

System House

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

Volume 7

Number 3

Available by subscription only

ISSN 0967-2583

January 1996

The UK shows the way in Europe

The latest edition of our **Software and Computing Services Industry in Europe Report** is at last finished. We are now in the hands of the printers used by our French partners. *So with their current immaculate union relations we can expect few further delays....*

European relations are not helped, of course, by final proof of our forecast last year that the UK would not only have the fastest growth rate in the whole of Europe through to 1999 but would also by then overtake France as the second largest SCSi market in Europe. Indeed France,

The Top Five suppliers of SCSi to the European market are identical to last year. The US-owned players did particularly well with **IBM** extending its lead position. IBM's position is bound to improve still further in 1995 as a result of the **NIT** and **Lotus** purchases. **EDS**, **Microsoft** and **CSC** all recorded above average growth. Lower down the rankings, **Oracle** and **Computer Associates** have improved their positions.

Amongst the European owned suppliers, **SAP** did particularly well.

However, it does not make particularly good reading as far as the UK is concerned with no UK companies featuring in the Top 25. Indeed the first UK company - the **Misys/ACT** grouping - comes in at #30 with ECU304m, followed by **Syntegra** (#33), **GEC/Marconi (Easams)** #34 and **Logica** at #35. The only other UK-owned companies in the Top 50 are **Granada**, **MDIS** and **CMG**.

European countries have 34 companies in the Top 50 (up from 32 last year). The penetration of non-European companies (almost exclusively US) was greatest amongst software vendors, management consultants, FM and SI companies. Interestingly the competition from the telecomms players like **France Telecom**, **BT** and **AT&T** does not seem to have materialised...yet.

Million ECU	1994	1995	1999	AAGR 1995/1999
France	11861	12803	18401	-9.5%
UK	9594	11249	18503	+14.2%
Germany	15868	17857	28928	+12.8%
Italy	6512	6913	9147	-7.3%
Netherlands	3796	4120	5373	-6.9%
Scandinavia	6226	6871	11382	+13.4%
Other European	8620	9500	14200	+10.6%
TOTAL	62477	69313	105934	+11.1%

Note: Conversion rate used = £1 = 1.29 ECU

Italy and the Netherlands - countries with particularly high social costs who have yet to face the economic realities of the new world order - have the lowest forecast growth rates. Like the UK, Germany is forecast to have a high SCSi growth rate through to 1999.

As we have said on many occasions, it is the move to **outsourcing** (by the way, not just facilities management, but all other associated activities like applications management, IT training, managed services etc.) which has contributed towards the high SCSi growth in the UK. But **systems integration** - as large companies throughout Europe dust off their new project plans - will also experience above average growth. Good news for all the major project houses. But professional services - at

Million ECU	1994	1995	1999	AAGR 1995/1999
System Software	8168	8302	9160	-2.5%
Hardware Maintenance	10738	10569	9658	-2.2%
Professional Services	19311	20866	29056	+8.6%
Systems Integration	5815	6609	11122	+13.9%
Software Products	18002	20013	30544	+11.1%
Turnkey Solutions	7330	7785	10067	+6.6%
Processing/Facilities Management	12019	14132	25143	+15.5%
TOTAL	81383	88276	124750	+9.0%
TOTAL (excluding Systems Software and All Hardware Maintenance)	62477	69405	105932	+11.1%

Note: Conversion rate used = £1 = 1.29 ECU

present the largest single sector in the European market - is forecast to have below average growth. This sector was the mainstay of many of Europe's leaders, like **CGS**, and its decline is the main reason their current problems.

January 1996

Rank	Company	Nationality	Revenue # ECU	Revenue £m
1	IBM	US	ECU 3,580m	£2,738m
2	Sogel/CGS	France	ECU 1,596m	£1,228m
3	EDS	US	ECU 1,545m	£1,188m
4	Microsoft	US	ECU 1,330m	£1,023m
5	SNI	German	ECU 1,162m	£894m
6	Oracle	US	ECU 985m	£758m
7	Computer Associates	US	ECU 972m	£748m
8	Andersen	US	ECU 965m	£742m
9	debi Systemhaus	German	ECU 947m	£728m
10	ICL	Japan	ECU 894m	£697m
11	Finsiel	Italy	ECU 851m	£656m
12	Digital	US	ECU 820m	£631m
13	Sema	France	ECU 789m	£612m
14	Bull	France	ECU 740m	£568m
15	Olivetti	Italy	ECU 732m	£563m
16	Silgos	France	ECU 624m	£480m
17	SAP	Germany	ECU 590m	£452m
18	Novell	US	ECU 480m	£377m
19	Thomson-CSF	France	ECU 460m	£354m
20	CSC	US	ECU 423m	£325m
21	Alcatel	France	ECU 418m	£319m
22	GSI	France	ECU 383m	£295m
23	FTL/E	France	ECU 380m	£292m
24	BSD Origin	Netherlands	ECU 379m	£292m
25	Lotus	US	ECU 330m	£254m

Note: Conversion Rate £1 = 1.3 ECU

The **Software and Computing Services Industry in Europe Report** - Market and Strategies - 1995 - 1999 will be published in January. The pre-publication price of £5600 therefore still applies.

Sage gets System House™ Boring Award

We have long used the headline "Simply the Best" for our reviews of Sage. As Sage has reported its best set of results ever and their record is now pretty much unequalled amongst UK-owned software companies, we see no reason



SAGE
THE SAGE GROUP PLC

to change. The results are so good that, as previewed last month, we

award Sage a rare System House Boring Award for ten years of consistently high profits and EPS growth.

The results headlines for the year to 30th Sept. 95 are:

- revenues doubled to £102.2m
 - PBT up 57% at £22.4m. This was even better than the £21.4m most analysts had forecast. Indeed, only six months ago the consensus forecast was £18m. No wonder the market was so delighted - marking the shares up another 18% to 324p this month on the news.
 - EPS was up 53%.
 - cash flow was so strong that around 50% of the £18.5m loan taken out last year to fund the Saari purchase has been repaid. Cash at bank is up from £4m to £6.1m.
 - the ten year record is even more superb. Between 1986 and 1995, with no reversals, Sage has grown its EPS by an average of 44% p.a. and its PBT by an average of 49% p.a. **Capita is the only other quoted SCSi company which is likely to come close to that record.**
 - Sage's share price performance is equally without rival. As can be seen on page 9, it has a CSI Index of 12461 - i.e. more than an 11-fold growth since April 89 when our index commenced. Even Unipalm can't beat that!
- The Sage secret for success is very simple/text book stuff.
- they stick to what they are good at - which is accounting software. They then develop depth (i.e. covering a wider range of businesses from the one man band to the larger corporation) and width by expanding outside the UK.
- As the table shows, the Saari purchase has boosted revenues from the French market place substantially and the Sybel purchase last month will make this Sage's largest geographic market in 1996.

- the acquisition trick is to buy "stick to the knitting" type companies and then develop the margins closer to those achieved in the mature UK model. The table shows the potential to improve margins which still exists in France and the US.

- they fully understand the need for marketing and have always spent about three times more on marketing than on development. Most other companies think its right to do it the opposite way round.

- they believe in "developing

recurring revenues". Indeed £45.3m of software sales to new sites are matched by £47.8m of services and supplies to existing users. Sage now has 160,000 customers on support contracts.

- and finally in this "obvious" list is management. It is difficult to find anyone with a bad word to say against Chairman David Goldman. Personally we have found him to be the most modest, honest and straight forward of any of his peers.

But Goldman is to reduce his commitment to "part time" from next spring. It is a strength of Sage that the most senior executives have been at Sage for over ten years. "Day-to-day affairs will be in the capable hands of Paul Walker, the CEO".

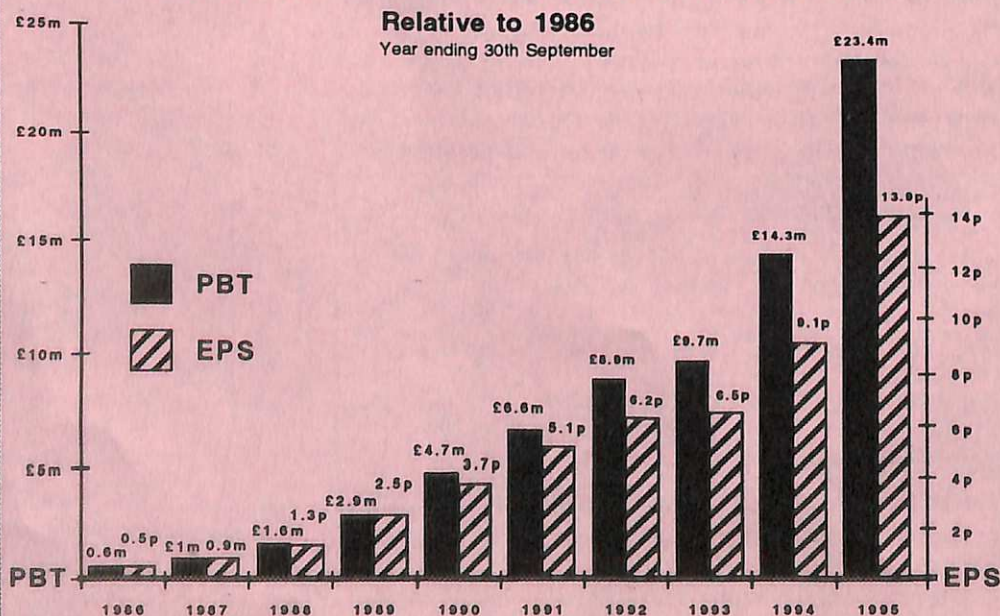
	Revenue	Operating Profit	Margin
1994			
UK	£29.3m	£11.1m	38%
France	£5.8m	£0.6m	10%
USA	£15.8m	£2.3m	15%
Total	£50.9m	£14.0m	28%
1995			
UK	£45.5m	£16.6m	36%
France	£36.8m	£4.3m	12%
USA	£19.9m	£3.1m	16%
Total	£102.2m	£24.0m	23%

So what now? Q1 of the current FY has started well and Goldman is "confident of achieving satisfactory results" when analysts expect PBT of £28-30m. No further acquisitions are planned in France, but Sage now wants to repeat the strategy in Germany where a Saari sized acquisition is now expected.

Footnote: Why have we waited so long to give Sage its Boring Award? The problem was that Sage made a loss in 1985 which has always been our base date. But ten year records now start from 1986, so the one blot on the Sage copy book can now be forgotten.

Sage Group plc Ten Year PBT and EPS Record

Relative to 1986
Year ending 30th September



RM Report Card indicates good progress...but can do even better!

Exactly a year ago, we wrote a long review headlined "Misys and the RM plc float debacle". If you remember Misys (where Stone MacPherson is the Deputy Chairman), had put in a bid of 235p per share for RM plc (where Stone MacPherson had until recently been a non-exec. director). Not only was the bid rebuffed but a great deal of bad feeling was created. RM went on to float at 175p on Christmas Eve 94.

RM's results for the last year more than justified RM's Chairman's statement that the Misys bid "does not value RM at anything like its true worth". Whereas Misys shares have registered a 40% gain in 1995 (less than the 50% rise in our CSI Index) RM ended the year on 422p - up 141% on the launch price. In other words RM is now worth £33m more than they would have been if they had accepted the Misys bid.

RM announced its first full year results as a quoted company. To 30th Sept. 95 revenues increased by 23% to £80.7m, PBT was up 33% at £5.0m and EPS advanced by 21%. Marginally better than expected.

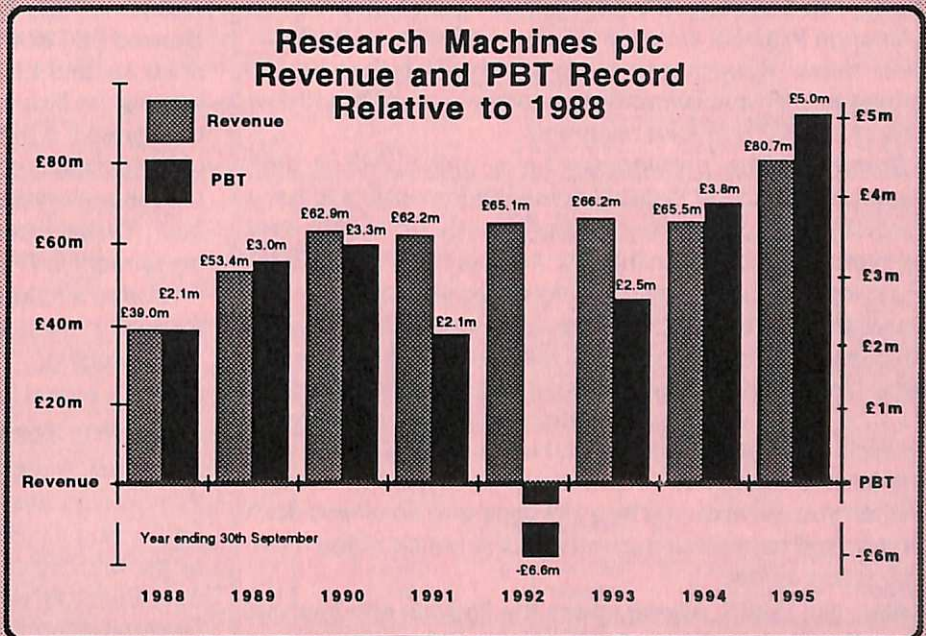
RM's mainstream activity, representing over 90% of revenues, is the supply of IT solutions to education and "growth in orders during the year was more rapid than anticipated". As well as benefiting from "a wider acceptance of the increasing benefits which IT offers", RM has also increased market share

at the expense of rivals such as Acorn. The primary school sector was particularly successful with revenues up 38%. Interestingly, over two thirds of computers supplied to this sector include multimedia. Although higher education also

did well, with a 36% growth, only a 12% growth was recorded in secondary schools.

RM have gone from strength to strength as it has increased its software and services revenues, rather than being primarily a hardware manufacturer/supplier.

"Outstanding success" was announced for the RM Internet for Learning service launched in Mar. 95 with over 1000 schools connected. Key Solutions (admin. systems for schools), RM's one acquisition for "up to £2m" in May 95, does not seem to have fared as well as might have been expected losing £220K on revenues of £308K in the post acquisition period. "Additional investment" will be required.



As far as the future is concerned, the only forecast the directors would give was for a continued growth in turnover. Brokers, SBC Warburg, have upped their forecast for next year to £5.7m.

Pearson

You may remember the mind boggling £310m that Pearson paid for **Software Toolworks** (now renamed **Mindscape**) back in 1993 - amazing given that they lost £300K in the year to 30th June 95.

This month Pearson's shares dropped on a profits warning. Amongst other areas, the long awaited profits recovery at Mindscape does not appear to be happening. "An upturn in trading at Mindscape has been offset by a decline in prices paid by computer manufacturers". Source - FT 14th Dec. 95.

WS Atkins

Back in 1994 we reported that Schrodgers had been appointed to advise planning, engineering and management consultancy, **WS Atkins**, on "a float with two years".

But the latest interim results for the six months to 30th Sept. 95 hardly set the world on fire. Revenues were up 12% at £105.4m - modest given that this growth included the full benefit of acquisitions like Wootton Jeffreys Consultants. PBT increased by just 4% at £10.3m and EPS up 2.8%. No further float announcement has been made.



Computacenter raises £50m

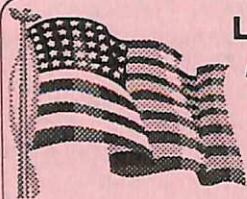
Computacenter is the UK's largest PC dealer, the largest UK-owned non quoted IT company by revenue, the largest direct seller of PCs in Europe and, to be blunt, a pretty successful operation all around. In 1994 they reported PBT of £10.5m on revenues of £418m.

In July 95 Computacenter announced the largest PC supply/support contract in the UK - a £60m p.a./3 year deal with BT. Although we estimate that around 80% of revenues come from hardware resale - where IBM and Compaq were "neck and neck" with 45% each, with HP a poor third at 7.6% - SCSI activities are growing significantly and represented 20% - or about £80m - of total revenues. Indeed Computacenter claims to be "by far the UK's largest desktop systems integrator" and "one of the UK's leading desktop outsourcing companies with several hundred people working permanently on site".

Computacenter has recently completed a complex £50m Eurobond issue which put a notional value of £110m on the group. They had planned a float in 1990 which was aborted. Every time we speak to them we are assured that no further float plans are being contemplated - "we prefer to stay as we are".

But we would suspect the market might well put a higher value than £110m on what has consistently been one of the UK's most successful IT suppliers.

Assistance from PC Europa gratefully acknowledged - 01206 853304



LBMS - a company from over here now doing well over there

LBMS, which provides application development software products, has announced much improved results for the six months to 31st Oct. 95, showing revenues up 13% (+17% if discontinued activities are excluded) at £12.4m and PBT of £496K compared with a loss of £3.3m. The "success of the transition to a US headquartered global software company" - LBMS has moved its HQ to Houston, obtained a NASDAQ listing, raised \$12.5 new cash and a significant US shareholding - has also led to a "change in global strategy to focus on software products" i.e. rather than the services which we rather prefer. Anyway, software licence revenues were up 34% and now represent 60% of total revenues.

Comment The problem we have with LBMS is their increasing attitude that, of course, it's impossible to run a worldwide software company with your HQ and development centre in the UK. Indeed, how naive LBMS' previous managers were not to have realised that years ago! Indeed, let this be a lesson to Sage, JBA, Coda, all those UK/world beating virtual reality software companies, the UK-based computer games industry which controls >40% of the world market, the Misy's banking software which now is the world market leader et al. *Rethink your location policies now.* You know you will have to relocate when you get acquired by a US company, so please don't be so self centred and save them the hassle of the move by doing it now.

Also, like LBMS, please ignore the findings and analysts predictions - increasingly from US-based experts too - that the future belongs to services-led product companies.

CRT

CONSULTANCY • RECRUITMENT • TRAINING

CRT's main activities are:

- **consultancy** - or the supply of IT contract staff via the Software Personnel operation - has performed well in line with the boom in this marketplace. Staff on customer sites increased by 25% to 2,300.
- **recruitment**, via LINK Recruitment, also performed well with a 39% increase in permanent placements.
- **training**, which represents about 27% of revenues, in some respects has been hit by its own success. Students on vocational training courses have increased by 45% to over 18,000. This created a 25% revenue growth to £13.1m but investment to meet the demand meant that costs increased and profits fell by 26% to £1.24m.

The newest - and smallest - division of CRT is **Multimedia Publishing**, where sales were up nearly six-fold at £1.2m and losses were reduced to £170K.

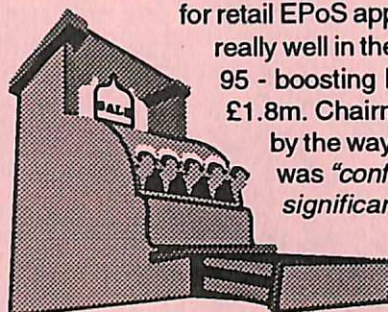
CRT expects, as in previous years, that "profits will be heavily weighted to the second half. With strong growth in recruitment, the increased second half profit weighting in training and encouraging trends in multimedia publishing, the Board believes that CRT is commercially and financially well positioned".

In the six months to 31st Oct. 95, CRT reported revenues up 65% at £48.1m, PBT up 36% at £1.75m and EPS up 20%.

As its name suggests,

Real Time Control looking to buy

Real Time Control (RTC) develops software and systems for retail EPoS applications. They had done really well in the last full year to 31st Mar. 95 - boosting PBT by 28% to a record £1.8m. Chairman Barney Carrell (who, by the way, owns 56% of the equity) was "confident" in "reporting further significant progress". Indeed, he then went on to tell shareholders at the AGM in Sept. 95 that he was looking for "acquisition candidates".



Results for the six months to 30th Sept. 95, however, showed PBT down 29% at £742K on revenues down 37% at £5.3m and EPS declined by 41% to 7.1p. As this was largely in line with expectations, the shares were unchanged. A mere 4% rise in the year makes RTC one of the poorest performers in 1995.

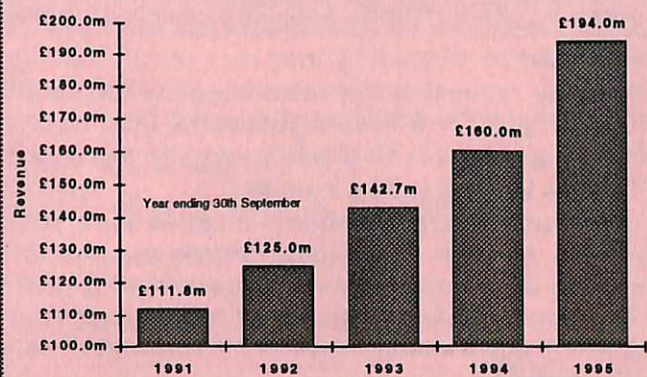
Carrell anticipates a "revenue bias towards the second half". Current trading supports that view with "retailers' investment in IT systems continuing at a strong pace". RTC also announced the first order for its new Integrated Security System where further prospects were "encouraging".

Carrell - as last time - is "confident for the full year".

SNI aims for £500m revenue in UK

Last year Richard Bearpark - SNI's UK MD - predicted that his operation would double revenues within 5 years - i.e. to about £320m. He seems well on the road to that target with revenues up 21% to £194m in the year ending 30th Sept. 95. (Revenues exceeding £220m would have been reported if Pyramid, acquired during the year, had

Siemens Nixdorf Information Systems Ltd
Revenue Growth



been included). Operating profits increased from £481K (according to our records) to £1.26m. This should be contrasted to the £14.3m operating loss recorded in 1991. The five year revenue objective is now £500m!

About 50% of SNI's revenues comes from hardware resale, 30% (or £58m) from hardware maintenance and the remaining 20% (or £38m) from systems integration. Although an outsourcing subsidiary - Siemens Business Services - was established during the year, it seems to have recorded only limited sales success. SNI has also moved further into networking after their purchase of ACT Cablestream for £7m in Jan. 94. In Nov. 95 SNI setup Telecommunications Line of Business to develop intelligent networking solutions for UK and international telecomms providers.

Quoted Companies - Results Service

Note: Shaded = Results announced this month.

Misys plc					Real Time Control plc				
	Final - May 94	Final - May 95	Comparison		Interim - Sep 94	Final - Mar 95	Interim - Sep 95	Comparison	
REV	£ 93,358,000	£ 153,395,000	+64.3%	REV	£ 8,491,000	£ 13,463,000	£ 5,325,000	-37.3%	
PBT	£ 18,612,000	£ 26,345,000	+41.5%	PBT	£ 1,050,000	£ 1,782,000	£ 742,000	-29.3%	
EPS	31.90p	35.10p	+10.0%	EPS	12.00p	20.00p	7.10p	-40.8%	
Moorepay Group plc					Rolfe & Nolan plc				
	Interim - Jun 94	Final - Dec 94	Interim - Jun 95	Comparison		Interim - Aug 94	Final - Feb 95	Interim - Aug 95	Comparison
REV	£ 1,991,972	£ 3,873,089	£ 2,342,152	+17.6%	REV	£ 7,104,000	£ 14,288,000	£ 7,661,000	+7.8%
PBT	£ 412,773	£ 686,336	£ 666,324	+61.4%	PBT	£ 742,000	£ 1,512,000	£ 1,074,000	+44.7%
EPS	3.79p	6.28p	5.88p	+55.1%	EPS	2.90p	6.70p	5.35p	+84.5%
OmniMedia plc					Sage Group plc				
	Incorp. - Jun 94	Final - Dec 94	Interim - Jun 95	Comparison		Final - Sep 94	Final - Sep 95	Comparison	
REV		£ 124,594	£ 199,962	n/a	REV	£ 50,888,000	£ 102,234,000	+100.9%	
PBT		-£ 421,354	-£ 279,137	n/a	PBT	£ 14,252,000	£ 22,362,000	+56.9%	
EPS		-3.84p	n/a	n/a	EPS	9.08p	13.88p	+52.9%	
On Demand Information plc					Sanderson Electronics plc				
	Final - Jul 94	Final - Jul 95	Comparison		Final - Sep 94	Final - Sep 95	Comparison		
REV	£ 14,487,000	£ 8,786,000	-56.8%	REV	£ 33,984,000	£ 57,801,000	+70.1%		
PBT	-£ 2,617,000	-£ 3,646,000	Loss both	PBT	£ 4,228,000	£ 5,305,000	+25.5%		
EPS	-5.70p	-7.20p	Loss both	EPS	7.30p	8.80p	+20.5%		
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	£ 29,518,000	£ 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				
	Interim - Sep 94	Final - Mar 95	Interim - Sep 95	Comparison		Interim - Sep 94	Final - Mar 95	Interim - Sep 95	Comparison
REV	£ 797,000	£ 2,085,000	£ 2,103,000	+163.9%	REV	£ 1,098,691	£ 2,289,437	£ 1,273,331	+16.1%
PBT	-£ 1,963,000	-£ 3,702,000	-£ 2,712,000	Loss both	PBT	£ 7,460	£ 53,516	-£ 54,488	Profit to loss
EPS	-5.50p	-10.40p	-7.30p	Loss both	EPS	0.04p	0.34p	-0.44p	Profit to loss
Proteus International plc					Trace Computers plc				
	Final - Mar 94	Final - Mar 95	Comparison		Final - May 94	Final - May 95	Comparison		
REV	Nil	Nil	n/a	REV	£ 18,628,990	£ 19,676,832	+5.6%		
PBT	-£ 6,618,000	-£ 7,925,000	Loss both	PBT	£ 409,901	£ 482,746	+17.8%		
EPS	-24.23p	-25.47p	Loss both	EPS	2.33p	2.55p	+9.4%		
Quality Software Products Holdings plc					Vega Group 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	£ 9,703,000	£ 12,516,000	+29.0%	
PBT	£ 604,000	£ 2,512,400	£ 805,000	+33.3%	PBT	£ 2,147,000	£ 2,910,000	+35.5%	
EPS	6.90p	27.50p	9.10p	+31.9%	EPS	10.01p	13.49p	+34.8%	
RM plc					Virtuality Group plc				
	Final - Sep 94	Final - Sep 95	Comparison		Interim - Jun 94	Final - Dec 94	Interim - Jun 95	Comparison	
REV	£ 65,493,000	£ 80,691,000	+23.2%	REV	£ 4,120,000	£ 9,126,000	£ 6,269,000	+52.2%	
PBT	£ 3,769,000	£ 5,023,000	+33.3%	PBT	-£ 695,000	-£ 1,397,000	-£ 583,000	Loss both	
EPS	15.50p	18.80p	+21.3%	EPS	-2.70p	-5.30p	-2.20p	Loss both	
Radius plc					Voss Net 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	£ 24,868,000	£ 13,424,000	+8.9%	REV	n/a	£ 50,916	£ 167,222	n/a
PBT	£ 808,000	£ 1,451,000	£ 835,000	+3.3%	PBT	n/a	-£ 145,909	-£ 320,511	n/a
EPS	1.19p	2.87p	1.96p	+64.7%	EPS	n/a	-5.43p	n/a	n/a
Wakebourne plc									
	Interim - Jun 94	Final - Dec 94	Interim - Jun 95	Comparison					
REV	£ 18,172,000	£ 35,336,000	£ 18,848,000	+3.7%					
PBT	£ 1,068,000	£ 1,865,000	-£ 356,000	Profit to loss					
EPS	3.40p	5.70p	-1.10p	Profit to loss					

TOTAL SYSTEMS plc

Q - "Can we have a fax of your interim results please?"

A - "Sending one to System House is at the very bottom of my priority list".

Sorry you can't take the criticism Mr Bourne. But of course everyone else is to blame for Total's depressing performance. Last time it was short-sighted customers, now it's "the overall depressed state of the economy". This "makes all opportunities very sensitive to price and leads to highly competitive situations". "Concerns regarding the future economic outlook appear well founded".

Interim results to 30th Sept. 95 show revenues up 16% at

£1.27m but a loss of £55.5K compared to PBT of £7.5K last time. Floated at 125p in June 89, the shares ended 1995 at 21p. Interesting that our CSI Index has risen by 125% in the same period. But don't worry, Total's "current approach will maximise share value in the medium to long term, but short term conditions will still be difficult".

Industry analyst Terry Bourne expects rationalisation of the software industry in the future. Perhaps a bit of rationalisation is what Total needs too.

Acquisitions, disposals and liquidations

Racal has purchased **British Rail Telecommunications** for £132.75m.

Roger Foster and several of his ex-ACT team have formed **Financial Objects**. The new venture will offer on-line services and a tool set for application development in the wholesale and retail banking sector. VCs **Schroder Ventures** and **Thompson Clive** have 20% of the equity for an investment of a million or so. Very few ACT directors are left amongst the jobless now!

Azlan has bought Oslo-based **Scandinavian Communication Systems AS** for up to £270K - £160K now, rest in June 96. **Reuters** has taken a 2.5% stake in **Yahoo** and will supply an on-line news service to the Yahoo Internet site. (For those starting to use the Internet - like us - Yahoo is about the best way of locating what you want on the Internet that we have yet found).

Troubled games distributor **Centregold** has "identified a number of parties who have expressed an interest in acquiring part or the whole of the group".

Capita has acquired **Ian Burnett & Co Ltd.** for £550K in new shares.

Staffware plc - which specialises in workflow systems - has bought its Nottingham based reseller **Software Support Ltd.** "for an undisclosed sum". **Microvitec** has acquired **SCI Network Intelligence Ltd.** - a network systems integrator - for £1.02m + a further £200K if SCI achieves PBT of £100K in the six months to 30th June 96. SCI will fit in well with Layer One acquired for up to c£2m in 1994.

Lombard Risk Systems has bought the remainder of **Teknos Systems**. They bought 39% in Oct. 94. The total consideration was £1.1m. Lombard Risk Systems' main product is the trading system - OBERON. Teknos' digital data transmission systems is integral to OBERON - hence the purchase.

Arrival of the Rennies

A year ago when Jeff Trendell announced yet another purchase to add to his **Arrival Holdings** group, Trendell wrote "I am close to needing the Rennies" on the release sent to us. A reminder of our warnings of the dreaded acquisition indigestion.

In June 95, Trendell bought the **Intelligent Office Co** from the receivers - about the biggest meal he has had to date. In November he merged this bit with **Mason Fox BIU Ltd.** creating a new entity **DecisionWorks** where Arrival has just a 30% stake.

This month, Arrival has announced its first disposals. **Systemsdata**, **Cypher Information Systems** and **Data Net Corp.** have been sold to an MBO team lead by Paul Day and James Birch.

So that means that Arrival Holdings now consists of just **Syan**, **System Dynamics** and **Arrival Business Solutions**. We somehow feel that Rennies might not be powerful enough to effect a cure.

P&P and Principal

According to reports in **MicroScope**, **P&P** is in talks to dispose of its Macintosh distribution operation - **Principal**. The most likely option is an MBO led by MD Kevin Hawkins.

AIM

Flomerics

Trading on AIM began this month in **Flomerics** - launched at 130p, they ended Dec. 95 up 45% at 188p - (they had been as high as 230p) - valuing them at £4.8m.

Flomerics specialises in software used to predict heat flow and heat transfer with its products **Flotherm** and **Flovent**. In the year to 31st Dec. 94 it had revenues of £3.1m and PBT of £407K. In the eight months to 31st Aug. 95, revenues of £2.1m but a loss of £120K were recorded but a profit of £400K is forecast for 1995 as a whole.

Flomerics' non-exec. chairman is ex-Logica CEO **David Mann**. **Flomerics** main/majority shareholder is UK VC **MTI**.

Dmatek

Israel-based software developers **Dmatek** has launched onto AIM with a value of £15m - raising £4m in the process. **Dmatek** is in image processing and security software with its infamous security tagging system for convicted criminals.

Syntegra

They do say in life that everything comes to those who wait. Ever since 1990, when **Bill Halbert** joined as MD from **Software Sciences**, we have been urging **BT Customer Systems** and then **Syntegra** to get on with its growth by undertaking some decent sized acquisitions. During those years, organic performance from **Syntegra** has been unexciting to say the least. Revenues of £216m were recorded in the year to March 95 and, although order intake has been good, actual revenue growth in the current year is unlikely to be that exciting.

But this month **Syntegra** announced that it had acquired **Europe Informatique** - a French company specialising in systems integration in the finance, manufacturing and utilities sector with particular emphasis on SAP systems. The consideration is understood to be around £15m for the FF100m group.

This acquisition marks a new phase in **Syntegra's** development. "With our resources and reputation there are many businesses who are serious and enthusiastic candidates for acquisition" said marketing director **John Priestley**. It is highly unlikely that these will be in the UK which represents the bulk of **Syntegra's** revenues already. **Syntegra** is also likely to announce a "series of strategic alliances in east Asia" - Japan in particular. We hope, this time, actions will speak louder than words.

One of the more interesting aspects of the newly energised **Syntegra** will be to see how it relates to **SHL Systemhouse** which, if you recall, was acquired by **MCI** - where **BT** has a 20% stake - a few months ago. They are both major systems integrators also involved in outsourcing contracts. **SHL** in the UK with its Computer Marketing background is more PC oriented but the potential for a "partnership" certainly exists.

Eurodis also moves into France

You probably know **Eurodis** better by its previous name - **Electron House**. Recently **Swiss Elektrowatt SA** took a majority shareholding and this month they have acquired the component distribution arm - **TC-DIS** - of French **SGS-Thomson** for £5.4m + FF13m of debt.



Sherwood sells City Deal

Sherwood Computer Services has been one of the "recovery stocks of 1995" - up 131% in 1995 After two dire years, a programme of consolidation - i.e. getting rid of businesses - paid off with a return to modest profits.

Whether Sherwood sold a major stake in their FM activities to ICL's CFM or formed a JV with them is a mute point. Either way the £5.5m/5 year deal with Scottish Provident in November was a major boost.

This month, Sherwood has sold its 80% stake in City Deal - its share dealing and settlement service - to Cater Allan. The deal valued City Deal at £7.25m of which Sherwood receives £5.8m (plus around £550K for loan repayment and certain other assets) - the remainder (20%) going to City Consultants Ltd. Given that Sherwood purchased its initial shareholding in 1993 for £16K it certainly has "proved to be a highly successful investment for Sherwood".

City Deal made PBT of £346K on revenues of £1.9m in 1994. They contributed £329K of Sherwood's £619K profits in the six months to 30th June 95. Interestingly that's over 50% of Sherwood's profits and the proceeds were about 50% of Sherwood's market value. Clearly, future profits will be adversely affected by the loss of the City Deal contribution.

Sherwood will use the proceeds to reduce bank borrowings and re-invest in its "core business - the provision of software products and services to the insurance and assurance markets".

SHL + PCL² = £17m

In Oct. 95 System House™ headlined "SHL Systemhouse buys PCL for £14m". We did actually make it quite clear in the text that PCL = Planning Consultancy Ltd., but Trevor Clarke - MD of the PCL Group Ltd. - 'phoned us to ask us to print a clarification. "We would not want our customers to think we had been purchased by SHL". Even though we didn't think we had made any major bloomer, we agreed.

Just before publication date arrived, Clarke 'phoned again to ask us not to print the clarification. Rather perplexed by now, we asked "Why?". "Because we have received an approach from SHL to buy us - but you must promise to keep it confidential". We agreed...and have done so.

This month, the deed was announced. SHL has bought PCL Computer Management Services - the FM bit of PCL - for what we estimate to be around £3m. The FM deals were predominately mainframe based where customers included Royal Borough of Windsor, Thomson Directories, Hallmark Cards, Comet and Otis. CMS represented about £6m out of PCL's £21m revenues and was said to "have operated very profitably". In 1994 PCL Group reported PBT of £402K on revenues of £14.9m.

The remaining bits of PCL Group are "a market leader in turnkey IT-based solutions for sales and marketing as well as Europe's largest supplier of document imaging and data capture". Clarke now says he "intends to acquire new companies to extend our leadership".

Clarke concedes - in much the same words used by Data Sciences to justify the subcontracting of their data centre operations to Integris - that "large scale mainframe FM has become a commodity business dominated by a few global players like SHL".

P · E · R · S · O · N · A

In the dying days of 1995, Persona undertook one of the Top Ten M&A deals of 1995. They have acquired **Financiere Top Log SA** - a Paris-based distributor of UNIX, network and communications products - for £19.9m (£13.6m in cash - the rest in shares). Persona will fund this with a 17-for-20 rights issue at 225p raising £21.1m - a pretty hefty discount to the 281p they were trading at when the deal was announced.

Top Log had revenues of £63.4m and PBT of £2.2m in the year to 30th Sept. 95. They have five offices in France and operations in UK, Spain, Germany and Belgium. Top Log was formed in 1986 as a subsidiary of **Metrologie** until a £9m MBO in 1992. In 1994 Top Log acquired **Interquad** and **Alphaméga**.

"In line with industry practice, the Top Log Group generally has non-exclusive distribution agreements". The top four suppliers represent around 40% of turnover. You may remember the problems caused to Azlan when they lost the Madge distribution deal. It is interesting to note that Top Log lost their Informix distribution deal; which represented 19% of sales in that year.

Persona's directors also issued a profit forecast to 31st Dec. 95 of "not less than £2.7m". That equates to a 31% increase on 1994 or a 23% increase on a like-for-like basis. Persona reports that "margins have declined slightly since the interim statement". Exacerbated because the "distribution business is growing faster than the training business". Persona was a new issue at 160p in April 95 and have risen by 77% to end 1995 on 284p.

Persona Group plc
Seven Year PBT Record



The deal "effectively doubles the size of Persona" which we estimate is now on a run rate annual revenues of over £130m - now approaching the size of Azlan. Top Log seems to "have minimal overlap" with Persona's activities - which are predominately in the UK - and there does seem to be opportunities for cross selling in the areas where the products are complementary. Buying a company with about your own revenue and profit for 2/3rds of your own capitalisation looks like a good deal to us.

This ends a year when UK companies like Computacenter, DCS, Parity, Sage, Syntegra etc. have all completed French purchases. Having spent a decade reporting stories of the French buying UK SCSI companies, that gives us a particular feeling of satisfaction!

Modest end to spectacular year

Our review of share price performance in 1995 - when our CSI Index rose by a massive 50% - can be found on p12. The month of December saw a relatively modest 2% increase. This was due to major falls at **MDIS** (down another 41% this month due to profits warning #4 and the likelihood of £20m+ losses for 1995 - see p10), **Wakebourne** (down another 27%), **EDP** (down 25% on highly disappointing results - see p10), **Clinical Computing**, clearly still in intensive care, (down 17%). And, of course, **Cray Electronics** (further disappointing results see p11). For all followers of such ratios, Cray is now on a ratio of market capitalisation to revenue of just 0.37. Now valued at just £98m, that's substantially less *even* than the revenues of the profitable **Cray Systems + P-E international** bits. **Spargo** - the AM specialists - was the highest riser; up 36%

on the month. Reversing games software developers, **Domark etal** into **Eidos** saw massive profits for those who subscribed to the placing at 375p in Oct. 95. Eidos ended Dec. 95 on 683p; up another 33% in the month.

27th Dec. 95	CSI Index		2247.28
	FTSE 100		3676.40
CSI Index = 1000 on 15th April 1989	FTSE SmallCap		1936.42
Changes in indices	CSI Index	FTSE 100	FTSE Small Cap
Month (30/11/95 - 27/12/95)	+2.02%	+0.33%	-0.64%
From 15th Apr 89	+124.73%	+79.02%	
From 1st Jan 90	+144.24%	+55.65%	
From 1st Jan 91	+217.47%	+70.17%	
From 1st Jan 92	+115.08%	+47.46%	
From 1st Jan 93	+41.02%	+29.16%	+39.58%
From 1st Jan 94	+34.60%	+7.55%	+3.63%
From 1st Jan 95	+49.90%	+19.93%	+10.88%

System House CSI Share Prices and Capitalisation

	Share Price 27/12/95 (£p)	Capitalisation 27/12/95(£m)	Historic P/E	Ratio Cap./Rev.	CSI Index 27/12/95	Share price % move since 30/11/95	Share price % move in 1995	Capitalisation move (£m) since 30/11/95	Capitalisation move (£m) in 1995
Admiral	£8.28	£102.70m	21.7	2.07	6000.00	3.76%	30.39%	£3.70m	£30.30m
Azian	£5.07	£136.40m	22.6	1.51	2204.35	2.22%	278.36%	£8.90m	£107.10m
Capita	£2.84	£159.90m	26.2	2.17	8528.53	3.65%	73.17%	£9.50m	£70.40m
Cedardata	£1.66	£50.80m	17.9	5.69	1580.95	-1.19%	64.36%	£0.60m	£19.90m
Centregold	£0.65	£27.90m	8.9	0.31	520.00	-5.80%	-43.97%	£1.80m	£18.80m
Clinical Computing	£0.31	£5.02m	4.9	3.41	250.00	-17.33%	-53.73%	£1.06m	£5.88m
Coda	£2.15	£56.30m	22.4	2.41	914.89	10.26%	179.22%	£5.20m	£36.10m
Compel	£1.88	£28.70m	16.1	0.41	1504.00	1.08%	72.48%	£0.30m	£12.10m
Computerised Financial	£0.85	£4.17m	26.6	1.34	944.44	4.94%	-17.48%	£0.20m	£0.67m
Cray Electronics	£0.42	£98.40m	Loss	0.37	242.69	-17.00%	-74.30%	£20.10m	£285.00m
CRT	£1.15	£77.60m	18.1	1.07	1277.78	-4.17%	45.57%	£3.40m	£24.40m
DCS Group	£0.75	£14.20m	14.9	1.63	1250.00	-9.64%	2.74%	£1.50m	£7.29m
Delphi Group	£3.62	£91.90m	44.8	0.94	1489.71	11.73%	49.59%	£9.60m	£32.60m
Division Group	£1.03	£45.20m	Loss	8.58	2575.00	-2.83%	-11.97%	£1.30m	£5.70m
DRS Data & Research	£0.25	£8.55m	35.4	0.97	227.27	4.17%	-21.88%	£0.32m	£2.85m
Eidos	£6.83	£54.00m	Loss	216.00	6830.00	33.14%	123.93%	£13.50m	£45.18m
Electronic Data Processing	£1.17	£30.70m	10.0	2.43	3582.36	-24.52%	-18.18%	£9.90m	£6.80m
Gresham Computing	£0.42	£14.10m	22.5	2.17	451.61	-4.55%	13.51%	£0.30m	£2.00m
INSTEM	£1.73	£7.79m	9.7	0.46	1730.00	1.76%	15.33%	£0.14m	£0.99m
JBA Holdings	£3.91	£133.30m	41.1	1.47	2443.75	-3.93%	157.24%	£5.50m	£83.10m
Kalamazoo	£1.15	£22.40m	11.5	0.37	3285.71	22.34%	5.50%	£4.10m	£19.10m
Kewill	£3.51	£43.50m	12.4	1.29	1387.35	6.36%	46.86%	£2.60m	£14.50m
Learmonth & Burchett	£2.85	£72.10m	Loss	3.03	2375.00	-10.09%	256.25%	£9.10m	£54.70m
Logica	£4.62	£289.20m	21.5	1.16	1265.75	-1.07%	42.15%	£3.10m	£88.40m
Lorien	£2.07	£11.80m	78.1	1.48	2070.00	-1.43%	107.00%	£0.20m	£6.50m
Lynx Holdings	£0.69	£65.70m	14.7	2.05	1725.00	-2.82%	46.81%	£1.90m	£45.90m
Macro 4	£4.23	£87.10m	11.5	3.48	1705.65	2.42%	-3.42%	£2.50m	£7.90m
MAID	£2.24	£205.40m	196.5	23.10	2036.36	-4.68%	224.64%	£14.30m	£149.30m
McDonnell IS (MDIS)	£0.41	£41.00m	9.0	0.28	157.69	-41.43%	-59.41%	£29.00m	£60.00m
Micro Focus	£5.65	£85.30m	17.7	0.95	2729.47	-4.72%	-31.10%	£4.20m	£32.80m
Microgen	£1.79	£70.70m	15.4	1.20	764.96	2.29%	75.49%	£1.60m	£30.50m
Microvitec	£0.49	£37.10m	16.5	0.84	1195.12	-6.67%	34.25%	£1.50m	£13.80m
Misys	£5.73	£480.20m	16.3	3.13	1425.37	-3.54%	40.10%	£17.60m	£285.50m
MMT	£2.46	£28.80m	15.1	2.06	1464.29	0.41%	20.00%	£0.10m	£5.70m
Moorepay	£1.58	£12.00m	26.0	3.10	1903.61	1.28%	90.36%	£0.20m	£5.70m
MR Data Management	£0.71	£39.30m	50.1	0.95	279.76	-4.73%	-35.91%	£2.00m	£22.10m
On Demand	£1.30	£66.30m	Loss	7.54	1666.67	8.33%	94.03%	£5.10m	£32.10m
Oxford Molecular	£2.58	£133.50m	Loss	48.19	3225.00	4.03%	330.00%	£5.10m	£111.40m
P&P	£1.51	£120.20m	15.3	0.46	677.13	-3.82%	104.05%	£4.60m	£62.30m
Parity	£1.75	£73.90m	21.4	0.83	9722.19	2.34%	38.89%	£1.70m	£27.70m
Pegasus	£2.10	£13.20m	15.1	2.74	572.21	-4.55%	40.00%	£0.70m	£3.81m
Persona	£2.84	£34.40m	24.9	1.09	1775.00	4.41%	77.50%	£1.50m	£15.10m
Phonelink	£1.90	£75.90m	Loss	36.32	1225.81	2.15%	-10.80%	£1.60m	£0.30m
Proteus	£1.08	£35.30m	Loss	n/a	1285.71	-0.92%	-38.29%	£0.30m	£19.10m
Quality Software	£6.28	£77.90m	21.9	4.72	1652.63	-2.64%	63.97%	£2.10m	£44.60m
Radius	£0.52	£14.50m	14.4	0.58	376.81	-7.14%	36.84%	£1.10m	£3.90m
Real Time Control	£1.78	£12.50m	11.8	0.93	3632.65	0.00%	4.09%	£0.00m	£0.50m
RM	£4.22	£71.00m	22.4	0.88	2411.43	9.61%	104.85%	£6.20m	£36.30m
Rolle & Nolan	£2.69	£33.60m	40.1	2.35	3202.38	0.37%	45.41%	£0.10m	£11.20m
Sage Group	£3.24	£346.40m	35.7	3.39	12461.54	17.82%	140.36%	£52.40m	£205.50m
Sanderson Electronics	£1.42	£58.60m	16.5	1.01	2417.02	-0.70%	79.75%	£0.50m	£28.20m
Sema Group	£5.36	£501.70m	25.6	0.84	1685.53	-0.19%	31.37%	£0.40m	£123.10m
Sherwood	£1.85	£15.90m	Loss	0.63	1541.67	4.52%	131.25%	£3.30m	£11.02m
Spargo Consulting	£1.44	£18.00m	35.5	2.99	1515.79	35.85%	58.24%	£4.80m	£6.60m
Standard Platforms	£0.17	£5.16m	Loss	3.94	73.33	3.13%	17.86%	£0.15m	£2.64m
Superscape	£4.29	£36.00m	Loss	22.64	2166.67	0.70%	110.29%	£0.20m	£25.20m
Total	£0.21	£2.10m	21.8	0.92	396.23	-4.55%	-40.00%	£0.10m	£1.40m
Trace	£0.40	£5.60m	15.8	0.28	320.00	0.00%	-2.44%	£0.00m	£0.13m
Unipalm	£6.50	£133.90m	439.2	7.57	6500.00	-13.33%	450.85%	£20.60m	£110.00m
Vega Group	£3.58	£51.20m	26.6	4.09	2934.43	4.37%	36.12%	£2.20m	£14.00m
Virtuality	£2.54	£70.40m	Loss	7.71	1494.12	-6.62%	14.93%	£4.90m	£12.60m
Vistec	£0.23	£27.90m	Loss	0.56	978.26	-8.16%	73.08%	£2.50m	£11.90m
Wakebourne	£0.16	£3.65m	2.2	0.10	88.89	-27.27%	-79.75%	£1.37m	£12.85m

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.

EDP - another tale of missed opportunities

Electronic Data Processing (EDP) is a provider of systems to the distribution sector where its MERCHANT product is "a brand leader in the merchandising/wholesale distribution industry". In the year to 30th Sept. 95 they have reported PBT down 25% at £3.1m on revenues down 10% at £12.6m. EPS declined 26%. The figures were even more disappointing if the £125K profit from EDP's acquisition - (BML acquired for £3.3m in June 95) are excluded. BML was said to have "lived up to expectations". EDP's existing operations saw a 18% decline in revenues and a 34% drop in operating profits. But let's not be too critical - the 24% profit margin is still excellent - it's just that it's not quite as good as the 29% achieved last year or the 31% achieved in 1992.

EDP increased R&D spend by 10% to £1.73m in the year - all expensed we are pleased to see. But this represents 14% of revenues. A comparison with Sage (see p2) would not come amiss and, perhaps, a little more spent on marketing might have helped.

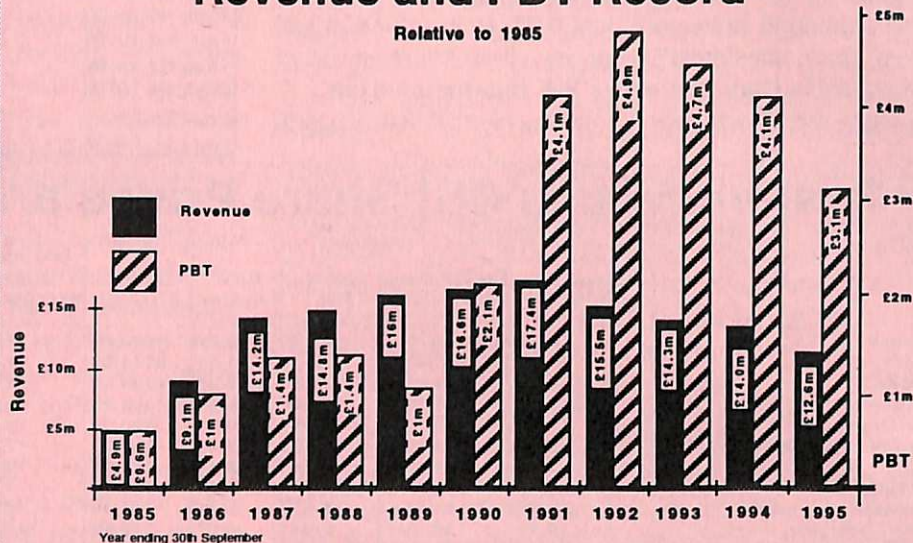
The revenue decrease can be partly explained by the move away from hardware to software and services. That would normally result in a margin increase but for a "continuing compression in hardware selling prices" and a reduction in maintenance revenues.

Comment. EDP was the sector wonder stock of the early 1990s - starting the decade on 20p and rising to a high of 200p in Dec. 93.

Since then (31st Dec. 93) our CSI Index has risen by 35% - but EDP's share price has sunk by 42%.

Chairman Michael Heller expects to "continue to achieve acceptable results" for the current year. Shareholders should question whether the current reduced results are "acceptable" let alone be content to allow them to continue. Given the early promise, the strong cash resources and the recovery from recession - we cannot help thinking the EDP has missed many of its opportunities.

Electronic Data Processing (EDP) Revenue and PBT Record



MDIS - the nightmare continues

It is difficult now to find the words to describe **McDonnell Information Systems**. That they have been the biggest disaster of recent times is beyond doubt. The true extent of the damage they have inflicted on the credibility of our industry is less clear.

On 21st Dec. 95, MDIS issued what was in effect its 4th profit warning. Operations would "broadly break even" for 1995 but that's before exceptional charges of "approx. £20m" for closure of non-core activities, around 170 redundancies and "large write downs" for surplus property.

The "pre-exceptional losses in discontinued businesses in 1995 were £10m - £15m". Spain is to be closed w.e.f. Jan 96, negotiations to sell the libraries operation are "at an advanced stage" and it also hoped to sell the troubled IBS banking business (if only they can find a buyer).

The continuing bits in the UK have "shown revenue growth in 1995". The US Chess operation grew but "will now make a loss for 1995". PRO-IV made a substantial loss in 1995. In July 95 UBS were forecasting £12.3m profit for 1995. In Aug. 95 they revised it to £2m which we publicly said we didn't believe.

MDIS was a new issue in May 94 at 260p or £260m. By the time of profits warning #3 in Aug. 95, when CEO Jerry Causley departed, the share price had slumped to 67p. Chairman Ian Hay Davidson then announced a new "strengthened management that will deliver a recovery in shareholder value". They at least clearly believed it as they bought 63,000 shares at 67p. This month MDIS crashed by another 41% to 41p or a value of just £41m.

PhoneLink

PhoneLink was described at the time of their float in June 93 at 155p as a "technology wonder stock".

Their Tel-Me product allows PC users to access a wide range of database services, from airline bookings to WH Smith's business supplies catalogue, via the 'phone lines. Two and a half years on, the share price is only up 23% at 190p.

Latest interim results for the six months to 30th Sept. 95 show revenues up 164% at £2.1m but losses up 35% at £2.7m. Cash balances were £6m - largely as a result of the £7m raised by the 1-for-8 rights issue at 170p.

PhoneLink's marketing campaign, started in July, has boosted the number of business customers from 1,450 to 4,250, But the associated sales and marketing costs are high. "Costs are expected to run ahead of revenues for the majority of 1996" as users spend only about £4 per week on the service. In Apr. 95 PhoneLink forecast 100K users within 16 months - this looks out of reach now.

PhoneLink also announced a new "Tel-Me - Royal Mail Electronic Services" - a sort of Snail Mail meets E-Mail service. Internet users now just fire off their computer messages and RM and PhoneLink "sort out which can be delivered electronically and which should be printed off and posted via Electronic Services the following day". Now, there's a novel idea for you!

Whether PhoneLink can develop its services and user base fast enough to compete with the increasing number available on the Internet, is open to question.



HIGHAMS

SYSTEMS SERVICES GROUP

Highams is an independent SCSI company based in Surrey which specialises exclusively in the financial services industry. It provides a range of services - from IT consultancy, project development, IT agency staff, recruitment, product, PC and AS/400 systems and services and training. There is virtually no re-selling and the customer list in the financial arena is truly "blue-chip". Performance in the last financial year to 31st Mar. 95 was exceptional with revenues up 84% at £11.2m (all earned in the UK). Organic growth was experienced in each of the three operating divisions - systems, factoring and, in particular, contract recruitment services. Growth by "suitable acquisition" is planned for the future. PBT increased 65% at £609K. Indeed, Highams has grown and been profitable every year since 1983.

Chairman and MD, John Higham, owns 59% of the issued shares with other directors owning all the rest.



ROLFE & NOLAN

It seems to have been an excellent 1995 for futures and options bureau Rolfe & Nolan. Their future success has depended on the successful development, implementation and sale of their all important Lighthouse system. The news that "The Lighthouse was shining" System House Aug. 95 contributed towards a 45% share price in 1995.

Latest interim results for the six months to 31st Aug. 95 show revenues up 8% at £7.66m, PBT up 45% at £1.07m and EPS up 84%.

But their current trading success is due to a recovery in European market volumes (reaching record levels for the bureau in London), the trend towards FM, a 100% record in licence renewals and four new in-house licences which all contributed towards a modest 6% increase in profits in Europe. The UK and Europe represents nearly 70%, or £5.2m, of total turnover and practically all the profit.

However, it was the halving of losses in the USA to £115K and a first time £132K profit contribution from Asia Pacific which really made the difference. Two years ago it was losses at recently acquired Brokerage Systems Inc. which caused a profits warning to be issued and the first profits reversal in R&N's excellent history.

Despite minor initial delays, Lighthouse is in live use at Credit Suisse's Zurich office with roll out of a further four implementations now expected. No other firm sales as yet, but the list of prospects outside Credit Suisse "is growing rapidly".

PBT in excess of £2.5m is now expected for the full year.

Lock takes worldwide role at IBM

Greg Lock has joined a long list of excellent UK IT managers whose expertise is recognised on an international basis. Lock has been appointed IBM's worldwide GM for manufacturing industries. Lock is the only UK national to hold such an elevated post in IBM.



Cray

Electronics

Annus horribilis is definitely a term which fits Cray Electronics in 1995.

Cray started 1995 with some analysts expecting profits in excess of £30m, with Chairman Roger Holland expecting "further growth and increased profits for the future" - 11th Jan. 95 - and a share price of 162p.

After "the mother of all profits warnings" issued in Apr. 95, Cray ended the year:

- announcing interim results to 31st Oct. 95 showing revenues down 5% at £128.9m, a trading loss of £2.4m (compared with a profit of £12.2m) and, with restructuring and property provisions, a loss before tax of £14.6m. Probably the largest interim loss ever recorded in the sector.

- with a share price of 42p and a market capitalisation of just £98.4m.

- with the legendary Cray management team having lost something far more valuable than the reduction in the value of their own shares. They had lost their credibility. On top of that FD Jeff Harrison had lost his job and Chairman Roger Holland has now stood down in favour of Alec Daly. The reasons for the problems have been well chronicled. They had largely related to mismanagement at Cray Communications. The SCSI activities - Cray Systems and P-E International - however, seemed to have performed well. Indeed, above budget.

CRAY ELECTRONICS	6 months to 31st Oct 94	6 months to 31st Oct 95	Change %
REVENUE			
Cray Communications	£82,500K	£74,000K	-10%
Cray Systems	£34,900K	£37,000K	+6%
P-E International	£17,600K	£17,900K	+2%
TOTAL Revenue	£135,000K	£129,000K	-4%
OPERATING PROFIT			
Cray Communications	£9,814K	£4,832K	-9%
Cray Systems	£2,046K	£1,859K	-9%
P-E International	£410K	£609K	+49%
Total Operating Profit	£12,270K	£2,364K	
Net interest	£150K	£1,101K	
PBT	£10,085K	£14,594K	
EPS	3.03p	-6.30p	

Despite a 6% increase in revenues, the interim results show a 9% reduction in Cray Systems' operating profit due to investment "to further develop the tour and ferry operators Reservation Systems, satellite Earth Observation Systems and the Microsoft development centre". Profits last time around had been boosted by a major new licence deal with American Airlines. Mike Shone was quite bullish when we talked to him. He said the outlook was "the best I've ever known" with a major new contract from ESA in the offing, several new orders for environmental systems, early encouraging signs from the Microsoft Development Centre and five new licences for the GSM system signed in Nov. 95.

P-E International - the management consultancy activity - seems to have fared well with operating profits up nearly 50%. But, the 3.4% operating margin is still far too low. Several gloomy reviews (e.g. "the shares have further to fall" Mail on Sunday on 17th Dec. 95) produced the inevitable result...Cray shares fell another 17% this month to end the year down 74% at 42p.

We are on record, when the shares were 47p, saying that, the SCSI bits were worth the value put on the whole group.

If you have spent Christmas reading other "financial reviews of 1995" you will already know that this was the year of the high technology stock. Unipalm's 450% rise this year, as their Internet associations made them an irresistible acquisition target for UUNet, put them at the top of every list. Unipalm had been as high as 890p - a 650% rise. In the US, of course, Netscape, headed every listing.

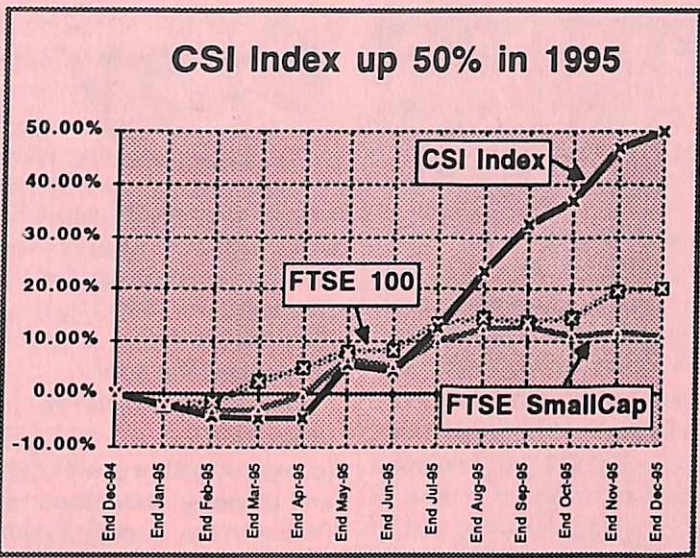
Unipalm was not the only UK "froth stock" to rocket in 1995. "We are misunderstood" MAID was up 224%, Superscape up 110%, On-Demand up 94% and Oxford Molecular up 330%.

Much of these rises were based on little more than hype. Perhaps therefore the real successes of 1995 were the continued excellent performances at Azlan (up 278%), JBA (up 157%), RM (up 105%), P&P (up 104%) and, above all, at "Super" Sage (up 140%). We should also not overlook the recoveries at Coda (up 179%), LBMS (up 256%), Eidos (up 124%) and Sherwood Computer (up 131%). And that list merely mentions the stocks that have more than doubled in the year leaving our "Tip for 1995" Sanderson Electronics languishing on a "mere" 80% increase!

On the AIM market both Firecrest (up 212%) and Lorien (up 107%) more than doubled their first dealing price since moving from the 4.2 to the AIM market.

All this contributed towards the best performance for our CSI Index EVER - up 50% in 1995 compared with a 20% rise in the FTSE100 and a rather modest 11% rise in the FTSE Small Cap Index.

There were only 16 shares - out of 63 - which registered any fall. Four shares more than halved in value - Wakebourne down 80%, Cray Electronics down 74%,



MDIS down 59% and Clinical Computing down 54%.

With all this good news, you would have expected it to be bumper year for new issues. In fact it was the "worst" on record with just one new entry - CMG - and four leavers:

- ACT acquired by Misy's
- Enterprise which went bust
- Unipalm acquired by UUNet
- Vistec acquired by/reversed into Lynx.

So a net "minus three". But, as we have predicted before, we see a number

of quality services companies using the window now open for a float in 1996.

We see that window only being open for a short time. Political uncertainty will increase as the Election approaches. In addition, we anticipate that wage inflation will accelerate as skill shortages increase. Profits have risen by 2 - 3 times faster than revenues in each of the last three years. Increased productivity from cost (staff) reductions does have a limit. Although we expect our CSI Index to show a healthy growth in 1996 compared with the FTSE 100, another near 50% growth seems unlikely.

Compliments of the Season

Firstly can we thank you the incredible number of Christmas cards you sent to us this year and the very personalised messages they contained. A typical example was from Ross Graham of Misy's who wrote "do not pay too much attention to the theories of Dr. Stephen Hawkins in future" (a reference to the "black holes" in ACT accounts!)

Secondly can we wish you a very successful 1996 - to you, your companies and the UK SCSi market in general.

Sorry.....Apologies to Roger Graham. In our story last month when he stepped down as Chairman of Delphi, we said he had joined the board of Hambros. He has, in fact, joined Hill Samuel.

ORDER FORM	
From:	Delivery address:
1995 Holway Report (available now) <input type="checkbox"/> Master copy @ £1600 (cheque with order only) <input type="checkbox"/> Additional copies @ £400 each System House <input type="checkbox"/> One year's subscription @ £295 p.a. <input type="checkbox"/> "4 - copy subscription" @ £590 p.a. <input type="checkbox"/> Site licence @ £1000 p.a. 1995 Software and Computing Services Industry in Europe Report (due to be published Jan. 96) <input type="checkbox"/> Master copy at £5,600 <input type="checkbox"/> Additional copies @ £850 each	
Cheque payable to Richard Holway Ltd. Richard Holway Ltd., 18 Great Austins, FARNHAM, Surrey, GU9 8JQ.	
<input type="checkbox"/> Cheque enclosed	<input type="checkbox"/> Please invoice my company

Signed: _____ **Date:** _____

System House™ is published monthly by Richard Holway Limited, 18 Great Austins, FARNHAM, Surrey, GU9 8JQ. Telephone 01252 724584; Fax: 01252 725880 which also publishes the annual "Holway Report" and the "Software and Computing Services Industry in Europe Report". Richard Holway is the Chairman of Performance Software Ltd. and has been a director of several computing services companies.
 © 1995 Holway Research Associates. The information contained in this publication may not be reproduced without the written permission of the publishers. Whilst every care has been taken to ensure the accuracy of the information contained in this document, the publishers cannot be held responsible for any errors or any consequences thereof. Subscribers are advised to take independent advice before taking any action. System House™ is a trademark of Richard Holway Limited.