

System House

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The first evidence of a slowdown in IT Service growth

Exactly a year ago we ran a major review of the IT Staff and Recruitment companies, reminding readers that this sector has been an excellent barometer of the future health of the whole IT services industry.

Basically the "theory" is as follows. In a Bull IT market, demand for staff outstrips supply. Staff churn increases as permanent staff move to the best paid jobs - every leaver is a new permanent recruitment/ad. opportunity.

Indeed, staff churn hit an average of 20% - obviously higher in some companies - 1997/98. The costs and disruption are great.

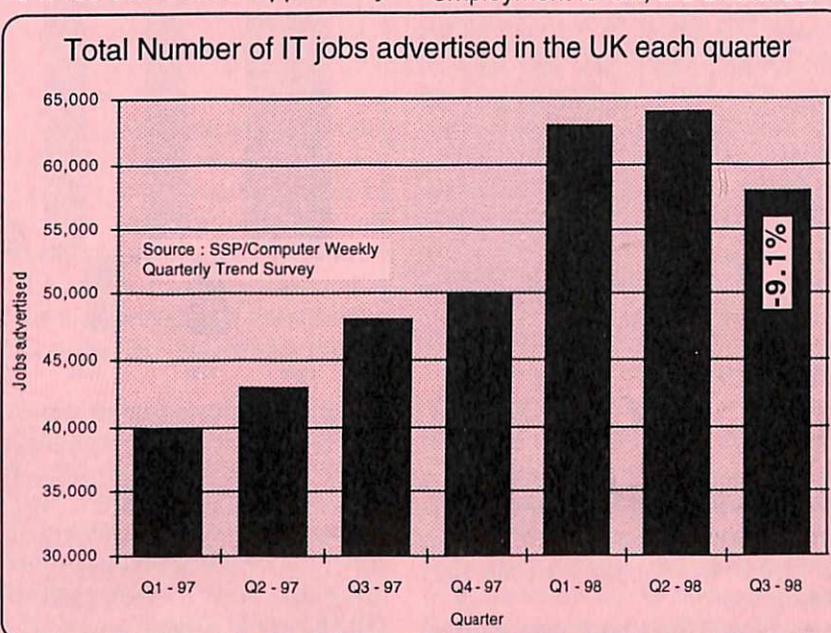
A feeling of economic wellbeing means that other IT staff decide to earn much more by becoming self employed. The IT agency sector soars. Then, after a while, general economic worries start - Far East, UK and worldwide. Financial services companies are hit and, of course, this has

some immediate (albeit probably small) effect on IT jobs. Like Merrill Lynch "dumping" 900 IT contractors worldwide. So your average IT employee decides to stay put - "I don't want to be the last-in-first-out regardless of the higher pay". Say staff churn reduces from 20% to 15% (by the way it was c5% in the depths of the last turndown in 1991-93). That's 50,000 less potential job ads. Employment levels, however, are unaltered.

Rupert Bayfield is currently the Chairman of Best People, and formerly the founder of Computer People. As he might be considered as the founder of IT contracting in the UK nearly 30 years ago, we accept that he "does know a little of what he is talking about". In an e-mail to us this month, Bayfield pointed out that "in early 1990, permanent recruitment stopped dead in its tracks".

It was, indeed, an accurate indicator of the health of the sector and was followed by zero growth in 1991 and 1992. But Bayfield says "contract recruitment increased and indeed continued to increase for a full 18 months. I well remember 20th Aug. 91, however, when the numbers on billing at Computer People reached a record high...but then nearly halved over the following 12 months".

We suspect that the IT contractor market might well stay buoyant through most of 1999. But we also believe that as contractors increasingly fear that "there may be troubles ahead", more will decide to return to permanent employment - probably against all the rules, but often with the very company where he/she was contracting. Again we must point out that even if this happens overall employment levels, are unaltered.



In the last downturn there was a third stage where the number of permanent jobs reduced dramatically. We do NOT think that will happen this time around.

To remind readers, we believe that growth of 7-9% will still be achieved in the early years of the next millennium. Still a healthy growth rate, but a third of

that currently being experienced.

We believe that staff churn is already declining. With it, pay demands will moderate. Increasingly, IT contractors will move back to permanent employment.

This will be very good news for the "quality" project system houses as costs (particularly those associated with staff replacement) will reduce. But it could be very bad news for IT staff agencies (almost all of which are also associated with permanent recruitment too, so are hit by a double whammy).

As can be seen on p9, the share prices of the IT staff agencies have been particularly badly hit in the last couple of months whereas the project houses (like Admiral, Logica etc.) have recovered pretty well.

IT services shares were hit badly earlier this month. Many analysts quoted our review from last month which showed that over the last ten years P/Es have roughly shadowed forecast earnings growth. P/Es have now fallen to the early 20s whereas 1999 growth is still forecast at 34%. But most analysts are now discounting 1999 and looking at 2000 and beyond when earnings growth could be half that.

Sorry to say it, but on that basis the current much reduced valuations don't look too far out of line....

Good results from Riva but.....

On the face of it, **Riva** (developers and suppliers of systems, software and services to the retail sector) has produced a good set of interim results for the six months ended 30th Jun. 98. Revenue rose a reasonable 11% to £36.2m, PBT "jumped" 84% to £349K with EPS more than doubled. We were pleased to see that software and services revenue (now over half total revenue) has continued to increase with software up 31%, SI +9% and support services +5%. Their Belgium operation has now been merged into the Holland business and they are switching from direct to indirect channels in Switzerland. But Chairman Peter Giles stated, although "the underlying performance in France, UK and Benelux continues to improve strongly. The impact of events in Switzerland... are likely to hold the Group's full year results back to a similar level to 1997" (i.e. c£1.3m).... "I remain positive about our prospects for 1999 and beyond". This "profit warning" badly affected the share price which fell 44% in the month to end on 37p.

Losses up at AFA Systems

AFA (Musketeer treasury and risk systems) was set up by ex-ACT MD Mike Hart and was a new AIM issue in July 96 at 120p. Losses have continued at the Jun. 98 interim stage and, on revenues of a minuscule £113K, they increased from £855K to £1.1m. Of course AFA is still in its set-up phase and the future looks a bit better with an order backlog of £900K. Three further distributors have been signed up outside the UK. The shares ended Oct. on 84p - a 30% discount to the float price and down 31% in the month.

Share price crash at ECsoft

Despite good interim results for the six months ended 30th Jun. 98, **ECsoft** felt obliged to issue a press release about the dramatic downward movement in their share price. "The board knows of no reason for such movement based upon the company's business or financial condition".

ECsoft was placed on the London Stock Exchange at £18.07 in July this year and are also listed on NASDAQ. They were given a rapturous reception - rising to a high of £24.75 soon afterwards. However, the decline since, to a low of c£8 this month, could well warrant the description "crash". They recovered well to end Oct. down just 3% on £12.50p.

But the interim figures were similar to the forecast made at the time of the London listing and Q3 showed revenue up 28% at \$25.1m and PBT up 75% at \$4.1m.

ECsoft is now to increase its focus on service management in order to consolidate its position in the field of managing complex IT infrastructures and distributed applications. "Strong demand" is currently being experienced.

Some recent company statements

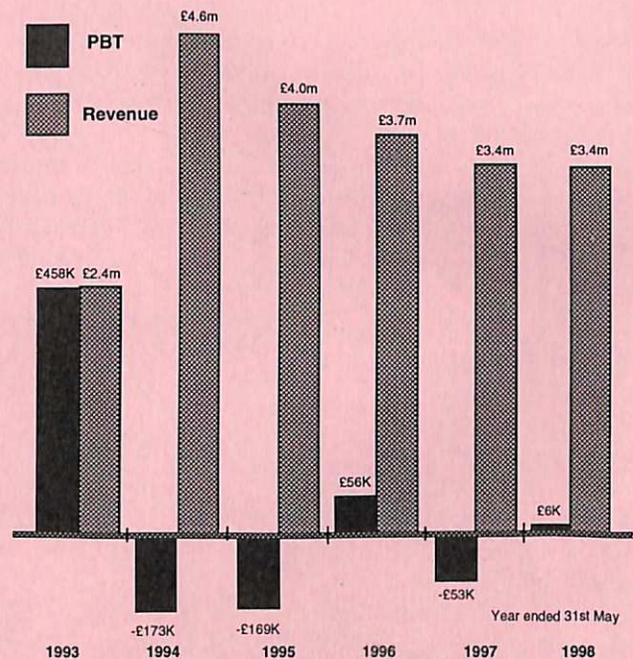
Tetra has said that Q199 trading was "in line with expectations". **Quantica** "continues to trade in line with budget". In response to a fall in the company share price, **Zergo Holdings** said it "has no reason" to revise its business outlook at this point.

At **Admiral's** bi-annual briefing. Chairman Clay Brendish, said "to reassure our shareholders, current trading remains buoyant and in line with our expectations. Although the outlook further out is inevitably uncertain, demand for all our services remains strong". Staff numbers at the end of Sep.

JSB Software Technologies

JSB is a specialist developer and provider of networking and connectivity software. They floated on AIM in June this year at 200p, raising £3.6m net and valuing them at £18.9m. They had £683K left in the bank at the year-end. In their maiden results since the float for the year ended 31st May. 98, revenue was static at £3.4m but an expected loss of c£200K turned out to be, in reality, a small profit of £6K.

JSB Software Technology Revenue and PBT Record



Of course JSB is a very small company and although not technically unique, they are still quite interesting in their own way. Firstly, they are very much network, and now increasingly Internet-oriented. Secondly about half of their revenue comes from the US and thirdly, at the time of the float, the shares were oversubscribed at least 7-times. Possibly this previous over-subscription is the reason for the relatively small decline in the share price over the last few months. They are now below the new issue price (as one would expect in today's climate) but, at 178p, they are "only" at a discount of 11%.

Comment. JSB is small but the UK doesn't have many like them. How analysts (like us) and investors treat them will determine whether the situation improves in the future. If we fail, companies like JSB will bypass the UK and go directly onto NASDAQ. Mind you we fear that in any case, JSB might find its eventual home as part of a US company rather than remaining as one of the few, quoted, independent UK Internet software product companies.

now stand at 2,376 - well up on the year end figures. Their largest division is Admiral Computing with nearly 1,100 staff. **Triad's** Chairman Alistair Fulton also made a similar bullish statement. "In the light of recent share movements, I would like to reassure our shareholders that current trading continues to be strong and in line with expectations".

Diagonal has decided to postpone its plans for a bonus issue of shares as a direct consequence of the volatility in the stock market. Rod Aldridge, Chairman & CEO at **Capita** (see also p7) has issued a bullish trading statement which helped push up the share price.

Profit warning from Spring

Shares in **Spring Group** fell over 12% when they announced that growth in their General Services division had "slowed noticeably". Spring said that this was likely to result in only modest like-for-like increases in revenue and profits in the current financial year. Of course, due to acquisitions, both revenue and profits would still show "a significant increase" according to CEO Karl Chapman. Analysts are now forecasting full year PBT of c£26m. The shares recovered from the 142p low to end October down 28% on 172p.

Spring has also disposed of its **Pitman Franchise Business** and **The Training Corp.**, in a MBO supported by 3i. and NatWest. Spring have retained 19.9% and received £2.4m in cash. Given the extensive rebranding to the Spring name, this makes a deal of sense.

Strategic review at Microgen

In July this year, ex-Dell Sen. VP Martin Ratcliffe bought c10% of **Microgen** and became exec. Chairman. The results of his strategic review have now been announced. Basically Microgen is now to concentrate on Managed Information Services, BPO and Systems Integration. They will reduce their dependence on the COM market and refocus business within the UK. This means that the subsidiaries in Germany, Norway, Sweden and Denmark are being sold for up to £26.25m and the UK COM and CD manufacturing operations will be outsourced to Anacomp. Other internal reorganisational changes will incur exceptional costs of c£1.9m. Internet-based Document Management Services, based on Microgen Axxess, will be given additional funding and acquisitions will be sought "to accelerate entry into related new market sectors".

Ratcliffe admitted that Microgen "has been through a pretty difficult 18 months. The strategy moving forward is that we are going to retrench".

Company broker, Dresdner Kleinwort Benson is now forecasting 1999 profits of £2m rising to £4.3m in 2000.

Comment. Having closely followed Ratcliffe's search for a suitable MBI opportunity since leaving Dell, we like the new proposals. The emphasis on managed services - particularly Internet related - and the BPO activities seem to be following the oft-stated Holway doctrine. We were not the only one who liked the review - Microgen shares have risen 16% in the month to end on 107p.

A raft of good news from our "favourite" RM

At long last **RM** (still better known as Research Machines - the leading supplier of systems to the UK education market) has announced its first international software publishing agreement for the distribution and localisation rights to RM Maths. The five-year agreement is with Germany's largest educational publishers, Ernst Klett. We are a great fan of RM and have long encouraged them to "export" their undoubted expertise. The potential is enormous.

Mind you, RM has been motoring in the UK too. They have been chosen as the preferred bidder in a £43m PFI project to supply IT to Dudley LEA. Just days later they won a £5m/5 year IT managed services contract with South Lanarkshire. The potential for a raft of similar type contracts, coupled with its extremely high quality long-term earnings, makes RM amongst our favourite UK SCS companies. An IPO in Dec. 94 at 35p (equivalent), RM closed Oct. 98 on 358p!

Transformation complete at Torex

After various disposals in 1997, **Torex** has changed itself from a tool hire operation to a "pure" SCSI company specialising in the retail and medical sectors. In their interim results for the six months ended 30th Jun. 98, due to disposals revenue fell 13% to £9.4m but was up 24% on continuing operations. PBT increased 10% at £1.6m (mainly due to sale proceeds causing a complete clearance of interest payable). However a more interesting comparison is in operating profits on continuing businesses which was up 80%. EPS was static.

CEO Chris Moore commented on the "strong organic growth in Retail and a return to strong profitability in Medical.... Demand for products and services of both divisions remains strong and I am confident that the current progress will be maintained during the rest of the year.... We are currently in discussions regarding a number of potential acquisitions".

Indeed just a week later on 23rd Oct., Torex announced the acquisition of **Hollowbrook Computer Services Ltd** for £2.4m (£2m in cash - rest in shares). Hollowbrook provides systems to GPs and had revenues of £3.8m and PBT of £161K in the year to 30th Jun. 98.

To us this acquisition looked absolutely right - making Torex one of the leading suppliers of systems to GPs. When we first interviewed Chairman Chris Moore, we feared they would try to become a Sanderson or Trace - i.e. involved in dozens of different activities. *But Hollowbrook develops depth not width!*

Despite the good results, the share price has remained stubbornly low at 95p - up just 2% in the month. This means a rather depressed PE of only 16 - less than they traded as a tool hire company! House brokers, Beeson Gregory, pointed out that the expected tax charge for FY98 and FY99 will drop from 29% to 25%, so an enhanced EPS is forecast.

Veritas creates buying opportunity

Veritas Software (under well known COO Geoff Squire) is not a UK SCSI stock but is interesting nevertheless to many of our readers due to Squire's involvement. When on 7th Oct. they announced the acquisition of part of US **Seagate Software** for \$1.6 billion, investors reacted badly and Veritas shares plummeted over 40% - knocking over \$600m off their valuation. The share price was not helped by the "poison pill" to block possible hostile bids. Of course Veritas say that this is not to block bids - but to encourage bidders to talk to the directors before acting!

The acquisition breaks one of Holway's Golden Rules for Successful Acquisitions - "any deal at more than 20% of current market value increases the risk of failure dramatically" - as Veritas was "only" valued at c\$2.3 billion when it made the offer. But the logic behind the deal was impeccable. And remember that Geoff Squire has a rather good reputation in this field!

Clearly the market picked up this theme too and the "Buy" notices quickly appeared. By the end of the month, Veritas had recovered all the initial losses. Any canny investor buying on the low could have doubled his money in a few weeks.

Still worth noting that Veritas is on a valuation equal to six-times sales!

ISP Voss Net has reported rev. down 37% at £233K and losses increased from £7K to £151K. They are now to concentrate on "the provision of internet/intranet consultancy services".

News from the Privates

As you know, whenever possible we like to bring you news of private - i.e. non-quoted - companies. We suspect that most of the companies featured below intended an IPO in 1998/99. Their hopes are now probably dashed. On the other hand we have a pretty impressive record of featuring private companies only to find them bought by some other subscriber soon afterwards. *There could not possibly be a connection, could there?*

...Computeraid Services

Old established **Computeraid** is basically a maintenance and support organisation and was the subject of an MBO from Thorn EMI in Dec. 94 which valued them at a rather modest £5m. Maurice O'Brien and Chris Wood (who could well claim to be the original founders anyway) led the MBO and were backed by CINVen.

The company now has over 900 staff. They have grown partly organically and partly by acquisition. They now, for example, support over 25,000 EPoS terminals in the UK and Ireland.

Results for the year ended 31st Mar. 98 were quite excellent. Revenue rose 31% to £55.2m and PBT went up from £233K to £1.2m (although FY97 was lower due to exceptional £118K admin. costs). But we should point out that's still a margin of just 2.2%. But what we like most, however, is the move away from the "break/fix" business to higher levels up the value chain. Their Professional Services Division grew a massive 61% to £16m in FY98. We understand from Chris Wood that "our 1999 results are currently ahead of plan". If the Stock Market had kept up its love affair with IT, Computeraid might well have squeezed in an IPO. They have now missed the boat. On the other hand they would make an excellent "expand the depth" acquisition for certain larger "distributed IT" companies we know!

...Axon Solutions

Axon only commenced trading in Oct. 94 but managed to grow revenues by 50% to £10.5m in the year to 31st Dec. 97 with PBT of around £50K. c80% growth is expected to revenues of £19m in 1998 with a significant improvement in profitability. Axon operates largely in the SAP arena. Indeed they have "no intention of setting up teams for other flavours of ERP". They have over 100 consultants and, as well as SAP implementations, provide AM. They also claim to have implemented over 75% of the live SAP e-commerce sites in the UK. Indeed they implemented the first in the UK at Morse.

At one stage we expected an IPO in 1998 for Axon too.

...Tessella

Tessella is a 70-strong private company developing software for the scientific and engineering community. Results to 31st Mar. 98 show rev. up 12% at £3.35m but PBT static at £379K - still a 11% margin.

...and from Romtec - a company that should have remained private

IT researcher and AIM listed **Romtec's** results for the six months ended 31st Jul. 98 were very disappointing. Revenue fell 25% to £1.86m and PBT plunged from £130K (and this was only slightly up on the 1996 figure) to just £30K. EPS has become negative.

Chairman and majority shareholder (with c87%) Russ Nathan put part of the blame on to the strength of sterling as 38% of revenue comes from exports. But it was losses in the telecomms tracking programme - now sold to JV partner GFK - which was mostly to blame. In addition "investment in our Universal database and Internet research businesses were greater than anticipated". Nathan went on to say that trading has strengthened in the second half and "a modest outcome is expected for the full year" now they have rid themselves of the loss making telecomms activities.

Comment. At the risk of upsetting Nathan further, it seems just amazing to us that the last R & A showed a total of 162 full and part time staff. We have just a total of *three* and our revenue per head (and profit!) bears no comparison whatsoever to the minimal figures at Romtec. Indeed at one time we even contemplated the possibility that Romtec would make a bid for RH Ltd - seems more likely the other way round now! *Just what is going wrong at Romtec.*

Romtec's shares were launched at a modest 62.5p back in Apr. 96. They rose to over £1 but have now fallen back to end the month on 82p. We suspect there has been few (if any) share transactions for months.

...Maxima Information Group

Maxima was formed in 1990 when CEO John Caines led an MBO of Minerva Industrial Systems from its parent group. They then went on to acquire Systems Team in 1995. In 1997, South African NSA investments paid c£4.4m for a 27% stake - the rest of the equity is owned by the management and >100 staff also own shares. Maxima now has two operating divisions, Systems Team (solutions within the Health & Social Care sectors) and Minerva (manufacturing marketplace).

Hot off the press, Maxima has just sent us their latest accounts for the year ended 31st May. 98. Revenue increased a massive 73% to £26.8m with PBT up a lower, but still excellent, 33% at £1.7m. Although the bulk of revenues (£22.3m) and operating profits (£1.8m) comes from the UK, they now have an increasing spread of revenues from several countries within Europe, the Czech Republic and Slovakia. Denmark with £2m revenue is the next largest after the UK. All countries except Germany (loss £97K) and Finland (loss £20K) make an operating profit. Minerva has this year acquired a 75% stake in Minerva Suomi (Finland) for £166K, and 80% in Digitis (Czech Republic) for £541K.

Bill Passmore has taken over the Chairmanship from majority shareholder John Caines who remains as CEO. Passmore comments on "strong growth which further extends Maxima's unbroken record of turnover and profit increases... Despite some uncertainties thrown up by Y2000... we look forward with optimism".

Another private company which would have made an interesting IPO candidate.

...Catalyst

In May 98, it was announced that **Pacific Systems** and **Catalyst** had merged. Both companies have projected revenues of c£20m for the year to April 99 - i.e. £40m in total. In July, they acquired the SI bit of Decision Data.

The new **Catalyst Solutions** is "IBM UK's premier AS/400 business partner" with considerable involvement in SAP/ERP implementation and associated services such as disaster recovery and e-commerce. They employ 400 people - 30 in the US and rest in the UK.

According to the May 98 press release, *Catalyst intended to float on the London Stock Exchange in 1999...*

Quoted Companies - Results Service

Note: Shaded = Results announced this month.

Admiral plc					Eidos plc				
REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	REV	Final - Mar 97	Final - Mar 98	Comparison	
	£ 54,118,000	£ 117,191,000	£ 65,805,000	+21.6%		£ 75,531,000	£ 137,234,000	+81.7%	
PBT	£ 7,200,000	£ 17,552,000	£ 10,329,000	+43.5%	PBT	£ 6,831,000	£ 16,507,000	Loss to profit	Loss to profit
EPS	7.40p	17.80p	10.50p	+41.9%	EPS	-60.40p	59.80p	Loss to profit	Loss to profit
AFA Systems plc					Electronic Data Processing plc				
REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	REV	Interim - Mar 97	Final - Sep 97	Interim - Mar 98	Comparison
	£ 62,000	£ 226,000	£ 113,000	+82.3%		£ 8,490,000	£ 12,585,000	£ 5,812,000	-10.4%
PBT	-£ 865,000	-£ 1,801,000	-£ 1,064,000	Loss both	PBT	£ 803,000	£ 1,741,000	£ 1,235,000	+53.8%
EPS	-8.56p	-16.80p	-8.88p	Loss both	EPS	2.01p	4.50p	3.23p	+60.7%
AIT Group plc					F.I. Group plc				
REV	Final - Mar 97	Final - Mar 98	Comparison		REV	Final - Apr 97	Final - Apr 98	Comparison	
	£ 11,218,000	£ 13,558,000	+20.9%			£ 98,800,000	£ 181,595,000	+83.6%	
PBT	£ 1,546,000	£ 2,164,000	+40.0%		PBT	£ 6,575,000	£ 10,670,000	+62.3%	
EPS	5.36p	7.17p	+33.8%		EPS	2.84p	4.46p	+57.0%	
Anite Group plc					Flomerics Group plc				
REV	Final - Apr 97	Final - Apr 98	Comparison		REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison
	£ 193,399,000	£ 149,540,000	-22.7%			£ 2,335,584	£ 5,786,456	£ 2,938,163	+25.8%
PBT	-£ 50,377,000	£ 29,347,000	Loss to profit		PBT	-£ 416,188	£ 48,085	-£ 268,699	Loss both
EPS	-21.20p	8.90p	Loss to profit		EPS	n/a	0.30p	n/a	n/a
Azlan Group plc					Gresham Computing plc				
REV	Final - Mar 97	Final - Mar 98	Comparison		REV	Interim - Apr 97	Final - Oct 97	Interim - Apr 98	Comparison
	£ 292,884,000	£ 292,073,000	-0.3%			£ 4,500,000	£ 8,689,000	£ 8,520,000	+89.8%
PBT	-£ 14,100,000	-£ 7,860,000	Loss both		PBT	£ 487,000	£ 667,000	£ 1,017,000	+108.8%
EPS	-27.20p	-12.20p	Loss both		EPS	0.88p	1.17p	1.98p	+125.0%
Bond International Software plc					Guardian IT plc				
REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison
	£ 2,865,000	£ 6,396,027	£ 4,320,000	+50.8%		£ 10,888,000	£ 23,026,000	£ 13,706,000	+25.9%
PBT	£ 179,000	£ 718,250	£ 284,000	+58.7%	PBT	£ 1,914,000	£ 4,033,000	£ 2,959,000	+54.6%
EPS	0.88p	3.54p	1.37p	+55.7%	EPS	2.70p	5.70p	4.00p	+48.1%
Cadcentre Group plc					Harvey Nash Group plc				
REV	Final - Mar 97	Final - Mar 98	Comparison		REV	Interim - Jul 97	Final - Jan 98	Interim - Jul 98	Comparison
	£ 17,339,000	£ 17,727,000	+2.2%			£ 23,767,000	£ 55,796,000	£ 44,861,000	+88.8%
PBT	£ 1,777,000	£ 2,754,000	+55.0%		PBT	£ 2,111,000	£ 5,527,000	£ 4,074,000	+93.0%
EPS	7.13p	10.30p	+44.5%		EPS	5.26p	13.36p	9.79p	+86.1%
Capita Group plc					Highams Systems Services Group plc				
REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	REV	Final - Mar 97	Final - Mar 98	Comparison	
	£ 79,067,000	£ 172,904,000	£ 117,907,000	+49.1%		£ 16,394,589	£ 25,143,421	+53.4%	
PBT	£ 7,062,000	£ 18,312,000	£ 10,590,000	+50.0%	PBT	£ 878,707	£ 1,383,327	+57.4%	
EPS	2.49p	6.51p	3.49p	+40.2%	EPS	3.60p	5.08p	+41.1%	
Cedar Group plc					ICM Computer Group plc				
REV	Final - Mar 97	Final - Mar 98	Comparison		REV	Final - Jun 97	Final - Jun 98	Comparison	
	£ 10,363,000	£ 12,506,000	+20.7%			£ 33,989,000	£ 35,881,000	+5.6%	
PBT	£ 1,589,000	£ 2,564,000	+61.4%		PBT	£ 1,437,000	£ 2,702,000	+88.0%	
EPS	3.60p	5.30p	+47.2%		EPS	4.20p	8.70p	+107.1%	
CFS Group plc					ilion Group plc				
REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison
	£ 3,702,000	£ 6,828,000	£ 3,155,000	-14.8%		£ 88,389,000	£ 203,134,000	£ 125,601,000	+42.1%
PBT	£ 276,000	£ 813,000	£ 161,000	-41.7%	PBT	£ 3,030,000	£ 6,100,000	£ 1,158,000	-71.3%
EPS	2.07p	8.29p	1.23p	-40.6%	EPS	11.00p	15.10p	3.50p	-68.2%
Clinical Computing plc					Intelligent Environments Group plc				
REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison
	£ 1,376,000	£ 3,025,110	£ 1,664,000	+20.9%		£ 2,074,000	£ 4,443,146	£ 2,627,000	+28.7%
PBT	£ 78,000	£ 275,564	£ 205,000	+162.8%	PBT	-£ 2,046,000	-£ 3,009,417	-£ 874,000	Loss both
EPS	0.30p	1.10p	0.80p	+166.7%	EPS	-9.20p	-13.30p	-3.20p	Loss both
CMG plc					IS Solutions plc				
REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison
	£ 130,784,000	£ 302,992,000	£ 194,151,000	+38.0%		£ 4,088,000	£ 8,750,000	£ 4,198,000	+2.7%
PBT	£ 15,117,000	£ 38,645,000	£ 24,051,000	+59.1%	PBT	£ 247,000	£ 539,845	£ 404,000	+63.6%
EPS	7.40p	19.30p	12.20p	+64.9%	EPS	4.40p	8.63p	5.68p	+29.1%
Comino plc					ITNET plc				
REV	Final - Mar 97	Final - Mar 98	Comparison		REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison
	£ 7,792,000	£ 13,151,000	+68.8%			£ 37,598,000	£ 81,713,000	£ 50,172,000	+33.5%
PBT	£ 1,420,000	£ 1,950,000	+37.3%		PBT	£ 2,033,000	£ 6,834,000	£ 2,208,000	+8.6%
EPS	9.95p	11.46p	+15.2%		EPS	1.40p	4.40p	1.70p	+21.4%
Compel Group plc					JBA Holdings plc				
REV	Final - Jun 97	Final - Jun 98	Comparison		REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison
	£ 111,782,000	£ 210,003,000	+87.9%			£ 88,102,000	£ 221,737,000	£ 126,133,000	+43.2%
PBT	£ 5,057,000	£ 9,021,000	+78.4%		PBT	-£ 1,297,000	£ 5,233,000	-£ 4,456,000	Loss both
EPS	16.20p	21.40p	+32.1%		EPS	-2.56p	10.12p	-8.35p	Loss both
Computacenter Services Group plc					JSB Software Technologies plc				
REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	REV	Final - May 97	Final - May 98	Comparison	
	£ 558,917,000	£ 1,133,523,000	£ 775,746,000	+38.8%		£ 3,300,000	£ 3,382,000	+2.4%	
PBT	£ 22,095,000	£ 47,099,000	£ 31,332,000	+41.8%	PBT	-£ 53,000	£ 6,000	Loss to profit	Loss to profit
EPS	8.00p	17.40p	11.40p	+42.5%	EPS	n/a	n/a	n/a	n/a
DCS Group plc					Kalamazoo Computer Group plc				
REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	REV	Final - Mar 97	Final - Mar 98	Comparison	
	£ 23,742,000	£ 59,777,000	£ 46,480,000	+95.8%		£ 77,776,000	£ 85,711,000	+15.5%	
PBT	£ 2,036,000	£ 4,920,000	£ 3,053,000	+50.0%	PBT	£ 3,882,000	-£ 2,329,000	Profit to loss	Profit to loss
EPS	6.48p	15.68p	9.34p	+44.1%	EPS	6.85p	-3.00p	Profit to loss	Profit to loss
DRS Data & Research Services plc					Kewill Systems plc				
REV	Final - Dec 96	Final - Dec 97	Comparison		REV	Final - Mar 97	Final - Mar 98	Comparison	
	£ 4,822,000	£ 6,785,000	+40.3%			£ 41,348,000	£ 45,088,000	+9.0%	
PBT	-£ 1,734,000	-£ 826,000	Loss both		PBT	£ 6,314,000	£ 6,813,000	+7.9%	
EPS	-3.43p	-1.99p	Loss both		EPS	31.60p	30.60p	-3.2%	
Delcam plc					Logica plc				
REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	REV	Final - Jun 97	Final - Jun 98	Comparison	
	£ 7,065,514	£ 14,556,443	£ 6,479,637	-8.3%		£ 338,465,000	£ 472,957,000	+39.7%	
PBT	£ 372,410	£ 504,036	-£ 675,577	Profit to loss	PBT	£ 28,148,000	£ 41,825,000	+48.6%	
EPS	4.40p	7.40p	-9.60p	Profit to loss	EPS	30.30p	42.30p	+39.6%	
Delphi Group plc					London Bridge Software Holdings plc				
REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison
	£ 133,413,000	£ 276,914,000	£ 162,158,000	+21.5%		£ 4,095,000	£ 11,320,000	£ 8,054,000	+96.7%
PBT	£ 7,018,000	£ 12,853,000	£ 2,121,000	-69.8%	PBT	£ 953,000	£ 3,701,000	£ 2,705,000	+183.8%
EPS	16.65p	28.79p	4.91p	-70.5%	EPS	2.51p	10.03p	6.31p	+151.4%
Diagonal plc					Lorien plc				
REV	Interim - May 97	Final - Nov 97	Interim - May 98	Comparison	REV	Interim - May 97	Final - Nov 97	Interim - May 98	Comparison
	£ 17,847,000	£ 44,788,000	£ 31,880,000	+78.5%		£ 52,864,000	£ 118,930,000	£ 87,985,000	+28.6%
PBT	£ 1,072,000	£ 3,302,000	£ 3,053,000	+184.8%	PBT	£ 889,000	£ 1,585,000	£ 2,488,000	+179.9%
EPS	5.98p	13.57p	10.57p	+96.5%	EPS	1.10p	4.50p	7.40p	+572.7%
Dialog Corporation plc					Lynx Holdings plc				
REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	REV	Interim - Mar 97	Final - Sep 97	Final - Mar 98	Comparison
	£ 14,037,000	£ 46,082,000	£ 88,752,000	+532.3%		£ 53,915,000	£ 120,752,000	£ 80,393,000	+49.1%
PBT	£ 2,013,000	-£ 20,432,000	£ 6,989,000	+247.2%	PBT	£ 3,710,000	£ 9,805,000	£ 5,526,000	+48.9%
EPS	0.90p	-20.52p	4.10p	+355.6%	EPS	2.58p	6.83p	3.65p	+41.5%
Division Group plc					MMT Computing plc				
REV	Interim - Apr 97	Final - Oct 97	Interim - Apr 98	Comparison	REV	Interim - Feb 97	Final - Aug 97	Interim - Feb 98	Comparison
	£ 2,387,000	£ 6,878,000	£ 2,193,000	-8.1%		£ 10,703,000	£ 24,639,075	£ 18,991,000	+58.7%
PBT	-£ 956,000	-£ 1,783,000	-£ 2,276,000	Loss both	PBT	£ 2,424,000	£ 5,554,611	£ 4,250,000	+75.3%
EPS	-2.20p	-4.10p	-5.10p	Loss both	EPS	13.30p	29.80p	23.20p	+74.4%
Druid Group plc					M-R Group plc				
REV	Final - Jun 97	Final - Jun 98	Comparison		REV	Final - Jun 97	Final - Jun 98	Comparison	
	£ 22,068,000	£ 40,604,000	+84.0%			£ 39,430,000	£ 48,822,000	+18.7%	
PBT	£ 5,004,000	£ 8,044,000	+60.8%		PBT	£ 5,804,000	£ 6,902,000	+23.2%	
EPS	13.94p	23.87p	+71.2%		EPS	7.30p	9.20p	+26.0%	
ECsoft Group plc					MDIS Group plc				
REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison
	£ 20,388,000	£ 44,235,000	£ 30,199,000	+48.1%		£ 56,029,000	£ 116,925,000	£ 83,005,000	+12.5%
PBT	£ 1,606,000	£ 4,111,000	£ 2,882,000	+79.5%	PBT	-£ 3,910,000	£ 221,000	-£ 87,000	Loss both
EPS	14.60p	35.60p	19.70p	+34.9%	EPS	-3.82p	0.22p	-0.16p	Loss both

Quoted Companies - Results Service

Note: Shaded = Results announced this month.

Macro 4 plc				Royalblue Group plc				
	Final - Jun 97	Final - Jun 98	Comparison	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	
REV	£ 23,448,000	£ 24,234,000	+3.4%	£ 8,892,000	£ 20,647,000	£ 13,312,000	+49.7%	
PBT	£ 10,900,000	£ 10,060,000	-2.3%	£ 2,210,000	£ 2,041,000	£ 1,815,000	+721.3%	
EPS	33.80p	33.70p	-0.3%	2.70p	6.10p	3.50p	+29.6%	
Micro Focus plc				Sage Group plc				
	Interim - Jul 97	Final - Jan 98	Interim - Jul 98	Comparison	Interim - Mar 97	Final - Sep 97	Interim - Mar 98	Comparison
REV	£ 41,349,000	£ 97,015,000	£ 58,642,000	+41.8%	£ 73,554,000	£ 152,089,000	£ 88,788,000	+20.7%
PBT	£ 5,171,000	£ 15,217,000	£ 10,057,000	+94.5%	£ 19,286,000	£ 37,635,000	£ 23,967,000	+24.3%
EPS	4.50p	13.00p	8.30p	+84.4%	12.03p	23.43p	14.68p	+22.0%
Microgen Holdings plc				Sanderson Group plc				
	Interim - Apr 97	Final - Oct 97	Interim - Apr 98	Comparison	Interim - Mar 97	Final - Sep 97	Interim - Mar 98	Comparison
REV	£ 34,052,000	£ 66,398,000	£ 32,560,000	+4.4%	£ 33,408,000	£ 67,143,000	£ 34,743,000	+4.0%
PBT	£ 4,211,000	£ 5,324,000	£ 1,285,000	-69.5%	£ 3,504,000	£ 2,778,000	£ 4,049,000	+15.6%
EPS	6.90p	8.80p	0.40p	-94.2%	5.90p	4.70p	6.20p	+5.1%
Misys plc				SBS Group plc				
	Final - May 97	Final - May 98	Comparison	Interim - Feb 97	PF Final - Aug 97	Interim - Feb 98	Comparison	
REV	£ 325,470,000	£ 447,700,000	+37.8%	£ 8,565,000	£ 15,981,000	£ 11,308,000	+32.0%	
PBT	£ 62,533,000	£ 51,700,000	-17.3%	£ 353,000	£ 728,000	£ 529,000	+49.9%	
EPS	10.56p	5.82p	-44.9%	3.40p	8.60p	4.90p	+44.1%	
Mondas plc				Science Systems plc				
	Final - Apr 97	Final - Apr 98	Comparison	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	
REV	£ 56,809	£ 297,169	+425.0%	£ 8,793,000	£ 18,601,000	£ 12,107,000	+37.7%	
PBT	-£ 421,192	-£ 484,322	Loss both	£ 1,155,000	£ 1,855,000	£ 1,245,000	+7.8%	
EPS	-10.50p	-7.90p	Loss both	4.30p	6.80p	4.70p	+9.3%	
Moorepay Group plc				Sema Group plc				
	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison
REV	£ 2,731,603	£ 5,283,379	£ 3,181,393	+16.5%	£ 559,539,000	£ 1,130,086,000	£ 610,564,000	+9.1%
PBT	£ 886,148	£ 1,385,201	£ 1,141,281	+28.8%	£ 26,214,000	£ 64,073,000	£ 31,144,000	+18.8%
EPS	5.69p	9.04p	7.14p	+25.5%	4.01p	9.79p	4.83p	+20.4%
MSB International plc				Sherwood International plc				
	Interim - Jul 97	Final - Jan 98	Interim - Jul 98	Comparison	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison
REV	£ 54,893,000	£ 128,793,000	£ 90,403,000	+64.7%	£ 13,069,000	£ 30,036,000	£ 18,090,000	+38.4%
PBT	£ 3,714,000	£ 9,043,000	£ 5,474,000	+47.4%	£ 1,025,000	£ 3,095,000	£ 1,846,000	+80.1%
EPS	12.10p	29.00p	18.30p	+51.2%	7.90p	22.80p	13.20p	+67.1%
NSB Retail Systems plc				Skillsgroup plc				
	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	Interim - May 97	Final - Nov 97	Interim - May 98	Comparison
REV	£ 1,547,000	£ 3,284,464	£ 3,413,000	+120.6%	£ 181,600,000	£ 378,969,000	£ 115,000,000	+36.7%
PBT	£ 454,000	£ 837,516	£ 749,000	+65.0%	£ 6,500,000	-£ 16,308,000	£ 6,600,000	+1.5%
EPS	4.00p	6.90p	4.60p	+15.0%	5.80p	-22.90p	5.80p	+0.0%
Oxford Molecular plc				Spring Group plc				
	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	Final - Apr 97	Final - Apr 98	Comparison	
REV	£ 6,168,000	£ 15,641,000	£ 7,383,000	+19.7%	£ 134,334,000	£ 279,231,000	+107.9%	
PBT	-£ 677,000	£ 256,000	-£ 2,195,000	Loss both	£ 12,056,000	£ 18,109,000	+50.2%	
EPS		0.20p		Loss both	6.86p	8.83p	+22.2%	
Parity plc				Staffware plc				
	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison
REV	£ 90,825,000	£ 202,078,000	£ 134,987,000	+49.0%	£ 7,701,000	£ 17,585,000	£ 9,641,000	+25.2%
PBT	£ 5,678,000	£ 13,506,000	£ 8,754,000	+54.2%	£ 549,000	£ 1,772,000	£ 231,000	-57.9%
EPS	8.90p	20.91p	11.90p	+33.7%	3.30p	10.80p	1.30p	-60.6%
Pegasus Group plc				Superscape VR plc				
	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	Final - Jul 97	Final - Jul 98	Comparison	
REV	£ 5,567,000	£ 12,447,000	£ 7,410,000	+33.1%	£ 3,106,000	£ 4,220,000	+35.3%	
PBT	£ 810,000	£ 1,698,000	£ 632,000	-22.0%	£ 5,961,000	-£ 3,516,000	Loss both	
EPS	12.80p	29.30p	6.80p	-46.9%	-69.60p	-37.30p	Loss both	
PhoneLink plc				Systems Integrated Research plc				
	Final - Mar 97	Final - Mar 98	Comparison	Final - May 97	Final - May 98	Comparison		
REV	£ 4,316,000	£ 3,206,000	-25.7%	£ 1,450,000	£ 1,035,000	not comparable		
PBT	-£ 6,173,000	-£ 3,746,000	Loss both	-£ 1,938,000	-£ 493,000	Loss both		
EPS	-12.90p	-7.80p	Loss both	-14.70p	-4.00p	Loss both		
Policy Master plc				Systems International Group plc				
	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	Interim - Jun 97	Interim - Jun 98	Comparison	
REV	£ 3,956,000	£ 8,745,000	£ 5,054,000	+27.8%	£ 6,350,000	£ 12,400,000	+95.3%	
PBT	£ 204,000	£ 459,000	£ 164,000	-19.6%	£ 728,000	£ 1,570,000	+115.7%	
EPS	1.65p	3.70p	1.32p	-20.0%	n/a	n/a	n/a	
Proteus International plc				Tetra plc				
	Final - Mar 97	Final - Mar 98	Comparison	Final - May 97	Final - May 98	Comparison		
REV	£ 573,000	£ 178,000	-68.9%	£ 23,368,000	£ 30,288,000	+28.5%		
PBT	-£ 3,824,000	-£ 4,127,000	Loss both	£ 2,096,000	-£ 558,000	Profit to loss		
EPS	-7.31p	-7.44p	Loss both	7.10p	-7.28p	Profit to loss		
Quality Software Products Holdings plc				Torex plc				
	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison
REV	£ 13,431,000	£ 28,018,981	£ 18,135,000	+31.8%	£ 10,893,000	£ 21,029,000	£ 9,428,000	+12.5%
PBT	£ 180,000	£ 2,656,299	£ 1,286,000	+613.9%	£ 1,455,000	£ 7,277,000	£ 1,603,000	+10.3%
EPS	1.40p	20.20p	9.40p	+571.4%	3.80p	16.20p	3.80p	+0.0%
Quantica plc				Total Systems plc				
	Final - Nov 97	PF Interim - May 98	Comparison	Final - Mar 97	Final - Mar 98	Comparison		
REV	£ 5,635,000	£ 6,870,000	n/a	£ 3,279,609	£ 4,134,888	+26.1%		
PBT	£ 1,011,000	£ 1,871,000	n/a	£ 412,545	£ 1,019,675	+147.2%		
EPS	1.29p	3.41p	n/a	2.76p	6.80p	+146.4%		
RM plc				Touchstone Group plc				
	Interim - Mar 97	Final - Sep 97	Interim - Mar 98	Comparison	Final - Mar 97	Final - Mar 98	Comparison	
REV	£ 48,985,000	£ 110,170,000	£ 50,473,000	+3.1%	£ 5,160,000	£ 6,154,000	+19.3%	
PBT	£ 1,683,000	£ 8,018,000	£ 636,000	-62.2%	£ 601,000	£ 841,000	+39.9%	
EPS	6.30p	6.20p	2.40p	-61.9%	n/a	n/a	n/a	
Radius plc				Trace Computers plc				
	Final - Dec 96	Final - Dec 97	Comparison	Final - May 97	Final - May 98	Comparison		
REV	£ 27,287,000	£ 27,728,000	+1.7%	£ 17,270,821	£ 14,858,625	-15.1%		
PBT	£ 1,591,000	£ 1,122,000	-29.5%	£ 634,601	£ 1,205,166	+89.9%		
EPS	4.05p	2.94p	-27.4%	3.35p	6.11p	+82.4%		
Rage Software plc				Triad Group plc				
	Final - Jun 97	Final - Jun 98	Comparison	Final - Mar 97	Final - Mar 98	Comparison		
REV	£ 6,758,000	£ 3,623,000	-46.4%	£ 18,827,000	£ 32,161,000	+70.8%		
PBT	-£ 15,430,000	£ 860,000	Loss to profit	£ 2,656,000	£ 6,609,000	+148.8%		
EPS	-6.30p	0.35p	Loss to profit	7.25p	17.79p	+145.2%		
Real Time Control plc				Ultima Networks plc				
	Final - Mar 97	Final - Mar 98	Comparison	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	
REV	£ 12,585,000	£ 15,880,000	+28.4%	£ 20,892,000	£ 38,598,000	£ 8,285,000	-60.3%	
PBT	£ 2,547,000	£ 3,163,000	+24.2%	-£ 424,000	£ 13,240,000	-£ 833,000	Loss both	
EPS	25.50p	30.80p	+20.8%	0.10p	-18.20p	-0.99p	Loss both	
Rebus Group plc				Vega Group plc				
	Final - Mar 97	Final - Mar 98	Comparison	Final - Apr 97	Final - Apr 98	Comparison		
REV	£ 86,438,000	£ 87,730,000	+32.1%	£ 17,977,000	£ 22,457,000	+24.9%		
PBT	£ 5,808,000	£ 8,390,000	+44.5%	£ 3,261,000	£ 3,081,000	-5.5%		
EPS	4.61p	5.74p	+24.5%	13.79p	13.75p	-0.3%		
Recognition Systems Group plc				Workplace Technologies plc				
	Interim - Mar 97	Final - Sep 97	Interim - Mar 98	Comparison	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison
REV	£ 326,000	£ 773,000	£ 327,000	+0.3%	£ 30,752,000	£ 65,938,000	£ 39,977,000	+30.0%
PBT	-£ 1,128,000	-£ 2,255,000	-£ 1,333,000	Loss both	£ 986,000	£ 1,830,000	£ 1,317,000	+33.6%
EPS	-4.10p	-8.10p	-3.80p	Loss both	1.21p	2.17p	2.41p	+99.2%
Riva Group plc				Xavier Computer Group plc				
	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	Final - Mar 97	Final - Mar 98	Comparison	
REV	£ 32,881,000	£ 70,208,000	£ 36,198,000	+10.8%	£ 8,981,457	£ 18,252,000	+81.4%	
PBT	£ 190,000	£ 1,339,000	£ 349,000	+83.7%	£ 582,000	£ 743,000	+27.7%	
EPS	0.30p	2.00p	0.70p	+133.3%	0.85p	1.06p	+24.7%	
Rolfe & Nolan plc				Zergo Holdings plc				
	Final - Feb 97	Final - Feb 98	Comparison	Final - Apr 97	Final - Apr 98	Comparison		
REV	£ 20,299,000	£ 21,714,000	+7.0%	£ 10,398,871	£ 13,176,770	+26.7%		
PBT	£ 2,758,000	-£ 894,000	Profit to loss	£ 620,698	£ 296,664	-52.2%		
EPS	14.50p	-10.20p	Profit to loss	2.30p	-1.00p	Profit to loss		
Romtec plc				ICL has launched a pan-European ATM network built on the back of the BG/Transco network acq. in Aug 97. All network services now under the ICLnet brand.				
	Interim - Jul 97	Final - Jan 98	Interim - Jul 98					Comparison
REV	£ 2,490,000	£ 4,217,440	£ 1,880,000	-25.3%				
PBT	£ 130,000	£ 310,718	£ 30,000	-76.9%				
EPS	1.90p	4.10p	-0.30p	Profit to loss				

UK M&A

Schroder Ventures has invested \$6.5m in **iD2**, the Swedish Internet security software company.

Lynx has acquired the remaining 40% of **Dataware Specialist Products** that it did not own for a maximum of £568K.

ICL has purchased **US Product Technologies Inc.** for c£4m. PTI, with sales of c£3m, is "the leading US-based smart card systems company". This acquisition will help ICL in its objective to become "the world's number one supplier of smart card systems by revenue within the next three years".

AIM listed **AdVal Group** (HR development) has agreed to support the development of **Centre Technology** (multimedia production) with an option to acquire CT in the future.

US Internet Security Systems is buying **March Information Systems** (UK-based security assessment company) for \$7.65m, part cash, part shares. March had 1998 revenues of \$2m.

Dialog Corp. is exercising its option to acquire **Responsive Database Services** for \$2.85m. RDS had 1997 revenues of \$3.1m but lost \$1.64m.

Logica has continued its buying spree by acquiring **US Carnegie Group** for c\$35m. Carnegie provides solutions in the area of customer management and decision support and had 1997 revenues of nearly \$30m with \$600K profits. They have 300 staff in seven US locations. This seems a good tie in with Logica's other telecomms activities. *We also like to see us Brits buying out the Yanks for a change!*

Due to the present state of the SCSI share prices, **Morse Group** has decided to pull its float which was originally planned in Q498. Can hardly blame them - but what a pity. They are a quality company in our opinion and would have got an immediate **Boring Award!**

On a more positive note, **MSW Technology** is hoping to join the main market though a placing to raise £3m - a capitalisation of some £8m.

US Primark (owners of **Datastream/ICV**) have acquired the **IIFS FORTIS** unit trust administration business for an undisclosed sum. FORTIS had revenues of \$1.5m.

Sage has bought **P.A.S.E** and French **Meteor** for up to £3.5m.

Micro Focus has acquired its long-standing Australian distributor, **Advanced Software Engineering** for \$2.4m.

Capita have acquired **Sector Holdings** (treasury and financial management adviser) for £10.7m. Sector's 1998 revenue was £4m but made a small loss of £41K.

Flexible Management Systems has bought the remaining 25% stake it did not own in **ACTIS Holdings** from **ATOS**. No terms were disclosed. You might well not have heard of FMS. They are a Jersey based company and according to Chairman and CEO Keith Williams had FY97 revenues of over £6.4m with a PBT of £375K.

Policy Master has acquired specialist life and financial services software writer **Swift Financial Systems** for a max. total consideration of £3.15m depending on profits up to 2000. Swift has 21 staff and lost £192K in FY98.

Highams System Services has bought **Trainers** (IT training) for an initial £735K and up to a max. of £2m on profits to 2000. Trainers made a PBT of £109K in FY98. Highams are raising c£605K to fund the cash element and to provide further working capital.

Select Appointments has increased its stake in **Fairplace Consulting** (outplacements consultancy) from 2.28% to 12.87% for \$857K (£500K).

Rebus has acquired the **Heathpen** pensions admin. software business from **Heath Group** for £1.25m.

CSC has bought 51% in French **KPMG Peat Marwick SA**. CSC has agreed to buy the remainder of this "breakaway"

Mergers and Acquisitions .. continued

unit early in 1999. No consideration is disclosed. **KPMG PM** has annual revenue of c\$70m (FFr400m) and the combined French operation will now have 1100 staff and revenues approaching \$200m. *KPMG France declaring UDI looks a might strange move to us....*

South Africa services company **USKO** has bought **Bytes Technology Group** for £15.5m in order to expand their UK operation. USKO, the fourth largest SA listed company on the Johannesburg exchange, is evidently actively looking for more UK companies.

Mondas is to acquire **Reality Comms. Scandinavia** (Intranet products) for a total consideration of £1.83m in shares. Mondas is also raising £450K net in a placing.

Concept Systems has been the subject of an MBO valuing the seismic software operation at £36m. 3i provided £12 equity funding and RBoS £17.5m of debt finance.

Kewill is acquiring **Tracer Research Inc.** (a leading US based supplier of e-commerce software) for c\$20m - part cash, part shares. Tracer employs 33 people and had 97 revenues of \$3m. This is Kewill's second US acquisition in the last year.

Hays has expanded its French activities with the purchase of Paris-based IT personnel and consultancy company, **Sitinfo**, for an initial £9.6m and up to £2.9m profit related.

Riva has sold its **Riva Supplies** operation to **Tate Fastforms Ltd** for £550K + stock valuation. The operation had revenue of £2m and PBT of <£100K.

IT staff agency **Quantica** has acquired **SWP Ltd** for an initial £6.7m + £5m performance related in 1999.

US Unicomp Inc. is to sell its **Aurora Unicomp N. Ireland** operations to "a substantial UK company". Unicomp acquired **Software Ireland/Unibol Ltd** in the 1990s. Source - Computergram.

Fattal leaves Cedar Group

Last Nov. **Cedar Group** (then known as **Cedardata**) spent £300K acquiring an option to buy **Qualtech Ltd** for up to £7m by 2000. They have now brought this forward, paying just £4m (£150K cash now plus £3.85m in loan notes to mature in 1999 and 2001). Qualtech provides measurement software for call centres and had revenue of just £163K with losses of £121K to 30th Sep. 98.

It was also announced that Leon Fattal was to step down. Fattal had founded Cedardata back in 1983 as a payroll processing bureau and then moved it into Oracle-based software with their *cfacs* range. They floated onto the main market in Mar. 94 at 105p and were in danger of getting a **Boring Award** when they announced PBT of £4.4m on revenues of £12.1m in the year to 31st Mar. 96 - *i.e. a 36% profit margin!* Brokers Greig Middleton forecast PBT of £5.4m or FY97 and managed to shift 4m shares at 180p. In Nov. 96, under new Chairman Sid Cordier, they moved into call management software with the purchase of £1.5m revenue **Teleconnect** for "up to £10m". By Feb. 97 the share price had hit 262p.

There then followed about the steepest share price fall on record as PBT for FY97 plunged to £1.6m; partly as a result of *cfacs* contract delays but also due to provisions on the Teleconnect purchase. Ex-Oracle Mike Harrison was appointed as CEO and there was a recovery in PBT to £2.6m in FY98. But the share price continues to fall. Indeed it ended Oct. 98 on 107p. - strangely close to the 105p IPO price back in Mar. 94. If only they had stuck to the knitting and further developed their services revenues.... *Oh well.*

Stormy Waters and Safe Havens

Our headline "A return to sanity?" looked a little *insane* within a few days of its arrival on your desks. By 9th October the FTSE IT Index had sunk from 1446 to 990. In other words, all the gains since 1st Jan. 98 had been wiped out. The index has recovered a little since then to end Oct. on 1264- but that's still a 13% decline this month and a massive 74% fall since its high achieved on 20th July. The biggest knee jerk reaction came on the news of job cuts in City institutions. After all, UK SCS companies make nearly 30% of their revenues from the financial services sector. So analysts looked at **Admiral**, which has c40% of its revenues from the sector, and took out the knife. Admiral fell from 1238p to 672p at one point this month. But as Clay Brendish said to us, Admiral has not lost one single contract. Indeed it has *gained* several in the last few weeks. We would like to think that our comments in support of Admiral, **CMG** and some of the other badly hit stocks led to their fast recovery. Indeed, an investment in CMG at its low this month was showing a c60% gain by the month end!

But we have long held views on the "Quality stocks".

Our views on the IT staff agency sector are equally long held (see page 1 feature). It is interesting to note that amongst the worst performing shares since the end-July high were:

- **Lorien** down 67%
- **MSB** down 58%
- **Spring** down 54%
- **Delphi** down 52%
- **Harvey Nash** down 45%
- **Parity** down 41%
- **Quantica** down 40%
- **SBS** down 36%.

This steep fall was confirmed by the 50%

fall since its Aug. peak in the Granville UK Staffing Index. This includes more general staffing agencies like Hays and Robert Walters.

So where should you have invested in 1998?

We shouldn't forget that the FTSE IT Index is still be showing a 26% gain on the year and our own SCS Index (c100 stocks) is 20% up. Both rather better than the Building Society and the modest 5.9% gain in the FTSE 100 this year.

But, of course, informed investors could have done a lot better. The best performance for the year (so far) have come from **Gresham Computing**. You would now be showing a 261% gain. Our support for the new team under Trevor Read is well known, so both we (and you) can hardly be surprised.

We have also been a long term fan of **RM**. They are showing a 123% gain on the year. As you will read on p3, they are only just starting to show what they can really do. We expect RM to continue as a quality stock for some time - almost regardless of other market conditions. Other favourites like **CMG** (up 84%), **Logica** (up 74%), **Capita** (up 63%) and **Sage** (up 55%) have also done well.

Investments in all our other "Boring Award" winners are also still showing healthy gains on the year with **Triad** (up

29%) and **Admiral** still up 34%. Other quality players like **FI Group** (up 29%), **Sema** (up 30%), **Vega** (57%) and **Guardian** (up 52%)

Just as the installation of new management at Gresham reaped rich rewards, **Kewill** was up 61% after the installation of Andy Roberts as Chairman and, more lately, Martyn Ratcliffe at **Microgen** (up 52%).

Where shouldn't you have been in 1998?

Well clearly not in the IT staff agency sector as shown above. Indeed there are no IT agencies showing any gains on the year. If all you had done was to avoid the companies in this sector, you would now be showing a 14% gain - i.e. twice the average.

The three worst performing share performances in 1998 to date were **Oxford Molecular** (down 75% due to the adverse reaction to nepotism and other criticisms on their purchase of Chemical Design), **JBA** (down 73% on profit warning) and CAD software disaster **Delcam** (down 69%).

The performance of the new IPOs in Q2 was decidedly mixed. IT agency **Quantica** (down 40%) was the worst

performer. The largest IPO, **Computacenter**, is also off 32% (see p12). Bluntly we think they were overpriced at launch but, at the current price, look good value. But **ICM** (up 31%), **Policy Master** (up 25%) and **ITNET** (up 20%) are all still showing gains - albeit at not quite at the premiums immediately post float!

Safe Havens

If there is stormy weather ahead, which

companies will provide the safe havens?

Our views have at least been consistent over many, many years. Go for **Quality**. Past track record, security of earnings, long term customer relationships, strong/experienced management. The companies on this pretty limited list are well known to all subscribers.

Of course there will be exceptions. That's why we are quite happy to report a 147% share price rise this year at computer game software company, **Rage Software**, after they cashed in their investment in **Autonomy**. ...and avoid them.

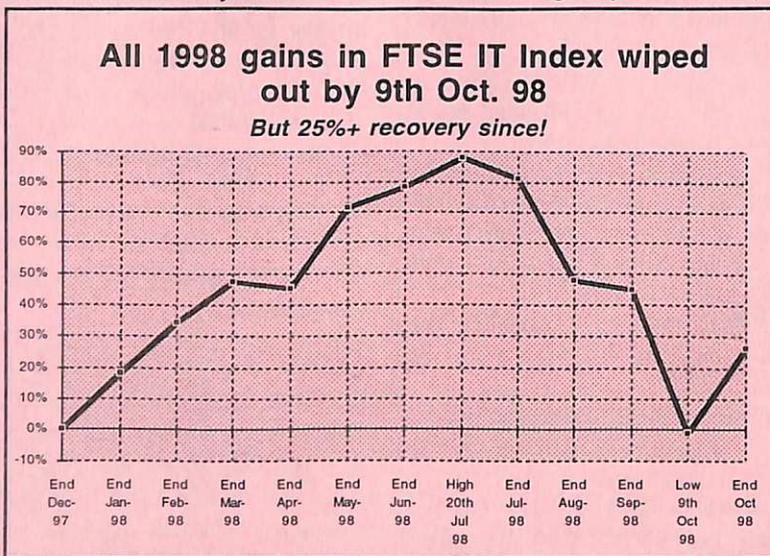
Quality, quality, quality...that's the "Boring" advice we give yet again.

Anyone out there still game for our Microsoft wager?

Last year we started to take bets that within five years **Microsoft** would be making <50% of its rev. from product licences. The initial stream of takers has now dried up.

Not surprising really. Just take this month's news that Microsoft (on their MSN site) has won the biggest ever www advertising deal with Bank One for \$90m.

According to **Fletcher Research**, UK www advertising was worth just £15m in 1998 but would grow to c£270m by 2001. *We think it will be much, much higher.*



Crash and recovery

As you will read on p8, it could have been worse! Although the FTSE100 gained 6.5%, the FTSE IT Index fell to <1000 on 9th Oct. but has recovered well since to show *just* a 13% fall on the month. Interestingly, our unweighted SCSI index fared better with a mere 5.5% fall - i.e. the bigger stocks were hit harder than smaller ones. The falls in the month were led by IT staff agencies **Harvey Nash** (see p10) down 37% and **Lorien** - down another 35%. At the other end of the scale, excitement surrounding the Christmas launch of the next Tomb Raider game, starring IT icon Lara Croft, pushed **Eidos** up 28%.

31-Oct-98	SCSI Index	FTSE IT Index	FTSE 100	FTSE AIM	FTSE SmallCap
	3653.26	1263.90	5438.40	789.30	2012.30
CSI Index = 1000 on 15th April 1988					
Changes In Indices	SCSI Index	FTSE 100	FTSE IT Index	FTSE AIM Index	FTSE Small-Cap
Month (29/9/98 - 31/10/98)	-5.53%	+6.45%	-12.65%	-5.78%	+0.82%
From 15th Apr 89	+265.33%	+164.82%	-22.33%	-24.67%	-22.40%
From 1st Jan 90	+297.05%	+130.25%	-18.33%	-14.96%	-15.22%
From 1st Jan 91	+416.09%	+151.73%	12.77%	12.77%	15.85%
From 1st Jan 92	+249.64%	+118.14%	-12.71%	12.77%	-27.24%
From 1st Jan 93	+129.25%	+91.06%	-8.11%	30.77%	-2.75%
From 1st Jan 94	+118.81%	+59.09%	-27.69%	2.60%	-14.93%
From 1st Jan 95	+143.68%	+77.41%	0.33%	63.28%	17.64%
From 1st Jan 96	+61.76%	+47.41%	1.43%	25.84%	1.80%
From 1st Jan 97	+36.44%	+32.05%	31.17%	18.82%	3.08%
From 1st Jan 98	+20.37%	+5.90%	-18.84%	83.61%	-2415.79%
			-0.82%	-2.44%	-1.33%
			-5.93%	-32.46%	-281.22%
			8.22%	61.22%	2.03%
			7.49%	55.81%	8.10%
			-16.26%	-68.79%	-10.59%
			-11.76%	-60.82%	-117.10%
			-5.52%	21.71%	-9.96%
			-14.13%	5.33%	-39.23%
			-20.59%	-29.87%	-1.90%
			4.44%	-46.59%	-3.46%
			-16.81%	47.55%	-2.08%
			-3.10%	-30.82%	-25.50%
			0.67%	37.61%	5.36%
			28.19%	23.88%	34.84%
			-16.23%	28.62%	-293.11%
			3.70%	16.67%	0.13%
			-2.92%	260.87%	-20.67%
			20.16%	51.96%	33.26%
			-37.40%	-43.62%	-31.98%
			16.67%	34.62%	11.99%
			6.31%	31.11%	2.60%
			-12.30%	-58.04%	-1.87%
			-7.41%	104.08%	-1.30%
			-4.12%	59.79%	-0.46%
			-1.75%	20.00%	-25.22%
			0.00%	-72.78%	0.00%
			0.00%	-11.25%	0.10%
			-26.97%	-53.24%	-15.90%
			-8.48%	60.96%	-11.10%
			-8.19%	74.30%	-133.15%
			-3.89%	94.20%	-11.80%
			-35.19%	-66.63%	-17.91%
			7.91%	58.51%	15.10%
			-4.31%	-11.11%	-2.55%
			-12.96%	3.68%	-10.40%
			-7.11%	4.26%	-7.86%
			-26.47%	-43.61%	27.75%
			16.39%	52.14%	6.50%
			-18.16%	14.48%	-2513.20%
			18.77%	14.95%	18.08%
			12.35%	-34.53%	0.31%
			-3.53%	-27.43%	-0.90%
			-14.38%	-50.00%	-10.67%
			-9.09%	-0.78%	-2.05%
			-17.69%	-74.79%	-2.90%
			-27.13%	-28.85%	-83.10%
			8.44%	25.96%	1.71%
			4.76%	-39.45%	1.09%
			-6.25%	25.00%	-1.90%
			2.86%	-18.18%	0.67%
			-11.04%	64.77%	-6.14%
			-9.09%	-39.52%	-2.98%
			0.00%	72.86%	0.00%
			-6.67%	147.06%	-1.78%
			6.16%	20.72%	1.53%
			18.65%	44.94%	16.63%
			-6.74%	-3.49%	-0.55%
			-43.85%	-13.10%	-9.12%
			-0.97%	123.44%	-3.17%
			-11.54%	-32.85%	22.15%
			-10.93%	-22.01%	-0.52%
			-21.24%	-35.04%	-16.61%
			0.39%	54.52%	25.21%
			20.00%	78.38%	28.81%
			-26.14%	-7.14%	-5.10%
			-13.52%	-7.25%	-4.09%
			-17.69%	30.46%	-2478.91%
			5.77%	96.70%	12.06%
			-16.91%	7.67%	-32.84%
			-28.09%	-51.69%	-296.85%
			13.76%	-12.31%	4.82%
			12.57%	0.00%	3.73%
			-11.11%	-55.56%	-0.67%
			-3.86%	20.17%	-2.12%
			2.15%	9.20%	0.60%
			-0.76%	-12.75%	-0.05%
			-14.60%	-8.10%	-5.69%
			1.76%	76.34%	0.46%
			-25.32%	29.41%	-232.90%
			-8.00%	-67.14%	1.76%
			8.33%	57.14%	2.52%
			-16.85%	-23.91%	-28.72%
			-2.27%	38.26%	-0.20%
			-34.82%	-16.09%	-17.72%

System House SCSI Share Prices and Capitalisation

	FTSE IT Index?	Share Price 31/10/98 (£p)	Capitalisation 31/10/98 (£m)	Historic P/E	PSR Ratio Cap./Rev.	SCSI Index 31/10/98	Share price % move since 29/9/98	Share price % move in 1998	Capitalisation since 29/9/98 (£m)	Capitalisation move (£m) in 1998
Admiral	Yes	£9.65	£611.80m	44.6	5.22	34878.49	-22.02%	34.31%	-£172.83m	£157.65m
AFA Systems		£0.84	£10.50m	Loss	46.46	695.83	-30.71%	-22.33%	-£4.67m	-£2.40m
AIT Group		£1.96	£39.80m	27.4	2.94	1306.67	-18.33%	14.96%	-£8.89m	£5.22m
Anite Group	Yes	£0.53	£127.50m	49.3	0.85	309.94	12.77%	12.77%	£14.36m	£15.85m
Azlan Group	Yes	£0.49	£51.90m	Loss	0.18	210.87	11.49%	-12.71%	£5.33m	-£7.24m
Bond International		£0.85	£11.60m	20.6	1.81	1307.69	-8.11%	30.77%	-£1.00m	£2.75m
Capcentre Group		£2.35	£39.00m	22.8	2.20	1175.00	7.31%	-27.69%	£2.60m	-£14.93m
Capita Group		£6.03	£1,183.00m	92.5	6.84	54279.28	0.33%	63.28%	£17.64m	£476.32m
Cedar Group		£1.07	£35.70m	20.0	2.85	1014.29	-11.25%	1.43%	-£4.47m	£2.41m
CFS Group		£1.32	£20.90m	30.8	3.06	1461.11	9.58%	25.84%	£1.80m	£13.17m
Clinical Computing		£0.51	£12.70m	29.3	4.20	407.26	31.17%	18.82%	£3.08m	£2.03m
CMG	Yes	£14.00	£1,793.00m	57.7	5.92	9655.17	-18.84%	83.61%	-£415.79m	£815.51m
Compel Group	Yes	£3.03	£85.90m	13.9	0.41	2420.00	-2.73%	-0.82%	-£2.44m	-£1.33m
Computacenter		£4.53	£800.90m	19.4	0.71	675.37	-5.93%	-32.46%	-£81.22m	-£499.10m
Comino		£1.98	£26.30m	16.0	2.00	1519.23	8.22%	61.22%	£2.03m	£11.50m
DCS Group		£5.03	£116.10m	28.3	1.94	8375.00	7.49%	55.81%	£8.10m	£45.14m
Delcam		£0.52	£3.04m	7.0	0.21	198.08	-16.26%	-68.79%	-£0.59m	-£6.66m
Delphi Group	Yes	£2.63	£77.20m	15.6	0.28	1080.25	-11.76%	-60.82%	-£10.23m	-£117.10m
Diagonal	Yes	£8.55	£171.90m	46.7	3.84	3109.09	-5.52%	21.71%	-£9.96m	£41.90m
Dialog Corporation		£1.58	£238.10m	Loss	5.17	1436.36	-14.13%	5.33%	-£39.23m	£13.27m
Division Group		£0.27	£18.80m	Loss	2.82	675.00	-20.59%	-29.87%	-£4.90m	£1.90m
DRS Data & Research		£0.12	£4.07m	Loss	0.60	106.82	4.44%	-46.59%	£0.18m	-£3.46m
Druid Group	Yes	£9.78	£223.80m	41.1	5.51	3554.55	-16.81%	47.55%	-£45.30m	£72.08m
ECSOFT		£12.50	£136.20m	25.4	3.08	691.75	-3.10%	-30.82%	-£4.45m	-£54.50m
Electronic Data Processing		£0.75	£19.60m	13.1	1.56	2296.39	0.67%	37.61%	£0.04m	£5.36m
Eidos	Yes	£8.30	£145.60m	7.8	1.06	8300.00	28.19%	23.88%	£34.84m	£32.36m
FI Group	Yes	£2.40	£480.70m	61.5	2.97	5106.38	-16.23%	28.62%	-£93.11m	£180.40m
Flomerics Group		£1.40	£3.64m	23.2	0.63	1076.92	3.70%	16.67%	£0.13m	£0.52m
Gresham Computing		£0.83	£29.20m	29.8	3.36	892.47	-2.92%	260.87%	-£0.67m	£21.68m
Guardian IT		£3.88	£198.40m	55.1	8.62	1519.61	20.16%	51.96%	£33.26m	£67.90m
Harvey Nash Group		£1.90	£53.60m	10.9	0.96	1085.71	-37.40%	-43.62%	-£31.98m	-£40.35m
Higams Systems Services		£1.05	£19.70m	19.7	0.78	2916.67	16.67%	34.62%	£11.99m	£5.88m
ICM Computer		£2.36	£44.90m	21.6	1.25	1311.11	6.31%	31.11%	£2.60m	£10.60m
ilion Group		£0.54	£13.40m	6.9	0.07	334.38	-12.30%	-58.04%	-£1.87m	-£18.62m
Intelligent Environments		£0.50	£15.40m	Loss	3.47	531.91	-7.41%	104.08%	-£1.30m	£9.64m
I S Solutions		£2.33	£11.20m	26.7	1.28	1735.07	-4.12%	59.79%	-£0.46m	£4.22m
ITNET		£4.20	£295.30m	72.9	3.61	1200.00	-1.75%	20.00%	-£5.22m	£49.20m
JBA Holdings	Yes	£2.80	£102.80m	63.5	0.46	1750.00	0.00%	-72.78%	£0.00m	-£273.65m
JSB Software		£1.78	£16.90m	n/a	5.03	887.50	0.00%	-11.25%	£0.10m	-£2.00m
Kalamazoo Computer		£0.33	£13.90m	Loss	0.21	928.57	-26.97%	-53.24%	-£5.20m	-£15.90m
Kewill Systems	Yes	£9.18	£120.20m	25.7	2.67	3626.48	-8.48%	60.96%	-£11.10m	£46.65m
Logica	Yes	£20.18	£1,488.00m	47.7	3.15	5527.40	-8.19%	74.30%	-£133.15m	£641.90m
London Bridge Software	Yes	£9.88	£292.30m	74.1	25.82	4937.50	-3.89%	94.20%	-£11.80m	£144.81m
Lorien		£1.69	£33.00m	8.2	0.28	1685.00	-35.19%	-66.63%	-£17.91m	-£53.38m
Lynx Holdings	Yes	£1.91	£201.50m	24.3	1.67	4775.00	7.91%	58.51%	£15.10m	£77.23m
M-R Group		£1.00	£55.80m	12.2	1.19	396.83	-4.31%	-11.11%	-£2.55m	-£6.96m
Macro 4	Yes	£3.53	£69.40m	10.5	2.86	1421.37	-12.96%	3.68%	-£10.40m	£2.40m
MDIS Group	Yes	£0.49	£104.30m	25.8	0.89	188.46	-7.11%	4.26%	-£7.86m	£5.79m
Micro Focus	Yes	£2.25	£323.10m	12.7	3.33	1086.70	-26.47%	-43.61%	£76.75m	-£47.78m
Microgen Holdings		£1.07	£46.30m	12.1	0.70	455.13	16.39%	52.14%	£6.50m	£18.58m
Misys	Yes	£4.19	£2,354.00m	31.6	5.26	5212.85	-18.16%	14.48%	-£513.20m	£310.80m
MMT Computing	Yes	£9.65	£114.80m	25.4	4.66	5744.05	18.77%	14.95%	£18.08m	£14.94m
Mondas		£0.46	£2.78m	Loss	9.36	606.67	12.35%	-34.53%	£0.31m	-£1.46m
Moorepay Group		£2.05	£24.00m	19.8	4.54	3459.58	-3.53%	-27.43%	-£0.90m	-£6.55m
MSB International	Yes	£3.13	£63.80m	8.9	0.50	1464.74	-14.38%	-50.00%	-£10.67m	-£63.64m
NSB Retail Systems										

Results and News from the IT staff agencies Excellent results from Harvey Nash...

Harvey Nash is pretty typical of the current state of the UK IT staff agency/recruitment sector. They have published excellent figures in their interims for the six months ending 31st Jul. 98. Revenue increased 89% to £44.9m, PBT went up almost double at £4.1m with EPS (after exceptionals etc.) increasing 86%. Of course some of the increased revenue has come from acquisitions (all "integrated and performing well") but, even so, organic growth was a strong 56%. Also we are pleased to see that the significant increase in European revenues now contributes 17% of profits (up from 12%).

"The underlying market for IT services remains strong despite current economic conditions. We have made an excellent start to the second half and remain confident of our ability to continue to grow strongly". Finance Director Ian Furniss said that although Harvey Nash "has some concerns about the downturn in the city", which evidently accounts for c20% of revenue, he thought that permanent IT staff would be cut before IT contractors.

The shares ended October down 37% on 190p. Although this is still above the Apr. 97 float price of 175p, it is a fraction of their 455p high just a few months ago.

...and MSB International also does well

IT contract recruitment group, MSB also did well at the interim stage. In the six months to 31st Jul. 98, revenue rose 65% to £90.4m, PBT went up 47% at £5.47m with EPS increasing 51%.

Again market growth is apparently showing resistance to the slow down in the UK economy. Part of the revenue increase is due to a 14% average fee rate rise (actually rather less than we would have predicted as demand for staff still exceeds supply) combined with a change in the overall business mix towards more higher value work. The number of contractors on site rose 34% in the last year at 2,487.

The Kudos Partnership Ltd

Kudos was the subject of an MBO in 1991 from Anglo Dutch SQL Systems when its annual revenues were around £1m. It has since grown - like many other IT staff agencies - at a pretty impressive (40% p.a.) rate. Current projections are for £25m revenues in calendar 1998. PBT looks likely to exceed £900K. Albeit an improvement from last year, a <4% margin is still less than that achieved by most of the rest in this industry.

It would be wrong, however, to think of Kudos as "just" an IT agency. About £6m of its revenues comes from its translation, localisation and software documentation services - ICL is one its largest customers - and its fast growing Internet/Intranet development activities.

59.5% of the shares are owned by Chairman Ken Moore, 25.5% by Steve Royston (MD of the IT staffing operation). The rest is owned by various other managers - i.e. no external shareholding.

The future? As you will read elsewhere in this edition, IT staff agencies are probably worth a third of their value (relatively) a year back. We doubt if 1997's valuations will be seen again before 2002. *So should Kudos accept a much lower figure now or wait another 3+ years?*

We are sure our readership will not be slow in giving their views!

Chairman David Sugden commented. "The progress achieved in the first half is evidence of the continuing buoyancy of the IT contractor recruitment market....I look forward to reporting another record result for the full year". Sugden also "continues to believe that the contractor market will be much less influenced by economic cycles than permanent recruitment".

However, deputy Chairman Peter Flaherty did admit that "some projects had either been cancelled or scaled back". But there had been "no big decline. No one expects the phenomenal growth rates to continue for ever, but we see the market continuing to grow strongly". Source - Financial Times 22nd Oct. 98.

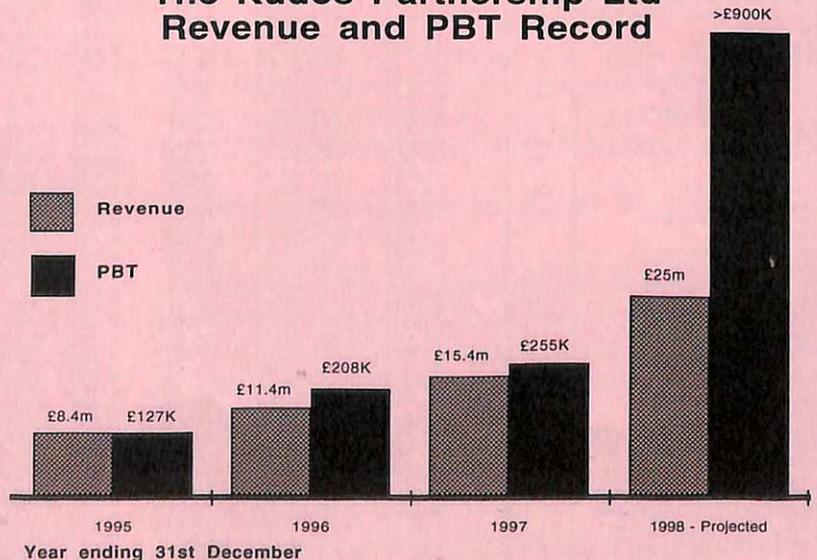
MSB's rate of growth is now slowing and operating margins have fallen. Analysts have now downgraded full year profit forecasts from £13/£13.5m to £12.3/£12.8m - a prospective PE of c9. The shares have continued their decline with a further 14% drop this month to end on 313p - that's a far cry from the 1057p high just a few months back.

Comment - Our page one article restates our fears about the "double-whammy" awaiting the IT staff and recruitment companies. Sure, current results are great and we suspect they will continue that way this year. But we see a considerable downturn after that.

Abacus finds sums don't add up

Abacus Recruitment announced in July that it had received a bid approach from an unnamed US NASDAQ quoted recruitment firm. Abacus has now said it is pulling out of negotiations as the bidder's shares had been hammered and "had almost halved since talks began in May. We will now focus on growing organically and by acquisition". Abacus's shares, in common with other recruitment company stocks, immediately fell to a new year's low of 115p although they recovered somewhat to end the month on 130p. Don't forget they were standing at 350p only as recently as May this year!

The Kudos Partnership Ltd Revenue and PBT Record



BPO Watch - Cap Gemini UK

Cap Gemini's entree into the UK BPO market was primarily the result of a visionary act of faith back in 1993 by the then UK MD Tony Robinson. Noting the growing success of Capita, Cap Gemini concluded that the BPO opportunity was worth pursuing and that Northern Scotland was a good place to start out, particularly because of the availability of government grants. So the company set up its first processing services centre in the Scottish Highlands.

The first contracts to be secured at the new centre were at Grampian and Moray district councils, for benefit claims processing services. Then, prompted by the decriminalisation of parking offences and the privatisation of parking enforcement in London, Cap Gemini broke new ground in the UK BPO market by winning contracts for on-street parking services at four London boroughs, Newham, Ealing, Brent and Tower Hamlets. These contracts were won in partnership with Total Facilities Management (TFM), an MBO from the Granada group. TFM, who led the bids, provided the "feet on the street" while Cap Gemini provided the processing services.

And then the London parking services market dried up - although recently Cap Gemini went on to win its largest ever parking services deal at the Corporation of Dublin. Once again, a partner led the bid, in this case US-based CPS.

So, in order to build experience in a broader set of business processes, Cap Gemini decided to "outsource" a number of its own internal functions to its services centre in Scotland, including accounting, payroll, HR and marketing. A major strategy review in 1997 indicated that BPO was beginning to be taken seriously in certain industry sectors, so Cap Gemini decided to rethink its BPO strategy. This led to the appointment of Paul Nannetti as Executive Director, Business Process Management. His role is both to direct Cap Gemini's BPO initiatives and, more importantly, win strategic contracts.

Cap Gemini now focuses its BPO activities largely on "customer relationship management" opportunities. For example, in Dec. 97 they won a 10-year deal to run the Virgin Rail passenger call centre contract. Cap Gemini took this contract over from business services (and BPO) company Serco, and now has some 350 staff in its Scotland business services centre answering passenger enquiries on behalf of the rail operator. Cap Gemini is also working with Virgin Rail on its Internet-based booking system.

Cap Gemini has also spent some £2m developing a "packaged" BPO offering for the utilities market. The company recently launched the "UtilityPlus" customer process management service - outsourcing some or all of a utility company's customer management operations, either on the customer's site or from its own processing services centre.

Cap Gemini is also using selective acquisitions to further its position in the BPO market. Earlier this year they acquired the UK Finance & Commerce division of AT&T and its 150 staff. This AT&T division provided network-based services to blue chip companies including BOC, Boots, Barclays Merchant Services and The Post Office. The expertise in e-commerce that Cap Gemini has now acquired should boost its capabilities in customer-facing BPO services.

Comment. We think Cap Gemini is now on the right track with BPO. It has used its ventures into parking services operations to gain experience. Along the way it has learned some lessons on the salient differences between the business models of IT outsourcing and BPO. One of the most important of these is the typically "volumetric" as opposed to "fixed price" nature of a BPO contract. This means that if the customer's business is hit by a downturn, the BPO supplier suffers too. Indeed, Cap Gemini also understands that with BPO you are making a different level of commitment to the customer. In effect, you are contracting with the CEO to improve his/her margin, and if you don't deliver, you, the supplier, take the hit too.

We think Cap Gemini has taken the sensible approach of partnering with business services companies to provide the "manual labour" part of the contract e.g. handing out parking tickets. This lets them "stick to their knitting" and apply leverage to the things they can do best, e.g. re-engineer business processes and design, implement and run the IT systems that support them. Indeed, for its parking services contracts, Cap Gemini's partner companies were the bid leaders, much as we promoted in our "Dis-integration of the BPO Market model" (System House July 1998).

The launch of its "UtilityPlus" BPO package is an interesting move, akin to the spate of branding we have seen in the desktop managed services and outsourcing market. In the desktop arena, a number of players packaged their disparate desktop service offerings into a brand (e.g. EDS with "Renaissance" and IBM with "NetWork Station Management"). This desktop branding strategy was frankly more for marketing clarity and perceived service differentiation rather than signalling a radical change in service offering. In practice, we think Cap Gemini's service will need to be highly customised for each client, but laud the initiative as a way of explaining its BPO offering to the customer and indeed to its sales force. Nonetheless, we believe that success in the BPO market will be primarily determined by gaining credibility through experience and demonstrated results, rather than through packaging.

Will Superscape make a profit next time?

Superscape VR develops and markets real time interactive 3D software. In the past they have never actually made a profit and the latest results for the year ended 31st Jul. 98 are no exception. Revenue increased 35% to £4.2m but at least losses fell from £5.96m to "just" £3.5m. The losses would have been nearly £1m lower had not the company decided that recovery of an Asian debt was doubtful. *At least now revenue is greater than losses!* Last year they made the rather rash statement that "Superscape will seek to move towards profitability in FY98". The main hope now of the company going into profit - or at least break-even - in H199 appears to be the "successful ongoing relationship with Lego" where potential Christmas sales should help. Mind you, even Chairman John King is cautious as to future prospects. "The company is off to a strong start in FY99 and, **given no further deterioration in market conditions, the seasonally strong revenues in H1 should enable the company to approach break-even at the interim stage**". Hardly a ringing endorsement.

Shareholders' patience must be wearing a bit thin now. A new issue in 1994 at 198p, a rights issue in 1995 at 330p with further rights issues in 1997 and Jan. 98, and the latest £5m placing in May 98 at 175p. The company still have net cash of over £5.6m at the year end. The shares ended the month on 108p - up 13%. *Still a very far cry from the heady high in 1996 of 778p!*

Computacenter - Why change a winning recipe?

Timing is everything. Certainly **Computacenter** timed its IPO to perfection. When we were first asked to comment on Computacenter's valuation we suggested £850m (*System House* - April 98). Two months later, after the offer at 670p was 12-times oversubscribed, they started trading with a value of £1.3b and briefly rose to over £1.6b. But that was at the very peak of IT sector valuations. Computacenter has been badly hit since; sinking to a low of 358p. They ended Oct. 98 on 453p or a valuation of £801m - strangely close to our initial views.

This month we had the opportunity to talk at length with CEO Mike Norris. This was soon after the announcement of the new **Microsoft/Computacenter** alliance which should create 1,000 new jobs over the next three years (with 900 in the UK).

For once, Norris made us change our views. You see we had been banging on about the vast majority of their £1.1b revenues coming from the resale of PC hardware to their blue chip customer base and our calculation that, at most, only £150m came from SCS revenues. Rather than try and argue with our estimates or try to make out that they were indeed more of a SCS company than we gave them credit for, Norris laid out the strengths of Computacenter. After all, they had just as many long term relationships with their blue chip clients as the outsourcers. Although not claiming they were unique, you have to get to under half of Computacenter's size in the UK to find the first competitor. If you are one of the many clients who believes that size matters, then Computacenter is one of the few suppliers you would deal with anyway. Their services are equally different from the other SCS players - perhaps the reason why Cap Gemini, CSC, EDS et al are partners, not competitors.

In addition we believe that 1999 will be a boom year for PCs as companies replace older non-Y2K-compliant models.

Rather than seeing Computacenter trying to be an EDS, we see them expanding depth in the UK (something like a large break fix company or a networking management operation would fit the bill) or expanding their services further in Cont. Europe. *Why try to be something different when there is everything going for being what you already are?*

Quarterly results from

.... **Microsoft**. Ignoring the legal wrangling in the US, Microsoft's results for Q198 are excellent. Net profits rose 154% to \$1.68b on revenues up 26% at \$3.95b. EPS however "only" rose a lower 56%. Microsoft have also announced an alliance with UK publisher **Bloomsbury** to develop reference works in both print and electronic form.

.... **IBM**. Services were again the star at IBM in their Q398 results. Revenues here rose nearly 23% to \$5.8b (and gross margins improved to 21.3%). Hardware revenues rose marginally 4% to \$8.7b (but gross margins were down 2%), maintenance revenues fell 8% to \$1.45b (margins static) with software sales increasing 4.5% to \$3.18b (gross margins up 4%). In all, quarterly revenue increased 8% to \$20.1b, and due to a \$1.7b share buy back, EPS increased nearly 16%.

.... **SAP**. German ERP vendor SAP increased Q398 revenues 43% to \$1.2b (first nine months revenue now up 54% at \$3.6b). Not surprisingly, the Asia/Pacific region sales fell 20% - mainly due to falling Japanese sales. In the first nine months, SAP has managed to increase PBT 45% to \$742m on revenues up 54%. SAP expect to have 19,000 staff at the financial year end (up more than 53%).

....*but a profit warning from Baan*. Unlike rival SAP, Dutch Baan was forced to issue a profit warning and now expects a loss in Q398 despite increasing sales. The share price immediately fell 30%. One comment made was "*The Baan news makes the SAP results look even better*".

.... *also trouble at CBT Group*. Irish-American computer training software provider CBT has announced that both its CEO and CFO have been forced by the board to "step down" in connection with expected poor Q3 results. CBT shares have, in about a month, fallen from \$60 to \$10 as a result of a "*crisis in confidence in the company*".

Cap Gemini UK reports excellent H1 growth

Cap Gemini UK is accelerating its programme to create another 2,500 new jobs - making a net increase of 3,500 in the year. Certainly their interim figures in the six months to 30th Jun. 98 were exceptional with revenues up 57% at £276m. We are now expecting full year revenues of c£600m.

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