System House

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

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End of an Era

We have now finished the **1999 Holway Report** - all 2000 pages. Although 1998 clearly broke all previous records, we believe it will be remembered as ***"The end of an Era".*** We doubt if the likes of 1998 will be seen again until well into the first decade of the new millennium.

First the Good News

1998 was the year when:

• the UK Software and Computing Services Industry (SCSI) increased its growth rate to a record 24%.

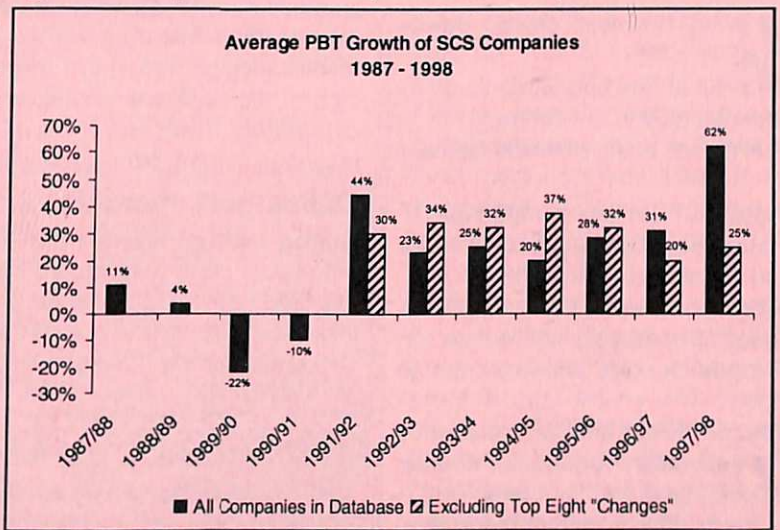
• the UK was yet again the fastest growing SCSI market in Europe.

• all things related to IT skills - bespoke development and the role of the IT staff agencies in particular - really prospered, with growth rates in excess of 30%.

• the companies in our database grew their overall revenues at 26%.

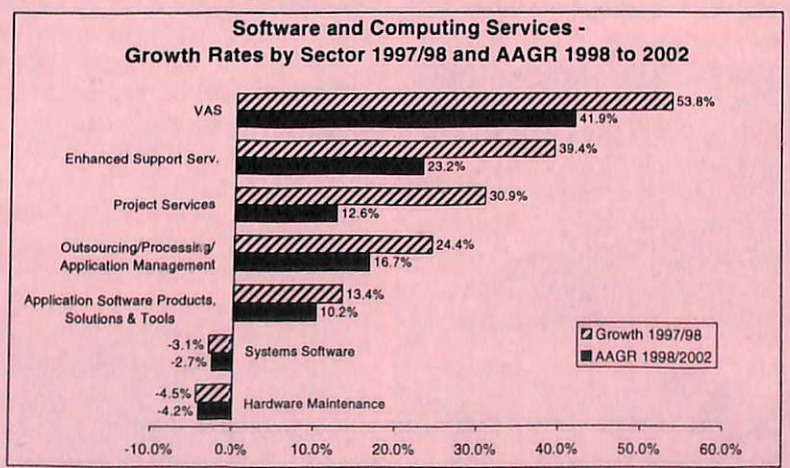
• growth outside the UK by UK SCS companies was 32% with a particularly strong performance in the US.

• profits surged ahead. The 62% growth in PBT was largely due to switch from losses to profits in a small number of companies. Even if these "special effects" were stripped out, profits for the rest grew by 25%.



• the companies in our database added over 40,000 staff to their payrolls but again managed to contain staff costs by taking on a higher number of junior/trainee grades thus altering the "mix" of those employed by UK SCS companies.

• valuations - and the volume - of trade sales continued to break records. The most satisfying finding was that UK companies once again bought more/spent more on acquiring overseas companies than vice versa.



• although there was much volatility in share prices, on average SCS stocks continued their upward trend.

• there was a significant increase in interest in the sector shown by the City and investors alike.

Then the "Bad Omens"

But, for all the good news, the storm clouds could be seen gathering in the sky for anyone willing to open their eyes to see. In particular:

• the introduction of the FTSE IT Index might have created greater awareness etc., but it also contributed towards significant overheating. The share price dives in Q3 1998 - when all the 88% rise in the FTSE IT Index made by July 98 was wiped out - caused much damage. New IPOs were at best postponed - at worst cancelled - and many acquisitions and associated fund raising were adversely affected.

• IPOs slumped to a low in Q4 98/Q1 99 although they currently show some signs of improvement.

• IT staff agencies were worst effected with share prices "decimated" in some cases.

Profit warnings abound. "Uncertainty" for the future post Y2K caused insecurity to mount. IT staff decided to stay put and staff churn/attrition plummeted. IT staff decided that the security of a permanent job was preferable to the higher rewards of contracting.

• even the "highest quality" SCS companies like Admiral were not immune. Lower than expected staff attrition, delays in City contracts and resulting lower utilisation rates necessitated a rare Admiral profits warning. *If this can happen in such a highly regarded company as Admiral, what of the others?*

• the Y2K created its own "micro climate" in 1999 with companies postponing work on any new projects to concentrate on the bug. This affected the ERP product companies particularly badly. But it also, and quite surprisingly, seemed to have an effect on the installation of new PC hardware in larger corporate accounts.

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End of an Era - **continued from page one**

• there still seem to be those who think that 20%+ growth rates will continue for ever. Few current managers lived through the last SCS recession of the 1970s but most should remember the last big slowdown of the early 1990s. We are convinced that growth rates in 2000/2001 will be back to the 10% to 12% level. *Still excellent but much lower than of late.* Forewarned is forearmed. The problems, as always, will be experienced most by those companies currently "in denial" and, therefore, unprepared for the future.

• even mild profits warnings cause City hysteria. The next twelve months could be a very painful period as expectations are dashed and currently inflated share prices crash.

• the type of companies supplying the sector are changing faster than at any time. The generalist BPO organisations are eating away at the conventional IT outsourcers. General IT staff agencies will capture market share from the specialists. The internet and e-commerce creates new software and services players. Complacency will mean that your customers are taken from you not by your closest rival, but by a company you might well currently consider is not even in your market.

The future?

The crystal ball shows a turbulent period ahead. In particular we see:

• revenue growth falling to 10-12% with profits growth reducing to a similar range.

• average valuations with P/Es of 30+ cannot continue to be justified in a lower earnings growth environment.

• average share price profit growth being limited in the next year.

• great pain being inflicted on certain companies (IT agencies, commodity product suppliers) as a result of the uncertainties of 1999 and the slowdown in 2000+.

• there will be a rush towards trade sales from companies fearful of "missing the boat". Prices paid will reduce (on average) although in vogue sectors will continue to command hefty valuations.

• general IT staff (i.e. at the commodity end) will experience greater problems finding and retaining jobs. Of course, specialist IT staff will still command premium rates.

• Continental Europe could well be a better market than the UK or the US. Certainly, companies willing and able to exploit Europe's new found appetite for outsourcing could flourish *"over there"*.

• neither NASDAQ or EASDAQ will attract much UK SCS interest but the Euro NM (particularly in Germany) will flourish. UK companies fed up with the poor performance of our own AIM market will be tempted to do IPOs in Europe. AIM will belatedly wake up and join Euro NM, changing and improving its rules and procedures as a result.

• product companies will have to move away from product licences towards services, transaction charging, application service provision or, indeed, earning revenues from content, advertising, telecomms charges or whatever. Those that believe they can stick with their old models will face a bleak future.

• strong experienced management is required more in a slowdown that in a boom. Woe-betide those companies with weak management.

• fashions may come, fashions may go but Quality companies with consistent records and strong management will continue to thrive.

• although the internet and e-commerce will become the major driver in the SCS sector, most of the current internet hype will subside. Most of the current high valued players will see share prices fall. A new breed of rather more Boring companies earning "real money" from the internet will emerge. Spotting those companies will provide good returns - but probably not as spectacular as of late.

• the long anticipated - but never consummated - coming together of the telecomms and SCS players will happen more by way of partnerships than outright acquisition/ merger. SCS companies without telecomms "partners" will feel increasingly vulnerable.

• mega acquisitions will return as valuations moderate. One of more acquisitions where both parties are UK and/or world Top 10 or Top 20 players will hit the headlines in 1999/ 2000.

• although we would still like to see some UK-owned international SCS players we suspect that the current contenders could become targets themselves. Sage, Misys, Logica, Admiral etc. might look invincible, but their very strengths and qualities make them attractive candidates for (mainly US) companies with deep pockets looking to the longer term. A weakening of both the domestic market (and associated valuations) and a possible weakening of sterling could accelerate that trend.

• as we have said before, brand new SCS giants will emerge. Some of them will be known better for their other activities than for IT or SCS. Some of the existing giants will see their fortunes wane. In services we see IBM's renaissance continuing at the expense of EDS, CSC and others. Microsoft will continue to dominate but it will be a completely different type of company with <50% of revenues coming from product licences before too long.

Dialog gets more breathing room

Dialog has agreed a new financing deal with Chase Manhattan Bank to increase senior debt with a new $25m loan. c$11.5m will be used in providing capital for their new information services, e-commerce and web solutions division. Dialog said current trading *"was consistent with expectations". An alliance with a major portal is rumoured.*

MMT pleases at the interim stage

Despite a sort of profit warning earlier this year due to lower utilisation rates, **MMT**'s interim figures for the six months to 28th Feb. 99 were pleasing. Revenue went up 27% to £21.5m with PBT increasing 20% at £5.1m. The profit included an exceptional gain of £288K from the sale of part of the **Trace** shareholding but even so "organic" PBT rose 14% (and the 10% of Trace left shows a further paper profit close to £1m!). Diluted EPS went up 17%. Exec. Chairman Mike Tilbrook was delighted with the record performance but also said that *"after 21 years at the helm, I plan to move at the end of the financial year to Non-Exec. Chairman"*. MMT's MD Tony Grellier will then take over day-to-day responsibilities and a new FD will be appointed. End of an era.....but let's hope he keeps on with his canny investment strategy. We have always been envious of his ability to SELL at about the right time too!

MMT confirmed that current utilisation rates had fallen from *"the exceptional levels seen last year"* but were *"satisfactory by the standards of most rivals"*.

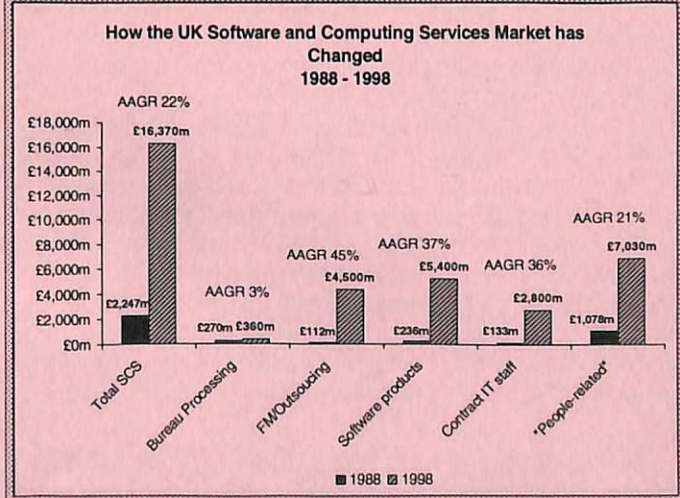
House brokers Credit Lyonnais commented that *"MMT had consistent growth, a blue chip customer base and a rock solid balance sheet"* but suffered *"from a small company syndrome" and "could be open to a bid"*. True of course but even so the shares fell 13% this month to 700p - about half their high of over £14.

Ten Year's On

Last month we reported on the Best Performing Shares over the last ten years. We were delighted that the top three were all **Boring Award** winners with **Sage** (up 82-times), **Capita** (up 63-times) and **Admiral** (up 42-times).
Indeed, both Sage and Capita had been IPOs ten years back. What happened to the other 1988/89 IPOs?
Ten years back the market was still suffering the after effects of Black Monday. Indeed our own SCS industry was just starting into the worst growth slowdown since the 1970s. It was not a good time for an IPO.
Sanderson ventured to the market and you would now be showing a 200% gain if you had held on to the shares. But you would have done better with the FTSE100 which has risen 216% in the same period. Mind you you could have bought into **Total Systems** at the IPO price of 85p...in which case you would now be showing a 34% loss!
But that wasn't the worse. You could have bought into **Optim**, which was bought by **Systems Reliability** and then went broke.
But there have been lots of changes in the last ten years. The Top Ten SCS companies featured in the 1989 Holway Report based on 1988 revenues were as follows:

1998 Rank	Company	1988 Revenues	1998 Ownership	Notes
1	SD Scicon	£221m	UK	Acquired by US EDS
2	Logica	£136m	UK	Still UK!
3	Thorn Software	£121m	UK	Became Data Sciences, now IBM
4	CAP	£113m	UK	"Merged" with French Sema
5	Hoskyns	£110m	UK	Acquired by French Cap Gemini
6	ISTEL	£85m	UK	Acquired by AT&T
7	CMG	£64m	UK/NED	Still UK/NED!
8	Centrefile	£62m	UK	Acquired by US Ceridian
9	Andersen Consulting	£62m	US	
10	Kalamazoo	£52m	UK	Still UK

Practically all UK-owned. Our 1999 rankings (based on 1998 revenues) has no UK-owned companies in the Top Ten.
The UK SCS market has grown significantly - by an AAGR of 22% p.a. from £2.25 billion in 1988 to £16.4 billion in 1998. The highest growth rate, by far, has been in outsourcing (or FM as we called it in 1988). Both software products and the use of IT contractors have grown well above the average. Interestingly, both areas are set for "below average" growth in the immediate future.



In the 1989 Holway Report we warned of the threat of takeover by overseas companies, "acquisition indigestion" and staff shortages...*nothing much changed there!*
We singled out **Hoskyns** and **Misys** *"to lead the race in the next lap"* because they had *"the highest quality of management"*. Geoff Unwin went on to to lead **Cap Gemini** - the largest European-owned SCS company and Kevin Lomax led Misys to become the first SCS company in the FTSE100.

Sage web of intrigue

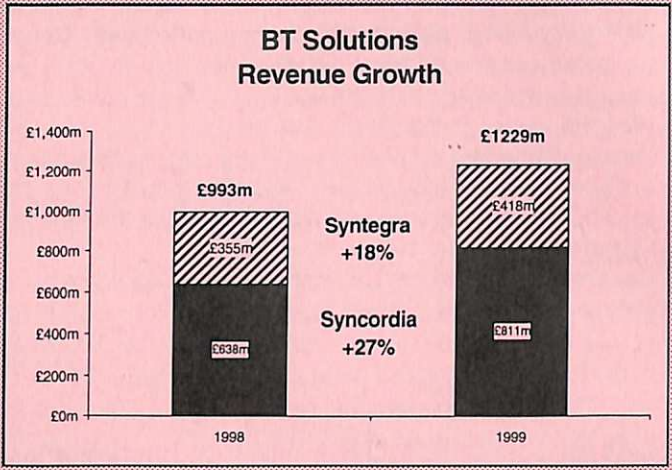
We are indebted to Tempus of The Times for this headline. The story behind the headlines is more straightforward and relates to the link **Sage** has made with **IBM** to provide services on the internet on sage.com. They will provide business-to-business services like Dun & Bradstreet and provide free internet services to customers. This announcement caused an immediate c10%+ share price rise but the shares subsequently fell back to end the month on £21.58p - an increase of just 3%. With our oft stated comment that *"if your long term business plan relies on making money from product licences your company will not survive"* now etched into IT history, *who knows, some time fairly soon, Sage products could be offered on a transaction charging basis.*
At the same time as the internet headline announcement, Sage announced yet another set of sparking financial results in their interims for the six months to 31st Mar. 99. Revenue rose 49% to £132.5m, PBT increased 48% to £35.5m and EPS went up 40%. Yet another ***Boring*** set of results and this was partly confirmed by CEO Paul Walker when we spoke to him who felt that the UK performance *"was a bit boring"*. Well we can hardly disagree with him - UK revenue went up from £30.2m to £39.3m and operating profits from £13.8m to £18.4m. *We would love to see just what Walker considers "exciting"!* France did particularly well and, overall, revenue from mainland Europe increased 22% to £49m with profits up 38% to £9.8m. The remaining revenue from the US increased from £15.2m to £44.2m due to past acquisitions (**State of the Art**) and will go up even more next time after the Feb. 99 acquisition of US **Peachtree**. And don't forget the recent acquisition of **Tetra** which should help to make the UK performance to become even more boring in H2.
Walker is particularly pleased with Sage's performance in France where margins rose to "only" 28%. We say only because Sage nearly always heads our Holway Report profit margin tables with well over 40%. When Sage manages to boost worldwide profit margins much nearer to those achieved in the UK, *that would be really boring.*
Comment. For all those who are able to attend our presentation on the 15th July (and it looks like another sell-out) then you will be able to see the presentation of an actual **Boring Award** to Jackson, Walker and Wylie in recognition of Sage being the best performing share in our SCS Index over the past 10 years. They richly deserve all the applause.

Healthy(eon) rise in Misys' shares

US **Healtheon Corp.** announced a c$5.5b merger deal with US **WebMD Inc.** Share prices rocketed on optimism that the new company will become a premier internet provider of healthcare services. Incidentally, **Microsoft** is also involved, chipping in $250m equity with a promise to spend c$300m advertising and marketing etc. over the next five years. The new entity will have over 1,300 employees.
Misys (though US subsidiary **Medic**), has joined in signing an alliance with Healtheon that will enable Medic's 65,000 GPs to check patients' insurance eligibility via the web. This did wonders for the Misys share price (up an immediate 85p and adding c£500m capitalisation) as Misys announced that it expects *"significant transaction and services revenues"* from the sale on on-line services. But the shares then fell to end the month down 11% on 522p. Good services and recurring revenues - Good deal.

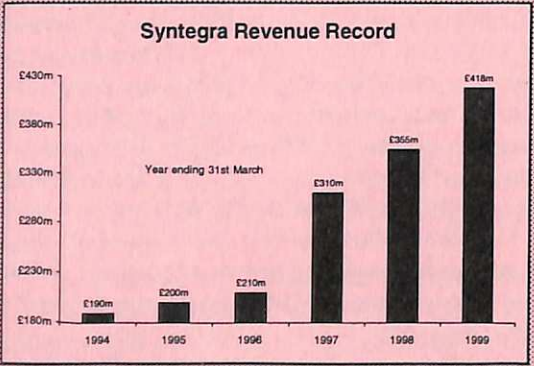
A new UK SCS Leader created as BT's Syntegra and Syncordia link

In Feb. 99 Alfred Mocket was appointed as President and CEO of a new division - **BT Worldwide.** He has as one of his tasks *"to create a comprehensive worldwide solutions business"*. To this end, **Syntegra** (which had been part of BT Global) and **Syncordia** (which had been part of BT UK) are to merge. The new operation will have revenues of £1229m - growing at 22% in the last year - and over 8,000 staff. But, more importantly, it will create a UK-owned SCS operation of a size capable of addressing the communications-centrix requirements of the market. It might also have the muscle and management backing - for once - to undertake acquisitions of substance, propelling the new organisation further towards a seat on the top table of the world's leading SCS companies. Currently Syntegra is still headed by Bill Halbert and Syncordia by Paul Domorski - reporting into Mocket. The organisation goes under the *"working title"* of BT Solutions. We expect a newly integrated organisation - hopefully under a rather better name - to emerge by August.



Syntegra

BT now includes a line in their annual R&A giving Syntegra's results. In the year to 31st Mar. 99 revenue went up 18% to £418m with profits up 32% at £25m. We reckon c70% or £290m of this is UK revenue which puts them, on their own, in 11th place in the UK ranking tables and the highest placed "UK owned" company. Syntegra was the name given in 1993 to the **BT Customer Systems** business. Syntegra's main operating locations are UK, France, The Netherlands and Australia. Syntegra also has offices in Tokyo, Singapore, Hong Kong, Frankfurt and New York. They employ around 4,000 staff, over half of whom work outside the UK.



After BT was privatised, several businesses were established in the IT sector. In 1988 these 40 or so separate businesses were put together as BT Customer Systems. In 1990, Bill Halbert joined Syntegra as MD from Software Sciences. He set about overhauling this fragmented operation which at that stage employed over 1,800 staff.

In the early years of the 1990s, Syntegra seemed to be concentrating on internal affairs. However, once Halbert was on board, he instigated a number of increasingly high profile acquisitions and joint trading relationships. These included the acquisition of French systems integrators **Europe Informatique** (Dec. 95), Dutch systems company **Rijnhaave Group** (Apr. 96), Australian services company **First State Computing** (mid-1997) and French company **Alcoria** (Oct. 97).

But the most significant potential "acquisition" was that announced in Nov. 96 when parent BT made a $20 billion bid for **MCI** - this was later renegotiated as MCI announced much lower than expected profits. But the whole deal fell through as US telecomms company **WorldCom** outbid both BT and the other potential purchaser, US operator **GTE**. Had the deal gone through, Syntegra would have merged with **SHL/MCI Systemhouse** to form a $2 billion+ revenue *"UK-owned"* SCSI company! But it was not to be - and of course **EDS** went on to acquire MCI Systemhouse in Feb. 99 as part of the "cross-sourcing" deal with MCI. The aborted acquisition seemed to have dealt Syntegra a bit of a body blow. At the very least, a year's work with considerable management and other resources expended, has hardly helped Syntegra to grow.

Syntegra concentrates on the Financial Services, Energy & Communications, Government & Health, and the Manufacturing, Transportation & Logistics sectors. They supply trading systems in over 50 countries to most of the world's leading banks, and they run SettleNET, the community access system for the CREST share settlement network. Needless to say, in the Energy & Communications sector, one of Syntegra's key customers is BT itself, but they are also the supplier of the UK electricity industry's Managed Data Network Service (MDNS) which is used by the major players to exchange data. Syntegra classifies all its revenues as "systems integration". They really seem to be independent, having no hardware agency/ distribution systems agreements and have a strong preference for open systems. This makes Syntegra one of the largest SI providers in the UK. Syntegra tends to concentrate on large-scale applications; which therefore tends to mean that its customers are large too. They include British Gas Trading, VISA, Merrill Lynch, BA, Renault and Heineken, as well as UK central government organisations such as NHS, Customs & Excise and MoD. Syntegra has also won a "major" contract in local government at Kent County Council.

Syncordia

BT's managed network services and outsourcing arm, Syncordia, has even higher revenues and growth than Syntegra. In the year to 31st March 99, Syncordia grew by 27% to £811m- about a third of which is earned outside the UK. Syncordia is headed up by Paul Domorski, who was recruited to the position from Unisys in 1997. Although a substantial part of Syncordia's revenues come from the more mundane activities of installing, maintaining and running networks for BT's customers, it also has many 'cross-over' activities which fall within our definition of SCS. For example, Syncordia runs some of the largest IT call centre operations in the UK, with customers like M&S, NatWest, and Visa. They even run Microsoft's helpdesk in Germany. Syncordia also installed and manage a global PC-based desktop video conferencing system with integrated email and groupware applications at oil giant BP.

We are delighted to learn that, at long last, these two organisations are coming together - it's exactly what we have wanted to see for a long while. The future could be quite exciting....

Quoted Companies - Results Service

Admiral plc

	Final - Dec 97		Final - Dec 98	Comparision
REV	£117,191,000		£147,187,000	+25.6%
PBT	£17,552,000		£23,479,000	+33.8%
EPS	17.50p		24.90p	+42.3%

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

	Interim - Sep 97	Final - Mar 98	Interim - Sep 98	Comparision
REV	£6,710,000	£13,556,000	£8,430,000	+25.6%
PBT	£958,000	£2,164,000	£1,262,000	+31.7%
EPS	3.33p	7.17p	4.17p	+25.2%

Anite Group plc

	Interim - Oct 97	Final - Apr 98	Interim - Oct 98	Comparision
REV	£78,948,000	£149,540,000	£81,101,000	+2.7%
PBT	-£526,000	£29,347,000	£3,986,000	Loss to profit
EPS	n/a	8.90p	1.10p	Loss to profit

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 (NEW)

	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

Bond International Software plc

	Final - Dec 97		Final - Dec 98	Comparision
REV	£6,396,027		£8,807,697	+37.7%
PBT	£718,250		£935,378	+30.2%
EPS	3.54p		4.54p	+28.2%

Cadcentre Group plc

	Interim - Sep 97	Final - Mar 98	Interim - Sep 98	Comparision
REV	£8,249,000	£17,727,000	£8,798,000	+6.7%
PBT	£841,000	£2,754,000	£1,367,000	+62.5%
EPS	3.26p	10.06p	4.92p	+50.9%

Capita Group plc

	Final - Dec 97		Final - Dec 98	Comparision
REV	£172,904,000		£237,802,000	+37.5%
PBT	£18,312,000		£27,019,000	+47.5%
EPS	6.36p		8.78p	+38.1%

Cedar Group plc

	Interim - Sep 97	Final - Mar 98	Interim - Sep 98	Comparision
REV	£5,320,000	£12,506,000	£7,250,000	+36.3%
PBT	£1,054,000	£2,564,000	-£971,000	Profit to loss
EPS	2.20p	5.30p	-2.30p	Profit to loss

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

	Interim - Sep 97	Final - Mar 98	Interim - Sep 98	Comparision
REV	£5,087,000	£13,151,000	£8,721,000	+71.4%
PBT	£830,000	£1,950,000	£1,266,000	+52.5%
EPS	4.89p	11.46p	6.94p	+41.9%

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

	Final - Dec 97		Final - Dec 98	Comparision
REV	£1,133,523,000		£1,586,238,000	+39.9%
PBT	£47,099,000		£64,603,000	+37.2%
EPS	17.50p		23.50p	+34.3%

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 (NEW)

	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

	Final - Dec 97		Final - Dec 98	Comparision
REV	£14,556,443		£13,735,249	-5.6%
PBT	£504,036		-£1,418,549	Profit to loss
EPS	7.10p		-23.10p	Profit to loss

Diagonal plc

	Final - Nov 97		Final - Nov 98	Comparision
REV	£44,788,000		£70,179,000	+56.7%
PBT	£3,302,000		£7,314,000	+121.5%
EPS	13.57p		25.30p	+86.4%

Dialog Corporation plc

	Final - Dec 97		Final - Dec 98	Comparision
REV	£46,082,000		£170,762,000	+270.6%
PBT	-£20,432,000		£5,564,000	Loss to profit
EPS	-20.52p		2.90p	Loss to profit

Division Group plc

	Final - Oct 97		Final - Oct 98	Comparision
REV	£6,678,000		£6,020,000	-9.9%
PBT	-£1,783,000		-£3,842,000	Loss both
EPS	-4.10p		-7.90p	Loss both

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

	Final - Dec 97		Final - Dec 98	Comparision
REV	£44,235,000		£62,211,000	+40.6%
PBT	£4,111,000		£8,108,000	+97.2%
EPS	34.50p		49.90p	+44.6%

Eidos plc (NEW)

	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 (NEW)

	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

	Interim - Oct 97	Final - Apr 98	Interim - Oct 98	Comparision
REV	£71,200,000	£161,595,000	£108,900,000	+52.9%
PBT	£4,300,000	£10,670,000	£7,500,000	+74.4%
EPS	1.66p	4.46p	2.62p	+57.8%

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

	Final - Dec 97		Final - Dec 98	Comparision
REV	£5,786,456		£6,910,106	+19.4%
PBT	£48,085		£384,123	+698.8%
EPS	0.30p		10.10p	+3266.7%

Gresham Computing plc

	Final - Oct 97		Final - Oct 98	Comparision
REV	£8,689,000		£23,063,000	+165.4%
PBT	£667,000		£3,003,000	+350.2%
EPS	1.17p		5.73p	+389.7%

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

	Interim - Sep 97	Final - Mar 98	Interim - Sep 98	Comparision
REV	£11,318,000	£25,143,421	£16,163,000	+42.8%
PBT	£647,000	£1,383,327	£782,000	+20.9%
EPS	2.45p	5.08p	3.05p	+24.5%

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

	Final - Dec 97		Final - Dec 98	Comparision
REV	£203,134,000		£244,803,000	+20.5%
PBT	£6,100,000		-£3,243,000	Profit to loss
EPS	15.10p		-8.80p	Profit to loss

Intelligent Environments Group plc (NEW)

	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

	Final - Oct 97		Final - Oct 98	Comparision
REV	£3,974,188		£11,012,000	+177.1%
PBT	-£1,963,293		£55,000	Loss to profit
EPS	-6.61p		0.12p	Loss to profit

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

	Interim - Sep 97	Final - Mar 98	Interim - Sep 98	Comparision
REV	£33,801,000	£65,711,000	£32,018,000	-5.3%
PBT	-£514,000	-£2,329,000	-£550,000	Loss both
EPS	-1.00p	-3.00p	-1.14p	Loss both

Kewill Systems plc

	Interim - Sep 97	Final - Mar 98	Interim - Sep 98	Comparision
REV	£19,334,000	£45,088,000	£27,475,000	+42.1%
PBT	£3,100,000	£6,813,000	£3,196,000	+3.1%
EPS	14.70p	30.30p	12.30p	-16.3%

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

	Final - Dec 97		Final - Dec 98	Comparision
REV	£11,320,000		£22,375,000	+97.7%
PBT	£3,701,000		£7,365,000	+99.0%
EPS	9.87p		19.77p	+100.3%

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 (NEW)

	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 (NEW)

	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%

M-R Group plc

	Interim - Dec 97	Final - Jun 98	Interim - Dec 98	Comparision
REV	£20,820,000	£46,822,000	£24,260,000	+16.5%
PBT	£3,000,000	£6,902,000	£1,380,000	-54.0%
EPS	3.80p	9.20p	1.80p	-52.6%

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

	Interim - Dec 97	Final - Jun 98	Interim - Dec 98	Comparision
REV	£12,150,000	£24,234,000	£13,152,000	+8.2%
PBT	£5,250,000	£10,060,000	£5,024,000	-4.3%
EPS	17.60p	33.70p	16.60p	-5.7%

MERANT plc

	Final - Jan 98		Final - Jan 99	Comparision
REV	£97,015,000		£156,121,000	+60.9%
PBT	£15,217,000		-£4,459,000	Profit to loss
EPS	13.30p		-7.30p	Profit to loss

Microgen plc

	Final - Oct 97		Final - Dec 98	Comparision
REV	£66,398,000		£70,105,000	not comparable
PBT	£5,324,000		£8,492,000	not comparable
EPS	8.80p		2.20p	not comparable

Misys plc

	Interim - Nov 97	Final - May 98	Interim - Nov 98	Comparision
REV	£177,600,000	£447,700,000	£287,900,000	+62.1%
PBT	£32,100,000	£51,700,000	£58,900,000	+83.5%
EPS	5.30p	5.82p	7.70p	+45.3%

Mondas plc

	Interim - Oct 97	Final - Apr 98	Interim - Oct 98	Comparision
REV	£143,075	£297,169	£223,945	+56.5%
PBT	-£250,795	-£484,322	-£208,004	Loss both
EPS	-4.10p	-7.90p	-3.40p	Loss both

Moorepay Group plc

	Final - Dec 97		Final - Dec 98	Comparision
REV	£5,283,379		£8,365,688	+58.3%
PBT	£1,385,201		£2,043,492	+47.5%
EPS	9.04p		12.39p	+37.1%

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

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

	Final - Dec 97		Final - Dec 98	Comparision
REV	£15,641,000		£21,505,000	+37.5%
PBT	£256,000		-£1,228,000	Profit to loss
EPS	0.20p		-2.20p	Profit to loss

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	20.29p		26.52p	+30.7%

Pegasus Group plc

	Final - Dec 97		Final - Dec 98	Comparision
REV	£12,447,000		£14,979,000	+20.3%
PBT	£1,698,000		£928,000	-45.3%
EPS	29.30p		18.80p	-35.8%

PhoneLink plc

	Interim - Sep 97	Final - Mar 98	Interim - Sep 98	Comparision
REV	£1,850,000	£3,206,000	£3,479,000	+88.1%
PBT	-£1,742,000	-£3,746,000	-£1,701,000	Loss both
EPS	-3.60p	-7.80p	-3.00p	Loss both

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 (NEW)

	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

Quality Software Products Holdings 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

	Final - Nov 97		Final - Nov 98	Comparision
REV	£5,635,000		£15,164,000	+169.1%
PBT	£1,011,000		£3,460,000	+242.2%
EPS	1.29p		6.79p	+426.4%

RM plc (NEW)

	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

Real Time Control plc

	Interim - Sep 97	Final - Mar 98	Interim - Sep 98	Comparision
REV	£7,181,000	£15,880,000	£8,590,000	+19.6%
PBT	£1,477,000	£3,163,000	£1,887,000	+27.8%
EPS	14.50p	30.80p	18.50p	+27.6%

Recognition Systems Group plc (NEW)

	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

Riva Group plc

	Final - Dec 97		Final - Dec 98	Comparision
REV	£70,208,000		£80,090,000	+14.1%
PBT	£1,339,000		£403,000	-69.9%
EPS	2.00p		-0.10p	Profit to loss

Rolfe & Nolan plc (NEW)

	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

	Interim - Jul 97	Final - Jan 98	Interim - Jul 98	Comparision
REV	£2,490,000	£4,217,440	£1,860,000	-25.3%
PBT	£130,000	£310,718	£30,000	-76.9%
EPS	1.90p	4.10p	-0.30p	Profit to loss

Quoted Companies - Results Service

Royalblue Group plc

	Final - Dec 97		Final - Dec 98	Comparision
REV	£20,647,000		£29,514,000	+42.9%
PBT	£2,041,000		£4,543,000	+122.6%
EPS	3.60p		9.30p	+158.3%

Sage Group plc (NEW)

	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 (NEW)

	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

	Final - Dec 97		Final - Dec 98	Comparision
REV	£30,036,000		£42,591,000	+41.8%
PBT	£3,095,000		£5,494,000	+77.5%
EPS	23.30p		36.00p	+54.5%

Skillsgroup plc

	Final - Nov 97		Final - Nov 98	Comparision
REV	£376,969,000		£208,400,000	-44.7%
PBT	-£16,308,000		£14,400,000	Loss to profit
EPS	-22.90p		12.30p	Loss to profit

Spring Group plc

	Interim - Oct 97	Final - Apr 98	Interim - Oct 98	Comparision
REV	£119,326,000	£279,231,000	£193,301,000	+62.0%
PBT	£6,574,000	£18,109,000	£3,206,000	-51.2%
EPS	3.05p	8.38p	0.78p	-74.4%

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

	Final - Dec 97		Final - Dec 98	Comparision
REV	£144,461,000		£164,425,000	+13.8%
PBT	£5,660,000		£2,169,000	-61.7%
EPS	3.50p		1.70p	-51.4%

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

Tetra plc

	Interim - Nov 97	Final - May 98	Interim - Nov 98	Comparision
REV	£13,312,000	£30,286,000	£16,463,000	+23.7%
PBT	-£2,608,000	-£558,000	£1,525,000	Loss to profit
EPS	-14.97p	-7.28p	3.76p	Loss to profit

Torex plc

	Final - Dec 97		Final - Dec 98	Comparision
REV	£21,029,000		£21,770,000	+3.5%
PBT	£7,277,000		£2,982,000	-59.0%
EPS	16.20p		6.80p	-58.0%

Total Systems plc

	Interim - Sep 97	Final -Mar 98	Interim - Sep 98	Comparision
REV	£2,017,128	£4,134,866	£1,780,866	-11.7%
PBT	£476,206	£1,019,675	£495,484	+4.0%
EPS	3.19p	6.80p	3.32p	+4.0%

Touchstone Group plc

	Interim - Sep 97	Final - Mar 98	Interim - Sep 98	Comparision
REV	£2,998,000	£6,154,000	£3,508,000	+17.0%
PBT	n/a	£841,000	£460,000	n/a
EPS	n/a	6.91p	3.30p	n/a

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

	Interim - Sep 97	Final - Mar 98	Interim - Sep 98	Comparision
REV	£14,139,000	£32,161,000	£22,112,000	+56.4%
PBT	£2,851,000	£6,609,000	£3,816,000	+33.8%
EPS	2.00p	17.78p	3.00p	+50.0%

Ultima Networks plc

	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparision
REV	£20,892,000	£38,598,000	£8,286,000	-60.3%
PBT	-£424,000	-£13,240,000	-£833,000	Loss both
EPS	0.10p	-16.20p	-0.99p	

Vega Group plc

	Interim - Oct 97	Final - Apr 98	Interim - Oct 98	Comparision
REV	£10,399,000	£22,457,000	£12,870,000	+23.8%
PBT	£805,000	£3,081,000	£1,428,000	+77.4%
EPS	3.48p	13.75p	6.00p	+72.4%

Workplace Technologies plc

	Final - Dec 97		Final - Dec 98	Comparision
REV	£65,938,000		£82,964,000	+25.8%
PBT	£1,830,000		£3,275,000	+79.0%
EPS	2.17p		6.50p	+199.5%

XKO Group plc

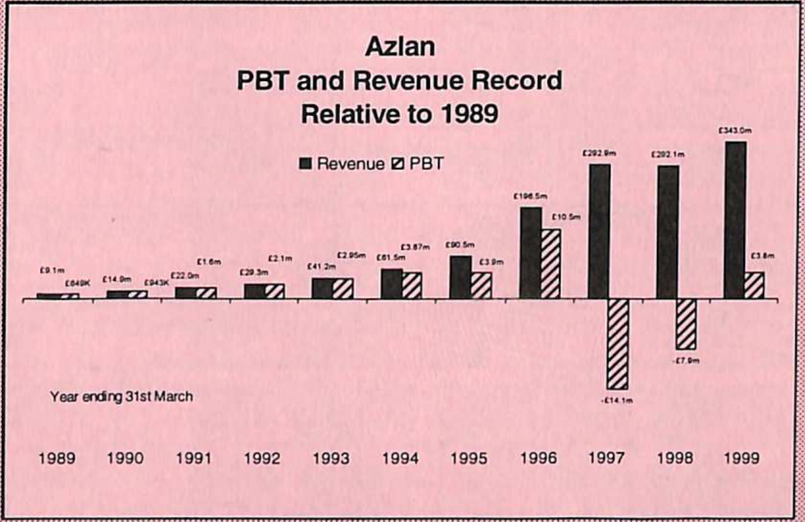
			PF Final 30 Sep 98	Comparision
REV			£24,000,000	not comparable
PBT			£1,800,000	not comparable
EPS			n/a	n/a

Zergo Holdings 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

Azlan recovers after a ghastly period

After *"an exceptionally turbulent period in its history"* distributor and training company **Azlan** has announced PBT of £3.83m (loss £7.86m) in year to 31st March 99. This is the first profit Azlan has made since the failed rights issue in 1997 (launched to fund the purchase of the training division). Total revenue increased 17% to £343m - two thirds from Continental Europe where Azlan claims c5% of the European networking market. Profit before exceptionals was £5.5m (loss £6.8m) and the exceptionals totalled £1.6m for restructuring. Interestingly it was the Products business (revenue up 20% at £293m) which did best with "contribution" up 96% at £22.2m. Conversely the Training business grew by just 8% to £40.8m. Contribution from the services business increased from £200K to £1m.



CEO Peter Bertram (appointed Jul. 98) said that they were now ready to consider further selected acquisitions - Azlan now has over £8m cash in the bank and a new three year £30m bank facility. Germany seems to be the favoured market area when he feels Azlan is under represented. They have recently opened an office in Spain. At least now the Serious Fraud Office has called off their probe into the Group's accounts (but see ilion below!). Ex IBM UK MD Barrie Morgans (was CEO until Bertram came and is now non-exec. Chairman) said *"The momentum generated in the business in the second half has continued into the early months of this year"*. All credit to Morgans - he has had an "annus horribilis". Analysts are now predicting next year's profits at around £10m. The shares ended the month down slightly on 79p - it's bound to take a fair time before investors put their faith again in Azlan to any large degree.

ITNET's "maiden" purchase

ITNET has announced its first acquisition since the IPO in June 98 when they acquired **Technosys** for £9.1m cash plus a further profit related maximum of c£4.1m in shares at current valuation. Technosys is a fee based consultancy with 80 employees and *"specialises in e-commerce, knowledge management and MS Windows NT"*. Technosys had 1998 revenues of £6.6m and profits of £880K and also cash in the bank of £1.4m. (note **Regent** acted for Technosys...their 29th deal in Europe in 10 months).

Also this month, ITNET has been appointed preferred supplier by Enfield for the largest ever local government outsourcing contract worth nearly £60m over 10 years. This has bought new orders so far in 1999 to c£100m. But then we have always though ITNET to be one of those rare "quality" companies.

"Irregular" goings-on at ilion

ilion's share price took a bit of a nose-dive when they announced the discovery of an *"irregular transaction"* in the UK business which potentially could cause a group loss of c£500K. Legal proceedings are evidently a possibility after they carry out a *"full investigation"*. We will keep you posted. *What is it about networking companies like Azlan and ilion that create these kinds of goings-on?*

Bit late with DRS Data & Research

We must have missed **DRS**'s full year's results and only found out when they sent us the Report and Accounts. Well we didn't miss that much. In the year ended 31st Dec. 98, revenue was static at £6.7m but they managed to reduce losses substantially from £826K to £26K. Chairman JP MacArthur says *"prospects for renewed and profitable growth are good"*.

UK M&A

DCS has had a busy month. They have acquired US **HB Ulrich & Associates** (solutions to the global logistics industry) for $10m (c£6.2m). Ulrich had 1998 revenues of $3.8m and profit of $1.4m *before* the staff bonus of $1.1m. Then they bought **The Computer Advisory Centre** and **Trebledata** for an initial £940K and up to a further £100K on profits. Combined sales of the acquired companies are c£1.4m but lost £100K in 1998. And lastly they acquired a 51% stake in German based **CARDIS (Car Dealer Info. Systems)** from **Siemens** for an initial £1.7m and up to a further £700K. DCS can acquire the remaining stake in the next two years for £2.2m. CARDIS provides automotive solutions and services and had 1998 revenues of £31.4m and a PBT of £200K. Looks good and continues DCS' *"stick to the knitting"* policy.

Reuters' subsidiary **Instinet Corp.** has made a $20m equity investment in **WR Hambrecht & Co.** to give them a 11.4% stake. Hambrecht was set up to take companies public through an on-line auction system. Reuters also have said that they intend an IPO in the US in Q399 of US subsidiary **TIBCO Software Inc.**

Dixons (through its ISP **Freeserve**) has upped its stake in **GlobalNet Financial** to 13% by exercising options on another 2m shares. Freeserve has further options which could up the stake further to nearly 20%.

VC **Quester Capital Management** has invested £400K in **Purple Technologies**. Purple is a *"leading developer of advanced software solutions for mobile computers"*.

Action Computer Supplies has agreed "merger" terms with US **Insight Enterprises Inc.** *"to create a leading global direct marketer of brand name products"*. It seems to us to be an acquisition of Action really.

Druid has acquired a 19.98% stake in US **Synergy International Consulting** for $1.15m. Synergy supplies consultancy services to aerospace, engineering and constructions markets and in 1998 had revenues of $4.1m.

Logical Support Services (LSS) has acquired **Estateman** (property management software) for an undisclosed sum. Estateman has 20 staff and £1.1m revenues. LSS (part of Logical Holdings) is only in its second trading year and has in excess of £15m revenue and is a software developer for financial services.

Capita has acquired IT staff agency **Oldham & Tomkins** and project management **MPM Adams** for a combined £18.6m - with the cash element funded from the Mar. 99 placing.

Private equity group **Apax Partners** has invested £3m in **Accunet** - engineering support software.

AIM quoted **Sports Internet** has acquired **Planetfootball** (official branded football website developer) in an all share deal that values Planetfootball at £24m.

Keane Ltd (was ICOM) has acquired **Parallax Solutions** (PS) for an undisclosed sum. PS has 150 staff and annualised 1999 revenues of c$14.7m and *"develops enterprise-scale business solutions that integrate emerging technologies with legacy systems"*. Now you know.

Torex has bought **Systems Guidance** for an initial £2.1m and up to another £1m on profits to enter the supply chain management and e-commerce markets. SG had 1998 revenues of £2.3m but made a loss of £300K.

Dicom Group has said it intends to seek a listing on the Neuer Markt - part of the Frankfurt exchange - at some time after the company announces its July 99 results.

Morse has acquired **Hughes Rae Ltd** (consulting and apps development for e-commerce) for £250K + £4m performance related.

CFS Group has agreed to sell its Consumer Finance (CF)

division to **Skipton B/S** unit **Amber Credit** for £1m cash. The CF division includes Premium Select Marketing which only broke-even last year on revenue of £1.54m. This division is no longer considered core for CFS.

UK-NASDAQer **Select Software Tools** has been left floundering after the collapse of its merger bid with US **Base Ten Systems Inc.**

Invensys, the UK-based global electronics and engineering company created by the merger of BTR and Siebe, is to acquire US ERP and asset management software company **Marcam Solutions** for c$60m cash. Marcam, where General Atlantic has a 25% stake, had revenues of c$125m and losses of $6.2m in the year to 30th Sept. 98. Invensys has bought two other SCS companies - **Wonderware** and **Simulation Systems** - in the last year.

FI buys OSI

We have had many distraught e-mails relating to **FI Group's** acquisition of **OSI Group** (business consultancy and management services support) for an agreed c£106m based on a FI share price of 287.5p on a c3-for-1 basis. FI is to raise £20m in a placing.

OSI was founded in 1987 and was the subject of an MBI in 1995 involving three KPMG partners which valued OSI then at just £12m. Since then, by organic growth and acquisitions, they have increased revenues to nearly £50m and PBT to £5m. You can read all about OSI in the 1999 Holway Report. We ended our profile with the prophetic words *"OSI is an excellent, well managed company in the right market areas. We had expected an IPO but, in the current climate, would not be surprised to read of a trade sale"*. This was written *before* FI's announcement.

FI expects to report a 59% increase in PBT to £17m and revenues up 40% to c£228m in FY99 (April). The order book at the year end was £266m, i.e. more than one year's revenue. Great results. And analysts are now talking of profit for the enlarged group of c£26.5m in FY2000.

Comment. This deal, and the price, looks right. They have a good overlap of business sectors, rather than clients, which gives loads of potential for extra business. And, as all OSI staff have already been granted options worth 1-times salary, with FI's staff already heavily involved in share ownership at c38%, even after the deal, staff share ownership in FI Group will *increase* to c40%. Not all of OSI directors will stay. Non-exec Chairman Jack Rowell (yes, the rugby man) will "retire" with a £1.8m pay-off. Another 11 OSI members will become millionaires with founders Fred Evans (also retiring) and Graham Demetruis collecting £13m and the trio from KPMG will get about £10m each. Not at bad return after less than five years.

Both OSI and FI are quality companies and the combined operation is now in an even stronger position. Even post 2000, when we expect growth rates to fall to a more normal 10%+, if FI can manage to increase margins further, they will do well. The market loved the news with an immediate rise but still FI's share price ended May down 3%.

So why the distraught e-mails?

A number of companies bid for OSI. They all bid between £100m and £110m...except FI Group which initially bid £50m more. A due diligence exercise started. *Maybe trading in the new FY was not as good as expected?* So the price came down. The unsuccessful parties - who invested considerable time and money on their bids - feel somewhat irked. *Oh well, all's fair in love, war and M&A.*

SCSI shares take a dive

A 4.5% decline in our SCSI Index and a 6.4% fall in the FTSE IT SCS Index this month. Interestingly, that means that our index is exactly the same as on 1st June 98! It peaked in July at 5000 and then fell like a stone to hit rock bottom in Oct. 98. *Let's hope history does not repeat itself.* This month **Sage,** which is *not* in the FTSE100, increased its market valuation to £2.62b; overtaking **Sema** (£2.47b) which *is* in the FTSE100. *Maybe the arrival of our champers from Sage is not too far off!*

Systems Integrated Research (educational software) up 63% at 36p this month on bid approach. Still a far cry from their 115p IPO price in Mar. 96, though. **Flomerics** also rose 39% on positive trading news and product partnerships. **MSB International's** shares fell 21% to 188p after last month's warning and this month's AGM statement taking a *"cautious view of the IT contracting market in 1999"*,

End May 99	Move since 1st Jan 98	Move since 1st Jan 99	Move in May 99
System Houses	68.2%	8.5%	-7.5%
IT Staff Agencies	-31.0%	-16.8%	-3.3%
Resellers	3.0%	9.6%	-10.3%
Software Products	64.0%	40.2%	-1.2%

31-May-99	SCSI Index				4916.74
	FTSE IT (SCS) Index				**1559.80**
	FTSE 100				6226.20
	FTSE AIM				977.00
SCSI Index =1000 on 15th April 1989	FTSE SmallCap				2546.70
Changes in Indices	**SCSI Index**	**FTSE 100**	**FTSE IT Index**	**FTSE AIM Index**	**FTSE Small Cap**
Month (30/4/99 to 31/5/99)	-4.48%	-4.98%	-6.36%	+2.23%	-0.91%
From 15th Apr 89	+391.67%	+203.18%			
From 1st Jan 90	+434.37%	+163.60%			
From 1st Jan 91	+594.58%	+188.20%			
From 1st Jan 92	+370.56%	+149.74%			
From 1st Jan 93	+208.53%	+118.73%			+83.57%
From 1st Jan 94	+194.49%	+82.14%			+36.28%
From 1st Jan 95	+227.96%	+103.11%			+45.82%
From 1st Jan 96	+117.70%	+68.76%		2.47%	+31.17%
From 1st Jan 97	+83.63%	+51.18%		0.09%	+16.65%
From 1st Jan 98	62.00%	21.24%	55.98%	-1.51%	10.09%
From 1st Jan 99	24.74%	5.84%	7.87%	21.88%	22.98%

although *"current trading continues in line with market expectations"*. The worst performance was, however, from **Dialog** - down 26% at 91p (see p2) on Q1 PBT down 75% on revenues down 5%. They are now facing tough competition from Reuters and Dow Jones.

Druid fell 23%. *According to some news reports, because of the recently published Holway Report....*

Terence Chapman plans float

Finance sector software and services company, **The Terence Chapman Group** (TCA) is planning to float on the main London market *"during the next few months"* - sooner rather than later we guess. They run two main lines of business: TCA Consulting (74% of the total revenue) - systems consultancy primarily to the wholesale banking industry - and TCA Synergo (26%) - software solutions for stockbrokers with their TAROT product. They have about 250 employees. Hoare Govett are the advisers. *We are delighted.* TCA are a great company known to us for a long time. They will make a fine addition to the IT quoted companies.

In the year ended 31st Aug. 98, TCA had revenues of £20.9m and a PBT of £3.4m. In their interims to 28th Feb. 99 they had revenues of £15.7m and PBT of £2.7m. Since our records began, TCA has always increased revenues annually, although the profit record has been a bit more chequered at times.

The proposed valuation is *"in excess of £80m"* which looks pretty fair to us at 4xrevenue - about the sector average! They intend to raise c£24m, with £12m new money *"to strengthen the balance sheet and assist in financing future business ventures"*. VCs Thompson Clive will be very pleased (at last) with the return on their 26% stake. Chairman Terry Chapman owns c33% and another 25% by management and staff. A few more "IT millionaires" to add to the growing list!

NetBenefit also heads for the market

Internet domain name registration and web-site hosting company **NetBenefit** will float on AIM on 4th June at 200p; valuing them at £25m and raising £4.25m net to fund expansion both in the UK and overseas. The placing was 6-8-times oversubscribed. The company was founded in 1995 and had 1998 sales of £1.24m and made a £100K profit. This has risen to £1.32m/£286K in the 9 months to 31st Mar. 99. They claim 5,000 customers worldwide and 17,000 registered domain names in the UK.

Comment. We used Netbenefit to register our domain names and they run the server bringing you Hotnews.Excellent service...*so far.*

Excellent results and prospects at RM

In **RM**'s excellent results for the six months to 31st Mar. 99, revenue went up 41% to £71.1m with PBT up nearly 4-fold at £2.5m. EPS also increased nearly 4 times. But, to be fair, the previous interims were badly affected by the education spending "freeze" last time around. Even so pretty impressive figures and with the increasing IT education budget, the outlook for the year is *"good"*. And RM finished up with £16.6m cash in the bank at the half year end. We especially liked the 60% increase in software and services revenue and the long term outsourcing deals with the likes of Dudley Council - worth £43m over 10 years. As the government is spending about £1.7b over the next three years on the National Grid for Learning, the prospects for RM are indeed superb. The initial focus on primary school education - their core market - has led to an impressive 140% rise in turnover in the period. With presumably more to come.

Comment. RM's shares have already increased 14% this year - even though they fell 3% this month to end on 527p. But at a prospective P/E of 56 - they cannot be considered cheap. But, RM is the market leader and is highly regarded. With more government money being spent on education and opportunities overseas and via the internet untapped, the future for RM knows no real bounds.

Glotel has now floated

As previewed, comms staff agency **Glotel** has now placed shares at 140p in an IPO which valued them at £53m. HSBC said that the placing was *"comfortably oversubscribed"*. The company raised £13.3m but the directors still hold 51.9% even after the placing. Last month our £50m capitalisation estimate ("too low" was the general opinion) caused quite a few phone calls. But at c50% revenue we felt that the IPO price looked about right. However, post IPO the shares rose immediately to 189p and ended on 199p - a 42% premium. Glotel themselves have been at some pains to point out that 90% of revenue comes from the placement of telecomms and network staff - thereby trying to distance themselves from the "pure" IT staff agency market with its current rather poor image.

System House SCSI Share Prices and Capitalisation

	FTSE IT Index?	SCS Cat.	Share Price 31-May-99	Capitalisation 31-May-99	Historic P/E	PSR Ratio Cap./Rev.	SCSI Index 31-May-99	Share price move since 30-Apr-99	Share price % move in 1999	Capitalisation move since 30-Apr-99	Capitalisation move (£m) in 1999
Admiral	Yes	CS	£8.93	£571.20m	35.1	3.88	32258.09	-15.00%	-23.39%	-£99.80m	-£167.40m
AFA Systems		SP	£1.07	£13.40m	Loss	16.56	887.50	14.52%	-1.84%	£1.70m	-£0.30m
AIT Group		CS	£3.61	£73.30m	45.2	5.41	2406.67	-0.41%	56.96%	-£0.30m	£26.60m
Anite Group	Yes	CS	£0.42	£102.00m	15.5	0.68	242.69	-5.68%	3.75%	-£6.20m	£3.70m
Axon		SP	£2.50	£122.00m	89.3	6.09	1428.57	-0.99%	42.86%	-£1.20m	£36.60m
Azlan Group	Yes	R	£0.79	£84.60m	30.9	0.25	343.48	-0.63%	28.46%	-£0.50m	£18.70m
Bond International		SP	£0.98	£13.30m	21.5	1.51	1500.00	10.17%	3.72%	£1.30m	£0.50m
Cadcentre Group		SP	£1.83	£30.30m	15.2	1.71	912.50	1.96%	-28.01%	£0.60m	-£11.80m
Capita Group		CS	£6.18	£1,276.00m	68.4	5.37	55630.63	-6.08%	11.16%	-£31.00m	£177.00m
Cedar Group		SP	£1.12	£39.60m	20.9	3.17	1061.90	-7.85%	15.54%	-£1.40m	£7.30m
CFS Group		SP	£1.34	£21.20m	11.7	1.93	1483.33	-12.46%	34.17%	-£3.00m	£5.40m
Clinical Computing		SP	£0.39	£9.66m	34.9	3.18	310.48	-11.49%	5.48%	-£1.24m	£0.50m
CMG	Yes	CS	£16.38	£2,099.00m	51.3	4.73	11296.55	-2.62%	7.41%	-£55.00m	£146.00m
Compel Group	Yes	R	£4.03	£127.60m	16.5	0.61	3220.00	-8.63%	1.13%	-£12.00m	£13.80m
Computacenter	Yes	R	£4.05	£716.90m	15.0	0.45	604.48	-10.50%	-7.95%	-£84.00m	-£61.90m
Comino		CS	£2.94	£39.10m	20.7	2.97	2261.54	5.38%	41.69%	£2.00m	£11.50m
DCS Group	Yes	CS	£5.39	£125.60m	25.3	1.14	8983.33	-15.65%	-0.19%	-£22.60m	£0.90m
Delcam		SP	£0.89	£5.22m	Loss	0.38	340.38	5.99%	90.32%	£0.29m	£2.48m
Diagonal	Yes	CS	£2.60	£209.00m	41.0	2.98	3780.07	-5.80%	7.88%	-£12.60m	£15.50m
Dialog Corporation		CS	£0.91	£138.00m	38.2	0.81	827.27	-25.71%	56.90%	-£47.60m	£50.20m
Division Group (Delisted)		SP	£0.40	£27.50m	Loss	4.57	987.50	0.00%	64.58%	£0.00m	£10.80m
DRS Data & Research		SP	£0.18	£6.23m	Loss	0.92	163.64	18.03%	41.18%	£0.95m	£1.82m
Druid Group	Yes	CS	£9.65	£222.90m	33.3	5.49	3509.09	-23.26%	-26.76%	-£67.60m	-£78.80m
ECSoft	Yes	CS	£9.18	£100.00m	14.7	1.61	507.75	-18.44%	-50.41%	-£22.60m	-£101.70m
Electronic Data Proc		SP	£0.71	£18.50m	11.4	1.61	2158.60	3.68%	4.44%	£0.70m	£0.80m
Eidos		SP	£20.80	£359.80m	12.6	2.62	20800.00	-12.20%	121.28%	-£47.70m	£199.10m
FI Group	Yes	CS	£3.20	£650.90m	63.5	4.03	8205.13	-3.03%	-2.59%	-£11.70m	-£8.70m
Financial Objects		SP	£2.49	£88.50m	27.7	4.09	1080.43	-5.87%	1.43%	-£5.60m	£1.20m
Flomerics Group		SP	£2.93	£7.61m	29.0	1.10	2250.00	39.29%	88.71%	£2.15m	£3.58m
Gresham Computing		CS	£1.32	£56.20m	22.9	6.47	1413.98	-12.62%	29.56%	-£2.50m	£20.50m
Guardian IT	Yes	CS	£4.83	£247.00m	53.1	8.32	1892.16	-21.22%	1.58%	-£66.60m	£3.80m
Harvey Nash Group		A	£2.99	£84.20m	13.2	0.80	1705.71	-8.85%	-3.71%	-£8.20m	-£3.20m
Highams Systems Servs		A	£0.68	£12.90m	11.4	0.51	1888.89	10.57%	-20.00%	£1.30m	-£3.10m
ICM Computer		CS	£2.25	£42.80m	18.1	1.19	1250.00	-9.09%	-11.24%	-£4.20m	-£5.50m
ilion Group		R	£0.85	£21.30m	Loss	0.09	531.25	-15.84%	50.44%	-£4.10m	£7.10m
Intelligent Environments		SP	£0.80	£25.40m	Loss	3.83	851.06	-13.51%	79.78%	-£3.90m	£11.60m
Internet Technologies		CS	£1.60	£72.00m	n/a	6.54	8000.00	-9.86%	-4.76%	-£7.90m	£29.30m
I S Solutions		CS	£2.60	£12.50m	18.9	1.43	1940.30	0.83%	26.83%	£0.10m	£2.66m
ITNET	Yes	CS	£3.37	£236.60m	44.2	2.24	961.43	-7.43%	-28.78%	-£18.90m	-£95.60m
JBA Holdings	Yes	SP	£1.39	£51.20m	Loss	0.18	865.63	-3.82%	-25.14%	-£2.10m	-£16.70m
JSB Software		SP	£2.42	£28.60m	n/a	8.51	1210.00	-4.54%	18.05%	£4.50m	£9.10m
Kalamazoo Computer		CS	£0.42	£17.80m	Loss	0.27	1185.71	-22.43%	5.06%	-£5.20m	£0.90m
Kewill Systems	Yes	SP	£12.93	£178.40m	27.6	3.96	5108.70	-11.17%	1.37%	-£22.40m	£7.60m
Logica	Yes	CS	£5.79	£2,146.00m	56.4	4.54	7929.31	-2.85%	10.81%	-£63.00m	£217.00m
London Bridge Software	Yes	SP	£16.40	£492.00m	77.7	21.99	8200.00	-2.53%	27.38%	-£11.10m	£110.90m
Lorien		A	£1.34	£26.20m	6.6	0.19	1335.00	2.69%	-8.87%	£0.70m	-£2.50m
Lynx Holdings	Yes	SP	£1.63	£174.40m	17.6	0.96	4062.50	-6.34%	-18.14%	-£11.80m	-£37.80m
M-R Group		CS	£1.19	£66.40m	17.5	1.42	472.22	-0.83%	17.24%	-£0.60m	£9.80m
Macro 4	Yes	SP	£6.65	£131.00m	20.4	5.41	2681.45	-2.92%	95.59%	-£3.90m	£64.00m
MDIS Group	Yes	CS	£0.29	£66.90m	20.1	0.50	110.58	-8.73%	-37.50%	-£6.40m	-£31.00m
Merant	Yes	SP	£1.57	£225.50m	22.4	1.44	758.28	6.44%	51.69%	£13.70m	£76.90m
Microgen Holdings		CS	£1.59	£82.40m	18.0	1.18	677.35	-9.69%	15.69%	£6.10m	£22.80m
Misys	Yes	SP	£5.22	£2,946.00m	33.5	6.58	6488.07	-10.63%	19.27%	-£344.00m	£486.00m
MMT Computing	Yes	CS	£7.00	£84.70m	13.8	2.31	4166.67	-12.77%	-25.33%	-£11.60m	-£27.80m
Mondas		SP	£0.64	£8.00m	Loss	26.94	846.67	-7.30%	25.74%	-£0.63m	£1.64m
Moorepay Group		CS	£2.80	£32.80m	22.1	3.92	4725.28	3.70%	21.74%	£1.20m	£5.90m
Morse		R	£2.13	£260.50m	28.9	1.21	852.00	-9.36%	-14.80%	-£26.90m	-£45.20m
MSB International	Yes	A	£1.88	£38.20m	5.0	0.20	986.84	-21.05%	-44.85%	-£10.30m	-£31.20m
MSW Technology		SP	£1.26	£10.30m	34.9	3.54	1298.97	-6.67%	18.31%	-£0.80m	£1.57m
NSB Retail Systems		SP	£4.13	£45.40m	36.5	5.43	3586.96	-4.07%	142.65%	-£1.90m	£26.70m
Oxford Molecular		SP	£0.51	£44.40m	Loss	2.06	637.50	-7.27%	5.15%	-£3.50m	£2.30m
Parity	Yes	A	£6.05	£299.20m	22.0	1.03	33583.21	-11.43%	5.59%	-£38.00m	£17.00m
Pegasus Group		SP	£2.60	£18.20m	13.9	1.22	708.45	-5.97%	-14.05%	-£1.20m	-£3.00m
PhoneLink		CS	£0.43	£29.20m	Loss	9.11	274.19	10.39%	54.55%	£2.80m	£10.30m
Policymaster		SP	£2.37	£33.30m	33.9	2.94	1576.67	-2.67%	24.80%	-£1.00m	£6.60m
Proteus International		SP	£0.39	£28.90m	Loss	41.52	464.29	-13.33%	9.86%	-£4.40m	£2.60m
Quality Software Prods		SP	£5.13	£70.20m	16.5	1.70	1348.68	-6.39%	44.37%	-£4.30m	£21.90m
Quantica		A	£0.46	£18.60m	6.7	1.23	366.94	8.33%	-37.67%	£1.50m	-£9.80m
Rage Software		SP	£0.16	£37.80m	22.9	10.44	596.15	-1.59%	87.88%	-£0.60m	£17.70m
Real Time Control		SP	£4.90	£34.30m	14.1	2.16	10000.00	-2.97%	1.55%	-£1.10m	£0.50m
Recognition Systems		SP	£0.15	£11.10m	Loss	14.09	214.29	-10.45%	50.00%	-£1.30m	£7.41m
Riva Group		CS	£0.38	£12.00m	70.7	0.15	266.52	-7.41%	10.29%	-£1.00m	£1.10m
RM Group	Yes	SP	£5.27	£483.90m	55.8	3.69	15042.86	-2.50%	13.59%	-£12.40m	£63.00m
Rolfe & Nolan		SP	£2.15	£28.60m	Loss	1.36	2559.52	2.38%	22.86%	£0.70m	£5.30m
Romtec		CS	£0.64	£3.37m	18.7	0.80	1016.00	0.00%	-16.99%	£0.00m	-£0.68m
Royalblue Group	Yes	SP	£4.25	£121.10m	38.5	4.10	2500.00	-7.61%	26.87%	-£10.00m	£28.00m
Sage Group	Yes	SP	£21.58	£2,627.00m	61.8	13.71	82980.77	3.35%	37.42%	£127.00m	£806.00m
Sanderson Group	Yes	CS	£1.63	£80.40m	12.3	1.09	2765.96	-7.14%	5.86%	-£6.20m	£7.30m
SBS Group		A	£1.63	£14.30m	9.4	0.40	1625.00	-12.16%	-17.72%	-£2.00m	-£3.10m
Science Systems		CS	£2.19	£37.10m	24.6	1.53	1693.80	0.46%	39.62%	£0.10m	£10.50m
Sema Group	Yes	CS	£5.35	£2,471.00m	42.2	1.98	6729.56	-10.98%	-9.48%	-£305.00m	-£253.00m
Sherwood International	Yes	CS	£4.46	£167.70m	43.9	3.94	14858.48	-5.61%	31.56%	-£10.00m	£40.30m
Skillsgroup	Yes	CS	£2.65	£232.10m	23.5	0.62	1188.34	-7.34%	46.01%	-£17.90m	£82.70m
Spring		A	£1.35	£195.20m	15.0	0.70	1500.00	5.88%	-7.22%	£10.80m	-£15.20m
Staffware		SP	£2.70	£34.30m	245.5	1.55	1200.00	-16.92%	0.93%	-£7.00m	£0.30m
Superscape VR		SP	£1.37	£16.90m	Loss	4.00	691.92	-12.46%	-29.20%	-£2.30m	-£6.90m
Synstar		CS	£1.20	£194.20m	29.4	1.18	724.24	-10.49%	-27.58%	-£22.70m	-£75.80m
Systems Integrated		SP	£0.36	£4.86m	Loss	3.89	316.09	63.37%	369.03%	£1.88m	£3.82m
Tetra		SP	£3.00	£75.60m	29.6	2.50	1875.00	-7.69%	65.29%	-£6.30m	£29.90m
Torex Group		CS	£1.75	£57.20m	26.2	2.63	3398.06	-11.84%	97.74%	-£7.50m	£28.50m
Total Systems		CS	£0.56	£5.82m	8.1	1.41	1056.60	-11.11%	-5.08%	-£0.73m	-£0.32m
Touchstone		SP	£1.47	£14.40m	21.2	2.34	1395.24	-7.57%	29.07%	-£1.10m	£3.30m
Trace Computers		CS	£1.23	£18.00m	14.7	1.23	980.00	-7.20%	0.00%	-£1.40m	£0.00m
Triad Group	Yes	CS	£4.30	£108.40m	21.0	3.37	3185.19	-16.91%	-19.25%	-£22.00m	-£25.80m
Ultima		R	£0.04	£5.16m	16.1	0.08	91.46	-16.67%	0.00%	-£1.03m	£0.00m
Vega Group		CS	£5.70	£92.30m	31.1	4.11	4672.13	2.70%	47.10%	£2.40m	£29.90m
Workplace Technologies		CS	£1.65	£47.90m	25.4	0.58	942.86	11.49%	-16.24%	£5.00m	-£9.20m
XKO		CS	£1.44	£33.60m	n/a	1.40	960.00	-5.57%	n/a	-£1.90m	£19.10m
Zergo Holdings (now Baltimore)		SP	£8.68	£252.40m	Loss	25.54	8897.44	9.81%	101.74%	£37.50m	£174.40m

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

Revenue up, losses down at .....

Recognition Systems (developer and vendor of integrated campaign management software and systems) has announced its interim results for the six months ending 31st Mar. 99. Revenue went up nearly three-fold (but don't hold your breath, still less than £1m!) and losses almost halved to £733K. CEO Bryan Black stated *"In revenue terms 1999 will be the most successful year the company has had..."* Alan Benjamin has been appointed Non-exec. Chairman. The shares fell 10% this month to end on 15p.

Comment. We have always had a soft spot for Recognition with their innovative software. We only hope that they will be given the necessary time to develop fully before a predator (probably US) realises their potential.

.... and at Intelligent Environments

Internet solutions provider **Intelligent Environments** has also announced higher revenue and falling losses in their results for the year to 31st Dec. 98. Revenue went up 49% to £6.6m with losses down from £3m to £1m. Indeed losses in H298 fell to just £100K (and Q398 was actually profitable) so there remains the chance that IG might declare its first profit for years in FY99.

Roger Willcocks, CEO, said *"IE is now firmly established in the e-commerce software market... I believe that the year ahead will see IE further strengthening its position".*

IE joined AIM in Jun. 96 at 94p. They have traded almost all the time since at a discount to this price - at one time falling to just 25p. They have risen fairly steadily since to end the month on 80p - down 14% in the month and still a 15% discount to the issue price. They are now planning a placing and open offer of 5-for-16 at 80p to raise c£7.5m net in order to *"accelerate the commercial exploitation of their software"* in the UK, North America and Europe.

...and at merged Proteus International

In the year ended 31st Mar. 99, **Proteus** (molecular modelling software to assist in drug/vaccine development) has increased revenues nearly four-fold (but still only to £696K) with losses down from £4.1m to £3.9m.

At the same time, a merger with US **Therapeutic Antibodies Inc.** was announced which values Therapeutic at £23.9m. The merged group is to raise £7m net in a placement of Proteus shares at 40p.

Comment. The merger should help Proteus with the complementary products and skills of both companies. The concept of taking a stake in drug development in exchange for software development hasn't worked out so far in six years. Still it might in time... and the potential rewards are huge if they can succeed with a medical breakthrough. Launched onto USM originally way back in 1990 at 84p, reaching at one stage a high of over £5, they ended the month down 13% on 39p.

Sorry, Sorry, twice Sorry

In our long history we have had to issue few corrections. This month, we have to correct a correction from last month! There are THREE similarly named companies:

- **ITG Group** (AIM-quoted Irish telecomms)
- **ITG (Europe)** (Part of Investment Technology Group which runs POSIT)
- **Internet Technology Group** (AIM-quoted ISP)

GCI Focus does the PR for the first two and **College Hill** for the third.

End of subject. We will probably never take the risk of reporting on any of them ever again.

Clear focus at Lynx

Lynx's interim results for the six months ended 31st Mar. 99 show steady, rather than spectacular, progress. Revenue increased 19% to £103.8m with PBT up 15% at £6.4m and diluted EPS up 10%. Underlying organic growth was a higher 26%. The Software and Systems division still generates the largest proportion of operating profits (58%) from only 38% of total revenue with Financial Systems the most significant contributor. But their ERP systems had the most spectacular results with turnover and operating profits up over 60%.

Computer Services accounts for the remaining 42% profit on revenues of £65.8m. About 66% of this division's revenue was generated by the **Sphinx** reseller business - awarded 1998 IBM UK "Distributor of the Year".

CEO Richard Last has said that Lynx has the capacity to complete acquisitions up to around £80m and will also consider disposals at the right price. *"We have a clear focus on what we're trying to achieve as a group".* Remember Lynx recently lost out to Sage when they attempted to acquire Tetra. On the financial results he commented *"These results demonstrate that the Group is well placed to achieve its goals for the full year".*

Comment. Good results but H2 could be adversely affected by a slowdown in ERP and hardware sales as the millennium approaches. WestLB Panmure are now forecasting full year profits at £15.8m. The shares ended the month down 6% at 163p.

Acquisition helps Sanderson

Sanderson Group, *"the growing international IT services group"* has announced a good set of figures for the six months ending 31st Mar. 99. Revenue rose 56% to £54.4m, PBT went up 38% at £5.6m with diluted EPS up 18%. The profit increase reflected in the growing proportion of IT services and software, rather than hardware sales.

Chairman Paul Thompson *"is pleased with another record set of results, with all three divisions performing well".* These divisions are IT Systems (revenue up 11% to £20.3m, operating profit up 15% at £3m), IT Services (revenue +32% on a like for like basis) and International (Far East revenue up to A$27.9m with profits of A$3.9m). Of course the 51% stake in Management Software taken in Aug. 98 helped Group growth and in particular the IT Services division increased revenue from £6.4m to £23.4m. MS also contributed £900K PBT. Without this, revenue growth would have been a much lower 20%. Recurring revenues from software licences and service and support contracts increased to £15m.

Comment. We were particularly interested in the comment in their press release about *"Fifteen years of consecutive profitable growth".* We thought we had missed awarding them a much coveted **Boring Award**!. But our records show that even though Sanderson has indeed made profits for 15 years, these profits have enjoyed a bit of a roller coaster ride at times. Sorry you'll have to wait a while yet!

Sanderson shares ended down 7% this month on 163p.

Whose really winning in the Internet race?

Despite all the hype afforded to Yahoo, Excite or even Amazon.com, the real Internet winners at present are the telecomms companies. **BT** announced that 18% (or £180m) of its local calls were now internet-related .

Difficult to name any UK Internet company which has a tenth of that revenue.

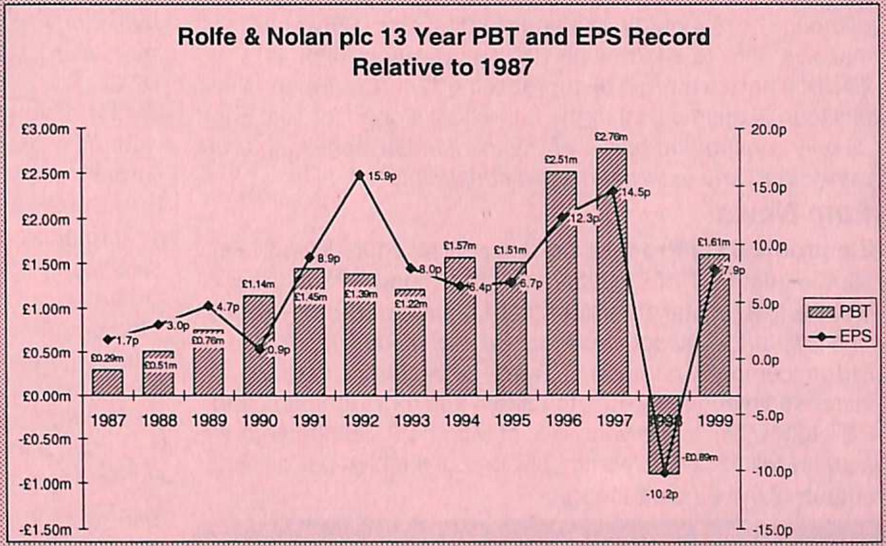
Energis increased its Internet revenue by 194% to £77.4m due to the Planet Online acquisition and its tie up with Dixon's Freeserve.

Sound recovery at leaner Rolfe & Nolan

After last year's disastrous results resulting from the aborted Sungard bid, a more streamlined **Rolfe & Nolan** is now back into profits. In the year ended 28th Feb. 99, although revenue fell 3% to just under £21m, the 1998 loss of £894K has been turned into a PBT of £1.6m. This follows a year where management has been restructured, a new CEO appointed, and they sold their Capital Markets division for £4.6m. Mind you as R&N have agreed to accept "stage payments" over four years starting from Aug. 98 of over £1m each, this has meant a loss in FY99 of £463K after paying redundancy and other costs - so the result could have been even better and should be so over the next three financial years. And they might get even more over the next five years depending of associated Lighthouse product sales. They are now concentrating on the profitable Futures and Options business which *"exceeded market expectations"*. The US did well with a 16% increase in revenue but what we like the most is the increase of recurring revenues from 73% to 77%.

Chairman Tim Hearley has said that the current year has *"started satisfactorily"* and the results *"highlight our strong and substantial market position and extensive blue chip client base"*.

A year back the Sungard bid was at c525p and then went even higher as SunGard share price rose. Current shareholders will probably have to wait some before the share price regains that heady level. They ended the month up just 2% on 215p.



On 24th May it was announced that the DSS was scrapping the benefit payment card in favour of paying benefits via bank accounts. This was a pretty important part of the **ICL Pathway** project. The PFI contract has been revised and in return ICL has a pretty straightforward *"Design, build and operate"* deal to roll-out the **Post Office automation project** to 19,000 POs- worth c£1 billion *"fixed price to 2005"*. We were amongst the first to see the PO system - it works and looks really good.

Regardless of the defiant stance put on by ICL's CEO Keith Todd, it must have been a bitter disappointment. ICL had hopes to earn many billions (let's say £3 billion +) from the transaction-based charging part of the deal. Now they have had to make provisions for the abandoned project (to the tune of £180m) in the FY99 accounts. So at the headline PBT level, ICL plunged into a £128.9m loss for the year to 31st March 99. Revenues grew a meagre 7.4% to £2735m. Even at the operating level, operating profit was pretty much unchanged at £52.9m. However, ICL pointed out that this included £17.2m of losses on *"terminated operations"* and a £11.8m spares write down. I.e. Ongoing operating profit was £81.9m or a 3.0% margin (FY98 = 2.7%).

Readers of the **1999 Holway Report** get a detailed breakdown of ICL's revenues. Out of ICL's £2.7 billion revenue, around £1.55b was earned in the UK - about £600K of this was hardware and another £200m was associated op. s/w and h/w maintenance, giving c£750m UK SCS - up c21% in the year and enabling ICL to "just" retain the UK No 3 slot. Now that was a *good* rather than *excellent* performance. After all the average growth for the UK Top Ten was 26% and everyone of their peers (EDS, IBM, Cap Gemini, CSC etal) grew much faster.

Worldwide, out of ICL's revenue of £2.7 billion, c£1 billion is hardware and another £400m associated op. s/w and h/w maintenance. In other words, ICL makes c£1.3 billion from SCS.

ICL is still determined to undertake that IPO in June/July 2000. The adviser to the float will be announced in Aug. Todd is committed to a 6% margin in FY2001 and therefore needs to show a 4.5% margin in FY 2000 - the reference year for the IPO. He promised that he won't use any *"funny money"* to achieve this. *"A straight profit, because I know you will lambaste me again Holway if I do not"*. But Todd has some scope to release part of the £180m Pathway provision - we will be watching!

The problem with ICL is it's like the curates egg - good in parts. Their **Telecomms** activities grew by 30% (to £90m), travel up 77% (at £126m) and **IT Utilities** billings to other IT companies up 200% at £196m. ICL's **e-business** activities doubled to £80m with major work for NTL, Waitrose, Nokia etc. ICL has great opportunities to roll out what it calls IT Utilities (which embraces everything from datacentre outsourcing to call centres to desktop services to procurement and resourcing) throughout Europe.

But the results to date, in what has been the most buoyant period ever for the SCS sector, have been decidedly disappointing. Below average growth when the market is growing by 25% and demand way outstrips supply is one thing, but what happens when growth slips to 10%? Todd was proud that an extra 3,200 staff (they now have over 22,000) joined ICL in the year...that can be major problem in a down turn as Clay Brendish at Admiral has already discovered.

Todd and ICL still has a steep hill to climb before that IPO is viable. The PFI cancellation did not help - so the hill becomes steeper. Demand down turn adds to the problem. The turn in investor sentiment against IT that we are currently seeing and the discounts awarded to recent IPOs like Synstar, Morse, Computacenter and even ITNET, does not help either.

We ended the ICL review in the **1999 Holway Report** as follows:

"ICL MUST be on line for at least a 6% margin for FY2001 before Todd can float. Todd knows that, we know that, the City knows that. The next 12 months could be exciting for ICL. If Todd then wanted to shout "I told you so..I told Holway and all the other doubters that I could do it" we, for one, would be delighted to have our doubts assuaged".

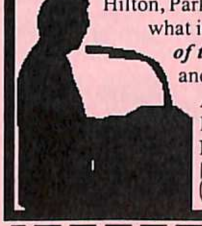
Just the Ticket at Tikit

Tikit was formed in 1993 and provides specialist IT services to the legal sector. Clients now include over 25 from the Top 100 UK legal firms as well as many from the Top 200. Revenue and PBT have increased significantly every year. In their latest accounts just received direct from Tikit *(do they fully realise what happens when we feature a private company?)*, revenue in the year to 31st Dec. 98 went up a massive 55% to £4.7m with PBT increasing a high 47% at £546K. That's a margin of approaching 12%. Chairman Mike McGoun is optimistic that the future looks good for Tikit and *"is only constrained by our ability to maintain high standards rather than any external market constraints"*.

Late News

Electronic Data Processing reported revenue down 6% at £5.47m, flat PBT of £1.225K and unchanged EPS in the six months to 31st Mar. 99. Although EDP has £10.8m to spend, *"the 'silly' price expectations remain a continuing hindrance"*.

Eidos (computer games incl. Tomb raider starring Lara Croft) increased revenue by 65% to £226m and more than doubled PBT to £37.9m in the year to 31st March 99. But the shares actually fell 12% this month - still one of the best performing shares of the decade though.



AGM comments and other news...

Admiral rather opened a can of worms after Chairman Clay Brendish's AGM statement. He saw *"profits for H199 growing less rapidly than last year"* and gave the main reason as *"a dramatic drop off in staff attrition rates"* which basically means they have *"over recruited in the last three months"* leading to *"lower than expected staff utilisation rates"*. This plus *"some reduction in project management of an important customer"* led to a share price dive. The shares ended the month down 15% at 893p. If this can happen to Admiral, what could it be like for other less well run SCS companies. We have been warning of these kind of problems for well over a year so our surprise is not with the cause, just the fact that it's Admiral.

But **CMG** remains *"very positive"* about growth and performance in 1999 and has seen *"little slowdown or budget displacement"*.

Quality Software Products' Chairman Alan Benjamin said *" the progress we made during 1998 continues... we are on target to meet 1999 expectations... the next few years hold strong growth prospects"*.

According to FD Howard Evans **Misys** *"hasn't seen any material Y2000 related setbacks in its order and prospects"*. He went on to say (amongst other things) on the outlook for 1999 *"all we can tell people is that at the moment, nobody really knows what's going to happen"*. True of course...

Chairman Ian Kirkpatrick at IT staff agency **Harvey Nash** has restated his *"confidence in the excellent growth prospects"* after finishing Q199.

Capita (see also p7) is *"well positioned to meet the considerable demand for our services"* and Chairman Rod Aldridge *"remains very positive about the year as a whole"*.

The board at **Skillsgroup** *"remains confident about the outcome for the year"*. Don't forget Skillsgroup went on the acquisition trail earlier this year (cost c£70m for three companies) and they expect an immediate positive effect on earnings for 1999 as well as a significant long term gain.

Microgen plc (name changed from Microgen Holdings this month) under Chairman Martyn Ratcliffe is happy that *"the business performance during the start of the new year is slightly ahead of the Board's expectations.*

Delcam is *"cautiously optimistic"* that further progress can be achieved after making a profit for Q199 of £292K (previous loss of £598K). But they have stressed that the 32% revenue growth could well be exceptional.

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.