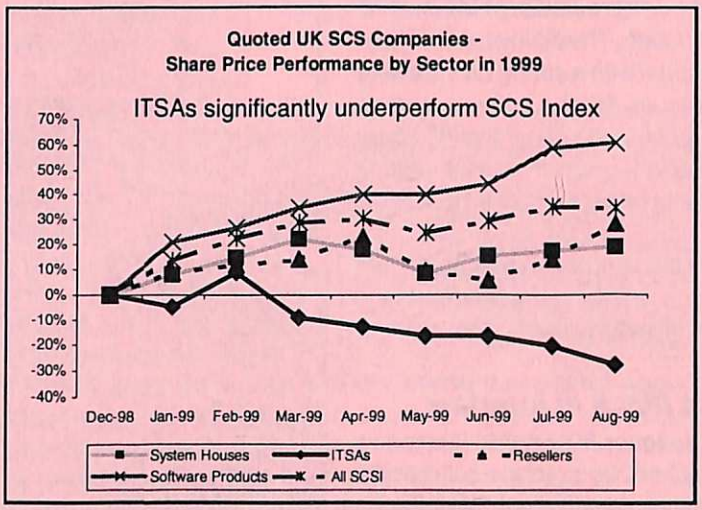
System House

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

Volume 10 Number 11 Available by subscription only ISSN 0967-2583 September 1999

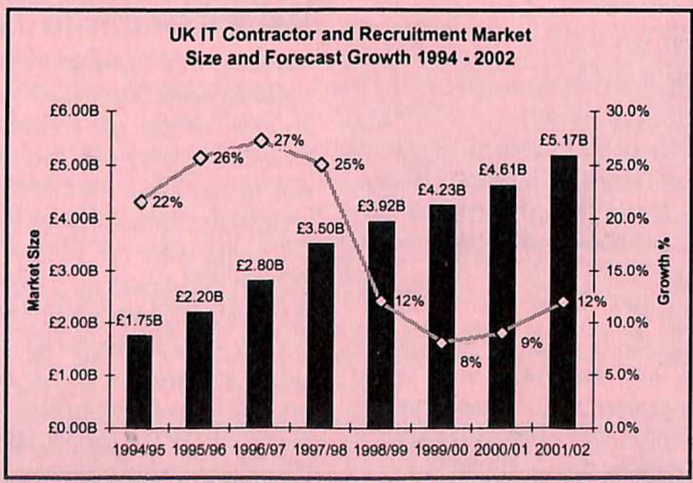
IT Staff Agencies - Move Up ... or Move Out!

We seem to have gained a reputation as 'merchants of gloom and doom' whenever we talk about the UK IT staff agency (ITSA) market. It's true enough that since late 1997 we've been warning of tough times for the sector in the run up to Y2K - a prophecy that seems to have been borne out, judging by the raft of recent profit warnings. Indeed, since the beginning of the year the public UK ITSAs have seen their share prices significantly underperform all other subsectors in our SCS index. As at the end of Aug. 99, the average share price of UK ITSAs was down 28% in 1999 alone - compared with a 40% rise for the sector as a whole. Even PC resellers were above 'sea-level'! *Does this mean that people have replaced PCs as the latest 'commodity'?* Indeed this month UK ITSAs fell *another* 9% against a near 4% rise in the general SCS Index. *Every* ITSA recorded a share fall.



Quoted UK SCS Companies - Share Price Performance by Sector in 1999

But let's dispel the myth that we're always pessimistic about the UK ITSA sector. We've just finished our first in-depth report on the UK IT contractor and recruitment market - and far from weeping tears over the presumed demise of ITSAs, we actually think they will enjoy a grand revival in the early years of the new millennium. *Well, some of them will, anyway,* because the UK ITSA market post-2000 will look somewhat different from the way it does today.



UK IT Contractor and Recruitment Market Size and Forecast Growth 1994 - 2002

Firstly; yes, there will **always** be a market in the UK for 'flexible' IT staffing. ITSAs are part of the UK SCS landscape and they're here to stay. However, the heady years of 25%+ ITSA market growth are now behind us - we're forecasting a modest 12% growth in 1999 and a return to more familiar growth rates of around 10% up to 2002. **But this is still a healthy, growing market** - we are **not** saying the UK ITSA market will decline. Some of this growth will be driven by fee rate hikes - but well below the 15%+ fee increases we've seen in previous years.

Secondly; just as skill shortages magnified the growth of ITSAs - especially at the 'commodity' (body shop) end of the market - the easing of demand is already affecting the commodity ITSAs very severely. We firmly believe that the commodity end of the ITSA market will eventually be led by the global, generalist 'mega-agencies' such as Adecco, Modis (previously known as AccuStaff), Manpower - and perhaps 'our very own' Select Appointments. Indeed, Swiss-based Adecco has recently toppled US staffing giant Modis as the world's largest ITSA, having acquired UK market leader Delphi Group in Feb. 99 and the ITSA (and generalist) business of US Olsten Corp. last month. The Olsten deal also boosts Adecco's UK ITSA revenues by c$50m, strengthening its 'top dog' position in the UK ITSA market.

These mega-agencies are relentlessly acquisitive - for example, Modis has so far bought another **ten** UK ITSAs and system houses since its initial foray into the UK market in Nov. 97 when it acquired Hunterskil Howard. In fact, this level of acquisition activity in the sector will help bolster share prices and valuations of UK ITSAs. Indeed, we suspect that share prices of commodity ITSAs have already just about reached their nadir.

Thirdly; this means there won't be any room in the UK market for medium-sized commodity ITSAs - they'll have to move along the value chain ... or make way for the big boys. Now there are a number of ways to move up the value chain. One approach is to become a 'specialist' ITSA like ERP agencies Druid and Diagonal - these look as much like system houses as they do ITSAs. Or you can broaden the offering to include skills-based IT services such as training - just look at QA/Skillsgroup. But perhaps the most exciting way up the value chain is to get into HR outsourcing. The rewards appear substantial - indeed, Best has recently revealed a three year HR outsourcing contract with Prudential/Andersen Consulting JV, PruTec, worth *"up to £35m"*.

But many ITSAs will find the crawl up the value chain a painful journey - and not all will make it successfully and in one piece. But those that have already taken the first steps are the ones most likely to be around to enjoy the fruits of the coming *'new golden era'* in the UK SCS market.

__The UK IT Staff Agency Market 1999__ report will be available this month - see page 12 for special offer details.

Revenue up, losses up, at Oxford Molecular

Oxford Molecular Group designs software for the pharmaceutical industry. Last year they acquired another quoted company **Chemical Design** for £6.2m and also Cambridge Combinational. The latter caused much controversy as it involved paying over £5m into the hands of Oxford Molecular's CEO's kid brother. Investors who had seen the share price crash were not exactly pleased.

Given that the company said only in March that it *"remained confident of resuming the trend towards profitability"* the latest results would not help to ease shareholder dissatisfaction either. Although acquisitions boosted revenues by 31% to £10.2m in the six months to 30th Jun. 99, losses before tax went up from £2.2m to £4.2m. Results were not helped by a £1m goodwill amortisation in the current period. Software Solutions contributed revenues up 7% to £6.14m with £4m from Discovery Solution (including £3.2m from acquisition Cambridge Combinational).

But Chairman Douglas Brown commented *"Oxford continues to make steady progress. Revenues and overheads were in line with budget.. The Software Solutions business remains highly seasonal with a strong bias towards the second half. As usual results for the full year remain highly dependent on orders taken in the second half".* There are changes at board level with founder Rod Hall retiring and ex-Tetra Lawrence Steingold replacing current FD Derek Marsh in Sept.

Oxford's share performance since flotation at 80p in 1994 has seen wide fluctuations - at one time the shares stood at c£3 giving a valuation of well over £200m. They are now standing at just 45p.

Autonomy back in the black at interims

EASDAQ quoted software developer **Autonomy Corp.** now has a market capitalisation of c£200m. In the six months to 30th Jun. 99 revenue was up over three-fold at £6.2m and they have turned the previous loss of £817K into a PBT of £147K. The growth has been fuelled by new licensing agreements for their technology which helps companies filter and categorise information.

Mixed debut for eXchange

The Global Offer for **eXchange Holdings** (on-line personal financial services infomediary) was over 17 times oversubscribed at the initial price of 200p giving a valuation of c£407m. A net £77.6m was raised. CEO Paul Lindsey was *"delighted"*. But the enthusiasm waned as soon as the shares started trading. Indeed the shares ended the month on 196p - a discount of 2%.

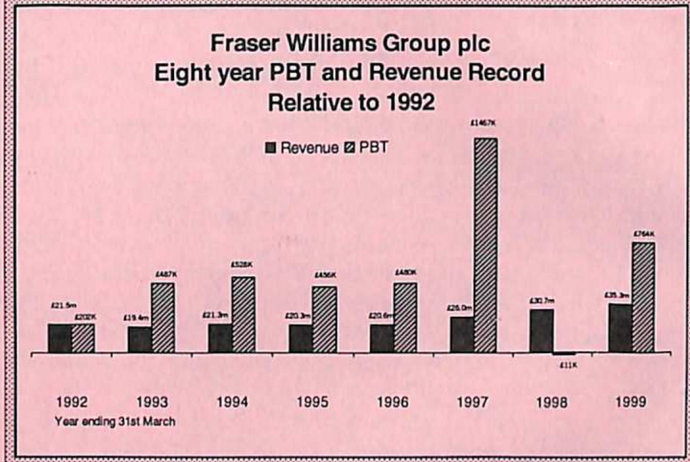
Redundancies at Admiral

Entirely in line with the expectations given at the time of the interim announcement in July, **Admiral** is now in the middle of a redundancy programme in its loss-making Training business in an attempt to cut costs. Although no official figures have been given, we understand that unofficially it stands at c70 but this could well increase as the programme is ongoing at present. But of course with c2,500 staff in all, the actual numbers are not that large (unless of course you are one of the unlucky ones).

A year ago Admiral's share price was approaching £15 - although it has risen 4% this month it still now only stands at 747p. But if looked at another way, the 1999 profit forecast has only changed downwards <10% since Aug. 98, and PEs across the sector are only down c30%.

Fraser Williams Group

As you know, we like wherever possible to bring you news on private SCS companies. Established way back in 1969, **Fraser Williams'** principal activities are the development and supply of *"highly functional"* software and related support services for a wide range of platforms. They operate mainly in the UK (still 94% or £33m), but have some revenue from Europe (£594K) and the Americas (£1.6m). But both the latter areas show operating losses.



In the year ended 28th Mar. 99, total revenue increased 15% to £35.3m and the previous loss of just £11K was turned into a PBT of £764K. Mind you, as you will see from the chart, both revenue and profits have experienced roller coaster rides at times. The company has disposed of *"a number of smaller businesses... the full benefit of this decision will be realised in the new financial year".* Fraser Williams also made two acquisitions - Quintech (distribution systems for publishers) and a stake in a business that develops a complementary product to their existing Skyline property management system.

Comment. Way back in 1994, Chairman, co-founder and substantial shareholder Tom McCafferty told us that a float *"was at least two years away".* It's probably at least two years away now too. Mind you we thought that a trade sale was more likely even then.

Delcam returns to the black

"Leading international developers and suppliers of CAD/CAM software" **Delcam** has returned to profits in its interim figures for the six months to 30th Jun. 99. Revenue increased 19% to £7.7m and the previous loss of £676K was turned into a PBT of £509K. Delcam was badly hit last year by the turmoil in Asia and Russia. In the current period UK sales went up 15% with sales in US, South Korea, Taiwan and Japan up a higher 30%. MD Hugh Humphreys is particularly happy with the recovery in Korea and Taiwan *"which were our worst hit operations last year".*

Company brokers Tilney have now raised their full year profit forecast to £850K/£1m - giving a PE of c12.5 at the lower end of the range. After the shares were decimated last year when they fell to c29p, they rose/recovered 52% this month to end on 127p. But that's still a 51% discount to the Nov. 97 AIM float price of 260p.

... as does Easynet

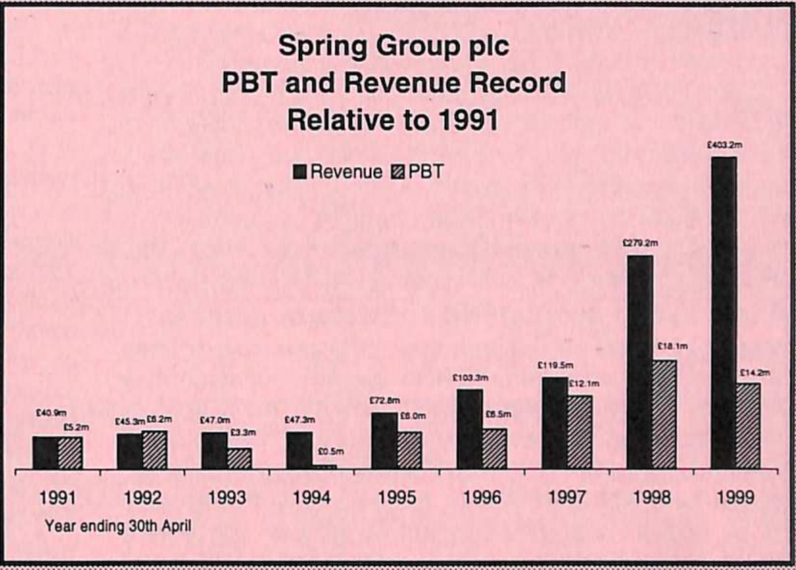
ISP **Easynet Group** has moved into profit in the six months to 30th Jun. 99. Revenue jumped 80% to £12.8m and the previous loss of £490K turned into a small PBT of £150K. Although competition from Freeserve had cut dial up income 20%, this was more than made up from other sources.

Following on from our Page One review...News from the staff agencies...

...Investment spending hits Spring Group

Career and workforce management group **Spring**'s business comprises consultancy, recruitment and training working through three divisions - IT Services, General Services and Education Services. They have now c3,300 contractors on site - not a lot more than twelve months ago when they had 3,200 and a fall compared to early 1999.

In the full year ending 30th Apr. 99, despite revenue up 44% at £403m, PBT fell 22% to £14.2m. Diluted EPS dropped 27%. The lower profit was mainly due to due to investment/goodwill write offs and an exceptional loss of £2.3m net from the disposal of various non-core activities. Earnings from continuing operations before interest, tax, depreciation and goodwill amortisation (EBITDA) was up 18.5% to £21.1m. *"Whilst market conditions are tougher now than they have been for a number of years, the board believes that Spring IT is well positioned to increase its market share, as customers reduce their number of suppliers accordingly"*.



IT Services had a *"satisfactory"* year with revenue up 39% to £290m although operating profits (OP) were only up 10% to £12m. General Services had a *"difficult"* year as although revenue went up 38% at £86m, profits fell 3% to £9.5m. Education Services had a *"good"* year and, due to a major acquisition, revenue increased from £3.5m to £25.8m with OP up from £360K to £1.8m.

Comment. Spring's current situation is *"marginally ahead of the position in January"* which is more than can be said for some other IT staff agencies. Rate increases of 5/10% are being recorded. Spring's share price was nearly £5 some twelve months ago - they ended this month down 15% on 138p reflecting the poor sentiment towards the IT agency sector at the present pre-2000 time. Indeed they are now lower than when Knowledge Universe (major shareholders Larry Ellison and Michael Milken) acquired its 50% stake in 1996 at 160p (they still hold c48%).

...Lack of momentum at Quantica

Specialist IT staff agency **Quantica** has announced its results for the six months ending 31st May 99. Revenue went up 26% to £8.3m, PBT increased 24% at £1.6m but, due to the many more shares in issue post IPO, EPS actually dropped 16%. Chairman Tony Garland commented on the *"Lack of momentum in the market in H1"* coupled with a downturn in the training side (see also Spring above) and the main recruitment business *"bumping along the bottom"*. Garland went on to say that *"the outlook for the market is brighter now that at any time in H1, although we remain cautious for the remainder on the financial year"*.

Comment. Quantica has been downbeat for some time on prospects. They were launched on AIM in Jun. 98 at 124p - they ended Aug. on just 43p.

... but no lack of momentum at Select Appointments

Fast growing, very acquisitive (another seven purchases in the current financial year to date costing £20.6m), **Select Appointments** has produced an excellent set of interim results for the six months to 30th Jun. 99. Revenue was up 39% at £530m, PBT increased 44% at £32.4m with fully diluted EPS up 34% at 17.6p. Unlike most other IT staff agencies, their IT operations grew by 31% in the period (and 21% of this was organic) and now accounts for nearly 40% of total revenue. 48% of sales (or £254m) comes from Europe (inc. the UK), 38% (£201m) from the US and the remaining 14% (£75m) from Australia and Asia. All regions are profitable with the highest operating margin at 7.9% from the US. Overall group operating margins went up from 5.8% to 6.1%. This month Select have sold their German subsidiary **GeKo** for an undisclosed sum. GeKo *"no longer forms part of the group's ongoing strategy"*.

Comment. Select is a global provider of specialist temporary and contract staff and now operate in 18 different industry sectors through a network of over 600 offices in 25 countries. In our forthcoming IT Staff Agency report (se p12) Select appear in the 1998 Top 10 at #9 - and will no doubt rise further in 1999. It is unlikely that we will ever add them to our index as the company expects the current IT revenue percentage to fall as other niche markets mature. But of course, perhaps due to the far wider area of operations outside IT, the share price, although down in the last year, has fallen less than others in the "pure" IT sector.

Now an ever bigger staff agency is born

Swiss temporary employment agency **Adecco** (already owns the UK's **Delphi/Computer People**) has acquired the general and IT staffing divisions of US **Olsten Corp.** at a price of c$1.6 billion - part shares, part cash. This figure (which varies between $1.4b and $1.6b according to the price used for the Adecco shares) does include assumption of c$700m debt and c$130m other commitments. The new enlarged group claims to employ around half a million people worldwide, be among the top agencies worldwide and will become the US #1 employment agency (subject of course to regulatory approval). Adecco's CEO John Bowmer is on record as saying that annual cost savings could be in the region of $40/ $60m on total sales increasing by $3.3 billion (about $415m IT related).

In the UK, Adecco, already the Number One IT staff agency has added an estimated £30m revenues from Olsten UK IT staff agency **Integrated Computer Technologies.** Adding a further $400m IT revenues worldwide, Adecco now claim now to be the world's No.1 IT staffing group.

Acquisitions lift Moorepay

Another set of *"could die for"* results from payroll services provider **Moorepay Group** at the interim stage. In the six months to 30th Jun. 99, revenue rose a massive 78% to £5.7m, PBT increased 42% at £1.6m, with EPS up 33%. The figures were boosted by the May 98 acquisition of **Mills Associates** - and Moorepay has said that it continues to negotiate with several potential vendors for the acquisition of further payroll processing businesses.

The outlook doesn't look too bad either. *"The group's results for the second half of the current year are expected to be more in line with the results for the same period last year"*. On our rough calculations that means further revenue of c£5.2m and PBT of c£1m - but not quite as good as H1. Old established Moorepay (1966) transferred to AIM in Aug. 95 at 83p. They ended the month up 3% on 308p.

A tale to two accounting software companies

Shares in **Pegasus** fell well over 10% on news of their results for the six months to 30th Jun. 99 - although they did recover very well (see below) to end the month up 20% on 306p. Although revenue rose 10% to £8.1m, PBT slumped from £632K to just £86K. However after a tax rebate, fully diluted EPS 'only' dropped 22%. Profits were hit by problems at CSM (acquired in Mar. 97) where implementation of its new range of accountancy practice software hit customer problems. This, combined with higher than expected R&D and a slower than expected roll-out means that *"the benefits of these major investments will now not begin to have a favourable impact until FY2000"*. Well known Bob Morton has bought another 8.6% of Pegasus thereby upping his total holding to 12.71% (and Hubbard-Ford also bought another 1.72%).

It now looks almost certain that **Sage** will enter the FTSE100 at the next review in early September. With a market value of £3.3b, they are now worth more than Misys (£3.16b) and have a better ten year earnings and share price performance record. Indeed the shares are up a mere 105-fold since the 26p IPO in Dec. 1989!

Pegasus, on the other hand, was valued at £22m ten years ago in 1989. They ended Aug. 99 worth "just" c£20m. To rub it in even more, CEO Hubbard-Ford said in 1996 at the time of the Sage "approach" that £27m *"seriously undervalued"* Pegasus. But if the Sage "approach" had led to a bid and Pegasus shareholders had bought Sage shares with the proceeds, they would be worth over £200m today. Oh well, we all make mistakes.

UK woes at ilion

Network and Unix product distributor **ilion**'s figures at the six month interim stage to 30th Jun. 99 show evidence of the problems they are having in the UK marketplace. Although revenue went up 10% to £131.9m and the official press release quoted *"PBT before exceptionals up 85%"*, actual PBT was only £610K compared to £1.2m last time. Exceptionals totalled £1.5m, including £600K for a *"disputed UK transaction"* and £600m goodwill write-off following the partial sale of the German operation. European operations now account for 69% of group revenue with France the star reporting a 55% revenue rise and operating profit up 32%. According to Chairman Michael Sayers *"Prospects for H299 remain encouraging... we are working hard to restore the UK to its former health"*.

Comment. ilion remains open to offers *"but only if the terms are right"*. They rejected the July 99 **Landis** offer at 114p but Landis still have a 13% stake. Fighting the bid cost ilion c£200K - money they can ill afford. The shares ended August on 120p - up 9% in the month.

Sherwood does well at the interim stage

Sherwood International supplies technology solutions for the global insurance industry with products like AMARTA and SENATOR. After our article in last month's *System House* reviewing Sherwood's progress in the US, it is pleasing to see that the company has continued to do well at the six month stage to 30th Jun. 99. Total revenue went up 24% to £21.8m (or a lower 20% if the JV revenue is excluded). PBT increased a most creditable 56% to £2.9m, with diluted EPS up 43%. There was *"excellent business across all divisions"* with US revenue up well over double at £6.9m (and now c30% of the total). The UK outsourcing business is *"positioned for further growth"* but *"as expected has been comparatively quiet in 1999 due to the Y2000 effect"*. Government FM *"continues to grow and is now 19% of turnover"*.

CEO George Matthews commented *"the strong first half reflects the strength of our business... Growth will be supplemented by acquisitions of related businesses. I expect to report continued progress for the full year"*.

Comment. It is interesting to see that Sherwood is not to pursue its outsourcing relationship with ICL *"in favour of a new agreement with **CSL**"* (part of **Deloitte Touche**). But they will continue to supply services to existing UK clients under the ICL partnership - it's only new deals that are frozen. As we have reported before in our BPO watch articles, CSL is one of the most successful BPO operations around and the new agreement will move them into the insurance sector. Mind you, to take on the CSCs and EDS' of this world, Sherwood really needs a high-class partner such as CSL.

The shares have jumped another 16% this month to end on 538p - that's a rise of 59% this year. The PE now stands at c46 - high but not outrageously so. Company's broker ABN Amro have upgraded the full year forecast from £6.9m to £7.3m.

Goodbye 50% profit margins, Hello to a new future at Macro 4

Macro 4 announced revenue up 28% at £31.03m but operating profits flat at £9.67m in the year to 30th Jun. 99. PBT was also up a meagre 3.4% at £10.4m. So the days of 50% profit margins are over (for good?) as margins reduce to "just" 34%. EPS was up 3.9% at 35.0p.

As readers know we had long referred to Macro 4 as *"Mr. Lost Opportunity"*. But that was before Ronnie Wilson and his team took over in May 98. As Wilson now says *"revenue growth had eluded the company for many years, so, to improve this position, the company required a longer-term strategy to ensure that, not only could revenue growth be achieved but also that this growth would be profitable and sustainable over time"*. Hear, hear!

Macro 4 had lived off its software rental income for many years - lulling it into a false sense of security. With a great cash cow, why bother to innovate? But then cancellations started to exceed new business in the IBM mainframe and AS/400 space. But still the old Macro 4 seemed to do nothing to arrest its inevitable demise. In FY99, the proportion of revenue from rental and maintenance reduced from 80% to 66%. Revenue from VM and VSE products reduced from 51% to 40%.

Although revenue from consultancy are minute at £262K; that's still 150% higher than last year! But at last Macro 4 is changing *"Managing such change, whilst continuing to deliver solid financial results, is challenging"*. At least Macro 4 *"expects to be cash generative for the foreseeable future"*. Macro 4 shares have more than doubled since Wilson took over. They ended Aug. up 7% at 680p.

Quoted Companies - Results Service

Note: Highlighted Names indicate results announced this month.

Admiral plc

	Interim - Jun 98	Final - Dec 98	Interim - Jun 99	Comparision
REV	£65,805,000	£147,187,000	£84,927,000	+29.1%
PBT	£10,329,000	£23,479,000	£10,936,000	+5.9%
EPS	10.20p	24.90p	11.20p	+9.8%

AFA Systems plc

	Final - Dec 97		Final - Dec 98	Comparision
REV	£226,000		£809,000	+258.0%
PBT	-£1,801,000		-£1,444,000	Loss both
EPS	-16.80p		-11.80p	Loss both

AIT Group plc

	Final - Mar 98		Final - Mar 99	Comparision
REV	£13,556,000		£17,460,000	+28.8%
PBT	£2,164,000		£2,764,000	+27.7%
EPS	7.11p		9.08p	+27.7%

Anite Group plc

	Final - Apr 98		Final - Apr 99	Comparision
REV	£149,540,000		£180,829,000	+20.9%
PBT	£29,049,000		£6,788,000	-76.6%
EPS	8.70p		1.50p	-82.8%

Axon Group plc

	Final - Dec 97		Final - Dec 98	Comparision
REV	£10,353,105		£20,024,253	not comparable
PBT	£43,496		£1,824,401	not comparable
EPS	0.02p		2.80p	not comparable

Azlan Group plc

	Final - Mar 98		Final - Mar 99	Comparision
REV	£292,073,000		£343,000,000	+17.4%
PBT	-£7,860,000		£3,900,000	Loss to profit
EPS	-12.20p		4.10p	Loss to profit

Baltimore Technologies plc

	Final - Apr 98		Final - Dec 98	Comparision
REV	£13,176,770		£9,883,512	not comparable
PBT	£296,664		-£5,173,012	not comparable
EPS	-0.90p		-25.30p	not comparable

Baron Corporation plc

	Final - Aug 97	Sep 98 - Apr 99	Final - Aug 98	Comparision
REV	£3,758,000	£1,513,000	£2,364,000	-37.1%
PBT	£85,000	-£84,000	-£175,000	Profit to loss
EPS	n/a	n/a	n/a	n/a

Bond International Software plc

	Interim - Jun 98	Final - Dec 98	Interim - Jun 99	Comparision
REV	£4,320,000	£8,807,697	£4,567,000	+5.7%
PBT	£284,000	£935,378	£327,000	+15.1%
EPS	1.37p	4.54p	1.58p	+15.3%

Cadcentre Group plc

	Final - Mar 98		Final - Mar 99	Comparision
REV	£17,727,000		£17,861,000	+0.8%
PBT	£2,754,000		£3,001,000	+9.0%
EPS	10.06p		11.21p	+11.4%

Capita Group plc

	Interim - Jun 98	Final - Dec 98	Interim - Jun 99	Comparision
REV	£117,907,000	£237,802,000	£150,227,000	+27.4%
PBT	£10,484,000	£27,019,000	£14,115,000	+34.6%
EPS	3.35p	8.68p	4.59p	+37.0%

Cedar Group plc

	Final - Mar 98		Final - Mar 99	Comparision
REV	£12,506,000		£23,046,000	+84.3%
PBT	£2,564,000		£2,807,000	+9.5%
EPS	5.30p		5.50p	+3.8%

CFS Group plc

	Final - Dec 97		Final - Dec 98	Comparision
REV	£6,828,000		£10,989,000	+60.9%
PBT	£548,000		£1,223,000	+123.2%
EPS	4.82p		8.33p	+72.8%

Clinical Computing plc

	Final - Dec 97		Final - Dec 98	Comparision
REV	£3,025,110		£3,039,301	+0.5%
PBT	£275,564		£276,584	+0.4%
EPS	1.10p		1.10p	+0.0%

CMG plc

	Final - Dec 97		Final - Dec 98	Comparision
REV	£302,992,000		£443,832,000	+46.5%
PBT	£38,467,000		£57,482,000	+49.4%
EPS	19.10p		29.00p	+51.8%

Comino plc

	Final - Mar 98		Final - Mar 99	Comparision
REV	£13,151,000		£18,595,000	+41.4%
PBT	£1,950,000		£2,718,000	+39.4%
EPS	11.71p		14.83p	+26.6%

Compel Group plc

	Interim - Dec 97	Final - Jun 98	Interim - Dec 97	Comparision
REV	£86,633,000	£210,003,000	£121,590,000	+40.4%
PBT	£3,666,000	£9,021,000	£4,972,000	+35.6%
EPS	8.80p	21.20p	11.30p	+28.4%

Computacenter plc

	Interim - Jun 98	Final - Dec 98	Interim - Jun 99	Comparision
REV	£775,746,000	£1,586,238,000	£904,816,000	+16.6%
PBT	£31,332,000	£64,603,000	£40,732,000	+30.0%
EPS	11.40p	23.50p	14.60p	+28.1%

DCS Group plc

	Final - Dec 97		Final - Dec 98	Comparision
REV	£59,777,000		£110,172,000	+84.3%
PBT	£4,920,000		£7,353,000	+49.5%
EPS	15.29p		21.62p	+41.4%

DRS Data & Research Services plc

	Final - Dec 97		Final - Dec 98	Comparision
REV	£6,765,000		£6,777,000	+0.2%
PBT	-£826,000		-£26,000	Loss both
EPS	-2.02p		-0.13p	Loss both

Delcam plc

	Interim - Jun 98	Final - Dec 98	Interim - Jun 99	Comparision
REV	£6,479,637	£13,735,249	£7,677,884	+18.5%
PBT	-£675,577	-£1,418,549	£509,549	Loss to profit
EPS	-9.60p	-23.10p	7.00p	Loss to profit

Diagonal plc

	Interim - May 98	Final - Nov 98	Interim - May 99	Comparision
REV	£31,860,000	£70,179,000	£37,141,000	+16.6%
PBT	£3,053,000	£7,314,000	£4,358,000	+42.7%
EPS	2.56p	6.16p	3.66p	+43.0%

Dialog Corporation plc

	Interim - Jun 98	Final - Dec 98	Interim - Jun 99	Comparision
REV	£88,750,000	£170,762,000	£87,330,000	-1.6%
PBT	£6,990,000	£5,564,000	£1,700,000	-75.7%
EPS	4.10p	2.90p	0.70p	-82.9%

Druid Group plc

	Interim - Dec 97	Final - Jun 98	Interim - Dec 98	Comparision
REV	£14,276,000	£40,604,000	£27,834,000	+95.0%
PBT	£2,404,000	£8,044,000	£4,041,000	+68.1%
EPS	6.77p	23.37p	11.60p	+71.3%

ECsoft Group plc

	Interim - Jun 98	Final - Dec 98	Interim - Jun 99	Comparision
REV	£30,193,000	£62,211,000	£34,186,000	+13.2%
PBT	£2,882,000	£8,108,000	£2,840,000	-1.5%
EPS	19.70p	49.90p	15.20p	-22.8%

Eidos plc

	Final - Mar 98		Final - Mar 99	Comparision
REV	£137,234,000		£226,284,000	+64.9%
PBT	£16,507,000		£37,920,000	+129.7%
EPS	64.10p		141.50p	+120.7%

Electronic Data Processing plc

	Interim - Mar 98	Final - Sep 98	Interim - Mar 99	Comparision
REV	£5,812,000	£11,518,000	£5,469,000	-5.9%
PBT	£1,235,000	£2,210,000	£1,225,000	-0.8%
EPS	3.23p	5.89p	3.24p	+0.3%

F.I. Group plc

	Final - Apr 98		Final - Apr 99	Comparision
REV	£161,595,000		£228,353,000	+41.3%
PBT	£10,670,000		£17,025,000	+59.6%
EPS	3.68p		5.80p	+57.6%

Financial Objects plc

	Final - Dec 97		Final - Dec 98	Comparision
REV	£15,937,000		£21,662,000	+35.9%
PBT	£2,015,000		£3,438,000	+70.6%
EPS	7.54p		8.98p	+19.1%

Flomerics Group plc

	Interim - Jun 98	Final - Dec 98	Interim - Jun 99	Comparision
REV	£2,938,163	£6,910,106	£3,443,222	+17.2%
PBT	-£268,699	£384,123	-£149,606	Loss both
EPS	n/a	10.10p	n/a	n/a

Gresham Computing plc

	Interim - Apr 98	Final - Oct 98	Interim - Apr 99	Comparision
REV	£8,522,000	£23,063,000	£16,301,000	+91.3%
PBT	£1,017,000	£3,003,000	£1,483,000	+45.8%
EPS	1.91p	5.46p	2.35p	+23.0%

Guardian iT plc

	Final - Dec 97		Final - Dec 98	Comparision
REV	£23,026,000		£29,693,000	+29.0%
PBT	£4,033,000		£6,629,000	+64.4%
EPS	5.70p		9.00p	+57.9%

Harvey Nash Group plc

	Final - Jan 98		Final - Jan 99	Comparision
REV	£55,796,000		£104,851,000	+87.9%
PBT	£5,205,000		£8,869,000	+70.4%
EPS	12.33p		19.29p	+56.4%

Highams Systems Services Group plc

	Final - Mar 98		Final - Mar 99	Comparision
REV	£25,143,421		£34,069,990	+35.5%
PBT	£1,383,327		£1,524,855	+10.2%
EPS	5.34p		5.40p	+1.1%

ICM Computer Group plc

	Interim - Dec 97	Final - Jun 98	Interim - Dec 98	Comparision
REV	£17,998,000	£35,881,000	£18,534,000	+3.0%
PBT	£1,416,000	£2,702,000	£1,949,000	+37.6%
EPS	5.70p	8.70p	6.70p	+17.5%

ilion Group plc

	Interim - Jun 98	Final - Dec 98	Interim - Jun 99	Comparision
REV	£120,100,000	£244,803,000	£131,900,000	+9.8%
PBT	£1,158,000	-£3,243,000	£610,000	-47.3%
EPS	3.50p	-8.80p	-0.90p	Profit to loss

Intelligent Environments Group plc

	Final - Dec 97		Final - Dec 98	Comparision
REV	£4,443,146		£6,633,118	+49.3%
PBT	-£3,009,417		-£1,024,104	Loss both
EPS	-13.30p		-3.42p	Loss both

Internet Technology Group plc

	Interim - Apr 98	Final - Oct 98	Interim - Apr 99	Comparision
REV	£4,286,000	£11,012,000	£8,854,000	+106.6%
PBT	-£164,000	£55,000	-£1,588,000	Loss both
EPS	-0.42p	0.12p	-3.43p	Loss both

IS Solutions plc

	Final - Dec 97		Final - Dec 98	Comparision
REV	£8,748,076		£8,745,633	-0.0%
PBT	£539,845		£942,384	+74.6%
EPS	7.42p		13.67p	+84.2%

ITNET plc

	Final Dec 97		Final - Dec 98	Comparision
REV	£81,713,000		£105,728,000	+29.4%
PBT	£5,099,000		£7,346,000	+44.1%
EPS	4.60p		6.90p	+50.0%

JBA Holdings plc

	Final Dec 97		Final - Dec 98	Comparision
REV	£221,737,000		£291,537,000	+31.5%
PBT	£5,233,000		-£1,696,000	Profit to loss
EPS	9.8		-20.46p	Profit to loss

JSB Software Technologies plc

	Interim Nov 97	Final - May 98	Interim - Nov 98	Comparision
REV	not available	£3,362,000	£1,760,000	not available
PBT	not available	£6,000	-£373,000	not available
EPS	not available	n/a	n/a	not available

Kalamazoo Computer Group plc

	Final - Mar 98		Final - Mar 99	Comparision
REV	£65,711,000		£65,870,000	+0.2%
PBT	-£2,329,000		-£2,198,000	Loss both
EPS	-3.00p		-3.30p	Loss both

Kewill Systems plc

	Final - Mar 98		Final - Mar 99	Comparision
REV	£44,586,000		£60,079,000	+34.7%
PBT	£6,346,000		£7,196,000	+13.4%
EPS	5.56p		5.44p	-2.2%

Logica plc

	Interim - Dec 97	Final - Jun 98	Interim - Dec 98	Comparision
REV	£216,256,000	£472,957,000	£292,392,000	+35.2%
PBT	£15,517,000	£41,825,000	£25,551,000	+64.7%
EPS	3.12p	8.46p	4.88p	+56.4%

London Bridge Software Holdings plc

	Interim - Jun 98	Final - Dec 98	Interim - Jun 99	Comparision
REV	£8,054,000	£22,375,000	£19,454,000	+141.5%
PBT	£2,705,000	£7,365,000	£3,533,000	+30.6%
EPS	6.18p	19.77p	6.52p	+5.5%

Lorien plc

	Final - Nov 97		Final - Nov 98	Comparision
REV	£116,930,000		£138,407,000	+18.4%
PBT	£1,585,000		£2,549,000	+60.8%
EPS	4.50p		8.00p	+77.8%

Lynx Group plc

	Interim - Mar 98	Final - Sep 98	Interim - Mar 99	Comparision
REV	£80,393,000	£180,870,000	£103,844,000	+29.2%
PBT	£5,526,000	£13,252,000	£6,370,000	+15.3%
EPS	3.56p	8.43p	3.92p	+10.1%

MMT Computing plc

	Interim - Feb 98	Final - Aug 98	Interim - Feb 99	Comparision
REV	£16,991,000	£36,698,698	£21,536,000	+26.7%
PBT	£4,250,000	£10,005,754	£5,119,000	+20.4%
EPS	22.70p	50.60p	26.60p	+17.2%

MDIS Group plc

	Final - Dec 97		Final - Dec 98	Comparision
REV	£116,925,000		£133,014,000	+13.8%
PBT	£221,000		£3,966,000	+1694.6%
EPS	0.22p		3.06p	+1290.9%

Macro 4 plc

	Final - Jun 98		Final - Jun 99	Comparision
REV	£24,234,000		£31,025,000	+28.0%
PBT	£10,060,000		£10,400,000	+3.4%
EPS	33.70p		34.80p	+3.3%

MERANT plc

	Final - Jan 98		Final - Apr 99	Comparision
REV	£97,015,000		£215,473,000	not comparable
PBT	£15,217,000		-£11,572,000	Profit to loss
EPS	13.28p		-14.30p	Profit to loss

Microgen plc

	Interim - Jun 98	Final - Dec 98	Interim - Jun 99	Comparision
REV	£32,560,000	£70,105,000	£15,472,000	-52.5%
PBT	£1,285,000	£8,492,000	£1,516,000	+18.0%
EPS	0.40p	2.20p	2.10p	+425.0%

Misys plc

	Final - May 98		Final - May 99	Comparision
REV	£447,700,000		£582,000,000	+30.0%
PBT	£51,700,000		£91,400,000	+76.8%
EPS	5.70p		10.60p	+86.0%

Mondas plc

	Final - Apr 98		Final - Apr 99	Comparision
REV	£297,169		£955,301	+221.5%
PBT	-£484,322		-£520,770	Loss both
EPS	-7.90p		-5.70p	Loss both

Moorepay Group plc

	Interim - Jun 98	Final - Dec 98	Interim - Jun 99	Comparision
REV	£3,181,000	£8,365,688	£5,662,000	+78.0%
PBT	£1,141,000	£2,043,492	£1,617,000	+41.7%
EPS	7.14p	12.39p	9.51p	+33.2%

Morse Holdings plc

	Final - Jun 97	Interim - Dec 98	Final - Jun 98	Comparision
REV	£135,343,000	£144,275,000	£216,101,000	+59.7%
PBT	£11,198,000	£9,784,000	£11,799,000	+5.4%
EPS	4.60p	5.16p	3.11p	-32.4%

MSB International plc

	Final - Jan 98		Final - Jan 99	Comparision
REV	£128,793,000		£191,345,000	+48.6%
PBT	£9,043,000		£8,088,000	-10.6%
EPS	30.00p		27.00p	-10.0%

MSW Technology plc

	Interim - Nov 97	Final - May 98	Interim - Nov 98	Comparision
REV	£1,080,000	£2,909,951	£1,360,000	+25.9%
PBT	£76,952	£503,055	-£140,309	Profit to loss
EPS	1.16p	6.54p	-1.82p	Profit to loss

NetBenefit plc

	Final - Jun 97	9 mos - Mar 99	Final - Jun 98	Comparision
REV	£832,530	£1,321,908	£1,244,243	+49.5%
PBT	-£66,860	£286,435	£92,509	Loss to Profit
EPS	-0.67p	2.10p	0.42p	Loss to Profit

NSB Retail Systems plc

	Final - Dec 97		Final - Dec 98	Comparision
REV	£3,284,464		£8,366,637	+154.7%
PBT	£837,516		£1,477,983	+76.5%
EPS	6.50p		10.90p	+67.7%

Oxford Molecular plc

	Interim - Jun 98	Final - Dec 98	Interim - Jun 99	Comparision
REV	£7,737,000	£21,505,000	£10,161,000	+31.3%
PBT	-£2,195,000	-£1,228,000	-£4,184,000	Loss both
EPS	-3.10p	-2.20p	5.00p	Loss both

Parity plc

	Final - Dec 97		Final - Dec 97	Comparision
REV	£202,078,000		£290,200,000	+43.6%
PBT	£13,488,000		£20,032,000	+48.5%
EPS	6.76p		8.84p	+30.8%

Pegasus Group plc

	Interim - Jun 98	Final - Dec 98	Interim - Jun 99	Comparision
REV	£7,410,000	£14,979,000	£8,121,000	+9.6%
PBT	£632,000	£928,000	£86,000	-86.4%
EPS	6.70p	18.30p	5.20p	-22.4%

PhoneLink plc

	Final - Mar 98		Final - Mar 99	Comparision
REV	£3,206,000		£10,014,000	+212.4%
PBT	-£3,746,000		-£3,381,000	Loss both
EPS	-7.70p		-5.40p	Loss both

Planit Holdings plc

	Final - Apr 98		Final Apr - 99	Comparision
REV	£6,181,000		£9,676,000	+56.5%
PBT	-£5,291,000		£1,570,000	Loss to profit
EPS	-26.70p		1.60p	Loss to profit

Policy Master plc

	Final - Dec 97		Final - Dec 98	Comparision
REV	£8,195,069		£11,338,405	+38.4%
PBT	£435,608		£697,390	+60.1%
EPS	5.65p		5.86p	+3.7%

Proteus International plc

	Final - Mar 98		Final - Mar 99	Comparision
REV	£178,000		£696,000	+291.0%
PBT	-£4,127,000		-£3,947,000	Loss both
EPS	-7.17p		-5.54p	Loss both

QSP plc

	Final - Dec 97		Final - Dec 98	Comparision
REV	£28,016,991		£41,219,436	+47.1%
PBT	£2,655,299		£4,604,830	+73.4%
EPS	18.00p		32.60p	+81.1%

Quantica plc

	Interim - May 98	Final - Nov 98	Interim - May 99	Comparision
REV	£6,598,000	£15,164,000	£8,286,000	+25.6%
PBT	£1,289,000	£3,460,000	£1,593,000	+23.6%
EPS	3.14p	6.79p	2.64p	-15.9%

RM plc

	Interim - Mar 98	Final - Sep 98	Interim - Mar 99	Comparision
REV	£50,473,000	£130,996,000	£71,116,000	+40.9%
PBT	£636,000	£10,037,000	£2,493,000	+292.0%
EPS	0.50p	7.90p	1.90p	+280.0%

Rage Software plc

	Interim - Dec 97	Final - Jun 98	Interim - Dec 98	Comparision
REV	£873,000	£3,623,000	£3,057,000	+250.2%
PBT	-£350,000	£860,000	£610,000	Loss to profit
EPS	-0.13p	0.35p	0.18p	Loss to profit

RDL Group plc

	Final - Sep 97	Interim - Mar 99	Final - Sep 98	Comparision
REV	£10,615,000	£8,532,000	£15,692,000	+47.8%
PBT	£298,000	£451,000	£1,154,000	+287.2%
EPS	n/a	n/a	n/a	n/a

Real Time Control plc

	Final - Mar 98		Final - Mar 99	Comparision
REV	£15,880,000		£16,795,000	+5.8%
PBT	£3,163,000		£4,366,000	+38.0%
EPS	30.80p		42.30p	+37.3%

Recognition Systems Group plc

	Interim - Mar 98	Final - Sep 98	Interim - Mar 99	Comparision
REV	£327,000	£788,000	£955,000	+192.0%
PBT	-£1,333,000	-£2,260,000	-£733,000	Loss both
EPS	-3.20p	-6.30p	-1.20p	Loss both

Quoted Companies - Results Service

Note: Highlighted Names indicate results announced this month.

Riva Group plc

	Interim - Jun 98	Final - Dec 98	Interim - Jun 99	Comparision
REV	£36,199,000	£80,090,000	£36,544,000	+1.0%
PBT	£349,000	£403,000	£938,000	+168.8%
EPS	0.60p	-0.10p	1.60p	+166.7%

Rolfe & Nolan plc

	Final - Feb 98		Final - Feb 99	Comparision
REV	£21,714,000		£21,000,000	-3.3%
PBT	-£894,000		£1,600,000	Loss to profit
EPS	-10.20p		7.90p	Loss to profit

Romtec plc

	Final - Jan 98		Final - Jan 99	Comparision
REV	£4,217,440		£3,900,572	-7.5%
PBT	£310,718		£273,934	-11.8%
EPS	4.00p		2.30p	-42.5%

royalblue Group plc

	Interim - Jun 98	Final - Dec 98	Interim - Jun 99	Comparision
REV	£13,312,000	£29,514,000	£17,905,000	+34.5%
PBT	£1,815,000	£4,543,000	£2,744,000	+51.2%
EPS	3.70p	9.30p	5.50p	+48.6%

Sage Group plc

	Interim - Mar 98	Final - Sep 98	Interim - Mar 99	Comparision
REV	£88,798,000	£191,547,000	£132,545,000	+49.3%
PBT	£23,967,000	£47,635,000	£35,479,000	+48.0%
EPS	14.68p	28.85p	20.58p	+40.2%

Sanderson Group plc

	Interim - Mar 98	Final - Sep 98	Interim - Mar 99	Comparision
REV	£34,743,000	£73,589,000	£54,366,000	+56.5%
PBT	£4,049,000	£8,592,000	£5,609,000	+38.5%
EPS	6.20p	12.80p	7.20p	+16.1%

SBS Group plc

	Interim - Feb 98	Final - Aug 98	Interim - Feb 99	Comparision
REV	£11,308,000	£35,856,000	£28,318,000	+150.4%
PBT	£529,000	£1,485,000	£1,367,000	+158.4%
EPS	4.80p	11.80p	9.60p	+100.0%

Science Systems plc

	Final - Dec 97		Final - Dec 98	Comparision
REV	£18,601,000		£24,319,000	+30.7%
PBT	£1,852,000		£2,217,000	+19.7%
EPS	6.90p		8.90p	+29.0%

Sema Group plc

	Final - Dec 97		Final - Dec 98	Comparision
REV	£1,130,086,000		£1,250,400,000	+10.6%
PBT	£64,073,000		£97,800,000	+52.6%
EPS	9.60p		14.60p	+52.1%

Sherwood International plc

	Interim - Jun 98	Final - Dec 98	Interim - Jun 99	Comparision
REV	£18,090,000	£42,591,000	£22,493,000	+24.3%
PBT	£1,846,000	£5,494,000	£2,881,000	+56.1%
EPS	3.00p	9.00p	4.30p	+43.3%

Skillsgroup plc

	Interim - May 98	Final - Nov 98	Interim - May 99	Comparision
REV	£96,400,000	£208,400,000	£115,000,000	+19.3%
PBT	£6,600,000	£14,400,000	£6,400,000	-3.0%
EPS	5.80p	12.30p	5.30p	-8.6%

Spring Group plc

	Final - Apr 98		Final - Apr 99	Comparision
REV	£279,231,000		£403,154,000	+44.4%
PBT	£18,109,000		£14,180,000	-21.7%
EPS	8.30p		6.09p	-26.6%

Staffware plc

	Final - Dec 97		Final - Dec 98	Comparision
REV	£17,585,000		£22,187,000	+26.2%
PBT	£1,772,000		£250,000	-85.9%
EPS	10.70p		1.10p	-89.7%

Superscape VR plc

	Interim - Jan 98	Final - Jul 98	Interim - Jan 99	Comparision
REV	£2,568,000	£4,220,000	£2,122,000	-17.4%
PBT	-£956,000	-£3,516,000	-£87,000	Loss both
EPS	-10.90p	-37.30p	-0.71p	Loss both

Synstar plc

	Interim - Mar 98	Final - Sep 98	Interim - Mar 99	Comparision
REV	£78,827,000	£164,425,000	£104,034,000	+32.0%
PBT	£0	£2,169,000	£420,000	n/a
EPS	0.00p	1.70p	0.30p	n/a

Systems Integrated Research plc

	Interim - Nov 97	Final - May 98	Interim - Nov 98	Comparision
REV	£516,000	£1,035,000	£661,000	+28.1%
PBT	-£296,000	-£493,000	£32,000	Loss to profit
EPS	-2.40p	-4.00p	0.10p	Loss to profit

Terence Chapman Group plc

	Final - Aug 97	Interim - Feb 99	Final - Aug 98	Comparision
REV	£16,025,205	£15,747,000	£20,886,414	+30.3%
PBT	£500,909	£2,721,000	£3,151,187	+529.1%
EPS	0.72p	3.32p	4.02p	+458.3%

Torex plc

	Interim - Jun 98	Final - Dec 98	Interim - Jun 99	Comparision
REV	£9,426,000	£21,770,000	£18,532,000	+96.6%
PBT	£1,603,000	£2,982,000	£1,775,000	+10.7%
EPS	3.80p	6.80p	3.90p	+2.6%

Total Systems plc

	Final - Mar 98		Final - Mar 99	Comparision
REV	£4,134,866		£3,247,157	-21.5%
PBT	£1,019,675		£629,873	-38.2%
EPS	6.72p		4.29p	-36.2%

Touchstone Group plc

	Final - Mar 98		Final - Mar 99	Comparision
REV	£6,154,000		£7,663,000	+24.5%
PBT	£841,000		£1,048,000	+24.6%
EPS	6.91p		7.70p	+11.4%

Trace Computers plc

	Interim - Nov 97	Final - May 98	Interim - Nov 98	Comparision
REV	£7,170,000	£14,658,625	£8,684,000	+21.1%
PBT	£409,000	£1,205,166	£928,000	+126.9%
EPS	2.16p	6.11p	4.47p	+106.9%

Triad Group plc

	Final - Mar 98		Final - Mar 99	Comparision
REV	£32,161,000		£49,306,000	+53.3%
PBT	£6,609,000		£8,629,000	+30.6%
EPS	17.62p		22.74p	+29.1%

Ultima Networks plc

	Final - Dec 97		Final - Dec 98	Comparision
REV	£38,598,000		£14,437,000	-62.6%
PBT	-£13,516,000		-£5,093,000	Loss both
EPS	-16.54p		-4.85p	Loss both

Vega Group plc

	Final - Apr 98		Final - Apr 99	Comparision
REV	£22,457,000		£28,993,000	+29.1%
PBT	£3,081,000		£4,292,000	+39.3%
EPS	13.71p		17.42p	+27.1%

Workplace Technologies plc

	Interim - Jun 98	Final - Dec 98	Interim - Jun 98	Comparision
REV	£39,970,000	£82,964,000	£56,200,000	+40.6%
PBT	£1,317,000	£3,275,000	-£280,000	Profit to loss
EPS	2.44p	6.50p	-2.34p	Profit to loss

XKO Group plc. Pro-forma only

	Final - Mar 98		Final - Mar 99	Comparision
REV	£24,288,000		£28,428,000	+17.0%
PBT	£1,979,000		£2,667,000	+34.8%
EPS	6.10p		8.20p	+34.4%

Late news **Guardian IT** has announced revenues up 43% at £19.6m, PBT up 26% at £3.9m and EPS up 21% at 4.8p in six months to 30th June 99.
CMG has announced rev. up 50% at £290.5m, PBT up 51% to £36.8m, EPS up 57% in six months to 30th June 99.
Compel is to launch an IT consultancy called Compelsource. *More next month.*

Merant *"very pleased"* with £7.9m loss

Merant (was Micro Focus before £335m Intersolv mega merger in mid-1998) has announced Q1 (to 31st July 99) revenue up 88% at £54.9m and PBT (ex. goodwill amortisation) was £1.4m - down from £5.1m last time. After goodwill, a loss of £7.9m was reported (PBT £3.4m last time).

Merant is *"very pleased with the results"* and is excited about its potential in the *"legacy to web applications"* space.

No misunderstanding now at Gresham

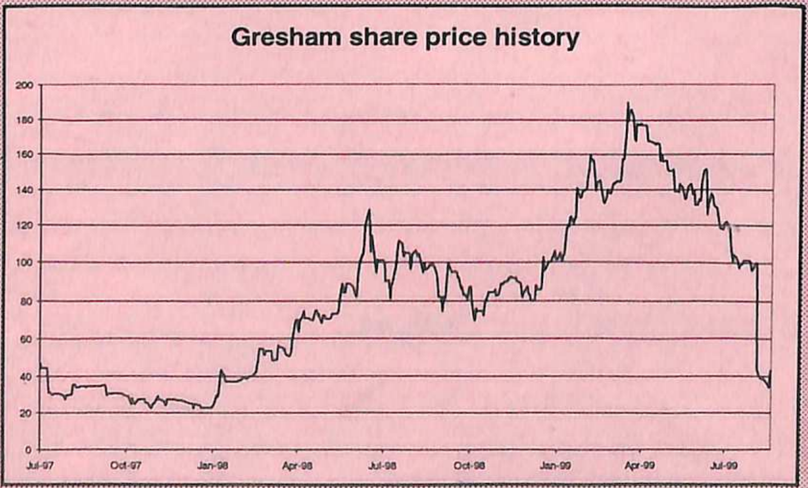
When is a profit warning not a profit warning and not just a cautious trading statement? Possibly so last June when CEO Trevor Read complained that he had been misunderstood due to his *"bad grammar"*. But this month he made the situation abundantly clear by revealing that *"extreme pricing pressures"* would cause a *"significant loss"* in Q3 with the full year below expectations.

The Y2000 microclimate is blamed and indeed **Gresham** provides ample evidence of all its manifestations. The regulatory lock-down has hit their financial services business. Two major contracts have been deferred. Their IT contractor business has also been hit. Gresham's competitors have been similarly hit causing increased pricing competition and so margins reduce for all. Indeed Gresham had a new contract cancelled after it was signed. The new bid was lower even taking into account the cancellation penalty.

Read has initiated a restructuring/redundancy programme.

Analysts have now slashed full year profit figures and the market reacted savagely with an immediate c60%+ fall in the share price. They ended the month on 48p - a fall of 51% this month alone and a higher 53% drop in the year to date. Let's hope the company is well placed to take advantage of the expected upturn in 2000.

Comment - As readers know, we were just a little involved in Read and his team being appointed to Gresham in July 97 when the share price was hovering around the 40p mark. We happen to believe that they have shaken up an company which seemed to be going nowhere. Shareholders were only too pleased to join the ride as the share price rose to >180p and got our Best Performing Share of the Year Award for 1998.



From a share price point of view, Gresham is now back to the pre-Read level. It's made even worse as all the management team now have share options priced much higher - in some cases 3x higher. This is a problem repeated in the boardrooms of quite a few UK SCS companies at present. If you cancel/reissue the options you quite rightly incur the wrath of shareholders. On the other hand what a good time to leave and get granted options in another SCS company at today's low prices- an consequence hardly in the interests of shareholders either.

M&A

ICM Computer Group has bought **Merit Support** (*"top end"* consultancy) from the administrators for £300K cash. We like ICM's CEO Barry Roberts comments on Merit. *"They are highly respected and boast an enviable list of blue chip customer relationships"*. Clearly, in the end, these customers didn't appear to do Merit much good.

Recently quoted **Freeserve** has agreed to acquire **Babyworld.com Ltd** for £3.7m and is also to launch an internet based credit card in conjunction with HFC bank. As one would expect from a name like Babyworld, the company provide internet based services etc. for pregnant women and new parents.

UK-NASDAQer **4Front Technologies** is to acquire European computer and telecomms company **SIL Service Industries** for $2.3m. 4Front *"expects that SIL will contribute at least $20m revenues in the first twelve months"*.

Computer games developer **Eidos** has invested $23m (£14.3m) in two Spanish games publishers with a 25% stake in **Pyro Studios** and a 75% interest in **Proein.**

Virtualinternet has raised £1.17m for working capital in a placement of 510K shares at 230p. At the same time, they announced their maiden interim results since floating on AIM in January in a £15m deal which created the company through a reverse takeover of **Charriol.** On revenue of £356K in the six months to Apr. 99, losses were three times higher at £1.08m. Still they are an ISP so what can one expect. Their current capitalisation is £51.7m.

Mondus.com, an ISP start-up, has raised $12m (£7.4m) from **Eden Capital**. The funds are to be used to launch a new internet purchasing service.

Engineering group **Invensys** (created by the merger of BTR and Siebe) has continued its expansion into SCS by spending £52.4m on **UK Data Collection Services** (£38.5m) and US **Com-Trol** (£13.9m). UKDCS has systems to remotely read electricity meters and has £20.3m revenue and operating profits of £4m. Com-Trol manufactures control systems for commercial fridges and has £7.7m revenue and profits of £1m.

Synstar, in association with **Ericcson**, has announced plans to open Ireland's *"largest and most technically advanced"* business recovery centre in Dublin in September.

PR company **Financial Dynamics** (used by quite a few of our readers) has been acquired by US **Lighthouse Holdings** for £40m. Pretty good given that FD was valued at £8m just a year ago at the time of the MBO from CGT.

Reseller **Isec Computer Systems** has been acquired by US **Causeway Technologies** for an undisclosed sum. Isec specialises in software and services for the utility and transport sectors.

Consultancy reseller **Text Systems** has placed its two holding companies into receivership in order to facilitate an MBO and free itself of debt. Text Systems left the hardware scene some two years ago causing a revenue fall from over £13m to under £9m in 1997. The new company will trade as **Text Systems Solutions.**

Guardian iT has entered into a conditional agreement with US quoted **Strategia Corp.** to acquire French subsidiaries **Twinsys Dataguard** and **Strategia Europe.** Consideration will be $5.3m plus FFr5.5m plus another $1.8m for inter-group debt (total c£5m in all). The acquired companies had combined 1998 revenues of £5.8m and losses of £123K. The acquisitions are expected to be earnings enhancing (before goodwill amortisation) in the first full year.

Anite's AGM statement said that the first phase of its

Mergers and acquisitions - continued

reorganisation had been *"strikingly successful"* and Chairman Alec Daly said the group was *"continuing its strong performance and remains confident of a year of further growth"*. At the same time they announced the sale of their publishing business **5 Fifteen Ltd** (*love the name - wonder whether this is the time they knock-off or the time the deal was struck!*) in an MBO valued at £2m (£1.69m now, rest in three tranches up to 2003). The market liked the positive news and the shares and rose 4% this month -and are up 38% in 1999 so far.

Irish staffing business **Parc Group** has acquired **Qualitech Recruitment** for £3.94m - Parc's second IT acquisition. Qualitech provides IT staff to the financial services industry.

Principal Distribution has called in the receivers. PD used to be part of P&P and were the leading Mac distributor in the early 1990s. The receivership is even worse as it was only some six weeks ago that a second MBO took place after Rod McMillan sold 49% and stepped down.

IBM Global Financing is backing an MBO at IBM reseller **Technology Business Computers.** TBC had 1998 revenue up 62% at £21.5m with PBT up 92% to £1.15m.

Misys has acquired independent financial adviser network provider **Financial Options Group** for an initial £30m plus up to a further £10m. Misys will then become the UK's largest IFA network business. In 1998, FO had combined revenues of £30.5m and PBT of £1.8m.

ISP **Affinity Internet Holdings** has bought telephony reseller **BrightFibre Communications** for c£50K. Affinity now claims to have overtaken America Online as the UK's #2 ISP.

AIM listed **PolyDoc** has declared its intention to acquire **AppliedNet** for an undisclosed sum. For those who are not too aware of PolyDoc, they are an Anglo-Dutch knowledge management software company (they are also listed on the Amersterdam Nieuwe market). AppliedNet was backed by 3i to the tune of £1.5m.

System Integrated Research couldn't finalise terms for the bid announced back in May. SiR's share price dived by 26% to 28p this month as a result.

Jeff Trendell's **Syan** (IBM midrange outsourcing) plans an IPO.

For the record, the new company formed by the merger of **Proteus International** (molecular modelling software and in our SCSI index) and **Therapeutic Antibodies**, announced in May, will be known as **Protherics**.

Mike Tilbrook's **MMT Computing** has sold its 10% stake in **Trace**; half to **Intrinsic** value and half to **RBSTB Nominees**. *Not the end of this story though....*

NetBenefit has acquired France's **VOXPOP Internet Publishing** for an undisclosed consideration. VOXPOP, which is NetBenefit's reseller in France, had revenues of FFr.1.2m in the nine months to June 99.

Workplace Technologies sold

Workplace Technologies (WT) has been acquired by **NTL** - the NASDAQ quoted UK based cable group - at 228p per share valuing Workplace at £81m. Before the initial announcement of a possible bid, the shares were standing at around 145p and the bid price represents a premium of 57%. WT appears an excellent fit for NTL's modern national trunk network while WT builds corporate networks. The deal will enable NTL to offer clients a one-stop comms service with the emphasis on data transmission. WT also announced its interim results to Jun. 99 and despite revenue up 41% at £56.2m, the previous PBT of £1.3m was turned into a loss of £280K.

No signs of a wobble yet...

Just a year ago, our SCS Index dived losing most of the gains it had made in 1998. There currently seems to be no signs of a repeat performance with our index up another 3.9% in Aug. making a 41% gain so far this year.

It was the resellers, like **Computacenter** up 20% (see p10) and **Compel** up 10%, that performed best. Conversely, the IT Staff Agencies (see p1 feature) had another appalling month, with every stock falling, contributing to a massive decline of 9% in Aug. alone!

Gresham Computing (p6) was the biggest faller - down 51%. Not helped by comments in Techinvest saying *"The company's credibility is now tarnished to an extent that it will be difficult to restore without management changes...the City is not going to forgive Gresham in a hurry"*.

End Aug 99	Move since 1st Jan 98	Move since 1st Jan 99	Move in Aug. 99
System Houses	84.2%	18.8%	2.4%
IT Staff Agencies	-39.9%	-27.6%	-9.1%
Resellers	20.6%	28.3%	12.3%
Software Products	88.4%	61.0%	3.4%

31-Aug-99	SCSI Index				5576.89
	FTSE IT (SCS) Index				1870.90
	FTSE 100				6246.40
	FTSE AIM				1114.60
SCSI Index =1000 on 15th April 1989	FTSE SmallCap				2816.60
Changes in Indices	**SCSI Index**	**FTSE 100**	**FTSE IT Index**	**FTSE AIM Index**	**FTSE Small Cap**
Month (31/7/99 to 31/8/99)	+3.86%	+0.23%	4.82%	+3.52%	+3.68%
From 15th Apr 89	+457.69%	+204.17%			
From 1st Jan 90	+506.12%	+164.45%			
From 1st Jan 91	+687.84%	+189.13%			
From 1st Jan 92	+433.75%	+150.55%			
From 1st Jan 93	+249.96%	+119.44%			+103.02%
From 1st Jan 94	+234.03%	+82.73%			+50.73%
From 1st Jan 95	+272.00%	+103.76%			+61.28%
From 1st Jan 96	+146.93%	+69.31%		16.91%	+45.07%
From 1st Jan 97	+108.29%	+51.67%		14.19%	+29.02%
From 1st Jan 98	83.75%	21.63%	87.09%	12.36%	21.76%
From 1st Jan 99	41.49%	6.18%	29.38%	39.05%	36.01%

On the other hand Techinvest recommended **Delcam**(p2) which ended up 51%. **Workplace Technologies** (p7) ended 37% higher after the **NTL** bid but **Recognition Systems** won this month with a 63% rise...*well, actually recovery.* They are still a third of their IPO price.

New IPOs

... Baron Corporation

Baron Corp. has been formed to take over **Baron Systems** (software applications for the leisure industry with a recently acquired internet booking service to enable golfers to book tee-times in advance). This month Baron floated on AIM at £1 with a placing of 3m shares valuing Baron Corp. at £3.2m. The shares immediately raced ahead to a c82% premium but then fell back to end August on 131p - a 31% premium. Bob Morton (see also p4) is non-exec. Chairman.

Full year figures for BS show revenue down 37% at £2.4m and a loss of £175K (PBT £85K last time). Interim figures for the eight months to Apr. 99 show revenue of £1.5m and a loss before tax of £84K. We have now added Baron to our index.

... and NetStore also prepares for flotation

Application service provider company **NetStore** (backed by Michael Jackson (Chairman of Sage) with 1% and Paul Barry-Walsh (who recently led the MBO at Safetynet) with 25%) is evidently preparing for a flotation. This could be both on the LSE and NASDAQ at a potential up to £350m valuation. Not bad for a three year old loss making company with sales of £1m! It should provide a massive return for all concerned, including VCs 3i, NatWest and Barclays.

... Red Hat launches on NASDAQ

US software company **Red Hat** markets the free Linux operating system which is widely regarded as a possible alternative to halt the remorseless advance of Microsoft. Linux is the fastest growing new operating system with an estimated 17% of servers sold in 1998 using this system. Launched at $14, in the first hectic hour of trading the shares rocketed over three-fold to $50 and ended the day even higher at over $52. At this price, Red Hat was valued at a staggering $3bn - not bad for a company with revenues of less that $11m and one that has never made a profit. But Red Hat has the backing of IBM, Compaq and Intel and is involved in the internet so normal judgements don't apparently apply!

Comment. Red Hat only has a passing involvement in the internet and has no product of its own. Indeed Linux is given away free over the internet. Red Hat makes its money *"by providing support to people who use Linux"*.

In other words Red Hat is a pure IT services company. *Perhaps the Americans are at last getting the oft repeated Holway message?*

Still positive about Microgen

Martyn Ratcliffe was pretty frustrated with the market's reaction to **Microgen**'s results for the six months to Jun. 99. PBT increased from £1.29m to £1.52m on continuing sales actually reduced from £15.6m to £14.3m. Total revenue for the period was a higher £15.5m.

The news headlines were dominated by a warning that the *"distraction"* created by the millennium effect is *"expected to reduce growth prospects in H299"*. But analysts *increased* their forecasts for the full year from £3m to £3.2m. They also downgraded their forecasts for 2000 and 2001. But were these realistic anyway? Even after the downgrade Dresdner KB still forecast profits up 60% at £5.1m for 2000! As a result, on the day of the announcement, the share price dived 18% to 175p and they ended at this price

Whatever, we think Ratcliffe has done a great job so far repositioning Microgen from the (truly) boring company it was a year back into one that could reap huge rewards from e-commerce with their outsourced e-billing service. April's Kaisha Technology (business intelligence consultancy) acquisition seems to be proceeding well. We also remain a fan for the potential of Axess - the on-line archiving system. Unlike the market we fully agree with Ratcliffe that *"Microgen's three operating divisions are well positioned in high growth sectors of the IT services market and prospects for Microgen are encouraging"*.

Ratcliffe backed up his confidence by buying 50,000 shares on 27th Aug.

Profit warning from MSW Technology

Shares in **MSW** (MAPS personal records database software) fell sharply when they announced an expected loss for the full year to May 99 of c£1.6m. Company brokers Gilbert Elliot had been expecting a PBT of c£800K. The reason given is that a big contract was not finalised in the financial year although they added that current trading is *"satisfactory"*. Sales director Ray Ride has left the company.

MSW was a new issue at 97p in Nov. 98. The shares have dropped 40% this month to end on 81p.

Origin... Rob Pickering has really been a star in his year as CEO at **Origin BV**. Latest results for six months to 30th June show revenues up 16% at Euro 865m but PBT up threefold to Euro 65m. Clearly Origin is now a valuable (indeed perhaps undervalued) asset to parent **Philips**. We are sure that worth will be *realised* before long.

System House SCSI Share Prices and Capitalisation

	FTSE IT Index?	SCS Cat.	Share Price 31-Aug-99	Capitalisation 31-Aug-99	Historic P/E	PSR Ratio Cap./Rev.	SCSI Index 31-Jul-99	Share price move since 31-Jul-99	Share price % move in 1999	Capitalisation move since 31-Jul-99	Capitalisation move (£m) in 1999
Admiral	Yes	CS	£7.47	£483.20m	28.1	3.28	27015.47	4.17%	-35.84%	£24.00m	-£255.40m
AFA Systems		SP	£1.20	£21.90m	Loss	27.07	1000.00	-2.04%	10.60%	-£0.30m	£8.20m
AIT Group		CS	£4.02	£81.50m	44.2	4.67	2676.67	0.12%	74.57%	£0.10m	£34.80m
Anite Group	Yes	CS	£0.55	£135.70m	17.6	0.75	321.64	3.77%	37.50%	£5.40m	£37.40m
Axon		SP	£2.66	£129.80m	95.0	6.48	1520.00	-3.27%	52.00%	-£4.40m	£44.40m
Azlan Group	Yes	R	£0.82	£87.30m	31.8	0.25	354.35	17.27%	32.52%	£12.90m	£21.40m
Baltimore Technologies		SP	£9.68	£302.80m	Loss	30.64	9923.08	-3.25%	125.00%	£0.80m	£224.80m
Baron		SP	£1.31	£4.19m	n/a	1.78	1310.00	31.00%	31.00%	£0.99m	£0.99m
Bond International		SP	£1.13	£16.30m	23.6	1.85	1730.77	0.00%	19.68%	£0.20m	£3.50m
Cadcentre Group		SP	£2.30	£37.90m	19.9	2.12	1150.00	23.32%	-9.27%	£6.90m	-£4.20m
Capita Group		CS	£6.90	£1,431.00m	67.8	6.02	62162.16	-0.79%	24.21%	-£6.00m	£332.00m
Cedar Group		SP	£1.56	£56.70m	23.6	2.46	1480.95	26.42%	61.14%	£12.20m	£24.40m
CFS Group		SP	£1.56	£25.00m	13.8	2.28	1727.78	-5.76%	56.28%	-£1.20m	£9.20m
Clinical Computing		SP	£0.44	£11.00m	39.9	3.62	354.84	15.79%	20.55%	£1.46m	£1.84m
CMG	Yes	CS	£18.57	£2,376.00m	58.2	5.35	12806.90	8.09%	21.77%	£174.00m	£423.00m
Compel Group	Yes	R	£4.68	£147.70m	19.2	0.70	3740.00	10.65%	17.46%	£13.80m	£33.90m
Computacenter	Yes	R	£5.79	£1,023.00m	19.2	0.64	863.43	19.90%	31.48%	£169.00m	£244.20m
Comino		CS	£3.19	£43.40m	21.0	2.33	2453.85	0.00%	53.73%	£0.00m	£15.80m
DCS Group	Yes	CS	£6.03	£145.80m	28.3	1.32	10041.67	15.87%	11.57%	£20.00m	£21.10m
Delcam		SP	£1.27	£7.29m	Loss	0.53	486.54	51.50%	172.04%	£2.36m	£4.55m
Diagonal	Yes	CS	£2.93	£240.40m	39.1	3.43	4252.58	-1.18%	21.37%	£9.30m	£46.90m
Dialog Corporation		CS	£0.76	£121.30m	26.2	0.71	690.91	10.14%	31.03%	£16.70m	£33.50m
DRS Data & Research		SP	£0.23	£7.96m	Loss	1.17	209.09	3.37%	80.39%	£0.26m	£3.55m
Druid Group	Yes	CS	£11.25	£259.90m	38.8	6.40	4090.91	14.21%	-14.61%	£32.40m	-£41.80m
ECSoft	Yes	CS	£8.38	£92.10m	15.1	1.48	463.48	27.86%	-54.73%	£20.70m	-£109.60m
Electronic Data Proc		SP	£0.61	£16.80m	10.0	1.46	1867.73	-11.59%	-9.63%	-£1.30m	-£0.90m
Eidos		SP	£32.70	£610.00m	19.4	2.70	32700.00	5.14%	247.87%	£37.80m	£449.30m
FI Group	Yes	CS	£3.60	£835.20m	61.5	3.66	9230.77	-5.88%	9.59%	-£37.70m	£175.60m
Financial Objects		SP	£2.94	£104.10m	27.8	4.81	1278.26	8.89%	20.00%	£8.00m	£16.80m
Flomerics Group		SP	£2.49	£6.62m	16.9	0.96	1915.38	-5.14%	60.65%	-£0.21m	£2.59m
Freeserve		CS	£1.82	£1,894.00m	n/a	n/a	1210.00	-23.58%	21.00%	-£501.80m	£384.00m
Gresham Computing		CS	£0.48	£24.00m	7.2	2.76	516.13	-50.52%	-52.71%	-£17.90m	-£11.70m
Guardian iT	Yes	CS	£6.34	£323.30m	69.7	10.89	2486.27	3.51%	33.47%	£9.70m	£80.10m
Harvey Nash Group		A	£2.98	£84.80m	13.1	0.81	1700.00	-1.33%	-4.03%	-£1.10m	-£2.60m
Highams Systems Servs		A	£0.42	£7.37m	7.1	0.22	1166.67	-11.58%	-50.59%	-£1.61m	-£8.63m
ICM Computer		CS	£2.40	£45.80m	19.3	1.28	1333.33	1.48%	-5.33%	£0.90m	-£2.50m
ilion Group		R	£1.20	£30.10m	Loss	0.12	750.00	9.09%	112.39%	£2.50m	£15.90m
Intelligent Environments		SP	£0.90	£37.70m	Loss	5.68	952.13	-2.19%	101.12%	-£0.80m	£23.90m
Internet Technology		CS	£2.41	£118.60m	n/a	10.77	12050.00	58.03%	43.45%	£46.20m	£75.90m
I S Solutions		CS	£2.93	£14.00m	21.2	1.60	2182.84	10.38%	42.68%	£1.30m	£4.16m
ITNET	Yes	CS	£4.28	£303.30m	56.2	2.87	1221.43	0.83%	-9.52%	£5.20m	-£28.90m
JBA Holdings	Yes	SP	£2.36	£87.50m	Loss	0.30	1475.00	-6.72%	27.57%	-£6.10m	£19.60m
JSB Software		SP	£3.27	£38.60m	n/a	11.49	1632.50	-6.18%	59.27%	-£2.60m	£19.10m
Kalamazoo Computer		CS	£0.60	£23.00m	Loss	0.35	1700.00	10.19%	50.63%	-£0.20m	£6.10m
Kewill Systems	Yes	SP	£4.24	£300.00m	40.6	4.99	8379.45	8.72%	66.27%	£30.90m	£129.20m
Logica	Yes	CS	£7.63	£3,081.00m	74.2	6.51	10442.32	13.38%	45.93%	£414.00m	£1,152.00m
London Bridge Software	Yes	SP	£22.00	£677.60m	111.3	30.28	11000.00	4.89%	70.87%	£31.60m	£296.50m
Lorien		A	£1.17	£23.60m	5.7	0.17	1165.00	-2.92%	-20.48%	£0.10m	-£5.10m
Lynx Holdings	Yes	SP	£1.43	£155.60m	15.5	0.86	3562.50	5.56%	-28.21%	£10.70m	-£56.60m
Macro 4	Yes	SP	£6.80	£141.80m	19.5	4.57	2741.94	7.09%	100.00%	£16.70m	£74.80m
MDIS Group	Yes	CS	£0.24	£55.80m	17.0	0.42	92.31	3.23%	-47.83%	£1.70m	-£42.10m
MERANT	Yes	SP	£2.80	£405.20m	Loss	1.88	1352.34	-1.23%	170.53%	-£2.20m	£256.60m
Microgen Holdings		CS	£1.75	£93.60m	19.9	1.34	747.86	-14.84%	27.74%	-£13.30m	£34.00m
Misys	Yes	SP	£5.51	£3,161.00m	33.0	5.43	6848.87	0.64%	25.90%	£71.00m	£701.00m
MMT Computing	Yes	CS	£6.03	£75.60m	11.9	2.06	3586.31	-11.40%	-35.73%	-£6.70m	-£36.90m
Mondas		SP	£0.69	£8.63m	Loss	9.04	913.33	7.87%	35.64%	£0.63m	£2.27m
Moorepay Group		CS	£3.08	£36.00m	19.8	4.31	5189.37	2.50%	33.70%	£0.90m	£9.10m
Morse		R	£2.24	£273.30m	30.3	1.26	894.00	8.76%	-10.60%	£22.00m	-£32.40m
MSB International	Yes	A	£1.51	£29.90m	4.0	0.16	792.11	-8.79%	-55.74%	-£3.80m	-£39.50m
MSW Technology		SP	£0.81	£7.71m	22.4	2.65	835.05	-40.00%	-23.94%	-£3.39m	-£1.02m
Netbenefit		CS	£2.16	£27.00m	n/a	21.70	1080.00	-4.42%	8.00%	-£1.20m	£2.00m
NSB Retail Systems		SP	£6.53	£132.00m	57.7	15.78	5673.91	-4.40%	283.82%	£59.10m	£113.30m
Oxford Molecular		SP	£0.45	£38.70m	Loss	1.80	556.25	11.25%	-8.25%	£3.90m	-£3.40m
Parity	Yes	A	£2.02	£306.60m	22.9	1.06	33666.54	-11.60%	5.76%	-£32.70m	£24.40m
Pegasus Group		SP	£3.06	£20.00m	17.6	1.34	832.43	20.28%	0.99%	£2.20m	-£1.20m
PhoneLink		CS	£0.30	£20.60m	Loss	2.06	193.55	-15.49%	9.09%	-£3.80m	£1.70m
Planit		SP	£0.50	£37.00m	31.3	3.82	2083.33	-5.66%	108.33%	-£2.20m	£21.30m
Policymaster		SP	£3.00	£42.30m	43.0	3.73	2000.00	15.61%	58.31%	£5.70m	£15.60m
Proteus International		SP	£0.41	£30.70m	Loss	44.11	488.10	13.89%	15.49%	£4.10m	£4.40m
QSP		SP	£5.88	£85.70m	18.9	2.08	1546.05	10.33%	65.49%	£9.00m	£37.40m
Quantica		A	£0.43	£17.50m	7.0	1.15	346.77	-10.42%	-41.10%	-£2.10m	-£10.90m
Rage Software		SP	£0.22	£55.50m	32.5	15.33	846.15	33.33%	166.67%	£15.30m	£35.40m
RDL		CS	£0.96	£10.70m	10.9	0.68	1061.11	0.00%	6.11%	£0.00m	£0.60m
Real Time Control		SP	£6.70	£46.50m	15.9	2.77	13673.47	-4.96%	38.86%	-£2.90m	£12.70m
Recognition Systems		SP	£0.25	£20.10m	Loss	25.51	360.71	62.90%	152.50%	£8.60m	£16.41m
Riva Group		CS	£0.74	£25.80m	17.1	0.32	522.38	17.60%	116.18%	£4.20m	£14.90m
RM Group	Yes	SP	£5.20	£482.10m	55.2	3.68	14857.14	-11.64%	12.19%	-£59.30m	£61.20m
Rolfe & Nolan		SP	£1.99	£26.50m	25.2	1.26	2369.05	-12.53%	13.71%	-£3.80m	£3.20m
Romtec		CS	£0.64	£3.37m	32.0	0.86	1016.00	0.00%	-16.99%	£0.00m	-£0.68m
Royalblue Group	Yes	SP	£5.30	£153.40m	40.5	5.20	3117.65	-4.07%	58.21%	-£5.70m	£60.30m
Sage Group	Yes	SP	£27.30	£3,315.00m	78.2	17.31	105000.00	6.43%	73.89%	£189.00m	£1,494.00m
Sanderson Group	Yes	CS	£1.89	£95.90m	14.2	1.30	3208.51	11.87%	22.80%	£11.80m	£22.80m
SBS Group		A	£1.30	£11.40m	7.5	0.32	1300.00	15.56%	-34.18%	£1.50m	-£6.00m
Science Systems		CS	£1.89	£37.10m	24.4	1.53	1461.24	-13.73%	20.45%	£0.00m	£10.50m
Sema Group	Yes	CS	£6.77	£3,051.00m	53.5	2.44	8515.72	9.64%	14.55%	£199.00m	£327.00m
Sherwood International	Yes	CS	£5.38	£205.50m	45.5	4.82	17906.80	15.59%	58.55%	£30.70m	£78.10m
Skillsgroup	Yes	CS	£2.82	£246.60m	24.6	0.65	1262.33	1.99%	55.10%	£4.80m	£97.20m
Spring		A	£1.38	£187.30m	22.6	0.46	1527.78	-15.38%	-5.50%	-£47.70m	-£23.10m
Staffware		SP	£3.00	£39.10m	272.7	1.76	1333.33	21.21%	12.15%	£7.70m	£5.10m
Superscape VR		SP	£1.27	£15.60m	Loss	3.70	638.89	11.45%	-34.63%	£1.60m	-£8.20m
Synstar		CS	£1.17	£190.10m	39.4	1.16	709.09	-13.01%	-29.09%	-£28.50m	-£79.90m
Systems Integrated		SP	£0.28	£3.15m	Loss	2.52	241.30	-25.50%	258.06%	-£1.84m	£2.11m
Terence Chapman		CS	£1.51	£102.60m	37.6	4.92	1118.52	4.86%	11.85%	£4.80m	£10.90m
Torex Group		CS	£2.98	£98.90m	38.5	4.54	5776.70	11.01%	236.16%	£10.70m	£70.20m
Total Systems		CS	£0.50	£5.20m	11.5	1.60	943.40	-10.71%	-15.25%	-£0.62m	-£0.94m
Touchstone		SP	£1.12	£10.50m	14.6	1.37	1061.90	-12.89%	-1.76%	-£2.00m	-£0.60m
Trace Computers		CS	£1.35	£19.80m	16.2	1.35	1080.00	0.00%	10.20%	£0.00m	£1.80m
Triad Group	Yes	CS	£2.84	£71.60m	12.3	1.45	2103.70	-3.89%	-46.67%	-£2.90m	-£62.60m
Ultima		R	£0.03	£6.26m	15.5	0.43	79.27	8.33%	-13.33%	£0.48m	£1.10m
Vega Group		CS	£6.39	£114.40m	34.8	3.95	5237.70	-4.96%	64.90%	-£6.00m	£52.00m
Workplace Technologies		CS	£2.23	£79.20m	23.6	0.95	1274.29	36.81%	13.20%	£21.30m	£22.10m
XKO		CS	£1.44	£33.60m	n/a	1.18	960.00	5.88%	n/a	£1.90m	£19.10m

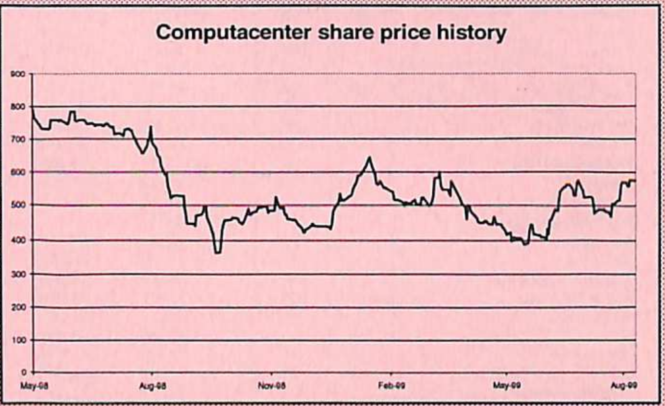
Note: Main *System House* SCS Index set at 1000 on 15th April 1989. Any new entrants to the Stock Exchange are allocated an index of 1000 based on the issue price. The CSI index is not weighted; a change in the share price of the largest company has the same effect as a similar change for the smallest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

Category Codes: CS= Computer Services **SP** = Software Product **R** = Reseller **A** = IT Agency **O** = Other

Computacenter services lead the way (apparently) at the halfway stage

The UK's leading PC reseller, **Computacenter,** has announced revenues up 17% to £905m, with PBT increasing a creditable 30% at £40.7m and diluted EPS up 28% for the six months to 30th Jun. 99. Chairman Philip Hulme said *"In line with our long term strategy, the Group has continued to invest heavily in expanding its service operations resulting in accelerated growth in this area of our business in the first half"*. But yet again they are being rather coy on how much of this business comes from their apparently thriving services operations. Against a background of product sales 'activity' up 7% (representing about 26% uplift in units shipped - *"lower than last year"*) in the half year, Computacenter's service 'activity' levels positively soared. Configuration Services rose 35%, Support Services increased 52%, and Technical Services did even better, up 64%. There were some good new services account wins too. - for example at Royal & Sun Alliance, Halifax, SmithKline Beecham. *The question is ... what's the services baseline?*

So let's do the sums! A Goldman Sach's research note of 19th August (well, they are their brokers) suggests £200m services revenues. But that's a bit difficult to justify as Computacenter had revenues of £905m but spent c£700K on *"good for resale"*. Assuming they make some margin - say 3.5% - on this, that leaves c£180m for services. That fits with Computacenter's corporate development manager, Phil Williams, who mooted (PC Dealer 25th Aug. 99) that services represented 20% of turnover. Goldman Sachs suggested that *"Computacenter's services business must have a margin of 13.5%"*. But even Sema, Logica and the like have yet to break the 10% PBT margin barrier and Computacenter is involved in the lower margin desktop services space. So, if you accept our c3% margin on hardware resale, that pushes the services profit lower to c£15m or an 8.3% margin. We are much happier with that as at least it's in line with the average for the SCS industry. Regardless, their total PBT margin of 4.5% is at the high end for a reseller, which makes sense given the level of services activity.



Meanwhile, Computacenter's UK operations still represent the lion's share of the business. Revenues rose just 10% to £763m, but PBT was up a much healthier 28% at £43.4m. Sales were noticeably weaker in the City and Finance sectors but pretty buoyant in the telecomms sector. France grew rapidly - and organically - by 58% to £109m, but PBT halved to just £300K, mainly due to a move to new HQ and a 50+% increase year-on-year in staff numbers. CEO Mike Norris noted that *"profits margins in France remain very competitive"*. Clearly so. Computacenter's German operations reduced losses marginally to £700K against a huge 151% revenue boost to £32.4m. They also moved offices and almost trebled staff numbers in the last year. Computacenter's Jun. 99 acquisition of **ECS International Belgium** for $1.72m *"will make a small loss in H299"*. ECS was the distributed systems and services division of French **Societe Generale** and had 1998 revenues of $21m.

Norris reported *"some evidence of a slowdown in the corporate market across Europe as the millennium approaches. However, we believe there is significant pent up demand in our customer base which will be released next year"*.

Comment: Whilst Norris had bemoaned Computacenter's market valuation, it was hard for analysts to see them as much more than a reseller when they refuse to be transparent on their services revenues. We actually believe they have a great story to tell. Besides what appears to be a well-rounded desktop services portfolio, they are also looking at commercialising their On Trac e-commerce system, which currently handles over 40% of their customer orders. They also have a new e-commerce division called iGroup - this is more like a system house for internet/intranet consulting and development - which is another step in the right direction up the services value chain. So, don't be shy, Mike - we'd be the first to trumpet your services successes ... if we only knew what they were!

In any event, the market reacted positively to the announcement, marking Computacenter's shares up by 9% to 565p on the day. They ended Aug. 99 at 579p, 31% up on the year, but still a 14% discount to their 670p IPO price in May 98. Goldman Sachs are now projecting PBT of £77.5m for the full year and £92.5m for 2000 and ended their research note *"we regard Computacenter shares as undervalued and deserving a re-rating"*.

Acquisitive Torex continues to progress

Ex tool-hire company **Torex** is now a pure SCS company after a string of acquisitions and disposals. At the interim stage to 30th Jun. 98, revenue almost doubled to £18.5m although PBT was only up a lower 11% to £1.8m. EPS increased an even smaller 3%. All divisions did well and Torex Medical now claims to be the UK market leader in the supply of computer systems to GPs after acquisitions including AAH Meditel and Hollowbrook. 3,000 UK practices use Torex systems. Torex Retail increased its revenue 31% to £9.5m helped in part by the acquisition of Systems Guidance in Apr. 99. Torex Services *"has made an excellent start with a very satisfactory contribution to profits"*.

Chairman Chris Moore is delighted with the results. *"Demand for our products and services remains strong, with all divisions trading ahead or in line with budget... I am confident that profits in H2 will exceed those reported in H1 and will reflect an increased rate of growth over that previously experienced"*. Torex is to continue with its acquisition policy and FD Mark Pearman is reported as saying that the company *"could afford to spend up to £80m"* - not that far short of their current capitalisation of £99m. House brokers Beeson Gregory have upgraded their full year profit forecast from £4.8m to £5.2m.

Comment. Torex should benefit from government plans to give every GP a computer to access on-line health information and a link by e-mail to the whole NHS at a total estimated cost of c£40m. Pearman is estimating Torex's share of this at up to £9m as it has some 30% of the total practice market of 10,000. Indeed up to £1b is pledged to update primary care systems in the UK over the next six years.

Initially we were fearful that Torex would do a Trace and get involved in too many disparate areas. But our concerns were heeded and Torex has prospered with its now well focused activities. Their share price has really started to motor. Up another 11% this month to end on 298p and 236% this year so far.

London Bridge is going up... and up

"Leading international supplier of software and services for credit risk management and CRM systems" **London Bridge Software** (LBS) has announced another set of sparkling results at the interim stage to 30th Jun. 99. Total revenue more than doubled to £19.5m (even organic revenues virtually doubled), PBT went up 31% to £3.5m with diluted EPS up 5.5%. PBT would have been ever better but for the founder's bonus at the Asia Pacific subsidiary. The results *"reflect continued growth in the core business"* including their largest order to date with a leading motor credit supplier. Recurring revenues accounted for 27% (or £5.3m), licence fees 45% (£8.8m) and consultancy/implementation the remaining 28% (£5.4m).

For the future, Chairman Gordon Crawford (who has added over £20m to his personal fortune with this month's share rise!) speaking to analysts on the 'phone from an undeclared holiday destination said *"the company has made excellent progress across all aspects of our operations. The short term prospect list looks strong* (so apparently no Y2K worries either)... *we continue to focus on areas we believe should give outstanding opportunities for growth and increased profits in the medium and long term".*

London Bridge this month has acquired 97.1% of US **RSI Group Inc.** for $24m (part cash, part shares). RSI provide *"software and services for the collection and recovery of delinquent accounts"* and had 1998 revenues of $5.2m and profits of $23K with 60 employees. LBS hope to acquire the balance of the shares *"shortly".*

Comment. Although we admit to some initial concerns, we are delighted to have been proved wrong. LBS is a shining example of just what a UK software company can achieve. The company was floated in Mar. 97 at 200p. If you had been lucky enough to get any at this price, you would have had a 11-fold return on your original investment as they ended the month up another 5% on £22. Mind you this is a *"vertiginous" (*many thanks to the FT for this apt description) PE of c111 - high by any standards and this for a company that's only some five years old. House brokers, Henderson Crosthwaite are now forecasting profits of £12.7m for the full year. These ratings, as Investors Chronicle said, *"not only leaves the shares heavily exposed but means the company can't afford to put a foot wrong in the future".*

Crawford's own holding must now be worth c£400m (he came out top in our shareholder valuation in the 1999 Holway Report and looks as though he will do so in the next too!)

Some of the smaller quoted SCS companies

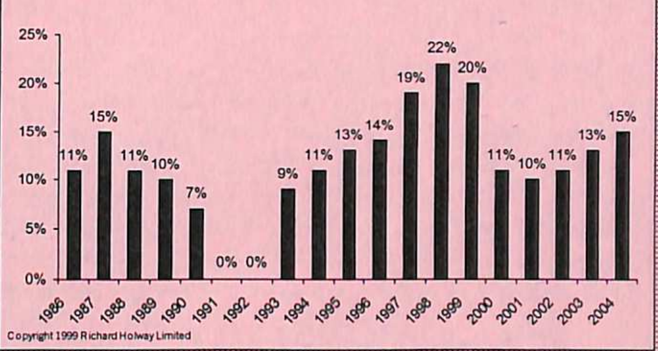
Keystone Software was a new AIM issue at 10p in March 99. They provide systems for practice management of major professional firms (e.g. engineers, chartered accountants). Latest results today for year to 31st March 99 means Keystone join the select group of SCS companies with losses exceeding revenue. Revenue in year went up fourfold from £439K to £1.58m but losses did likewise, increasing from £752K to £2.4m. *"This loss needs to be viewed in the context of considerable achievements in the year".* Well, they say two customers went live on their systems. Anyway, the share price was down to 16p.

Bond International Software (HR, recruitment and tourism software) was a new AIM IPO in Dec. 97 at 65p. Given that Chairman Martin Baldwin anticipated *"significant further growth"* in 1999, the results for six months to 30th Jun. 99 are lacklustre. Revenues were flat at £4.57m (last time £4.32m) but profits increased from £284K to £327K. Moving to a new UK HQ building was blamed as *"some upheaval was inevitable". So that's alright then.*

Surprise, surprise....growth in IT budgets to fall in 2000

Salomon Smith Barney, the US investment bank, dropped a bombshell this month. They did a massive survey of *just* 46 IT directors of Europe's leading companies. Amazingly, these directors said that whereas in 1999 they were spending 17% of their budgets on solving the Y2K issue, this would drop to just 3% in 2000! As a result, although they expected new projects to be reactivated, overall budget would be flat in 2000. Or, put another way, non Y2K spend would rise by 14%+. City analysts like Ross Jobber from Deutsche Bank were *"shocked".*

UK Software and IT Services Market Growth in Real Terms
(I.e. excluding inflation)
Actual 1988 to 1998 - Forecast 1999 - 2004



Although these learned organisations buy our research (thanks) we had rather hoped that they read it too! We have been forecasting this in the 1997, 1998 and 1999 Holway Reports. By the way, based on 2500 companies in the UK alone - let alone the research base of our partners PAC in Continental Europe. We see overall IT UK spend (that includes internal personnel spend and hardware as well as external SCS) growth rates falling from 12.5% in 1999 to 6.9% in 2000. But we see the remorseless move from internal spend towards "outsourcing" in all its guises, resulting in SCS growth rates falling from >20% in 1998 to a still pretty impressive 13% in 2000 before staging a recovery in 2001 when we predict the next "Golden era" for our industry will really start to kick in.

So, the only thing you dear readers should be surprised at is other people's surprise.

Dialog still needs to prove itself

In six months to 30th Jun. 99, **Dialog** announced revenues slightly down at £87.3m, operating profit down from £13.5m to £10.8m, PBT down substantially by 76% to £1.7m (after goodwill amortisation, interest charges etc.) and EPS down an even higher 83%. Their Information Services Division - by far the largest - saw revenue decline 6.5% to £80.6m although internet based solutions increased revenues 20% and now represents c23% of the total division's revenue. Web Solutions saw revenues almost treble to £6m. The smallest division - e-commerce - achieved revenues of £714K after the Dec. 98 launch of OfficeShopper.

The company is still in talks about the refinancing of its massive debt burden. CEO Dan Wagner appears happy to consider offers for various parts of the company and this may well assist with the refinancing package.

Comment. We have always believed that Dialog has considerable potential. But the massive debt of c$85m and repayments + interest of c$22m annually combined with Dan Wagner's management style are serious millstones. Whereas other internet stocks (and Dialog has more claim to be one than many) get given very much higher ratings on zero revenues and larger losses, Dialog will still have to demonstrate its worth first by producing some good positive results. The shares ended Aug. up 10% on 76p - that's a capitalisation of 'just' £121m.

Are we to welcome Techmark?

Perhaps the most important LSE-type news since the announcement of the launch of the FTSE IT Index in late 1997, is this month's news of the launch of a new Exchange for high tech. stocks to be called **Techmark**. At present the LSE has failed to confirm this, but the press coverage has been so extensive that not to proceed now would be extremely embarrassing.

It looks as if 100 companies will be "invited" to join the new Exchange. They are unlikely to invite very many from AIM. In order to ensure that companies such as Misys retain their hard won FTSE100 status, they will be able, apparently, to be listed on both markets. We understand that IPO regulations will be "relaxed" so that green field companies have a chance.

We have had many calls on this subject this month, so you probably know our views by now.

Basically, we are all for this move and have lobbied hard for it. But we think it should have been done some years ago. *"Better late than never".* However, we suspect it has been done rather reluctantly and only after it eventually dawned on the powers-that-be that the threat from NASDAQ (and to a lesser extent EASDAQ) and the Euro.NM (particularly the Neuer Markt) were pretty serious. We know of quite a few UK SCS companies a long way down the road towards IPOs in Frankfurt.

So having come rather reluctantly to the party, will the LSE get it right? The key thing is to get liquidity in the stocks. We suggest that they copy the NMs and demand at least 25% of NEW shares to be part of any IPO. That should ensure that investors insist that any funds are used for growth - not *just* lining the pockets of the founders.

The other issue is getting investors interested. We strongly advocate that the VCT rules (income tax rebates and CGT roll-overs) should apply to Techmark investments - certainly to new IPOs or fund-raising. We also need to get the larger institutions like the pension funds more interested in investing in the predominately smaller companies which will dominate Techmark. The FT reported that US pension funds are 5% invested in new ventures - it's just 0.5% in the UK.

Techmark MUST succeed. It must not be allowed to be an AIM. If it fails, the tech. exchange axis will shift irreversibly away from London. City institutions and the UK SCS sector will both be losers. Come to that...so will we! *Nothing would give us more pleasure than bringing you all **Techmark Research**...*

DataGroup buys

Derek Lewis' (of MSB, Technology plc and Vertex fame) ***Data*Group** has announced their first acquisition with the purchase of **Thesaurus Computer Services** (TCS) - no amount disclosed but we would guess at £15/£16m based on similar transactions. TCS (systems and software engineering support) had 1999 revenues of £10 and £1.8m PBT. That's a very impressive margin. Indeed it looks a very high quality operation which is entirely IT services based, little or no TPM, long term customer relationship and a blue chip customer base.

DataGroup "aims to make a total of £150m acquisitions and plans to seek a full market listing at the appropriate time". Clearly a company to watch.

System House® is published monthly by Richard Holway Limited, PO Box 183, Farnham, Surrey, GU10 1YG. Telephone 01252 781545; Fax: 01252 781546; E-mail Internet:Holway@Compuserve.com which also publishes the annual "Holway Report" and the "Software and Computing Services Industry in Europe Report". Richard Holway has been a director of several computing services companies and might hold stock in companies featured.