

System House

The monthly review of the financial performance of the UK computing services industry
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Grasping the Apple opportunity

The plans announced this month by Apple and IBM will present a major opportunity for software developers. Will the UK miss the boat again?

It was a decade ago when IBM launched its first PC. Most UK systems houses failed to appreciate the significance of the impending revolution - few made any attempt to grasp the opportunity. Today, revenue from PC hardware and software sales exceeds that for minis and main-frames combined. Microsoft's MS-DOS dominated the PC world of the 80s - in 10 years they sold 70m copies of their operating system and 6m copies of Windows 3.0 in the last year alone. Users bought 200m application packages to operate under MS-DOS; very few were of UK origin. The move to UNIX and open systems was signalled at least five years ago. Yet there are still many UK systems houses who have failed to realise that the market in which they operate is in the process of a radical change. The latest Romtec report shows that currently 40% of large IT installations are using UNIX somewhere in their organisations. A majority of Oracle licences are now sold for UNIX platforms. The latest IDC forecasts show that in Europe, by 1995, 27% by value of systems shipped will be UNIX based.

In 1987 Apple had less than 2% of the UK corporate PC marketplace. Even there, Apple systems tended to have entered by the back door rather than as part of an overall IT strategy. However, there were several UK systems houses who were astute enough to believe that Apple offered a major opportunity in corporate accounts. The recent decision by Mercury Communications to install Apple kit valued at up to £20m is just one example of Apple's greatly improved rating in the corporate arena.

The users in the 1990s demand a userfriendly, multitasking operating system. The source of this is still undecided. IBM hoped that OS/2 would be that system but so far just 600K copies have been sold and Microsoft has handed development back to IBM. Microsoft, now developing their own new system NT, is not exactly flavour of the month with IBM. The partnership which enabled both to succeed in the 80s is unlikely to be repeated.

That's why the IBM/Apple announcements this month are strategically of great importance and could well shape the largest and most important sector of our industry for the next decade.

In the short term, it will be easier to link Apple systems into IBM networks and a version of Apple's latest OS will be made available for IBM's RISC processor. This will help Apple become even more acceptable in the corporate market.

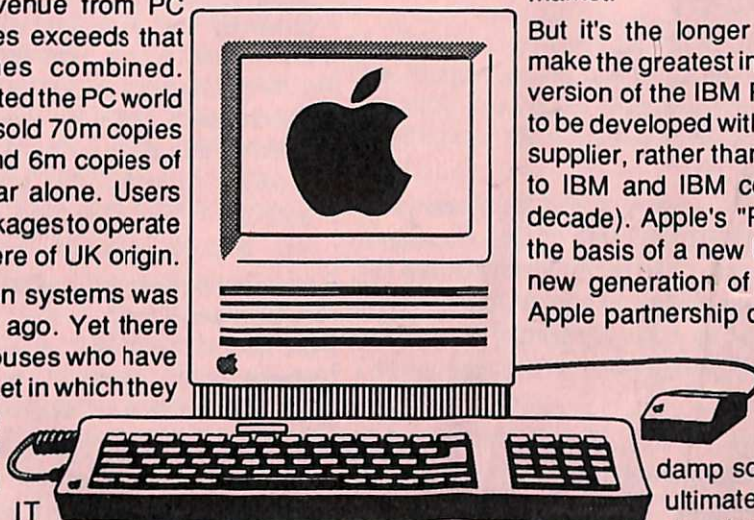
But it's the longer term plans that could make the greatest impact. A new single chip version of the IBM RISC microprocessor is to be developed with Motorola (Apple's chip supplier, rather than Intel, the chip supplier to IBM and IBM compatibles for the last decade). Apple's "Pink" software will form the basis of a new UNIX based OS for the new generation of hardware. If the IBM/Apple partnership delivers the goods (and we have to say that Apple's other partnerships, eg with DEC, went off like a damp squib) then Microsoft will ultimately suffer and software developers climbing on the

Apple/IBM bandwagon could be amongst the most successful in the next decade.

Apple could well turn into an innovative, pioneering development house rather than a hardware manufacturer. We suspect that Apple will make more from licences from the IBM deal than it will from Apple sourced hardware sales. The Apple link up with Sony, which manufactures the Apple Powerbook launched this month, is an example of this trend. The Apple Powerbook is both so good and so long awaited that it could be Apple's biggest hit for a long while. Researchers First Boston estimate 300,000 sales in the next year. Notebook computers are a rapidly expanding market - it is estimated that 4m will be sold this year rising to 8m by 1994.

We believe that the Apple/IBM link is highly significant and could be amongst the most important influencing factors in the software industry in the 1990s. It could help create software companies as successful in the 90s as Microsoft or Lotus have been in the 80s.

We hope that the UK software industry will be amongst those that grasp the opportunity that this presents.



Apple financials

Apple's sales grew 14% to \$6.3b in their financial year to Sept. 91. Profits were, however, down from \$475m to \$310m; largely as a result of the launch of the low price/high volume Classics. Market share has grown from around 10% to over 16%. "We had a very strong Q4 in the US which more than offset slow sales in Europe", Apple's John Sculley said. Analysts are forecasting revenues of \$7.2b in the current year.

Apple UK

Apple worldwide has cut 1,500 jobs or 10% of its workforce in the last year. The higher echelon of Apple UK seems to have borne more than its fair share. In the last couple of months Apple UK has lost the services of directors Peter Cossins, John Leftwich (their marketing director who has moved to Microsoft), Harold Berne (director i/c of distribution and services who seems to have left in a fit of pique) and Nick Hutton (their sales director who has returned to Apple Hong Kong). It must be getting a trifle lonely for MD Mike Newton. We hope that the positions will now be filled by people with a better understanding of corporate accounts. We fear the opposite will be true.

Apple's UK partners

According to MicroScope (23rd Oct. 91) "Apple... has finally confirmed that it is close to signing an agreement with Dixons" which will be used to shift its low price Classic and Powerbook systems. Apple had repeatedly denied that it was planning such a move.

Apple intends to reduce margins to 25% from next year - but there will still be additional incentives given to sales in specific sectors etc. Apple does not sell direct. In the UK, sales are, in the main, handled by authorised AppleCentres and other dealers. The Top Apple resellers in Apple's last fiscal year to 30th Sept 91 were:

- 1 SAMS
- 2 Callhaven
- 3 CEM (Northern Ireland)
- 4 Rothwell Group

Rothwell Group plc, according to Apple, hit the number one slot for sales to the corporate sector in the last year - and that's before Rothwell announced their order from Mercury Communications which could be worth up to £20m over next two years. Privately owned Rothwell has just announced its financial results for the year to 30th June 91. This shows a 73% growth in revenue to £7.1m and a 47% increase in PBT to £247K. (Note: Richard Holway, the editor of *System House*, is the Chairman of Rothwells).

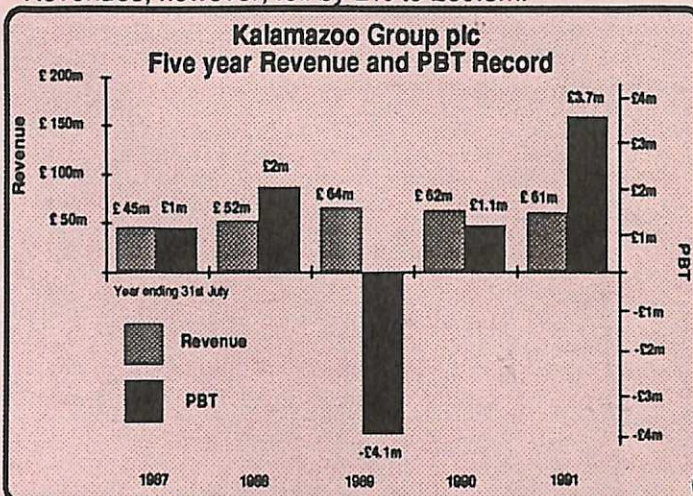
New CSA President

Patrick Whale, of KPMG, took over from Jane Tozer, of Softwright, on 22nd Oct. In his first speech as President he said "The management skills in the industry, both financial and technical, are being stretched in way they have never been stretched before...we are facing our worst ever recession...things will never be the same again". Interestingly he forecast that the computing services industry would face increasing competition from countries such as India, Pakistan and Singapore - a view shared by Third Wave (see p 10).

Next year's CSA Annual Conference will be held in Bournemouth between 25th and 27th March.

Kalamazoo

Shares in Kalamazoo rose by a further 11p to 48p on 14th Oct. when they announced PBT trebled from £1.1m to £3.7m for the year to 31st July 91. That makes a 59% share price hike this year. EPS was up from 2.2p to 7p. Revenues, however, fell by 2% to £60.8m.



The reason we now include Kalamazoo is the reason for their current success. Revenues from computing services now represent two thirds of turnover and profit; having grown by 16% in the last year. On the other hand, revenue from Kalamazoo's old paper based activities declined by 10% to £20.9m and profits were down 14%. Motor trade, maintenance and VAR activities all showed profits growth. These areas were further strengthened by the acquisition of certain aspects of McQueens Ltd in Scotland, Wavelogic and C/WP. Their US operations - Great American Software Inc - also had a profitable year.

Kalamazoo seems particularly pleased with its acquisition of **Datawork** from Systems Reliability for £2.15m in May 91 as it has just won a fleet management contract from Parcellforce. However, training "felt the full impact of the recession in the UK and only broke even in the year".

Dr. Peter Harrop, Kalamazoo's chairman, had forecast profits of not less than £3m which "given the difficult trading conditions, will be a very satisfactory result for the group". As it turned out his forecast was pessimistic. He now recognises that trading conditions are likely to continue to be difficult, but believes "the longer term prospects for the company are good" particularly if the proportion of computing services work continues to grow and expansion into Europe is maintained.

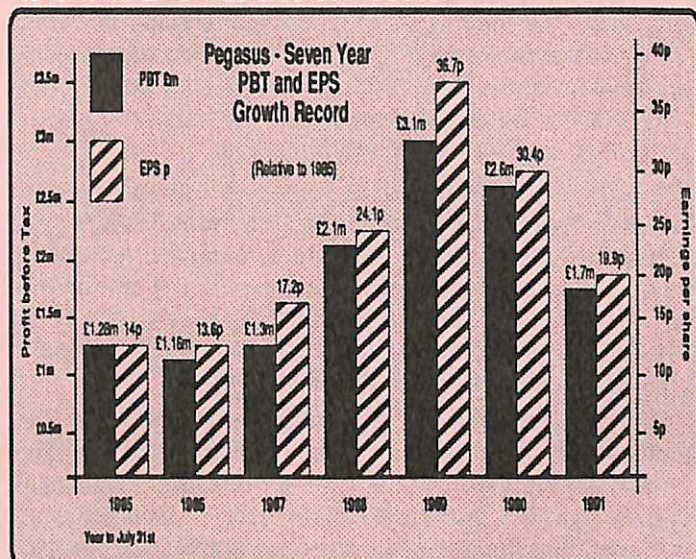
Kalamazoo also report that they have reached an undisclosed agreement with the Kalamazoo Workers Alliance which hold 51.5% of the stock. This had inhibited expansion by stopping the raising of further funds by increasing the share capital.

Kalamazoo is clearly one of the brighter spots to watch at present - and it is British as well as majority owned by its employees.

Trace Computers has agreed to purchase the remaining 49% of **Micrologic** for a maximum consideration of £540K rather than the £2.76m stated in the original performance related deal. Micrologic, which specialises in PC based systems for the commercial property market, was stated to have made £48K PBT on sales of £626K in the year to May 91. Interesting, as all of Trace made a loss of £471K in the year on revenues of £19.7m.

Still lower swoops the Pegasus

Last year accounting software supplier Pegasus blamed its profits fall on "a policy decision to increase R&D spend by £520K to £1.3m". This year the "unprecedented recession" is blamed for a 35% reduction in revenues to £8.5m and a similar reduction in PBT - down from £2.6m to £1.7m. EPS was also down 35%.



Part of the revenue reduction was due to the sale of UNIX distributor **Sphinx** to Vistec in 1990 and the consultancy division in an MBO in Jan 91. Profits were helped by an increase from £209K to £312K in interest received as cash increased by £1m to £3.3m. However, "restructuring" resulted in an exceptional charge of £179K and discontinued activities resulted in a further £104K in extraordinary items.

Pegasus's software division was the worst effected with operating profits halved from £2.1m to £1m on revenues of £6m. Significant reductions in hardware prices has led to the establishment of what Pegasus calls its Budget Division. Facts Software - acquired for £700K in March 91 - fits here and modules sell for between £199 and £699. Pegasus Nine - the UNIX product launched in 1991 - is sold only via dealers. According to Context, Pegasus software had an 18.5% share by value of the UK accounting software market in the year to June 91.

Pegasus supplies did well to increase operating margins in a year when revenues fell by 11% to £2.2m.

Pegasus recently acquired a minority stake in Access Accounting and launched a jointly developed range of accounting software for the Apple Macintosh in Aug. 91. Pegasus's declared objective of becoming "a major player in every large accountancy market in Europe" Source - MicroScope 1st Nov. 89 by 1992 seems unlikely to happen. A joint venture with SAARI in France is in place but similar arrangements in Germany, Italy and Holland are still at the discussion stage.

In the now universally used statement of future prospects "Pegasus is perfectly positioned to take advantage of improved market conditions and well able to withstand any continuation of the current level of economic recession". We hope so. Tony Nicholls of Multisoft told us last month that he did not expect any recovery in the accounting software market in the year. With continued strong competition at the budget level from Sage and on UNIX from Tetra, Pegasus faces another tough year.

The changed face of NMW

The last six months has seen great changes at **NMW Computers**. In January, a top level management restructuring saw John Butler from GE Information Services joining the board to head up the FM division. The director who previously headed the bureau operations left at that time; resulting in a £106K exceptional compensation payment in the interim accounts. NMW clearly aims to reduce substantially their dependence on revenues from stockbroking services. Stockbroking volumes have been in major decline since Black Monday and this has caused NMW three years of poor financial results.

In May 91 NMW bought the beleaguered IBM AS/400 agent Charterhouse for an initial consideration of £270K. Charterhouse had simply spent too much and too long in converting its solicitors, insurance brokers and debt recovery software to AS/400 and ran out of cash. NMW picked up an excellent product portfolio for a song. Early results, now that development schedules are under control, are very encouraging.

The net effect of these recent actions is that non-stockbroking activities could amount to nearly 50% of NMW's revenues in the next period.

Latest interim results to 30th June 91, to which Charterhouse had minimal effect, show revenues up 13% at £5m, PBT up 32% at £278K and EPS up 50%. However, the outlook for the second half is cautious as "expected returns from new developments...may not compensate fully for the normally lower levels of stockbroking activity in the second half of the year". Despite this, NMW is obviously on the lookout for further acquisitions. The Chairman says he expected "to be in a position to announce further corporate developments soon".

The two largest shareholders - Specialist Computer Holdings (14.9%) and TR Technology (8.3%) - have both increased their shareholdings recently.

A personal note....Many readers know that Richard Holway, the editor of *System House*, is also a non-executive director of NMW. Our reporting of events at NMW therefore has to be approached with some caution.

The restructuring of NMW has certainly taken longer than expected and has not been helped by the recession, continued low stockbroker trading volumes and significant competitive pressures. However, 1992 should see NMW emerge as a CSI company providing a full range of services to the professional services sector with its dependence on stockbroking greatly reduced. It is expected that further acquisitions will be made in the near term, particularly to strengthen FM services. Although 1991 is not likely to produce particularly good financial results, the medium term outlook is good.

The only "problem" in the near-term could be predators.

EDS grows 13% in Q3

"Spurred by continued strong growth in its non-GM business, **EDS** registered a 13% increase in revenues (to \$1.73b - \$4.94b YTD) and a 13% rise in net income (to \$145.5m - \$407m YTD)" in the three months to 30th Sept 91. Non-GM business now forms a majority or 52% of EDS revenues for the first time since they were acquired in '84.

For us in the UK, the event of the quarter was the acquisition of **SD-Scicon**; but EDS also acquired **McDonnell Douglas Systems Integration**.

System House

Computer People recession barometer

In many ways **Computer People** is one of the most interesting barometers of the changing fortunes of CSI companies. The vast majority of revenues are made from the supply of contract IT staff. Up to the interims in 1990, PBT and EPS growth had been both strong and consistent with profits of £4.2m on revenues of £70m in 1989. This was particularly impressive as a number of significant acquisitions had been undertaken; particularly in the US.

But the results in the last year have been hit badly by the recession both in the UK and the US. Results for the six months to 30th June 91 show revenues down 11% at £34.8m and PBT down 69% at £669K compared to £2.1m last time. EPS was also 69% lower.

It looks as though all areas of Computer People's business have been badly affected:

- UK IT contract staff revenues were down 14% but *"it was a significant performance in these market conditions to maintain the sales margin % and to continue to increase our average fee rate"*.
- UK recruitment, which had represented around 10% of revenues in 1990, was even more badly effected with revenues down 51%. However, the *"high margin"* recruitment business is still making a positive contribution.
- although US revenues increased by 10%, and now represent 43% of Computer People's total revenue, they *"only achieved a marginal increase in average fee rates as the market became more competitive"* and profits from the US were therefore reduced significantly.

Overheads have already been reduced by £3m pa and current action will reduce these by a further £1m. On a brighter note, gearing has reduced from 45% to 34% with net borrowings down £0.5m to £1.7m. Interest payments therefore reduced from £135K to £93K in the half year.

This might be adversely affected in future as Computer People has joined the dubious ranks of CSI companies purchasing property with the announcement of the acquisition of *"a prestigious new office building in City Harbour, in London's Docklands"*.

Computer People has suffered from the recession in both the UK and the US and, therefore, believes it will be amongst the first to benefit when *"the tide of recession turns"*. How quickly this happens depends on the amount of slack which exists in the industry at present. When will an end to recession translate into requirements for contract staff and further recruitment? Chairman Rupert Bayfield believes that second half profits will be around the same as for the first half; implying full year PBT of around £1.3m compared with £4.2m in 1989 and £3.1m in 1990.

Survival disposals at Unisys

Unisys was formed by the merger of Burroughs and Univac in 1986. They have made heavy losses ever since; proving, if further proof is required, that mergers in the IT industry seldom work. This month Unisys completed the sale of its networking division Timeplex to Swiss Ascom for \$207m. In addition, they will raise around \$500m from the public stock offering of their \$2b pa defense systems business, Paramax. The money is obviously badly needed - last month Unisys had to raise \$400m to meet repayments on their \$3b debts. Also this month Unisys closed its manufacturing plant in Livingston, Scotland with the loss of 700 jobs.

Dire profits warning from P&P

We have to admit to being shocked by the announcement which appeared on our screen at noon on 21st Oct. P&P warned that *"market expectations of its profits for the current year were too high"*. Worse, it said it was *"unlikely to make a profit in the second half of the year"*. Analysts had been expecting £8m for the full year against £13.1m in 1990. P&P made PBT of £3.3m at the interims. James Warhurst at brokers Henry Cooke Lumsden was reported to have revised his forecast for the full year to Nov 91 to just £1m - which implies a loss in the second half. Analysts are, however, forecasting £5m for next year.

Sales from P&P's distribution division were already reported to be suffering - down 18% for the six months to May 91 and this month the division's MD, John Anderson, left. Group MD David Southworth will run this part of the operation in the meanwhile. The resignation was said not to be connected with a rumoured £300K loss that the division suffered on the collapse of SMM in Sept.

We had great faith in P&P's long stated belief that their future lay in direct sales and added value. Corporate sales - now the largest part of P&P's revenues - had been growing at 25%. But clearly this was not sufficient to offset the effects of the recession on corporate PC sales and the detrimental effect of hardware manufacturers moves to lower unit prices and squeezed margins. The latest round of 60 redundancies have mostly been in the corporate sales team.

Just three months ago P&P had been *"hopeful of a satisfactory outcome for the year"* and we were still *"ardent fans"*. The obvious shock in the City to the warning was evidenced in the more than halving of P&P's share price - down from 101p to 50p within minutes of the announcement; the share price has only recovered slightly to 55p since.

We remain as supporters of P&P but clearly the move from product sales to added value systems sales direct to corporates is taking longer than expected. We have to say that if the recession is having this kind of effect on strong, well managed operations like P&P, *God help the others*.

"Poor" old Sir Roland

As you cannot fail to have read, Sir Roland Smith recently lost his £313K pa chairmanship at BAe. Although we have read many criticisms of his tenure at BAe, no-one seems to have mentioned his sale of BAe's 25% stake in SD-Scicon at 45p per share rather than waiting a few weeks for the inevitable higher 60p offer - losing £10m in the process.

Smith has 10 other directorships in quoted companies (the number of private directorships is not disclosed). His current mood cannot have been lightened by the latest profit warnings from P&P where, as Chairman, he was paid £64K last year. We wonder quite how he finds the time to be anything more than a name on the headed notepaper.

Easy way to lose £2.5m

It was reported that Scottish Amicable had bought 5m P&P shares just before the profits warning when the price fell by 50%.

Still, Scottish Amicable should understand the ups and downs of investing in CSI companies. We have records of at least 13 other quoted CSI investments including Telecomputing, Logitek and LBMS; hardly amongst the best performers recently.

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%
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	Interim - Jun 90 £ 38,988,000 £ 2,138,000 11.25p	Final - Dec 90 £ 76,170,000 £ 3,106,000 16.42p	Interim - Jun 91 £ 34,834,000 £ 669,000 3.53p	Interim Comparison -10.7% -88.7% -68.6%
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 Maxprint)	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	Interim - Jun 90 £ 95,345,000 £ 5,012,000 6.25p	Final - Dec 90 £ 183,149,000 £ 7,532,000 7.4p	Interim - Jun 91 £ 89,965,000 (£ 4,775,000) (6.59p)	Interim Comparison -5.6% Profit to Loss Profit to Loss
Gresham Telecomputing plc	Results Revenue PBT EPS	Interim - Mar 90 £ 1,232,000 (£ 44,000) (0.99p) NOTE: THESE FIGURES	Final - Sept 90 £ 2,101,000 (£ 103,000) (16.47p) ONLY RELATE TO	Interim - Mar 91 £ 732,000 (£ 79,000) (1.26p) TELECOMPUTING PLC	Interim Comparison -40.6% 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	Interim - Jun 90 £ 5,349,000 £ 505,000 7.07p	Final - Dec 90 £11,154,000 £1,005,000 14.0p	Interim - Jun 91 £ 7,870,000 £ 507,000 7.21p	Interim Comparison +47.1% +0.4% +2.0%
Kalamazoo plc	Results Revenue PBT EPS	Final - Jul 90 £ 61,780,000 £ 1,074,000 2.2p		Final - Jul 91 £ 60,764,000 £ 3,660,000 7.0p	Final Comparison -1.6% +240.8% +218.2%
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 £18,471,000 £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	Final - Jun 90 (Amended) £ 190,819,000 £ 8,822,000 8.7p		Final - Jun 91 £ 197,758,000 £ 3,676,000 (1.6p)	Final Comparison +3.6% -58.33% Profit to Loss
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	Final - June 90 £14,775,000 £7,353,000 20.6p		Final - Jun 91 £ 18,028,000 £ 7,647,000 23.0p	Final Comparison +22.0% +4.0% +11.7%
Micro Focus plc	Results Revenue PBT EPS	Interim - Jul 90 £ 23,337,000 £ 7,633,000 33.0p	Final - Jan 91 £ 46,382,000 £ 13,549,000 63.5p	Interim - Jul 91 £ 25,387,000 £ 8,961,000 41.1p	Interim Comparison +8.8% +17.4% +24.6%
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	Interim - Jun 90 £ 11,236,000 (£ 2,143,000) (5.2p)	Final - Dec 90 £ 23,444,000 (£ 2,415,000) (6.2p)	Interim - Jun 91 £ 12,484,000 (£ 2,212,000) (4.8p)	Interim Comparison +11.1% Loss both Loss both

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	Interim - Jun 90 £ 4,423,000 £ 210,000 0.6p	Final - Dec 90 £ 8,726,000 £ 413,000 1.3p	Interim - Jun 91 £ 4,977,000 £ 278,000 0.9p	Interim Comparison +12.5% +32.4% +50.0%
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	Interim - Jun 90 £ 32,381,000 £ 2,753,000 10.3p	Final - Dec 90 £ 65,013,000 £ 4,214,000 15.0p	Interim - Jun 91 £ 33,565,000 £ 1,833,000 6.7p	Interim Comparison +3.7% -33.4% -35.0%
Pegasus plc	Results Revenue PBT EPS	Final - July 90 £13,039,000 £2,554,000 30.4p	Final - Jul 91 £ 8,493,000 £ 1,669,000 19.9p	Final Comparison -34.9% -34.7% -34.5%	
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	
Radius plc	Results Revenue PBT EPS	Interim - May 90 £ 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	Interim - Jun 90 £ 189,921,000 £ 7,185,000 4.5p	Final - Dec 90 £375,410,000 £15,331,000 10.5p	Interim - Jun 91 £ 200,869,000 £ 6,566,000 4.7p	Interim Comparison +5.8% -8.6% +4.4%
Sherwood Group plc	Results Revenue PBT EPS	Interim - Jun 90 £ 12,336,000 £ 850,000 8.7p	Final - Dec 90 £ 24,785,000 £ 1,992,000 17.0p	Interim - Jun 91 £ 12,139,000 £ 575,000 6.6p	Interim Comparison -1.6% -32.4% -24.1%
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)	Interim - 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	Final - May 90 £13,933,504 £1,807,644 10.49p	Final - May 91 £ 19,698,904 (£ 471,377) (2.04p)	Final Comparison +41.4% Profit to Loss Profit to Loss	
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

First PI failure

Eosys was an IT management consultancy specialising in comms and networks. They were acquired (95.3%) in 1990 by **PI Holdings** - the acquisitive CSI group headed by ex-CMG founder Bryan Mills. PI issued 47,672 shares at £3 for the stake amounting to a consideration of £143K.

In Oct., Eosys appointed the receivers. Mills was reported as saying *"Eosys was in deep water when we bought it and we tried to turn it around, but its trading position became worse rather than better. Business drifted away as the recession took hold and we had to be realistic. It's a buyers market and they are cutting prices to the bone"*. Source - Computing 17th Oct. 91.

It is still unusual for groups to appoint receivers to their subsidiaries; bearing in mind the detrimental effect this can have on market confidence in other parts of the group.

Shares for all at FI Group

Founder Steve Shirley has offered half her previously controlling interest in **FI Group**, valued at £1.5m, to existing shareholders, employees and "outworkers". Shirley will retain 30% and an annual salary of £100K. The sale values FI at £6.2m (270p per share). Assuming the offer is taken up in full (and the staff would be nuts not to do so), the work-force will control 56% of the voting shares. City institutional investors, which include Baronsmead, Entrust and Schroders, could hold up to 17.7%. FI Group has for the time being dropped plans for a Stock Exchange listing.

We see great similarities between the conditions for employee share transfers at FI Group and those in place at the NFC before their listing. Not surprising as Sir Peter Thompson was/is Chairman of both. However, Sir Peter's FI share option was granted at £3 per share only a few months ago. It is all a bit irrelevant as both prices seriously undervalue FI which made profits of £1.3m on revenues of £21m in the year to 30th Apr. 91. Good luck to them; we only wish we could buy some.

RMT appoints receiver

Slough based computer supplier, **RMT Group**, has appointed receivers at its sole trading subsidiary due to *"a significant downturn in trading and margins over the past few months"* after its shares were suspended at 4.25p on 23rd Oct. RMT also publish **Computer Trade Weekly**.

VRG to acquire Agena?

Agena, owned by Indo Suez, is the largest PC dealer in France with revenues last year of around £180m on which it managed just to breakeven. It was reported that VRG, the Dutch organisation which bought Corporate Computers from Systems Reliability in 1990, is *"holding talks about a potential takeover"*. VRG bought French Apple dealer, **MID**, last year.

Double or quits at Enterprise

Just a couple of years ago **Enterprise's** Chairman, Robert Evans, is reputed to have borrowed £1m to buy shares at £1 per share - they have since fallen to a low of 12p. This month, however, Evans indicated that Enterprise might well now be on the road to recovery by investing a further £300K. Shares have risen 48% this month.

Profit taking at MicroFocus....

Shares in **MicroFocus** have fallen from £21 to £17.83 since the interim results were announced in mid Sept. 91. On 1st Oct., Reynolds, O'Grady and two other directors sold shares worth £3m - adding to the £2m disposals they made in June. Most analysts anticipate that profits growth at Micro Focus will slow to *"more pedestrian"* levels in future. Brokers County Natwest forecast PBT of £18.5m to Jan '92 and £24.5m to Jan '93 - that's a P/E of 16 on '93 earnings. Can't complain - the shares are up 875% since we started **System House** with a rave review of *"this stunning company"* in our first edition when the shares stood at £3.75.

.....and at Sage

David Goldman, Chairman and CEO at PC accounting software company **Sage Group**, sold 100,000 shares at 260p on 20th Sept. and director T Maxfield sold 10,000 shares in Oct. Sage shares have performed excellently this year; rising 40% from 1.96p to 2.74p. BZW forecast Sage profits for the year to 30th Sept. 91 will rise from £4.7m to £6.6m with £8m in 1992.

Skytech

Bob Woodland (ex Ferrari) has a 60% stake in **Skytech**. This month Skytech bought the training arm of **TPC Tristar** for around £250K. You may remember that we reported last month that the computer systems division of TPC Tristar had been acquired by **EIT**. Both Skytech and EIT are following the familiar (and bloody) *"let's build a CSI company by acquisition"* route. By coincidence we are lunching with both Bob Woodland and Mike Burden (EIT's CEO) next month and will be able to compare their strategy with Pi and Misys who both have similar ideas.

ICL? - "That will do nicely"

ICL, just like **IBM** and many other suppliers, has seen several of its agents/dealers collapse in the last year as the effects of the recession coupled with lower hardware prices and margins have caused terminal damage. This month, ICL is reported to have frozen £300K of debts at troubled reseller, **AMP Systems**. AMP was to have been acquired by **Digital Design**. The failure to consummate the acquisition has left Digital Design with costs of £50K. AMP has now been refinanced by an MBO; with ICL apparently agreeing to delay debt repayment for 5 years. Source - Computing 17th Oct. 91. Now that's the kind of credit terms that many will envy.

The others... **Byline Software** appointed the liquidator on 9th Oct. Commodore distributor **HRS**, which had 1990 revenues of £7.3m, has been bought from the receiver by the **Ring Group**. **HG Computer Services** has acquired the **Basildon AppleCentre**. ICL distributor **Control-C** has been bought from the receivers by a new joint venture involving ICL and another of its dealers, **Firefox**. Networking and IT publishing company, **Datacraft**, has appointed the receivers. It was reported that **IBM** had lost £4m as a result of the collapse of AS/400 agent, **Bluebird**. In the US, **Sun** has purchased **Interactive**; the systems division of Kodak. **US Cray Research** is considering buying **Floating Point Systems** which filed for Chapter 11 this month. A \$3.25m consideration is rumoured. Receivers at NHS system supplier, **Qa**, are said to have found an as yet unidentified buyer. **BTG** is said to be under siege from potential purchasers ahead of its privatisation.

Prices paid for software houses rebound

The latest report from **Regent Associates** (Tel.: 081 948 2777), on IT acquisitions in the first six months of 1991, found that considerations for software and services companies had "jumped substantially to levels close to those being obtained at the beginning of 1990..with P/Es averaging 18 compared to just 11 in the period July to Dec. 90". Software companies specialising in vertical markets commanded valuations as much as three times higher than for those who had no particular specialisation. We feel sure that will bring a smile to the face of Misys' Kevin Lomax. The sharpest declines, not surprisingly, had been found in the demand for "hardware companies, dealers, distributors and maintenance companies". For further evidence, see report on Granada opposite. The report also finds that "international activity has fallen to less than half that of a year ago". The number of deals involving quoted companies also declined "as they became less prepared to interfere with their focus on the current year's performance". Regent's MD, Peter Rowell, was also reported as saying that he thought venture capitalists would now feel the time was right to cash in their IT investments made a few years ago. We would support the contention that this is what such investors would like to do but for many a sale at anything like an acceptable price is just impossible at present.

In the software and services sector, Regent report 53 deals in the period Jan - June 91 with a total consideration of £366m - up 12% on 1990.

The Top Five deals from Jan. to June 91 were:

Rank	Buyer:	Acquired:	Price paid
1	FDR (Amex)	Signet	£146m
2	ACT	Quotient	£27.3m
3	Soft. Publishing	Precision Soft.	£14.7m
4	Comp. Sciences	Butler Cox	£14.3m
5	CGI	London Spec. Soft.	£10.0m

Results from overseas

Worldwide, **Andersen Consulting** grew revenues in the year to 31 Aug. 91 by 20% to \$2.3b....**Microsoft** Q1 profits increased by 64% to \$144m on revenues up 57% at \$5.8b. Sales of Windows 3.0 are said to have topped the 6m mark....**Lotus** reported Q3 post tax profits up 150% at \$21.4m on revenues up 37% at \$219m.... **Sybase**, in its first quarter as a public company, increased revenues by 40% to \$41m but profit per share was just 3c compared with 13c last time....**DEC** reported lower than expected Q1 earnings even though profits rose from \$26.2m to \$28.6m on revenues of \$3.3b. DEC's share price dived \$2 to \$57 on the news. Interestingly, DEC's services revenue grew by 16%....**IBM**'s profits fell 85% to \$172m on revenues down 5% at \$14.4b in Q3 - this means a profit reduction of \$1.4b for the year so far. AS/400 and RS-6000 sales increased but revenue from high-end main-frames and PCs fell. Overall hardware sales fell by 14.1%. Again it was services which saved the day as support services grew by 10.7% to \$3.4b. A further 3000 jobs are to go, making 20,000 for the year. An additional 400 jobs will be lost in the UK making 1200 in total....**Honeywell** reported a 9% dip in profits to \$79.1m on revenues down 4% at \$1.5b in Q3....**Control Data** posted an unexpected Q3 loss of \$7.5m....**Compaq** - probably the most consistently successful PC manufacturer - announced its first ever \$70m quarterly loss and is cutting 1440 (12%) jobs including 150 in Glasgow. Q3 revenues dipped sharply from \$863m to \$709m **AT&T** announced that it will cut 14,000 jobs worldwide over the next two years; partly as a result of the NCR acquisition....**Olivetti** is also to cut 3,500 jobs.

Another 550 jobs go at Granada CSI

"Hardware only maintenance will die." Source - System House Jan 90

"There will be a rapid decline in the revenues of independent maintenance companies in the latter half of the 90s." Source - INPUT Survey Sept. 90

"We doubt that even Peter Edwards - the recently appointed MD of Granada Computer Services International (GCSI) - can make a silk purse out of this particular sow's ear.... TPM is in terminal decline." Source - System House Jan 91 reporting on Granada's reduction in profits from £20m to £6.5m.

"Much still needs to be done in Computer Services." Source - Alex Bernstein, Granada's Chairman, on announcement of £700K loss in six months to Apr. 91.

On 16th Oct. 91, the same day and in the same hour as it was announced that Granada was to retain its TV licence, it was announced that.... "Granada is axing 550 jobs as part of a major restructuring of its computer maintenance and services business, GCSI". Source - Granada Stock Exchange announcement.

Granada spent over £200m building its GCSI TPM operation - buying companies like DPCE for £110m and others like CFM, Mainstay and SMS. They claim 20% of the European TPM market. Even at the time, observers were amazed at the high prices paid.

The 550 redundancies, 300 of which would be in the UK, come on top of at least 130 other job losses in the last year. The new redundancies will cost £15m and will be treated as an exceptional item in the full year results to Sept. 91. It is understood that the majority of the job losses will be in sales and administration rather than in engineering and will involve the closing of Granada's Birmingham, Bristol and Wapping sites. John Curran, the new Chairman of GCSI appointed in July this year, says, naturally, that the "primary objective of the restructuring is to improve financial performance....GCSI will produce a significant improvement in profitability by the end of the first quarter". Although Granada could not confirm the figures, GCSI was reported to have lost £6m on revenues of £170m in the year to 30th Sept. 91. Granada Business Services made a profit of £6.5m in 1990 and £20m in 1989.

Alex Bernstein says Granada is committed to GCSI. "We are convinced that the provision of independent computer services is an excellent business with long-term potential". If he means the current sort of computer services offered by GCSI, then we and most other observers would fundamentally disagree. We remain convinced that Granada would love to get shot of the lot - the problem is that, as another industry watcher told us, "its probably not worth more than £10m in total". Even with the help of the recent rights issue, that kind of writedown would be intolerable for Granada's balance sheet.

So, what's wrong with hardware TPM?

The move to PCs, the ever escalating decline in hardware prices and significant improvements in reliability have taken their toll on hardware only TPM. We believe that small users will not take up maintenance at all and that large corporates will move to "Total Systems Support" - where all aspects of the system including application software maintenance, security, networks and communications as well as hardware will be subcontracted.

Computing Services Index

25th October 1991

April 15th 1989 = 1000

1035.73

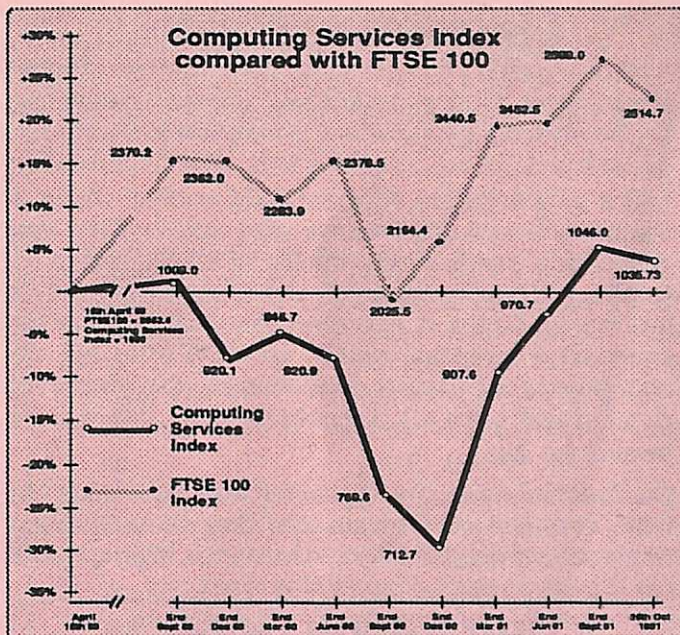
Changes in Indices	CSI Index	FTSE 100
Month 27th Sept. 91 to 25th Oct. 91	-0.98%	-3.24%
30 months 15 Apr. 89 to 25th Oct. 91	3.57%	22.45%
1st Jan 90 to 25th Oct. 91	12.57%	6.46%
1st Jan 91 to 25th Oct. 91	46.32%	16.40%

Computing Services Share Price Index

25th Oct. 1991

Index Rank	15th April 1989 = 1000	Share Price 25/10/91	Index 25/10/91
1	Micro Focus	17.48	8444.44
2	Capita	2.59	2590.00
3	Electronic Data Processing	2.53	2581.62
4	Admiral	3.21	2326.08
5	ACT	1.42	2272.91
6	Rolfe & Nolan	1.88	2220.82
7	Sage Group	2.74	2107.69
8	Hoskyns	3.89	1897.56
9	Macro 4	3.88	1564.52
10	Kalamazoo	0.47	1342.86
11	Proteus	0.97	1154.76
12	Kewill	2.77	1094.86
13	Sherwood	1.27	1058.33
14	Sema Group	2.53	795.60
15	SD-Scicon	0.60	769.23
16	INSTEM	0.76	760.00
17	P-E International	1.74	716.05
18	Vistec	0.16	677.41
19	Microgen	1.55	662.39
20	Logica	2.22	608.22
21	EIT Group	0.15	600.00
22	NMW	0.34	558.34
23	Learmonth & Burchett	0.67	558.33
24	Sanderson	1.23	523.40
25	Computer People	1.23	506.17
26	Misys	2.02	502.49
27	MMT	0.83	494.05
28	Microvitec	0.20	475.61
29	Pegasus	1.63	444.14
30	Cray Electronics	0.69	403.51
31	Radius	0.46	333.33
32	Total	0.15	273.59
33	P&P	0.55	246.64
34	Star	0.25	208.33
35	Trace	0.26	208.00
36	Enterprise	0.20	160.00
37	Gresham Telecomputing	0.08	86.02

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.



Oracle returns to profit....

Oracle announced profits of \$2.4m for the quarter ending 31st Aug. against a loss of \$28.7m last year. Oracle UK reported better than expected Q1 revenues; up 37% at £26.1m. In addition, Oracle's \$200m refinancing by Nippon is being renegotiated or even dropped as a result of Oracle's "improved financial condition". It has now been granted a \$100m facility by a syndicate of banks led by Nat West, Barclays and First National Bank of Boston. On Wall Street Oracle's shares shot up on the good news.

Geoff Squire was appointed head of worldwide sales in the last year and much of the credit for the recent revival in Oracle's fortunes can be laid at his door. The majority of Oracle's staff now report to him.

...and gives a firm pointer to the future

For those readers who still believe that their proprietary based products will see them through the 90s and take market projections from learned market researchers for the growth of UNIX with a pinch of salt, Geoff Squire has some hard facts. In the last quarter around 55% of all new Oracle licences were for UNIX systems - in Germany the figure was 85%. Squire says the market for new DEC VAX VMS licence sales is "almost dead". Given that a decision on the development and database tools to be used is often made right at the start of the project development cycle - sometimes even before the hardware is ordered - this must provide a powerful pointer to support the view that UNIX is now the firm favourite for new projects and it is likely to reach a position of complete dominance within just a couple of years.

Hard times for IT training

DTI figures over the last year have consistently shown that the recession is hitting hardest at IT training - figures for the last quarter show a reduction of 3% (see *System House* Aug. 91). Sources from both a major system house and a hardware manufacturer, who wanted to remain anonymous, have reported revenues down by over 40% in their training divisions.

This month *Businessland* has subcontracted its training to Ditec with the loss of eight staff. Kalamazoo's training operation was also reported to have been badly hit by the recession (see p 2).

Enterprise up - P&P down

A fall of less than 1% in the CSI Index compared with a fall of 3.2% in the FTSE 100 might indicate a boring month on the Stock Exchange. Far from it. **Enterprise** was the largest gainer this month - up a massive 48% - after Chairman Bob Evans decided to buy another £300K worth of shares in the last fortnight. **Kalamazoo** also put on 21% after announcing profits nearly trebled at £3.7m (see p 2). **Capita** continued its seemingly unstoppable rise - up 17% this month. Capita is now the second best performing share since our index began - up 160% since Apr. 89. **MicroFocus** had fallen considerably this month as directors took some of their profits but US buying restored most of the loss.

On the other hand, the largest fall was experienced by **P&P** - down 55% in the month - after they warned that they would not trade profitably in the second half. **Microgen** also fell 15% after their profits warning (see p 10)

Computing Service Share Price Movements 27th Sept. 91 to 25th Oct. 91

Rank		% Change 27/9/91 to 25/10/91	% Change this year	Historic P/E
1	Enterprise	48.15%	-58.33%	2.70
2	Kalamazoo	20.51%	64.91%	6.71
3	Capita	17.19%	62.89%	18.91
4	Microvitec	14.71%	18.18%	Loss
5	Trace	13.04%	-53.57%	Loss
6	Pegasus	11.64%	0.62%	8.19
7	Electronic Data Processing	10.96%	220.25%	14.56
8	Vistec	6.90%	55.00%	16.32
9	Misys	6.32%	172.97%	17.57
10	Macro 4	3.47%	65.11%	16.87
11	Cray Electronics	2.99%	23.21%	27.60
12	Sage Group	2.62%	39.80%	14.27
13	Sherwood	1.60%	49.41%	7.47
14	Rolfe & Nolan	0.53%	27.03%	10.62
15	SD-Scicon	0.00%	130.77%	Loss
16	Star	0.00%	56.25%	Loss
17	Hoskyns	-0.26%	9.58%	29.92
18	P-E International	-0.57%	26.09%	11.60
19	Kewill	-2.46%	42.05%	9.41
20	INSTEM	-2.56%	-13.64%	5.43
21	Logica	-2.63%	32.93%	Loss
22	Total	-3.33%	45.00%	19.59
23	MMT	-3.49%	-6.74%	7.98
24	Radius	-4.17%	-4.17%	7.10
25	Sema Group	-4.17%	-49.30%	24.10
26	NMW	-4.29%	45.65%	25.77
27	ACT	-4.70%	86.84%	14.95
28	Admiral	-5.03%	42.67%	16.55
29	Sanderson	-5.38%	2.50%	4.96
30	Proteus	-5.83%	6.59%	Loss
31	EIT Group	-6.25%	-40.00%	Loss
32	Micro Focus	-6.92%	123.24%	27.53
33	Gresham Telecomputing	-11.11%	-60.00%	Loss
34	Computer People	-12.14%	17.14%	7.49
35	Learmonth & Burchett	-14.10%	48.89%	Loss
36	Microgen	-15.30%	27.05%	11.48
37	P&P	-54.55%	-34.52%	2.97

Riding along on the crest of Third Wave

Considering that **Third Wave Network plc** is still a fairly small company, its first annual report and accounts is a very glossy upbeat affair. Revenues up 127% at £5.6m were reported for the year to 31st March 1991. PBT was £501K compared with a loss of £286K last time. Net assets of £558K included £169K cash at year end.

Third Wave specialises in IT consultancy, services and software products for the financial services sector.

Third Wave's founder and Chairman, Bill Murphy, owns c26% of the company with 32 other directors and employees holding the remaining shares. The last year has seen operations established in UK, Ireland, India (via **International Informatics Solutions** of Delhi) and US (by the acquisition of the **DSL Group Inc**, a New York based IT staff contractor operation, on 1st May 91 for a total consideration of £225K). In addition, they have launched **MIND** - Marketing Information Database System. We are, however, concerned that Third Wave has thought fit to capitalise £189K of their R&D expenditure on this product.

Murphy forecasts continued growth in the coming year saying that "despite the continuing economic uncertainty the building society sector in particular, and the retail finance sector in general, continue to invest in IT".

Management changes at Microgen

Our scepticism and bearish views on **Microgen** (*System House* Aug. 91) seem well founded. It was announced that previous Chairman Patrick Barbour was switching jobs with Deputy Chairman Douglas Lee and that the new devolved management structure "implies a substantially reduced role for the Group CEO John Thorpe who has, by mutual agreement, resigned from the board". It was also announced that results for the year to 31st Oct. 91 would "show results somewhat below those in the previous year" when PBT of £8.5m was achieved. Interim results had shown PBT of £4.33m for the six months to 30th Apr. 91. In Jan 91, Barbour had said that "acquisitions will start to contribute this year" and had forecast "solid, sustained growth".

We still have severe doubts about the long term viability of Microgen's COM services but do hope that the new chairman continues Microgen's habit of using quotations on the front cover of its R&As. Perhaps Barbour now sees new meaning in the 1989 quote "In life, what lets you down is not what you know or what you don't know - it's what you think you know that isn't so".

50 jobs go at Enterprise..

Enterprise, which announced losses of £4.8m last month and whose share price has fallen from 49p to 18p this year, has announced that it is to close **South East Computers** which it acquired in Apr. 89 for £843K with the loss of 50 jobs. Business will be moved to sister company **Systems International**.

..and 250 more job losses at AT&T Istel

AT&T Istel warned that 250 jobs were at risk, many in the network division, "if current cost-cutting measures currently being taken are unsuccessful". Group CEO Chris Chiles said little organic growth is planned in the foreseeable future with lower than expected revenues in stagnating marketplaces. In Sept., 30 jobs were lost when AT&T Istel closed their systems division.

Willaire division collapse...

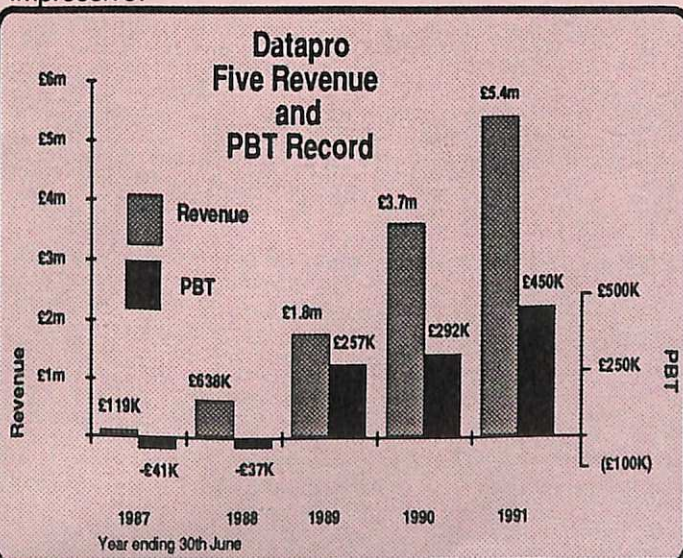
This month the quoted Willaire Group has put its electronics division - which comprised IBM/Compaq dealer, **BATS**, and PC manufacturer, **Walters, Keen and CSB** - into liquidation in order to protect its other operations from the consequences of the recession in the UK computer market. Receivers Stoy Hayward reported debts of £4m. The largest creditor is thought to be **Technology plc** which is owed £104K.

...creates yet another opportunity for Datapro

The Willaire collapse provided yet another opportunity for expansion at **Datapro**. Believe it or not, **this year Datapro has bought six operations from the receiver**. They started the year with RS6000 specialist **Practica**, followed by the hardware maintenance operations of **Pennine and Interfix**. They then acquired the maintenance operations of Apple's largest dealer - **CSS**. This month, Datapro acquired the maintenance operations of **SMM** for "around £100K" and the maintenance operations of **BATS** "for a five figure sum" - both also from the receiver.

Datapro, which is run and one third owned by Martin Baldwin ex of Hoskyns and Laserscan, was born and bred on acquisitions. They were formed in 1986 when they acquired IBM dealer, **Ellipsys**. This was followed by **TPM, Midas, Apricot dealer, Southern Micro, PC dealers Microtek, Systrex, Carrington and Phoenix** as well as another **TPM, Wordfactory**. Most of these purchases have been from the receiver.

In 1990, 3i invested £500K for a 20% stake in Datapro. Baldwin and his partner, Graham Nicholson have 33% each and the rest of the equity is owned by the staff. History, and our natural cynicism, would indicate that with this kind of acquisition record Datapro should by now be in a terrible mess. Their record, however, is surprisingly impressive:



40% of revenues derive from maintenance activities. The remainder comes from PC activities where it is one of Apricot's top five systems integrators as well as supplying Apple, IBM, Compaq and Tandon kit. Baldwin would still like to increase the profit margin to 10% but is particularly pleased with his 66% gross profit margin which is derived from his ever increasing value added support services. From the record, we are not surprised that Baldwin is well known to the receivers, but says he is still interested in learning about further acquisition opportunities.

November 1991

Computing Services Capitalisation - 25th Oct. 91

Rank		Capitalisation 25/10/91 £m	% Change since 15/4/89	% Change since 27/9/91	£m Change since 27/9/91
1	Hoskyns	£ 356.50	116.32%	-0.25%	-£ 0.90
2	Micro Focus	£ 238.24	823.41%	-6.90%	-£ 17.66
3	Sema Group	£ 229.95	-19.06%	-4.19%	-£ 10.05
4	ACT	£ 151.77	283.25%	-4.67%	-£ 7.43
5	Logica	£ 136.08	-38.37%	-2.59%	-£ 3.62
6	SD-Scicon	£ 121.20	-22.90%	0.00%	£ 0.00
7	Macro 4	£ 85.80	59.18%	3.50%	£ 2.90
8	Cray Electronics	£ 73.20	-50.84%	3.10%	£ 2.20
9	Misys	£ 68.82	-9.21%	6.37%	£ 4.12
10	Microgen	£ 59.97	-32.16%	-15.29%	-£ 10.83
11	Sage Group	£ 54.70	158.03%	2.63%	£ 1.40
12	Capita	£ 38.69	377.64%	17.24%	£ 5.69
13	P-E International	£ 38.10	-3.79%	-0.52%	-£ 0.20
14	Admiral	£ 34.37	135.42%	-5.05%	-£ 1.83
15	P&P	£ 30.50	-59.18%	-54.55%	-£ 36.60
16	Kewill	£ 26.37	56.95%	-2.34%	-£ 0.63
17	Electronic Data Processing	£ 22.05	160.59%	11.34%	£ 2.25
18	Proteus	£ 20.84	15.46%	-5.70%	-£ 1.26
19	Vistec	£ 17.63	211.96%	6.82%	£ 1.13
20	Computer People	£ 17.10	-44.30%	-11.86%	-£ 2.30
21	Enterprise	£ 14.56	-66.53%	48.12%	£ 4.73
22	Radius	£ 12.55	-60.65%	-4.17%	-£ 0.55
23	Microvitec	£ 12.10	9.01%	15.24%	£ 1.60
24	Sanderson	£ 10.82	-45.06%	-5.88%	-£ 0.68
25	Rolfe & Nolan	£ 10.50	140.27%	0.00%	£ 0.00
26	Pegasus	£ 9.96	-49.69%	11.68%	£ 1.04
27	Learmonth & Burchett	£ 8.92	-38.88%	-14.19%	-£ 1.48
28	MMT	£ 8.81	-49.08%	-3.50%	-£ 0.32
29	Kalamazoo	£ 8.66	34.32%	20.49%	£ 1.47
30	NMW	£ 6.93	-43.69%	-4.33%	-£ 0.31
31	EIT Group	£ 6.72	82.61%	-6.28%	-£ 0.45
32	Sherwood	£ 6.66	8.20%	1.60%	£ 0.10
33	Trace	£ 3.44	-78.63%	13.16%	£ 0.40
34	INSTEM	£ 3.42	-24.00%	-2.56%	-£ 0.09
35	Gresham Telecomputing	£ 2.55	-42.41%	-11.11%	-£ 0.32
36	Star	£ 1.70	-79.06%	0.00%	£ 0.00
37	Total	£ 1.45	-72.64%	-3.33%	-£ 0.05

DTI probe at Telecomputing

As reported in the Oct. issue, after the "merger" with **Telecomputing**, **Gresham** found that "contrary to previous understandings **Telecomputing plc** may not be the legal owners of any shares in **Merrion Gates**". Now the DTI are probing allegations of insolvent trading, falsified board minutes and overstated profits at **Telecomputing** prior to **Gresham's** takeover. Although board minutes purport to have shown a 55% holding in **Merrion Gates**, **Gresham** have been unable to find any underlying documentation. **Merrion Gates** collapsed in 1989. **Telecomputing** is also attempting to dismiss its auditors - **Haines Watts**. They are refusing to resign until their fees are paid.

DTI inspections are still rare and are unlikely to be initiated without good reason. It all looks a bit a mess. Shares in **Gresham Telecomputing** have fallen from 11p to 8p since the merger and a 60% fall since the start of 1991. Even that is a far cry from the £1.17 at the end of 1989 when **Ferrari** bought its 29% stake. But that is another, rather old, story.

—System House—

The IT thoughts of John Major

Jane Tozer, whilst President of the CSA, wrote to the Prime Minister concerning the adverse effect of the recession on CSA companies. Tozer was concerned about the increased foreign ownership of CSI companies. Major replied *"In an area like IT, where markets and companies are increasingly international, it is now vital to secure new investment in the UK...since 1984 over 200 (inward IT investment) projects, worth more than £2b, have created over 30,000 new jobs. This demonstrates investors' confidence in the UK and its IT industries"*.

Major also said he was pleased that the UK had grown its share of the world market. We can only assume that this false impression came from the DTI report "CSI 1986-1996 Update", produced by Coopers & Lybrand, in Feb. 1990. Our review of this report (*System House* Mar 90) stated that, contrary to the report's statement that *"the Top 10 UK companies grew their world market share by almost 12.4% from 1986"* the UK share of the world market had, if Reuters were excluded, *fallen* by 5.6% between 1986 and 1988 to just 1.33%.

The UK world market share figures would be even worse today. As we reported in Sept. 91, almost all our top system houses are now in foreign ownership - a complete reversal *"since 1984"* and a significant change since the DTI update was produced.

We believe that although *"inward investment"* is obviously welcome it is no substitute for UK ownership and control.

We doubt if the Government has any understanding of the implications of the changes which have occurred during their tenure. In 1979, the UK stood a real chance of being a major player on the international CSI scene. The UK is now little more than a bit player; with the star roles awarded to the US, French and the Japanese. We would like to believe that the UK still has a chance to regain its place but we are afraid that, realistically, the cause is lost.

Logica

Logica's annual Report and Accounts is always a visual gem - a real collectors item. This year's is no exception with the theme being mathematical puzzles; fortunately the answers are given on the back page!

October's *System House* carried a full report on Logica's results for the year to 30th June 91 when PBT fell by 58% to £3.7m. One of our previous analyses had shown Logica's board to be the most expensive in the sector. David Mann correctly pointed out that this was only because they had more executive directors - *"If executive directors were not members of the board, they would still receive their same salaries as managers and the net cost to the company of their participation is therefore very marginal"*. Anyway, Logica's full R&A shows a reduction in board costs from £1.52m to £1.19m this year and states *"on 17th Sept 91, Brian Martin and Steve Stevenson left the board as part of an arrangement to reduce its size and to increase the proportion of non-execs"*.

Logica's highest paid director earned just £121K in the Year (Last year £116K).

Industry growth rates

The CSA annual survey, published this month, shows that its 354 members had combined revenues of £3.7b in 1990 - up 20% on 1989. The CSA rightly points out that this is not the growth in the industry, as their membership is 20 companies higher than in 1989.

As previously reported, our analyses of 600 companies with 1990 revenues totalling £5b showed a growth, excluding acquisitions, of 16% in 1990. We are often asked to give our predictions...*so here goes*. Our best current *questimate* for 1991 is no growth at all and a 5% growth in 1992. These figures are far more pessimistic than most other sources. Our views have been formed by the unscientific method of asking the confidential views of the CEOs of the leading companies in our industry.

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