

# System House

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

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## Secrets of Success

1998 has certainly tested "May you live in interesting times" to its limits. Although we refuse to give specific investment advice, there is little doubt that the *more interesting* the times become, the more investors should stick with the *Quality* stocks.

Analysis of the share price performance of the c100 companies which constitute our SCSI Index shows that the "conventional" system house/IT Services companies like Admiral, CMG, Logica, Sema have still been the best performers in 1998 to date. Although certain product companies like Sage are still showing gains on the year, in general products share price growth (at 10%) was less than a third of that achieved by the system houses. Resellers like Azlan and Computacenter were not the place to be; registering a 22% fall on average. But the sector worst affected was the IT staff agencies like Lorient, MSB and Delphi - hit by a 30% fall. Interestingly, long term performance is pretty much the same (*is it really 10 years since we established the System House SCSI Index?*) except for IT Agencies. Here it was the phenomenal share price success of Parity - up over 24-times since Philip Swinstead took the helm - which has caused almost all the gain. But, yet again, it's the *System House* Boring Award winners (even when you exclude those subsequently "excommunicated") that have been the real winners, both in the last ten years and in the shorter term in 1998. All the current holders have done well. But Capita (up 5,200% since its 1989 IPO and up 57% in 1998 alone) which takes the #1 slot.

Most readers know what makes a **Boring** company (10+ years of 20% p.a. earning growth and NO reversals). But what makes a Quality company?

After 30+ years in this business, we actually think it's clear.

We may have been crafty, but it was quite easy to come up with...

### The Secrets "S's" which spell QUALITY

1 - The business is **SIMPLE** to understand. We (like most analysts) are also very *simple*. If you can't explain what you do in a few sentences, forget it.

2 - The business is **SECURE**. I.e. you have long term customer relationships. Although many think that means long term contracts, relationships are just as important. That's why we would put Computacenter in this category just as much as FI Group.

3 - The business makes (or could, if it wished, make) the majority of its revenues from **SERVICES**.

4 - The business has **STABLE** management. That doesn't mean that management doesn't change. But that succession is well planned (e.g. David Goldman stepping down from Sage) rather than unexpected (look no further than Lorient!)

5 - The business is in a **SERIOUS** part of the market. Dealing with the corporate requirements of the UK's largest organisations often looks boring in comparison with games software or the Internet. *So be it...Be serious not exciting.*

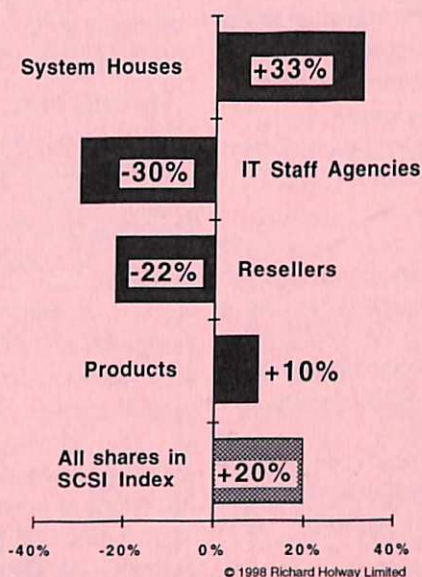
6 - The business is **SELECTIVE**...it is certainly focused on a very few sectors. We only have to look at the problems which have beset Radius, Sanderson and Trace for evidence that the "we can do everything" approach doesn't work.

7 - "**STICK** to the knitting". This is particularly the case for acquisitions. The best example is Sage which has succeeded by extending its geographic spread by concentrating on acquiring only financial accounting product suppliers to SMEs.

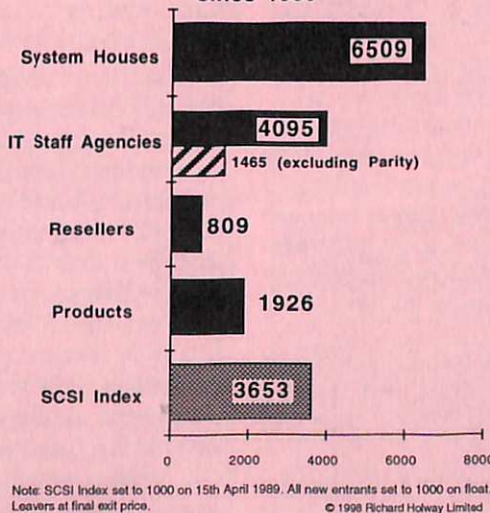
8 - Go for wide **SHARE OWNERSHIP**. Companies with enlightened staff share ownership

policies (like FI and Computacenter) seem to out-perform those where the founder or the institutions hog all the equity.

SCSI Share Performance by Sector in 1998



SCSI Index Share Performance by Sector since 1989



Current Award winners are: Admiral, Capita, Sage and Triad  
Excommunicated: Coda, JBA, Triad

All System House "Boring" Award Winners (incl those excommunicated)

Current System House "Boring" Award Winners

	Since 1989	In 1998
All System House "Boring" Award Winners (incl those excommunicated)	+2,230%	+28%
Current System House "Boring" Award Winners	+3,430%	+45%



## Operating profits at Autonomy

EASDAQ quoted **Autonomy** (dynamic reasoning engine) has recorded yet another set of "record" results. In Q398 to end of Sep. 98, they recorded a 204% increase in revenue to £1.7m (and this is also up 56% on Q298) but, more significantly, they recorded their first operating profit - albeit a relatively small £62K. Of course for the full year a sizeable loss will be made as, in the first nine months, they have lost over £1.2m before tax. *But readers should bear in mind that their current capitalisation is now over £100m!*

## Spectacular SCS growth at Select Appointments

Specialist recruitment group **Select Appointments** has announced revenue for Q398 up 63% to £223m (note they are now reporting in sterling not dollars as the switch "has angered the London investment community") with PBT up 39% at £8.9m.

IT revenue now represents c41% of the total which equates to an annual run rate of an amazing £365m. But Chairman Tony Martin said he did not want to see IT income ever to be over 50%. "As far as a slowdown in the IT area, we haven't seen it yet. We tend to concentrate on the much more highly skilled IT professional and there is still a tremendous demand. You've got such things as the Millennium, the Internet, a lot of new technology projects, so there's still a huge demand for these people".

So there you have it. You can all sleep easy. Clearly Select will be immune from any problems in the future.....(?)

## ... and from Xavier

AIM quoted **Xavier Computer Group** announced a good set of results at the interim stage for the six months to 30th Sep. 98. Revenue rose 16% to £9.06m, with PBT up a higher 44% to £723K. But basic EPS actually fell 6%, due to a loan note conversion in Apr. 98 which has strengthened the balance sheet. Fully diluted EPS (after taking into account options and warrants) rose 37%.

Chairman Nicholas Barham said "Individually, each of the three operating companies reported record results for both turnover and profit". He went on to say that current sales are "encouraging".

But then on 23rd Nov. 98, Xavier announced that it had received a bid approach which "may or may not lead to an offer for the company at a substantial premium". As a result, Xavier, which was launched onto AIM in Jul. 96 at 10p, ended the month up 28% at 14p.

## ... but bad news from Micro Focus

**Micro Focus** has issued a profit warning due to lower than expected sales of Y2000 products and services particularly in the America market. In their first full quarter's results to Oct. 98 (and after their **Intersolv** purchase) they now expect only a breakeven position on revenues of an estimated \$87m. And this is before one-off charges for the Intersolv acquisition - so in reality a plunge deeply into the red is anticipated.

The share price crashed on the day of the announcement but recovered somewhat to end the month still down a massive 46% at 123p. Don't forget the share price had been as high as 721p earlier this year.

**Comment.** The Intersolv purchase cost them \$534m last July in an all-stock transaction. Most observers (incl. us) think that this massive acquisition has caused management to take their eye of the ball whilst integration takes place. Analysts had also been expecting revenues in Q3 of well over \$100m and, as Y2K represents only c20% of their business, are there other unstated weaknesses elsewhere? Is the present management up to the task? Shareholders on the "roller coaster" must again be feeling queasy.

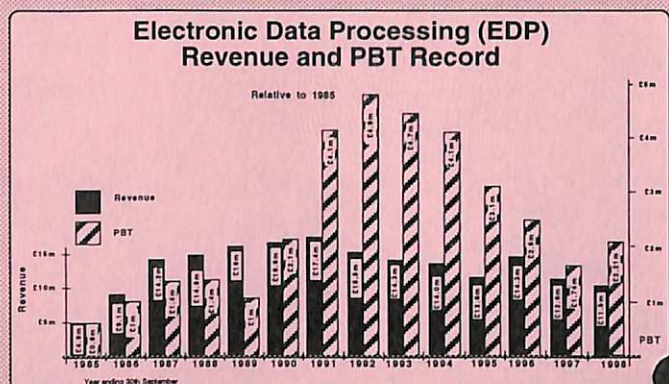
## Better results from Delphi

At last we are able to report more positively on **Delphi** - they have certainly not had a good 1998 so far (see previous **System House** reports). In their Q398 figures to 30th Sep. 98, revenue rose 25% to £88.6m, with PBT increasing 18% to £4.5m. EPS was up a higher 21%. European revenues from IT staffing now exceeded £60m in the period.

Chairman Tony Reeves has shrugged off fears that any slowdown in the financial services sector would hit the group. "Typically, a slowdown affects permanent recruitment first. People often resort more to using contract staff. Also only 15% of our UK contracts are in the financial sector". But so far they have not yet managed to sell French **Decan** which they estimate now to be worth c£28m. US **Alpine** - also on the market for sale - made further losses, although trading is improving and the company hope to achieve a breakeven position in Q4. Reeves also announced the appointment of former Grand Met CEO, Lord Sheppard as non exec. Chairman from Jan. 99. All this better news resulted in a much needed recovery in the share price which rose 6% in Nov. to end on 278p - but still well down in the year.

## At long last...getting it right at EDP

**Electronic Data Processing (EDP)** produces systems for wholesalers and retailers. They were the "wonderstock" back in 1993 when the shares hit 230p. That was when they declared PBT of £4.9m on revenues of £15.5m. Since then, it has been a one way slide.



Results for the year to 30th Sept. 98 showed revenue had declined from £12.56m to £11.52m (mainly due to continued declines in both the price of, and share of, revenue taken by hardware and a continued reduction in hardware maintenance revenues. *But, let's be blunt, there is not much surprise there!*) PBT jumped 27% to £2.21m (i.e. back to the c20% margins we had earlier come to expect from EDP). EPS was up 31% at 5.89p.

Anyway, revenues are now firmly based on software and services - rather than hardware - and over 50% of revenues are now "recurring". Although EDP still faces strong competition from the major ERP vendors, expectations are now more realistic. CEO Jowitt anticipates "further consolidation in the sector in 1999". Although we agree, the problem we have is that EDP may well be the victim, not the hunter.

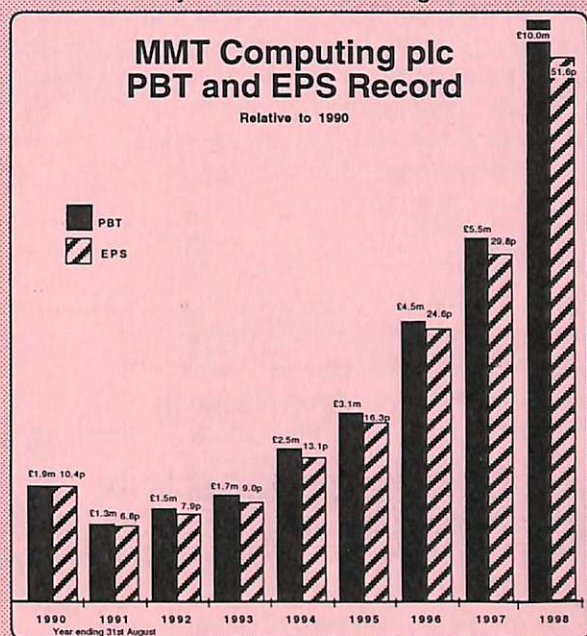
## Maiden results from Touchstone

**Touchstone** was a new AIM IPO in July 98. They provide (mainly) SunSystems (from **Systems Union** - one of our favourite privately UK-owned software companies) financial accounting systems. Maiden results for six months to 30th Sep. 98 show revenue up 17% to £3.5m, PBT of £460K (i.e. a 13% margin) and EPS of 3.3p.



## More impressive results from MMT Computing

We have come to expect rather impressive results from MMT. Results for the year ended 31st Aug. 98 were no exception. Revenue increased 49% to £36.7m, PBT was up an exceptional 80% with EPS up 73%. To save you calculating, that's a 27% profit margin - even higher than the 20% or so they usually make! These results were ahead of market expectations and the shares immediately rose; ending the month up 3% on £9.95p. MMT's mainstream business, based in London, did "spectacularly well" and they are to expand its usual strong operations in Retailing, Investment Management, Banking and Healthcare with a new project for Railtrack. Even its recent 60% stake in **Summers Associates** made an "encouraging start" with a £250K contribution to operating profits. Of course, apart from actual trading profit, Chairman Mike Tillbrook is well known for his series of canny investments. In the period, they made over £417K profit from the disposal of their stake in **Total Systems**. MMT has also increased its stake in **Trace Computers** to over 12% "and continues to be pleased both to observe their good performance and to see a substantial paper profit on this investment". Tillbrook went on to say that "your Company is in good shape and we continue to feel strong, confident and optimistic for the future". No argument here. MMT's broker, Credit Lyonnais Laing, is now forecasting 1999 PBT of £10.7m; a prospective PE of 17.5.



## Profit warning from Lorien

The market knew that **Lorien** had lost its second largest IT contractor contract with UBS to Manpower after its acquisition by SBC. But they still expected FY98 profit of c£8.2m. Indeed we were rather critical of the company's proposed plan for directors to be given an incentive worth £6m based on this expectation. At the time, this target was called "demanding" by FD Ian Brookes. We disagreed as, in the then climate, the company were expected to do very well. *But how wrong can you be?* It would appear that this "demanding" target is now beyond its reach as Lorien has warned that a PBT before exceptionals of "not less than £4.5m" will now be made. And these exceptionals (mostly closure costs) could be c£1.8m. Of course, Lorien has in part blamed the loss of the UBS contract, but they knew of this months ago. Lorien has also now reported "a recent marked slowdown in demand for IT contractors in the financial services sector, a below budget performance in their ERP start-up operation and higher than budgeted interest and debt costs".

Another head is now rolling. Chairman and CEO Mike Heeley is stepping down. Bert Morris (present deputy chairman and ex NatWest Group director) is taking over as Executive Chairman, with Operations Director Ian Brookes and Managing Director Richard Fiddis now becoming Joint MDs. Don't forget that it was only a year ago that CEO Malcolm Coster left after just eight months in the role - an eight months which cost Lorien some £2m in a generous salary/share package.

Not surprisingly, the shares have now fallen again with a 21% drop to 133p this month. What a far cry from the 806p high only as recent as May this year.

**Comment.** Lorien is fast turning into an SCS disaster story. Although we could be charitable and say that their present misfortune is due to the down-turn in the IT contractor marketplace, in reality their problems are much more due to past mismanagement. But unfortunately the whole SCS sector tends to suffer in these circumstances. And one last thought... *Why were the directors allowed to apparently ignore known problems when they said last July they knew of "no reason" for the share price fall?*

## News from the privates

As you know, we like to tell you about private as well as quoted companies.

We must admit that we had never heard of **Sophos** until we read their advert just after UK NASDAQer **Dr Solomons** was acquired. Sophos extolled the virtues of using a UK computer security company. Sophos is in the same field but, of course, are very much smaller than their well known rival.

Small they may be with only £7.7m revenue in the year ended 31st Mar. 98, but profitability is in no doubt. They made a PBT of £2.9m in the year - and that's a margin of nearly 38%. And even this is lower than the FY97 margin of nearly 50% and the 47% achieved in FY96. *Surely a company to watch...if only to watch them being acquired.*

## Back in profit at Rolfe & Nolan

Results for the six months to 31st Aug. 98, show **R&N** made a small PBT of £205K (loss £569K last time) on static total revenue of £9.5m. Revenue, on continuing operations, was down 4% at £9m with continuing operating profits down from £1.1m to £528K.

**Comment.** After the failure of the \$115m **Sungard** bid and the sale of the Capital Market's Division to **IQ** in Aug. 98 for £4.6m (causing an exceptional profit this half of £1.05m), these latest results from R&N are not all that relevant. What really matters is the future - or rather the Futures and Options business. 13 new bureau customers and two further licence sales have been made in the period with a further five new bureau customers added since then. R&N is now winning clients from US rival SunGard and US revenues are up 31% and now accounts for 27% of group revenues.

The SunGard bid failed due to a number of factors. The main reason was the lack of support from clients of both companies who feared lack of competition and almost certain price rises.

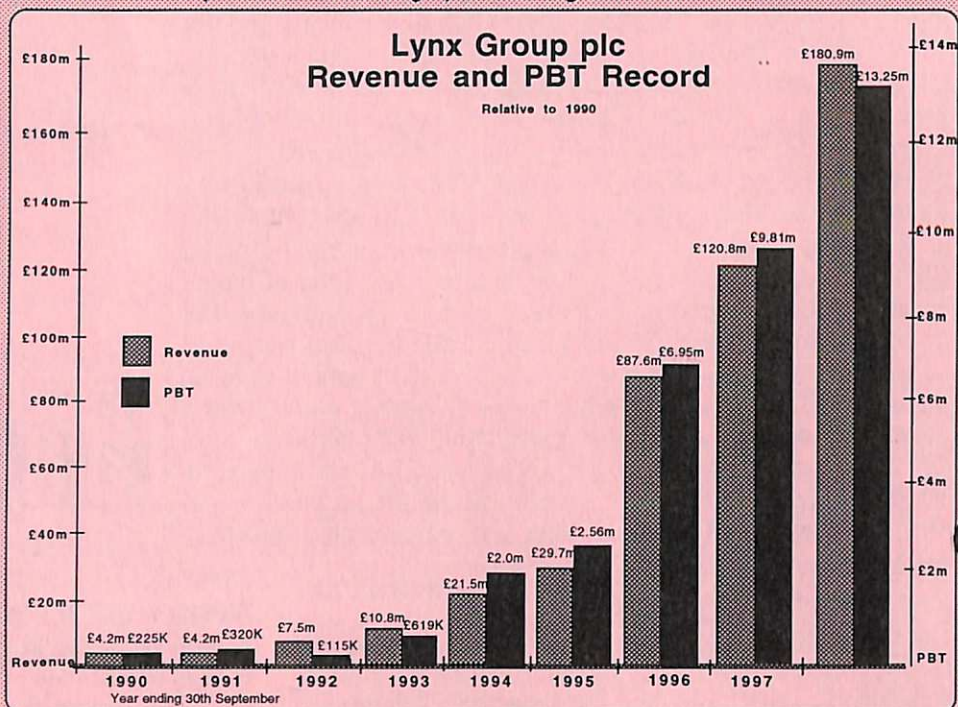
Now we feel that shareholders might well welcome another bid - even at a much lower price. But who from? This month R&N shares still managed to fall a further 9% to 210p. A far cry from the Sungard bid price.



## Some tasty figures from Lynx Group

Lynx has continued its good progress with a pretty tasty set of figures for the year ended 30th Sep. 98. Total revenue increased 50% to £180.9m (the organic revenue increase was a lower, but excellent, 36%). PBT was up 35% at £13.3m ("underlying organic profit growth was up 21%") with EPS up 27%. CEO Richard Last commented "These results demonstrate our ability to deliver sustained profits and earnings per share growth. The markets in which we operate... give us a strong base for the future". Indeed their growing order book and good recurring revenue of over £28m augurs well for the future. The group have been awarded "SAP Solutions Provider of the Year" for the second year running and, for the seventh successive year are "Tetra Reseller of the Year". Impressive. Of course, Lynx have been pretty active on the acquisition front in the last year or so, buying **Globelle** (network products - Dec. 97), **Clifton Reed Training** (Apr. 98), **Tenhill** (financial products - Apr. 98), the rest of **Dataware** (Oct. 98) and **Exepos** (Nov. 98). The Group now has some 1,800 employees - 500 more than a year ago.

Lynx have two main divisions. **Software and Systems (SS)** with £60.86m revenue (up 60%) and operating profits up 45% to £8.11m. **Computer Services (CS)** focuses of the reseller, corporate and IT training markets and had turnover up 46% to £124.57m with operating profit up 35% at £7.21m. Within the SS division, financial systems "is a major highlight of this year's record performance" with some important new contracts, commercial systems has "fully met expectations" through the steady growth of the SAP customer base but automotive systems "under-performed". Lynx is now building up its comms business and this has been helped this month by the purchase of Exepos (see p7) and a new division has now been set up under Robert Arrowsmith (ex COO at DCS). Their CS division has been helped by the Globelle and Clifton Reed acquisitions and has seen "a substantial increase in demand". Further "substantial" growth is anticipated.



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## Cadcentre lifted by new business

**Cadcentre Group** (3D software which aids the design of process and power plants) has announced an excellent set of interim figures for the six months to 30th Sep. 98. Revenue rose only 7% to £8.8m but PBT went up 63% to £1.37m with EPS increasing 51%. CEO Crispin Gray said that recent big contract wins had led to strong new business generation in the half. Cadcentre, and its larger US rival Intergraph, now claim 33% and 38% respectively of this specialised market. It is quite possible that this position could be reversed in the near future as Cadcentre has recently won the BASF contract from Intergraph. Chairman Richard King is confident "that the combination of new product releases and an expanding customer base will result in a successful outcome" for FY99. Analysts are now forecasting FY99 profits of £3.1m - a prospective PE of 22.5. The shares ended the month up 8% at 253p.

## Decimated Delcam

**Delcam** (CAD/CAM systems) was a new AIM IPO a year ago in Nov. 97 at 260p. They have been a disaster since. In late Nov. 98 they issued yet another profits warning. "One-off provisions for bad debts" will result in a pretax loss in H2 1998. This time it was blamed on "the recent collapse in the Russian economy". Last time it was blamed on the Far East. But, of course, many of Delcam's customers are in the hard hit engineering sector. As Delcam shares are now just 29p - literally *decimated* in the year.

## MSW joins the market

Although it is tiny, we were still pleased to see **MSW Technology** joining the main market this month. It is the first UK IPO since June. MSW came to the market with a Placing at 97p - valuing the company at £8m. They raised a net £2m in the float to expand further and to fund increased R&D.

MSW was formed in 1991 and is a software and IT consultancy. They developed their MAPS software ("a database for personnel records to plan current and future manpower requirements") in association with the MoD.

According to latest accounts for the year ended 31st May 98, MSW made £503K (1997: £134K) PBT on revenues of just £2.9m (1997: £1.6m) - a 17.3% margin. Professional services represented c35% of revenues but "it is anticipated that this will decline as sales of MAPS develop".

But the shares ended the month on only 84p - a discount of 14%. We have now added them to our SCSi index.

## Losing Misys and Sema?

FTSE International meets on 9th Dec. to decide who joins and leaves the FTSE100. Both **Misys** and **Sema** look likely to lose their places - won only very recently. That would be a great shame - not least because it would knock confidence in our sector still further.

## Cedar Group plunges into loss

As reviewed last month, **Cedar Group** has announced revenue up 36% at £7.25m but PBT plunging from £1.05m to a loss of £971K in the six months to 30th Sep. 98.



# 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	Interim - Sep 97	Final - Mar 98	Interim - Sep 98	Comparison
PBT	£ 54,118,000	£ 117,191,000	£ 65,805,000	+21.6%	PBT	£ 21,817,000	£ 137,234,000	£ 47,596,000	+118.1%
EPS	£ 7,200,000	£ 17,552,000	£ 10,329,000	+43.5%	PBT	£ 18,331,000	£ 16,507,000	£ 18,928,000	Loss both
	7.40p	17.80p	10.50p	+41.9%	EPS	-70.80p	59.80p	-80.63p	Loss both
AFA Systems plc					Electronic Data Processing plc				
REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	REV	Final - Sep 97	Final - Sep 98	Final - Sep 98	Comparison
PBT	£ 62,000	£ 226,000	£ 113,000	+82.3%	REV	£ 12,565,000		£ 11,518,000	-8.3%
EPS	-£ 855,000	-£ 1,801,000	-£ 1,064,000	Loss both	PBT	£ 1,741,000		£ 2,210,000	+26.9%
	-8.56p	-16.80p	-8.88p	Loss both	EPS	4.50p		5.89p	+30.9%
AIT Group plc					F.I. Group plc				
REV	Final - Mar 97	Final - Mar 98	Final - Mar 98	Comparison	REV	Final - Apr 97	Final - Apr 98	Final - Apr 98	Comparison
PBT	£ 11,216,000		£ 13,556,000	+20.9%	REV	£ 98,800,000		£ 161,595,000	+63.6%
EPS	£ 1,546,000		£ 2,164,000	+40.0%	PBT	£ 6,575,000		£ 10,670,000	+62.3%
	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	Final - Apr 98	Comparison	REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison
PBT	£ 193,399,000		£ 149,540,000	-22.7%	REV	£ 2,335,584	£ 5,786,456	£ 2,938,163	+25.8%
EPS	-£ 50,377,000		£ 29,347,000	Loss to profit	PBT	-£ 416,188	£ 48,085	-£ 268,699	Loss both
	-21.20p		8.90p	Loss to profit	EPS	n/a	0.30p	n/a	n/a
Azlan Group plc					Gresham Computing plc				
REV	Interim - Sep 97	Final - Mar 98	Interim - Sep 98	Comparison	REV	Interim - Apr 97	Final - Oct 97	Interim - Apr 98	Comparison
PBT	£ 140,980,000	£ 262,073,000	£ 163,711,000	+9.0%	REV	£ 4,500,000	£ 8,689,000	£ 8,520,000	+89.3%
EPS	-£ 7,897,000	-£ 7,860,000	-£ 424,000	Loss both	PBT	£ 487,000	£ 667,000	£ 1,017,000	+108.8%
	-14.20p	-12.20p	-0.80p	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
PBT	£ 2,865,000	£ 6,396,027	£ 4,320,000	+50.8%	REV	£ 10,888,000	£ 23,026,000	£ 13,706,000	+25.9%
EPS	£ 179,000	£ 718,250	£ 284,000	+58.7%	PBT	£ 1,914,000	£ 4,033,000	£ 2,959,000	+54.6%
	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	Interim - Sep 97	Final - Mar 98	Interim - Sep 98	Comparison	REV	Interim - Jul 97	Final - Jan 98	Interim - Jul 98	Comparison
PBT	£ 8,249,000	£ 17,727,000	£ 8,768,000	+8.7%	REV	£ 23,787,000	£ 55,798,000	£ 44,861,000	+88.8%
EPS	£ 841,000	£ 2,754,000	£ 1,367,000	+62.5%	PBT	£ 2,111,000	£ 5,527,000	£ 4,074,000	+93.0%
	3.26p	10.06p	4.92p	+50.9%	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	Final - Mar 98	Comparison
PBT	£ 79,067,000	£ 172,904,000	£ 117,907,000	+49.1%	REV	£ 16,394,589		£ 25,143,421	+53.4%
EPS	£ 7,062,000	£ 18,312,000	£ 10,590,000	+50.0%	PBT	£ 878,707		£ 1,383,327	+57.4%
	2.49p	6.51p	3.49p	+40.2%	EPS	3.60p		5.08p	+41.1%
Cedar Group plc					ICM Computer Group plc				
REV	Interim - Sep 97	Final - Mar 98	Interim - Sep 98	Comparison	REV	Final - Jun 97	Final - Jun 98	Final - Jun 98	Comparison
PBT	£ 5,320,000	£ 12,506,000	£ 7,250,000	+36.3%	REV	£ 33,989,000		£ 35,881,000	+5.6%
EPS	£ 1,054,000	£ 2,564,000	£ 971,000	Profit to loss	PBT	£ 1,437,000		£ 2,702,000	+88.0%
	2.20p	5.30p	-2.30p	Profit to loss	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
PBT	£ 3,702,000	£ 8,828,000	£ 3,155,000	-14.8%	REV	£ 88,389,000	£ 203,134,000	£ 125,601,000	+42.1%
EPS	£ 276,000	£ 813,000	£ 161,000	-41.7%	PBT	£ 4,030,000	£ 6,100,000	£ 1,158,000	-71.3%
	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
PBT	£ 1,378,000	£ 3,025,110	£ 1,864,000	+20.9%	REV	£ 2,074,000	£ 4,443,146	£ 2,627,000	+26.7%
EPS	£ 78,000	£ 275,564	£ 205,000	+162.8%	PBT	-£ 2,046,000	-£ 3,009,417	-£ 874,000	Loss both
	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
PBT	£ 140,704,000	£ 302,992,000	£ 194,151,000	+38.0%	REV	£ 4,088,000	£ 8,750,000	£ 4,198,000	+2.7%
EPS	£ 15,117,000	£ 38,645,000	£ 24,051,000	+59.1%	PBT	£ 247,000	£ 539,845	£ 404,000	+63.6%
	7.40p	19.30p	12.20p	+64.9%	EPS	4.40p	8.63p	5.68p	+29.1%
Comino plc					ITNET plc				
REV	Interim - Sep 97	Final - Mar 98	Interim - Sep 98	Comparison	REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison
PBT	£ 5,087,000	£ 13,151,000	£ 8,721,000	+71.4%	REV	£ 37,596,000	£ 81,713,000	£ 50,172,000	+33.5%
EPS	£ 830,000	£ 1,950,000	£ 1,266,000	+52.5%	PBT	£ 2,033,000	£ 6,834,000	£ 2,208,000	+8.6%
	4.89p	11.48p	6.94p	+41.9%	EPS	1.40p	4.40p	1.70p	+21.4%
Compel Group plc					JBA Holdings plc				
REV	Final - Jun 97	Final - Jun 98	Final - Jun 98	Comparison	REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison
PBT	£ 111,792,000		£ 210,003,000	+87.3%	REV	£ 88,102,000	£ 221,737,000	£ 126,133,000	+43.2%
EPS	£ 5,057,000		£ 9,021,000	+78.4%	PBT	-£ 1,297,000	£ 5,233,000	-£ 4,456,000	Loss both
	16.20p		21.40p	+32.1%	EPS	-2.56p	10.12p	-8.35p	Loss both
Computacenter plc					JSB Software Technologies plc				
REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	REV	Final - May 97	Final - May 98	Final - May 98	Comparison
PBT	£ 558,917,000	£ 1,133,523,000	£ 775,746,000	+38.8%	REV	£ 3,400,000		£ 3,382,000	-1.1%
EPS	£ 22,095,000	£ 47,099,000	£ 31,332,000	+41.8%	PBT	-£ 53,000		£ 6,000	Loss to profit
	8.00p	17.40p	11.40p	+42.5%	EPS	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	Final - Mar 98	Comparison
PBT	£ 23,742,000	£ 59,777,000	£ 46,480,000	+95.8%	REV	£ 77,776,000		£ 65,711,000	-15.5%
EPS	£ 2,036,000	£ 4,920,000	£ 3,053,000	+50.0%	PBT	£ 3,882,000		-£ 2,329,000	Profit to loss
	6.48p	15.68p	9.34p	+44.1%	EPS	6.85p		-3.00p	Profit to loss
DRS Data & Research Services plc					Kewill Systems plc				
REV	Final - Dec 98	Final - Dec 97	Final - Dec 97	Comparison	REV	Interim - Sep 97	Final - Mar 98	Interim - Sep 98	Comparison
PBT	£ 4,822,000		£ 6,765,000	+40.3%	REV	£ 19,334,000	£ 45,088,000	£ 27,475,000	+42.1%
EPS	-£ 1,734,000		-£ 826,000	Loss both	PBT	£ 3,100,000	£ 6,813,000	£ 3,196,000	+3.1%
	-3.43p		-1.99p	Loss both	EPS	14.70p	30.30p	12.30p	-16.3%
Delcam plc					Logica plc				
REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	REV	Final - Jun 97	Final - Jun 98	Final - Jun 98	Comparison
PBT	£ 7,065,514	£ 14,555,443	£ 6,479,837	-8.3%	REV	£ 338,465,000		£ 472,957,000	+39.7%
EPS	£ 372,410	£ 504,036	-£ 675,577	Profit to loss	PBT	£ 28,148,000		£ 41,825,000	+48.6%
	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
PBT	£ 133,413,000	£ 276,974,000	£ 162,158,000	+21.5%	REV	£ 4,095,000	£ 11,320,000	£ 8,054,000	+96.7%
EPS	£ 7,018,000	£ 12,853,000	£ 2,121,000	-69.8%	PBT	£ 953,000	£ 3,701,000	£ 2,705,000	+183.8%
	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
PBT	£ 17,847,000	£ 44,788,000	£ 31,860,000	+78.5%	REV	£ 52,864,000	£ 116,930,000	£ 67,985,000	+28.6%
EPS	£ 1,072,000	£ 3,302,000	£ 3,053,000	+184.8%	PBT	£ 889,000	£ 1,585,000	£ 2,488,000	+179.9%
	5.38p	13.57p	10.57p	+96.5%	EPS	1.10p	4.50p	7.40p	+572.7%
Dialog Corporation plc					Lynx Group plc				
REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	REV	Final - Sep 97	Final - Sep 98	Final - Sep 98	Comparison
PBT	£ 14,037,000	£ 46,082,000	£ 88,752,000	+532.3%	REV	£ 126,752,000		£ 180,870,000	+39.8%
EPS	£ 2,013,000	-£ 20,432,000	£ 6,989,000	+247.2%	PBT	£ 9,805,000		£ 13,252,000	+35.2%
	0.90p	-20.52p	4.10p	+355.6%	EPS	6.83p		8.67p	+26.9%
Division Group plc					MMT Computing plc				
REV	Interim - Apr 97	Final - Oct 97	Interim - Apr 98	Comparison	REV	Final - Aug 97	Final - Aug 97	Final - Aug 97	Comparison
PBT	£ 2,387,000	£ 6,878,000	£ 2,193,000	-8.1%	REV	£ 24,839,075		£ 38,898,695	+38.9%
EPS	-£ 956,000	-£ 1,783,000	-£ 2,276,000	Loss both	PBT	£ 5,554,611		£ 10,005,754	+80.1%
	-2.20p	-4.10p	-5.10p	Loss both	EPS	29.80p		51.60p	+73.2%
Druid Group plc					M-R Group plc				
REV	Final - Jun 97	Final - Jun 98	Final - Jun 98	Comparison	REV	Final - Jun 97	Final - Jun 98	Final - Jun 98	Comparison
PBT	£ 22,068,000		£ 40,604,000	+84.0%	REV	£ 39,430,000		£ 46,822,000	+18.7%
EPS	£ 5,004,000		£ 8,044,000	+60.8%	PBT	£ 5,604,000		£ 6,902,000	+23.2%
	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
PBT	£ 20,388,000	£ 44,235,000	£ 30,193,000	+48.1%	REV	£ 58,029,000	£ 116,925,000	£ 63,005,000	+12.5%
EPS	£ 1,606,000	£ 4,111,000	£ 2,882,000	+79.5%	PBT	-£ 3,910,000	£ 221,000	-£ 387,000	Loss both
	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				
REV	Final - Jun 97	Final - Jun 98	Comparison		REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison
PBT	£ 23,448,000	£ 24,234,000	+3.4%		PBT	£ 8,892,000	£ 20,647,000	£ 13,312,000	+49.7%
EPS	£ 10,300,000	£ 10,060,000	-2.3%		EPS	£ 221,000	£ 2,041,000	£ 1,815,000	+721.3%
	33.80p	33.70p	-0.3%			2.70p	6.10p	3.50p	+29.6%
Micro Focus plc					Sage Group plc				
REV	Interim - Jul 97	Final - Jan 98	Interim - Jul 98	Comparison	REV	Interim - Mar 97	Final - Sep 97	Interim - Mar 98	Comparison
PBT	£ 41,349,000	£ 97,015,000	£ 58,642,000	+41.8%	PBT	£ 73,554,000	£ 152,089,000	£ 88,798,000	+20.7%
EPS	£ 5,171,000	£ 15,217,000	£ 10,057,000	+94.5%	EPS	£ 19,286,000	£ 37,635,000	£ 23,967,000	+24.3%
	4.50p	13.00p	8.30p	+84.4%		12.03p	23.43p	14.68p	+22.0%
Microgen Holdings plc					Sanderson Group plc				
REV	Interim - Apr 97	Final - Oct 97	Interim - Apr 98	Comparison	REV	Interim - Mar 97	Final - Sep 97	Interim - Mar 98	Comparison
PBT	£ 34,052,000	£ 66,398,000	£ 32,560,000	-4.4%	PBT	£ 33,408,000	£ 67,143,000	£ 34,743,000	+14.0%
EPS	£ 4,211,000	£ 5,324,000	£ 1,285,000	-69.5%	EPS	£ 3,504,000	£ 2,778,000	£ 4,049,000	+15.6%
	6.90p	8.80p	0.40p	-94.2%		5.90p	4.70p	6.20p	+5.1%
Misys plc					SBS Group plc				
REV	Final - May 97	Final - May 98	Comparison		REV	Interim - Feb 97	Final - Aug 97	Interim - Feb 98	Comparison
PBT	£ 325,470,000	£ 447,700,000	+37.8%		PBT	£ 8,585,000	£ 18,981,000	£ 11,308,000	+32.0%
EPS	£ 62,533,000	£ 51,700,000	-17.3%		EPS	£ 353,000	£ 728,000	£ 529,000	+49.9%
	10.56p	5.82p	-44.9%			3.40p	8.60p	4.90p	+44.1%
Mondas plc					Science Systems plc				
REV	Final - Apr 97	Final - Apr 98	Comparison		REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison
PBT	£ 56,609	£ 287,189	+425.0%		PBT	£ 8,793,000	£ 18,601,000	£ 12,107,000	+37.7%
EPS	-£ 421,192	-£ 484,322	Loss both		EPS	£ 1,155,000	£ 1,855,000	£ 1,245,000	+7.8%
	-10.50p	-7.90p	Loss both			4.30p	6.80p	4.70p	+9.3%
Moorepay Group plc					Sema Group plc				
REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison
PBT	£ 2,731,603	£ 5,283,379	£ 3,181,393	+16.5%	PBT	£ 559,539,000	£ 1,130,086,000	£ 810,564,000	+9.1%
EPS	£ 886,148	£ 1,385,201	£ 1,141,281	+28.8%	EPS	£ 26,214,000	£ 64,073,000	£ 31,144,000	+18.8%
	5.69p	9.04p	7.14p	+25.5%		4.01p	9.79p	4.83p	+20.4%
MSB International plc					Sherwood International plc				
REV	Interim - Jul 97	Final - Jan 98	Interim - Jul 98	Comparison	REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison
PBT	£ 54,893,000	£ 128,793,000	£ 90,403,000	+64.7%	PBT	£ 13,069,000	£ 30,036,000	£ 18,090,000	+38.4%
EPS	£ 3,714,000	£ 9,043,000	£ 5,474,000	+47.4%	EPS	£ 1,025,000	£ 3,095,000	£ 1,846,000	+80.1%
	12.10p	29.00p	18.30p	+51.2%		7.90p	22.80p	13.20p	+67.1%
MSW Technology plc					Skillsgroup plc				
REV	Final - May 97	Final - May 98	Comparison		REV	Interim - May 97	Final - Nov 97	Interim - May 98	Comparison
PBT	£ 1,608,808	£ 2,909,951	+80.9%		PBT	£ 181,600,000	£ 376,969,000	£ 115,000,000	-36.7%
EPS	£ 133,629	£ 503,055	+276.5%		EPS	£ 6,500,000	£ 16,308,000	£ 6,600,000	+1.5%
	2.16p	6.54p	+202.8%			5.80p	-22.90p	5.80p	+0.0%
NSB Retail Systems plc					Spring Group plc				
REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	REV	Final - Apr 97	Final - Apr 98	Comparison	
PBT	£ 1,547,000	£ 3,284,464	£ 3,413,000	+120.6%	PBT	£ 134,334,000	£ 279,231,000	+107.9%	
EPS	£ 454,000	£ 837,516	£ 749,000	+65.0%	EPS	£ 12,056,000	£ 18,109,000	+50.2%	
	4.00p	6.90p	4.60p	+15.0%		6.86p	8.38p	+22.2%	
Oxford Molecular plc					Staffware plc				
REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison
PBT	£ 6,168,000	£ 15,641,000	£ 7,383,000	+19.7%	PBT	£ 7,701,000	£ 17,585,000	£ 9,641,000	+25.2%
EPS	-£ 677,000	£ 256,000	-£ 2,195,000	Loss both	EPS	£ 549,000	£ 1,772,000	£ 231,000	-57.9%
		0.20p	Loss both			3.30p	10.80p	1.30p	-60.6%
Parity plc					Superscape VR plc				
REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	REV	Final - Jul 97	Final - Jul 98	Comparison	
PBT	£ 90,825,000	£ 202,078,000	£ 134,987,000	+49.0%	PBT	£ 3,106,000	£ 4,220,000	+35.9%	
EPS	£ 5,678,000	£ 13,506,000	£ 8,754,000	+54.2%	EPS	-£ 5,961,000	-£ 3,516,000	Loss both	
	8.90p	20.91p	11.90p	+33.7%		-69.60p	-37.30p	Loss both	
Pegasus Group plc					Systems Integrated Research plc				
REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	REV	Final - May 97	Final - May 98	Comparison	
PBT	£ 5,587,000	£ 12,447,000	£ 7,410,000	+33.1%	PBT	£ 1,450,000	£ 1,035,000	not comparable	
EPS	£ 810,000	£ 1,698,000	£ 632,000	-22.0%	EPS	-£ 1,938,000	-£ 493,000	Loss both	
	12.80p	29.30p	6.80p	-46.9%		-14.70p	-4.00p	Loss both	
PhoneLink plc					Systems International Group plc				
REV	Final - Mar 97	Final - Mar 98	Comparison		REV	Interim - Jun 97	Interim - Jun 98	Comparison	
PBT	£ 4,318,000	£ 3,206,000	-25.7%		PBT	£ 6,350,000	£ 12,400,000	+95.3%	
EPS	-£ 6,173,000	-£ 3,746,000	Loss both		EPS	£ 728,000	£ 1,570,000	+115.7%	
	-12.90p	-7.80p	Loss both			n/a	n/a	n/a	
Policy Master plc					Tetra plc				
REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	REV	Final - May 97	Final - May 98	Comparison	
PBT	£ 3,955,000	£ 8,745,000	£ 5,054,000	+27.8%	PBT	£ 22,358,000	£ 30,288,000	+35.5%	
EPS	£ 204,000	£ 459,000	£ 164,000	-19.6%	EPS	£ 2,096,000	£ 558,000	Profit to loss	
	1.65p	3.70p	1.32p	-20.0%		7.10p	-7.28p	Profit to loss	
Proteus International plc					Torex plc				
REV	Final - Mar 97	Final - Mar 98	Comparison		REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison
PBT	£ 573,000	£ 178,000	-68.9%		PBT	£ 10,828,000	£ 21,029,000	£ 9,428,000	-12.9%
EPS	-£ 3,824,000	-£ 4,127,000	Loss both		EPS	£ 1,453,000	£ 7,277,000	£ 1,603,000	+10.3%
	-7.31p	-7.44p	Loss both			3.80p	16.20p	3.80p	+0.0%
Quality Software Products Holdings plc					Total Systems plc				
REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	REV	Final - Mar 97	Final - Mar 98	Comparison	
PBT	£ 13,431,000	£ 28,016,991	£ 18,135,000	+35.0%	PBT	£ 3,279,609	£ 4,134,866	+26.1%	
EPS	£ 180,000	£ 2,655,299	£ 1,285,000	+613.9%	EPS	£ 412,545	£ 1,019,675	+147.2%	
	1.40p	20.20p	9.40p	+571.4%		2.76p	6.80p	+146.4%	
Quantica plc					Touchstone Group plc				
REV	Final - Nov 97	Final - May 98	Comparison		REV	Interim - Sep 97	Final - Mar 98	Interim - Sep 98	Comparison
PBT	£ 5,635,000	£ 6,870,000	n/a		PBT	£ 2,998,000	£ 5,154,000	£ 3,508,000	+17.0%
EPS	£ 1,011,000	£ 1,871,000	n/a		EPS	n/a	£ 841,000	£ 460,000	n/a
	1.29p	3.41p	n/a			n/a	5.91p	3.30p	n/a
RM plc					Trace Computers plc				
REV	Final - Sep 97	Final - Sep 98	Comparison		REV	Final - May 97	Final - May 98	Comparison	
PBT	£ 110,170,000	£ 130,996,000	+18.9%		PBT	£ 17,270,621	£ 14,658,625	-15.1%	
EPS	£ 8,018,000	£ 10,037,000	+25.2%		EPS	£ 634,601	£ 1,205,166	+89.9%	
	6.20p	7.90p	+27.4%			3.35p	6.11p	+82.4%	
Rage Software plc					Triad Group plc				
REV	Final - Jun 97	Final - Jun 98	Comparison		REV	Final - Mar 97	Final - Mar 98	Comparison	
PBT	£ 8,758,000	£ 3,623,000	-46.4%		PBT	£ 18,827,000	£ 32,161,000	+70.8%	
EPS	-£ 15,430,000	£ 860,000	Loss to profit		EPS	£ 2,656,000	£ 6,609,000	+148.8%	
	-6.30p	0.35p	Loss to profit			7.25p	17.78p	+145.2%	
Real Time Control plc					Ultima Networks plc				
REV	Interim - Sep 97	Final - Mar 98	Interim - Sep 98	Comparison	REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison
PBT	£ 7,181,000	£ 15,880,000	£ 8,590,000	+18.8%	PBT	£ 20,892,000	£ 38,598,000	£ 8,286,000	-60.3%
EPS	£ 1,477,000	£ 3,163,000	£ 1,887,000	+27.8%	EPS	-£ 424,000	-£ 13,240,000	-£ 833,000	Loss both
	14.50p	30.80p	18.50p	+27.6%		0.10p	-16.20p	-0.99p	
Rebus Group plc					Vega Group plc				
REV	Interim - Sep 97	Final - Mar 98	Interim - Sep 98	Comparison	REV	Final - Apr 97	Final - Apr 98	Comparison	
PBT	£ 40,876,000	£ 87,798,000	£ 48,230,000	+18.6%	PBT	£ 17,977,000	£ 22,457,000	+24.9%	
EPS	£ 2,941,000	£ 8,390,000	£ 3,881,000	+32.0%	EPS	£ 3,261,000	£ 5,081,000	-5.5%	
	1.99p	5.72p	2.69p	+37.2%		13.79p	13.75p	-0.3%	
Recognition Systems Group plc					Workplace Technologies plc				
REV	Interim - Mar 97	Final - Sep 97	Interim - Mar 98	Comparison	REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison
PBT	£ 326,000	£ 773,000	£ 327,000	+0.3%	PBT	£ 30,752,000	£ 65,938,000	£ 39,977,000	+30.0%
EPS	-£ 1,128,000	-£ 2,255,000	-£ 1,333,000	Loss both	EPS	£ 986,000	£ 1,830,000	£ 1,317,000	+33.6%
	-4.10p	-8.10p	-3.80p	Loss both		1.21p	2.17p	2.41p	+99.2%
Riva Group plc					Xavier Computer Group plc				
REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	REV	Interim - Sep 97	Final - Mar 98	Interim - Sep 98	Comparison
PBT	£ 32,881,000	£ 70,208,000	£ 36,199,000	+10.8%	PBT	£ 7,805,000	£ 16,252,000	£ 9,059,000	+16.1%
EPS	£ 190,000	£ 1,339,000	£ 349,000	+83.7%	EPS	£ 501,000	£ 743,000	£ 723,000	+44.3%
	0.30p	2.00p	0.70p	+133.3%		0.36p	0.79p	0.52p	+36.8%
Rolfe & Nolan plc					Zergo Holdings plc				
REV	Interim - Aug 97	Final - Feb 98	Interim - Aug 98	Comparison	REV	Final - Apr 97	Final - Apr 98	Comparison	
PBT	£ 8,692,000	£ 21,714,000	£ 9,544,000	-1.5%	PBT	£ 10,398,871	£ 13,176,770	+26.7%	
EPS	£ 669,000	£ 894,000	£ 205,000	Loss to profit	EPS	£ 620,698	£ 296,664	-52.2%	
	-2.93p	-10.20p	-2.27p	Loss both		2.30p	-1.00p	Profit to loss	
Romtec plc					Parity shares recovered to gain 7% on the month after putting out a statement saying "the company continues to trade well and to see a good market for its services across all its business areas."				
REV	Interim - Jul 97	Final - Jan 98	Interim - Jul 98	Comparison					
PBT	£ 2,490,000	£ 4,217,440	£ 1,860,000	-25.3%					
EPS	£ 130,000	£ 310,718	£ 30,000	-76.9%					
	1.99p	4.10p	-0.30p	Profit to loss					



## UK M&A

**Eidos** (p10) has at last completed its acquisition of **US Crystal Dynamics** (independent development studio) for about £47.5m - half now in cash, the remainder in Apr. 99. **Workplace Technologies** (design and installation of data networks) was a spin off from ICL in Sep. 95 and floated in Nov. 97. They have now acquired **LanBase** (another network integrator) for a maximum of £19.56m (part cash, part loan notes and the balance dependent on operating profits of a min. £2m as at Dec. 98). LanBase had 1997 revenues of nearly £20m and an operating profit of £1.5m. Workplace also commented on current trading which "is in line with expectations" although they coupled this with a warning that "interest charges for the full year will be higher than anticipated" due to delays in receiving payments on the Hong Kong Airport contract.

**Microsoft** is to acquire **LinkExchange** - a provider of on-line marketing services to Web site owners and SMEs. No consideration was given but according to AFX News and the Wall Street Journal, it is c£250m. They are also planning a wireless data JV with **Qualcomm** and have teamed up with **Merrill Lynch** to enable Microsoft Internet users access to ML's in-house financial research via Microsoft's Money-Central web site.

**Easynet Group** has purchased **Easynet GmbH**, the German corporate ISP for £1.55m cash and £100K deferred. Easynet GmbH lost DM1.3m on revenues of just DM1.2m in the ten months to end Oct. 98.

**Lynx Group** (see also p4) has acquired **Exepos** for £3.3m. Exepos provide computer and telephony integration software and consultancy and had 1998 revenues of £911K and PBT of £265K.

**Sema Group UK** has purchased **Meridian Information Systems** (systems for bus companies and claimed market leader in this field) for £2.8m. Meridian had 1997 revenues of £2.9m and 40 staff.

**4Front Technologies** has acquired IT training company **Penagen** for \$335K.

**Entegrity Solutions** (Public Key cryptograph specialist) has bought **Sapher Servers** for an undisclosed sum. SS is evidently best known for providing secure e-mail to HM Government (including No.10).

**CMG** has acquired German **CMS Data Consult** for DM9.25m (c£3.3m). CMS has 25 staff and revenues of £1.5m in H198).

**Capita** has acquired the remaining 33% it did not own in **Equitable Revenue Holdings** for £8.2m - all in shares. Equitable had 1997 revenues of £11.4m and PBT of £2.65m.

Online direct marketing company **US Intellipost** is acquiring **MotivationNet**, **Mypoints** and **DirectValue** from IS giant **Experian**. Experian is a subsidiary of **GUS**.

**SAM UK** (a Northampton-based Digital reseller since 1988) has called in the receivers (KPMG). SAM UK's last accounts to 31st July 97 showed a loss of £176K on revenues of £12.7m. Interestingly it "had started to struggle after it spent a large amount on a new building..." Source - MicroScope 17th Nov. 98.

**Stordata Solutions** shares crashed this month to 2.75p after it first said (on 9th Nov.) that it was "at an advanced stage of discussions which it hopes will lead to a substantial network services acquisition." Then just a week later "decided for the time being not to proceed."

Mega-fast growing IT staff agency **Best International** has acquired Yorkshire-based **Sky IT Contracts** which had revenue of c£9m. From its inception as recently as Apr.

## Mergers and Acquisitions continued

97, Best now has over 1200 IT staff out with customers and a annual revenue run rate of £120m. *Quite amazing!*

*"The dramatic fall suffered by IT consultancy Parity on the fears of a slowing in the UK economy prompted director buying. The stock stood at 863p earlier this year before recent declines, and Chairman Philip Swinstead yesterday bought 250,000 shares at 415p. The shares fell 11p to 405p".* Source - Financial Times 18th Nov. 98. Parity did recover, however, to end Nov. on 485p.

According to a report in The Sunday Times (16th Nov. 98), *"ICL has terminated discussions with Servus Holdings, Nomura's FM arm, to take over the management of its 120 UK properties. The two sides failed to agree on a price for the 10-year deal worth up to £1 billion. ICL is now seeking a new partner".*

AIM-quoted **Carlisle Holdings** has submitted an agreed bid for **Abacus Recruitment** (mainly but not exclusively IT staff) valuing them at £14.6m. At 130p this was a 40% premium to the previous closing price. Carlisle already owns **The Recruitment Group**.

**Internet Technology Group** has acquired 2m shares at 50p in **Redstone Telecomm** pushing their holding to 8.7%. **Spring Group** has disposed of three "non core" operations - **Catalyst Contracting**, **Morgan REM** and the **Bowerley Hotel** - for £900K.

We understand that **US Gartner Group** has acquired **UK Wentworth Research** for "a few million". The way things are going, it will be just Gartner (owning the world) and us! As previewed last month, the "substantial UK company" which has purchased **Aurora Unicom** from **Unicom Inc.** is **Sx3** - a subsidiary of Northern Ireland utility **Veridian**.

**CMG** (70%) has formed a JV with HM Govt's **Radio Communications Agency** and won a contract to manage Russia's radio spectrum.

**US TRW Inc.** has sold its UK manufacturing software distribution operation to **QAD Inc.** The UK operation was best known as **BDM Largotim**.

**WS Atkins** is planning to acquire **Bovis Group** (fee-based project and construction management) from **P&O** for £350m. Given that WS Atkins has a market capitalisation of £550m, that's a pretty big bite. Bovis' profit margins are minuscule compared with WS Atkins..

**Broadview** pulled off its largest European deal of all time this month when it represented **Vivendi** (the French water/utility operation) in their purchase of **Cendrant Software** "one of the largest PC consumer publishing companies in the world" for a consideration of c£640m. Cendrant Software is one of the world leaders in each of its three market areas - entertainment, productivity and education - and had revenue of c\$600m. Vivendi is to put the acquisition into their **Havas** publishing company, which has revenue of \$5.5 billion.

## The insanity of Internet stocks

Mention the words *Internet* or *e-commerce* and normally careful investors open their wallets and throw money. There are a few examples of this in the UK but it's the US where insanity really rules.

The IPO of **theglobe.com** this month on NASDAQ set new records for madness in a pretty insane market. Launched at \$9 they hit a high of \$97 on the first day with the shares on offer changing hands three times! So a valuation, at one time, of c\$1 billion for a company which designs chat rooms for teenagers and lost \$11.5m on revenues of \$2.7m in the first nine months of 1998? You could buy 100% of **Admiral** for \$1 billion! *Oh well.*



### How do they do that?

On 10th Nov., HSBC put out a research note on **Admiral**. It was headlined by AFX News as "House broker HSBC Securities slashed PBT forecasts".

A bit misleading as 1) Warburgs, not HSBC, is now Admiral's broker, 2) HSBC did not alter their 1998 PBT forecast of £23.8m but merely reduced the 1999 forecast from £29.4m to £28.3m and, 3) Warburgs had been forecasting PBT in 1999 of £28.1m since 1st May 98.

The story gets even more intriguing when we were personally assured by Clay Brendish that Admiral's internal forecasts for 1999 had not altered - certainly not been downgraded - in anyway.

*So, you might say, why give a jot?*

The problem is that this one story caused Admiral's share price to drop from 1045p on 9th Nov. to 877p; in the process writing off about £150m from their market value. They did recover most of this to end the month on 970p.

You might well repeat "So what?"

The rollercoaster share price variations we have seen since July have, we believe, been very damaging to UK SCS companies. New IPOs have been cancelled, many acquisitions have been, at best, delayed. Staff morale has suffered (a point rammed home to us at a recent conference when we mentioned the effects on managers holding *share options* to be greeted with the biggest collective audience *moan* we have ever experienced). And that's before you take into account that, yes, people do buy and sell shares and therefore there are investors suffering real losses.

The FTSE IT index is likely to end 1998 with an average c30% gain. If it had been produced consistently throughout the year, we would all be smiling. But we could equally accurately report that "SCS shares ended 1998 over 60% off their July 98 highs".

*And as for Admiral?*

Clay Brendish has a dream. He wants to lead Admiral to be the leading UK-owned SCS company of the new millennium. We suspect that expansion into the US will be the next step. They really don't get much better than the original "Boring" Admiral. They have a better chance of weathering the downturn than most. In other words, if this is what the market thinks of Admiral, *God help the rest*.

### Kewill flourishes under new management

It's been an exciting year at **Kewill Systems**. Andy Roberts took over as Chairman and Geoff Finlay was appointed as CEO. In Jun. 98, they bought their US distributor - **Granitek** - and last month acquired US e-commerce software supplier - **Tracer Research** - for c£11.7m.

Results for the six months to 30th Sep. 98 are complicated by Kewill adopting FRS10 and amortising goodwill on acquisitions. At the headline level, revenue is up 42% at £27.5m and PBT up 26% at £4.5m. EPS was up 21%.

The Electronic Commerce division was the real star with revenue up 47% at £6m and profits up 50% at £1.56m. Finlay described it as "a hot market" and anticipated further strong growth in the next period. Logistics, at £7.6m, reflects the **Exeter Software** and **Alpha-Numeric** acquisitions in H2 last year. ERP (£10.2m) and Design (£3.7m) make up the remainder.

The new management and emphasis has done great things for the share price too - up 108% this year so far.

### New deals

We always get into trouble when we report new contracts...as in "you reported x's new deal, so why not ours?"

But some are worth the effort. **The Affinity Consortium** has been named as preferred bidder for the Accord Benefits Agency System. Affinity is led by **EDS UK & IBM** and also includes **C&W** and **PriceWaterhouseCoopers**. Important because it is worth £7 billion over 10 years - and thereby representing c3% of the whole SCS sector in its own right. That makes a significant (positive) difference to our forecasts post 2000.

We had got used to reporting EDS "mega" deals but rather less often for **IBM Global Services UK**. At one time we seemed to major on their "mega" deals being cancelled. Well, no more! Hot on the heels of the £1.8b/10 year deal with C&W and the £100m deal with Bradford & Bingley, IBM UK has this month won a c£130m extension to its £500m UK Equifax outsourcing deal announced in Jul. 98. The point being that outsourcing deals announced already in 1998 **double** IBM UK's outsourcing revenues to >£500m p.a. Indeed, IBM UK's SCS revenues (they are already #2) might well rival EDS's #1 slot shortly.

Another deal which caught our eye was **Sema Group** replacing **CSC** at NHS in Scotland worth £58m over 5 years. Interesting because it's still pretty unusual for an incumbent outsourcer to be replaced.

Then there was **CMG & ICL** winning a £200m/10 year contract from the DTI to provide their IT infrastructure. The list goes on. *Is it our imagination, or are the "golden" days of outsourcing mega deals returning again?* We have certainly altered our forecasts (upwards) as these deals alone make a material effect.

### Tales from the network distributors...Azlan

To describe the last year at **Azlan** (network distribution and assoc. services) as "interesting" would be testing the old Chinese saying somewhat. Last Sep., we devoted a great deal of space under the headline "A truly ghastly tale". We do not want to repeat the tale, other than to give credit to Barrie Morgans for the Lazerus-like revitalisation he has achieved. Ex-IBM UK MD Morgans joined in early 97 as a NED. As all about him were disgraced, he took on the Exec Chairman role in what must have been the most difficult of circumstances. How many readers "have experienced an SFO probe" on their CVs?

Latest results for six months to 3rd Oct. 98 showed revenues up 9% at £153.7m but losses reduced from £7.9m to just £424K. It is ironic that the training business grew the strongest - up 16% at £17.9m. You may remember that it was the rights issue at 620p to back the purchase of Akam (which we so publicly endorsed) in Nov. 96 that was the catalyst that exposed all the problems.

Profits of c£5m are now expected for the full year. Azlan shares put on 18% to 57p this month.

### ...and ilion takes nose-dive

Azlan's main competitor - **ilion** (previously known as Persona) - saw its shares go into free fall this month but did later stage a recovery. They put out their second profits warning in six months; saying that PBT from continuing operations would be "materially below expectations for the year to 31st Dec. 98". This was "principally due to a reduction in sales and profitability in the UK". Negotiations are continuing for the sale of its German operations. "Further to recent press speculation, the board confirms that it has received approaches but is not currently in talks with any offeror". ilion shares fell another 4% this month to 52p.



## Big companies do best

In a month when the FTSE100 surged 7.5%, the weighted FTSE IT Index was up 5.5% but our SCS Index up just 1.4%. I.e. the "smaller" SCS stocks underperformed.

The worst performer was **Dialog** - down 55% (see p10) in their profit warning, closely followed by **Micro Focus** (p2) down 46% and **Delcam** (p4) - also on profit warnings.

**AFA Systems** (up 34%) and **Zergo** (up 32%) led the list of high gainers. **Xavier** (p2) put on 28% as a result of their bid approach. Also amazing to see **FI Group** put on another 28% this month.

27-Nov-98	SCSI Index				3703.01
	FTSE IT Index				1333.90
	FTSE 100				5844.20
	FTSE AIM				814.10
	FTSE SmallCap				2070.90
SCSI Index = 1000 on 15th April 1989					
Changes in Indices	SCSI Index	FTSE 100	FTSE IT Index	FTSE AIM Index	FTSE Small Cap
Month (31/10/98 - 27/11/98)	+1.36%	+7.46%	5.54%	+3.14%	+2.91%
From 15th Apr 89	+270.30%	+184.58%			
From 1st Jan 90	+302.46%	+147.43%			
From 1st Jan 91	+423.12%	+170.51%			
From 1st Jan 92	+254.40%	+134.41%			
From 1st Jan 93	+132.37%	+105.31%			+49.27%
From 1st Jan 94	+121.79%	+70.96%			+10.82%
From 1st Jan 95	+147.00%	+90.64%			+18.58%
From 1st Jan 96	+63.96%	+58.41%		-14.61%	+6.66%
From 1st Jan 97	+38.30%	+41.90%		-16.60%	-5.14%
From 1st Jan 98	+22.01%	+13.80%	33.39%	-17.93%	-10.48%

## System House SCSI Share Prices and Capitalisation

	FTSE IT Index?	Share Price 27/11/98 (£p)	Capitalisation 27/11/98 (£m)	Historic P/E	PSR Ratio Cap/Rev.	SCSI Index 27/11/98	Share price since 31/10/98 % move	Share price % move in 1998	Capitalisation since 31/10/98 (£m)	Capitalisation move (£m) in 1998
Admiral	Yes	£9.70	£615.00m	44.8	5.25	35059.21	0.52%	35.00%	£3.20m	£160.85m
AFA Systems		£1.12	£14.10m	Loss	62.39	933.33	34.13%	4.19%	£3.60m	£1.20m
AIT Group		£2.40	£48.70m	33.5	3.59	1600.00	22.45%	40.76%	£8.90m	£14.12m
Anite Group	Yes	£0.46	£110.70m	42.8	0.74	269.01	-13.21%	-2.13%	£16.80m	£0.95m
Azlan Group	Yes	£0.57	£61.00m	Loss	0.21	247.83	17.53%	2.59%	£9.10m	£1.86m
Bond International		£0.98	£13.30m	23.7	2.08	1500.00	14.71%	50.00%	£1.70m	£4.45m
Cadcentre Group		£2.53	£42.00m	21.0	2.37	1265.00	7.66%	-22.15%	£3.00m	£11.93m
Capita Group		£5.79	£1,136.00m	78.3	6.57	52117.12	-3.98%	56.78%	£47.00m	£429.32m
Cedar Group		£0.84	£28.10m	76.9	2.25	800.00	-21.13%	-20.00%	£7.60m	£5.19m
CFS Group		£1.20	£19.00m	28.0	2.78	1327.78	-9.13%	14.35%	£1.90m	£11.27m
Clinical Computing		£0.42	£10.40m	24.1	3.44	334.68	-17.82%	-2.35%	£2.30m	£0.27m
CMG	Yes	£15.05	£1,927.00m	62.0	6.36	10379.31	7.50%	97.38%	£134.00m	£949.51m
Compel Group	Yes	£3.14	£89.80m	14.4	0.43	2512.00	3.80%	2.95%	£3.90m	£2.57m
Computacenter		£4.93	£871.70m	21.1	0.77	735.07	8.84%	-26.49%	£70.80m	£428.30m
Comino		£2.13	£28.30m	14.9	2.15	1634.62	7.59%	73.47%	£2.00m	£13.50m
DCS Group		£5.06	£116.90m	28.5	1.96	8433.33	0.70%	56.90%	£0.80m	£45.94m
Delcam		£0.29	£1.68m	3.9	0.12	109.62	-44.66%	-82.73%	£1.36m	£8.02m
Delphi Group	Yes	£2.78	£81.60m	16.5	0.29	1141.98	5.71%	-58.58%	£4.40m	£112.70m
Diagonal	Yes	£9.50	£190.90m	51.9	4.26	3454.55	11.11%	53.23%	£19.00m	£60.90m
Dialog Corporation		£0.72	£107.80m	Loss	2.34	650.00	-54.75%	-52.33%	£130.30m	£117.03m
Division Group		£0.26	£18.10m	Loss	2.71	650.00	-3.70%	-32.47%	£0.70m	£1.20m
DRS Data & Research		£0.13	£4.58m	Loss	0.68	120.45	12.77%	-39.77%	£0.51m	£2.95m
Druid Group	Yes	£11.95	£273.70m	50.3	6.74	4345.45	22.25%	80.38%	£49.90m	£121.98m
ECSoft		£14.63	£159.40m	29.7	3.60	809.35	17.00%	-19.06%	£23.20m	£31.30m
Electronic Data Processing		£0.75	£19.50m	12.6	1.69	2281.08	-0.67%	-36.70%	£0.10m	£5.26m
Eidos	Yes	£8.98	£153.50m	9.2	1.12	8975.00	8.13%	33.96%	£7.90m	£40.26m
FI Group	Yes	£3.08	£615.90m	78.8	3.81	6542.55	28.13%	64.79%	£135.20m	£315.60m
Flomerics Group		£1.60	£4.16m	26.5	0.72	1230.77	14.29%	33.33%	£0.52m	£1.04m
Gresham Computing		£0.85	£29.70m	30.3	3.42	908.60	1.81%	267.39%	£0.50m	£22.18m
Guardian IT		£4.99	£255.50m	71.0	11.10	1956.86	28.77%	95.69%	£57.10m	£125.00m
Harvey Nash Group		£2.40	£67.70m	13.7	1.21	1371.43	26.32%	-28.78%	£14.10m	£26.25m
Highams Systems Services		£0.85	£16.00m	15.9	0.64	2361.11	-19.05%	8.97%	£3.70m	£2.18m
ICM Computer		£2.33	£44.30m	21.3	1.23	1291.67	-1.48%	29.17%	£0.60m	£10.00m
Ilion Group		£0.52	£12.90m	6.6	0.06	321.88	-3.74%	-59.61%	£0.50m	£19.12m
Intelligent Environments		£0.50	£15.40m	Loss	3.47	531.91	0.00%	104.08%	£0.00m	£9.64m
I S Solutions		£2.00	£9.60m	23.0	1.10	1492.54	-13.98%	37.46%	£1.60m	£2.62m
ITNET		£4.19	£294.60m	72.7	3.61	1197.14	-0.24%	-19.71%	£0.70m	£48.50m
JBA Holdings	Yes	£1.90	£69.70m	43.1	0.31	1187.50	-32.14%	-81.53%	£33.10m	£306.75m
JSB Software		£2.05	£19.50m	n/a	5.80	1025.00	15.49%	2.50%	£2.60m	£0.60m
Kalamazoo Computer		£0.42	£17.80m	Loss	0.27	1185.71	27.69%	-40.29%	£3.90m	£12.00m
Kewill Systems	Yes	£11.85	£155.20m	25.2	3.44	4683.79	29.16%	107.89%	£35.00m	£81.65m
Logica	Yes	£4.33	£1,596.00m	51.1	3.37	5923.02	7.05%	86.42%	£108.00m	£749.90m
London Bridge Software	Yes	£11.85	£350.80m	118.1	30.99	5925.00	20.00%	133.04%	£58.50m	£203.31m
Lorien		£1.33	£26.00m	6.4	0.22	1325.00	-21.36%	-73.76%	£7.00m	£60.38m
Lynx Holdings	Yes	£1.84	£194.10m	21.2	1.07	4600.00	-3.66%	52.70%	£7.40m	£69.83m
M-R Group		£0.89	£49.40m	10.8	1.06	351.19	-11.50%	-21.33%	£6.40m	£13.36m
Macro 4	Yes	£3.40	£67.00m	10.1	2.77	1370.97	-3.55%	0.00%	£2.40m	£0.00m
MDIS Group	Yes	£0.49	£103.20m	25.5	0.88	186.54	-1.02%	3.19%	£1.10m	£4.69m
Micro Focus	Yes	£1.23	£175.90m	6.9	1.81	591.65	-45.56%	-69.30%	£147.20m	£194.98m
Microgen Holdings		£1.11	£48.10m	12.6	0.72	472.22	3.76%	57.86%	£1.80m	£20.38m
Misys	Yes	£4.30	£2,416.00m	32.4	5.40	5349.71	2.63%	17.49%	£62.00m	£372.80m
MMT Computing	Yes	£9.95	£119.40m	21.5	3.25	5922.62	3.11%	18.52%	£4.60m	£19.54m
Mondas		£0.41	£2.47m	Loss	8.32	540.00	-10.99%	-41.73%	£0.31m	£1.77m
Moorepay Group		£1.95	£22.80m	18.8	4.32	3290.82	-4.88%	-30.97%	£1.20m	£7.75m
MSB International	Yes	£2.00	£40.80m	5.7	0.32	1052.63	-36.00%	-68.00%	£23.00m	£86.64m
MSW Technology		£0.84	£6.85m	12.6	2.35	860.82	-13.92%	-13.92%	£1.15m	£1.15m
NSB Retail Systems		£1.71	£18.80m	20.0	5.72	1486.96	-10.00%	-10.70%	£2.10m	£0.23m
Oxford Molecular		£0.59	£51.30m	Loss	3.28	737.50	-2.48%	-75.42%	£1.30m	£122.17m
Parity	Yes	£4.85	£239.10m	20.3	1.18	26944.34	7.18%	-23.74%	£16.00m	£74.40m
Pegasus Group		£3.33	£23.30m	14.5	1.87	905.99	1.53%	27.88%	£0.40m	£5.13m
PhoneLink		£0.28	£18.90m	Loss	5.90	177.42	-16.67%	-49.54%	£3.80m	£7.36m
Polymaster		£1.90	£26.70m	44.0	3.05	1263.33	1.07%	26.33%	£0.30m	£5.50m
Proteus International		£0.37	£27.40m	Loss	153.93	440.48	2.78%	-15.91%	£0.80m	£2.94m
Quality Software Products		£3.70	£50.30m	13.2	1.80	973.68	2.07%	68.18%	£1.00m	£20.34m
Quantica		£0.71	£27.50m	11.9	4.88	568.55	-6.00%	-43.15%	£1.70m	£20.50m
Rage Software		£0.10	£23.80m	70.6	6.57	375.00	-7.14%	129.41%	£1.80m	£13.40m
Real Time Control		£4.40	£30.80m	12.6	1.94	8979.59	13.55%	37.07%	£3.70m	£8.37m
Rebus Group	Yes	£1.30	£119.80m	20.3	1.37	1471.59	13.10%	63.92%	£13.90m	£46.70m
Recognition Systems		£0.13	£4.70m	Loss	6.10	182.14	-38.55%	-40.70%	£2.96m	£3.21m
Riva Group		£0.33	£10.60m	12.8	0.15	234.54	-9.59%	-21.43%	£1.10m	£2.37m
RM Group	Yes	£4.14	£375.90m	52.4	2.87	11828.57	15.80%	158.75%	£51.30m	£233.94m
Rolfe & Nolan		£2.10	£27.90m	Loss	1.29	2500.00	-8.70%	-38.60%	£39.80m	£17.65m
Romtec		£0.77	£4.05m	18.7	0.96	1224.00	-6.13%	-26.79%	£0.19m	£1.38m
Royalblue Group	Yes	£2.63	£73.00m	31.0	3.54	1544.12	17.98%	-23.36%	£11.10m	£40.14m
Sage Group	Yes	£14.10	£1,635.00m	55.6	10.75	54230.77	9.94%	68.88%	£148.00m	£737.75m
Sanderson Group		£1.47	£70.00m	13.4	1.04	2502.13	11.36%	98.65%	£7.20m	£36.01m
SBS Group		£1.45	£12.80m	14.6	0.67	1450.00	-10.77%	-17.14%	£1.50m	£0.43m
Science Systems		£1.58	£26.80m	21.7	1.44	1220.93	2.61%	-4.83%	£0.70m	£1.30m
Sema Group	Yes	£5.00	£2,305.00m	47.2	2.04	6289.31	3.31%	34.77%	£74.00m	£600.27m
Sherwood International		£12.48	£117.30m	42.9	3.91	10395.83	19.66%	135.38%	£19.30m	£71.71m
Skillsgroup	Yes	£1.74	£142.50m	15.9	0.38	780.27	-11.45%	-4.66%	£18.40m	£5.82m
Spring		£1.45	£209.70m	15.4	0.75	1611.11	-15.45%	-59.15%	£38.30m	£298.68m
Staffware		£2.53	£32.10m	29.4	1.83	1122.22	-18.55%	-28.57%	£7.30m	£10.68m
Superscape VR		£1.34	£16.50m	Loss	3.91	676.77	24.65%	24.65%	£3.30m	£7.03m
Systems Integrated		£0.05	£0.64m	Loss	0.51	41.30	18.75%	-47.22%	£0.10m	£0.57m
Tetra		£1.98	£49.90m	Loss	1.65	1237.50	-6.38%	12.50%	£3.40m	£5.70m
Torex Group		£0.90	£29.00m	15.0	1.38	1737.86	-5.79%	2.87%	£1.50m	£1.70m
Total Systems		£0.60	£6.24m	8.8	1.51	1132.08	-7.69%	-19.46%	£0.52m	£1.28m
Touchstone		£1.19	£11.70m	17.2	1.90	1133.33	23.32%	13.33%	£2.24m	£1.90m
Trace Computers		£1.24	£18.20m	20.5	1.24	988.00	6.93%	88.55%	£1.20m	£8.77m
Triad Group		£4.10	£103.30m	23.2	3.21	3037.04	6.49%	37.82%	£6.30m	£28.29m
Ultima		£0.06	£7.91m	27.4	0.12	140.24	0.00%	-67.14%	£0.00m	£5.85m
Vega Group		£3.95	£63.60m	28.5	2.83	3237.70	10.49%	73.63%	£6.00m	£28.52m
Workplace Technologies		£1.80	£52.20m	25.4	0.79	1028.57	21.62%	-7.46%	£9.30m	£3.99m
Xavier Computer Group		£0.14	£13.60m	13.1	0.84	1375.00	27.91%	76.85%	£3.00m	£8.94m
Zergo Holdings		£2.40	£43.50m	Loss	3.32	2461.54	31.51%	10.34%	£10.40m	£23.47m

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



## What's missing at Rebus?

Back in Apr. 96, **Rebus** was "demerged" from **CE Heath** and floated onto the London market at 88p. Rebus was (perhaps, still is) better known for its subsidiaries **Peterborough Software** and **Datasure**.

Two and a half years on Rebus shareholders have hardly gained from the "explosion" in IT services company valuations. Rebus ended Nov. 98 on 130p - a 47% premium to the float price.

Latest results for the six months to 30th Sep. 98 show revenues up 19% at £48.2m, PBT up 32% at £3.9m and fully diluted EPS up 37% at 2.69p.

The largest part of the revenues still come from HR and payroll, where Rebus claim to be the UK market leader. Indeed, it is remarkable that over 60% of The Times 100 use their products/services and Rebus is responsible for paying over 6m employees - over 20% of the working population. Although revenues here grew by just 8% to £21.6m, this masked the real results. Uniservice, which is a mature business, actually suffered a 2% decline to £8.1m. 5% attrition was made up for by price hikes and new customers signed up by users such as ITNET and Capita. But the bureau and outsourcing operations grew by 11% (to £2.6m) and the Peterborough Software (PS enterprise) software operation was up 16% at £10.9m. Indeed 36 new PS Enterprise customers were signed up.

Elsewhere, the **Insurance** Division increased revenues by 18% to £14.3m although profits increased by 33% to £1m. Rebus also claims to be the London market leader with 62 brokers and 74 underwriters. Revenues from **Rebus' Local Govt./Housing** management systems grew by 51% to £1.88m.

The **Computer Services** division, with a 44% increase in revenue to £9.8m and a 37% increase in profits to £810K, was the real star. Here, Rebus Resourcing - the IT staff agency operation - doubled revenues to £4.7m.

**Comment.** As per usual these days, we got into trouble with our **Hotnews** comments about Rebus. In so many ways Rebus is exactly the kind of company we like. 55% recurring revenues, good mix of product/services, strong market leader in its niche markets, long term contracts with blue chip customers. But, there just seems to be something missing. *How else do you explain the current situation?* A £10.5m PBT is still forecast for the full year which, at the end of Nov. share price equates to a prospective P/E of less than 20 - one of the lowest around. We still think that Rebus would be better off as part of a larger group. Whatever happens, shareholders might soon get their just rewards.

## SKILLSGROUP

**Skillsgroup** (via its **Acuma** operation) has acquired **ISL** (business intelligence solutions for corporate customers) for £2.9m (£1.4m cash, £500K shares, £1m cash performance related).

**Skillsgroup** also put out a very positive trading statement reporting strong growth in the year to 30th Nov. 98. QA and **Acuma** "are both trading strongly" with revenues up 20%. Operating profits before head office costs "will not be less than £12.8m - representing growth of 35%....Growth prospects for **Skillsgroup** in 1999 and beyond continue to look bright despite warnings of economic slowdown". But despite this positive statement, the shares ended the month down 11% at 174p.

## Dial-a-dog

We have probably reported 55% share price declines in a month before, but not in companies the size of **Dialog**. We have certainly never read a Lex (in the FT) headline like that we reproduce above!

Given that most of the City seems to be peopled by cocky youngsters, why is it that they take an instant dislike to other cocky youngsters? Since their London IPO (as MAID) in Mar. 94 at 110p, the City has reviled Dan Wagner. Then he had the audacity to go for a NASDAQ IPO in Sep. 95 at 242p. Then, in Aug. 97 he bid £286m for US **Knight Ridder Information** financed by a placing at 220p. Soon after **Dialog** was worth £330m - now it worth just £108m.

Looking back through our press files on **Dialog**, you can understand the oft-made "over-optimistic" criticism made of Wagner. "Dan Wagner had little credibility even before the profit warning. Now it is torn to shreds" writes Lex. Wagner's response, yet again, is to blame the analysts. It's all getting a bit juvenile.

The bare facts of the situation are that **Dialog** has said that Q4 revenue will not exceed Q3 - i.e. £42m. Given that just two months ago we were all assured that "the **KF merger** is ahead of plan", this came as a bit of a shock as house brokers **ABN Ambro** slashed earning forecasts by over 40%. **Dialog** tried to blame the fact that Christmas fell in Q4 for part of the shortfall. But it just looks as if Wagner bit off far more than he could chew with this mega acquisition in the US. *And how many times have we written that comment before?*

He also has to find a way of meeting £140m of interest payments...

**Comment.** It is very easy to criticise - even easier to poke fun at - **Dialog**. But here we have a young man leading a UK company with innovative products, most associated with the Internet, taking bold moves overseas. When embryonic US Internet companies with no revenues and mega losses get valuations of \$1 billion +, **Dialog** is now worth considerably less than one-times-revenues. Even Wagner admits that he is now a sitting duck to an acquisition bid. "Great", beleaguered shareholders might say. But it's more than likely to be from a non-UK group recognising that, with the right management, **Dialog** could be a real star performer.

You can't have it both ways. Perhaps the reason why the UK does not produce IT entrepreneurs in the US manner is because we tend to treat them like Wagner?

**Acquisition** - On the day of the profits warning, **Dialog** also announced that it was to acquire **Write Works** for up to £6.3m (£2.5m now, rest over 2 years). **Write Works** is "an Oxford-based operation which has developed Britain's first on-line publishing and management control system for businesses".

## Losses increase at Eidos

OK, we know we should only cover the really *Boring* SCS companies but surely "forthcoming releases including *Deep Cover Gecko*, *Legacy of Kain*, *Soul Reaver* and *Ajuki: The Heartless*" is more interesting than "Oracle Financials V8". *Lara Croft* is also more interesting than *Ellison*!

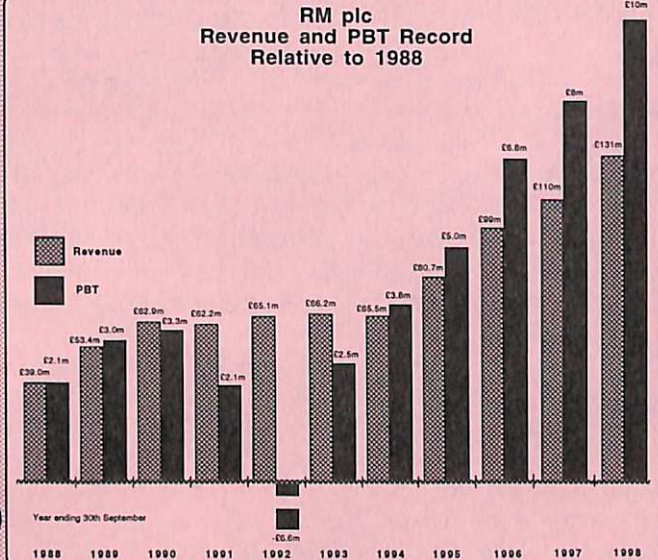
Anyway, latest results from **Eidos** show losses increased from £18.3m to £18.9m on revenues more than doubled from £21.8m to £47.6m for the six months ending 30th Sep. 98.

£5.25m of the extra loss related to the fall in the market value of **Eidos'** 15% stake in Norwegian **Opticom SA**.



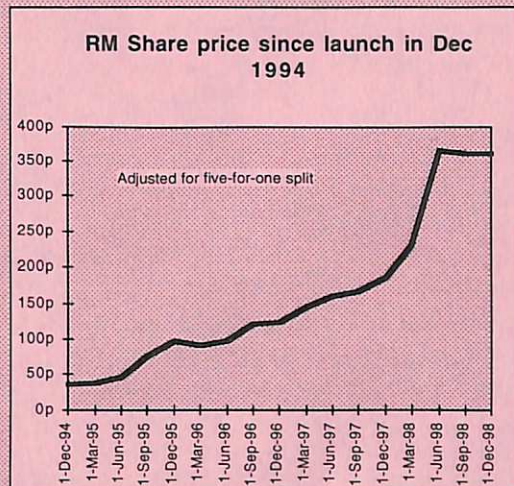
## Holway #1 fan at RM plc

As readers know we are a great fan of **RM** (was **Research Machines** - "The UK's leading supplier of IT to education"). Latest results for year to 30th Sep. 98 show revenue up 19% at £131m, PBT up 25% at £10.0m and EPS up 27% at 7.9p. We were even more pleased to see revenue from software up 48% at £31.9m and from services up 37% at £21.7m - that was the reason for the increase in margins. Revenues from sales of PC hardware were up 6% at £67m and distribution up 12% at c£10m.



Lottery funding for teacher training. And RM has even taken their first tentative steps overseas with the maths deal with Ernst Klett in Germany. RM could well be the most recession-busting stock - assuming that New Labour stick to their guns. Whatever, there is everything in these results to confirm our confidence in RM.

RM's shares have been one of the best performers this year - up 159% in 1998 alone. With PBT of £11.3m now forecast for FY99, that's a forward P/E of c45. It is a measure of the market's confidence in RM that Paul Taylor in the FT (24th Nov. 98) ended his review with "but could still go higher!"



## "MONEY® for nothing and the PCs are free"

*With no excuses to a certain Dire Straits track*

We hope most readers are **Bored** with our "You have to be prepared to give away your product for free in return for services revenue" argument. After all we have flogged that donkey for over four years now. Nat. Semis CEO Brian Halla, in an excellent interview with Roger Taylor in the Financial Times this month, predicted that banks will soon give away PCs running MS Money as a way of attracting new business and keeping the customers away from making expensive visits to their local branch. Cheap PCs will be marketed just like mobile phones are today.

But how about the "free service"? Well that's exactly what **Dixons** launched with their **Freeserve** Internet service. In just eight weeks Dixon's claim that a quite staggering 475,000 customers have been signed up. We find that difficult to believe, given that the latest Durlacher report gives AOL/Compuserve just 500,000 UK users after many years. *Perhaps Dixons have counted every CD they have handed out?*

Anyway, we have long predicted the demise of most of the c300 ISPs in the UK; believing that it would be the telecomms operators that would offer a free Internet service in return for telecomms traffic. Another move was made towards this end this month when **BT** took a 50% stake in **Excite UK** for \$10m. Via the new Excite.Click model (like BT.Click and Yahoo.Click) the service is "free" but an extra 1p per minute is added to the local call rate. We suspect that this will be abandoned soon. BT is already one of the "Top Five" ISPs in the UK.

Freeserve is offered in conjunction with **Energis** who bought **Planet Online** for £85m earlier in the year. So the Dixons service is also a way of stimulating telecomms traffic. But Dixons hopes to make the service pay by offering adverts and by levying commission on e-commerce deals generated. BT also intend to raise revenues from these sources too. Given that Dixons have a Premium Service telephone Support line - and we all know how much that costs! - the telecomms companies seem to be the "Net" winner whatever!

But, before too long, you will be able to link the two together. A free PC if you sign up for the Internet via an ISP? We guess that's a mere advertising campaign away.

What it all says is that the metrics of your business are changing. Seriously, if you believe you will be charging your customers in the same manner - for products or services - in five years time "you might be in for a very unpleasant shock".

**Footnote:** Never mind the losses...Excite has a market value of \$2.5 billion on NASDAQ but managed a loss of \$40m in the nine months to 30th Sep. 98. Mind you, every NASDAQ Internet stock makes losses but has astronomical valuations.



## Excellent results from Comino

AIM listed **Comino** is really motoring now with revenues up 71% at £8.72m, PBT up 52% at £1.27m (that's a very tasty 15% profit margin) and fully diluted EPS up 42% at 6.94p for the six months to 30th Sep. 98.

CEO Garth Selvey said Comino was "firmly on track". They are market leaders in their three niche markets; social housing (**Context**) where the recently acquired Excelsis "has been successfully integrated" and "the new Aurora product is now widely installed", clothing supply chain systems (**Prologic**) where "seven new contracts won the last year" and electronic document management (**ISE**).

## 20%+ margins at Real Time Control

The moves away from EPOS hardware manufacturing towards software and services for retailers, really seems to be showing success at RTC. The customer list is blue chip - including the new Selfridges store in Manchester and Harvey Nicholls. C&A are installing RTC systems throughout Europe. In the six months to 30th Sep. 98 rev. was up 20% at £8.6m, PBT was up 28% at £1.89m (a 22% margin!) EPS was also up 28%.

"The prospective P/E of 12 is unreasonably low" said Techninvest. We agree.

## Anglotechnoanorexiphobia

We have always credited the above to Goldman Sachs - meaning "a fear of being underweight in UK technology stocks". We were amused to see *Computing* misquoting it as Anglo techno **anoraks** aphobia. Seems almost better!

## Sema Group

Very good

**SEMA GROUP**

review of **Sema** this month in *The Times* (23rd Nov. 98) suggesting that the City is losing patience with Sema's long anticipated \$1 billion US acquisition. "I'm not going to be bullied into it - I'm a cautious man" says Pierre Bonelli. Also interesting as *The Times* kept referring to Sema as "a British company". As it's now majority owned by UK shareholders, that's true. As it does more business in the UK and more is managed from the UK than any other country, that's true. So why still no UK executive directors on the board?

## Financial Objects to float in Dec. 98

**Financial Objects plc** "was established to design, develop and implement **ActiveBank** - a new generation of international banking software" by Roger Foster (of ACT fame) and Jess Dorrell (former ACT marketing director) in Dec. 95. VCs Schroder Ventures and Thompson Clive took a 20% stake for c£2m. In Aug. 96, FO acquired the long established wholesale banking software group - **Ibis** - for around £4m. It looked an even better deal when the cash in the company was taken into account. Ibis had been 90% owned by the Italian International Bank and 10% by IBM. The Ibis AS/400 based system has "an international client base of over 100 banks with over 200 sites" and revenues of £16m in 1996. At the time of the deal Foster said "this makes **Financial Objects** number two (i.e. to **Misys**) in the banking software market in terms of sites installed and will significantly accelerate our growth plans".

Results for the period ending 31st Dec. 97 showed revenues nearly trebled from £5.6m to £15.7m and there was a remarkable turnaround in profitability from an operating loss of £1.47m in 1996 to an operating profit of £2m and a PBT of £1.8m in 1997. This momentum has been maintained with revenue of £15.9m and PBT of £2m in the six months to 30th Jun. 98.

This month, FO has announced its intention to float in Dec. 98 with a £100m valuation anticipated.

We are absolutely delighted:

- *delighted* because it shows that UK IPOs are possible again. FO had planned to float in Oct. - we all know why it had to be delayed.
- *delighted* because we have a great deal of respect for Foster and have enjoyed our "robust" sessions.
- *delighted*, because our friends at VCs Schroders Ventures and Thomson Clive prove, yet again, their ability to back winners.
- *delighted*, because Foster still manages to annoy **Misys** in its claim to be the second largest supplier of international banking software. (Ed: Why can't Lomax take Foster's adult approach to people with different views? We respect both Foster and Lomax. We would like to think that Foster respects us - everything he has done over the last few years would support this - but Lomax clearly doesn't.)

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