

# System House

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

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## Flag waving but not drowning

Having asked the question this month at the CSSA Annual Conference in Bournemouth "does the significant reduction in the number of large UK-owned SCSi suppliers to the UK market over the last decade matter?" to both the Conservative Government's IT Minister, Ian Taylor, and the Opposition shadow, Geoff Hoon, we can reveal complete cross-party agreement. The answer in both cases being "no, ultimate ownership is not the important issue, it's jobs in the UK that count".

We present below our latest (EXCLUSIVE) Top Ten rankings of software and computing services revenues earned in the UK (by location of operations). The rankings are made more complex this year by the IBM/Data Sciences purchase and by the creation of GEC-Marconi S3I under Tidu Maini, which now includes

Easams. We estimate that S3I had revenues of around £290m in the year to 31st March 1995 - around £240m of which was earned in the UK. Revenues are likely to exceed £320m in FY 1996; £300m from the UK. S3I is the only clearly UK-owned company in the Top Ten. But Misys/ACT and Syntegra are only just outside.

But definitions of ownership are increasingly contentious. We still think of ICL as a UK company because all its executive directors are British - even though not a single share is in UK ownership.

Sema on the other hand, after the CGS share stake sale, has as many shares in UK ownership as French. Indeed the UK is Sema's largest geographic unit making 41% of revenues and 45% of profits - far, far more than the French market. Indeed, the UK "manages" both Sweden and outsourcing worldwide - i.e. the majority of Sema's activities. But Sema has no UK executive directors on its main board. Surely something its new UK shareholders should see is changed?

We also run into problems with Andersen Consulting - which is a partnership anyway. It's the local partners who control the local business.

So maybe Holway should go with the swing and agree that ownership doesn't matter too much. But jobs, vital as they are, are not the only issue. We want to see development centres, as well as support centres, both retained and established in the UK. We want to see overseas owned companies being "good neighbours" in

the excellent IBM and HP moulds. We want UK directors to be appointed to main boards and take part in global decisions. That way any fears on the fairness of decisions on the location chosen for contraction or expansion would be allayed. And we expect companies to pay their fair

### Top Ten Suppliers of SCSi to UK Market in 1995

Note: Revenue relates to Financial Year ending in 1995 - NOT Calendar Year 1995

1995 Rank	Company	Major Shareholding?	1994	1995	Growth 1994/95
1	<b>IBM UK SCSi with Data Sciences</b>	US		£542m	
	IBM UK SCSi Revenues		£365m	£450m	23%
	Data Sciences		£87m	£92m	6%
2	<b>EDS UK</b>	US	£345m	£525m	52%
3	<b>ICL UK SCSi Revenues</b>	Japan	£455m	£510m	12%
4	<b>Andersen Consulting UK</b>	Partnership	£284m	£322m	13%
5	<b>Sema Group</b>	UK/France	£223m	£275m	23%
6	<b>Hoskyns</b>	France	£191m	£246m	29%
7	<b>GEC-Marconi S3I</b>	UK	n/a	£240m	
	Easams		£111m	n/a	
8	<b>Microsoft UK</b>	US	£190m	£230m	21%
9	<b>Computer Sciences Corp (CSC)</b>	US	£77m	£210m	174%
10	<b>Oracle UK</b>	US	£166m	£197m	18%

share of corporation tax in the UK.

The Top Ten companies represent UK SCSi revenues of £3.3 billion and have grown by 28% in 1995. This is significantly higher than the average 16-17% growth for the total UK SCSi market and **twice the growth rate of the remainder**. Indeed the Top Ten have increased their share of the UK market from 33% to 37%.

This trend of the "big getting bigger" has been firmly established - and commented upon for several years now. This year, the trend has accelerated. There is every reason to predict even further acceleration in 1996. Indeed the "medium sized" SCSi company, whatever its ownership, is indeed an endangered species.

**Note:** The analysis above forms just a small part of the 1700 page 1996 Holway Report on the financial performance and trends for the UK SCSi published this month.

See enclosed brochure.

the **Holway Report**



Let's be honest, we really should have given JBA a **System House Boring Award** before now. JBA was a new issue in June 94 (at

160p). Perhaps it was because every other new issue at that time seemed to have failed that we delayed. Or perhaps it was our concern at JBA deciding, after years of writing off application development R&D, to start to capitalise their R&D on development tools - a decision which bolstered their maiden results somewhat and without which JBA would have reported their first and only reversal.

Latest results for the year to 31st Dec. 95 show revenues up 38% at £124.7m, operating profit up 53% at £9.8m, PBT up 42% at £8.7m and EPS up 34%. Cash more than doubled to £6.6m and total net assets were up 24% at £20m. *They don't get much better than that!*

On a longer term basis, as the chart below shows, the profit performance has been exemplary. Our *System House Boring Award* criteria is ten years of no reversals and a growth of 20% p.a. JBA has had no reversals and a CAGR of 52% in the ten years since 1985! Indeed chairman Alan Vickery headlined the results announcement "1995 was the 14th year of unbroken growth for JBA. The really pleasing news was that growth accelerated in the year with outstanding results on all fronts, financial, customer satisfaction and product sales and development".

JBA made over 60% of its revenues from services/support/maintenance/supplies. But readers will note with interest the doubling of revenues from hardware.

**Our criticisms?**

It seems churlish to criticise a *System House Boring Award* winner but...

- PBT margins are still just 7% - less than people-based system houses like Admiral, Logica and even Hoskyns...let

JBA Holdings	1995	1994	Growth 1994/95
Product licences	£48.6m	£35.0m	39%
Support services	£35.9m	£30.5m	18%
Maintenance	£13.2m	£11.5m	15%
Hardware	£23.4m	£11.6m	102%
Supplies	£3.6m	£2.1m	71%
<b>Total</b>	<b>£124.7m</b>	<b>£90.7m</b>	<b>37%</b>

alone all the top performing products companies. JBA's margins really ought to be 10%+.

- we still think that JBA deciding to capitalise the development of their new tools - mainly the GUI interface systems - was a mistake (whatever Vickery may say). But let's get it into proportion, JBA expensed £12.9m of applications development and £1.2m of tools development in 1995. The net effect of their R&D capitalisation was to boost profits by £2.46m. In 1994 the equivalent figure was £4.1m. In other words, profit growth in 1995 would have been *even higher* had they adopted the accounting principles to which we now hold dear. Also when we pointed out that JBA's maiden results last year would have shown a reduction in PBT had they not indulged in this dubious practice, JBA said that if that had been the case they wouldn't have made the investment in the first place!



In the last year JBA has consummated two relatively small acquisitions:

- **Ratioplan** for an initial DM3.9m (£1.735m) up to a max. of DM22m and **HB&A** in Australia for £250K. "Both contributed positively to the group's profits and we will see substantial growth in 1996 from these units".

It looks as though JBA's most likely acquisition targets in the next year will be "two or three similar acquisitions". In other words the same kind of "stick to the knitting type purchases" policies which have worked so well for other successful companies.

It is understood that a further three small acquisitions are currently being lined up - "a food company in the UK", "a French company" and a "distributor in southeast Asia" were mentioned.

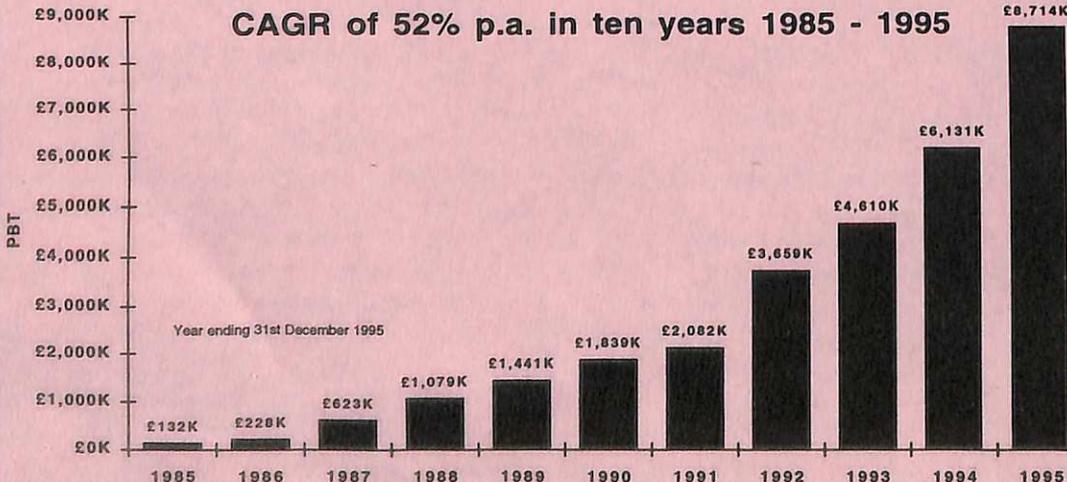
**The future?**

Vickery says JBA has "never started a new year in such a strong position". He also pointed out to us that there were 150,000 AS/400 installations in Europe - most of which currently don't use JBA's products. *What a market to go for!*

The results were somewhat ahead of market expectations. JBA's share price rose by 28% to end April 1996 at 500p - up a mere 213% from its launch price less than two years ago.

**JBA Holdings plc  
Eleven Year PBT Record**

**CAGR of 52% p.a. in ten years 1985 - 1995**



## OmniMedia

**OmniMedia plc** raised £720K on the 4.2 market in August 1994 at 36p per share. They moved to AIM when the market opened in mid 1995 and placed a further 3.6m shares at 64p raising £2.3m. That roughly valued OmniMedia at £10m.

OmniMedia provides interactive multimedia software like *"The Greatest Toyshop on Earth"*. They have also released four video CD titles with Sony Music (e.g. Sade *"Life Promises Pride Love"*).

Results for full year to 31st December 1995 showed revenues nearly doubled to a *still too low to register* £275K. Losses increased from £421K to £1m. OmniMedia also announced yet another rights issue - this time to raise £2.6m at 55p per share.

So that's nearly £6m raised so far from investors for a company with £275K revenues and losses exceeding £1m. *Where has sanity gone?*

The directors are still confident that *"OmniMedia is well positioned to take advantage of the expanding worldwide installed base of CD-ROM hardware"*. Estimates are that there are 50m CD-ROM drives at present which is expected to increase to 400m by 2000.

The problem is that this market moves so fast that today's CD-ROM can go the same way as yesterday's cartridge. And if you want to see the effects that can have on company performance and share price - see **CentreGold**.

## Goodbye Confidence

Many readers have told us that they now avoid the word *"confidence"* due to our pointing out that it means nothing anymore. Our most popular example is **Trace Computers** where *now ex* Chairman B Careful used it in every one of his Chairman's statements. Trace was a new issue in 1989 at 125p when a PBT of £1.7m was reported. But the absence of the *confidence* word for the first time in the last Chairman's statement was clearly an omen. A loss of £50K was reported in the six months to 30th Nov. 95. Revenues were 8% higher at £10.3m. As a result the shares ended April 1996 down another 34% at 23p.

*"The principal factor underlying this poor performance is that the costs associated with the development of Traffic, the Crest interface product, have been greater than anticipated. As a result our current expectations are that the group will report a small loss for the year as a whole"*.

As a result, Bob Careful has resigned from the board. A reorganisation is in progress *"possibly involving the disposal of non core businesses, to significantly reduce costs and improve overall performance"*.

Bluntly, a complete disposal would seem a better prospect for beleaguered shareholders than the death by a thousand cuts currently proposed.

## Rebus float success

The demerger of **Rebus (Peterborough Software, Datasure** etal) on 17th April from **CE Heath** took the form of a one-for-one share issue to CE Heath share owners. The rumoured pre-float bid did not take place and the shares opened at 88p per share valuing Rebus at £66m equivalent to a P/E of 15.5.

It was therefore not surprising that they shot up in the first few weeks of trading to end April 1996 on 98p, or rather nearer the industry norm P/E of 17.3. Post float CE Heath, as promised, subscribed £4.5m for up to 9% of Rebus to provide additional long term capital.

May 1996

## PCL Group

Trevor Clarke's **PCL Group** was formed in 1974 as a wholly owned subsidiary of P&O. In 1984, Clarke and other managers affected an MBO. In 1988 Swiss Re acquired a 51% stake in PCL but, one year later, *"considered that the IT market was no longer strategic to its own goals"*.

In December 1991, PCL acquired the data capture and laser print company, Alpha-Numeric, for £1m.

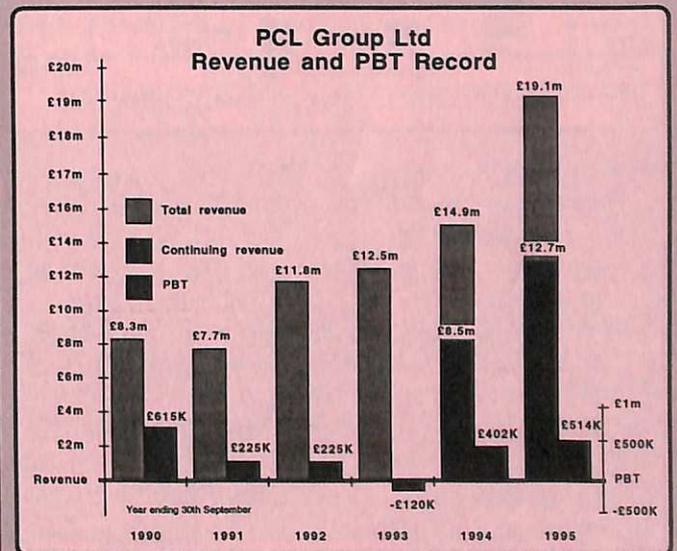
In 1993, PCL added CU Data and the business of CCP. In 1994 they acquired First Symbol. Also in 1994 they sold The Lasershop for a profit on disposal of £363K.

In December 1995, SHL Systemhouse acquired PCL Management Systems Ltd. - the FM bit of PCL - for what we believe was a consideration of £3m. CMS represented about £6m of PCL's revenues and was said to *"have operated very profitably"*.

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"*.

In January 1996, PCL acquired data capture operation, Dataphon (Mauritius) Ltd., for around £500K.

Results for year to 30th September 1995 were struck BEFORE the disposal and purchase listed above. They show revenues up nearly 30% at £19.1m. Continuing revenues, however, were up 50% at £12.75m. PBT was up 28% at £515K.



We could well be seeing a Stock Exchange listing - probably on AIM - in the next 18 months.

## Romtec

We reviewed IT market research operation, **Romtec**, in *System House* in Feb. 96 when we anticipated the AIM listing which took place this month. Romtec was introduced at 68p per share - valuing the group at £3.5m. The shares quickly rose to end April 96 on 76p. CEO Russ Nathan, who owns 96% of the equity, is to make available up to 14.4% of the equity post admission.

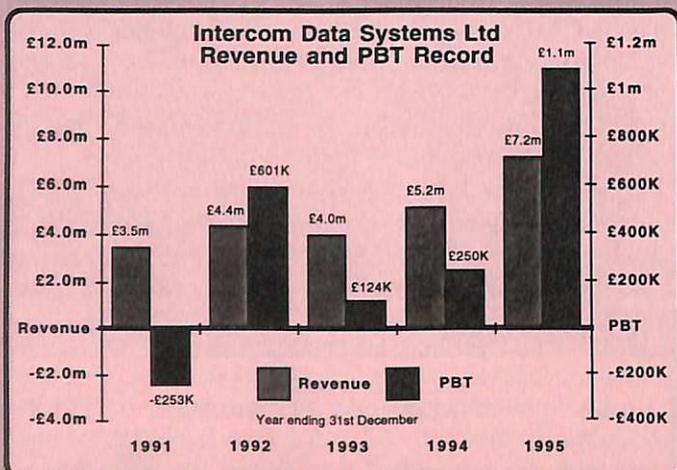
There were a couple of differences between our review and the AIM prospectus. Firstly, PBT to 31st Jan. 96 was £257K not the £295K we were expecting. Secondly, no doubt due to the comments we published in March from Ovum, Romtec now describes itself as a *"prominent provider"* rather than *"the largest UK-owned IT market research company"*.

At least we now have a clearer view on how much Richard Holway Limited is worth. (*Bids in a sealed envelope to...*)

## Intercom Data Systems Limited (IDS)

IDS is a privately owned UK application software developer. "We develop and sell products and associated services - rather than the other way around" says MD John Hamer.

IDS' products include *Fidessa* - a financial data distribution product covering equities, fixed income and derivatives (representing 45% of revenues). Clients include SBC Warburg, Merrill Lynch and many other blue chip City names. Other products include HelpDesk for business support (35%) and Rostrum for call centres (20%). Shareholders include 3i, which has held a 15% stake since 1985, and Advent, which bought out a previous shareholder's 21% stake in 1995. Colin Amies has joined as a non-exec. The rest is held by Hamer (9%), the management team (15%) and other external individuals.



Latest results for the year to 31st Dec. 95 were really excellent. Revenues were up 40% to £7.2m, PBT up from £250K to £1.1m (a 15% margin) and EPS up 314%. Cash increased by 170% to £2.26m and IDS was debt free. Orders were up 66% at £8.9m so IDS really does look "well positioned to expand the business further in 1996 and beyond". IDS is aiming for revenues of £10m and PBT of £2m in the current year.

Hamer says that they "haven't really thought about a float...yet.. I've been more concerned about creating value within the business". He certainly seems to have succeeded.

## Poor old Apple

News reports on Apple's \$700m loss in the last quarter and its mounting problems have filled the press recently. The UK Apple reseller channel has more than shared the pain. Two of the largest players have, somewhat belatedly, reported dismal results. Sales at **Callhaven** fell from £16m to £13.6m in the year to 31st Mar. 95 and a loss of £450K was reported. Premier corporate Applecentre, **Rothwell plc**, suffered around a 50% reduction in its 1994 £21.6m revenues and reported a £1.1m operating loss to 30th June 1995. "A breakeven trading position" is currently reported.

Now Allan Harle, Chairman of AIM quoted **Formscan** and OFEX-traded **Xavier Computer Group**, has effectively taken over Rothwell and will be injecting over £1m in cash. All this comes on top of equally disastrous results - and too many failures - in the Apple channel. The last remaining reasons for buying Apple diminished with the launch of Windows 95. If those remaining in the channel haven't changed already, it's probably too late.

# SUPERSCAPE

## VIRTUAL REALITY SOFTWARE

**Superscape** was placed in April 1994 at 198p. Superscape is involved in the business (rather than games) application of virtual reality. Customers include BT, Westland, RAF, Siemens Plessey and the like. We admire the leadership that the UK has in VR, but we think CEO John Chiplin may have been a little over the top by suggesting that Superscape could "be one of the major worldwide IT suppliers of the next decade".

In February 1996 Superscape announced an agreement whereby IBM will market Superscape VR software in Europe and the Middle East. A few weeks later, a similar JV was announced with Silicon Graphics. In March 1996 a deal to support Intel's new MMX technology was announced. A contract to develop training applications with Northern Telecom was also announced. The contracts had a combined value of \$4.1m of which \$2.95m had been received to date - \$1.15m of this since the end of the interim accounting period. More JVs are likely.

Losses increased marginally from £843K to £897K on revenues up threefold to a (still meagre) £1.6m in the six months to 31st January 1996.

Superscape has been one of the best performers (price tripled since launch) but ended Apr. 96 down 8% at 615p.

## Proteus "Saved at the bell"

In January 1996, **Proteus** admitted that it did not have "sufficient funds in the short term to meet its cash requirements" and appointed a merchant bank to provide financial advice. "The company is urgently pursuing fund raising opportunities, including the possibility of a merger with a financially stronger partner".

"At the last possible moment Proteus has been saved from oblivion" ran the Daily Mail article on 29th March 1996.

**ML Laboratories** has signed a development and licensing deal for Proteus' prostate and breast cancer treatment. ML will pay £1m up front with further payments up to £4.75m. In addition ML's CEO Kevin Leach is to privately take a 29% stake in Proteus; in part by subscribing £1.5m in the rights issue, which will raise a further £10m when completed in May 96, and also by the grant of options over 12.3m shares to Leach's private company - Milner Laboratories.

As part of the restructuring, founder Kevin Gilmore - once one of the richest industry people in our rankings - is standing down as chairman in favour of David Gratton. The search for a "financially stronger partner" is now not required.

## British Data Management

**British Data Management (BDM)** is a specialist data management and storage group. It was floated in 1992 with a placing at 125p. Latest interims show revenues up 10% at £9.5m but PBT nearly three times higher at £1.6m. EPS advanced 191%.

This growth in profits is because, as the Chairman has stated previously, "many of the costs of the company are now fixed for the foreseeable future". BDM's new property at Heathrow is now 35% occupied.

In Sept. 95 BDM acquired the £1m revenue Document Storage Company for £2.25m in cash.

**Quoted Companies - Results Service**

Note: Shaded = Results announced this month.

Admiral plc				Electronic Data Processing plc					
	Final - Dec 94	Final - Dec 95	Comparison		Final - Sep 94	Final - Sep 95	Comparison		
REV	£ 49,473,000	£ 65,460,000	+32.3%	REV	£ 14,013,000	£ 12,605,000	-10.0%		
PBT	£ 7,719,000	£ 9,832,000	+27.4%	PBT	£ 4,123,000	£ 3,083,000	-25.2%		
EPS	45.20p	53.60p	+18.6%	EPS	10.21p	7.53p	-26.2%		
Azlan Group plc				FI Group plc					
	Interim - Sep 94	Final - Mar 95	Interim - Sep 95	Comparison		Final - Apr 94	Interim - Oct 95	Final - Apr 95	Comparison
REV	£ 37,735,000	£ 90,488,000	£ 72,716,000	+92.7%	REV	£ 41,497,000	£ 37,420,000	£ 61,703,000	+48.7%
PBT	£ 1,079,000	£ 3,906,000	£ 4,445,000	+312.0%	PBT	£ 2,080,000	£ 2,089,000	£ 3,260,000	+56.7%
EPS	3.70p	12.50p	13.60p	+267.6%	EPS	4.90p	4.90p	7.60p	+55.1%
British Data Management plc				Firecrest plc					
	Interim - Dec 94	Final - Jun 95	Interim - Dec 95	Comparison		Final - Dec 94	Final - Dec 95	Comparison	
REV	£ 8,599,000	£ 17,042,000	£ 9,485,000	+10.3%	REV	£ 7,126,671	£ 6,609,068	-7.3%	
PBT	£ 535,000	£ 1,575,000	£ 1,561,000	+191.8%	PBT	£ 414,929	£ 603,027	+45.3%	
EPS	1.47p	3.80p	4.28p	+191.2%	EPS	2.30p	2.30p	+0.0%	
Capita Group plc				Flomerics Group plc					
	Final - Dec 94	Final - Dec 95	Comparison		Final - Dec 94	Final - Dec 95	Comparison		
REV	£ 73,800,000	£ 86,994,000	+17.9%	REV	£ 3,098,672	£ 4,147,187	+33.8%		
PBT	£ 7,903,000	£ 9,420,000	+19.2%	PBT	£ 406,900	£ 415,565	+2.1%		
EPS	10.50p	11.80p	+12.4%	EPS	11.00p	11.00p	+0.0%		
Cedardata plc				Gresham Computing plc					
	Interim - Sep 94	Final - Mar 95	Interim - Sep 95	Comparison		Final - Oct 94	Final - Oct 95	Comparison	
REV	£ 3,726,000	£ 8,932,000	£ 5,333,000	+43.1%	REV	£ 6,507,000	£ 7,895,000	+21.3%	
PBT	£ 1,337,000	£ 3,572,000	£ 1,995,000	+49.2%	PBT	£ 708,000	£ 1,281,000	+80.9%	
EPS	2.80p	7.90p	4.20p	+50.0%	EPS	1.32p	2.36p	+78.8%	
CentreGold plc				INSTEM plc					
	Interim - Jan 95	Final - Jul 95	Interim - Jan 96	Comparison		Final - Dec 94	Final - Dec 95	Comparison	
REV	£ 41,037,000	£ 69,497,000	£ 39,351,000	-4.1%	REV	£ 16,812,000	£ 21,324,000	+26.8%	
PBT	-£ 3,883,000	-£ 11,378,000	-£ 1,047,000	Loss both	PBT	£ 1,153,000	£ 1,244,000	+7.9%	
EPS	-6.44p	-22.50p	-2.43p	Loss both	EPS	16.80p	18.10p	+7.7%	
Clinical Computing plc				JBA Holdings plc					
	Final - Dec 94	Final - Dec 95	Comparison		Final - Dec 94	Final - Dec 95	Comparison		
REV	£ 1,471,684	£ 2,209,023	+50.1%	REV	£ 90,687,000	£ 124,693,000	+37.5%		
PBT	-£ 688,596	-£ 546,832	Loss both	PBT	£ 6,131,000	£ 8,714,000	+42.1%		
EPS	-4.30p	-3.40p	Loss both	EPS	12.13p	16.31p	+34.5%		
CMG plc				Kalamazoo Computer Group plc					
	Final - Dec 94	Final - Dec 95	Comparison		Interim - Sep 94	Final - Mar 95	Interim - Sep 95	Comparison	
REV	£ 146,283,000	£ 196,484,000	+34.3%	REV	£ 28,263,000	£ 60,719,000	£ 32,358,000	+14.5%	
PBT	£ 14,057,000	£ 18,460,000	+31.3%	PBT	£ 3,003,000	£ 6,815,000	£ 2,012,000	-33.0%	
EPS	13.90p	18.20p	+30.9%	EPS	4.98p	11.80p	3.68p	-26.5%	
Coda Group plc				Kewill Systems plc					
	Final - Oct 94	Final - Oct 95	Comparison		Interim - Sep 94	Final - Mar 95	Interim - Sep 95	Comparison	
REV	£ 23,388,000	£ 32,791,000	+40.2%	REV	£ 16,405,000	£ 33,667,000	£ 16,567,000	+1.0%	
PBT	-£ 7,992,000	£ 1,030,000	Loss to Profit	PBT	£ 2,166,000	£ 5,067,000	£ 2,613,000	+20.6%	
EPS	-27.70p	2.50p	Loss to Profit	EPS	12.16p	28.39p	14.55p	+19.7%	
Compel Group plc				Learmonth & Burchett Management Systems plc					
	Interim - Dec 94	Final - Jun 95	Interim - Dec 95	Comparison		Interim - Oct 94	Final - Apr 95	Interim - Oct 95	Comparison
REV	£ 28,272,000	£ 70,019,000	£ 40,421,000	+43.0%	REV	£ 11,023,000	£ 23,761,000	£ 12,440,000	+12.9%
PBT	£ 1,194,000	£ 2,684,000	£ 1,441,000	+20.7%	PBT	-£ 3,278,000	-£ 5,251,000	£ 496,000	Loss to profit
EPS	5.56p	11.10p	6.06p	+9.0%	EPS	-13.70p	-24.70p	1.80p	Loss to profit
Computerised Financial Solutions plc				Logica plc					
	Interim - Jun 94	Final - Dec 94	Interim - Jun 95	Comparison		Interim - Dec 94	Final - Jun 95	Interim - Dec 95	Comparison
REV	£ 1,404,000	£ 3,120,711	£ 1,276,000	-9.1%	REV	£ 113,565,000	£ 250,135,000	£ 128,919,000	+13.5%
PBT	-£ 36,000	£ 350,617	-£ 66,000	Loss both	PBT	£ 7,220,000	£ 20,310,000	£ 9,035,000	+25.1%
EPS	-1.40p	3.97p	-1.50p	Loss both	EPS	7.80p	21.70p	9.80p	+25.6%
Cray Electronic Holdings plc				Lorien Group plc					
	Interim - Oct 94	Final - Apr 95	Interim - Oct 95	Comparison		Final - Nov 94	Final - Nov 95	Comparison	
REV	£ 135,044,000	£ 264,838,000	£ 128,957,000	-4.5%	REV	£ 17,904,000	£ 29,109,000	+62.6%	
PBT	£ 10,085,000	£ 835,000	-£ 14,594,000	Profit to loss	PBT	£ 169,000	£ 971,000	+474.6%	
EPS	3.00p	-0.30p	-6.30p	Profit to loss	EPS	2.65p	12.10p	+356.6%	
CRT Group plc				Lynx Holdings plc					
	Interim - Oct 94	Final - Apr 95	Interim - Oct 95	Comparison		Final - Sep 94	Final - Sep 95	Comparison	
REV	£ 29,187,000	£ 72,762,000	£ 48,079,000	+64.7%	REV	£ 21,523,000	£ 32,018,000	+48.8%	
PBT	£ 1,288,000	£ 5,972,000	£ 1,748,000	+35.7%	PBT	£ 2,009,000	£ 2,564,000	+27.6%	
EPS	1.42p	6.30p	1.71p	+20.4%	EPS	4.50p	4.70p	+4.4%	
DCS Group plc				M.A.I.D plc					
	Interim - Dec 94	Final - Jun 95	Interim - Dec 95	Comparison		Final - Dec 94	Final - Dec 95	Comparison	
REV	£ 4,007,000	£ 8,694,833	£ 14,335,000	+257.7%	REV	£ 8,887,000	£ 13,642,000	+53.5%	
PBT	£ 105,000	£ 609,530	£ 1,204,000	+1046.7%	PBT	£ 1,285,000	-£ 4,045,000	Profit to loss	
EPS	0.88p	5.02p	4.27p	+385.2%	EPS	1.14p	-4.42p	Profit to loss	
DRS Data & Research Services plc				MMT Computing plc					
	Final - Dec 94	Final - Dec 95	Comparison		Final - Aug 94	Final - Aug 95	Comparison		
REV	£ 8,798,000	£ 6,468,000	-26.5%	REV	£ 10,861,498	£ 13,957,949	+28.5%		
PBT	£ 1,487,000	£ 594,000	-60.1%	PBT	£ 2,505,106	£ 3,075,053	+22.8%		
EPS	3.07p	1.33p	-56.7%	EPS	13.10p	16.30p	+24.4%		
Delphi Group plc				MR Group plc					
	Final - Dec 94	Final - Dec 95	Comparison		Interim - Dec 94	Final - Jun 95	Interim - Dec 95	Comparison	
REV	£ 97,685,000	£ 175,006,000	+79.2%	REV	£ 21,305,000	£ 41,429,000	£ 18,580,000	-12.9%	
PBT	-£ 391,000	£ 9,015,000	Loss to profit	PBT	£ 3,136,000	£ 1,309,000	£ 2,174,000	-30.7%	
EPS	-7.76p	25.42p	Loss to profit	EPS	4.00p	1.60p	2.60p	-35.0%	
Division Group plc				McDonnell Information Systems Group plc					
	Final - Oct 94	Final - Oct 95	Comparison		Final - Dec 94	Final - Dec 95	Comparison		
REV	£ 5,270,000	£ 4,830,000	-8.3%	REV	£ 148,911,000	£ 146,805,000	-1.4%		
PBT	-£ 1,440,000	-£ 3,893,000	Loss both	PBT	£ 7,157,000	-£ 39,420,000	Profit to loss		
EPS	-4.00p	-9.20p	Loss both	EPS	3.10p	-37.02p	Profit to loss		
Eidos plc				Macro 4 plc					
	Final - Dec 94	Final - Dec 95	Comparison		Interim - Dec 94	Final - Jun 95	Interim - Dec 95	Comparison	
REV	£ 254,225	£ 1,282,000	+404.3%	REV	£ 12,285,000	£ 25,035,000	£ 12,635,000	+2.8%	
PBT	-£ 107,623	-£ 1,452,000	Loss both	PBT	£ 5,685,000	£ 11,602,000	£ 5,956,000	+4.8%	
EPS	-4.16p	-40.18p	Loss both	EPS	16.70p	35.20p	17.90p	+7.2%	

**Quoted Companies - Results Service**

Note: Shaded = Results announced this month.

Micro Focus plc				Real Time Control plc					
	Final - Jan 95	Final - Jan 96	Comparison		Interim - Sep 94	Final - Mar 95	Interim - Sep 95	Comparison	
REV	£ 89,885,000	£ 77,258,000	-14.0%	REV	£ 8,491,000	£ 13,463,000	£ 5,325,000	-37.3%	
PBT	£ 8,723,000	£ 6,542,000	Profit to loss	PBT	£ 1,050,000	£ 1,782,000	£ 742,000	-29.3%	
EPS	32.00p	-43.60p	Profit to loss	EPS	12.00p	20.00p	7.10p	-40.8%	
Microgen Holdings plc				Rolfe & Nolan plc					
	Final - Oct 94	Final - Oct 95	Comparison		Interim - Aug 94	Final - Feb 95	Interim - Aug 95	Comparison	
REV	£ 58,774,000	£ 69,029,000	+17.4%	REV	£ 7,104,000	£ 14,288,000	£ 7,661,000	+7.8%	
PBT	£ 6,173,000	£ 8,383,000	+35.8%	PBT	£ 742,000	£ 1,512,000	£ 1,074,000	+44.7%	
EPS	10.00p	14.80p	+48.0%	EPS	2.90p	6.70p	5.35p	+84.5%	
Microvitec plc				Sage Group plc					
	Final - Dec 94	Final - Dec 95	Comparison		Final - Sep 94	Final - Sep 95	Comparison		
REV	£ 44,146,000	£ 55,050,000	+24.7%	REV	£ 50,888,000	£ 102,234,000	+100.9%		
PBT	£ 2,560,000	£ 3,411,000	+33.2%	PBT	£ 14,252,000	£ 22,362,000	+56.9%		
EPS	3.00p	3.10p	+3.3%	EPS	9.08p	13.88p	+52.9%		
Misys plc				Sanderson Electronics plc					
	Interim - Nov 94	Final - May 95	Interim - Nov 95	Comparison		Final - Sep 94	Final - Sep 95	Comparison	
REV	£ 63,922,000	£ 153,395,000	£ 129,528,000	+102.6%	REV	£ 33,984,000	£ 57,801,000	+70.1%	
PBT	£ 11,245,000	£ 26,345,000	£ 19,216,000	+70.9%	PBT	£ 4,228,000	£ 5,305,000	+25.5%	
EPS	16.20p	35.10p	16.90p	+4.3%	EPS	7.30p	8.80p	+20.5%	
Moorepay Group plc				Sema Group plc					
	Final - Dec 94	Final - Dec 95	Comparison		Final - Dec 94	Final - Dec 95	Comparison		
REV	£ 3,873,089	£ 4,632,538	+19.6%	REV	£ 596,111,000	£ 677,726,000	+13.7%		
PBT	£ 686,336	£ 1,142,110	+66.4%	PBT	£ 29,518,000	£ 36,927,000	+25.1%		
EPS	6.28p	10.22p	+62.7%	EPS	20.98p	24.79p	+18.2%		
OmniMedia plc				Sherwood International plc					
	Final - Dec 94	Final - Dec 95	Comparison		Final - Dec 94	Final - Dec 95	Comparison		
REV	£ 124,594	£ 275,275	+120.9%	REV	£ 27,067,000	£ 26,246,000	-3.0%		
PBT	-£ 421,354	-£ 1,023,344	Loss both	PBT	£ 79,000	£ 6,850,000	+8570.9%		
EPS	-3.84p	-6.06p	Loss both	EPS	-10.73p	66.20p	Loss to profit		
On Demand Information plc				Spargo Consulting plc					
	Final - Jul 94	Final - Jul 95	Comparison		Final - Dec 94	Final - Dec 95	Comparison		
REV	£ 14,487,000	£ 8,786,000	-55.8%	REV	£ 6,016,000	£ 7,379,000	+22.7%		
PBT	-£ 2,617,000	-£ 3,646,000	Loss both	PBT	£ 1,211,000	£ 902,000	-25.5%		
EPS	-5.70p	-7.20p	Loss both	EPS	6.29p	4.43p	-29.6%		
Oxford Molecular plc				Standard Platforms Holdings plc					
	Final - Dec 94	Final - Dec 95	Comparison		Final - Sep 94	Final - Sep 95	Comparison		
REV	£ 2,765,000	£ 6,179,000	+123.5%	REV	£ 1,305,476	£ 1,068,905	-18.1%		
PBT	-£ 2,906,000	-£ 3,693,000	Loss both	PBT	-£ 142,380	-£ 625,546	Loss both		
EPS	-8.60p	-7.40p	Loss both	EPS	-1.10p	-2.40p	Loss both		
P & P plc				Superscape VR plc					
	Final - Nov 94	Final - Nov 95	Comparison		Interim - Jan 95	Final - Jul 95	Interim - Jan 96	Comparison	
REV	£ 263,930,000	£ 341,990,000	+29.6%	REV	£ 478,000	£ 1,590,000	£ 1,589,000	+232.4%	
PBT	£ 8,016,000	£ 12,574,000	+56.9%	PBT	-£ 843,000	-£ 1,746,000	-£ 897,000	Loss both	
EPS	8.10p	11.00p	+35.8%	EPS	-14.90p	-30.70p	-13.10p	Loss both	
Parity plc				Systems Integrated Research plc					
	Final - Dec 94	Final - Dec 95	Comparison		Final - May 94	Final - May 95	Comparison		
REV	£ 88,791,000	£ 127,711,000	+43.8%	REV	£ 2,258,320	£ 1,901,000	-15.8%		
PBT	£ 4,176,000	£ 6,540,000	+56.6%	PBT	-£ 798,139	-£ 41,000	Loss both		
EPS	7.19p	10.34p	+43.8%	EPS	n/a	n/a	n/a		
Pegasus Group plc				Total Systems plc					
	Final - Dec 94	Final - Dec 95	Comparison		Interim - Sep 94	Final - Mar 95	Interim - Sep 95	Comparison	
REV	£ 4,808,000	£ 6,426,000	+33.7%	REV	£ 1,096,691	£ 2,289,437	£ 1,273,331	+16.1%	
PBT	£ 243,000	£ 893,000	+267.5%	PBT	£ 7,460	£ 53,516	-£ 54,488	Profit to loss	
EPS	12.70p	10.30p	-18.9%	EPS	0.04p	0.34p	-0.44p	Profit to loss	
Persona plc				Trace Computers plc					
	Final - Dec 94	Final - Dec 95	Comparison		Interim - Nov 94	Final - May 95	Interim - Nov 95	Comparison	
REV	£ 31,537,000	£ 53,375,000	+69.2%	REV	£ 9,472,000	£ 19,676,832	£ 10,269,000	+8.4%	
PBT	£ 2,059,000	£ 2,832,000	+37.5%	PBT	£ 223,000	£ 482,746	-£ 50,000	Profit to loss	
EPS	12.69p	15.70p	+23.7%	EPS	1.19p	2.55p	-0.35p	Profit to loss	
PhoneLink plc				Triad Group plc					
	Interim - Sep 94	Final - Mar 95	Interim - Sep 95	Comparison		Final - Mar 94	Interim - Sep 95	Final - Mar 95	Comparison
REV	£ 797,000	£ 2,085,000	£ 2,103,000	+163.9%	REV	£ 5,092,867	£ 3,720,000	£ 6,699,570	+31.5%
PBT	-£ 1,963,000	-£ 3,702,000	-£ 2,712,000	Loss both	PBT	£ 1,020,899	£ 778,000	£ 1,059,350	+3.8%
EPS	-5.50p	-10.40p	-7.30p	Loss both	EPS	n/a	n/a	n/a	n/a
Proteus International plc				Vega Group plc					
	Interim - Sep 94	Final - Mar 95	Interim - Sep 95	Comparison		Interim - Oct 94	Final - Apr 95	Interim - Oct 95	Comparison
REV	Nil	Nil	£ 30,000	n/a	REV	£ 5,710,000	£ 12,516,000	£ 7,260,000	+27.1%
PBT	-£ 3,666,000	-£ 7,925,000	-£ 3,618,000	Loss both	PBT	£ 1,020,000	£ 2,910,000	£ 1,271,000	+24.6%
EPS	-11.94p	-25.47p	-11.06p	Loss both	EPS	4.76p	13.49p	5.90p	+23.9%
Quality Software Products Holdings plc				Virtuality Group plc					
	Final - Dec 94	Final - Dec 95	Comparison		Final - Dec 94	Final - Dec 95	Comparison		
REV	£ 16,494,732	£ 21,385,842	+29.7%	REV	£ 9,126,000	£ 12,779,000	+40.0%		
PBT	£ 2,512,400	£ 502,697	-80.0%	PBT	-£ 1,397,000	-£ 565,000	Loss both		
EPS	26.90p	5.20p	-80.7%	EPS	-5.30p	-2.10p	Loss both		
RM plc				Wakebourne 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	£ 18,172,000	£ 35,336,000	£ 18,848,000	+3.7%	
PBT	£ 3,769,000	£ 5,023,000	+33.3%	PBT	£ 1,068,000	£ 1,865,000	-£ 356,000	Profit to loss	
EPS	15.50p	18.80p	+21.3%	EPS	3.40p	5.70p	-1.10p	Profit to loss	
Radius plc				Zergo Holdings plc					
	Final - Dec 94	Final - Dec 95	Comparison		Interim - Oct 94	Final - Apr 95	Interim - Oct 95	Comparison	
REV	£ 24,866,000	£ 26,052,000	+4.8%	REV	£ 2,986,000	£ 7,074,520	£ 4,005,000	+34.1%	
PBT	£ 1,451,000	£ 1,809,000	+24.7%	PBT	£ 46,000	£ 12,769	-£ 479,000	Profit to loss	
EPS	2.87p	4.37p	+52.3%	EPS	n/a	n/a	n/a	Profit to loss	

## UK M&A

### Summary

**Floral Street plc** has acquired the business, goodwill etc. of Apple dealer **MBC Computer Centres Ltd** for £425K. **Gartner Group** has acquired **Mindwire Training Technologies** of Dublin. VC backed **Didata** has invested £2.5m in document management company, **Graphic Data Group Ltd**. **Microsoft UK** has purchased a minority stake in **Helicon Publishing Ltd**. Helicon, with revenues of c£3m, is perhaps best known to us as the publishers of the CD-ROM Hutchinson Multimedia encyclopedia - the only such UK-based product.

**Peek** has acquired Dutch **Fleetlogic BV** for £2.7m. It develops fleet management systems and had revenues of £2.8m and PBT of £320K in 1995. **Sema Group** has acquired a 75% holding in **Infoservicios SA**, a Spanish systems integration supplier. The company has 173 staff and revenues of around £6.3m.

**People.** Readers know of our high regard for Brian Gunn and his achievements at **Bull's Integris**. This month Gunn has been promoted to run BULL Benelux - we are sure as a short step to even greater things. Alan Gibson takes over Integris UK.

We were surprised that **Vega's** MD Kelvin Harrison "unexpectedly resigned" this month. Chairman Robert Drummond, who will assume this role until a replacement is found, explained to us that he was disappointed with Vega's success with their emulation software. We have been assured that there are no deeper problems.

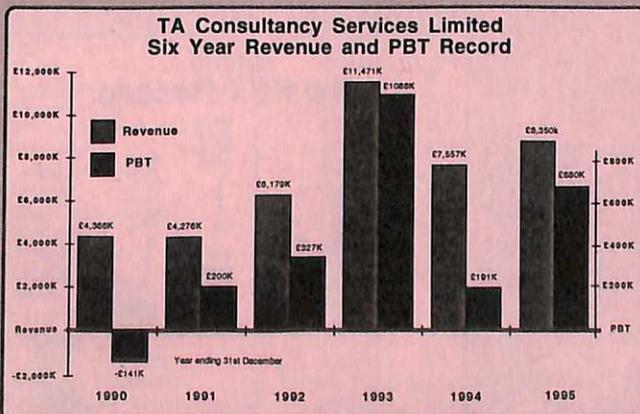
### TA Group bought by US Fluor Daniel

**TA Group** has, in April 1996, been acquired by US **Fluor Daniel** which had revenues last year of \$9 billion+.

**TA Group** - based in our "home town" Farnham - was formally **Rex Thompson & Partners** before the MBO from British & Commonwealth in 1991. No consideration was disclosed but we understand that the MBO equity holders are looking at a 9-times increase in their investment.

The SCSI part of the TA Group is **TA Consultancy Services (TACS) Ltd**. They concentrate on high tech., mission critical projects like fly-by-wire systems.

We understand that revenue increased from £7.6m to £8.35m and operating profit was up to £680K in the year to 31st Dec. 95.



TACS customers and projects really are impressive with military avionics projects like the Lockheed C130J, Attack Helicopter, EFA etc. We understand that TACS will remain as an independent unit and that MD Andy Mathews will remain in place. But it looks increasingly "non-core" to us.

### Logica buys last bit of Centrefile

This month the sale of the "old" Centrefile was completed. You may remember that most of the Nat. West subsidiary has already sold:

- the **personnel and payroll services (P&PS)** division was sold to US **Ceridian** for £33.1m cash.
  - the **K3 Group**, which supplies systems to the insurance and building society markets, was sold to **IBM UK** for £7m.
- This month the staff, products and customer base of the workflow business, trading under the name **Integrated Work**, were acquired by **Logica**. No consideration has so far been divulged. Integrated Work employed around 110 people and had revenues of £8-9m. "This move complements Logica's international portfolio of customer contact and management systems".

### P&P boosts SCSI revenues

**P & P plc** has increased its services revenues by around 70% by acquiring **Myriad** - the IT staff agency and recruitment operation.

**Myriad** had revenues of £29m and "an operating profit" of £1.8m in 1995. So this - added to P&P's £42m IT services revenues in the year to 30th Nov. 95 - means that £71m or 20% of P&P's revenues now come from IT services. **Myriad** is one of the UK's Top Ten IT staff agencies - "employing 60 permanent staff and placed over 700 personnel on contract last year". **Myriad** is "one of the biggest IT recruitment advertisers in the UK".

P&P is to pay a max. of £12.5m - £9.85m initially which includes 592,081 shares at 144p and the remainder is to be paid in cash and loan notes. The deferred consideration of £2.65m will be based on audited results to 30th Nov. 96.

It looks a very sensible acquisition at an equally sensible price. Around 50% of revenues for an IT staff agency looks good. At the end of April, Delphi was on a ratio of capitalisation to revenue of 61% and Parity was on 79%.

### Syntegra buys again

Hot on the heels of the c£10m acquisition of **Europe Informatique** in Dec. 95, **BT's Syntegra** has this month acquired Dutch systems company **Rijnhaave Groep**. It is one of the leading IT services groups in the Netherlands with major customers in the financial, transportation and government sectors and activities stretching from FM to network SI. **Rijnhaave**, which employs 900 people, has annual revenues of c£70m and was apparently making a 10% profit margin. No consideration was disclosed, but we would find it difficult to believe a consideration of much less than 1x revenue. If so, this would make it one of the largest UK SCSI purchases of 1996 to date.

**Syntegra** is now on an annual revenue of at least £300m and, after years of seeming inaction, is now steaming ahead on the acquisitions front towards its goal of becoming "a major global player".

### Wakebourne

Troubled TPM **Wakebourne** has sold its **Scala** accountancy business to **LSI Computer Systems**. In Feb. 96, **Wakebourne** sold part of its TPM operation and its **Tetra** reseller operation to **Kalamazoo**.

Full year results to 31st Dec. 95 are still awaited but estimates range upwards of a loss of £3m.

## ECsoft Synapse buys Digitus

A quick recap on the history. **Synapse** was founded about 16 years ago, floated onto the stock market, was acquired by **ECsoft** in 1991 and was the subject of an MBO in July 1994. In May 1995 they acquired **Beacon Management Services**.

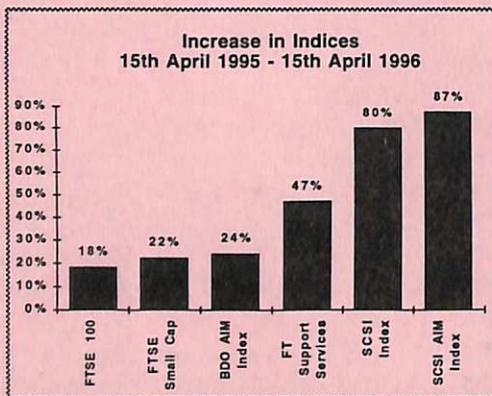
This month they have bought Alan Wood's **Digitus** which had revenues of around £4.5m last year. This means that ECsoft's UK arm has revenues in excess of £11m and 150 staff and the group, which operates across main land Europe, has revenues of £30m+.

Digitus was founded in 1978 and undertakes a wide range of PC/micro-based systems integration activities. ECsoft specialises in consultancy and systems development on client/server-based applications.

### What a difference a year makes

As can be seen in the chart, our SCS Index has outperformed the market in general fourfold in the last year. Even our new SCS AIM Index is 87% up since inception in June 95 compared with a 24% rise in the BDO Stoy Hayward AIM Index in the same period.

In Apr. 95, average P/E was c15 - now it is c23. In other words, the UK software and IT services sector has seen a re-rating of in excess of 50%. All those involved in M&A should take special note!



## Broadview Associates

Last month we reported on the financial performance at M&A specialists **Regent Associates**, where revenues had doubled to £2.38m in the year to 31st May 95. This month their main UK rival **BVA** (better known as **Broadview Associates**) has filed their accounts to 31st Dec. 95. These also show revenues more than doubled to £6.64m. Of this £3.7m was earned in the UK and the rest in Europe. Broadview's biggest UK deals included Admiral/Delphy, Avid/Parallax, Ceridian/Centrefile and CSC/Lucas. And the 1995 results were struck before the £95m+ Data Sciences deal where Broadview acted for IBM and £60-£70m Rijnhaave deal(p7).

PBT of £718K is pretty meaningless given the US ownership. However, the then Chairman - Steve Bachmann, since returned to the US - received remuneration of a cool £1.1m in 1995. Unless there is some latecomer, it means he will top our lists of HPDs for 1995. Now you may think it a bit ironic really to find the marriage broker is paid more than any one else in the UK IT industry. But Broadview point out since 1989 they have been instrumental in raising £1.47 billion for European entrepreneurs and other shareholders upon the sale of their companies - many of whom, we feel sure, would not begrudge Broadview, or Mr. Bachmann, their fair share.

### Riva

It looks as though we will have to put **Riva** into our SCS Index. They had been best known for their EPOS terminals. Hardware had caused both losses for several years and required a major financial restructuring.

However, Riva has "progressed rapidly from the traditional hardware and services maintenance business to become a provider of software solutions and professional services". Indeed the success of this transformation has meant a return to a PBT of £182K (1994 loss = £610K) on revenues up 26% at £73m in the year to 31st December 1995.

## MDIS announces UK all comers record loss of £39.4m

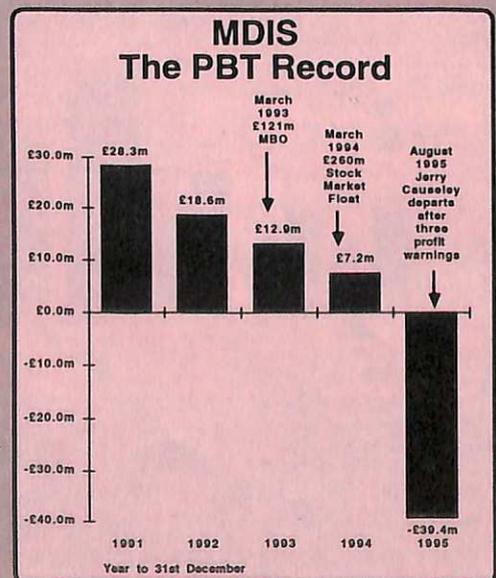
If we had to suggest just one company which had wreaked more damage on the whole of the UK-owned SCS sector than any other in recent times, it would have to be **McDonnell Information Systems (MDIS)**. In every new issue in which we have been involved in the last year (i.e. most of them!) we have had to answer the question "so how can we be assured that company x is not going to do an MDIS?"

We would have thought that MDIS would have learnt all the lessons by now. But only a couple of months ago, in their 4th profits warning, MDIS said continuing operations would "broadly break even" for 1995 before exceptional charges of "approx. £20m". Of course, in MDIS-speak "broadly breakeven" = an operating loss of £3.7m on the continuing businesses which had revenues of £137.9m in the year to 31st Dec. 95. Indeed MDIS announced a UK all comers loss record of £39.4m before tax on revenues down 1% at £146.8m. Exceptional charges of £23.2m were recorded from a variety of sources including property, redundancies and losses on disposal of businesses. Cash had reduced from £8.6m to end the year on £3.3m.

Revenues from continuing operations in the public sector (where "shortfalls in Australasia and the Health sector accounted for most of the decrease"), systems and application software tools all declined quite significantly against a growing UK market. But for those looking at MDIS as a potential "garage sale", (after all they chucked the kitchen sink into these results!), there did seem to be some remaining good bits. Commercial solutions recorded revenues up 40% to £37.9m after a full year's contribution from Chess in the US. Indeed US revenues increased from £2.9m to £10.6m. Facilities management revenues increased by 22% to £8.4m with some new FM contracts from industry and Government.

Chairman Ian Hay Davison believes "MDIS is well placed in terms of market position and technical quality to exploit its more concentrated focus".

MDIS shares fell to 74p on the news. We will start believing again based on results not forecasts. We still believe that the best solution for MDIS is to be acquired by a stronger parent with more able management.



## SCSI Index breaks new records

Our SCSI Index was up another 10% this month - 20% in 1996 so far and 80% up on April 1995 (see p8). New issues **Triad** (up 76%) and **FI** (up 43%) led the way. **Micro Focus** was up 63% as US investors saw them as benefiting from the year 2000 problem. **Clinical** rose 75% (on increased losses!) but is still half its new issue price. **Sage** continues into the stratosphere - the shares up a mere 16-times in the last 7 years.

**Trace** fell another 34% - can a bid be far away? **Firecrest** was also down 10% proving that Internet stocks can go down as well as up!

29th Apr. 96	SCSI Index			2723.50
	FTSE 100			3809.20
	FTSE SmallCap			2227.05
SCSI Index = 1000 on 15th April 1989				
Changes in Indices	CSI Index	FTSE 100	FTSE Small Cap	
Month (26/3/96 - 29/4/96)	+10.00%	+4.05%	+6.73%	
From 15th Apr 89	+172.35%	+85.49%		
From 1st Jan 90	+196.00%	+61.27%		
From 1st Jan 91	+284.75%	+76.32%		
From 1st Jan 92	+160.66%	+52.79%		
From 1st Jan 93	+70.90%	+33.82%	+60.53%	
From 1st Jan 94	+63.12%	+11.43%	+19.18%	
From 1st Jan 95	+81.67%	+27.52%	+27.52%	
From 1st Jan 96	+20.59%	+3.25%	+14.70%	

## System House SCSI Share Prices and Capitalisation

	Share Price 29/4/96 (£p)	Capitalisation 29/4/96(£m)	Historic P/E	Ratio Cap./Rev.	CSI Index 29/4/96	Share price % move since 26/3/96	Share price % move in 1996	Capitalisation move (£m) since 26/3/96	Capitalisation move (£m) in 1996
Admiral	£12.08	£151.00m	29.8	2.31	8753.62	20.80%	47.68%	£26.00m	£49.60m
Azlan	£6.04	£162.50m	26.9	1.80	2626.09	18.43%	19.60%	£25.30m	£26.70m
British Data Management	£1.63	£40.80m	23.6	2.39	1304.00	7.24%	31.45%	£2.80m	£9.80m
Capita	£3.57	£200.60m	30.4	2.31	10720.72	17.82%	25.26%	£20.60m	£40.10m
Cedardata	£1.80	£55.10m	19.5	6.17	1714.29	7.78%	8.43%	£4.00m	£4.30m
Centregold	£0.43	£18.50m	Loss	0.27	344.00	16.22%	-20.37%	£2.60m	£4.70m
Clinical Computing	£0.70	£11.90m	Loss	5.38	564.52	75.00%	125.81%	£5.42m	£6.88m
CMG	£5.42	£346.00m	45.9	1.76	1868.97	9.49%	64.74%	£30.00m	£136.00m
Coda	£2.59	£68.90m	21.9	2.10	1102.13	-1.89%	21.03%	£1.30m	£12.80m
Compel	£1.98	£30.10m	16.1	0.43	1580.00	-0.75%	4.50%	£0.30m	£1.30m
Computerised Financial	£0.88	£4.31m	27.6	1.38	977.78	-2.22%	3.53%	£0.10m	£0.14m
Cray Electronics	£0.43	£102.00m	Loss	0.39	251.46	-2.27%	3.61%	£2.30m	£2.40m
CRT	£1.45	£97.90m	22.3	1.35	1611.11	8.21%	26.09%	£7.40m	£20.30m
DCS Group	£0.96	£18.40m	15.1	2.12	1600.00	12.94%	28.00%	£2.30m	£4.20m
Delphi Group	£4.22	£107.60m	16.6	0.61	1736.63	9.90%	14.05%	£9.70m	£13.60m
Division Group	£0.85	£37.30m	Loss	7.72	2125.00	25.00%	-26.09%	£7.40m	£13.20m
DRS Data & Research	£0.37	£12.70m	27.8	1.96	336.36	15.63%	48.00%	£1.80m	£4.15m
Eidos	£8.10	£64.00m	Loss	50.00	8100.00	-0.37%	16.88%	£0.20m	£9.30m
Electronic Data Processing	£0.96	£25.20m	12.7	2.00	2939.38	12.94%	-17.24%	£2.90m	£5.20m
FI Group	£3.37	£100.10m	43.6	1.62	1434.04	43.40%	43.40%	£30.30m	£30.30m
Firecrest	£0.75	£12.50m	32.6	1.89	1875.00	-9.64%	-38.52%	£1.30m	£7.80m
Flomerics	£2.10	£5.38m	19.1	1.30	1615.38	0.00%	11.70%	£0.00m	£0.57m
Gresham Computing	£0.70	£22.90m	29.7	2.90	752.69	27.27%	66.67%	£4.90m	£9.20m
INSTEM	£1.60	£7.20m	8.7	0.34	1600.00	-6.98%	-7.51%	£0.54m	£0.59m
JBA Holdings	£5.00	£170.50m	30.7	1.37	3125.00	27.88%	27.88%	£37.20m	£37.20m
Kalamazoo	£1.09	£21.40m	10.9	0.35	3114.29	0.93%	-5.22%	£0.20m	£1.00m
Kewill	£4.74	£58.80m	16.7	1.75	1873.52	15.89%	35.04%	£8.10m	£15.30m
Learmonth & Burchett	£1.83	£46.70m	Loss	1.97	1525.00	26.21%	-35.79%	£9.70m	£25.40m
Logica	£5.58	£351.50m	23.7	1.41	1528.77	2.57%	21.57%	£8.80m	£64.20m
Lorien	£2.45	£14.00m	20.2	0.48	2450.00	16.67%	18.36%	£2.00m	£2.20m
Lynx Holdings	£0.83	£80.80m	17.7	2.52	2075.00	1.22%	18.57%	£2.70m	£14.20m
Macro 4	£4.35	£90.00m	11.7	3.59	1754.03	5.07%	2.84%	£4.30m	£2.90m
MAID	£2.14	£196.20m	Loss	14.38	1945.45	-8.15%	-7.36%	£17.50m	£15.60m
McDonnell IS (MDIS)	£0.74	£74.00m	Loss	0.50	284.62	-8.64%	80.49%	£7.00m	£33.50m
Micro Focus	£10.60	£160.10m	Loss	2.07	5120.77	63.08%	87.61%	£61.90m	£74.80m
Microgen	£1.78	£70.30m	12.1	1.02	760.68	-1.11%	-0.56%	£0.80m	£0.40m
Microvitec	£0.63	£48.10m	19.9	0.87	1536.59	6.78%	28.57%	£3.10m	£11.00m
Misy	£8.04	£681.00m	26.7	4.44	2000.00	11.05%	41.05%	£69.20m	£203.30m
MMT	£3.68	£43.10m	22.5	3.09	2190.48	21.85%	49.59%	£7.80m	£14.30m
Moorepay	£2.30	£17.50m	23.6	3.78	2771.08	15.00%	45.57%	£2.30m	£5.50m
MR Group	£0.90	£50.20m	60.0	1.21	357.14	-4.26%	28.57%	£2.30m	£11.10m
OmniMedia	£0.58	£14.30m	Loss	52.00	773.33	5.45%	-10.77%	£4.46m	£2.70m
On Demand	£1.87	£95.40m	Loss	10.85	2397.44	-6.50%	43.85%	£6.60m	£29.10m
Oxford Molecular	£3.06	£181.00m	Loss	29.29	3825.00	0.66%	15.04%	£1.20m	£43.30m
P&P	£1.69	£135.90m	15.1	0.40	757.85	16.55%	11.18%	£20.20m	£14.90m
Parity	£2.40	£101.30m	23.1	0.79	13333.28	14.83%	37.14%	£13.10m	£27.40m
Pegasus	£2.49	£15.70m	24.2	2.44	678.47	6.87%	18.57%	£1.00m	£2.50m
Persona	£2.44	£60.50m	15.5	1.13	1525.00	-2.79%	-14.08%	£1.70m	£26.10m
Phonelink	£1.89	£91.30m	Loss	43.68	1219.35	11.83%	-0.53%	£23.80m	£15.40m
Proteus	£0.64	£20.90m	Loss	n/a	761.90	6.67%	-46.67%	£1.30m	£18.30m
Quality Software	£2.78	£34.50m	53.5	1.61	731.58	9.88%	-57.62%	£3.10m	£46.80m
Radius	£0.68	£18.90m	15.6	0.73	492.75	13.33%	28.30%	£2.20m	£4.20m
Real Time Control	£3.03	£21.20m	20.0	1.58	6183.67	22.18%	71.19%	£3.80m	£8.80m
RM	£4.84	£86.20m	24.2	1.07	2765.71	-1.02%	13.62%	£0.40m	£14.50m
Rolfe & Nolan	£3.09	£38.60m	33.8	2.70	3678.57	1.64%	14.87%	£0.60m	£5.00m
Sage Group	£4.48	£480.70m	32.2	4.70	17230.77	29.48%	37.85%	£109.80m	£133.30m
Sanderson Electronics	£1.54	£63.80m	17.9	1.10	2621.28	6.94%	8.45%	£4.20m	£5.20m
Sema Group	£6.72	£630.30m	27.0	0.93	2113.21	2.13%	25.37%	£13.10m	£128.60m
Sherwood	£2.72	£23.40m	4.1	0.89	2266.67	17.24%	47.03%	£3.40m	£7.50m
Spargo Consulting	£1.70	£21.20m	38.4	2.87	1789.47	-0.58%	18.06%	£0.20m	£3.20m
Standard Platforms	£0.13	£4.07m	Loss	3.80	57.77	4.00%	-21.21%	£0.16m	£1.09m
Superscape	£6.15	£51.70m	Loss	32.52	3106.06	-7.93%	43.69%	£4.40m	£15.70m
Total	£0.28	£2.80m	29.1	1.22	528.30	0.00%	33.33%	£0.00m	£0.70m
Trace	£0.23	£3.24m	9.1	0.16	184.00	-34.29%	-42.50%	£1.69m	£2.36m
Triad	£2.37	£59.70m	31.4	8.91	1755.56	75.56%	75.56%	£25.70m	£25.70m
Vega Group	£3.48	£49.80m	23.9	3.98	2852.46	-7.20%	-2.79%	£3.80m	£1.40m
Virtuality	£2.99	£82.80m	Loss	6.48	1758.82	19.60%	20.08%	£13.60m	£13.80m
Wakebourne	£0.20	£4.56m	2.8	0.13	111.11	-9.09%	14.29%	£0.46m	£0.57m
Zerqo	£2.80	£25.80m	n/a	3.65	2871.79	-1.75%	64.71%	£0.50m	£10.10m

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.

**MSB International plc** is an IT staff agency that announced in April 1996 that it was to float onto the main market with dealings

to begin on 2nd May 1996.

*We didn't get off to the best of starts with MSB.*

Firstly we were asked to endorse some market research for use in their prospectus. Unfortunately they had not bought our research - like every one of the other IT services companies which has floated. We also disagreed with their market sizing. We are pleased to see that in the weeks between their contact with us and the publication of the prospectus, their views on the size of the IT staff agency market seem to have declined to about a half of the original estimate. This hardly helps increase our confidence in the abilities of those concerned.

Secondly, as we had little knowledge of MSB International, we obtained their accounts from Companies House. Although the directors were as we expected, no accounts had been filed. *We should have known that we should have been looking for Keyman Personnel Limited which changed its name to MSB just before the float.*

is associated with failure in the UK. But, as readers know only too well, we are very much against the "Phoenix" like rising of companies - our industry has had too many. This is where directors of failed companies buy the company cheaply from the receivers and then start the business again with a similar name, same directors, shareholders etc. As we have campaigned before, directors of failed businesses should be banned from having any involvement of whatever type when that business is reincarnated as a result of a purchase from the receiver. But, as the rules stand, we are not suggesting that Goldberg has done anything illegal.

As well as the liquidation discussed above, MSB has had its share of aborted ventures. Its venture into management consultancy was closed in 1992, its permanent recruitment business was closed in Oct. 1993 and its installation business was closed in June 1995.

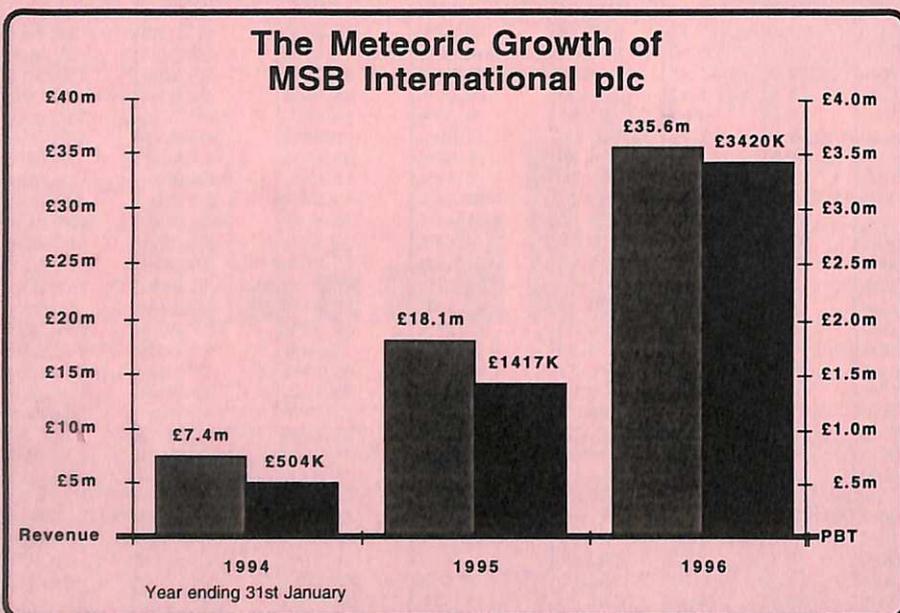
MSB International is an IT staff agency where it quotes its main quoted competitors as "Parity, Delphi, CRT and Hunterskil Howard". As readers know, this area has been an excellent barometer of the health of the IT industry in the UK. It suffered badly in the slowdown in 1989/92 but was amongst the first to foretell the upturn in 1993

onwards. The sector has boomed since, with a growth rate exceeding 20% p.a.

There has also been considerable consolidation in the sector - a trend first predicted by Philip Swinstead when he moved into Comac (now Parity) and by Roger Graham/Tony Reeves in Computer People (now Delphi). The financial performance of both - reflected in the rise in their share price since - has been exceptional.

### Results for the year to 31st January 1996

MSB International (or more strictly Keyman Personnel Limited) seems to have performed exceptionally well in the three years for which financial performance is given in the Prospectus. Revenues increased by 113% to



Thirdly, the track record as a director of 32 year old Mark Goldberg, who is the joint MD and main shareholder in MSB, gives cause for concern. He founded MSB Appointments in 1984. "In Feb. 1991, the MSB business was acquired and refinanced by a management team comprising Peter Flaherty and Nicholas Parker; MSB Appointments (London) Ltd. was put into creditors voluntary liquidation". The estimated total deficit was £874K. Keyman Personnel Limited bought the assets of MSB Appointments (London) Ltd. for £160,061. Goldberg worked as head of operations in the new venture from 1991 to 1995 when he was appointed a director. He now owns around 40% of the equity of MSB.

Goldberg was also a director of Aquamarine Hotel Ltd. which also was put into creditors voluntary liquidation in 1991. The estimated net deficit here was £306K. Goldberg was also a director of Quality Investment Services Ltd. which ceased trading and was then the subject of a successful court claim by consultants for the recovery of engagement fees.

We have no problem with directors of failed companies starting again. Indeed we think that far too much stigma

£38.6m and PBT was up 140% at £3.4m. EPS was an equally impressive 146% to 12.05p. Net assets have doubled to £1.57m.

Of course net assets could have been higher had not the directors thought fit to extract £1.4m dividends in the last year. Seems a bit at odds with the stated reason for the float - "to provide additional working capital ...and strengthen the balance sheet".

MSB is to be valued at 190p per share or £38.8m or a P/E of 15.8. That's a valuation of 1x revenue whereas both Parity and Delphi are valued <80% of revenues. But the 9.3% profit margin at MSB is twice that at Delphi and Parity and therefore the prospective is largely similar. But both these businesses are investing to build businesses less dependent on the volatile IT staff agency market.

Only £1.9m net new money is being raised (little more than the £1.4m dividend extracted recently). £8m of shares are being sold on behalf of the directors - £3.4m for Goldberg.

Having spent the last year defending the quality new issues against being branded by the MDIS debacle, we pray that MSB will not become the *bête noire* of 1996/7.

## Profit Margins

In our analysis of results for 1993 and 94, we reported on the increasing number of IT consultancies/developers who had managed to achieve 20%+ profit margins - margins normally the preserve of the products companies. Amongst the many examples given were the three companies featured here. An update on their 1995 results shows fortunes have indeed been mixed.

**Records broken at CSE - for the wrong reasons**  
**Centre for Software Engineering (CSE)** - "the Confidence Builders" - are specialists in the testing of safety critical systems. Back in 1993 they topped our PBT and operating profit margin tables at 50% and 47%. 1993 represented a vintage year with revenues up nearly 60% at £2.2m and PBT almost doubled to £1.1m. In particular, this was caused by the completion of the Channel Tunnel testing. MD (and 55% shareholder Dr. Phil Bennett) described the 1993 results to us at the time as "exceptional".

The following year, revenues slumped to £1.2m and a minimal profit of £56K recorded. Bennett this time said he was "quietly confident for 1994/95". But in the event the latest results for the year to 30th June 1995 show revenues greatly reduced again to £781K and a significant loss of £369K recorded. **CSE must be the only company of record to go from a 50% profit margin to a 50% loss margin in three consecutive financial years.**

The shortfall was due to a major contract - one assumes for the safety critical systems at the new Hong Kong airport - which was delayed. When we asked Bennett about this he was not overly forthcoming other than to turn the question back on us with "Well have you ever tried to negotiate a contract with the Chinese?" He said that last year was a blip and that his shareholders (Shepherd Building Group of Portakabin fame own the remaining 45% shareholding) were relaxed about it. Indeed, despite the losses, £568K of the net assets of £918K were held in cash at 30th June 1995.

## Quidnunc margins slip

**Quidnunc** specialises in developing GUI and client-server based systems. Although they started on the Mac, most of the business now is Windows based with particular emphasis on client server systems.

Financially Quidnunc has been a high performer and made a superb 31% profit margin in the year to 30th April 1993. In *System House* Oct. 94 we wrote that Holt was forecasting a 50% increase in revenues to £2m in the year to 30th April 1995. In the event revenues increased by 32% to £1.7m although PBT was up a massive 83% to £404K - equivalent to a highly respectable 24% profit margin. Cash in the bank increased from £313K to £515K. If it hadn't been for the expectation of even higher things, these results would be considered as exemplary. But Holt tells us that "tougher competition was behind the slowdown and we expect a similar growth in FY95/96. Client-server is now a crowded marketplace".

Quidnunc has had to spend to get into new areas which will "cut profits this year by around 10%. Long term we expect profit margins of 15-20% rather than 20-25%".

In other words Quidnunc is starting to experience the same problems that seem to afflict most other companies when they try to break out of the high profit/small company league. Quidnunc had (we hope still has) so much going for it. We hope it succeeds in making the transition.

## IPL Group plc

**IPL**, formed around 20 years ago, focus on developing complex real time systems - particularly in the defence arena.

Reviewing IPL Group plc always tests our skills. You see there really isn't any need to apologise for increasing your revenue

by a mere 10% to £11.4m and PBT by the same to £3.25m in the year to 30th Sept. 95 whilst you are reporting unchanged margins of 29%.



Anyway Commercial Director, Mike Johnson, forecast a "dramatic improvement" in these results in FY 1996. In Sept. 95, IPL took on 25 new graduates. Staff numbers had been static at around 210 in each of the last three years. We think this was taking "caution" to unnecessary limits given the boom in the supply of IT staff.

We were assured that this previous caution had nothing to do with the sale of the 27% stake owned by a former director to CINVen in March/April 95 for what, at the time, was suggested as an amount which would have valued the whole of IPL at over £20m. However, given the valuation of such similar companies as Triad and Vega, this now looks pretty cheap!

Anyway Johnson assures us that IPL has no intention of seeking a flotation. Not only have we heard such protestations before, but we cannot believe that CINVen would turn down the opportunity of making a return on its investment if the opportunity was to present itself.

## Oxford Molecular

**Oxford Molecular**, a new issue in April 1994 at 80p, develops design software for the pharmaceutical industry. But Oxford is yet to make a profit. In the year to 31st Dec. 1995 pre tax losses were up from £2.91m to £3.69m on revenues up over 120% at £6.18m. Net cash of £9.1m ("an adequate reserve for our operations") was left at end-95. £2m of this increased revenue came from recent acquisitions; which have included **Intelligentic**, **CACHE**, the **Chemical Information** division of **PSI**, **MacVector** from Eastman Kodak and **Health Designs Inc.**

Oxford's problem now is that the cost base - particularly for administration - has expanded by nearly 80% in 1995. Oxford is now to slash jobs by 20 in the US. It hopes to become profitable by the end of 1996.

"From small beginnings on the campus of the University of Oxford only seven years ago, we are now well on target to building a major international business generating sustainable revenues and long term profits". Chairman Derek Marsh believes that "the year 1995 was one of tremendous achievement and progress". Although we will clearly be happier when the profits start, we actually need more UK companies like Oxford Molecular.

Oxford shares ended April on 306p - up 282% since their new issue.

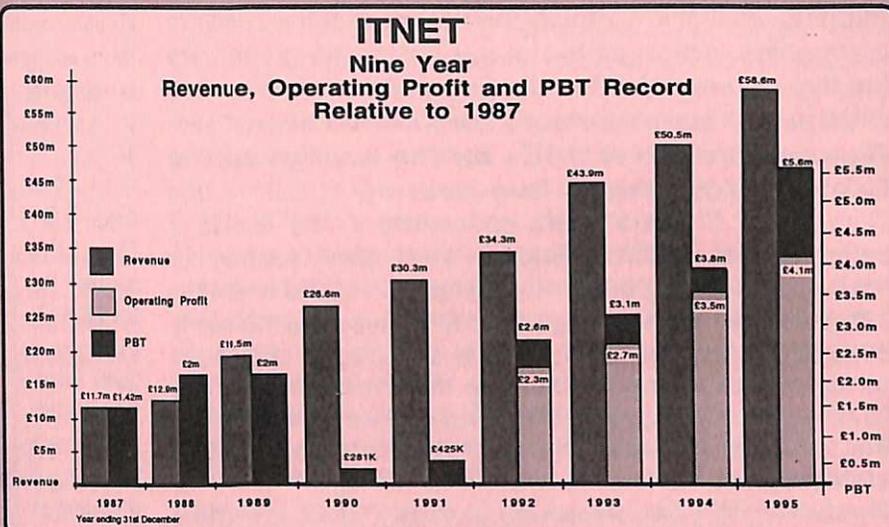
## ITnet

1995 was an exciting year for outsourcing supplier ITnet with the Nov. 95 MBO from Cadbury Schweppes which valued ITnet at £37.1m. Results for the year to 31st Dec. 1995 show revenues increased by 16% to a record £58.6m. PBT increased by 47% to £5.6m in 1995;

which equates to a profit margin of 9.6%. However, this included an exceptional gain of £1.15m relating to the release of a pension accrual. Even so, operating profit was up 17% £4.1m, equating to an operating margin of 7.0% - similar to several other outsourcing companies.

"All market sectors have performed strongly. Local Government increased by 20%". The private sector also did well with new contracts with BAA (£10m/5 year), BASF and "our first in the central government sector with English Heritage". But ITnet's "biggest area of growth was in distributed systems. Half the contracts won in 1995 included distributed systems management and more than 300 ITnet employees are now involved in distributed systems support".

We expect ITnet to go for a float as soon as possible. Many thought the price paid in the MBO to have been too high but we would expect, with the current sentiment towards the IT services sector, that they would be well received.



### Death knell for business application products?

SAP's share price has declined from DM218 to DM192 this year so far. In part this was due to an over ambitious expectation from some analysts for a 50% rise in earnings in 1996. But the main hit was the Forrester report which predicts that R/3 revenues will peak at \$1.7b in 1997 and decline to \$1.1b by 1999 as changes in the business software market render R/3 obsolete.

### Tangent International Group plc

Private UK SCSI company Tangent has had "its most successful year since 1974" with revenues up 35% at over £19m in the year to 31st Mar. 96. No PBT for 1996 yet, but 1995 witnessed a return to a minimal £196K PBT. Tangent now operates in 30 countries and "activities include engineering and scientific support to the software engineering and cellular comms industries".

5.30 pm Wednesday
17th July 1996
Make note to
attend
Richard
Holway's
CSSA
Presentation
at London Portman
Hotel.

Last year nearly 250 of the very top CEOs from our industry attended Richard Holway's annual presentation on the financial state of the industry on behalf of the CSSA. It was considered by many to have been the best "networking event" of the year. So please make a note of this year's date - 17th July. Starting at 5.30 pm, the evening at the London Portman Hotel includes dinner and drinks.

Also, as usual, a FREE place for every one who orders an advance copy of the 1996 Holway Report or £97.50 + VAT from the CSSA.

## the Holway Report

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