

System House

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

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SD-Scicon "Into the claws of Eagles"

* see page 10

In 1962, H Ross Perot formed EDS which has since become the largest CSI company in the world with 1990 revenues of over \$6b. In 1969, a 24 year old computer entrepreneur, Philip Swinstead, formed **Systems Designers** and grew his company to become one of the UK's largest systems houses with 1990 revenues of £257m.

In 1984, Perot's EDS was bought by General Motors. Perot left later to form Perot Systems. In the early 1980's, Philip Swinstead set off on the acquisition trail. SD first bought SPL which should have taught them how difficult acquisitions can be. But in 1988, SD bought loss-making SCICON from BP for £82.5m. "The

merger of the two companies has proceeded most satisfactorily" said Swinstead in a March 89 Press Release. Unfortunately this was not totally correct as £25m was set aside in the 1990 accounts for fixed price project overruns; at least in part because they had been "mismanaged as a result of the merger".

With 1990 losses of £19.8m, SD's major shareholder, BAe, declared that its 25% stake was up for sale. In May 91, **Cray Electronics** bid 37p per share. There then started the most hostile CSI bid campaign ever. Bids for CSI companies are rarely hostile as their main asset is, after all, people. On 11th June, EDS bid 45p cash for SD-Scicon. On 4th July, BAe accepted the offer - "EDS has made an unbelievably good purchase" said SD's new Chairman, John Jackson. How right he was, as on 31st July EDS raised its offer to 60p per share. EDS soon after announced that they had won 36% of SD. EDS also attacked SD's record expressing their belief that "SD's software margin and UK turnover will continue to decline". EDS also said that SD's "vulnerable industry position, continued cash outflow, rising debt burden and disappointing management record create a highly risky investment".

But many of SD's institutional shareholders - Phillips & Drew, Prudential and Nat. Provident - who held 28% of SD's shares - rejected the bid. This left Morgan Grenfell, which held 15% of SD, in the driving seat. On 13th Aug., John Jackson held a meeting with Morgan Grenfell. We know this because the Takeover Panel criticised SD's merchant bank, Samuel Montagu, for allowing the meeting to take place. At the meeting, Morgan Grenfell said they would accept the 60p EDS bid. Jackson then organised a blocking bid for a smidgen over 60p from **World Software**. However, World Software was unwilling to extend this bid

to other SD shareholders.

In a totally selfless act, the like of which has never been witnessed before amongst institutional investors, Morgan Grenfell, said they were acting in the interests of other shareholders (who would be denied the 60p EDS bid if Morgan Grenfell accepted the World Software price) by rejecting this bid. John Jackson had until that time been reassuring SD staff that the EDS threat was over but, on Friday 16th Aug., EDS were able to announce that they spoke for over 56% of SD's shares and the bid was declared unconditional.

On 19th Aug., as beards were ceremoniously shaved off and the last ever lunch time pints were drunk in Fleet, the SD board gathered for the last time. Philip Swinstead resigned as did Ian Scroggins, Geoff Holmes (who had relinquished their executive positions some months before). John Jackson retained his non-exec Chairman role over the transition as did FD David Smith. John Bateman (EDS Europe) was appointed MD of SD.

So what does it all mean?

- Philip Swinstead walks away with c£7.3m in cash plus compensation on a newly signed 3 year contract at £180K per year (plus bonus).

- John Jackson has done quite well on his option to purchase 300,000 SD shares at 34p granted in March 91. He will probably also get compensation on his three year contract as non-executive chairman at £50,000 pa.

- EDS, at long last, gets a major UK CSI company. They tried with CAP, we understand that

they tried with THORN EMI Software and several others but were rejected each time.

- The UK loses yet another of its major CSI companies. Five years ago the UK controlled over 90% of the revenues of the Top Ten UK CSI companies - now the UK controls less than 30%. See analysis on page 4.

- The UK is now yet further away from the centre of the IT universe. Our ability to retain or become a major force in the international computing services industry is now probably over for ever.

SD Scicon's management probably deserved their eventual fate. They seemed to have a terminal case of arrogance coupled with an ability to surprise the City time after time. But the UK computing services industry is the real loser.

Another sad day.

EDS

SD SCICON

Consistent results from Admiral

Our admiration for **Admiral** is both long-standing and well known. Each year, the number of companies never to have experienced an EPS reversal dwindles - this year we will lose at least Hoskyns, Logitek and Misys from the band. But it looks as if Admiral will retain its coveted place. Results for the six months to 30th June 91 show PBT up 10% at £1.67m on revenues up 19% at £11.7m. EPS increased 13%. Admiral was also cash positive; ending the year with £3.9m cash (£3.5m in 1990). We rather liked Chairman, Clay Brendish's remark in the FT *"We have two very difficult sectors that we are not finding as difficult as they should be"*. He was referring to defence activities, which reduced from 47% to 38%, and financial industry billings which increased from 23% to 28%.

Staff numbers increased by 20% to 508; but some of this was due to two small acquisitions - Intra Systems and Mentor Interactive Training - undertaken in 1990. Indeed, the resultant Admiral Training *"settled down well...and was profitable in the first half"*. But Admiral must be one of the few companies where *"recruitment is continuing at a modest level"*.

Brendish, says *"the signs of an economic upturn remain elusive. We are treating the current climate with the seriousness it deserves. It is hard to manage the unknown, yet that is what we are having to do"*. Full year profits of £3.8m are forecast (£3.28m in 1990). Admiral's shares have deservedly increased by 50% in 1991 and, in our opinion, still look cheap compared with the prices paid for other, rather less successful, companies recently. The problem is that, with Brendish and James owning 65% of the shares, it is difficult to produce a bid premium.

Continued success at Computacenter

In Jan 90, Investcorp purchased 30% of private UK PC dealer, **Computacenter**, for £22m. Coming at the very end of the micro boom time, Investcorp might have been excused for getting their timing wrong. However, latest results from Computacenter, for the year to 31st Dec. 90, show revenues up 31% at £201m and PBT up 16% at £7m. The six year trading record has been exemplary and shows that it is still possible to grow fast and profitably in this highly competitive marketplace.

	Revenue £m	PBT £K	Profit Margin
1984	£ 4.32	£ 172	3.98%
1985	£ 11.38	£ 252	2.21%
1986	£ 27.82	£ 540	1.94%
1987	£ 55.08	£ 1,968	3.57%
1988	£ 101.38	£ 3,805	3.75%
1989	£ 153.06	£ 6,021	3.93%
1990	£ 200.99	£ 7,001	3.48%

Computacenter is now IBM's largest systems integrator for personal workstations, an IBM AS/400 agent and an IBM RS6000 VAR. Non-UK revenues quadrupled to £4m in 1990 via their European associate ICG. Founders, Peter Ogden and Philip Hulme, still retain around 35% of the equity.

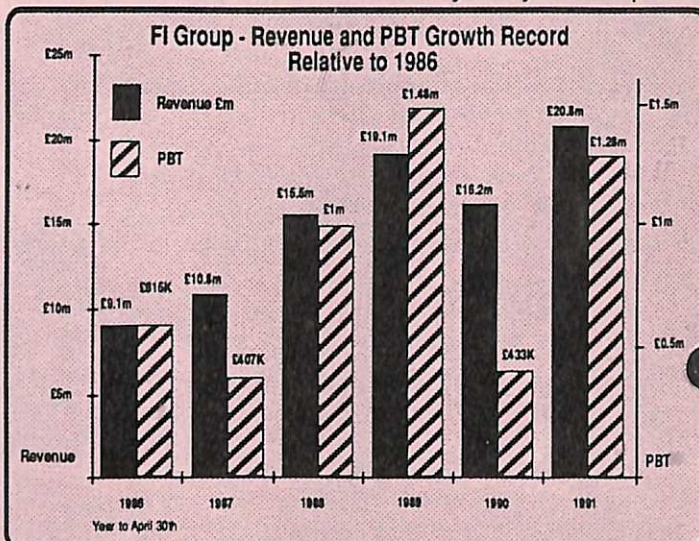
Redefining systems integration

IBM seems close to being awarded a controversial £1.5 billion Royal Navy Merlin helicopter contract in competition with BAe-GEC.

Year of change for F.I. Group

Richard Holway is not usually the envious type, but he would like to admit that in a future reincarnation he would like to be FI's Chairman, Sir Peter Thompson. He could then announce the following:

• Whilst most other computing services companies report a downturn, FI Group has increased revenues by 29% to £20.8m and PBT by 197% to £1.28m in the year to 30th Apr. 91. EPS increased by 121%. Richard Holway said that the revenue was in excess of the £19m that CEO Hilary Cropper had forecast but the profits were not quite the £1.5m she had led certain industry analysts to expect.



• FI Group undertook its first two acquisitions in the past year. In Oct. 90, **AMP Recruitment** was purchased and in June 91, **Kernel** was acquired. FI were reluctant to publish consideration details at the time, but FI's R&As show that they paid £1.35m for Kernel; made up of Loan Notes (£946K) and £401K cash, and £267K for AMP.

• Regardless of this, FI Group managed to increase cash from £1.37m to £3.2m.

• *"Our Support and Maintenance product, now branded MAINSTAY...has resulted in FI Group leading the field with a 9% market share"*. Source - INPUT market research. FI signed a £1.5m deal with Thames Water in the year for this service. We tend to agree with pundits who say that supporting yesterday's systems is much more lucrative than new projects. Dr. Doug Eyeions, DG of the CSA, said *"I'd rather sell shovels than go digging for gold"*.

• We've always believed in wide share ownership, and therefore it gives particular pleasure to announce that Steve Shirley, FI's founder, has agreed to sell a substantial proportion of her shares to the work-force in the autumn. The FI Shareholders' Trust already holds 23.2% of the equity. Baronsmead (14.7%) is the largest "external" shareholder, but Shirley currently controls over 50% of the equity.

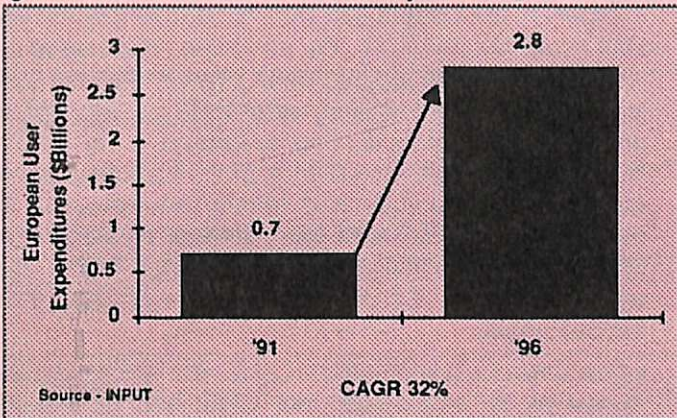
• FI has also *"deferred for the foreseeable future"* its previously announced objective of a public flotation. Industry pundits believe that FI will increasingly become a takeover target; unfortunately with overseas companies leading the field.

• On a more personal note, the FI board has rewarded the Chairman with fees of £25K pa and an option on 40,000 shares at 300p - which would value FI at only c£7m.

Wake up Richard, surely it is all a dream?

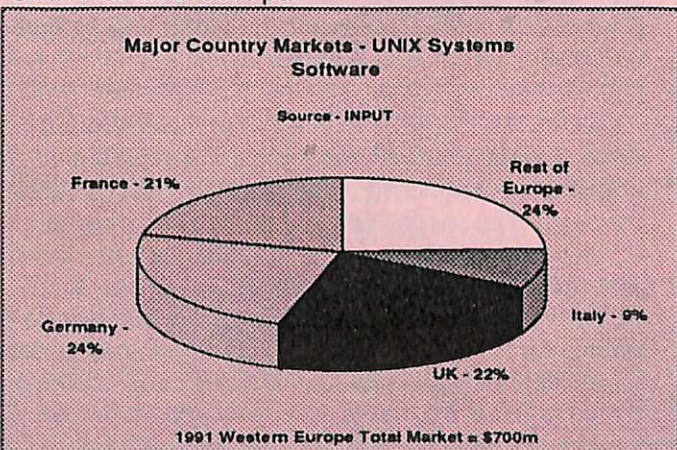
"By 1996, UNIX will be so well established that it will have almost disappeared as a topic for wide debate"

So concludes INPUT's latest report entitled **"The Impact of UNIX on Western European Software and Services 1991-1996"**. (INPUT Tel. no. 071 493 9335). Already UNIX is the most powerful catalyst for change; stimulating "the creation of over 15,000 software products and 600 hardware platforms worldwide". Between 1991 and 1996 the market for UNIX-based systems software is expected to have grown four-fold; about twice as fast as the 15% growth rate forecast for the overall system software market.



UNIX-based application software products are expected to grow even faster at around 40% pa. Although UNIX based software growth in the minicomputer sector is forecast at 25% pa, a 50% growth is predicted for software for UNIX-based workstations and client/server network architectures.

Germany is the largest UNIX market in Europe "having the benefit of a strong government mandate for open systems". Highest forecast growth is expected from the Spanish UNIX market at 35% pa.



We agree wholeheartedly with INPUT's point that "The software platform vendors are winning the customer loyalty that users used to have towards hardware vendors in the 1970s. Having apparently escaped from the idea of being locked-in to a hardware supplier, users are now realising that they are choosing to be locked-in to a software supplier instead". We have heard many users make this comment against Oracle and others.

"The large majority of UNIX software business has been handled through third parties of VARs or dealers". It is clear that the hardware vendors, facing both reduced margins and disappearing customer loyalty, will wish to recapture this with increased direct sales of UNIX-based software and services. That is the major challenge facing today's established CSI companies.

Wharton provides further proof of UNIX

The latest "August Dealer Topics", from market researchers **Wharton Information Systems** (Tel.: 081 891 6197), gives further proof of the growth in the UNIX market. In June 91 "for the first time the revenue generated in the UNIX environment was higher than that in the single user sector... And it was not "just" - they did so by a thumping 50%. DOS generated £106.3m and UNIX, when the full system is configured and priced, generated £152.7m... The two spectacular performers were Sun and ICL".

Wharton says that the long forecast polarisation of the PC dealer market is taking place. "More than half the panel have reduced their product ranges and their promotional budgets. They are heading fast for the niche markets. The other half are taking the opposite approach and are expanding their number of products and increasing their promotional budgets. They are destined for the 'pile 'em high and sell 'em cheap box shifting' marketplace".

EDS profits up 12%

EDS, the world's largest CSI company, announced a 12% increase in Q2 profits to \$140m on revenues up 15% at \$1.68b. EPS was also up 12%.

In the quarter, EDS signed a 10 year FM agreement with Continental Airlines valued at \$2.1b and a "technology partnership" with Hospitality Franchise Systems (the operators of the Ramada and Howard Johnson franchise). EDS also completed its purchase of Infocel Inc - a specialist in systems for city and council institutions.

Profits halved at ASK

ASK, which acquired Ingres in 1990, reported profits down 46% at \$2.7m on revenues up 66% at \$344m for the year to 30th June 91. ASK has warned of losses in Q1 of the current year. Ingres reported a commendable 30% revenue growth in the UK.

Mixed fortunes for hardware vendors

Fast growing Risc processor supplier, MIPS, reported Q2 losses of \$600k, on revenues up 13% at \$44.5m, compared to profits of \$4m last time. But workstation rival Sun, reported revenues up 30% at \$3.2b and increased profits of \$190.3m for the year to 30th June 91. Against the current trend, Sun are generating 70 new jobs in their recently opened manufacturing unit in Scotland. Groupe Bull also reported losses of FF1.9b for the first half of 1991 on slightly reduced revenues of FF15.2b. Hewlett-Packard Q3 revenues increased by 9% to \$3.5b and profits were up 8% at \$192m.

GA sales up 24%

UK quoted CSI company, Sanderson Electronics, own 49% of General Automation. GA's Q4 results (to 30th June 91) show profits of \$268K compared to a loss of \$661K last time on revenues up 24% at \$12.3m. Full year results also show a return to a \$82K profit (\$815K loss last year) on revenues of \$48.5m.

Northamber plunges into loss

Computer and peripheral distributor, Northamber, recorded a loss of £1.6m (profit £3.8m last time) in the year to 30th Apr. 91 on revenues down 18% at £91m. Stock writedowns and bad debts were the main causes as "the core trading activity produced an operating profit of £925K". Northamber has £900K cash and is debt free.

Five years of Rape and Pillage in the UK Computing Services Industry

Just five years ago the UK controlled over 90% of the revenues of the Top Ten UK CSI companies - now the UK controls less than 30% of revenues

If you bought the much lamented Greene & Co. report on the leading UK systems software houses and consultancies just five years ago you would have been presented with the following Top Ten international revenue earners.

	Top Ten UK CSI Companies in 1985	1985 Nationality of Owner	1985 Rev £m
1	Scicon	UK	£ 150
2	Thorn EMI Software	UK	£ 70
3	Logica	UK	£ 62
4	Hoskyns	US	£ 56
5	Systems Designers	UK	£ 55
6	Istel	UK	£ 49
7	BIS	UK	£ 41
8	CMG	UK	£ 41
9	CAP	UK	£ 37
10	Centre File	UK	£ 36

Over 90% of the revenues of the Top Ten CSI companies was controlled from the UK. Just one company - Hoskyns - was non-UK owned. Even Hoskyns was in the process of persuading its parent - Martin Marietta - to allow it to float onto the London Stock Exchange in Dec. 86. The remaining 70% Martin Marietta holding in Hoskyns was acquired by UK Plessey in 1988. In other words, the UK to all intents and purposes owned or controlled all its major CSI companies.

Just five years on, the picture is completely different. Only four of the Top Ten CSI companies are controlled from the UK and they represent only 29% of revenues.

	Top Ten UK CSI Companies in 1990	Current Nationality of Owner	1990 Rev £m
1	Sema (was CAP)	Fr	£ 375
2	SD Scicon	US	£ 257
3	Hoskyns	Fr	£ 223
4	Logica	UK	£ 188
5	Data Sciences	UK	£ 134
6	AT&T Istel	US	£ 131
7	Andersen Consulting	US	£ 130
8	BIS	US	£ 115
9	CMG	UK	£ 96
10	Dowty IT	UK	£ 91

BIS was the first "Top Ten" to fall when they were acquired by US Nynex. CAP "merged" with Sema Metra in 1988. At that stage they were roughly the same size. Now, well over 70% of the Sema shares are held by non-UK investors.

Hoskyns, after becoming a "UK owned" CSI company for a brief period, was acquired by French (or, by 1995, German) investors. Istel was owned by Rover in 1985. Istel then

undertook an MBO and were subsequently purchased by AT&T for £180m in 1989; making many of the executives

millionaires. Now SD-Scicon has fallen to US buyers as well. EDS had UK revenues of just £41m in 1985 but, with SD-Scicon, could well overtake Hoskyns as the largest supplier of computing services to the UK market in 1991/92. We have also seen US owned Andersen Consulting grow its IT revenues from £16m in 1985 to £130m in 1990.

So what have we got left? Our two largest UK controlled companies are Logica and Data Sciences (last month's MBO from THORN-EMI). We had hoped that Logica and Hoskyns may have merged when Plessey put their stake up for sale - but our dreams were not to be; although we understand they were not that far fetched. Although Data Sciences state that they plan a Stock Exchange listing, they must also be vulnerable to overseas takeover. We understand that EDS was the 11th hour mystery bidder which crystallised the MBO - albeit at a higher than anticipated price. If the price was right it could easily happen again.

Lower down the listings we find CMG - with its shares widely owned by its employees. But CMG has seen profits decrease from £8.6m to £7m for the year ending 31st Dec. 90. They too must have some vulnerability to the lure of a highly priced overseas bid.

Even the UK's most successful product company - **Micro Focus** - is now 30%+ owned in the US and its management is largely US domiciled.

If you turn to the hardware scene the effects of the last five years have been even worse. ICL was really starting to do rather well - its foresight in the development of UNIX systems and its moves into services were about to reap rich rewards - until ICL was acquired from STC by Fujitsu in July 90. The UK was also represented in the PC arena with Apricot, until they were sold to Mitsubishi for £39m in Apr. 90, and Acorn, until they were acquired by Olivetti.

Does it really matter? Yes it does. Ownership is not the vital issue - but proximity to the decision-making centre *is* important. The reason why US companies dominate the PC software market is not that they are any better at ideas generation or developing software than UK operations - in our opinion it is because they happen to be close to the nerve centre of the industry. In the last few years, hundreds of software developers have located their operations close to the US HQ of Microsoft. The really important decisions

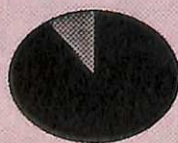
effecting SD-Scicon will no longer be made in Fleet. The real centre of Hoskyns' universe is no longer Shaftesbury Avenue.

Our place at the top table seems to have been vacated.

We believe the situation will only get worse and that the UK will never regain its rightful place.

1985
Top Ten CSI Company
Revenues = £596m

US - 0.4% - £56m

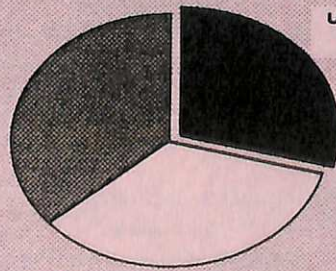


UK - 90.6% - £540m

US - 26.4%
- £633m

1990
Top Ten CSI Company
Revenues = £1,740m

UK - 29.2%
- £508m



France - 34.4% - £599m

Richard Holway Results Service

Admiral plc	Results Revenue PBT EPS	Interim- Jun 90 £ 9,785,000 £ 1,511,000 9.1p	Final - Dec 90 £21,207,000 £3,276,000 19.4p	Interim- Jun 91 £ 11,686,000 £ 1,667,000 10.3p	Interim Comparison +19.4% +10.3% +13.2%
ACT plc	Results Revenue PBT EPS	Final - Mar 90 £140,712,000 £8,026,000 7.07p		Final- Mar 91 £ 98,831,000 £ 12,706,000 9.5p	Final Comparison -29.8% +58.3% +34.4%
Butler Cox plc	Results Revenue PBT EPS	Final - Dec 89 £9,370,583 £1,324,095 16.43p		Final- Dec 90 £ 10,725,924 £ 760,425 6.31p	Final Comparison +14.5% -42.6% -61.6%
Capita plc	Results Revenue PBT EPS	Interim- Jun 90 £ 9,167,000 £ 956,000 5.9p	Final - Dec 90 £20,072,000 £2,512,000 13.7p	Interim- Jun 91 £ 11,104,000 £ 1,382,000 7.1p	Interim Comparison +21.1% +44.6% +20.3%
Computer People plc	Results Revenue PBT EPS	Final - Dec 89 £69,919,000 £4,219,000 21.8p		Final- Dec 90 £ 76,170,000 £ 3,106,000 16.42p	Final Comparison +9.7% +26.4% -24.7%
Cray Electronics Holding plc	Results Revenue PBT EPS	Final - Apr 90 £ 117,133,000 (£ 2,795,000) (2.84p)		Final- Apr 91 £ 107,286,000 £ 3,509,000 2.5p	Final Comparison -8.4% Loss to profit Loss to profit
EIT Group plc (was Maxiprint)	Results Revenue PBT EPS	Final - May 90 £ 368,000 (£ 882,000) (5.56p)		Final - Mar 91 £ 485,000 (£ 246,000) (0.083p)	Final Comparison Not comparable Loss both Loss both
Electronic Data Processing plc	Results Revenue PBT EPS	Interim- Mar 90 £ 8,331,000 £ 822,000 7.14p	Final - Sept 90 £16,645,000 £2,100,000 17.38p	Interim- Mar 91 £ 8,654,000 £ 1,865,000 14.69p	Interim Comparison +3.9% +126.9% +105.7%
Enterprise Computer plc (was Systems Reliability plc)	Results Revenue PBT EPS	Final - Dec 89 £134,586,000 £7,863,000 12.76p		Final- Dec 90 £ 183,149,000 £ 7,532,000 7.4p	Final Comparison +36.1% -4.2% -42.0%
Gresham Telecomputing plc	Results Revenue PBT EPS	Final - Sept 89 £ 2,519,080 (£ 777,000) (16.47p)		Final - Sept 90 £ 2,101,000 (£ 103,000) (1.99p)	Final Comparison -16.6% Loss both Loss both
Hoskyns Group plc	Results Revenue PBT EPS	Interim- Apr 90 £ 111,700,000 £ 8,200,000 6.3p	Final - Oct 90 £223,263,000 £17,253,000 13.0p	Interim- Apr 91 £ 102,800,000 £ 8,600,000 6.4p	Interim Comparison -8.0% +4.9% +1.6%
INSTEM plc	Results Revenue PBT EPS	Final - Dec 89 £8,003,000 £885,000 12.9p		Final - Dec 90 £11,154,000 £1,005,000 14.0p	Final Comparison +39.4% +13.6% +8.5%
Kalamazoo plc	Results Revenue PBT EPS	Interim - Jan 90 £ 31,522,000 (£ 1,289,000) n/a	Final - Jul 90 £ 62,221,000 £ 1,074,000 2.2p	Interim - Jan 91 £ 28,348,000 £ 1,025,000 1.8p	Interim Comparison -10.1% Loss to profit Loss to profit
Kewill plc	Results Revenue PBT EPS	Final - Mar 90 £17,107,000 £2,668,000 27.11p		Final- Mar 91 £ 31,298,000 £ 3,731,000 29.43p	Final Comparison +83.0% +39.8% +17.7%
LBMS plc	Results Revenue PBT EPS	Final - Apr 90 £18,470,000 £450,000 2.3p		Final- Apr 91 £ 19,485,000 (£ 1,701,000) (10.5p)	Final Comparison +5.5% Profit to loss Profit to loss
Logica plc	Results Revenue PBT EPS	Interim - Dec 89 £91,341,000 £6,022,000 6.2p	Final - June 90 £187,489,000 £9,011,000 9.0p	Interim - Dec 90 £95,490,000 £4,721,000 4.5p	Interim Comparison +4.5% -21.6% -27.4%
Logitek plc	Results Revenue PBT EPS	Interim - Sept 89 £18,723,000 £1,310,000 6.69p	Final - Mar 90 £29,580,000 £3,833,000 16.27p	Interim - Sept 90 £33,103,000 £145,000 0.52p	Interim Comparison +76.8% -88.9% -92.0%
Macro 4 plc	Results Revenue PBT EPS	Interim - Dec 89 £6,947,000 £3,279,000 9.2p	Final - June 90 £14,775,000 £7,353,000 20.6p	Interim - Dec 90 £8,100,000 £3,367,000 9.5p	Interim Comparison +16.6% +2.7% +3.3%
Micro Focus plc	Results Revenue PBT EPS	Final - Jan 90 £35,639,000 £8,223,000 37.4p		Final- Jan 91 £ 46,382,000 £ 13,549,000 63.5p	Final Comparison +30.1% +64.8% +69.8%
Microgen plc	Results Revenue PBT EPS	Interim- Apr 90 £ 25,050,000 £ 4,526,000 7.1p	Final - Oct 90 £47,115,000 £8,504,000 13.5p	Interim- Apr 91 £ 24,604,000 £ 4,328,000 7.2p	Interim Comparison -1.8% -4.4% +1.4%
Microvitec plc	Results Revenue PBT EPS	Final- Dec 89 £ 32,145,000 £ 1,276,000 3.1p		Final- Dec 90 £ 23,444,000 (£ 2,415,000) (6.2p)	Final Comparison -27.1% Profit to loss Profit to loss

Richard Holway Results Service

Misys plc	Results Revenue PBT EPS	Final - May 90 £ 75,038,000 £11,070,000 23.5p		Final- May 91 £ 67,253,000 £ 5,626,000 11.5p	Final Comparison -10.4% -49.2% -51.1%
MMT plc	Results Revenue PBT EPS	Interim- Feb 90 £ 3,735,000 £ 1,012,000 5.7p	Final - Aug 90 £ 7,524,390 £ 1,865,165 10.4p	Interim- Feb 91 £ 3,100,000 £ 626,000 3.4p	Interim Comparison -17.0% -38.0% -40.4%
NMW Computers plc	Results Revenue PBT EPS	Final - Dec 89 £ 9,119,000 £ 87,000 0.2p		Final- Dec 90 £ 8,726,000 £ 413,000 1.3p	Final Comparison -4.3% +374.7% +550.0%
P & P plc	Results Revenue PBT EPS	Interim- May 90 £ 109,400,000 £ 6,800,000 10.9p	Final- Nov 90 £ 223,787,000 £ 13,117,000 18.5p	Interim- May 91 £ 120,700,000 £ 3,300,000 3.9p	Interim Comparison +10.3% -51.5% -64.2%
P-E International plc	Results Revenue PBT EPS	Final - Dec 89 £58,017,000 £5,622,000 21.1p		Final- Dec 90 £ 65,013,000 £ 4,214,000 15.0p	Final Comparison +12.1% -25.0% -28.9%
Pegasus plc	Results Revenue PBT EPS	Interim- Jan 90 £ 7,830,000 £ 1,342,000 16.1p	Final - July 90 £13,039,000 £2,554,000 30.4p	Interim- Jan 91 £ 4,138,000 £ 774,000 8.9p	Interim Comparison -47.2% -42.3% -44.7%
Proteus plc	Results Revenue PBT EPS	Final Mar 90 £ 9,000 (£ 637,000) (3.95p)		Final- Mar 91 £ 7,000 (£ 1,502,000) (7.01p)	Final Comparison -22.2% Loss both Loss both
Quotient plc	Results Revenue PBT EPS	Final - Dec 89 £19,095,000 (£1,577,000) (8.8p)		Final - Dec 90 £22,440,000 £1,022,000 4.0p	Final Comparison +17.5% Loss to profit Loss to profit
Radius plc	Results Revenue PBT EPS	Interim- May90 £ 14,521,000 £ 1,394,000 3.2p	Final - Nov 90 £29,902,000 £2,820,000 6.48p	Interim- May 91 £ 14,708,000 £ 801,000 1.71p	Interim Comparison +1.3% -42.5% -46.6%
Rolfe & Nolan plc	Results Revenue PBT EPS	Final - Feb 90 £5,460,000 £1,142,000 13.8p		Final- Feb 91 £ 6,298,000 £ 1,446,000 17.7p	Final Comparison +15.3% +26.6% +28.3%
Sage Group plc	Results Revenue PBT EPS	Interim - Mar 90 £6,703,000 £2,341,000 9.65p	Final - Sept 90 £13,359,000 £4,731,000 19.2p	Interim - Mar 91 £7,821,000 £3,024,000 11.98p	Interim Comparison +16.7% +29.2% +24.2%
Sanderson Electronic plc	Results Revenue PBT EPS	Interim- Mar 90 £ 6,450,000 £ 1,780,000 14.0p	Final - Sept 90 £14,259,000 £3,302,000 24.8p	Interim- Mar 91 £ 10,610,000 £ 1,501,000 11.0p	Interim Comparison +64.5% -15.7% -21.4%
SD-Scicon plc	Results Revenue PBT EPS	Interim - Jun 90 £138,118,000 (£9,846,000) (6.19p)	Final - Dec 90 £ 256,547,000 (£ 19,781,000) (12.42p)	Interim - Jun 91 £129,173,000 £5,891,000 1.69p	Interim Comparison -6.5% Loss to profit Loss to profit
Sema Group plc	Results Revenue PBT EPS	Final - Dec 89 £293,021,000 £17,457,000 11.6p		Final - Dec 90 £375,410,000 £15,331,000 10.5p	Final Comparison +28.1% -12.2% -9.5%
Sherwood Group plc	Results Revenue PBT EPS	Final - Dec 89 £25,397,000 £2,024,000 25.0p		Final- Dec 90 £ 24,785,000 £ 1,992,000 17.0p	Final Comparison -2.4% -1.6% -32.0%
Star plc	Results Revenue PBT EPS	Interim - Dec 89 £6,392,000 (£649,000) (9.5p)	Final - June 90 £13,567,000 (£1,995,000) (27.2p)	Interim - Dec 90 £8,037,000 (£253,000) (3.7p)	Interim Comparison +25.7% Loss both Loss both
Synapse plc	Results Revenue PBT EPS	Interim - Jan 90 £4,675,000 (£ 249,000) (7.1p)	Final - Jul 90 £10,226,373 (£331,919) (8.9p)	Interims - Jan 91 £ 5,211,000 (£ 974,000) (27.6p)	Interim Comparison +11.5% Loss both Loss both
Total Systems plc	Results Revenue PBT EPS	Final- Mar 90 £ 1,777,084 (£ 6,722) (0.08p)		Final- Mar 91 £ 2,041,384 £ 102,768 0.74p	Final Comparison +14.9% Loss to profit Loss to profit
Trace plc	Results Revenue PBT EPS	Interim - Nov 89 £5,796,000 £934,000 4.78p	Final - May 90 £13,933,504 £1,807,644 10.49p	Interim - Nov 90 £9,946,000 £31,000 0.06p	Interim Comparison +71.5% -96.7% -98.7%
Vistec Group plc	Results Revenue PBT EPS	Final - Apr 90 £36,048,000 £1,588,000 0.92p		Final- Apr 91 £ 31,005,000 £ 1,763,000 0.95p	Final Comparison -14.0% +11.0% +3.3%

Acquisitions, disposals and liquidations

IBM's largest mid-range agent in receivership

On 8th Aug. 91, **Bluebird Software** finally gave up the fight, with debts of around £10m, and appointed **Touche Ross** as administrators. In the year to 31st Mar 90, Bluebird reported revenues of £13.9m and commendable profits of £1.06m. They had an overdraft of £1m even at that time; but net assets of £1.7m.

IBM had a 5% stake (plus an option on a further 5%) in Bluebird - its largest mid-range agent. The other external backer was **3i**. But neither was willing to inject further funds to keep Bluebird in business. Bluebird's local authority software had come in for much criticism and certainly contributed to its demise. Even so, Ian Ward of the Association of District Councils was reported as saying "This could not have come at a worse time" as it could leave at least 15 councils without technical support for poll tax collection and housing benefit systems. IBM, which has stripped Bluebird of its AS/400 agency, has taken on five ex-Bluebird staff to help support local authority clients. It looks as if **Pansophic** will pick up customer support for its PRMS manufacturing software product sold via Bluebird, Swiss **SSI** - with the help of ex-Bluebird managers - has setup a direct operation for the sale and support of its ISMS software and the main Bluebird business has been sold to "the management" under the new guise of **Millenium Software**.

IBM's 200 mid-range agents seem to have had an even worse time than the rest of the industry in the last 12 months. First one of IBM's "top three" largest agents, **Nova**, collapsed in Oct. 90, then the Midland Bank closed its **Packaged Computer Solutions** IBM mid-range operation in Nov. 90, **Branford** went in Apr. 91 and it is rumoured that Hampshire based IBM mid-range agent **GBS** has called in the receivers this month. Other IBM agents like **Charterhouse**, **Target**, the IBM division of **Hoskyns** and **Beacon** have all reported severe difficulties in the last year and have laid off staff. **Cyberal**'s Chairman Derek Hill told shareholders that major changes in IBM's agent programme had pushed his company into a serious loss of £728K in 1990.

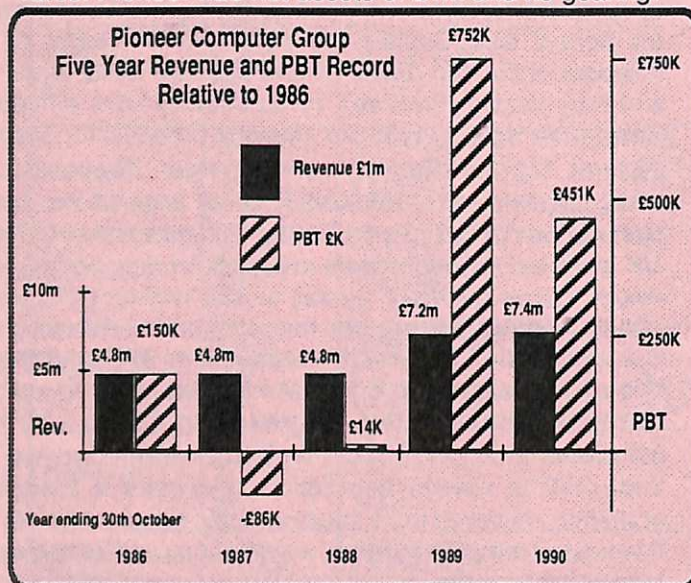
The relationship between hardware vendor and VAR has been difficult ever since the concept was introduced in the 1970s. The hardware vendor seemed to treat the VAR with a mixture of contempt and insulting condescension (as in "We'll show you how to run your business"). On the other hand the VARs were usually too small, undercapitalised and too dependent on just the one hardware vendor. IBM was not the first to wreak havoc on their mid-range agent channel last year by slashing commissions and removing some large accounts from commissions altogether; all at a time when unit sale values were also sliding and the industry was in recession. Those IBM agents that do survive will not easily forget the way they have been treated. Most are moving their systems onto UNIX to enable them to become vendor independent in the future. But by then the hardware vendors will be large systems and services providers in their own right.

Perhaps this really is the end of the hardware dependent VAR.

The others... Australian **SQLsoft** has bought the intellectual rights to **SQLVision** from **Henley Business Software** which collapsed in July. **Fame** is still negotiating to acquire Henley's consultancy activities. **Fame** is owned by a number of insurance companies which fits with the insurance systems developed by Henley. Henley held the exclusive UK rights to **Gupta's SQL** products and was rumoured to be owed £160,000. Source - **MicroScope** 7th Aug. 91. "**Bang goes my bonus**" said **Gupta's** Nic Birtles. **Colin Calder** (IT manager of the AA), **Peter Winder** (UK GM for **Sequent**) and **Karl Klessig** (President of **Quadraton**) have formed **Enterprise Solutions** to sell software products for open systems. **Ingram Micro UK** - part of larger US operation - has acquired **Mirai Networks**. Other acquisitions are planned said UK MD **Martin Blaney** "Things are slow in the UK and most distributors are available for their net asset value". Source - **MicroScope** 14th Aug. 91. IBM mid-range agent - **Quality Software Products** - has received a cash injection of £3m from **3i**. US network manufacturer, **Wollongong Group**, has taken a majority stake in systems integrator, **European Networking Engineering (ENE)**. **JWP** completed its acquisition of 51% of **Businessland** on Aug. 2nd. **JWP** is now in negotiation to acquire a French operation - believed to be troubled Apple dealer, **Asystel**. Canadian **ComputerGroup**, which acquired **Computer Marketing** from the receiver in July, was reported to have assumed responsibility for debts of almost £9m. IBM must be the happiest creditor; CM owed them over £1m. In the US **Data General** has bought the maintenance activities of medical systems supplier, **HBO**. **Rentaminster** has bought the loss-making training operation, **Protocol International**, for "a nominal sum". **Reuters** has sold its text retrieval system **Textline** to the **Financial Times Group**. US Case company **Knowledgeware** is acquiring expert system tool supplier **Intellicorp** and is issuing 1.3m shares to help fund the purchase. US **Storage Technology** has acquired IBM mid-range reseller **XL/Datacomp** for \$156m. **SAS** is selling its 25% share in airline reservation system, **Amadeus**. **Erskine House** is selling **Erskine Office Systems (EOS)** in an MBO for £4.7m cash. EOS sells and services laser printers and made PBT of £350K on revenues of £14.6m in the year to 31st Mar 91. **Microware**, an IBM and Tandon dealer with £2.8m annual revenues, has appointed **Robson Rhodes** as receivers. **Microware** lost £260K worth of IBM kit in a robbery which caused terminal cash flow problems during the wait for insurance money. **Unisys** is to sell its defence business "for up to \$700m". **P-E International** declared their agreed £9.8m offer for consultancy group **Handley Walker** unconditional on 20th Aug. 91 having received acceptances on behalf of 83% of the stock. US **Computer Associates** has bid \$120m for IBM systems house **On-Line Software**. **On-Line** made PBT of \$4.6m on sales of \$101m last year - 15% of this from the UK. US **Symantec** has acquired **Dynamic Micro Associates** for \$20m. **Data Sciences** has abandoned its proposed purchase of **West Wilts Software**. **Bill Ellis** said "The market has worsed since we made our original bid". **Computer Science Corporation**, which acquired **Butler Cox** in June 91, announced that it had £300m to spend on acquisitions in the next five years. We are sad, but resigned, to see the US ownership of **Micro Focus** increase yet further to 32.5% this month. **Surveyor Fund** announced that it held 4.46% of **Rolfe & Nolan**. Relational database supplier, **Sybase**, was floated on NASDAQ at \$13.50 per share.

US Ross Systems acquires UK Pioneer

Ross Systems Inc has acquired one of its UK competitors - Pioneer - for Ross stock valued at around \$8.3m (c£4.9m). Pioneer had sales to 31st Oct. 90 of £7.4m and PBT of £451K; down quite significantly on the £752K profits achieved in 1989, in part, due to adverse dollar exchange rates. Pioneer had net assets of £1m and no gearing.



Ross had sales of \$49m in the year ending 30th June 91 and obtained a US NASDAQ listing at \$10 in April 91. Pioneer develops and sells a range of process manufacturing systems and financial accounting software products for DEC VAX VMS systems. Pioneer has "over 1000 products installed worldwide with more than 300 customers using its manufacturing application". As a result of the merger, Ross now claims to be the "largest VAX software supplier in the UK". Ross says "INPUT estimates that process manufacturers will spend \$4.7b on manufacturing applications and related services in 1992. DEC, with whom Ross has strong ties, believes that the market is growing in excess of 14% a year".

Pioneer's UK MD, Tim Godwin, said that Pioneer, as a private company, recognised that it was undercapitalised to take full advantage of its ever increasing product portfolio. Over the last two years it had talked to many partners and signed such companies as SD-Scicon, CSI, DEC and Ross itself as distributors. There was considerable synergy between the operations with Ross requiring manufacturing elements for its Fortune 500 type US clients and Pioneer requiring the size/credibility that Ross could bring. To those that may criticise the relatively low price that Ross paid (an historic P/E of just over 15), Godwin points out that the deal is all share and the Pioneer shareholders do not intend to sell; believing that Ross shares will appreciate in value significantly as the marketplace improves. Ross shares currently stand at around the \$10 launch price.

When we phoned UK competitor Coda, FD Andrew Round thought the acquisition was good news for Coda as it seemed that Ross would be concentrating on process control in the future and diluting their efforts in the financial accounting arena. "Coda has a rather good track record of beating both Ross and Pioneer on financial accounting".

Anyway, Pioneer is yet another UK software products house which had started to make it overseas only to fall to a non-UK buyer. We wonder how long Coda will stand out against the others that it just must be receiving.

BAe and Sema in joint venture

Details of the joint venture between Sema and BAe were announced this month. The new company, BAeSema, will be owned 50:50 and will comprise the scientific and YARD divisions of Sema and the defence systems business of BAe (Military Aircraft) Ltd. BAeSema's activities will range from project management, consultancy through civil contracting to specialist engineering services. Interestingly, the new company will also include Sema's share in another joint venture - Dowty-Sema.

Sema will receive a cash payment from BAe of £9.8m, payable on a deferred basis, no later than Dec. 93. John Weston (from BAe) will be Chairman and Alex Dorrian (from YARD) will be MD of the new company which will employ 1500 and anticipates revenues of £70m.

and NMW joins forces with SD-Scicon

NMW and SD have teamed up to provide a bureau service for stockbrokers wishing to act as Taurus Account Controllers. SD is developing the software and NMW will provide the stockbroking expertise and the bureau services.

It appears that our leader in the Aug. 91 edition of System House, which forecast that 1991 will be the "Year of the Partnership", was rather apposite.

Another UK systems software house bought by US

The UK has few enough successful systems software companies anyway, so it is particularly sad when another falls to a US buyer. This month US Symantech purchased UK Zortech for \$12.6m in an all-share deal. Zortech was the first to ship a native-code C++ compiler for DOS in 1988 and has since added Windows, UNIX and Macintosh versions. It is estimated that most of the world's 750,000 C programmers will move to the object-oriented C++ in the next few years.

Sadly, Zortech expects that over two thirds of its 32 staff will lose their jobs as a result of the acquisition.

Healthcare buy for ACT

ACT Group, via their healthcare subsidiary ACT Medisys, has acquired Stemm Computing for £750K in cash plus a further performance related element to a maximum consideration of £2m. Stemm, which currently has revenues of less than £1m, provides bespoke systems for NHS organisations together with a range of UNIX based application products. Stemm has recently introduced a Patient Management System which has been installed at Rugby NHS Trust and ordered by Mid Cheshire. Hospital Information Support Systems (HISS) are forecasted to be a major and highly competitive market in the 90s. ACT Medisys is already forecasting sales of £7.7m this year and further planned acquisitions could double that.

Trouble down at Town Hall

It's been a troubled year for suppliers of software products to local authorities. To add to problems caused by the appointment of receivers at Bluebird (see page 7), CMS also collapsed in July. ICL and CMS jointly developed the Synergy product used for the management of competitive tendering at 54 local authorities. ICL has now teamed up with Daton Systems (part of AT&T Istel) to offer continued support.

Other local authority software product suppliers which have gone out of business in 1991 have included Harris and Logotech.

Computing Services Index

30th August 1991

April 15th 1989 = 1000

1036.29

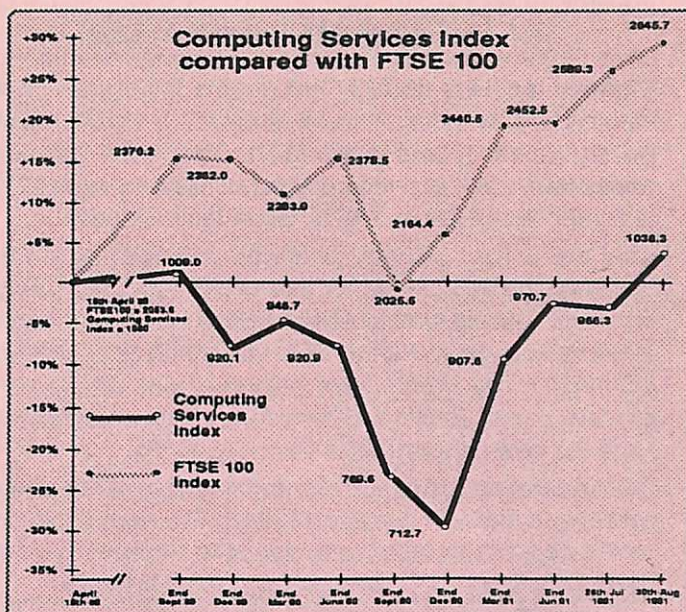
Changes in Indices	CSI Index	FTSE 100
Month 26th July 91 to 30th Aug. 91	+7.24%	+2.18%
28 months 15 Apr. 89 to 30th Aug. 91	+3.63%	+28.83%
1st Jan 90 to 30th Aug. 91	+12.63%	+12.01%
1st Jan 91 to 30th Aug. 91	+46.40%	+22.46%

Computing Services Share Price Index

30th Aug. 1991

Index Rank	15th April 1989 = 1000	Share Price 30/8/91	Index 30/8/91
1	Micro Focus	21.13	10207.72
2	Admiral	3.28	2376.81
3	Electronic Data Processing	2.19	2234.68
4	Capita	2.18	2180.00
5	Rolfe & Nolan	1.75	2067.25
6	Sage Group	2.59	1992.30
7	ACT	1.24	1984.79
8	Hoskyns	3.89	1897.56
9	Macro 4	3.19	1286.29
10	Proteus	1.00	1190.47
11	Kalamazoo	0.40	1128.57
12	Kewill	2.64	1043.48
13	Sherwood	1.15	958.33
14	Sema Group	2.67	839.62
15	INSTEM	0.78	780.00
16	SD-Scicon	0.60	769.23
17	P-E International	1.80	740.74
18	Vistec	0.15	633.70
19	Microgen	1.48	632.48
20	NMW	0.36	600.00
21	Logica	2.18	597.26
22	Learmonth & Burchett	0.68	566.67
23	EIT Group	0.14	560.00
24	Sanderson	1.27	540.43
25	MMT	0.87	517.86
26	Computer People	1.24	510.29
27	Misys	1.69	420.40
28	P&P	0.92	412.56
29	Pegasus	1.51	411.45
30	Cray Electronics	0.63	368.42
31	Radius	0.45	326.08
32	Total	0.15	283.02
33	Microvitec	0.11	256.10
34	Star	0.24	200.00
35	Enterprise	0.24	192.00
36	Trace	0.17	136.00
37	Gresham Telecomputing	0.11	118.28

Note: Index set at 1000 on 15th April 1989. Any new entrants to the market are allocated an index of 1000 based on the issue price.



Further losses at Microvitec?

Brokers Henry Cooke Lumsden have revised their forecast for **Microvitec** for the six months to June 91 to a loss of £2.5m and a forecast loss of £1m for the whole year. You may remember that Microvitec acquired rivals **Logitek** in a £3.5m deal in May 91. Despite Logitek's sale of **Azlan**, which raised £4.3m and removed £2m of external borrowings, debts stood at £4.5m when Microvitec took over on 31st May 91. PBT of £2.5m is forecast for 92. Microvitec shares have fallen a further 25% this month to 10p - that means they have halved in the three months since the Logitek acquisition.

Minority ICL stake for sale

Northern Telecom says it plans to sell its 20% stake in **ICL** which it inherited when it bought **STC** last year. **Fujitsu** has already undertaken to float 10-15% of ICL onto the London SE within 2-5 years and the sale of the Northern Telecom stake could be the opportunity for this. ICL wishes to have a minority of shares in European ownership to ensure its continued involvement in the **Esprit** project.

Readers should bear in mind that ICL made 50% - or £800m - of its 1990 revenues from computing services rather than hardware sales.

Kode declines

For the 26 weeks to 28th June 91, **Kode** produced PBT of £126K against £389K last time on revenues down 10% at £7.5m. Their computer maintenance business, however, made a small loss on sales of £2.7m but "enhanced its reputation in a very competitive marketplace". Brokers Hoare Govett are forecasting PBT of £300K this year and £700K in 92.

Thatcher quits ECS after just 3 months

It has been an "interesting" year for Jim Thatcher. After leaving the MD slot at **MBS** (nee **Touchstone**) when **Stratagem** took control, Thatcher joined French owned **ECS** which claims to be "the UK's largest independent computing services group". Now three months into that job he has quit to become UK MD of Japanese EFTPOS and EPOS supplier **Omron**. You can't really accuse Thatcher of being a job hopper - he did spend 19 years with **IBM** before his regrettable move to **MBS**.

CSI Index outshines FTSE

Perhaps recovery really is just around the corner - this month the CSI Index finished ahead of its Apr. 89 start point for the first time in two years. The FTSE 100 also ended the month at a record high but has only risen 22% this year compared to a 46% rise in the CSI Index.

After the Gordon Skinner stake was declared (see p 11), **Star** was the best performer this month - up 50%. **LBMS** put on 36% on bid rumour. **Micro Focus** just doesn't know when to stop; rising another 29% this month on continued US buying. The shares have risen over nine times since our index began. Even so, **EDP** - on excellent recent results - are the best performer this year - up 177%.

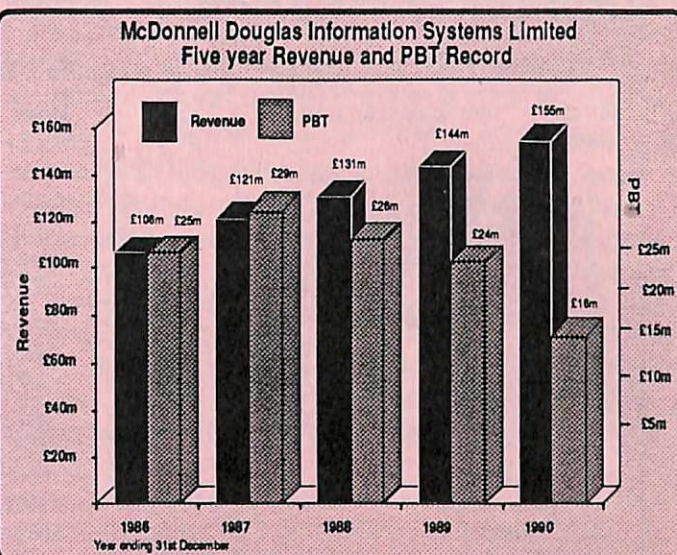
On the other hand the worst performing share of both the month and the year has been **Enterprise** (was SRH) on recent disappointing results and disposals. **Microvitec** were down 25% on brokers forecasts of losses (see p 9)

Computing Service Share Price Movements 26th July 91 to 30th Aug. 91

Rank		% Change 26/7/91 to 30/8/91	% Change this year	Historic P/E
1	Star	50.00%	50.00%	Loss
2	Learmonth & Burchett	36.00%	51.11%	29.57
3	Micro Focus	28.84%	169.86%	33.28
4	Vistec	26.09%	45.00%	15.26
5	Electronic Data Processing	24.43%	177.22%	12.60
6	MMT	11.54%	-2.25%	8.37
7	Logica	10.66%	30.54%	24.22
8	P&P	9.52%	9.52%	4.97
9	SD-Scicon	7.14%	130.77%	Loss
10	ACT	6.90%	63.16%	17.54
11	Trace	6.25%	-69.64%	1.62
12	Macro 4	4.93%	35.74%	15.49
13	Misys	3.68%	128.38%	14.70
14	P-E International	3.45%	30.43%	12.00
15	Total	3.45%	50.00%	20.27
16	Capita	1.87%	37.11%	15.91
17	Hoskyns	0.78%	9.58%	29.92
18	INSTEM	0.00%	-11.36%	5.57
19	Microgen	-0.67%	21.31%	10.96
20	Sema Group	-0.74%	-46.49%	25.43
21	Sherwood	-0.86%	35.29%	6.76
22	Kewill	-1.49%	35.38%	8.97
23	Admiral	-2.09%	45.78%	16.91
24	Sage Group	-2.26%	32.14%	13.49
25	Sanderson	-2.31%	5.83%	5.12
26	Pegasus	-2.58%	-6.79%	4.97
27	NMW	-2.70%	56.52%	27.69
28	Rolfe & Nolan	-2.78%	18.24%	12.68
29	Kalamazoo	-3.66%	38.60%	17.95
30	Computer People	-4.62%	18.10%	7.55
31	Radius	-6.25%	-6.25%	6.94
32	Cray Electronics	-8.70%	12.50%	25.20
33	Proteus	-9.09%	9.89%	Loss
34	EIT Group	-12.50%	-44.00%	Loss
35	Gresham Telecomputing	-15.38%	-45.00%	Loss
36	Microvitec	-25.00%	-36.36%	Loss
37	Enterprise	-29.41%	-50.00%	1.88

McDonnell Douglas IS still plans 1993 floatation

The acquisition of SD-Scicon by EDS was only one of EDS's purchases this month. They also paid \$250m for US **McDonnell Douglas Systems Integration (MDSI)** - which provides CAD systems. This led us to investigate the current status and plans for **McDonnell Douglas Information Systems International (MDIS)** which is headquartered in the UK. MDIS provides the full range of computing services predominately based on MD's PICK boxes. They had distributed MDSI's CAD products but this arrangement will now cease. Around 40% of MDIS' revenues are estimated to come from CSI activities - the rest are MD hardware related. MDIS Ltd, the UK arm of MDIS International, is particularly strong in the local authority marketplace and represents around half of MDIS International 1990 revenues of \$450m. If you still think that MDIS Ltd is a UK CSI company, then it would have led our profits charts every year until 1990.



There has been much conjecture that MDIS International was also up for sale and the latest EDS purchase will have done nothing to quell those rumours. However, David Malaperim - Director of Communications at MDIS - assures us that MDIS International is actively planning a floatation on the London Stock Exchange in 1993. The SE launch of a CSI company is becoming as rare as hen's teeth - we will await further news with the greatest interest.

First external investors in CMG

An EGM of **Computer Management Group (CMG)** held on 28th Aug. 91 sanctioned the sale of 4.3% of CMG to Midland Montagu Ventures for £3.09m - valuing CMG at around £72m or an historic P/E of around 16. This is the first time that CMG has sold to an external shareholder. But PBT had fallen from £8.5m to £7m in 1990 and sellers had exceeded buyers on the internal market. A Stock Exchange listing is planned "within five years".

Eagles?...see page 1

He thought for a minute about what his message should be. He recalled EDS's recruiting motto "Eagles don't flock - you have to find them one at a time". He wrote "The eagles have flown their nest".

Extract from Ken Follett's "On the Wings of Eagles" (Corgi - ISBN 0-552-12610-1) - the story of how H Ross Perot rescued his EDS employees from Iran in 1979. Currently essential bed time reading for SD-Scicon employees.

Capitalisation - Micro Focus overtakes Sema

We doubt if we would have had any takers in 1989 for a wager that **Micro Focus** would by now have a higher capitalisation than **Sema**, **Logica** and **SD-Scicon**. Micro Focus, due to sustained US buying, is now valued at £288m - up 1000% since Apr 89 - whereas Sema, at £243m, is actually valued some 15% less than in Apr 89. If Micro Focus go on like this, even **Hoskyns'** pole position could soon be threatened.

Star has been replaced at the bottom of the list by **Total**.

UNIX buys for Specialist

Specialist Computer Holdings, the fast growing private IBM agent owned by Peter Rigby, has acquired UNIX house **Applied Group** this month for a cost "believed to have been less than £1m". Source - *MicroScope* 28th Aug. 91. In June 91, SCH acquired IBM RS/6000 agent, **Business Partners**.

A tear for Rodime

In a month when we lament yet another of the UK's system houses falling into overseas ownership, it is worth noting that one of the last nails has also been placed in the UK owned hardware manufacturing industry. **Rodime**, which proudly holds the patents for aspects of 3.5" disc drives, has put its hardware manufacturing subsidiaries - in the UK, Singapore and the US - into receivership. Delays in the introduction of its new 1" 120mb drive - which is an important constituent of the fast growing notebook computer market - was one of the reasons proffered. In future Rodime will be "an intellectual property company...aggressively pursuing claims for patent infringements". 3I owned 25% of Rodime; the **Bank of Scotland** owned 18% and had lent at least \$35m some 12 months ago.

Rodime was often put forward as an example of the great bright hope for the UK high-tech sector.

Rothwell awarded biggest ever UK Apple contract

We usually go out of our way to avoid bias in our coverage. However, we cannot hide our glee in reporting that **Rothwell Group** (where Richard Holway is non executive Chairman) has this month been awarded what we understand to be the biggest ever UK contract for the supply of 4000 **Apple** Macintosh 11ci systems plus associated printers and other peripherals to **Mercury Communications**. If it's good enough for the lead, page one, story in *Computing* (29th Aug. 91), then why can't *System House* cover it on page 11? The deal could be worth £20m. After extensive evaluation, Mercury decided to standardise on Apple Macintosh rather than IBM compatibles running Windows and chose Rothwell because of their service track record with Mercury over the last two years. Mercury's IT director, Anthony Smith, said "We decided to go with the Mac because it is very usable and easy to support across a network". Source - *Computing* 29th Aug. 91.

As Apple's MD Mike Newton said "this further strengthens Apple's position in the corporate marketplace". It also demonstrates that there are still customers who buy on service level rather than just on price. The combination of high value added service and Apple technology has been a recession beating recipe for several companies - like Rothwell Group and TIS - in the last few years. We are sure that others may now wish they had taken the concept on board.

Computing Services Capitalisation - 30th Aug. 91

Rank		Capitalisation 30/8/91 £m	% Change since 15/4/89	% Change since 26/7/91	£m Change since 26/7/91
1	Hoskyns	£ 356.40	116.26%	1.28%	£ 4.50
2	Micro Focus	£ 287.94	1016.04%	27.18%	£ 61.54
3	Sema Group	£ 242.75	-14.56%	-0.72%	-£ 1.75
4	Logica	£ 133.66	-39.47%	10.74%	£ 12.96
5	ACT	£ 132.54	234.71%	6.89%	£ 8.54
6	SD-Scicon	£ 121.20	-22.90%	7.16%	£ 8.10
7	Macro 4	£ 70.52	30.84%	4.94%	£ 3.32
8	Cray Electronics	£ 65.80	-55.81%	-8.61%	-£ 6.20
9	Misys	£ 57.60	-24.01%	3.78%	£ 2.10
10	Microgen	£ 57.30	-35.18%	-0.69%	-£ 0.40
11	Sage Group	£ 51.10	141.04%	-2.29%	-£ 1.20
12	P&P	£ 51.01	-31.72%	9.46%	£ 4.41
13	Admiral	£ 35.12	140.56%	-2.17%	-£ 0.78
14	P-E International	£ 30.21	-23.72%	4.89%	£ 1.41
15	Capita	£ 27.77	242.87%	2.11%	£ 0.57
16	Kewill	£ 25.10	49.40%	-1.57%	-£ 0.40
17	Proteus	£ 21.47	18.95%	-9.02%	-£ 2.13
18	Electronic Data Processing	£ 19.05	125.15%	24.50%	£ 3.75
19	Enterprise	£ 17.50	-59.77%	-29.44%	-£ 7.30
20	Computer People	£ 17.20	-43.97%	-4.44%	-£ 0.80
21	Vistec	£ 16.43	190.86%	26.41%	£ 3.43
22	Radius	£ 12.20	-61.76%	9.91%	£ 1.10
23	Sanderson	£ 11.20	-43.15%	-2.61%	-£ 0.30
24	Rolfe & Nolan	£ 9.81	124.49%	-2.87%	-£ 0.29
25	MMT	£ 9.23	-46.63%	11.52%	£ 0.95
26	Pegasus	£ 9.23	-53.39%	-2.55%	-£ 0.24
27	Learmonth & Burchett	£ 9.06	-37.92%	36.08%	£ 2.40
28	NMW	£ 7.44	-39.48%	-2.70%	-£ 0.21
29	Kalamazoo	£ 7.28	12.87%	-3.70%	-£ 0.28
30	Microvitec	£ 6.51	-41.35%	-25.09%	-£ 2.18
31	EIT Group	£ 6.27	70.43%	-12.52%	-£ 0.90
32	Sherwood	£ 6.03	-2.11%	-0.99%	-£ 0.06
33	INSTEM	£ 3.51	-22.00%	0.00%	£ 0.00
34	Gresham Telecomputing	£ 3.50	-20.99%	-15.46%	-£ 0.64
35	Trace	£ 2.25	-86.02%	6.64%	£ 0.14
36	Star	£ 1.64	-79.85%	50.13%	£ 0.55
37	Total	£ 1.50	-71.70%	0.00%	£ 0.00

Skinner boosts Star into new orbit

As we reported last month, Gordon Skinner is to leave **Misys** at the AGM. It was therefore of more than passing interest to see the disclosure on 6th Aug. that he now owns 3.5% of TIS's arch rival and loss-maker **Star Computer**. As you may remember, Misys bought Star's maintenance business in Mar 91. Other disposals have left Star concentrating on its legal software subsidiary - **Pinnacle**. Star has the lowest capitalisation in the sector - just £1m - before Skinner started buying. However, Star's shares have risen by a massive 50% since Skinner's interest; which we are sure "is for investment purposes only".

Gordon Skinner must have been pleased to read the Albert E Sharp recommendation on Misys. AES forecast profits of £8.5m for the year to 31st May 92 and £12.5m for 93. "When trading revenue does pick up the short lead time and high gross margin attaching to Misys' new systems business means that there will be a rapid and substantial advance in profitability". "Continue to buy".

Little cause for optimism in CSA trend survey

The CSA trend survey for Q2 91 shows a dip in the number of CEOs expecting an improvement in business in the next year. It seems to be a commonly held view that business confidence increased in Q1 but that it really was a "false dawn" as the recession really took hold again with a vengeance in Q2.

CSA Chief Executives' Forecasts for Year Ahead
Optimists minus Pessimists



CSA CEOs are an optimistic bunch. Last time, improvements were forecast in a number of sectors - eg bespoke, consultancy, software products and training. But in every case actual business in the quarter turned out to be worse. This time around, the forecast trend for every sector is firmly downwards. *"The Recruitment and Contract Staff sector has hit its lowest ever level of rate of change of business and is still apparently headed firmly downwards with no improvement expected over the next quarter"*.

However, the CSA put a brave face on it, pointing out that staff employed increased in Q2 and predicting that *"unless there is some large unexpected adverse happening over the next three months, the business confidence level should show a firm upwards trend again in Oct. 91"*.

Bluebird to become yet another Phoenix?

Derek Hill, MD of Cyberald, was reported as saying *"If the Bluebird directors start again with IBM's blessing that would be very bad news"* (for the story of Bluebird's demise see page 7). You may remember that when Branford systems collapsed, the directors formed a new company which was awarded an IBM agency within the week.

A year ago, Headland collapsed. Multisoft was bought by its directors, as were several other Headland businesses, for a fraction of the value of the company less than a year earlier. We understand that Multisoft has made £250K PBT in its first year. *System House* readers should be able to list the dozens of other CSI companies which have failed in the last year, owing creditors, banks and investors millions, only to rise again from the dead; minus debt but with the same directors. We doubt if there is any company amongst our subscribers which has not been hit by increased bad debts in the last year and we suspect that many are trading today with the same directors who were responsible for those bad debts.

We hold the following views:

- Current insolvency legislation actually discourages directors from "going that extra mile" to try to save their companies. The possibility of legal action against directors for trading whilst insolvent has made many "throw in the towel" before every avenue has been exhausted.



- This is compounded by the ease of executing the "Phoenix Scenario". *"Why get further into hock when we can appoint the receivers today, make a minimal offer for the company tomorrow and start trading again without our current horrendous debt burden?"*

- For this reason, it should be made impossible for any ex-director to become a director of, or hold shares in, any part of his previous company sold by the receivers.

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