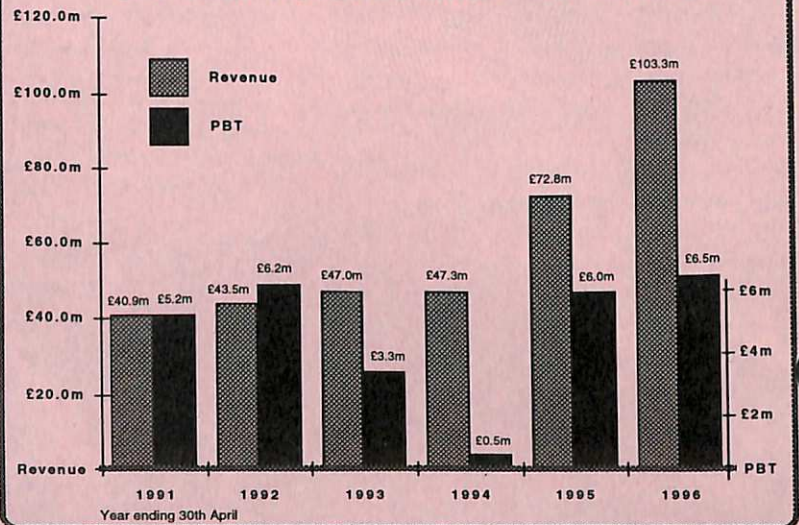
"The strategy of ET is to build leading companies that participate in technology and learning. CRT represents ET's first step in this area". The main shareholders in ET, who invested a total of \$300m, were Larry Ellison (we will assume readers know of him) and Michael Milken. But it was Milken, of course, who got all of the CRT press comment. This might have been something to do with his £1b fine and 22 months in prison for securities fraud in 1992.

But this is not the end of the celebrity cast list. As well as Ellison, Tom Kalinske (former CEO of Sega) becomes chairman of CRT, Neil McCarthy (a senior executive at Walt Disney) becomes deputy Chairman and Steve Fink (MD of ET and of NASDAQ quoted 7th Level) becomes a non-executive director.

Karl Chapman will remain as the CEO.

But it is not just the "talk and chalk" type training which will benefit. The Internet and all types of CBT will be within the targets of the new CRT operation.

**CRT Group plc
Six Year Revenue and PBT Record**



Comment The benefits of such a cash injection are only too obvious. On the surface it appears to be US money investing in the UK for all the best of reasons. But we have been here before. Look at the pedigree at Micro Focus, LBMS, Omnis, Synon etc. etc. After US acquisition, the first thing that happens is that the UK CEO is replaced by a US national, then the HQ is moved "nearer home" (i.e. to the US) and then "how can you possibly undertake development in the UK...it's so far from where everything is happening". We would like to think that Ellison et al would understand the fallacy of those arguments - certainly the "Americanisation" of the above companies has hardly been to their benefit.

We happen to believe that exactly CRT's business areas are the place to be for the rest of the decade. And as a location, the UK cannot be bettered.

Kode - You may remember that we featured **Kode** as part of our SCS Index for several years because of their major involvement in TPM via **DCM** which they bought from Hillsdown for £3.32m in Jul. 92. It was a complete disaster and nearly brought Kode to its knees making losses of £2m in 1994. But in Dec. 94, Kode managed to sell DCM for £1.5m to Tellus but had to write-off £6.4m of goodwill from its balance sheet.

When DCM went on to appoint the receivers in May 96, we overlooked the fact that Kode was still owed about £495K of the deferred payment. This has clearly had a significant effect on Kode's current results where interim PBT dived from £635K to £206K.

CEO Stephen Day was reported as saying "I think we got out at the right time. The maintenance industry was tough then, but it seems to have got even tougher since". Source - MicroScope 7th Aug. 96. **We can but agree.**

LBMS - "What a difference a year makes"

As we reported last month, **LBMS** issued yet another profits warnings. Only a year ago Chairman Rainer Burchett said "LBMS faces the future in excellent shape". Now Burchett has been replaced by Gerald Christopher as Chairman and CEO John Bantleman has "resigned" as CEO and been replaced by Michael Bennett.

As you might have guessed they are both Americans. Two profit warnings are, of course, evidence of "the success of the transition of LBMS to a US headquartered global software company". And that quote was only six months old!

Results for Q1 (to 31st July 96) showed a loss of \$4.3m (profit \$459K) on revenues almost halved at \$5.3m (\$9.8m). In addition, warning of a \$18m one-time restructuring charge in Q2 was given. No version of the results were presented in £s and LBMS has now made it clear that it "will eliminate substantially all on-going operational costs outside the US".

Our other concern is their "change in global strategy to focus on software products". LBMS intends to "increase its focus on product development..on the Process Engineer product line". LBMS is a prime candidate to exploit the services revenues relating to their development products. To de-emphasise this aspect of their business is a waste of an opportunity. Both the new executives have only products backgrounds so we get the impression that neither would understand a services opportunity anyway.

Software losses mount at Pearson plc

Always difficult to choose the "worst SCS acquisition of all time" because the worst often kills the purchaser. But **Pearson's** Apr. 94 £313m acquisition of US computer games and education software provider **Software Toolworks** (later renamed **Mindscape**) must surely be in contention. Its losses have mounted ever since to a staggering £38.8m in the six months to 30th June 96. Pearson's Chairman Frank Barlow (also now the Chairman of Logica) says that the recovery programme "is on target" and Mindscape is on track for profits in 1997. Overall Pearson's profits fell by 40% to £30.2m in the period on revenues up 20% at £940m.



EASY ACCESS TO THE HARD FACTS

MAID, provides on-line third party market research information, and was a new

issue at 110p in March 1994. MAID has since announced deals to provide its services to the Microsoft Network, Compuserve, IBM and, via Thorn, Internet services in 100,000 hotel bedrooms. In Sept. 95 they launched onto NASDAQ at the equivalent of 240p raising about £25m net.

In the six months to 30th June 96 MAID increased revenues by 66% to £9.6m but losses of £3.3m (compared to PBT of £408K) were reported. However, MAID says "some 1,200 new subscribers were signed in the first six months of 1996; 800 in Q2".

MAID, and particularly its high profile founder Dan Wagner, have been much in the news. The City did not like Wagner and the shares crashed to a low of c50p before rocketing to a high of 355p in Nov. 95 and sinking back to 233p earlier this year. But they ended Aug. 96 on 302p which valued MAID at a quite staggering £277m.

Whatever your views, you can't help but have a sneaking admiration for MAID. Quite bluntly MAID has given the established information providers, like Reuters and Pearson, such a run for their money that it looks as though one of them will buy MAID...at something even higher than the current price.

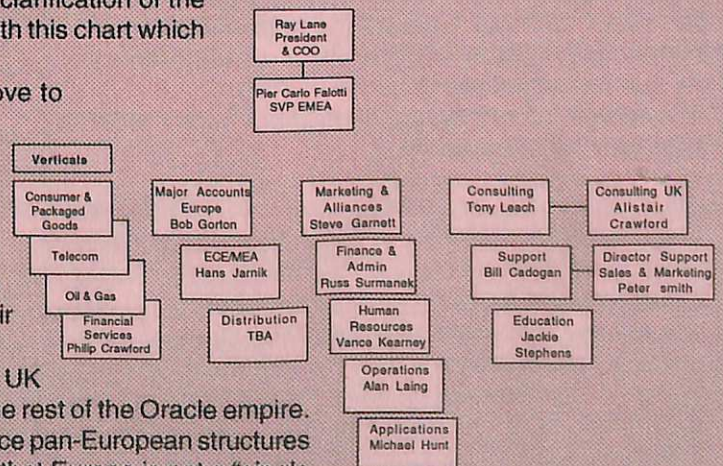
"We probably need more people like Dan Wagner, who has put together a business from scratch without recourse to a series of financially-driven takeovers. One or two people in the City owe him an apology" wrote Pennington in The Times (15th Aug. 96). We doubt he will get one and, anyway, Wagner now clearly enjoys blowing a raspberry at such institutions.

New European organisation at Oracle

We have had quite a few calls this month concerning clarification of the new organisation at **Oracle**. Oracle have supplied us with this chart which may (or may not!) help.

Basically we can say goodbye to "Oracle UK" in a move to create a cross-border European operation with greater emphasis on sales via re-sellers. Pier Carlo Falotti joins from AT&T to head up Europe, replacing Loek van den Boog who left some months ago. Philip Crawford, who became UK MD in Jul. 95 after Mike Harrison left to join Informix, becomes head of a new pan-European Financial Services operation. The other Crawford (Alistair ex of CSC) remains reporting to Tony Leach.

There seems little doubt that growth in Europe and the UK has been below expectations and results achieved in the rest of the Oracle empire. We have seen many other US companies boldly announce pan-European structures only to reappoint country managers when they realise that Europe is not a "single country" (yet!) but is made up of some very different territories. Will Oracle fare any better?



Hello Anite

By the time you receive this edition of *System House*, you will probably have read that **Cray Electronics** has decided to change its name to **Anite**. It has also announced a new structure:

- **Anite Systems** (the "old" Cray Systems) run by Mike Shone with revenues of c£85m and operating profits of £6-7m expected for FY97.

- **Anite Networks** (the network integration part of Cray Communications which is largely hardware independent and competes with the network integration activities of BT and our many mainstream SCSI companies) with revenues of c£100m (which include about £40m of intercompany hardware) and "some" operating profits expected for FY97.

- **CASE Technology** (basically the hardware manufacturing/products activities) with revenues of c£90m and "some" operating losses still expected for FY97.

We covered the latest full year results for Cray in last month's issue. We also reported on Cray's sale of **P-E International** to **Lorien**.

Overall analysts expect PBT of anywhere between zero and £6m for the new Anite in the year to 30th Apr. 97.

Our views of Cray - sorry Anite - are well documented:

- we think they should have put more emphasis in the past on their SCSI activities.

- we have never much liked their (or indeed anyone else's!) hardware production activities.

- we were surprised - and in many ways more disappointed than most - with the appalling performance of Cray over the last two years. That said, we thought that the plunge in share price from over 200p to a low of 27p was a bit much. Indeed, we are on record as saying that Cray Systems was worth more than the whole.

That's why we like this latest reorganisation. Although the name change was forced on them to avoid conflict with the Cray of supercomputer fame, there is no better way of starting a new chapter than getting a new identity. It also emphasises that the majority of the group's revenues is now hardware independent. There is little reason why the services revenues of Anite Networks should not soon attract the same kind of valuation as Mike Shone's SCSI activities. The fact that the hardware products bit has not received the "Anite" prefix must have some significance. We would not be surprised to see at least the US CASE activity sold soon. Anyway even if you put no value on the revenues from CASE Technology - assuming that you accept that there *just cannot be* any more unexpected bad news to come - surely the remaining £145m of increasingly profitable SCSI revenues are worth more than the current market capitalisation of £86m?

If investors do not realise that, there surely must be predators out there who do?

P·E·R·S·O·N·A Persona is a distributor of PC network and comms.

products and was a new issue back in April 1994 at 160p. Its performance since has been exemplary.

In December 1995, Persona undertook its largest ever acquisition by buying **Financière Top Log** of France for £19.9m, funded by a £23.1m rights issue, and thereby effectively doubling their size. It was therefore not surprising that in the six months to 30th June 96, revenues increased by 163% to £65.2m. But what did pleasantly surprise the market - which wrote the shares up 16% to 310p this month - was the doubling of PBT to £2.7m and the 13% increase in EPS after exceptionals.

"A strong performance in the UK" - where revenues rose by 54% to £38.2m (56% of the total). In contrast France was described as "in line with budgets" (£22.7m or 32% of the total). Germany, Spain and Belgium represented both the remaining 12% and the major "next opportunity" for Persona.

However, we still think that it is in value-added services that Persona will really build its shareholder value. Indeed "training and consultancy both performed strongly" in the period. Although Top Log Training and Faculty still represent only 6% of revenues, margins are in the mid-teens compared to around 4% for the whole business. Indeed Chairman Wayne Channon said "if we could recruit an infinite number of Microsoft trainers, we could make an infinite amount of money". (Probably not quite true, but the sentiment is spot on!)

Microvitec

It seems only a couple of months ago that Chairman James Bailey told the AGM that the start of 1996 was "encouraging" in the display division and that "an exciting year was in prospect for the networking division".

But that was before "events". Although **Microvitec** has not suffered (as a creditor) from the **Escom** collapse, it was a major supplier of monitors to its parent Amiga. Microvitec is now left with at least £1m of stock. As if that was not enough, its Canadian subsidiary Silcom produced "its worst performance in five years" again due to "trade destocking in the US".

"At the end of the day we are a systems provider to the technology industry and when the market goes you go with it". Umm...the problem is that a few years back Microvitec announced "a strategic decision to position and refocus the business in the areas of networking and software". Indeed the networking division increased sales by 20% to £8.73m and the software division increased revenues by 12% to £3.46m in the six months to 30th June 96. The new MS Windows 95 accounting software would be "a brilliant earner in 1997" but had cost £500K in R&D in the period. That, and problems in the other activities, meant that although total revenues increased by 28%, PBT was static at £1.6m and EPS down 5%.

IBM Services spin-off?

Don't know why but there is something deeply satisfying in reading rumours (hotly denied of course...) that **IBM** is about to "spin-off" its services business on the basis that its value is (relatively) a lot higher than the rest of IBM and therefore would enhance shareholder value. Source - Reuters. If you look at the statistics we presented last month (p12) you will see that IBM's revenues from services grew by 23% in Q2 (that's the 14th consecutive quarterly growth >20%) whereas software, for all its Lotus and Tivoli acquisitions, grew by just 4%. IBM services alone (by the way that excludes maintenance) is now on a \$15 billion run rate - bigger than EDS.

So after the EDS "demerger" and the increasing likelihood of an Andersen Consulting IPO, we might get to buy stock in IBM ISS too.

Oh how they all laughed five years ago when we suggested "IT services is the place to be!"

Quoted Companies - Results Service

Note: Shaded = Results announced this month.

Action Computer Supplies plc					Electronic Data Processing plc				
	Interim - Mar 95	Final - Sep 95	Interim - Mar 96	Comparison		Interim - Mar 95	Final - Sep 95	Interim - Mar 96	Comparison
REV	£ 699,119	£ 1,066,905	£ 721,106	+3.1%	REV	£ 6,326,000	£ 12,605,000	£ 7,894,000	+24.8%
PBT	£ 314,850	£ 625,546	£ 427,844	Loss both	PBT	£ 1,807,000	£ 3,083,000	£ 1,505,000	-16.7%
EPS	-1.50p	-2.40p	-1.40p	Loss both	EPS	4.55p	7.53p	3.93p	-13.6%
Admiral plc					F.I. Group plc				
	Interim - Jun 95	Final - Dec 95	Interim - Jun 96	Comparison		Final - Apr 95	Final - Apr 96	Comparison	
REV	£ 30,204,000	£ 65,480,000	£ 43,009,000	+42.4%	REV	£ 61,703,000	£ 78,824,000	+27.7%	
PBT	£ 5,589,000	£ 9,832,000	£ 5,180,000	-7.3%	PBT	£ 3,260,000	£ 3,763,000	+15.4%	
EPS	6.40p	10.72p	5.50p	-14.1%	EPS	7.60p	7.70p	+1.3%	
AFA Systems plc					Firecrest Group plc				
	Final - Dec 95	Final - Apr 96	Comparison		Final - Dec 94	Final - Dec 95	Comparison		
REV	£ 0	£ 217,000	n/a		REV	£ 7,126,671	£ 6,609,068	-7.3%	
PBT	£ 121,000	£ 133,000	Both loss		PBT	£ 414,929	£ 603,027	+45.3%	
EPS	n/a	n/a	n/a		EPS	2.30p	2.30p	+0.0%	
Azlan Group plc					Flomerics Group plc				
	Final - Mar 95	Final - Mar 96	Comparison		Final - Dec 94	Final - Dec 95	Comparison		
REV	£ 90,488,000	£ 188,459,000	+117.1%		REV	£ 3,098,672	£ 4,147,187	+33.8%	
PBT	£ 3,906,000	£ 10,507,000	+169.0%		PBT	£ 406,900	£ 415,565	+2.1%	
EPS	12.50p	30.30p	+142.4%		EPS	11.00p	11.00p	+0.0%	
British Data Management plc					Gresham Computing plc				
	Interim - Dec 94	Final - Jun 95	Interim - Dec 95	Comparison		Interim - Apr 95	Final - Oct 95	Interim - Apr 96	Comparison
REV	£ 8,599,000	£ 17,042,000	£ 9,485,000	+10.3%	REV	£ 3,803,000	£ 7,895,000	£ 4,579,000	+20.4%
PBT	£ 535,000	£ 1,575,000	£ 1,561,000	+191.8%	PBT	£ 521,000	£ 1,281,000	£ 708,000	+35.9%
EPS	1.47p	3.80p	4.28p	+191.2%	EPS	0.98p	2.36p	1.32p	+34.7%
Capita Group plc					INSTEM plc				
	Interim - Jun 95	Final - Dec 95	Interim - Jun 96	Comparison		Final - Dec 94	Final - Dec 95	Comparison	
REV	£ 43,418,000	£ 86,994,000	£ 50,067,000	+15.3%	REV	£ 16,812,000	£ 21,324,000	+26.8%	
PBT	£ 4,011,000	£ 9,420,000	£ 4,588,000	+14.4%	PBT	£ 1,153,000	£ 1,244,000	+7.9%	
EPS	5.00p	11.80p	5.50p	+10.0%	EPS	16.80p	18.10p	+7.7%	
Cedardata plc					Intelligent Environments Group plc				
	Final - Mar 95	Final - Mar 96	Comparison		Final - Dec 94	Final - Dec 95	Comparison		
REV	£ 8,932,000	£ 12,071,000	+35.1%		REV	£ 3,517,241	£ 4,000,000	+13.7%	
PBT	£ 3,572,000	£ 4,384,000	+22.7%		PBT	£ 167,211	£ 200,000	Loss to profit	
EPS	7.90p	9.50p	+20.3%		EPS	n/a	n/a	n/a	
Chemical Design Holdings plc					JBA Holdings plc				
	Final - Dec 94	Final - Dec 95	Comparison		Final - Dec 94	Final - Dec 95	Comparison		
REV	£ 410,000	£ 1,811,000	+341.7%		REV	£ 90,687,000	£ 124,693,000	+37.5%	
PBT	£ 76,000	£ 239,000	Loss to profit		PBT	£ 6,131,000	£ 8,714,000	+42.1%	
EPS	n/a	n/a	n/a		EPS	12.13p	16.31p	+34.5%	
Clinical Computing plc					Kalamazoo Computer Group plc				
	Final - Dec 94	Final - Dec 95	Comparison		Final - Mar 95	Final - Mar 96	Comparison		
REV	£ 1,471,684	£ 2,209,023	+50.1%		REV	£ 60,719,000	£ 66,665,000	+9.8%	
PBT	£ 688,596	£ 546,832	Loss both		PBT	£ 6,815,000	£ 5,882,000	-13.7%	
EPS	-4.30p	-3.40p	Loss both		EPS	11.80p	10.20p	-13.6%	
CMG plc					Kewill Systems plc				
	Final - Dec 94	Final - Dec 95	Comparison		Final - Mar 95	Final - Mar 96	Comparison		
REV	£ 146,283,000	£ 196,484,000	+34.3%		REV	£ 33,667,000	£ 35,242,000	+4.7%	
PBT	£ 14,057,000	£ 18,460,000	+31.3%		PBT	£ 5,067,000	£ 6,061,000	+19.6%	
EPS	13.90p	18.20p	+30.9%		EPS	28.39p	33.70p	+18.7%	
Coda Group plc					Learmonth & Burchett Management Systems plc				
	Interim - Apr 95	Final - Oct 95	Interim - Apr 96	Comparison		Final - Apr 95	Final - Apr 96	Comparison	
REV	£ 15,229,000	£ 32,791,000	£ 15,284,000	+0.2%	REV	£ 23,781,000	£ 25,855,000	+8.8%	
PBT	£ 993,000	£ 1,030,000	£ 3,688,000	Profit to loss	PBT	£ 5,251,000	£ 539,000	Loss both	
EPS	2.70p	2.50p	-13.90p	Profit to loss	EPS	-24.70p	-2.30p	Loss both	
Compel Group plc					Logica plc				
	Interim - Dec 94	Final - Jun 95	Interim - Dec 95	Comparison		Interim - Dec 94	Final - Jun 95	Interim - Dec 95	Comparison
REV	£ 28,272,000	£ 70,019,000	£ 40,421,000	+43.0%	REV	£ 113,565,000	£ 250,135,000	£ 128,919,000	+13.5%
PBT	£ 1,194,000	£ 2,684,000	£ 1,441,000	+20.7%	PBT	£ 7,220,000	£ 20,310,000	£ 9,035,000	+25.1%
EPS	5.56p	11.10p	6.06p	+9.0%	EPS	7.80p	21.70p	9.80p	+25.6%
CFS Group plc					Lorien plc				
	Final - Dec 94	Final - Dec 95	Comparison		Interim - May 95	Final - Nov 95	Interim - May 96	Comparison	
REV	£ 3,120,711	£ 2,986,520	-4.3%		REV	£ 11,527,000	£ 29,109,000	£ 17,997,000	+56.1%
PBT	£ 319,718	£ 384,675	+20.3%		PBT	£ 414,000	£ 971,000	£ 600,000	+44.9%
EPS	3.29p	4.77p	+45.0%		EPS	6.17p	12.10p	7.05p	+14.3%
Cray Electronic Holdings plc					Lynx Holdings plc				
	Final - Apr 95	Final - Apr 96	Comparison		Interim - Mar 95	Final - Sep 95	Interim - Mar 96	Comparison	
REV	£ 284,838,000	£ 282,838,000	-0.8%		REV	£ 12,605,000	£ 3,201,800	£ 38,133,000	+202.5%
PBT	£ 835,000	£ 19,378,000	Profit to loss		PBT	£ 741,000	£ 2,564,000	£ 2,069,000	+179.2%
EPS	-0.30p	-8.40p	Loss both		EPS	1.27p	4.70p	1.73p	+36.2%
CRT Group plc					M.A.I.D. plc				
	Final - Apr 95	Final - Apr 96	Comparison		Interim - Jun 95	Final - Dec 95	Interim - Jun 96	Comparison	
REV	£ 72,762,000	£ 103,282,000	+41.9%		REV	£ 5,782,000	£ 13,642,000	£ 9,584,000	+66.3%
PBT	£ 5,972,000	£ 6,515,000	+9.1%		PBT	£ 408,000	£ 4,045,000	£ 3,884,000	Profit to loss
EPS	6.30p	5.70p	-9.5%		EPS	0.33p	-4.42p	-3.68p	Profit to loss
DCS Group plc					MMT Computing plc				
	Interim - Dec 94	Final - Jun 95	Interim - Dec 95	Comparison		Interim - Feb 95	Final - Aug 95	Interim - Feb 96	Comparison
REV	£ 4,007,000	£ 8,694,833	£ 14,335,000	+257.7%	REV	£ 8,442,000	£ 13,957,949	£ 8,255,000	+28.1%
PBT	£ 105,000	£ 609,530	£ 1,204,000	+104.6%	PBT	£ 1,387,000	£ 3,075,053	£ 2,372,000	+71.0%
EPS	0.88p	5.02p	4.27p	+385.2%	EPS	7.40p	16.30p	13.00p	+75.7%
DRS Data & Research Services plc					MR Group plc				
	Final - Dec 94	Final - Dec 95	Comparison		Interim - Dec 94	Final - Jun 95	Interim - Dec 95	Comparison	
REV	£ 8,798,000	£ 6,468,000	-26.5%		REV	£ 21,305,000	£ 41,429,000	£ 18,560,000	-12.9%
PBT	£ 1,487,000	£ 594,000	-60.1%		PBT	£ 3,136,000	£ 1,309,000	£ 2,174,000	-30.7%
EPS	3.07p	1.33p	-56.7%		EPS	4.00p	1.60p	2.60p	-35.0%
Delphi Group plc					McDonnell Information Systems Group plc				
	Final - Dec 94	Final - Dec 95	Comparison		Final - Dec 94	Final - Dec 95	Comparison		
REV	£ 97,885,000	£ 175,008,000	+78.2%		REV	£ 148,911,000	£ 146,805,000	-1.4%	
PBT	£ 391,000	£ 9,015,000	Loss to profit		PBT	£ 7,157,000	£ 39,420,000	Profit to loss	
EPS	-7.76p	25.42p	Loss to profit		EPS	3.10p	-37.02p	Profit to loss	
Division Group plc					Macro 4 plc				
	Interim - Apr 95	Final - Oct 95	Interim - Apr 96	Comparison		Interim - Dec 94	Final - Jun 95	Interim - Dec 95	Comparison
REV	£ 2,468,000	£ 4,830,000	£ 3,034,000	+22.8%	REV	£ 12,285,000	£ 25,035,000	£ 12,835,000	+2.8%
PBT	£ 1,575,000	£ 3,893,000	£ 2,283,000	Loss both	PBT	£ 5,685,000	£ 11,602,000	£ 5,956,000	+4.8%
EPS	-3.80p	-9.20p	-5.20p	Loss both	EPS	16.70p	35.20p	17.90p	+7.2%
Eidos plc					Micro Focus plc				
	Final - Dec 94	Final - Mar 96	Comparison		Interim - Jul 95	Final - Jan 96	Interim - Jul 96	Comparison	
REV	£ 254,225	£ 3,706,000	n/a		REV	£ 36,802,000	£ 77,258,000	£ 34,140,000	+7.2%
PBT	£ 107,623	£ 1,949,000	Loss both		PBT	£ 4,470,000	£ 6,542,000	£ 9,463,000	Loss both
EPS	-4.16p	-44.60p	Loss both		EPS	-30.00p	-43.60p	-62.20p	Loss both

Quoted Companies - Results Service

Note: Shaded = Results announced this month.

Microgen Holdings plc				Recognition Systems Group plc					
	Interim - Apr 95	Final - Oct 95	Interim - Apr 96	Comparison		Final - Sep 94	Interim - Mar 96	Final - Sep 95	Comparison
REV	£ 34,868,000	£ 69,029,000	£ 38,291,000	+9.8%	REV	£ 625,000	£ 245,000	£ 669,000	+7.0%
PBT	£ 4,470,000	£ 8,383,000	£ 4,875,000	+9.1%	PBT	£ 6,000	£ 292,000	£ 397,000	Loss both
EPS	7.30p	14.80p	8.00p	+9.6%	EPS	0.00p	-1.40p	-2.10p	Loss both
Microvitec plc				Riva Group plc					
REV	£ 26,550,000	£ 55,050,000	£ 33,840,000	+27.5%	REV	£ 58,007,000		£ 73,022,000	+25.9%
PBT	£ 1,607,000	£ 3,411,000	£ 1,610,000	+0.2%	PBT	£ 610,000		£ 182,000	Loss to profit
EPS	1.47p	3.10p	1.40p	-4.8%	EPS	-1.50p		0.10p	Loss to profit
Misys plc				Rolfe & Nolan plc					
REV	£ 153,395,000		£ 279,867,000	+82.4%	REV	£ 14,288,000		£ 17,128,000	+19.9%
PBT	£ 26,345,000		£ 50,437,000	+91.4%	PBT	£ 1,512,000		£ 2,517,000	+66.5%
EPS	35.10p		44.00p	+25.4%	EPS	6.70p		12.33p	+84.0%
Moorepay Group plc				Romtec plc					
REV	£ 2,342,152	£ 4,632,538	£ 2,717,246	+16.0%	REV	£ 2,702,839		£ 3,290,384	+21.7%
PBT	£ 666,324	£ 1,142,110	£ 851,417	+27.8%	PBT	-£ 73,624		£ 185,840	Loss to profit
EPS	5.88p	10.22p	7.52p	+27.9%	EPS	n/a		n/a	n/a
MSB International plc				Sage Group plc					
REV	£ 18,087,000		£ 38,555,000	+113.2%	REV	£ 50,622,000	£ 102,234,000	£ 71,836,000	+41.9%
PBT	£ 1,417,000		£ 3,420,000	+141.4%	PBT	£ 11,740,000	£ 22,362,000	£ 16,116,000	+37.3%
EPS	1.82p		4.90p	+169.2%	EPS	7.46p	13.88p	9.92p	+33.0%
OmniMedia plc				Sanderson Electronics plc					
REV	£ 124,594		£ 275,000	+120.9%	REV	£ 27,078,000	£ 57,801,000	£ 30,583,000	+12.9%
PBT	-£ 421,354		-£ 1,023,344	Loss both	PBT	£ 2,805,000	£ 5,305,000	£ 3,317,000	+18.3%
EPS	-3.84p		-6.06p	Loss both	EPS	4.60p	8.80p	5.30p	+15.2%
On Demand Information plc				Sema Group plc					
REV	£ 5,120,000	£ 8,786,000	£ 5,677,000	+10.9%	REV	£ 596,111,000		£ 677,726,000	+13.7%
PBT	-£ 1,333,000	-£ 3,646,000	-£ 1,284,000	Loss both	PBT	£ 29,518,000		£ 36,927,000	+25.1%
EPS	-2.60p	-7.20p	-2.50p	Loss both	EPS	20.98p		24.79p	+18.2%
Oxford Molecular plc				Sherwood International plc					
REV	£ 2,852,000	£ 3,179,000	£ 4,350,000	+83.6%	REV	£ 27,067,000		£ 28,248,000	-3.0%
PBT	-£ 2,112,000	-£ 3,693,000	-£ 950,000	Loss both	PBT	£ 79,000		£ 6,850,000	+8570.9%
EPS	-4.20p	-7.20p	-1.80p	Loss both	EPS	-10.73p		66.20p	Loss to profit
P & P plc				Spargo Consulting plc					
REV	£ 171,100,000	£ 341,990,000	£ 179,200,000	+4.7%	REV	£ 3,329,000	£ 7,379,000	£ 4,040,000	+21.4%
PBT	£ 6,200,000	£ 12,574,000	£ 6,500,000	+4.8%	PBT	£ 192,000	£ 902,000	£ 602,000	+213.5%
EPS	5.30p	11.00p	5.80p	+9.4%	EPS	0.90p	4.43p	3.10p	+244.4%
Parity plc				Staffware plc					
REV	£ 88,791,000		£ 127,711,000	+43.8%	REV	£ 2,679,469		£ 4,267,000	+59.2%
PBT	£ 4,176,000		£ 6,540,000	+56.6%	PBT	£ 257,792		£ 536,000	+107.9%
EPS	7.19p		10.34p	+43.8%	EPS	1.70p		3.90p	+129.4%
Pegasus Group plc				Superscape VR plc					
REV	£ 4,808,000		£ 6,426,000	+33.7%	REV	£ 478,000	£ 1,590,000	£ 1,589,000	+232.4%
PBT	£ 243,000		£ 893,000	+267.5%	PBT	-£ 843,000	-£ 1,746,000	-£ 897,000	Loss both
EPS	12.70p		10.30p	-18.9%	EPS	-14.90p	-30.70p	-13.10p	Loss both
Persona plc				Systems Integrated Research plc					
REV	£ 24,760,000	£ 53,375,000	£ 65,164,000	+163.0%	REV	£ 2,258,320		£ 1,901,000	-15.8%
PBT	£ 1,350,000	£ 2,832,000	£ 2,707,000	+100.5%	PBT	-£ 798,139		-£ 41,000	Loss both
EPS	6.88p	14.41p	7.78p	+13.1%	EPS	n/a		n/a	n/a
PhoneLink plc				Total Systems plc					
REV	£ 2,085,000		£ 4,356,000	+108.9%	REV	£ 2,289,437		£ 2,892,802	+26.4%
PBT	-£ 3,702,000		-£ 6,711,000	Loss both	PBT	£ 53,516		£ 222,329	+315.4%
EPS	-10.40p		-17.30p	Loss both	EPS	0.34p		1.60p	+370.6%
Proteus International plc				Trace Computers plc					
REV	n/a		£ 1,063,000	n/a	REV	£ 9,472,000	£ 19,676,832	£ 10,269,000	+8.4%
PBT	-£ 7,925,000		-£ 5,395,000	Loss both	PBT	£ 223,000	£ 482,746	£ 50,000	Profit to loss
EPS	-25.47p		-16.49p	Loss both	EPS	1.19p	2.55p	-0.35p	Profit to loss
Quality Software Products Holdings plc				Triad Group plc					
REV	£ 16,494,732		£ 21,385,842	+29.7%	REV	£ 6,699,570		£ 11,680,000	+74.3%
PBT	£ 2,512,400		£ 502,697	-80.0%	PBT	£ 1,059,350		£ 2,131,000	+101.2%
EPS	26.90p		5.20p	-80.7%	EPS	3.30p		7.09p	+114.8%
RM plc				Vega Group plc					
REV	£ 33,596,000	£ 80,691,000	£ 45,162,000	+34.4%	REV	£ 12,516,000		£ 16,032,000	+28.1%
PBT	£ 1,041,000	£ 5,023,000	£ 1,322,000	+27.0%	PBT	£ 2,910,000		£ 3,452,000	+18.6%
EPS	4.00p	18.80p	5.00p	+25.0%	EPS	13.49p		16.16p	+19.8%
Radius plc				Virtuality Group plc					
REV	£ 24,866,000		£ 26,052,000	+4.8%	REV	£ 9,126,000		£ 12,779,000	+40.0%
PBT	£ 1,451,000		£ 1,809,000	+24.7%	PBT	-£ 1,397,000		-£ 565,000	Loss both
EPS	2.87p		4.37p	+52.3%	EPS	-5.30p		-2.10p	Loss both
Real Time Control plc				Wakebourne plc					
REV	£ 13,483,000		£ 11,903,000	-11.8%	REV	£ 35,336,000		£ 36,714,000	+3.9%
PBT	£ 1,782,000		£ 2,207,000	+23.8%	PBT	£ 1,865,000		-£ 3,384,000	Profit to loss
EPS	20.00p		20.80p	+4.0%	EPS	5.70p		-12.20p	Profit to loss
Rebus Group plc				Zergo Holdings plc					
REV	£ 56,963,000		£ 60,041,000	+5.4%	REV	£ 7,074,520		£ 8,483,877	+19.3%
PBT	£ 6,535,000		£ 1,969,000	-69.9%	PBT	£ 12,769		-£ 214,693	Profit to loss
EPS	5.85p		0.33p	-94.4%	EPS	n/a		n/a	n/a

UK M&A

Sanderson Electronics has acquired the UK bit of **Alpha Microsystems** for £1.4m. Alpha had PBT of £109K on revenues of £5.3m in the year to the end of Feb. 96. As well as the PoS activities, the deal also includes **Sabre Business Systems** of Dublin and Belfast.

The directors of data warehousing specialist **Valstar** have bought VC **Enterprise's** 30% stake. **GraphicData (UK)** has acquired the **MFS Group**.

MR Group has acquired **Kalexis** - a document management consultancy formally known as **In-Form Systems** - for "an unspecified sum".

In the continued (and anticipated) sell off, AT&T has sold the German bit of **AT&T Istel** to US **Computron Software** for \$400K now and a further \$1.3m in Jan. 97.

In a complex deal, property company **Capital & Western** (quoted on AIM) has acquired property company **Ballynatray** (also quoted on AIM) for £8m and **Global Internet** (a private internet access company) for £6m. C&W said they were moving into the Internet "to escape the moribund housing market". I think we would rather be in housing than be an internet access provider in the years to come!

Early in Aug., **British Data Management** confirmed that it had received a bid valuing the data storage group - one of the stranger companies in our SCSI Index - at c£45m or 180p a share. On 27th Aug. **Mentmore Abbey plc** declared that it was "in discussion...with a view to a merger".

Sema announced that 99.3% of shareholders had taken up the 2-for-11 rights issue at 595p to raise £99m net announced last month when they acquired Olivetti's outsourcing activity - Syntax.

Given that Sema's shares had risen to 737p since, we can only question the sanity of the 0.7% who did not subscribe. (When we raised this point with a City contact the reply we got was "because they were probably dead".)

Financial Objects

The **Misys** review (p10 & 11) presents the "let's build a banking software group" pedigree of both Misys and Roger Foster's **ACT** before they came together in Feb. 95.

Foster had a one year "no compete" clause but in Dec. 95, Foster and former ACT marketing director Jes Dorrell announced the setting up of **Financial Objects** (FO) with VCs **Schroder Ventures** and **Thompson Clive** taking a 20% stake for c£2m. In Apr. 96 FO announced a strategic alliance with Indian **Tata** for the development of a new banking package - Quartzx.

This month FO has acquired the long established wholesale banking software group - **Ibis** - for around £4m. It looks an even better deal if the cash in the operation is taken off the purchase price. Ibis was owned 90% by the Italian International Bank and 10% by IBM. The Ibis IBM AS/400 based system has "an international client base of over 100 banks with over 200 sites" and had revenues of £16m in 1995.

"This deal makes Financial Objects number two (i.e. to Misys) in the banking software market in terms of sites installed, and will significantly accelerate our growth plans". It is understood that Misys had been in serious contention to buy Ibis before the deal fell apart and Foster stepped in.

Given the pedigree, Foster is more than capable of giving Misys a run for their money. Customers will welcome the competition, investors will no doubt earn a packet and even observers like us will enjoy reporting on a head-to-head battle between two of the more aggressive entrepreneurs on the UK IT scene.

Whatever, we will keep the "pedigree" diagram as we feel sure its lines may cross again in the future....but in which direction?

Vega goes Dutch

As readers know, **Vega** is one of the rare recipients of a **System House** Boring Award. The fear is that they might now be getting a little exciting. First MD Kelvin Harrison "unexpectedly resigned" back in Apr. 96 and this month they have concluded their first acquisition. They have spent £4.6m (£3.1m in cash - the rest in shares) buying **Kortekerkwil B.V** and its operating subsidiary **Selmers** - a Dutch process engineering company. The operation had revenues of £2.4m and PBT of £580K in 1995. This is the same kind of 20%+ profit margin we expect from Vega itself. It also had £840K cash which you could in effect knock off the £4.6m purchase price in which case it looks a pretty good deal (for Vega).

"Selmers in for a full year will boost 1997-1998 profits to £5.4m and put Vega on a forward PE ratio of 13" said **Investors Chronicle** (23rd Aug. 96). It is not surprising that Vega shares are up 15% to end Aug on 338p.

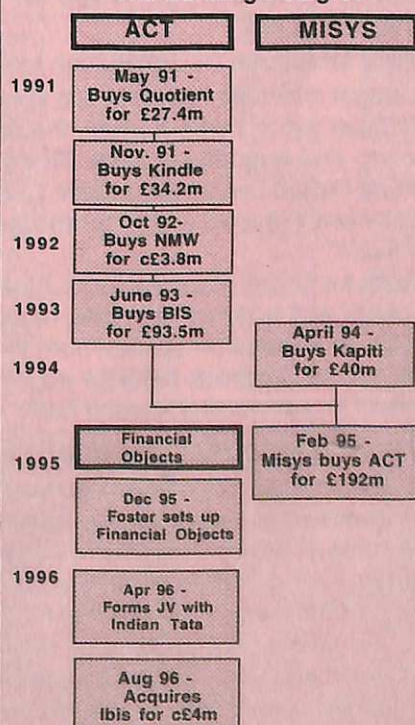
Footnote: You may remember that John Rigg stepped down from the Chairmanship of Triad and Vega in favour of Robert Drummond. Rigg moved to Holland where we all expected him to continue his SCSI company building. Now Rigg "will provide ongoing support in mainland Europe to the local (Selmers) management team".

4Front buys Hammer

4Front Group - which makes 98% of its revenue in the UK - chose to float on NASDAQ in Jan 96; raising \$20m. Its two main operating divisions are distribution (**Compass** and **Xanadu Systems**) and software & services (**K2 Systems** and **4Front Services**).

This month 4Front has acquired specialist storage distributor **Hammer Distribution** for £1.85m. Hammer has revenues of £12m and 25 staff. "This is the first in a number of planned acquisitions aimed at increasing the group to £200m revenue in two years". Revenue growth has already been dramatic; £6.6m in the year to 31st Oct. 94 to a current run rate of £40m with Hammer.

Misys/ACT/Financial Objects
The Banking Pedigree



MDIS sells disaster recovery to Guardian

We could of course comment that MDIS knows more about disasters (but less about recovery) than most - but that would be a cheap joke. Hot on the heels of selling its profitable Australian operations to Continuum for £7m in Jun. 96, this month they have sold another apparently profitable division - disaster recovery - to **Guardian** for £665K now and a further £250K based on performance over the next two years. The business apparently made operating profits of £340K on revenues of c£750K in 1995. Guardian seem to be going from strength to strength. They were an ECI Ventures and Paribas backed buy out from ICL for around £25m in Dec. 94. In Oct. 95 they acquired the Syntax disaster recovery operations (about £1m rev. in a full year) and in May 96 added Allen Computers. Guardian now anticipate revenues for 1996 of around £16m and operating profits of £3.6m compared with PBT of £2.4m on revenues of £10.8m in 1995. So the superb string of c20%+ profit margins seems set to continue. If they can work the same trick on the MDIS business it looks as if they might have got themselves a bargain. Guardian really does seem to have exceeded all expectations. They are now probably the largest hardware independent disaster recovery operation in the UK - probably about the same size as Sema's CAPRS activity. Thoughts must be turning to a listing where, with these kind of results, they could expect a warm reception.

Molecular modelling software

Chemical Design Holdings was the latest SCSi company to join the AIM market on 12th Aug. 96 in a placing at 110p - raising £1.4m net and valuing the group at £7.5m. CDH shares ended Aug. up 45%. CDH has a product "Chem-X" - "an integrated modular system which allows molecules to be visualised, certain properties calculated and has the ability to store, search and retrieve structures from databases". (You are now as wise as we are!)

Given the normal background to such issues, the financial record is rather good. Revenues quadrupled to £1.8m and a PBT of £239K was recorded in the year to 31st Dec. 95. An "illustrative projection" shows PBT more than doubled to £600K in 1996.

Oxford Molecular in comparison looks somewhat of an old-stager after their launch at 80p in Apr. 94. Even though they have yet to make a profit, the shares have soared since to end Aug. 96 on 346p. This values the group at £210m! Oxford has already spent £12m this year on four acquisitions in the US which "taken together...are modestly profitable".

Results for the six months to 30th June 96 show revenues up 54% at £4.35m and losses reduced from £2.1m to £950K. In a welcome change from the *confidence* word, "the rate of progress remains aggressive and we look forward to a promising second half".

Firecrest desperately seeks adviser

The AIM market has come in for some stick this month. The **Firecrest** (Internet access) saga did not help. A new AIM issue at 40p in July 95 it rose like a rocket to 212p before crashing back to earth. It sold its Transphone rights for \$12m but was still forced into a 50p rights issue.

This month the shares slumped to 54p on news that its nominated advisers - Singer & Friedlander - had resigned. If Firecrest cannot find an alternative by 2nd Sept. they will be suspended

Xavier to buy CSL?

Xavier Computer Group plc (XCG) - now added to our SCSi Index - joined AIM on 26th Jul. 96 at 10p and closed Aug on 11p or a market cap. of £5.75m. XCG was formed in 1995 by Allan Harle and Nicholas Barham. Harle also founded Formscan - also quoted on AIM. Harle recently acquired Rothwell Group which then went on to acquire AppleCentre Solent.

In Jan. 96, XCG acquired Bleasdale Computer (which had been part of Enterprise which failed in 1995) for £328K. Then in Mar. 96, XCG bought Xavier Computer Systems (software for wholesale distribution industry) for £1.9m and Xavier (Southern) in June 96 for £280K.

This month Xavier has "entered into an option agreement to acquire CSL Limited for a consideration in the region of £3.5m". Clearly the deal is a very big meal for such a small company.

"Since Dec. 93, CSL has been wholly owned by Brian Beverley...who was the co-founder of Mentor Systems plc which became the largest provider of business solutions to the construction industry...After 14 years Mentor was sold in to Misys" for £12.4m in May 1989.

CSL has serviced "the offshore business community's IT requirements for the past 20 years ...in Jersey, Guernsey and the Isle of Man". CSL has, as you might expect when servicing a tightly knit community, a very wide range of operations from PC sales to systems development and outsourcing. Their corporate brochure is plastered with reseller agreements with everyone you might care to mention - and nothing wrong with that.

The "Beverley influence" has boosted revenues from £3.3m in the year to 31st Jan. 95 to £5.4m in FY96 - PBT growth has been even more impressive; from £22K to £400K in the same period.

So the £3.5m purchase price seems, at first sight, somewhat low. The problem is that CSL's captive market - the Channel Islands - is both its strength and weakness...it is secure but hardly exciting. If CSL had been on the mainland making that kind of dosh it would have been worth twice as much.

Zergo - a game of "two very different halves"

Zergo "is the leading supplier in the rapidly emerging global market for information security solutions".

Maiden results for the year to 30th Apr. 96 showed revenues up 20% at £8.5m but a loss of £215K (compared with PBT of £13K last time). But, to be fair, all the operating losses were made in the first half and H2 produced an operating profit of £512K. Indeed with an "order book up 25%" you can understand why the outlook is seen to be so buoyant. A £247K exceptional property writedown was also recorded.

Zergo was a new issue on the AIM market just under a year ago in Sept. 95 at 97p. They had traded as high as 260p but ended Aug. 96 on 235p; still up a massive 142% since launch.

According to the Evening Standard "This is largely due to one newspaper tip which, in minimal trade carried out by one market maker, sent the shares soaring". Source - Evening Standard 22nd July 96.

The point they seem to want to make is that Zergo has the rating of a "hi-tech., rapid growth stock" which is hardly in line with the "steady" revenue growth from £3.8m in 1993 to the £8.5m reported this month.

The Evening Standard's Tom Winniffrith's advice to SELL at 260p appears to have been right.

As the FTSE100 broke the 3900 barrier for the first time, our SCS Index staged a modest, but welcome, 3.75% gain after the 10% decline in June and July. **CRT** (up 47%) was the star on the ET involvement (p2). AIM newcomer **Chemical Design** gained 45% in its first month's trading. If our reviews last month of **DCS** (up 28% - that's +162% in 1996 so far), **Rebus** (up 26%) and **Cray** (up 26%) had an effect - so be it! Hopefully there is more to come. **Romtec** put on 19% - that's a near 50% gain since launch - on news of their Global Research Network. **Microvitec** (down 31%) suffered from the Escrom failure (p4) and **Proteus** fell another 30%.

27th Aug 96		SCSI Index		2762.74
SCSI Index = 1000 on 15th April 1989		FTSE 100		3905.70
		FTSE SmallCap		2158.95
Changes in Indices		CSI Index	FTSE 100	FTSE Small Cap
Month (31/7/96 - 27/8/96)		+3.75%	+5.47%	+3.74%
From 15th Apr 89		+176.27%	+90.19%	
From 1st Jan 90		+200.27%	+65.36%	
From 1st Jan 91		+290.29%	+80.79%	
From 1st Jan 92		+164.41%	+56.66%	
From 1st Jan 93		+73.37%	+37.21%	+55.62%
From 1st Jan 94		+65.48%	+14.26%	+15.53%
From 1st Jan 95		+84.28%	+27.41%	+23.62%
From 1st Jan 96		+22.33%	+5.87%	+11.20%

System House SCSI Share Prices and Capitalisation

	Share Price 27/8/96 (£p)	Capitalisation 27/8/96(£m)	Historic P/E	Ratio Cap./Rev.	CSI Index 27/8/96	Share price % move since 31/7/96	Share price % move in 1996	Capitalisation move (€m) since 31/7/96	Capitalisation move (€m) in 1996
Action Computer	£1.47	£47.10m	Loss	44.02	70.21	6.93%	-1.01%	£3.00m	£41.94m
Admiral	£3.24	£202.80m	33.1	3.10	11710.50	8.00%	97.56%	£15.00m	£101.40m
AFA Systems	£1.48	£14.70m	n/a	n/a	1229.17	10.90%	22.92%	£1.40m	£2.72m
Azlan	£7.45	£203.40m	24.6	1.04	3239.13	11.69%	47.52%	£21.30m	£67.60m
British Data Management	£1.79	£44.60m	25.9	2.62	1428.00	12.26%	43.95%	£4.80m	£13.60m
Capita	£3.54	£198.70m	29.1	2.28	10615.62	5.21%	24.04%	£9.90m	£38.20m
Cedadata	£2.04	£62.30m	21.5	5.16	1938.10	8.24%	22.59%	£4.80m	£11.50m
Chemical Design	£1.60	£10.90m	n/a	6.02	1450.00	45.00%	45.00%	£3.37m	£3.37m
Clinical Computing	£0.45	£7.57m	Loss	3.43	358.87	1.14%	43.55%	£0.09m	£2.55m
CMG	£6.63	£422.90m	31.5	2.15	2284.48	6.00%	101.37%	£23.90m	£212.90m
Coda	£1.07	£28.90m	42.8	0.88	453.19	-6.58%	-50.23%	-£1.40m	-£27.20m
Compel	£2.03	£30.90m	16.5	0.44	1620.00	-2.17%	7.14%	-£0.70m	£2.10m
CFS	£1.18	£8.70m	25.2	2.91	1305.56	-2.08%	38.24%	-£0.18m	£4.53m
Cray Electronics	£0.37	£86.50m	Loss	0.33	213.45	25.86%	-12.05%	£17.70m	-£13.10m
CRT	£2.21	£149.70m	38.8	1.45	2450.00	47.00%	91.74%	£48.30m	£72.10m
DCS Group	£1.97	£38.30m	31.3	4.41	3275.00	28.43%	162.00%	£8.90m	£24.10m
Delphi Group	£5.23	£133.40m	20.5	0.76	2152.26	0.58%	41.35%	£0.80m	£39.40m
Division Group	£0.81	£35.30m	Loss	7.31	2012.50	7.33%	-30.00%	£2.40m	-£15.20m
DRS Data & Research	£0.27	£9.06m	19.9	1.40	240.91	-17.19%	6.00%	-£1.84m	£0.51m
Eidos	£7.08	£93.30m	Loss	25.15	7075.00	0.64%	2.09%	£37.80m	£38.60m
Electronic Data Processing FI Group	£0.76	£19.80m	10.9	1.57	2311.70	-1.95%	-34.91%	-£0.40m	-£10.60m
Firecrest	£3.91	£116.10m	34.1	1.47	1663.83	11.71%	66.38%	£12.20m	£46.30m
Flomerics	£0.54	£12.70m	23.1	1.92	1350.00	-16.92%	-55.74%	-£2.60m	-£7.60m
Gresham Computing	£2.10	£5.38m	19.1	1.30	1615.38	-6.67%	11.70%	-£0.38m	£0.57m
INSTEM	£0.67	£21.90m	28.4	2.77	720.43	-5.63%	59.52%	-£1.30m	£8.20m
Intelligent Environments	£1.79	£8.05m	9.9	0.38	1790.00	-1.65%	3.47%	-£0.14m	£0.26m
JBA Holdings	£0.70	£15.50m	n/a	3.88	739.36	-2.11%	-26.06%	-£0.40m	-£5.53m
Kalamazoo	£4.90	£167.10m	30.3	1.34	3062.50	-4.67%	25.32%	-£8.20m	£33.80m
Kewill	£1.26	£36.10m	13.8	0.54	3585.71	-4.20%	9.13%	-£1.60m	£13.70m
Learnmonth & Burchett	£4.56	£56.50m	13.5	1.60	1800.40	4.47%	29.77%	£2.40m	£13.00m
Logica	£1.05	£26.80m	Loss	1.04	875.00	14.13%	-63.16%	£3.30m	-£45.30m
Lorien	£6.82	£432.10m	17.1	1.73	1867.12	6.99%	48.47%	£30.80m	£144.80m
Lynx Holdings	£3.05	£34.80m	25.5	1.20	3050.00	12.96%	47.34%	£4.00m	£23.00m
Macro 4	£0.81	£77.50m	17.1	2.42	2012.50	16.67%	15.00%	£11.10m	£10.90m
MAID	£5.18	£107.10m	14.0	4.28	2086.69	3.50%	22.34%	£3.60m	£20.00m
McDonnell IS (MDIS)	£3.02	£276.90m	Loss	20.30	2745.45	6.34%	30.74%	£16.50m	£65.10m
Micro Focus	£0.68	£68.00m	Loss	0.46	261.54	15.25%	65.85%	£9.00m	£27.50m
Microgen	£7.48	£112.90m	Loss	1.46	3611.11	2.40%	32.30%	£2.70m	£27.60m
Microvitec	£1.43	£56.30m	9.7	0.82	608.97	0.35%	-20.39%	£0.20m	-£14.40m
Misys	£0.38	£29.00m	12.4	0.53	926.83	-30.91%	-22.45%	-£13.00m	-£8.10m
MMT	£8.47	£717.00m	19.3	2.56	2105.72	10.94%	48.51%	£70.70m	£239.30m
Moorepay	£4.75	£55.60m	23.4	3.98	2827.38	5.56%	93.09%	£3.00m	£26.80m
MR Group	£2.35	£17.80m	20.2	3.84	2831.33	11.90%	48.73%	£1.90m	£5.80m
MSB International	£0.86	£48.00m	53.8	1.16	341.27	-3.37%	22.86%	-£1.70m	£8.90m
OmniMedia	£2.47	£50.10m	20.5	1.30	1297.37	-2.18%	29.74%	-£1.10m	£11.50m
On Demand	£0.43	£10.50m	Loss	38.18	566.67	-11.46%	-34.62%	-£1.30m	-£1.10m
Oxford Molecular	£1.30	£71.60m	Loss	8.15	1666.67	-3.70%	0.00%	-£2.80m	£5.30m
P&P	£3.46	£210.40m	Loss	34.05	4325.00	19.72%	30.08%	£34.70m	£72.70m
Parity	£1.41	£113.40m	12.6	0.33	630.04	3.31%	-7.57%	£3.60m	-£7.60m
Pegasus	£2.90	£122.40m	28.1	0.96	16111.05	-0.68%	65.71%	-£0.80m	£48.50m
Persona	£4.08	£25.70m	29.4	4.00	1110.35	-0.37%	94.05%	-£0.10m	£12.50m
Phonelink	£3.10	£76.80m	26.0	1.44	1934.75	16.38%	9.00%	£10.80m	£42.40m
Proteus	£0.93	£44.90m	Loss	10.30	600.00	-18.42%	-51.05%	-£10.20m	-£31.00m
Quality Software	£0.50	£27.50m	Loss	25.94	595.24	-29.58%	-58.33%	-£11.20m	-£11.70m
Radius	£2.18	£28.30m	42.1	1.32	572.37	-1.14%	-66.84%	-£0.30m	-£53.00m
Real Time Control	£0.67	£18.70m	15.3	0.72	485.51	11.67%	26.42%	£2.00m	£4.00m
Rebus	£1.92	£13.40m	9.2	1.13	3918.37	-9.43%	8.47%	-£1.40m	£1.00m
Recognition Systems	£0.90	£65.20m	271.2	1.09	1017.05	26.06%	1.70%	£13.50m	-£0.80m
Riva	£0.95	£25.60m	Loss	38.21	1357.14	-3.06%	35.71%	-£0.90m	£6.70m
RM	£0.23	£6.95m	230.0	0.10	163.46	-20.69%	-20.69%	-£1.81m	-£1.81m
Rolle & Nolan	£6.03	£107.20m	30.0	1.33	3442.86	12.62%	41.43%	£12.00m	£35.50m
Romtec	£3.48	£43.40m	28.2	2.53	4136.90	11.02%	29.18%	£4.30m	£9.80m
Sage Group	£0.93	£4.78m	n/a	1.45	1480.00	18.59%	48.00%	£0.75m	£1.50m
Sanderson Electronics	£4.32	£463.00m	26.4	4.53	16596.15	0.35%	32.77%	£1.60m	£115.60m
Sema Group	£1.42	£59.10m	15.2	1.02	2417.02	5.97%	0.00%	£3.40m	£0.50m
Sherwood	£7.38	£818.40m	30.5	1.21	2319.18	2.57%	37.59%	£20.50m	£316.70m
Spargo Consulting	£2.20	£18.90m	10.0	0.72	1833.33	10.55%	18.92%	£1.80m	£3.00m
Staffware	£1.57	£19.60m	23.5	2.66	1647.37	-1.57%	8.68%	-£0.30m	£1.60m
Superscape	£2.67	£30.90m	68.3	7.24	1184.44	-3.79%	18.44%	-£1.20m	£4.85m
Systems Integrated	£4.65	£39.10m	Loss	24.59	2348.48	14.81%	8.64%	£5.10m	£3.10m
Total	£0.81	£10.80m	n/a	5.68	700.00	3.21%	-30.00%	£0.30m	-£4.60m
Trace	£0.33	£3.25m	20.3	1.12	613.21	-9.72%	54.76%	-£0.35m	£1.15m
Triad	£0.23	£3.17m	8.9	0.16	180.00	-2.17%	-43.75%	-£0.07m	-£2.43m
Vega Group	£2.05	£51.50m	28.8	4.40	1514.81	1.74%	51.48%	£0.90m	£17.50m
Virtuality	£3.38	£48.30m	21.0	3.01	2766.39	15.19%	-5.73%	£6.40m	-£2.90m
Wakebourne	£1.69	£49.70m	Loss	3.89	991.18	-13.59%	-32.33%	-£7.80m	-£19.30m
Xavier	£0.28	£6.27m	Loss	0.18	152.78	-5.17%	57.14%	-£0.34m	£2.28m
Zergo	£0.11	£5.75m	Loss	12.50	1100.00	10.00%	10.00%	£0.53m	£0.53m
Zergo	£2.35	£21.70m	n/a	2.56	2410.26	6.82%	38.24%	£1.40m	£6.00m

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

Misys

Background

Misys was launched onto the USM in March 87 at 95p ...and a market capitalisation of £8m. In those days Misys was exclusively concerned with its insurance-based products. In June 88, it took its first step into the wider business computing world by purchasing BOS Software. This started a frantic period of acquisitions which embraced hardware distribution (e.g. TIS, Zygol), niche business solutions (e.g. Mentor, ICC) and hardware maintenance.

As can be seen, this mix of insurance activities and general information systems and support operations was the established business mix at Misys...until April 94 when Misys bought the banking specialist - **Kapiti**.

"Rival" **ACT** had also been through a few metamorphoses - from PC manufacturer thru' the Misys "general business solutions" to building its banking activities with the purchases of **Kindle**, **BIS** and others. See diagram on page 7.

These two, of course, came together when Misys acquired ACT in Feb. 95 for £192m.

Results for year to 31st May 1996

Misys' results for the year to 31st May 96 showed revenues up 82% to £280m, PBT up 91% at £50.4m and EPS up 25% (helped by a lower tax charge). It was much to Misys' credit (and their legendary cash management abilities) that the £55m borrowing facilities put in place at the time of the ACT purchase have been repaid and £20.4m net cash was held at the end of the FY. All these figures were a little better than we had been led to expect and the shares rose by a further 11% in Aug. to 847p.

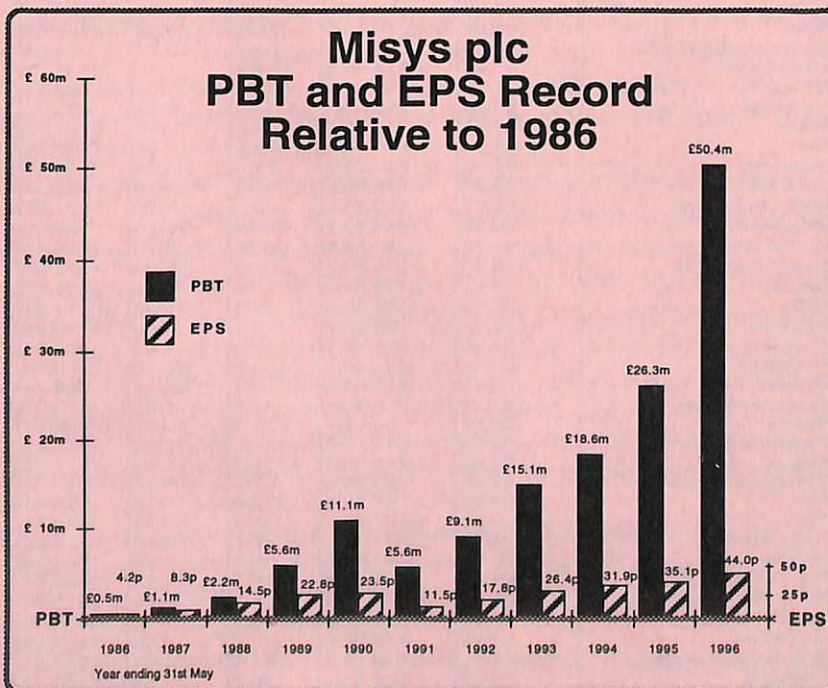
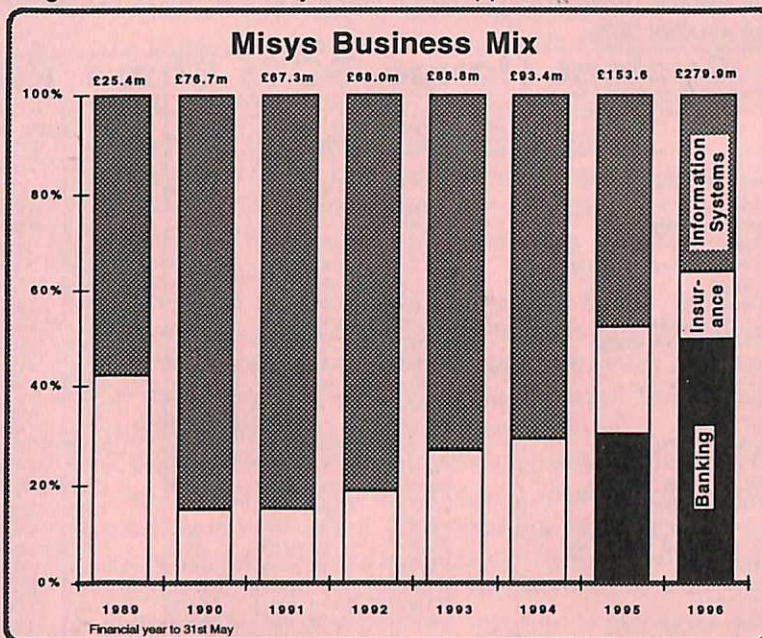
The Misys mix of business in FY96 was remarkably different to 1989 with £140m (or 50%) of the revenues and £33.8m (or 60%) of the operating profits coming from the **Banking Division** which "recorded an outstanding performance, comfortably ahead of expectations...the order book finished the year up 21% on the opening position". Misys' banking operations consist of:

- **Midas -Kapiti International** - wholesale banking
- **Quotient SA** (60% owned)
- **Kindle** - retail banking where "early versions of Bankmaster RS, a modern client-server open systems product, have proved attractive to a number of larger retail banks, particularly in South America".

Although the **Insurance Division** (where Misys had its original roots) advanced revenues by 17% to £40m, profits were flat at £12.6m. In the sale of systems to insurance intermediaries, which accounts for 60% of the Insurance Division's revenues, "the level of new and upgrade business has been affected, particularly in the second half, by difficult trading conditions throughout the general insurance industry...which will hold back profits progress in our traditional market sector in the near term". But transaction processing (the other 40%) "again enjoyed substantial organic growth".

Information Systems (the rest of Misys' varied portfolio) increased profits by 50% to £9.7m on revenues up 38% at £100.3m. This division now consists of:

- Investor Support Systems (the ACT Financial Systems businesses including of the "old" NMW and Quotient operations) enjoyed "a strong recovery".
- healthcare (i.e. the old ACT Medisys operation) also "performed well" particularly outside the UK NHS sector.
- contracting/construction achieved "strong profits growth". The division has recently acquired Micabuild for £2m.
- other activities. Hotels "benefited from better market conditions", the education and library businesses continued to experience problems on the Australian contract, manufacturing and distribution "were marginally slower" and "as anticipated" lower profits were recorded in the hardware maintenance business.



Misys - continued

The future?

Misys is now clearly the largest UK-owned software company and amongst the very largest application software products companies in the world. Misys currently makes about 50% of its revenues from outside the UK. It has established the **Accel Partnership** in the US to help finance new IT companies. Misys has long desired a higher US presence and, maybe one day, a US listing.

Misys clearly sees strong future growth from its banking activities with market conditions holding back growth in the insurance arena. "A number of acquisition and JV opportunities continue to be reviewed" in the Information Systems Division.

Latest consensus analysts view is PBT of £58m and EPS up 14% at 50.3p for FY 97.

Comment

Given our championing of the UK software industry we are, of course, delighted with the current world stature of Misys as the UK's premier software company. We are also delighted that the latest Misys results were better than expected.

We have never expressed doubts over the FY96 results in any past reviews - it's FY97 which have always concerned us. Lomax has said that "Misys is not planning another major acquisition like that of ACT but is concentrating on building the business through inward investment and product acquisitions" Source - AFX-UK News service 1st Aug. 96. Perhaps as a consequence, current profits and earnings growth expectations for FY97 are hardly exciting.

And that's the rub. Since we started *System House* in 1989, the Misys share price has underperformed our average SCS Index by more than 2:1. But its share price has largely shadowed its EPS growth in the last seven financial years as shown in the diagram. Services companies like **Admiral** (EPS up 483%), **Capita** (EPS up 432%) and even **Sema** (EPS up 195%) have seen better earning records in their last seven financial years - reflected in their much better share price performance over the same period. We are not even comparing Misys here with the really high-flyers. Companies like **Sage** have boosted EPS by 936% in the same period. Lomax can hardly complain at his treatment at the hands of investors.

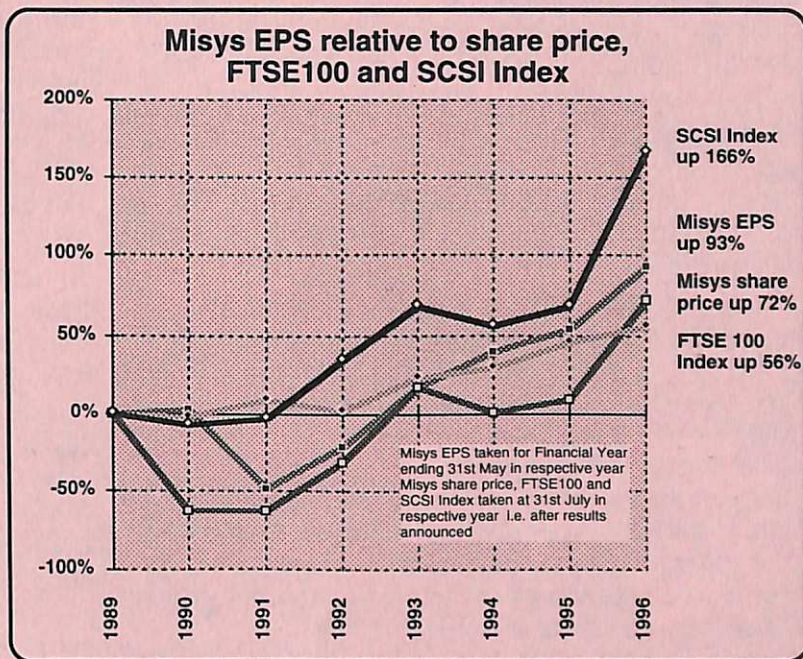
All the companies we quote had a strong understanding of the market and a dedicated mission to match. Of course these companies have changed with the changing market conditions but their basic business profiles would be very similar now to those applicable in 1989. That is not the case at Misys. The "new profile" Misys group, with its banking bias, is still barely two years old. Please remember Misys were expressing an interest in bidding for education systems specialist **RM plc** less than two years ago in Dec. 94. The future for the insurance activities - once the base of the group - looks lacklustre. The Misys mission statement of just a few years back was based on its Information Systems Division which now looks increasingly "hotch potch". Indeed we have long suspected/expected disposals here.

A prospective P/E of around 15 may indeed look "cheap" but Misys needs to show it can sustain a long term mission and achieve long term earnings growth to match others.

Corporate governance

We have long suggested that Misys should appoint some independent directors - if for no other reason than to meet the Cadbury/Greenbury recommendations. Jeremy Beasley has been the only non-exec. Beasley has been on the Misys board for a decade since his insurance business formed the core of Misys. We were initially delighted that - at long last - Misys announced that it has "strengthened the independent element of the board". But Tony Alexander is a director of Hanson - Lomax's original employer and boss. The other new non-exec is equally interesting. Dr. George Gray is Chairman of Serco plc. Serco is the UK's leading outsourcing company - if you count things other than IT. We have often suggested that Serco should up its IT activities and that Misys should grow into outsourcing....

Web site We give Misys full marks for its web site launched to coincide with the results. If you need further info, take a look on <http://misysplc.com>



**Computing
Services &
Software
Association**

The CSSA has this month published its annual performance survey for 1995. Its findings on growth (i.e. 18% to 22%) are remarkably similar to our own although the CSSA's estimated market size of £8.7b is a little lower than our £9.1b. Outsourcing and systems integration were the two fastest growing sectors but "software product's share of the total revenues has reduced from 16% to 13% reflecting the fast reducing prices of packaged software products". Central and Local government represent 24% of CSSA members revenues. CSSA Tel: 0171 405 2171

Towards the Year 2000

There seems little doubt that the problems - and resulting work load - associated with the year 2000 date change will provide a bonanza period for our industry. As with previous "one-off" problems (e.g. decimalisation in 1971) users will be reluctant to take on permanent staff so IT staff agencies will benefit greatly.

This month, the two largest announced new initiatives. Parity (parent of CSS-Trident) have launched a complete date change package - from audit to testing. Delphi has joined forces with US Computer Horizons Corp. to form dH2000 to offer the "Signature 2000™ proven year 2000 date solution"

Micro Focus - new strategy - new hope

In the last full year **Micro Focus** managed to turn a profit of £8.7m into a loss of £6.5m and eat £17m of cash. Founders Paul Reynolds and Paul O'Grady both resigned in Mar. 96 and American Marcelo Gumucio and J Michael Gullard were appointed as CEO and chairman.

Of course it is the duty of all incoming management teams to throw the kitchen sink and more at the first set of results. So it was not that surprising that interim losses in the period to 31st July 96 amounted to £9.46m on revenues down slightly from £36.8m to £34.1m.

Gumucio said the "new" emphasis was towards:

- "offloading". I.e. helping users move from mainframes to PCs
- client server systems
- "Year 2000"

We agree entirely with Paul Taylor's comments in the FT (not that surprising..really). So for once we will quote him. "The markets identified ..are all strong growth areas and, provided they continue to keep a tight hold on costs, this new strategy should ensure a return to revenue growth and profitability". Source - FT 16th Aug. 96.

Certainly investors seem to agree. Since the appointment of the new management in Mar. 96 the shares have risen 35% from 553p to end Aug. 96 on 748p.

Hotnews on the Internet

Another reminder...all the latest news updated daily on <http://www.holway.co.uk/hotnews>

Serious reality hits Division

Division is one of clutch of UK virtual reality software producers - but mainly involved in "serious" applications like lighting systems and drug design. Launched at 40p in May 93 the shares hit a high of 138p in 1995. Since then it has been a one-way slide.

But that is hardly surprising given that, although revenues increased by 23% to £3m, losses were up from £1.6m to £2.3m in the six months to 30th Apr. 96. The business mix has also changed with systems sales almost doubled and "less dependence on the sale of own hardware".

Since the end of the half year, **Division** has sold performance graphics system **PixelFlow** to **Hewlett-Packard** for \$5.6m + a 3% royalty on future sales. News of the deal sent **Division** shares up 7% to end Aug. 96 on 81p.

Goodbye ComputerAge

When Jonathan Moules and John Lamb moved to help setup

Sunday Business and the

ComputerAge supplement in particular, we were both supportive and enthusiastic for the venture. But the scandal & hype" reporting caused us great problems (as our readers at Misys and Broadview know because we sent them letters of apology).

Although **Sunday Business** continues to be produced "in administration" the plug has been pulled on the **ComputerAge** section. But we are not going to cry too much, other than to wish its ex-employees well. Jonathan Moules has already moved to **The Economist**.

We happen to believe that there is room for a serious business review of IT - its suppliers and customers. In a small way **System House** has proved that need. The fact that (so far) we still do not have any serious competition is a little scary!

Sage and Pegasus

The OFT is to examine the £27m/420p conditional offer made by **Sage** for **Pegasus**. **Pegasus** thinks the bid undervalues them and clearly would like to see another higher bid. See our web page for latest news.



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