

System House

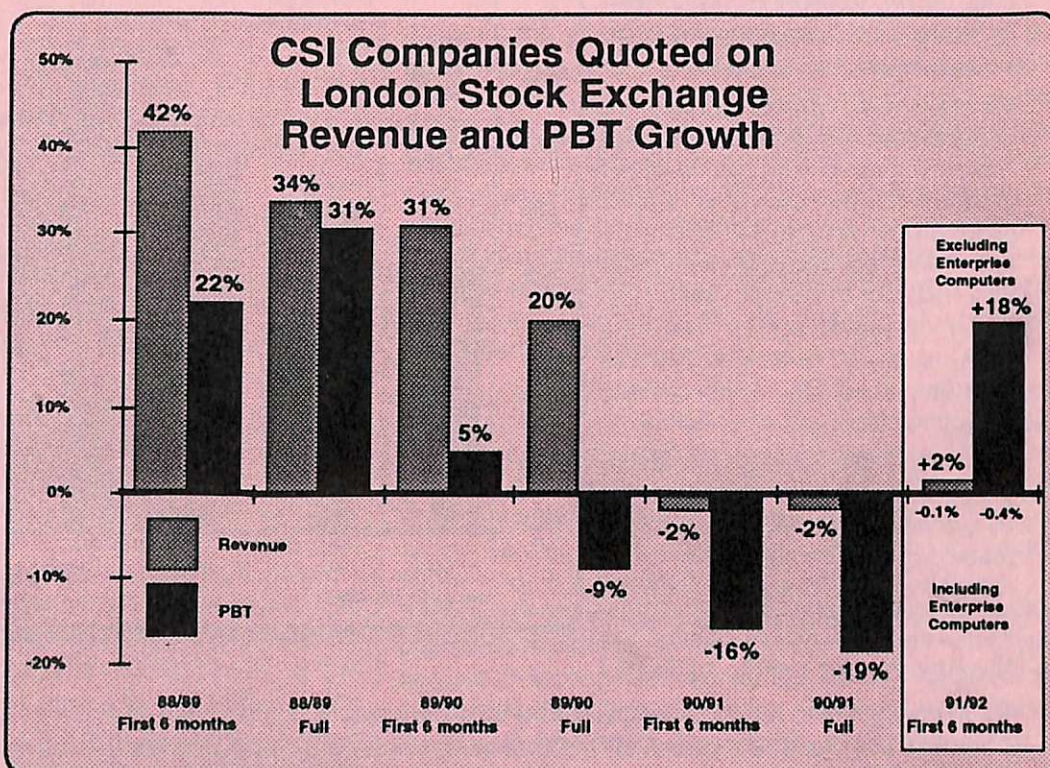
The monthly review of the financial performance of the UK computing services industry
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Profits recovery on the way?

Regular *System House* readers will know that at mid year and end of year we produce an analysis of the very latest results, be they interim or full year, of the c37 CSI companies quoted on the London Stock Exchange. The mid year analysis has provided a remarkably accurate advance indicator of the financial performance of the industry.

As can be seen from the chart below, since early 1988 both revenue and profits have been in full blown retreat with profits growth turning negative as early as the end of 1990 and revenue static.

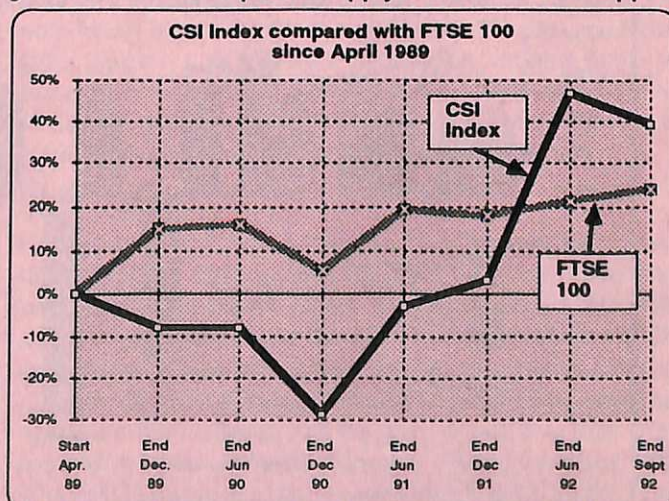
The latest analysis confirms the prediction we made many months ago. **Revenue growth is still non-existent** but previous cost cutting (a euphemism for job losses) has arrested the headlong profits plunge. Indeed, if you exclude the rather exceptional £8.3m losses reported by Enterprise Computers, the remaining companies have experienced an 18% profits revival. In our June issue we predicted that profits would grow 15% in 1992, so we might well be proved pessimistic for once! But readers should note that it will still take a considerable time for the industry to



recover to the absolute level of profits achieved back in 1988. The pain suffered by the industry to achieve this profits upturn is considerable - **we estimate that around 8% fewer people are now employed by UK CSI companies.** However optimistic you might be, it is going to take a very long time before this surplus of supply over demand is mopped up. (See page 3 for the dramatic job losses announced this month).

The profits recovery was greatly helped by a return to profits, after previous losses, for Gresham Telecomputing, LBMS, Microvitec and Star. Only Enterprise Computers went from profit to loss - albeit quite dramatically from a profit of £7.5m in 1991 to a loss of £8.3m. The very best performances this year came from, as you might expect, "recovery stocks" like Total Systems (PBT up 636%), Sherwood (PBT up 204%), Logica (PBT up 92%), Misys (PBT up 62%) and Vistec (PBT up 54%).

Investors must have already anticipated this profits recovery as our CSI Index has risen 31% since the start of 1992 with the best share price performances coming from Gresham Telecomputing (up 244%), Proteus (up 100%), Vistec (up 74%), Sanderson (up 71%) and LBMS (up 71%). *Who says the City doesn't know which way is up?*



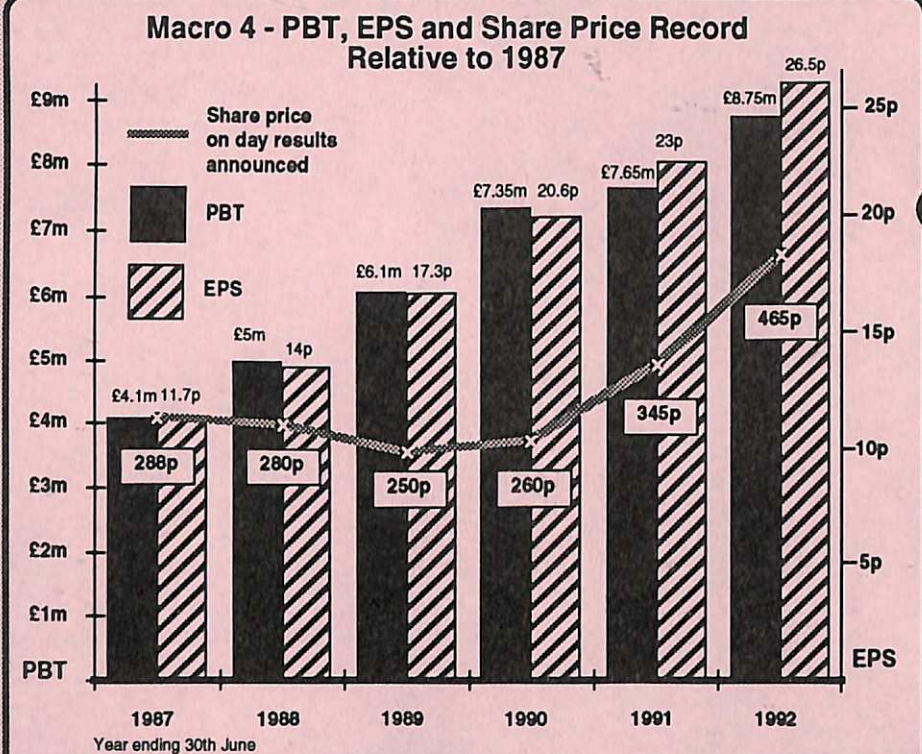
Wasted opportunities at Macro 4?

Macro 4 supplies system software to the IBM mainframe, and latterly AS/400, market. Most of it is rented and in the year to 30th June 92 rentals represented 84% of turnover. In the year, Macro 4 increased revenues by 5.5% to £19m, PBT by 14.4% to £8.75m and EPS by 15.2%. Macro 4 is a rarity amongst UK owned CSI companies in making 76% of its revenues outside the UK - with 31% originating in the US and 40% from mainland Europe. As we all know, the \$ had weakened considerably in the period *"Had there been no variation in the US\$ rate from the beginning of the financial year, we estimate that group turnover would have been £20.04m (an increase of 11.1% over 1991) and PBT would have been enhanced by £549K"*. Macro 4 could therefore benefit greatly from the ERM debacle this month. Cash increased by £4.3m to £15.6m.

These results are the latest in a long line of consistent, secure growth for Macro 4 as shown in the chart below. Other than buying their overseas agents (they bought out their Benelux agent for £100K this year), Macro 4 have resisted using their cash mountain for acquisitions. Instead they have spent millions on their new HQ - "The Orangery". Now Macro 4 is to pay a special 5p dividend on top of the 12.75p standard dividend; itself up 16% on the year. But are property investments and extra dividends what investors in software companies really want? The Macro 4 share price spent four years in the doldrums but has performed well in the last two years. Conversely Micro Focus, which is also in the systems software market with a majority of sales from overseas, does not pay a dividend but has seen its share price increase some eight times in the same period.

Macro 4's performance is underwritten by its rental stream *"protecting the group against all but the most violent downturns"*. But its long term future is currently dependent on the IBM mainframe and mid range markets, which are highly vulnerable, and by Macro 4's ability to exploit new open systems markets, an ability which is also questionable.

Chairman Terry Kelly says that Macro 4 *"is expected to remain cash generative and expects to see better than nominal profits growth in 1993"*. Criticisms aside, many, we are sure, would be happy to settle for that.



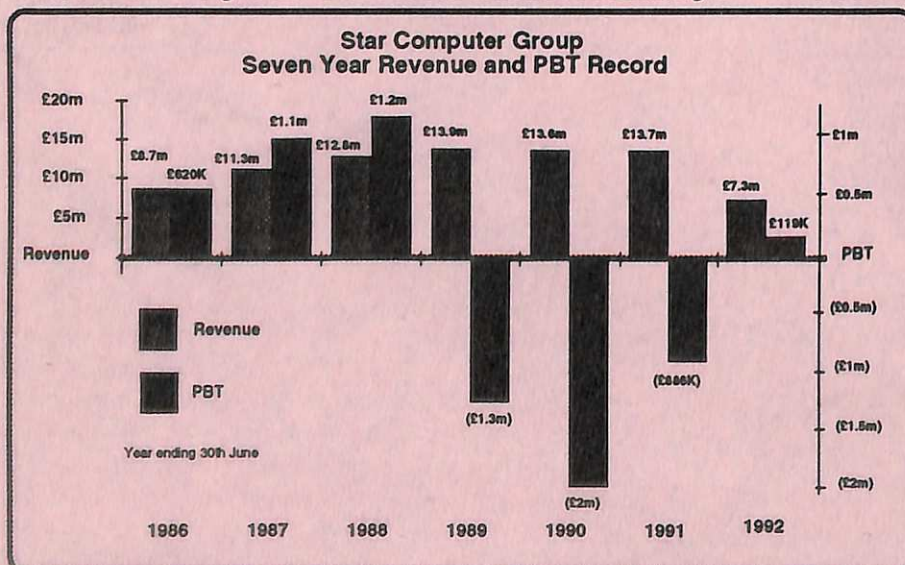
Star sees the light...at last

We are delighted to report, at long last, that **Star Computers** has reported its first profit since 1988. Latest results for the year to 30th June 92 showed PBT of £119K compared with a £886K loss last time on revenues sharply lower at £7.3m (£13.7m). The revenue reductions are not just due to the difficult market conditions in the chartered accountants, field service and more general UNIX based financial accounting markets that Star serves. In the last year they have also

disposed of their maintenance base to Misys (for £2.7m) and closed down certain non-core activities. Both the remaining operations, Star Computers and Pinnacle, are now reported to be making profits. Indeed, second half net profits of £372K were disclosed.

Star also reported *"cash funds of £804K, no borrowings, a strong order book and a healthy level of recurring revenue"*.

Chairman David Blechner said *"With our continuing focus on core business activities we are confident of further profitable and controlled growth this year"*. As we reported, Luke Johnson and Hugh Osmond recently bought a 22% stake.



Creditable performance from INSTEM

Given the problems which have affected many in the CSI sector, INSTEM has an excellent record. There has not been a PBT or EPS reversal since 1987. Although latest results for the six months to 3rd Jul. 92 show revenues down 10.3% at £7.1m, PBT advanced by 8.7% to £551K and EPS was up 10.4%.

INSTEM has two main operating divisions. Computer Systems specialises in monitoring systems particularly for electricity generators. Performance has been "particularly good". But the Electronics Division "has had reduced levels of activity because customers have been effected by the recession".

Chairman, David Gare still expects "a satisfactory outcome for the year".

Recovery at Sema

Latest results from Sema Group plc, for the six months to 30th June 92, show revenues down 2.7% at £195.4m but PBT up 17.7% at £7.7m and EPS advanced 12.8%. The revenue decline was due to the disposal of the French market research company, Sofres, in Jan 92 for £29.9m. At the time of the sale, Sema eliminated debt and now boasts £8m cash (compared with net debt of £18m this time last year). Revenues from continuing activities rose by 10%.

Back in 1990 when Pierre Bonelli took over (remember that even though Sema is listed on the London Stock Exchange, nearly 90% of its shareholders are currently French) he "saw no reason why a profit margin of 10% could not be achieved". Since then the already low margin has declined at each announcement. However, at least with these results he can boast the first improvement - from 3.1% to 4%.

The Sofres disposal means that the UK is now Sema's largest market - at 44% - but UK profitability is still not acceptable. Revenues from France now come in at 34% and Spain 8%. Profitability had improved in both these countries. Germany contributed 7% of revenues and Benelux 6%. Systems integration is Sema's largest sector at around 75% of revenues. The "highly profitable" FM sector accounts for 14% of revenues but, although the software products sector constitutes 10% of revenues, it continues to be loss-making. The BAe-Sema joint venture is still only at break even. A partnership agreement is in the final stages of negotiation for the I-Linie industrial software product which has involved considerable investment to date.

As reported in previous editions, Sema confirmed that France Telecom would be acquiring a minority stake but, as the deal was subject to French Government approval, the details could not at present be divulged. It looks as though Banque Paribas (which holds a 39% stake in Sema) will form a joint holding company with France Telecom; possibly with Schneider selling its 10.5% stake. This is of great interest to CGS, which holds 29% of Sema equity, and has itself been looking for a further partner to balance the recent Daimler-Benz involvement.

Anyway, Bonelli believes that "the structure of the market and the changing patterns of demand should see Sema in an increasingly strong position...we have a sound and consistent strategy for continued growth in the present economic environment".

Job losses.... at CGS-Hoskyns

Job losses occur with such regularity that they hardly now warrant a mention in *System House*. This month Hoskyns shocked even seasoned industry watchers by making 150 of its 3000 UK staff redundant. The cuts were even more of a surprise in that 40 of these job losses involved Hoskyns senior managers. Indeed, 30% of the most senior 20 directors in the group were effected. Hoskyns always prided itself on the stability of its top management.

It seems that Hoskyns has hit hardest at central marketing, sales and support functions but has left the grass roots profit centre managers largely in place. This means that such high profile people as Marketing Director Simon Orme is to leave. But other cuts hit people who have been with Hoskyns literally "man and boy". Many readers, we know, will be interested that Nick Blackeney-Edwards (for so long associated with the highly successful Hoskyns training activities), Barry Hodson (the key Hoskyns director in the North) and Brian Garbett were amongst long serving directors to lose their jobs.

Although the job losses were a considerable shock to those involved, Hoskyns was praised for the way it handled such a difficult task "with grace and style". Hoskyns has removed the "golden handcuffs" put on by both the Plessey and CGS acquisitions; meaning that stock options, in many cases exceeding £100K, can now be encashed. In addition to generous redundancy terms, the top directors have been offered continuing consultancy contracts. Staff can also continue to use their desks and office services. Ex-Hoskyns David Dillistone has been appointed to offer out-placement counselling.

Hoskyns' executive chairman Geoff Unwin was reported as saying that his business plan had been based on the belief that the recession would have started to lift by the end of 1992. There had however been "no signs of improvement so far and no compelling reason why there should be one. We are pessimistic about the next year". Source - Alan Cane writing in the FT 17th Sept. 92.

There were also reports this month that Hoskyns' name might be changed by its French owners, CGS, when the acquisition is completed in early 1993. CGS-Hoskyns was mentioned as the most likely nomenclature; very similar to the EDS-Scicon name, recently chosen for SD-Scicon.

Job losses....as Enterprise shuts DEC division

Enterprise Computers recently announced a £8.3m loss in the 15 months to 31st Mar. 92 and a new board of directors was installed in June. It therefore came as no surprise to learn that this month Enterprise has closed its DEC division with the loss of 30 jobs. Indeed, 30% of Enterprise's 203 staff were given their cards this month. The new Chairman, Shaun Dowling, says that performance is improving but "we are not yet back in profit".

Job losses....at DEC and IBM

Enterprise Digital was formed in 1989 by ex-DEC senior managers but staying with DEC would have proved no less risky. This month Geoff Shingles warned DEC UK staff that more jobs would be cut from the 4,600 strong UK work-force unless profits were recorded in the next three quarters. But none of the job losses listed above compares with the announcement, as we go to press, that IBM is to reduce its worldwide work-force by 40,000 this year; 600 jobs will be lost in the UK. A move which will cost \$2.1 bn.

"Smiles" from Logica

Last year **Logica** chose a picture of a yacht sailing through heavy storms to open its analyst's briefing. It was appropriate that this time they chose a picture of some smiling people facing a tough challenge on a management exercise.

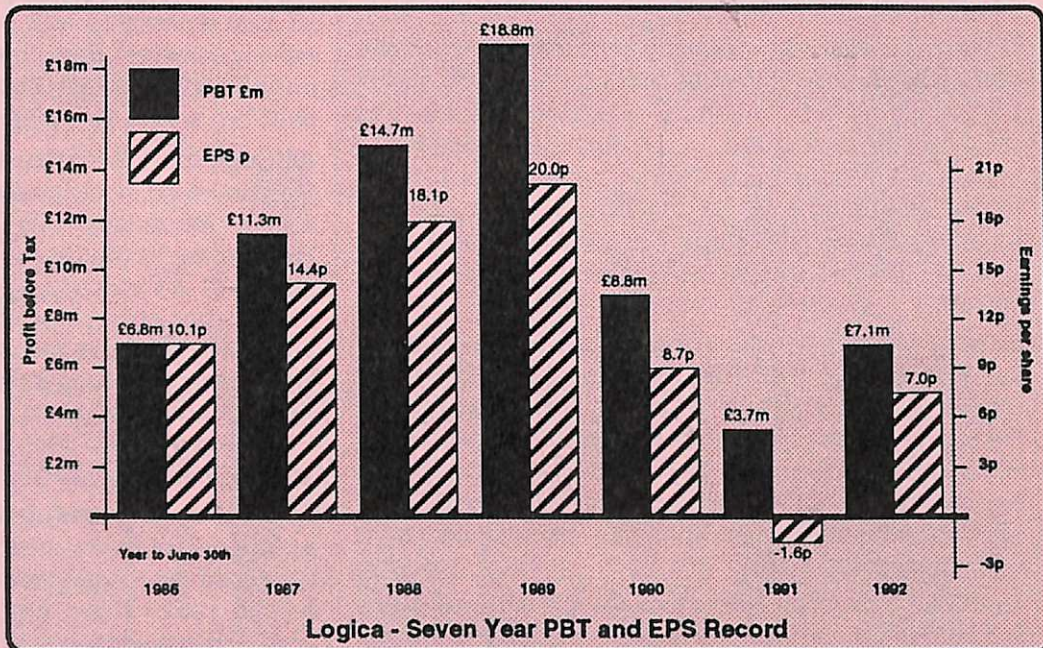
Readers should be in no doubt by now that we would bend over backwards to write the most bullish review we could of the UK's last remaining major independent CSI company. The results for the year to 30th June 92 show PBT up 92% at £7.06m on static revenues of £200m. The revenue performance is even more impressive considering that average staff numbers (3374) were 5% less than last year. EPS was 7.0p compared with a Loss per share of 1.6p last time. But, at the operating level, profits declined from £7.8m to £5.7m. Last time profits were affected by £6.4m exceptional costs resulting from US and UK redundancy costs. There were no exceptional charges this time. Interest receivable also decreased from £2.3m to £1.4m although net cash balances remained strong at £13.7m (£14.9m).

Logica's US operations have been the major cause of the problems over the last few years. In 1989 Data Architects (the US subsidiary) contributed profits of £4m but this had plunged to a loss of £2.7m last year. Logica was therefore justified in its pleasure in reporting profits of £500K in the US on revenues of £24m. The Asia-Pacific region contributed profits of £400K on revenues of £14.5m. The UK, perhaps against all the recessionary odds, grew revenues by 7% to £122m although operating profits reduced by 20% from £8.8m to £7.1m. The majority, £1.6m, of this profit reduction was due to the cost of withdrawal from the broadcast product business earlier this year. Some of the UK growth was achieved by

pushing hard into export markets to compensate for weak demand in some sectors - particularly finance. It is gratifying to note that Logica boosted UK export earnings by 25%. UK operating margins increased from 7.6% in H2 1990/91 to 8.2% in H2 1991/92. The biggest turnaround was in continental Europe where profits of £2m last year were replaced by losses of £1.7m. The Netherlands operations were mainly to blame where the £700K cost of staff reductions was taken above the line.

Logica's proportion of revenue from fixed price contracts had been growing steadily from 32% in 1987/88 to 56% in the first half of 1991/92. However, a reduction to 52% was experienced in the second half of 1991/92.

In line with others, hardware sold as part of systems



integration contracts has continued to decline - down from 8% to 5% of revenues in the year. Conversely, software products increased from 10% to 12% of revenues. Custom built software represents the majority (63%) of revenues.

In line with the leaders of the UK's other system houses, Logica's MD, David Mann, expects market conditions to remain weak for the remainder of the current financial year. But Logica does seem to have taken the medicine and cost cutting has already taken place. Mann was quite justified in saying "Yes, we have our challenges in Europe and life continues to be tough, but in general we really are feeling better around the company".

Logica's long-term relationships with its customers are amongst its most important assets. "Looking at the 36 customers who have contributed most to our revenue this year, over 60% were our customers 15 years ago".

Prospects are expected to continue to improve in the period ahead and analysts are currently expecting profits of £10m next year.

We have the very highest regard for Logica; particularly its high technical capabilities. Now that Logica does seem to be well on the mend, they are likely to become even more of an acquisition target. Their current capitalisation is £100m compared with over £220m in 1989. Compared with the prices paid for SD-Scicon, Hoskyns and Data Sciences in the last two years, they look a snip.

Logica	1991/92 Revenue	1991/92 Operating Profit
UK	£122m +7%	£7.1m Profit (Down 20% from £8.9m)
Continental Europe	£40m -6%	£1.7m Loss (from £2m Profit)
North America	£24m -10%	£500K Profit (from £2.7m loss)
Asia Pacific	£14m +2%	£400K Profit (Break-even)

Richard Holway Results Service

ACT Group plc	Results Revenue PBT EPS	Final - Mar 91 £ 98,831,000 £ 12,706,000 9.5p	Final - Mar 92 £ 119,447,000 £ 17,020,000 10.83p	Final Comparison +20.9% +34.0% +14.0%	
Admiral plc	Results Revenue PBT EPS	Interim - June 91 £ 11,686,000 £ 1,667,000 10.3p	Final - Dec 91 £ 26,104,000 £ 3,472,000 21.9p	Interim - Jun 92 £ 13,656,000 £ 1,960,000 11.6p	Interim Comparison +16.9% +17.6% +12.6%
Capita Group plc	Results Revenue PBT EPS	Interim - Jun 91 £ 11,104,000 £ 1,382,000 7.1p	Final - December 91 £ 24,711,830 £ 3,448,487 15.71p	Interim - Jun 92 £ 13,732,000 £ 1,769,000 7.6p	Interim Comparison + 23.7% +28.0% +7.0%
Computer People Group plc	Results Revenue PBT EPS	Final - Dec 90 £ 76,170,000 £ 3,106,000 16.42p	Final - Dec 91 £ 67,700,000 £ 1,010,000 5.48p	Interim Comparison -11.2% -67.5% -66.6%	
Cray Electronics Holding plc	Results Revenue PBT EPS	Final - Apl 91 £ 107,286,000 £ 3,509,000 2.5p	Final - Apl 92 £ 84,786,000 £ 4,787,000 3.2p	Final Comparison -21.0% +36.4% +28.0%	
EIT Group plc	Results Revenue PBT EPS	Final - Mar 91 £ 485,000 (£ 246,000) (4.15p)	Final - Mar 92 £ 7,029,000 (£ 190,000) (1.3p)	Final Comparison +1349% Loss both Loss both	
Electronic Data Processing plc	Results Revenue PBT EPS	Interim - Mar 91 £ 8,654,000 £ 1,865,000 14.69p	Final - Sep 91 £ 17,420,000 £ 4,083,000 32.83p	Interim - Mar 92 £ 7,468,000 £ 2,407,000 18.83p	Interim Comparison -13.7% +29.1% +28.2%
Enterprise Computer Holdings plc	Results Revenue PBT EPS	Final (restated)- Dec 90 £ 183,149,000 £ 7,532,000 7.4p	Final -15 mos to Mar 92 £ 157,857,000 (£ 8,330,000) (9.8p)	Final Comparison not comparable Profit to Loss Profit to Loss	
Gresham Telecomputing plc	Results Revenue PBT EPS	Interim - Mar 91 £ 732,000 (£ 79,000) (1.26p)	Final - Oct 91 £ 6,296,000 £ 355,000 1.0p	Interim - Apr 92 £ 3,954,000 £ 284,000 0.57p	Interim Comparison +440.2% Loss to Profit Loss to Profit
Hoskyns Group plc	Results Revenue PBT EPS	Interim - Apr 91 £ 102,800,000 £ 8,600,000 6.4p	Final - Oct 91 £ 200,663,000 £ 14,299,000 10.5p	Interim - Apr 92 £ 95,700,000 £ 5,600,000 3.9p	Interim Comparison -6.9% -34.9% -39.1%
INSTEM plc	Results Revenue PBT EPS	Interim - Jun 91 £ 7,870,000 £ 507,000 7.21p	Final - Dec 91 £ 15,810,000 £ 1,010,000 15.2p	Interim - Jun 92 £ 7,062,000 £ 551,000 7.96p	Interim Comparison -10.3% +8.7% +10.4%
Kalamazoo Computer Group plc	Results Revenue PBT EPS	Final - 8 mos- Mar 91 £ 39,000,000 £ 2,300,000 4.1p	Final - Jul 91 £ 60,764,000 £ 3,660,000 7.0p	Final - 8 mos- Mar 92 £ 38,300,000 £ 600,000 Nil	Final Comparison -1.8% -73.9% n/a
Kewill Systems plc	Results Revenue PBT EPS	Final - Mar 91 £ 31,298,000 £ 3,731,000 31.2p	Final - Mar 92 £ 41,824,000 £ 2,421,000 19.91p	Final Comparison +33.6% -35.1% -36.2%	
Learmonth & Burchett Management Systems plc	Results Revenue PBT EPS	Final - Apr 91 £ 19,485,000 (£ 1,701,000) (10.5p)	Final - Apr 92 £ 21,404,000 £ 303,000 0.7p	Final Comparison +9.8% Loss to Profit Loss to Profit	
Logica plc	Results Revenue PBT EPS	Final - Jun 91 £ 197,758,000 £ 3,676,000 (1.6p)	Final - Jun 92 £ 200,383,000 £ 7,062,000 7.0p	Final Comparison +1.3% +92.1% Loss to Profit	
Macro 4 plc	Results Revenue PBT EPS	Final - Jun 91 £ 18,028,000 £ 7,647,000 23.0p	Final - Jun 92 £ 19,016,000 £ 8,750,000 26.5p	Final Comparison +5.5% +14.4% +15.2%	
Micro Focus plc	Results Revenue PBT EPS	Interim - Jul 91 £ 25,387,000 £ 8,961,000 43.1p	Final - Jan 92 £ 55,869,000 £ 18,146,000 83.1p	Interim - Jul 92 £ 30,053,000 £ 9,420,000 45.9p	Interim Comparison +18.4% +5.1% +6.5%
Microgen Holdings plc	Results Revenue PBT EPS	Interim - Apr 91 £ 24,604,000 £ 4,328,000 7.2p	Final - Oct 91 £ 47,735,000 £ 7,283,000 12.2p	Interim - Apr 92 £ 24,974,000 £ 4,368,000 7.2p	Interim Comparison +1.5% +0.9% Same
Microvitec plc	Results Revenue PBT EPS	Interim - Jun 91 £ 12,484,000 (£ 2,212,000) (4.8p)	Final - Dec 91 £ 36,873,000 (£ 3,847,000) (5.3p)	Interim - Jun 92 £ 25,533,000 £ 62,000 0.1p	Interim Comparison +104.5% Loss to Profit Loss to Profit

Richard Holway Results Service

Misys plc	Results Revenue PBT EPS	Final - May 91 £ 67,253,000 £ 5,626,000 11.5p	Final - May 92 £ 68,023,000 £ 9,118,000 17.8p	Final Comparison +1.1% +62.1% +54.8%	
MMT Computing plc	Results Revenue PBT EPS	Interim - Feb 91 £ 3,100,000 £ 626,000 3.4p	Final - Aug 91 £ 5,920,484 £ 1,256,967 6.8p	Interim - Feb 92 £ 3,009,000 £ 712,000 3.9p	Interim Comparison -2.9% +13.7% +14.7%
NMW Computers plc	Results Revenue PBT EPS	Final - Dec 90 £ 8,726,000 £ 413,000 1.3p	Final - Dec 91 £ 10,588,000 (£ 207,000) (0.9p)	Final Comparison +21.3% Profit to Loss Profit to Loss	
P & P plc	Results Revenue PBT EPS	Interim - May 91 £ 120,700,000 £ 3,300,000 3.9p	Final - Nov 91 £ 228,324,000 £ 711,000 0.9p	Interim - May 92 £ 119,300,000 £ 1,000,000 1.0p	Interim Comparison -1.2% -69.7% -74.4%
P-E International plc	Results Revenue PBT EPS	Interim - Jun 91 £ 33,565,000 £ 1,833,000 6.7p	Final - Dec 91 £ 68,750,000 £ 1,622,000 4.9p	Interim - Jun 92 £ 35,508,000 £ 514,000 1.5p	Interim Comparison +5.8% -72.0% -77.6%
Pegasus Group plc	Results Revenue PBT EPS	Interim - Jan 91 £ 4,138,000 £ 774,000 8.9p	Final - Jul 91 £ 8,493,000 £ 1,669,000 19.9p	Interim - Jan 92 £ 3,367,000 £ 320,000 3.8p	Interim Comparison -18.6% -58.7% -57.3%
Proteus International plc	Results Revenue PBT EPS	Final - Mar 91 £ 7,000 (£ 1,502,000) (7.01p)	Final - Mar 92 £ 3,000 (£ 2,410,000) (11.05p)	Final Comparison -57.1% Loss both Loss both	
Radius plc	Results Revenue PBT EPS	Interim - May 91 £ 14,708,000 £ 801,000 1.7p	Final - Nov 91 £ 28,115,000 £ 366,000 0.8p	Interim - May 92 £ 11,988,000 £ 525,000 1.0p	Interim Comparison -18.5% -34.5% -41.2%
Real Time Control plc	Results Revenue PBT EPS	Final - Mar 91 £ 7,571,000 £ 1,199,000 10.9p	Final - Mar 92 £ 6,835,000 £ 1,192,000 11.1p	Final Comparison -9.7% -0.6% +1.8%	
Rolfe & Nolan Computer Services plc	Results Revenue PBT EPS	Final - Feb 91 £ 6,298,000 £ 1,446,000 17.7p	Final - Feb 92 £ 6,737,000 £ 1,390,000 15.9p	Final Comparison +7.0% -3.9% -10.2%	
Sage Group plc	Results Revenue PBT EPS	Interim - Mar 91 £ 7,821,000 £ 3,024,000 11.61p	Final - Sep 91 £ 20,002,000 £ 6,638,000 25.5p	Interim - Mar 92 £ 14,489,000 £ 4,340,000 14.53p	Interim Comparison +85.3% +43.5% +25.2%
Sanderson Electronics plc	Results Revenue PBT EPS	Interim - Mar 91 £ 10,606,000 £ 1,501,000 11.0p	Final - Sep 91 £ 20,503,000 £ 2,403,000 19.2p	Interim - Mar 92 £ 10,610,000 £ 1,801,000 16.0p	Interim Comparison +0.0% +20.0% +45.5%
Sema Group plc	Results Revenue PBT EPS	Interim - Jun 91 £ 200,869,000 £ 6,566,000 4.7p	Final - Dec 91 £ 412,501,000 £ 14,015,000 11.02p	Interim - Jun 92 £ 195,393,000 £ 7,729,000 5.3p	Interim Comparison -2.7% +17.7% +12.8%
Sherwood Computer Services plc	Results Revenue PBT EPS	Interim - Jun 91 £ 12,139,000 £ 575,000 6.6p	Final - Dec 91 £ 22,321,000 £ 2,446,000 19.6p	Interim - Jun 92 £ 10,710,000 £ 1,748,000 16.7p	Interim Comparison -11.8% +204.0% +153.0%
Star Computer Group plc	Results Revenue PBT EPS	Final - Jun 91 £ 13,718,000 (£ 886,000) (12.6p)	Final - Jun 92 £ 7,333,000 £ 119,000 1.9p	Final Comparison - 46.6% Loss to Profit Loss to Profit	
Total Systems plc	Results Revenue PBT EPS	Final - Mar 91 £ 2,041,384 £ 102,768 0.74p	Final - Mar 92 £ 2,796,777 £ 756,880 5.11p	Final Comparison +37.0% +636.5% +590.5%	
Trace Computers plc	Results Revenue PBT EPS	Interim - Nov 90 £ 9,946,000 £ 31,000 0.06p	Final - May 91 £ 19,698,904 (£ 471,377) (2.04p)	Interim - Nov 91 £ 9,715,000 £ 221,000 1.59p	Interim Comparison -2.3% +612.9% +2550.0%
Vega Group plc	Results Revenue PBT EPS	Final - Apr 91 £ 4,984,000 £ 1,243,000 6.19p	Final - Apr 92 £ 6,269,000 £ 1,433,000 7.23p	Final Comparison +25.8% +15.3% +16.8%	
Vistec Group plc	Results Revenue PBT EPS	Final - Apr 91 £ 31,005,000 £ 1,763,000 0.95p	Final - Apr 92 £ 32,287,000 £ 2,714,000 1.52p	Final Comparison +4.1% +53.9% +60.0%	

Acquisitions, disposals and liquidations

Pegasus forms joint venture

Pegasus Group, the financial accounting software products company, has sold 25% of its Stockforms computer forms business to US **Deluxe Corporation** for £1.71m in cash "valuing the business at £6.84m". Deluxe has an option to purchase the remaining 75% before Dec. 94 at a P/E of 11 times profit after tax. Pegasus had merged its own extensive computer forms business with Stockforms which it acquired for just £391K as recently as Jan 92. Latest published results show that Pegasus's own supplies operations had revenues of £2.2m and PBT of £573K in the year to 31st Jul. 91 and Stockforms had revenues of £934K and PBT of £149K in their year to 31st Aug. 91.

In Apr. 92, Jonathan Hubbard-Ford (who had been FD at Butler Cox before they were acquired by CSC) was appointed MD. Pegasus had just reported sharply lower profits of just £320K in the six months to 31st Jan. 92 - they had reported profits of £3.1m in 1989. *"Trading conditions in Pegasus' markets have not improved since the beginning of the year...the board does not anticipate any early improvement"*. The year end will now be changed to 31st Dec. *"This will enable the board to present shareholders with a fuller account in the next annual report of the structural and strategic changes currently being implemented"*. It will also frustrate analysts like ourselves in producing any meaningful comparisons.

Tom Winter

The inquest on Tom Winter, who died in a shooting incident whilst alone on his boat, recorded a verdict of accidental death. Winter had been the President of **ECSA** which had the responsibility for organising the World Computing Services Conference earlier this year but which had to be cancelled at short notice leaving debts of c£250K. ECSA now has little chance of survival even if member associations in each country agree to reach into their own coffers to pay the debts. Winter's own Belfast-based **Institute of Software Engineering (ISE)** had been suffering considerable financial problems and had appointed Price Waterhouse to assist earlier this year. This month ISE was bought by IT research and training group, **Mari**.

Gresham Chairman sells....Alan Davies, Chairman of **Gresham Telecomputing** has sold a third of his holding, or 3.3% of the equity, in Gresham Telecomputing at 29p a share "for personal reasons". Gresham shares have risen from a low of 6p this year.

...as Pete Fisher buys. Founder, Pete (of Pete & Pam) Fisher, bought another 400,000 **P&P** shares this month to add to the 9.25m shares he already owns. **P&P** shares were trading at over 220p in 1990 but have hit a low of 26p in the last year. The most recent share price slump resulted from a sell recommendation in the Investors Chronicle which expressed concern over the severe deterioration in the company's cash position moving from surplus to debt in Q1 this year. But with PBT of £2m expected this year, **P&P**'s current capitalisation of under £18m still seems low; particularly compared with the price **ICL** paid for the much smaller **Technology plc** recently.

The others....**Systems Team Group** (not to be confused with Team Systems, a part of Misy's) has acquired **Plusmark Business Systems** for an undisclosed consideration. Both companies focus on Informix based UNIX systems and will have a combined revenue of around £5m. **Regent Associates** have been appointed to find a buyer for Novell distributor, **Adcomp**. The mighty **Kingfisher** group is said to be discussing the acquisition of "UK PC super store pioneer" **Vision Technology**. The Dept. of Transport is proposing to sell the **DVLA** in Swansea. **Sema**, **Hoskyns**, **ICL** and **IBM** are said to have been invited to respond. Sounds like a deal tailor made for **Capita** if only they were a little bigger. Source - Computing 3rd Sept. 92. **Thorn EMI Rental** has given its European IT support and development operations to its staff. The new operation, to be known as **Kaisha**, has been guaranteed £6m of work over the next three years. **Geis** has increased its stake in **INS** to 50% - the other 50% of the EDI network operation is owned by **ICL**. **eXplain Solutions Ltd**, which specialised in the X Windows terminal market has called in the receivers after just 6 months trading. **DTP operation Ventura** has acquired **Graphics Technology Group** of Maidenhead. Over half the staff were made redundant leaving a core of 15. **3i** has invested £1m in networking operation, **Unipalm**. Asset management software operation, **SQL Systems**, has acquired **Gable CAD Systems**. In addition, **South Yorkshire Pension Fund** is to invest £200K for a 20% stake in the enlarged group. Bob Jones sold both his start up companies, **Steebek Systems** and **Mayze**, to **Dowty IT** which in turn were sold to **Cray** in July. This month Jones has setup **Sonix** with £2.1m of venture capital finance from **Schroders**, **Greylock** and....**Dowty**. The **Comec** European consortium setup by **Technology plc** has been disbanded after the **ICL** acquisition of **Technology** and the French representative, **Agena**, was bought by **VRG**. Surrey based PC dealer **WBM**, with annual revenues of £3.9m but debts of £600K, has appointed **KPMG** as receivers. However, **KPMG** are investigating the transfer of its maintenance base and associated staff to **WBM Micro Trade** just before their appointment. **Bain Business Systems** has acquired **AppleCentre Aberdeen** to add to **AppleCentre Glasgow** which it already owned.

What a good idea

Chapter 11 really does seem to have some benefits. This month **Wang** decided to cancel over 100 office premises leases ahead of time. We know of quite a few UK computing companies which might have been saved from bankruptcy if they had been able to do the same.

Consort for Sherwood

After declaring tripled PBT in their interims to 30th June (see page 11) **Sherwood Computer Services** bought **Consort Data Ltd**, which supplies network PC-based systems to stockbrokers, for £1033K. £250K cash is paid now with the rest over the next 18 months dependent on profits. Consort has over 30 customers and claims "some 10% of the market and its systems process some 8% of all the bargains transacted on the Stock Exchange".

Sherwood's CEO, Richard Guy, said "Although small in cash terms, the acquisition of Consort is strategically important to Sherwood as it consolidates and expands our market position as a leading supplier to the retail financial services industry".

The EIT mission statement, as presented by CEO Mike Burden, starts with the rather unfortunate *"EIT - The Cradle to Grave Communications Company"*. Burden will tell you how EIT is *"highly focused"* on communications, systems integration, open systems and TPM; these *"focused areas"* which cover about 80% of total IT spend!

System House has featured the EIT story, and our considerable scepticism over its viability, on several occasions. This month a new chapter was unveiled.

Firstly, in a move that on the one hand we support but on the other hand are hard put to fit into EIT's mission statement, Apple dealer **Second City Systems** is to be acquired for an initial £400K and a further £250K dependent on profits to April 93. Second City had revenues of £5.9m and losses of £469K in the year to 30th Apr. 92. They had lost £1.1m on revenues of £7.5m in the previous year and both years' accounts were qualified. Second City, which has loans and outstanding overdrafts of £367K, had been in trouble for some time. Last year the founding director left to be replaced by two financially oriented directors *"introduced by Apple (UK)"*. Note: See below for other *"major supplier"* help. EIT is also taking over the maintenance base of **Sequence** in return for a 20% royalty agreement. But EIT is to sell its 70% stake in AST PC dealer, **Decisionware Systems**, for £200K to its management.

To finance all this (and to help with the £2.4m loans and overdrafts which EIT now has), a 2-for-5 rights issue was



EIT GROUP plc

**EUROPEAN
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announced at 17p to raise £1.9m. It hardly bodes well that EIT shares have fallen from 20p to 17p this month. Indeed, the rights issue document from EIT indicates that previous EIT acquisitions have not exactly fulfilled their initial promise. When EIT acquired **Decisionware** in June 91, profits of £100K were warranted to 31st Mar 91. Although only £100K was paid initially a further £1.6m was payable to the vendors, Jennifer Sanchez and Tim Franklin (who were also given *seven year* employment contracts), depending on profit performance to 1996. You may recall our total amazement

with the deal at the time. We are however not amazed that to date these profit targets have not been met. Now, in return for EIT waiving *"any rights it may have to claim under the warranty provisions...in relation to...profits for the year to 31st Mar 91"* and a payment of £50K, the **Decisionware** vendors have waived their rights to further payments and have accepted *two year* employment contracts. Readers will know of our opposition to performance-related acquisition considerations. They make assimilation almost impossible. Obviously EIT has now rather belatedly learned that lesson. **Automatic Switching Ltd (ASL)** was acquired as recently as Dec. 91 but already the dispersal of ASL people and products within the EIT Group has made *"the application of the additional consideration formula...impractical"*. So they have now agreed to give ASL vendors 3m shares irrespective of profit performance.



Sweet tasting Apples...

A report from **Romtec** shows that the Apple Mac LC is now the best selling PC in the UK; capturing a massive 32% of unit sales in May. The previous best seller was the IBM PS/2 55. In the last year, although PC unit sales fell by 1%, Apple increased their unit sales by a massive 48% giving them a 13% share of the UK market compared with 8% in May 91. Apple is now within a whisker of IBM (15%) and Compaq (14%). With the launch this month of a whole new range of low end machines - the Performa - Apple is well on the way to becoming the overall UK market leader.

A review of the ever-growing subscription list for *System House* shows a significant proportion of Apple resellers and users. It really does appear that Apple's time has come at last. If you are surprised by this, then you clearly have not been paying due attention to the many *System House* articles which have predicted this success; particularly in the corporate arena. Many large corporates have found that the Mac is the user's choice. In addition, Apple now has many converts in the computing services world - it looked as though there was a Mac on every desk during our recent visit to **Data Sciences** in Farnborough.

This month, **Rothwell Group plc** has published their latest results. Rothwell supplies exclusively Apple solutions; mainly to the corporate sector where clients include the likes of Mercury and BP. For the year ending 30th June 92, revenues doubled to £14.1m and PBT almost trebled to £719K. In these difficult times it was even more impressive for Rothwell to report that net assets had strengthened by 108% and they ended the year with net cash of £467K. Rothwell is still privately owned by the directors with no external funding and absolutely no financial assistance from Apple. It may sound hackneyed, but their success is largely due to the recruitment - and retention - of quality people. That has enabled them to bid for and win contracts based on service and not solely on price. Note: Richard Holway, the editor of *System House*, is the non-executive Chairman of Rothwell Group plc.

...and bad apples

The EIT document detailing the terms of the Second City Systems (SCS) acquisition states *"It has been agreed with a major supplier to SCS, that they will write off the sum of £600K of the amount due to them by SCS. This agreement is conditional upon (a) EIT agreeing to inject a minimum of £250K cash ...and (b) entering into a parent company guarantee which will secure the payment of SCS's future purchases from that supplier"*. An additional £400K debt had been written off in SCS's previous financial year. Although neither EIT or Apple will confirm the identity of the *"major supplier"*, it hardly takes a genius.... As might be expected, this caused a furore amongst other Apple dealers; with rumours flying that several other outfits had also been kept afloat by Apple.

SCS accounts had been qualified for two years and they had made losses for three years in a row. Any statements about *"a short term lifeboat"* or *"not being aware of the true state of affairs"* therefore just do not wash. Other hard working dealers who pay this particular *"major supplier"* on time have therefore been subsidising a competitor known for his substantial discounting. Writing off a £1m debt to save one badly run dealer hardly helps to inspire rather more efficiently run competitors. **They say that the best way to save a barrel of apples is to throw the rotten ones out.**

A turbulent month...

We will not add to the millions of column inches already used analysing the reasons for, and aftereffects of, sterling's withdrawal from the ERM but the FTSE 100 index improved by 10% this month and our CSI Index was up 4%. You may recall our rather apposite analysis last month of those companies with high \$ earnings suffering most from the then weak dollar. This month, as sterling declined by 13%, those same shares were amongst the best performers. **Micro Focus** was up 19%, **Sage** up 18% and **Macro 4** up 8%. But the best performer this month, at long last, was **Logica** - up 21% on better than expected full year results (see p 4). **Vistec** also put on 17.5% after the superb results announced at the end of July. **P&P** shares staged a rally in the last days of the month as rumours mounted, fuelled by an article in the Daily Telegraph, that an outright acquisition by **ICL's Technology plc** is being discussed. We wonder how **IBM** would react to that one? **P&P's** founder, Pete Fisher, bought 400,000 shares earlier in the month.

At the other end of the scale, **EIT** declined 19% to 17p on the announcement of the **SCS** acquisition and its associated rights issue @ 17p. **NMW Computers** fell 17% to 37p. Readers will remember that **ACT** bought their 25% stake at the end of June @ 40p and **NMW** soared to 56p. No further public announcement has since been made. We had expected results from **Trace** this month but they were

delayed at the last minute by their auditors. **Trace** fell another 12% this month. **Enterprise Computers** slipped another 7% as yet another ugly, public row broke out. This time **Systems International** (50% owned by **Enterprise**) is refusing to pay out the agreed share of its £1.5m profits claiming it does not have sufficient reserves. However, even newly appointed Chairman **Shaun Dowling** had to admit that the contract was "appallingly badly worded and the most extraordinary deal I have ever come across".

Computing Services Index

30th September 1992

April 15th 1989 = 1000

1370.12

Changes in Indices	CSI Index	FTSE 100
Month 27th August 92 to 30th September 92	+4.18%	+10.44%
41 months 15 April 89 to 30th September 92	+37.01%	+24.32%
1st Jan. 91 to 30th September 92	+93.56%	+18.17%
1st Jan. 92 to 30th September 92	+31.13%	+2.40%

System House CSI Share Prices and Capitalisation

	Share Price 30/9/1992 (£p)	Capitalisation 30/9/1992 (£m)	Historic P/E	CSI Index 30/9/92	Share price % move since 27/8/92	Share price % move this year	Capitalisation move (£m) since 27/8/92	Capitalisation move (£m) this year
ACT	£ 1.58	£ 209.50m	14.59	2529.01	8.22%	3.95%	£ 15.90m	£ 23.60m
Admiral	£ 3.55	£ 38.10m	16.21	2572.46	-1.66%	18.73%	£ 0.60m	£ 5.80m
Capita	£ 3.47	£ 52.30m	22.09	3470.00	4.83%	32.44%	£ 2.50m	£ 13.00m
Computer People	£ 0.66	£ 9.16m	12.04	271.60	-8.33%	-42.61%	£ 0.83m	£ 6.84m
Cray Electronics	£ 0.72	£ 144.60m	22.34	418.13	16.26%	10.00%	£ 20.70m	£ 76.70m
EIT Group	£ 0.17	£ 5.79m	Loss	680.00	-19.05%	41.67%	£ 1.37m	£ 0.41m
Electronic Data Processing	£ 3.95	£ 34.40m	12.03	4030.59	-4.36%	36.68%	£ 1.60m	£ 9.40m
Enterprise	£ 0.14	£ 9.99m	Loss	108.00	-6.90%	-15.63%	£ 0.71m	£ 2.41m
Gresham Telecomputing	£ 0.31	£ 9.87m	31.00	333.33	6.90%	244.44%	£ 0.63m	£ 7.00m
Hoskyns	£ 4.43	£ 413.10m	42.19	2160.97	0.68%	12.15%	£ 2.80m	£ 53.60m
INSTEM	£ 1.09	£ 4.90m	7.17	1090.00	14.74%	45.33%	£ 0.63m	£ 1.53m
Kalamazoo	£ 0.32	£ 5.80m	n/a	315.00	-8.70%	-33.68%	£ 0.56m	£ 2.58m
Kewill	£ 0.90	£ 10.70m	4.52	355.73	-5.26%	-71.43%	£ 0.60m	£ 19.40m
Learmonth & Burchett	£ 0.99	£ 13.20m	141.43	825.00	-10.00%	70.69%	£ 1.50m	£ 5.47m
Logica	£ 1.70	£ 104.20m	24.29	465.75	20.57%	-11.92%	£ 17.80m	£ 14.10m
Macro 4	£ 4.79	£ 107.30m	18.08	1931.45	7.64%	26.39%	£ 7.60m	£ 23.80m
Micro Focus	£ 19.60	£ 267.60m	23.59	9468.59	18.57%	26.61%	£ 41.90m	£ 65.20m
Microgen	£ 1.55	£ 60.00m	12.70	662.39	6.90%	-3.73%	£ 3.90m	£ 2.30m
Microvitec	£ 0.23	£ 15.00m	Loss	560.98	-9.80%	58.62%	£ 1.70m	£ 6.02m
Misys	£ 2.69	£ 103.80m	15.11	669.15	-3.93%	32.51%	£ 4.30m	£ 34.60m
MMT	£ 1.11	£ 11.80m	16.32	660.72	0.00%	33.73%	£ 0.00m	£ 2.99m
NMW	£ 0.37	£ 7.81m	Loss	616.67	-16.85%	-2.63%	£ 1.58m	£ 0.16m
P&P	£ 0.32	£ 17.70m	35.56	143.50	-3.03%	-20.00%	£ 0.60m	£ 3.90m
P-E International	£ 0.60	£ 13.10m	12.24	246.91	3.45%	-52.00%	£ 0.40m	£ 14.20m
Pegasus	£ 1.38	£ 8.77m	6.93	376.02	-6.12%	-8.00%	£ 0.57m	£ 0.40m
Proteus	£ 3.40	£ 91.30m	Loss	4047.60	0.89%	100.00%	£ 0.80m	£ 53.20m
Radius	£ 0.41	£ 11.20m	51.25	297.10	-8.89%	5.13%	£ 1.10m	£ 0.60m
Real Time Control	£ 0.73	£ 5.11m	6.58	1489.80	2.82%	-29.13%	£ 0.14m	£ 2.10m
Rolfe & Nolan	£ 2.24	£ 12.60m	14.09	2646.08	0.00%	16.67%	£ 0.00m	£ 1.70m
Sage Group	£ 3.92	£ 78.50m	15.37	3015.38	17.72%	17.72%	£ 11.80m	£ 12.60m
Sanderson	£ 2.10	£ 18.50m	10.94	893.62	-4.55%	70.73%	£ 0.90m	£ 7.70m
Sema Group	£ 2.86	£ 260.00m	25.95	899.37	1.42%	31.80%	£ 3.60m	£ 61.80m
Sherwood	£ 2.25	£ 13.80m	11.48	1874.99	2.27%	67.91%	£ 0.30m	£ 6.87m
Star	£ 0.34	£ 2.32m	17.89	283.33	3.03%	47.83%	£ 0.07m	£ 0.75m
Total	£ 0.45	£ 4.50m	8.81	849.07	0.00%	32.35%	£ 0.00m	£ 1.10m
Trace	£ 0.22	£ 3.01m	Loss	176.00	-12.00%	-38.89%	£ 0.41m	£ 1.86m
Vega Group	£ 1.20	£ 16.90m	16.60	983.61	-4.00%	-1.64%	£ 0.70m	£ 0.31m
Vistec	£ 0.24	£ 26.70m	15.46	1027.04	17.50%	74.07%	£ 4.00m	£ 11.40m

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

Micro Focus

Micro Focus shares rose 128p to 1888p on the day the Bundesbank reduced its Lombard rate by just 0.25% and have ended the month on 1960p. As Micro Focus earns c60% of its revenues from the US, the exchange rate reduction from nearly \$2 to the £ to \$1.70 will be a major boost (or a major relief!). Micro Focus low this year was 1453p and its high 2378p.

Micro Focus also took the unusual step this month of setting up a four man management committee to take the place of its CEO, Brian Reynolds who, as we have previously reported, is retiring to his West Indies idyll. The CEO group consists of:

- John Beggs - President worldwide sales
- Paul Adams - President products and business development
- Bob Connors - Chief operating officer
- Ron Forbes - Chief finance and administration officer

Trouble ahead for Microsoft?

Readers of Bill Gates' unauthorised biography "Hard Drive" (see review *System House* Aug. 92) will be in no doubt of the strength of feeling amongst competitors that **Microsoft** has used its dominant position in the operating systems arena to help it gain a similar position with its application software. Back in 1983 it says that Gates wanted to dominate the spreadsheet market and put up posters around the office reading "DOS isn't done until Lotus won't run". This month *Businessweek* ran a feature saying that the Federal Trade Commission is "near to recommending action against Microsoft" after finding fault with Microsoft's "bare-knuckle competitive tactics which they believe are examples of exclusionary behaviour". Microsoft issued a statement saying that it believed it "has done nothing wrong".

We understand that Microsoft (UK) had revenues of £100m to 30th June 92 - up 50% on 1991. More next month.

ICL spins out Peritas

ICL has launched its external IT training operation as a separate £20m company to be known as **Peritas**.

FI saves Phoenix

FI Group (see results p11) has bought the business of **Phoenix Technical Publications** which had appointed the receivers last month. Phoenix produces technical documentation and translations especially for the computing industry. It seems a good fit for FI.

Proteus International has bought out its joint venture partner in an AIDS research project, **Peptide Technology**, for £400K. We believe that more CSI companies will wish to share in the success of their own products in the future.

Warning - we can't be bought

We would like to make it clear to Rodney Potts, MD of **Coda**, that sending us a bottle of rather excellent champagne will not make us mention the launch of the open system version of their best selling Integrated Accounting System (IAS). We will not remind *System House* readers that, even though this new version has cost Coda a great deal, their consistently excellent financial results (£2.8m PBT on revenues of £12.7m in 1991) are about the best in the industry. Let this be a warning to anyone else contemplating similar action.



Microvitec "Progressing well but are some six months behind schedule".

If it hadn't been for all the hype put out about the record turnaround from loss to profit forecast for **Microvitec**, we could have unreservedly praised the current performance. Results for the six months to 30th June 92 show revenues up 104% at £25.5m (largely as a result of the acquisition of Logitek last year) with PBT of £62K against losses £2.2m last time. The profits were not helped by interest payable increasing from £185K to £462K "primarily as a result of the debt acquired with Logitek". Gearing has, however, reduced marginally from 84% last December to 72% now. All divisions reported profits except Logitek distribution "which is operating in a hostile environment". Indeed the monitor and display division returned to profits after its successful joint venture with Electrohome of Canada. Microvitec Multimedia says that its contract with the Royal Saudi Air Force is "the largest multi media contract awarded in the UK this year".

You may remember (*System House* May 92) that James Warhurst at brokers Henry Cooke Lumsden forecasted profits of £2.5m in 92 and £5m in 93. This is unlikely now as Chairman James Bailey admits that plans are running some six months behind schedule. But the latest performance is still creditable none the less.

Even so Microvitec shares have slumped to 21p this year so far even though Warhurst recommended them as "strong buy" at 35p on 31st Mar 92. We, however, won't blame him if he writes us another letter starting "people in glass houses....".

P-E International

"Our results for Q1 1992 have been significantly better than in late 1991 due to a combination of improved sales and a reduced cost base...if this trend continues we shall be able to make progress as the year unfolds". Last Chairman's statement from Hugh Lang - 23rd March 92.

Late 1991 had indeed been difficult for **P-E International** when "the cost of restructuring contributed to an overall loss in the second half". Taking that into account, the results for the six months to 30th June 92, as the new Chairman George Cox now says, "show an improvement on the second half of last year" and are therefore "not unsatisfactory". Revenues increased 5.8% to £35.5m but PBT slumped 72% to £514K and EPS reduced 78%. A doubling in interest paid to £377K obviously did not help.

P-E's performance has been on the slide since 1989. Is this perhaps connected with the significant number of acquisitions since then? Cox has been taking a hard look at the business. One early decision was to sell **Applied Skills for Management**, acquired for £850K in 1989, back to its management. He also announced a major reorganisation of the IT consultancy operations into three business units - Business & IT strategy, Project management and Technical consulting. Cox now wants to "increase the sources of company revenue which are not directly headcount related" and new product investment seems to have actually increased. It is also interesting to note, for a predominately fee-based IT consultancy, that P-E is "developing new remuneration strategies which will stimulate growth by linking a higher proportion of salary to performance". Cox is also keen to increase overseas revenues which currently account for 22% of group turnover.

Cost of acquisitions hit FI Group

In Dec. 90, when FI Group made its first acquisition in its 28 year history (AMP Recruitment for £267K), we warned *"using FI's strong cash position for purchases in today's (sic) difficult trading environment...is not without considerable attendant risks"*. Last year's results (to 30th Apr. 91) were very encouraging. PBT had tripled to £1.28m and cash had increased to £3.2m contributing interest receivable of £261K. Then, in June 91, FI paid £1.35m for loss-making Kernel. At this point Schroders, which had been an investor in Kernel, joined Baronsmead as FI Group shareholders. In Oct. 91, FI's founder Steve Shirley, offered half her holding to the staff at 270p a share valuing the company at £6.2m (we considered this a bargain for a company making PBT of £1.28m). We understand that this employee share offer cost FI £500K.

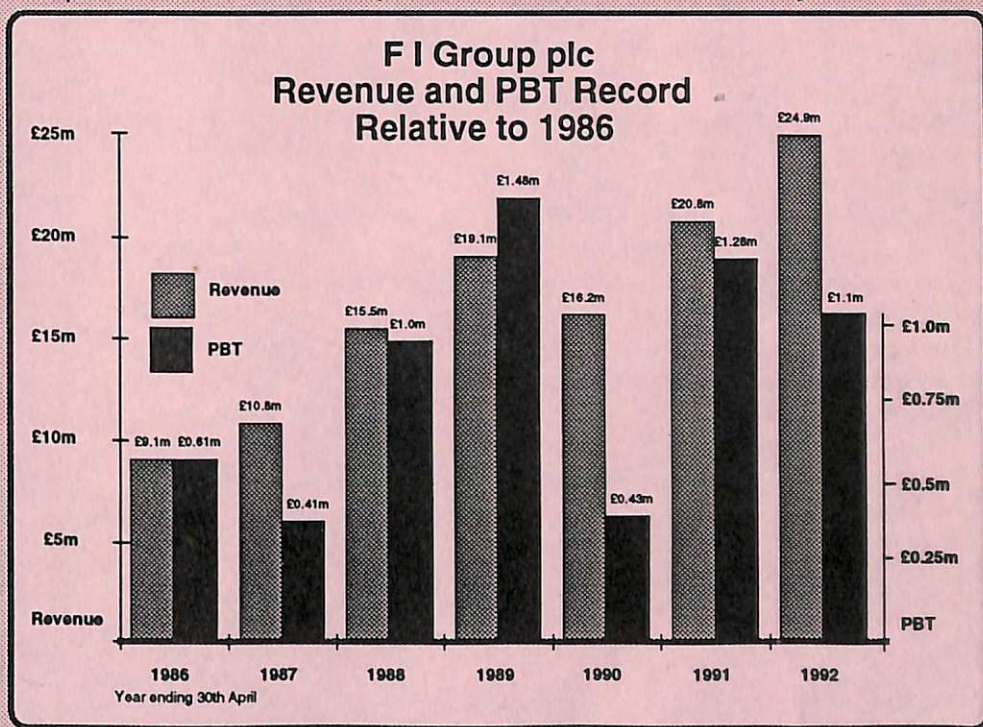
This month FI group has reported results for the year to 30th Apr. 92. These show revenues up 19.6% at £24.9m but PBT down 14.7% at £1.1m even though operating profit advanced by 10%. The main reason for the PBT reduction was the switch from interest receivable of £261K in 1991 to interest payable of £30K in 1992 which *"was brought about primarily by a reduction in cash reserves due to acquisitions and the cost of the share offer"*.

Due to a sharply reduced tax charge, fully diluted EPS grew by 4.1% to 35.3p. Shareholders were rewarded with a 24.8% increase in share price, to 337p, on the first dealing day of the internal market. CEO Hilary Cropper said *"this represents a healthy return for our shareholders and we have performed well against the competition"*.

Perhaps part of the reason for the share price increase was the FI share price being set too low in the first place. We would also point out that our CSI Index has increased by 27% in the same period.

The major new strategic move in the last year was the launch of FI Training out of the Kernel training activities. This was a brave move as the whole IT training market has suffered greatly during the recession with no growth reported for two consecutive years. As readers will know, it is FI's Mainstay application systems maintenance and support operations that we find exciting. Six major new contracts were won in the last year.

As to the future, Chairman Sir Peter Thompson said at the AGM *"Our current trading is proceeding satisfactorily. The order book remains high and our cash reserves are building up again. The recession continues to squeeze margins, but we expect our half-year results to be comparable with the second half of last year"*.



Another excellent performance from Sherwood

We have an ever-growing admiration for **Sherwood Computer Services**. The action to reduce headcount in early 1991 and the sale of their disaster recovery operations to a new joint venture with ICL in Apr. 91, really do seem to have paid off. Although revenues reduced 12% to £10.7m in the six months to 30th June 92, due to the Guardian disposal, PBT increased by 204% to £1.75m and EPS was up 153%. However, it must be said that much of the gain was due to an exceptional credit of £522K this time (pension scheme alterations) rather than a £280K exceptional debit last time (provisions for potential losses in the Lloyds market). At the operating level, profits advanced by 13%. To this can be added profits of £132K from the ICL disaster recovery operation which is *"performing ahead of initial expectations"*.

Perhaps even more importantly, Sherwood now has £2.2m cash and interest payable reduced from £119K to just £4K in the period. Net assets now exceed £6m.

Sherwood should be very proud that 80% of revenues come from existing clients. The companies with the highest level of recurring revenues from existing clients are those that have weathered the recession the best. But Sherwood is also pleased that *"in this period of well publicised problems in the computer services industry in general, and in our primary markets, Sherwood is achieving high levels of new business"*. Against the backdrop of record losses at Lloyds, Sherwood's SCEPTRE system has achieved new orders from the likes of G.W.RunOff, Lloyd Roberts & Gilkes and, in the last month, Sturge plc. Sherwood's housing management system has gained further orders from such organisations as Merseyside Improved Homes - one of the clients inherited from the Wootton Jeffreys Systems acquisition from the receivers after the Headland collapse.

Sherwood *"remains confident of continued growth in the second half"* mainly from continued organic growth. The statement that *"selective acquisitions"* will form part of the strategy was put into action at the end of Sept. with the purchase of **Consort**, which supplies stockbroker systems, for £1.1m. More details, see page 7.

Do we deserve them?

Members of the British Venture Capital Association invested £1 billion last year but just £65m found its way into the computer related sector. Even that paltry amount was less than in the previous two years. "There is evidence that good technology companies are failing to secure the necessary investment because of a lack of entrepreneurship on the part of the UK financial industry...there is no venture at present in venture capital" said the CEO of the Newtech Science Park. Source - FT 25th Sept. 92.



Storming ahead at Easams

Keith Jennings from Easams took issue with our comment last month that "BT is the last remaining UK-owned operation which has the wherewithal to make it to the international CSI top league". Jennings pointed out that Easams, a wholly owned subsidiary of GEC, will have CSI revenues of £85m this year and target revenues of £200m within 3-5 years. Order books are reported to be excellent and commercial revenues are fast catching up the defence operations. Paul Davies (ex of SD-Scicon) was appointed as MD in June.

Nothing would please us more than to see both BT and Easams at the international CSI top table.

Software and Computing Services Industry in Europe

Since we published our first Holway Report in 1988, reviewing the financial performance of UK CSI companies, our subscribers have increasingly asked us to produce a European version. This is not that surprising given that many UK CSI companies now have European ownership and most of the remainder are looking to Europe for both organic growth and acquisitions. However, although we would claim knowledge of the UK CSI scene, clearly this does not extend to mainland Europe.

This year, in perhaps the most significant move in Richard Holway Limited's corporate history, we have formed a business partnership with **Pierre Audoin Conseil (PAC)**, who operate in France, Germany and the Nordic countries as well as Spain, Belgium and the Netherlands, and **Nomos Ricerca**, the leading Italian market research company. The results of our joint endeavours will be published in November.

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