System House

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Misys and the biggest deal ever

On 5th Sep. 97, **Misys** announced an agreed $923m/ £566m bid for **Medic**. Misys shares had been riding at their all time high of just over £16 but initially fell by 10%, wiping about £140m off Misys' market value.

We were quoted extensively in the media, including the FT and The Times, saying that we were *"flabbergasted...this could be one bite too many for Misys"*. These views prompted our biggest "mailbag" - from anonymous hate mail, through reasoned argument to messages of outright support.

About Medic

Medic was founded by CEO John McConnell in 1982. He sold it in 1985 after which it changed hands a number of times before McConnell bought it back from Black & Decker in 1990 and went for a NASDAQ IPO in 1992. Medic is one of the top five suppliers of software to doctors and other healthcare providers in the US. Medic has >10,000 systems installed in the US serving 50,000 doctors.

To 31st Dec. 96, Medic reported PBT of $38.9m on revenues of $191.8m. Medic's shares had hit a high of $48 in mid 1996 but plunged to $12.75 in Mar. 97 on a Q1 profits warning due to lower than expected sales of *Medic Vision*. This new product sells for c$1m compared with Medic's previous product Medic PM which sold for c$30K. Medic's results for the six months to 30th Jun. 97 showed revenues up 22% at $108m but PBT down 11% at $15.7m.

About the deal

After the profits warning McConnell says *"there were lots of people buzzing around looking for a fire sale price"*. It is suggested that HBO & Co. put in a bid *"close to $35"* but the Misys cash bid at $35 per share won.

Misys is to raise £321m in a 2-for-7 rights issue at £13.50 (there was a 88.5% take-up) plus new loans.

McConnell and other executives will be selling their shares and pocketing around £50m. They will be offered *"golden handcuffs"* worth c£14m to stay for three years. Ann Gallo of Alex Brown said *"I just think the management was fed up with dealing with the Street on a quarterly basis. They are going to continue to see a lot of quarterly volatility"*.

One of the e-mails we received suggested that we put forward an argued case for and against the deal. We are delighted to oblige:-

The case for Misys and the deal

- the healthcare IT market in the US is worth $12b and is growing at over 25% p.a. As such, it fits with Misys' declared objective of becoming leaders in markets with strong international or domestic growth potential. Misys cites the success of this policy in financial services (e.g. insurance and banking)
- Medic has other characteristics similar to the existing Misys business. Significant transaction processing services (over a third of Medic's revenues), major portion of revenues recurring (c52% in Medic's case), *"strong and predictable cash flow"* and a fragmented market with scope for consolidation.
- the Medic deal will add *"a new leg to the Misys business"* (about a third of Misys revenues will now come from healthcare), will boost Misys' US revenues to nearly 50% and will be *"earnings enhancing in year two"*.
- *"The much derided acquisition of ACT in 1995 has been a clear success. It propelled Misys into the booming market for banking systems and the shares have soared from £4 to £16 in two years"*. Source - FT 6th Sep. 97.

In other words, Misys and its management have a strong record, have successfully done deals like this before and now *"deserve the benefit of the doubt"*.

The case against Misys and the deal

- many observers question the strength of the US healthcare market and point out its vulnerability and unpredictability. Indeed, the move by Medic to high ticket sales had increased the risks to the point where the current management wished to sell out.
- Misys is paying $923m for a company valued on NASDAQ as recently as Mar. 97 at $340m. The price Misys is paying - five times revenues and a prospective P/E of 28 - is higher than Misys' own current rating of c3.8 times rev and a prospective (FY98) P/E of 23. Acquisitions are usually for much *lower* relative valuations than the purchaser.
- McConnell's (and his executives') decision not to take Misys shares fuels fears that they will not be around for long.
- our research shows that those companies which *"stick to the knitting"* do best. I.e. *"We are strong in accounting systems in France...we will do the same in German"* (the Sage model) or *"we are a strong professional services player in the UK so will be extending our UK offerings to cover applications management"* (the FI, Logica, etc. model). But moving both into a completely new market in a relatively new geography increases the risk to the point where we are hard pressed to name any successes in our sector so far.
- Misys would like you to believe that it has had a consistent objective. The original insurance activities are seeing reduced profits. The information systems activities - the Misys objective in the late 1980s/90 - are likewise declining. Only three years ago Misys wanted into education via RM plc. We would strongly suggest that it was the opportunistic Kapiti purchase in Apr. 94 - a year before the ACT bid - which was the real bedrock for Misys

Continued on page two

Continued from page one

current success in banking. Misys paid a modest 1.3 times revenues for Kapiti.

• Misys' share price performance depends greatly on the base date chosen. Since the USM float in 1987 or the 460p high in 1989 (when Misys did many of its acquisitions) the performance looks mediocre compared with Capita, Sage, Parity or CMG.

• messages to us gave further examples of how Misys uses acquisition accounting to boost its financial performance. *"Like a drug, keep taking them and you're OK, stop and you're not".*

There are doubts over Misys' ability to grow businesses organically over the long term. *How long before "booming banking" goes the same way as insurance or information systems?*

How successful are the big deals?

The Misys /Medic deal tops the rankings of any acquisition involving a UK SCSI company. However, we list below only those where the UK company was the purchaser.

Largest SCSI Acquisitions by UK companies in last 10 years

	Date	UK Purchaser	Purchased:	Consideration	*Verdict?*
1	1997	Misys	Medic	£566m	*"Wait and see"*
2	1994	Pearson	Software Toolworks	£310m	Disaster
3	1995	Misys	ACT	£195m	See text
4	1988	Plessey	Hoskyns	£164m	Sold a year later for small profit
5	1993	MDIS (MBO)	MDIS	£120m	Disaster

You can draw any conclusion you wish.

• *"A significant number of mega acquisitions turn into disasters"* - True

• *"Misys has experience of such mega deals"* - True

• *"Paying over the odds costs you dear in the long run"* - True

• *"Buying into completely new areas and markets leads to disaster"* - True.

Statement - As we have declared on many times, Richard Holway has been a shareholder in Misys since both BOS Software and TIS were acquired in the 1980s. At least we can not be accused of talking Misys up for our own gain!

Services boosts Computacenter to £1 billion

Computacenter seems well set to become the first UK-owned IT company to break the £1 billion revenue barrier in 1997. Computacenter increased PBT by 30% to £24.3m in the six months to 30th Jun. 97. UK revenue growth was up 36% to £514m. Computacenter France added a further £44.4m - up 50%.

Services are now claimed to account for c20% of the total i.e. c£110m and grew by over 50% in the half. If this is the case, with services revenue at well over an annualised £200m in FY97, Computacenter should appear in our Top 15 SCSI suppliers in the UK in 1997. They took on over 500 people in the first half to end on 2,600. A further increase of c400 is expected by the end of the year.

DRS Data - just in profit now but....

DRS (optical mark reading software) has made a profit at last - albeit just £43K (loss £363K last time) - in the 28 week period to 11th Jul. 97. Revenue increased 46% to £4.3m. Their main market was schools but that has evaporated so they have now moved more into local government. But the Chairman's statement is far from encouraging with *"the level of improvement for the full year is unlikely to match that shown for the first half".*

A new issue at 110p in Apr. 94, the share price performance has been a disaster. They ended Sep. on 26p - a discount of 76% to the original issue price.

A rush of new issues

IS Solutions

IS Solutions is a systems developer, FM and enterprise management operation. Recently they have started building internet sites where revenues have jumped from just 6% of revenues in 1996 to 32% in H197. 1996 revenues were static at £7.6m but PBT shot up from £38K to £219K. H197 showed revenue of £4m but PBT of £247K. The AIM placing this month of some 31% of the equity at 134p valued them at £6.39m. Gross proceeds were c£2m with a net £640K receivable by the company. The additional money raised is *"to provide additional working capital as well as for selected strategic acquisitions"* according to MD John Lythall.

The shares ended Sept. little changed on 136p.

Computerland

We had considered not covering **Computerland** until we learnt of their ***claim*** that 50% of the £18m annual revenues came from services. The rest comes from sales of PC hardware to mainly small/medium customers. PBT was £586K to 30th Apr. 97 - i.e. a c3% margin and close to what you would expect from a PC dealer.

Anyway, they had a very successful AIM launch this month, raising £1.5m at 100p, valued them at £6m. Shares rose by 47% to end Sep. on 147p.

Science Systems

Science Systems is a long established systems developer with its roots in European Space Agency work. They have now expanded to embrace accounting software (Harrods and HMV are customers) and ticketing systems (Railtrack). 20% of the equity has been placed at 129p per share valuing the group at £21.9m. £900K was new money with a further £4.5m for existing shareholders. Science Systems made PBT of £1.5m on revenues of £15m in 1996.

Shares were received well ending Sep. up 19% on 153p.

NSB Retail Systems

NSB provide software, consultancy and outsourcing for the retail sector and was formed as recently as 1995. Growth has been impressive with revenues of £2.2m and PBT of £296K in 1996 which has grown to £1.55m and PBT of £454K in the six months to 30th Jun. 97 - an impressive 30% margin.

The AIM listing at 115p will raise £4.0m (£1.5m new money) and value NSB at £11.2m. Dealings commence 7th Oct. 97.

Note: We were particularly impressed with the list of NEDs attracted to such a small company. These include Alan Vickery, Chairman of JBA.

Aran Software

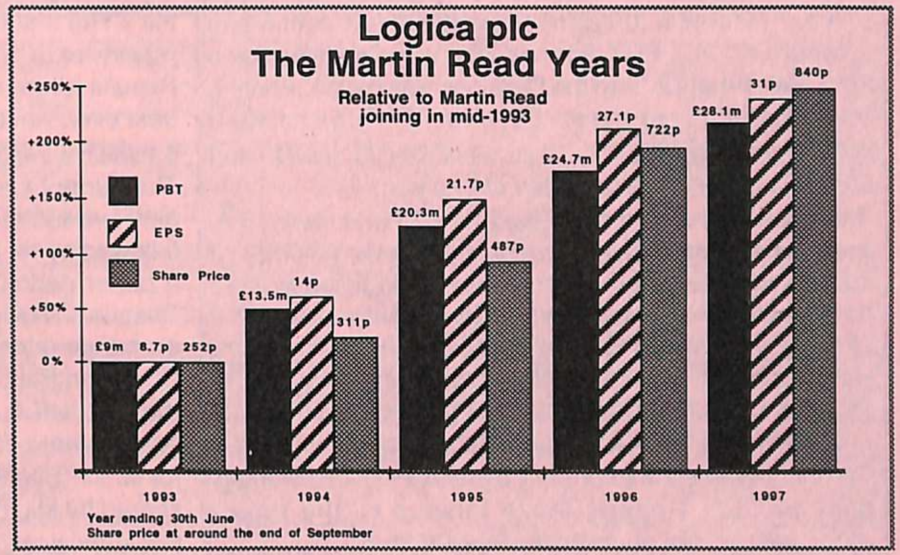
Aran (software tools/MIS software) is also to float on AIM in Oct. valuing the company at £15m. Aran made a loss of £400K on revenues of £2.6m in the year to 31st Mar. 97. However this was after £1.1m had been spent on R&D. The FY98 revenue estimate is £4.2m with a small profit of £18K.

Workplace Technologies

Workplace Technologies (network cabling etc.) was a 3i.-backed MBO from ICL in Sept. 95, together with Workplace Management (property services - sold to Chestertons in Aug. 96). WT is to go for a main market float expected to value them at £45m. WT had revenues of £52m and profits of £2.5m in 1996.

logica

In the Q&As at a recent conference, we were accused of influencing the events on which we reported. *"You tell us that IT services is the place to be, we invest, share prices go up, you say "Look, I told you so""*. We were at a loss for words. We had never considered we had anything like that influence...indeed, we still don't believe we do. Logica is another example. *"Has the analyst actually influenced events?"* Since Martin Read took over the helm in 1993 we have met for "robust" conversations every six months. Regardless of the arguments, we think we can claim a mutual respect. There are also echoes of the discussions in many of the things that Logica has done. *So can we claim any credit?*



Regardless, the chart chronicles the progress made under Read's stewardship. For the third successive year (i.e. since Read's appointment) revenues and earnings were at record levels. *"Logica has made significant progress in implementing its strategy"* and in particular *"Logica has undergone a major shift in geographical and vertical market balance through organic growth and acquisition"*. In the year ending 30th Jun. 97 revenues rose 19% to £338.5m, PBT was up 14% to £28.1m with EPS also up 14%. If constant exchange rates are used, order intake rose 31%, revenue was up 25% and PBT by 20%. Logica is strongly cash generative and had over £23.5m in the bank at the FY end to fund further acquisitions.

So, OK..solid results. But, in view of the booming market conditions, we had expected rather better.

But Read had warned us in June of the effects of the strength of Sterling and the difficulties of recruiting IT staff. The market reacted in its usual knee-jerk manner and the shares dived from c£11 to c£7 writing c£230m off Logica's value.

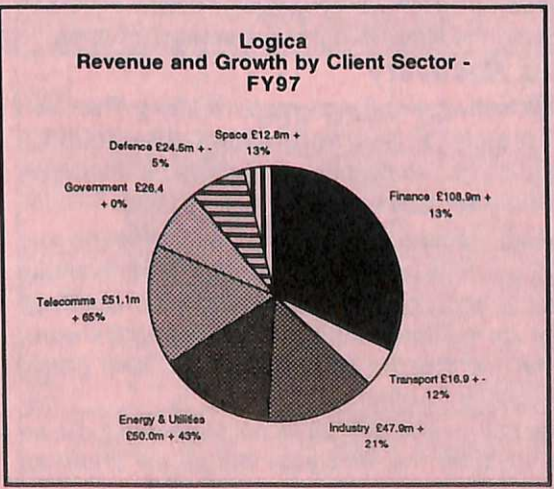
Logica's revenues from Continental European were up overall by 59% at £98m (and now represents a third of the total). But if acquisition revenue is excluded, the rise is a much more modest 15%. Logica purchased French **Axime Ingénierie** in Dec. 96 for the bargain price (in our opinion) of £19.7m. Axime had c£41m revenue in Europe in 1996. Logica also purchased Irish **Aldiscon** (telecomms products) for £51m at the end of July this year so no figures for Aldiscon are included in the FY97 results.

Logica - FY 97	Revenue	Growth	Op/profit	Growth	Op. Margin
United Kingdom	£181.1m	11.0%	£17.5m	10.0%	9.6%
Continental Europe	£97.9m	59.0%	£6.9m	18.0%	7.1%
North America	£35.5m	-6.0%	£2.4m	92.0%	6.8%
Asia Pacific/Middle East	£24.0m	7.0%	£0.9m	50.0%	3.7%
TOTAL	**£338.5m**	**19.0%**	**£27.7m**	**17.0%**	**8.2%**

UK growth was only 11% in the year to £181m but *"growth in the UK was 16% in the second half"*. Even so, this was less than the market average. Revenues in North America were down 6% at £35.5m - as anticipated by Read earlier in the year - *"due to the strength of sterling"*. Revenues in Asia Pacific/Middle East were up only 7% at £24m again, no doubt, due to exchange rates.

As far as operating profits and margins are concerned, all areas increased profits with North America the "star" with a 92% rise to £2.4m. UK profits rose a below average 10% and, if acquisitions in Europe are excluded, growth here was minimal. Logica again failed to break the 10% margin barrier anywhere in the world and in fact margins in the UK (9.6%) and Europe 7.1% (excl. acquisitions a higher 8.4%) actually fell. Margins in the US more than doubled to a much more respectable 6.8% but even so, total overall margins fell very slightly to 8.2%. *One day we hope to report that Logica has achieved the 10% figure that we at one time believed possible.*

The fast growing telecomms sector was the star performer with a 65% rise to £51m (15% of the total) and this proportion will increase once the Aldiscon figures are included next year. We understand that Logica have also obtained a £6m Malaysian mobile phone billing contract which will further boost the sector. Finance, Logica's traditional strength, grew only 13% to £109m (32% of the total), well below Energy (+43% to £50m) and Industry (+21% to £48m). Only the Defence and Transport sectors fell (by 5% and 12% respectively).



Logica has reported its mix of T&M/fixed price contracts for many years. Analysts are scared of fixed price contract overruns which had dogged Logica in the past. This year (largely unreported) Logica has reduced such fixed price from 60% to just 40%...*congratulations!*

When Logica announced earlier this year that it hoped to recruit some 350 new graduates, we (and others) voiced some scepticism as competition is fierce and salaries are rising fast. But Read has now assured us that most of these 350 have already been signed up. Overall global staff numbers are up 34% to 5,500. Logica now operates in 22 different countries

Analysts are now forecasting a PBT of c£38m. The present P/E of 27 is now about average for the sector,

More circles from Radius

There is something highly frustrating about **Radius**. Here we are writing another depressing story. *Sure, we were at least warned in March, but after ten years of reviews we would really like to write two consecutively positive ones!*

In the six months to 30th Jun. 97, revenue fell 5% to £13.3m (if new acquisitions are excluded continuing revenue fell 9%), PBT dropped 20% with EPS also down 20%. Performance from the Divisions was mixed; Printing *"exciting growth prospects"*, Retail and Professional were both *"disappointing"*, Maintenance *"strong increase"*, and Local Government *"performed strongly"*.

Chairman Michael Roberts said *"We have continued to invest in our key software products. However a number if specific new business opportunities being pursued were not finalised as anticipated... The Directors expect a stronger performance during the second half of the year"*. He went on to say that Radius had been successful in recovering a substantial portion of the Canadian bad debt - this debt was the reason for the March profit warning. *"All our operations are currently experiencing an extremely busy period"*. Roberts looks forward to the future with....yes, you've guessed it...***"confidence"***.

If only we had £100 for each time he had said that....

First reversal for Macro 4

Macro 4 (system software for IBM mainframes) may not have had an EPS reversal for 10 years but their performance has been *so boring*, that even we could not face giving them a ***System House* Boring Award**. *They can't get one now anyway.* The results for the year to 30th Jun. 97 show the first reversal on record. Revenue fell 7% to £23.4m, PBT dropped 15% to £10.3m with EPS down 10%. Cash in hand has fallen to just under £12m from £17m last year mainly due to the (in our previously stated view, ill-advised) share repurchase programme effected in Nov. 96.

Macro 4 has always been top of the UK quoted company profit margin lists since our records began in 1985. But the 1997 margin of 43.9% is their lowest since 1991 (but they will probably *still* be #1 this year!)

For years Macro 4 has been in decline. They missed so many opportunities to use their cash to diversify in the early 1990s. They are now (with their shareholders) paying the price. Even as recently as March this year we headed our review of them with the comment *"Too much cash, too little vision"*.

Chairman Terry Kelly blames *"the strength of sterling and investment in our new Unix market sector"*. But the problems are much more deep seated. Even the performance of their newer AS/400 offerings *"net of cancellations has been disappointing this year"*. The only exceptions appear to have been in the UK and Germany. Kelly is *"cautious in predicting the current year's profit outcome"*. We share his caution. All we can say is that after the announcement of their results in 1993, the share price was 663p. Even after spending substantial sums on their share repurchase programme, the shares ended Sept. on 335p. They have fallen 34% in the last twelve months alone.

Boring Award?

How about a ***Clutching Defeat from the Jaws of Victory Award***? We give it to **Macro 4**.

Staffware - best ever results

Staffware provides workflow automation software; a market which is estimated to be growing by some 60% per annum. They were floated on AIM at 225p in July 96 after announcing excellent FY95 figures. But in Jan. 97, they issued a profit warning as US earnings were lower than anticipated with some orders falling into FY97. But the FY96 results, in the end, were good and the shares recovered to around the flotation price.

Results for the six months ending 30th Jun. 97 were the best ever. Revenue grew 90% to £7.7m, PBT increased a massive 244% with EPS up over 700%.

The current success is due mainly to the launch of two new products - Staffware 97 and Staffware Global - followed by record sales in June. Evidently H2 is always a better period so this augurs well for the whole year. Despite the strength of sterling (loss of £500K due to exchange rates), all geographic regions performed well. Chairman Paul Fullagar said *"the strong performance in the first half is a powerful indicator of the growing and considerable demand that exists for workflow products, for which Staffware is a world leader"*. A view evidently shared by Microsoft (see p.6).

Not surprisingly the market liked the news and the shares rose 5% to 280p in the month.

Quality really, really, really makes a profit

Quality Software Products (QSP) has reported a PBT of £180K in the six months to 30th Jun. 97. QSP has been the subject of much debate concerning its capitalisation of R&D. We are, therefore, pleased to report that *even after a £73K increase in intangibles since FY96 year end*, a real profit of over £100K would still have been reported. This compares with the £1.1m loss at the previous interim stage. Indeed after taking into account interest paid of £445K, they made an operating profit of £625K. Revenue was up 14% at £13.4m.

Chairman Alan Benjamin said *"The first half of 1997 saw major improvements at QSP"*. We entirely agree - yet another turnaround for the much respected Benjamin.

QSP has managed to obtain significant new orders from the likes of Essex Council, Friends Provident and Somerfields. They have also entered in strategic support programs with Powergen, Boots and others. Although the UK remains QSP's main market, the US operation *"continues to make progress"* and Australia has yielded its first contracts.

QSP shares rose 13% in the month to end Sep. on 235p but, of course, are still way way below the £7+ price in early 1996 and the Nov. 95 rights issue price of 535p.

Riva, Riva Recovery

Riva supplies software and systems to retailers. This used to consist mainly of hardware where they found it *"increasingly difficult to sustain profitability"*. Indeed they plunged to a £890K loss in the first half of 1996.

Sensibly Riva decided to *"refocus on software and services"*. These now represent around 50% of revenues and has undoubtedly contributed to a return to profits of £190K in the six months to 30th Jun. 97. Revenues were, however, static at £32.7m (although would have grown by 14% on constant exchange rates).

Although the improvement in H2 is not expected to be as marked as in 1996 the *"full year result will show an improvement over previous years"*.

Quoted Companies - Results Service

Note: Shaded = Results announced this month.

Admiral plc

	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparision
REV	£ 43,009,000	£ 90,819,000	£ 54,118,000	+25.8%
PBT	£ 5,180,000	£ 11,243,000	£ 7,200,000	+39.0%
EPS	5.50p	11.60p	7.40p	+34.5%

AFA Systems plc

	Final - Dec 95 (5 mos)		Final - Dec 96	Comparision
REV	£ 0		£ 364,000	n/a
PBT	-£ 121,000		-£ 913,000	Loss both
EPS	-1.62p		-10.50p	Loss both

AIT Group plc

	Final - Mar 96		Final - Mar 97	Comparision
REV	£ 7,495,000		£ 10,675,000	+42.4%
PBT	£ 1,122,000		£ 1,546,000	+37.8%
EPS	4.19p		5.68p	+35.6%

Anite Group plc

	Final - Apr 96		Final - Apr 97	Comparision
REV	£ 262,860,000		£ 193,399,000	-26.4%
PBT	-£ 19,226,000		-£ 50,377,000	Loss both
EPS	-8.30p		-21.20p	Loss both

Azlan Group plc

	Interim - Sep 95	Final - Mar 96	Interim - Sep 96	Comparision
REV	£ 72,716,000	£ 196,459,000	£ 126,464,000	+73.9%
PBT	£ 4,445,000	£ 10,507,000	£ 6,034,000	+35.7%
EPS	13.60p	30.30p	15.00p	+10.3%

Cadcentre Group plc

	Final - Mar 96		Final - Mar 97	Comparision
REV	£ 14,196,000		£ 17,339,000	+22.1%
PBT	£ 1,669,000		£ 1,777,000	+6.5%
EPS	7.96p		7.13p	-10.4%

Capita Group plc

	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparision
REV	£ 50,067,000	£ 111,869,000	£ 79,067,000	+57.9%
PBT	£ 4,588,000	£ 12,292,000	£ 7,062,000	+53.9%
EPS	1.83p	4.77p	2.49p	+36.1%

Cedardata plc

	Final - Mar 96		Final - Mar 97	Comparision
REV	£ 12,071,000		£ 10,363,000	-14.1%
PBT	£ 4,384,000		£ 1,589,000	-63.8%
EPS	9.50p		3.60p	-62.1%

CFS Group plc

	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparision
REV	£ 1,751,000	£ 4,569,000	£ 3,702,000	+111.4%
PBT	£ 26,000	£ 552,000	£ 252,000	+869.2%
EPS	1.60p	6.40p	2.50p	+56.3%

Chemical Design Holdings plc

	Final(PF) - Dec 95		Final - Dec 96	Comparision
REV	£ 1,811,407		£ 2,546,000	+40.6%
PBT	£ 160,000		£ 515,000	+221.9%
EPS	2.64p		6.77p	+156.4%

Clinical Computing plc

	Final - Dec 95		Final - Dec 96	Comparision
REV	£ 2,187,131		£ 1,979,690	-9.5%
PBT	-£ 714,879		-£ 2,079,530	Loss both
EPS	-4.40p		-12.30p	Loss both

CMG plc

	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparision
REV	£ 116,816,000	£ 245,159,000	£ 140,704,000	+20.7%
PBT	£ 11,340,000	£ 27,522,000	£ 15,117,000	+33.3%
EPS	11.40p	27.40p	14.90p	+30.7%

Coda Group plc

	Interim - Apr 96	Final - Oct 96	Interim- Apr 97	Comparision
REV	£ 15,264,000	£ 33,889,000	£ 19,962,000	+30.8%
PBT	-£ 3,688,000	-£ 4,899,000	£ 60,000	Loss to profit
EPS	-13.90p	-18.80p	0.20p	Loss to profit

Comino plc

	Final - Mar 96		Final - Mar 97	Comparision
REV	£ 4,796,000		£ 7,792,000	not comparable
PBT	£ 871,000		£ 1,420,000	not comparable
EPS	n/a		9.95p	not comparable

Compel Group plc

	Final - Jun 96		Final - Jun 97	Comparision
REV	£ 85,620,000		£ 111,792,000	+30.6%
PBT	£ 3,235,000		£ 5,057,000	+56.3%
EPS	12.50p		16.20p	+29.6%

CRT Group plc

	Final - Apr 96		Final - Apr 97	Comparision
REV	£ 103,282,000		£ 134,334,000	+30.1%
PBT	£ 6,515,000		£ 12,056,000	+85.0%
EPS	5.70p		6.86p	+20.4%

DCS Group plc

	Interim - Jun 96	Final(6 mos)-Dec 96	Interim - Jun 97	Comparision
REV	£ 16,147,000	£ 19,095,000	£ 23,742,000	+47.0%
PBT	£ 1,162,000	£ 1,870,000	£ 2,036,000	+75.2%
EPS	4.07p	6.21p	6.48p	+59.2%

DRS Data & Research Services plc

	Interim - Jul 96	Final - Dec 96	Interim - Jul 97	Comparision
REV	£ 2,918,000	£ 4,822,000	£ 4,268,000	+46.3%
PBT	-£ 363,000	-£ 1,734,000	£ 43,000	Loss to profit
EPS	-0.72p	-3.43p	0.10p	Loss to profit

Delphi Group plc

	Final - Dec 95		Final - Dec 96	Comparision
REV	£ 175,006,000		£ 210,635,000	+20.4%
PBT	£ 9,015,000		£ 12,302,000	+36.5%
EPS	25.42p		33.05p	+30.0%

Diagonal plc

	Interim - Jun 96	Final - Nov 96	Interim - Jun 97	Comparision
REV	£ 12,626,000	£ 28,326,000	£ 17,847,000	+41.4%
PBT	£ 781,000	£ 2,007,000	£ 1,072,000	+37.3%
EPS	2.70p	7.10p	3.80p	+40.7%

Division Group plc

	Interim - Apr 96	Final - Oct 96	Interim - Apr 96	Comparision
REV	£ 3,034,000	£ 4,900,000	£ 2,387,000	-21.3%
PBT	-£ 2,283,000	-£ 1,678,000	-£ 956,000	Loss both
EPS	-5.20p	-3.80p	-2.20p	Loss both

Druid Group plc

	Interim - Dec 95	Final - Jun 96	Interim - Dec 96	Comparision
REV	£ 4,562,000	£ 12,013,000	£ 9,384,000	+105.7%
PBT	£ 867,000	£ 3,011,000	£ 1,800,000	+107.6%
EPS	2.03p	6.69p	4.51p	+122.2%

Eidos plc

	Final - Mar 96		Final - Mar 97	Comparision
REV	£ 3,706,000		£ 75,531,000	not comparable
PBT	-£ 1,949,000		£ 7,626,000	loss to profit
EPS	-44.60p		44.40p	loss to profit

Electronic Data Processing plc

	Interim - Mar 96	Final - Sep 96	Interim - Mar 97	Comparision
REV	£ 7,894,000	£ 14,267,000	£ 6,490,000	-17.8%
PBT	£ 1,505,000	£ 2,519,000	£ 803,000	-46.6%
EPS	3.93p	6.64p	2.01p	-48.9%

F.I. Group plc

	Final - Apr 96		Final - Apr 97	Comparision
REV	£ 78,824,000		£ 98,800,000	+25.3%
PBT	£ 3,763,000		£ 6,575,000	+74.7%
EPS	7.70p		14.20p	+84.4%

Flomerics Group plc

	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparision
REV	£ 2,146,559	£ 5,332,409	£ 2,335,584	+8.8%
PBT	-£ 154,643	£ 477,885	-£ 416,188	Loss both
EPS	n/a	12.30p	n/a	n/a

Gresham Computing plc

	Interim - Apr 96	Final - Oct 96	Interim - Apr 97	Comparision
REV	£ 4,579,000	£ 9,271,000	£ 4,503,000	-1.7%
PBT	£ 708,000	£ 1,682,000	£ 487,000	-31.2%
EPS	1.32p	3.15p	0.88p	-33.3%

Harvey Nash Group plc

	Final - Dec 95		Final - Dec 96	Comparision
REV	£ 23,299,000		£ 36,321,000	+55.9%
PBT	£ 1,056,000		£ 797,000	-24.5%
EPS	2.60p		1.80p	-30.8%

Highams Systems Services Group plc

	Final - Mar 96		Final - Mar 97	Comparision
REV	£ 13,227,496		£ 16,394,589	+23.9%
PBT	£ 899,067		£ 878,707	-2.3%
EPS	7.20p		7.00p	-2.8%

ilion group plc (was Persona Group)

	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparision
REV	£ 65,164,000	£ 146,875,000	£ 88,389,000	+35.6%
PBT	£ 2,707,000	£ 6,009,000	£ 4,030,000	+48.9%
EPS	7.80p	17.20p	11.00p	+41.0%

INSTEM plc

	Interim -Jun 96	Final - Dec 96	Interim - Jun 97	Comparision
REV	£ 10,740,000	£ 22,947,000	£ 11,260,000	+4.8%
PBT	£ 402,000	£ 1,321,000	£ 538,000	+33.8%
EPS	5.80p	18.80p	7.70p	+32.8%

Intelligent Environments Group plc

	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparision
REV	£ 2,028,000	£ 3,475,554	£ 2,074,000	+2.3%
PBT	£ 35,000	-£ 1,379,256	-£ 2,046,000	Profit to loss
EPS	0.20p	-7.10p	-9.20p	Profit to loss

JBA Holdings plc

	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparision
REV	£ 66,039,000	£ 161,810,000	£ 88,102,000	+33.4%
PBT	-£ 2,421,000	£ 11,259,000	-£ 1,297,000	Loss both
EPS	-4.03p	18.26p	-2.56p	Loss both

Kalamazoo Computer Group plc

	Final - Mar 96		Final - Mar 97	Comparision
REV	£ 66,665,000		£ 77,776,000	+16.7%
PBT	£ 5,882,000		£ 3,882,000	-34.0%
EPS	10.20p		6.80p	-33.3%

Kewill Systems plc

	Final - Mar 96		Final - Mar 97	Comparision
REV	£ 35,242,000		£ 41,348,000	+17.3%
PBT	£ 6,061,000		£ 7,425,000	+22.5%
EPS	33.70p		40.50p	+20.2%

Logica plc

	Final - Jun 96		Final - Jun 97	Comparision
REV	£ 284,810,000		£ 338,465,000	+18.8%
PBT	£ 24,710,000		£ 28,148,000	+13.9%
EPS	27.10p		31.00p	+14.4%

London Bridge Software Holdings plc

	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparision
REV	£ 2,013,000	£ 6,306,376	£ 4,095,000	+103.4%
PBT	£ 501,000	£ 2,499,071	£ 953,000	+90.2%
EPS	1.67p	8.26p	2.66p	+59.3%

Lorien plc

	Interim - May 96	Final - Nov 96	Interim - May 97	Comparision
REV	£ 17,997,000	£ 45,706,000	£ 52,864,000	+193.7%
PBT	£ 600,000	£ 1,481,000	£ 889,000	+48.2%
EPS	7.10p	11.80p	1.15p	-83.8%

Lynx Holdings plc

	Interim - Mar 96	Final - Sep 96	Interim - Mar 97	Comparision
REV	£ 38,133,000	£ 87,644,000	£ 53,915,000	+41.4%
PBT	£ 2,069,000	£ 6,953,000	£ 3,710,000	+79.3%
EPS	1.73p	5.36p	2.58p	+49.1%

M.A.I.D plc

	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparision
REV	£ 9,584,000	£ 21,443,000	£ 14,037,000	+46.5%
PBT	-£ 3,284,000	-£ 7,034,000	£ 2,013,000	Loss to profit
EPS	-3.68p	-7.82p	0.88p	Loss to profit

Quoted Companies - Results Service

Note: Shaded = Results announced this month.

MMT Computing plc

	Interim - Feb 96	Final - Aug 96	Interim - Feb 97	Comparision
REV	£ 8,255,000	£ 16,861,201	£ 10,703,000	+29.7%
PBT	£ 2,372,000	£ 4,531,686	£ 2,424,000	+2.2%
EPS	13.00p	24.60p	13.30p	+2.3%

M-R Group plc

	Final - Jun 96		Final - Jun 97	Comparision
REV	£ 38,361,000		£ 39,430,000	+2.8%
PBT	£ 4,810,000		£ 5,604,000	+16.5%
EPS	5.70p		7.30p	+28.1%

MDIS Group plc

	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparision
REV	£ 60,540,000	£ 116,995,000	£ 54,377,000	-10.2%
PBT	-£ 9,213,000	-£ 49,545,000	£ 3,910,000	Loss to profit
EPS	-9.39p	-48.94p	3.82p	Loss to profit

Macro 4 plc

	Final - Jun 96		Final - Jun 97	Comparision
REV	£ 25,317,000		£ 23,448,000	-7.4%
PBT	£ 12,147,000		£ 10,300,000	-15.2%
EPS	37.50p		33.80p	-9.9%

Micro Focus plc

	Interim - Jul 96	Final - Jan 97	Interim - Jul 97	Comparision
REV	£ 34,140,000	£ 73,089,000	£ 41,349,000	+21.1%
PBT	-£ 9,463,000	-£ 5,809,000	£ 5,171,000	Loss to profit
EPS	-62.20p	-48.00p	22.70p	Loss to profit

Microgen Holdings plc

	Interim - Apr 96	Final - Oct 96	Interim - Apr 97	Comparision
REV	£ 38,291,000	£ 73,391,000	£ 34,052,000	-11.1%
PBT	£ 4,875,000	£ 8,783,000	£ 4,211,000	-13.6%
EPS	8.00p	15.10p	6.90p	-13.8%

Microvitec plc

	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparision
REV	£ 33,840,000	£ 65,176,000	£ 20,892,000	-38.3%
PBT	£ 1,610,000	£ 461,000	-£ 424,000	Profit to loss
EPS	1.40p	0.21p	0.10p	-92.9%

Misys plc

	Final - May 96		Final - May 97	Comparision
REV	£ 279,867,000		£ 325,470,000	+16.3%
PBT	£ 50,437,000		£ 62,533,000	+24.0%
EPS	44.00p		53.90p	+22.5%

Mondas plc

	Final - Apr 96		Final - Apr 97	Comparision
REV	n/a		£ 56,609	n/a
PBT	n/a		-£ 421,192	n/a
EPS	n/a		-10.50p	n/a

Moorepay Group plc

	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparision
REV	£ 2,717,246	£ 5,118,415	£ 2,731,603	+0.5%
PBT	£ 851,417	£ 1,327,894	£ 886,148	+4.1%
EPS	5.37p	11.56p	5.69p	+6.0%

MSB International plc

	Final - Jan 96		Final - Jan 97	Comparision
REV	£ 38,555,000		£ 69,755,000	+80.9%
PBT	£ 3,420,000		£ 5,431,000	+58.8%
EPS	12.00p		17.60p	+46.7%

OmniMedia plc

	Final - Dec 95		Final - Dec 96	Comparision
REV	£ 275,275		£ 1,003,861	+264.7%
PBT	-£ 1,684,980		-£ 2,314,967	Loss both
EPS	-9.97p		-10.10p	Loss both

On Demand Information plc

	Interim - Jan 96	Final - Jul 96	Interim - Jan 97	Comparision
REV	£ 5,677,000	£ 11,429,000	£ 5,601,000	-1.3%
PBT	-£ 1,284,000	-£ 2,900,000	-£ 2,291,000	Loss both
EPS	-2.50p	-5.60p	-4.20p	Loss both

Oxford Molecular plc

	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparision
REV	£ 4,350,000	£ 9,789,000	£ 6,168,000	+41.8%
PBT	-£ 950,000	-£ 1,849,000	-£ 677,000	Loss both
EPS	-1.70p	-3.30p	-1.10p	Loss both

Parity plc

	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparision
REV	£ 76,363,000	£ 162,091,000	£ 90,625,000	+18.7%
PBT	£ 4,303,000	£ 10,060,000	£ 5,678,000	+32.0%
EPS	6.75p	15.81p	8.90p	+31.9%

Pegasus Group plc

	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparision
REV	£ 3,729,000	£ 7,914,000	£ 5,567,000	+49.3%
PBT	£ 511,000	£ 1,160,000	£ 810,000	+58.5%
EPS	6.50p	15.40p	12.80p	+96.9%

PhoneLink plc

	Final - Mar 96		Final - Mar 97	Comparision
REV	£ 4,356,000		£ 4,316,000	-0.9%
PBT	-£ 6,711,000		-£ 6,173,000	Loss both
EPS	-17.30p		-12.90p	Loss both

Proteus International plc

	Final - Mar 96		Final - Mar 97	Comparision
REV	£ 1,063,000		£ 573,000	-46.1%
PBT	-£ 5,395,000		-£ 3,824,000	Loss both
EPS	-14.53p		-7.31p	Loss both

Quality Software Products Holdings plc

	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparision
REV	£ 11,797,000	£ 25,360,189	£ 13,431,000	+13.9%
PBT	-£ 1,117,000	£ 28,480	£ 180,000	Loss to profit
EPS	-8.60p	0.20p	1.40p	Loss to profit

RM plc

	Interim - Mar 96	Final - Sep 96	Interim - Mar 97	Comparision
REV	£ 45,162,000	£ 99,032,000	£ 48,965,000	+8.4%
PBT	£ 1,322,000	£ 6,806,000	£ 1,683,000	+27.3%
EPS	5.00p	25.80p	6.30p	+26.0%

Radius plc

	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparision
REV	£ 13,934,000	£ 27,267,000	£ 13,288,000	-4.6%
PBT	£ 1,006,000	£ 1,591,000	£ 805,000	-20.0%
EPS	2.40p	4.05p	1.93p	-19.6%

Rage Software plc

	Interim - Dec 95	Final - Jun 96	Interim - Dec 96	Comparision
REV	£ 4,139,000	£ 9,504,000	£ 3,975,000	-4.0%
PBT	-£ 1,226,000	-£ 3,224,000	-£ 1,752,000	Loss both
EPS	-0.44p	-1.34p	-0.65p	Loss both

Real Time Control plc

	Final - Mar 96		Final - Mar 97	Comparision
REV	£ 11,903,000		£ 12,565,000	+5.6%
PBT	£ 2,207,000		£ 2,547,000	+15.4%
EPS	20.80p		25.50p	+22.6%

Rebus Group plc

	Final - Mar 96		Final - Mar 97	Comparision
REV	£ 60,040,000		£ 66,436,000	+10.7%
PBT	£ 1,969,000		£ 5,808,000	+195.0%
EPS	0.33p		4.61p	+1297.0%

Recognition Systems Group plc

	Interim - Mar 96	Final - Sep 96	Interim - Mar 97	Comparision
REV	£ 245,000	£ 324,000	£ 326,000	+33.1%
PBT	-£ 292,000	-£ 1,266,000	-£ 1,128,000	Loss both
EPS	-1.40p	-5.50p	-4.20p	Loss both

Riva Group plc

	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparision
REV	£ 32,348,000	£ 64,438,000	£ 32,661,000	+1.0%
PBT	-£ 905,000	£ 518,000	£ 190,000	Loss to profit
EPS	-3.00p	0.90p	0.30p	Loss to profit

Rolfe & Nolan plc

	Final - Feb 96		Final - Feb 97	Comparision
REV	£ 17,128,000		£ 20,299,000	+18.5%
PBT	£ 2,517,000		£ 2,758,000	+9.6%
EPS	12.33p		14.50p	+17.6%

Romtec plc

	Interim - Jul 96	Final - Jan 97	Interim - Jul 97	Comparision
REV	£ 1,990,000	£ 4,734,677	£ 2,491,000	+25.2%
PBT	£ 128,000	£ 326,125	£ 130,000	+1.6%
EPS	1.70p	4.30p	1.90p	+11.8%

Royalblue Group plc

	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparision
REV	£ 5,383,000	£ 11,679,000	£ 8,892,000	+65.2%
PBT	£ 1,006,000	£ 2,016,000	£ 221,000	-78.0%
EPS	2.39p	4.66p	-0.35p	Profit to loss

Sage Group plc

	Interim - Mar 96	Final - Sep 96	Interim - Mar 97	Comparision
REV	£ 71,836,000	£ 136,236,000	£ 73,554,000	+2.4%
PBT	£ 16,116,000	£ 30,053,000	£ 19,286,000	+19.7%
EPS	9.92p	18.50p	12.03p	+21.3%

Sanderson Electronics plc

	Interim - Mar 96	Final - Sep 96	Interim - Mar 97	Comparision
REV	£ 30,583,000	£ 61,385,000	£ 33,408,000	+9.2%
PBT	£ 3,317,000	£ 6,201,000	£ 3,504,000	+5.6%
EPS	5.30p	10.10p	5.90p	+11.3%

SBS Group Holdings plc

	Final - Aug 95		Final - Aug 96	Comparision
REV	£ 13,293,162		£ 15,187,558	+14.3%
PBT	£ 341,562		£ 125,661	-63.2%
EPS	n/a		n/a	n/a

Sema Group plc

	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparision
REV	£ 426,919,000	£ 926,965,000	£ 559,539,000	+31.1%
PBT	£ 19,754,000	£ 50,019,000	£ 26,214,000	+32.7%
EPS	12.91p	30.94p	16.03p	+24.2%

Sherwood International plc

	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparision
REV	£ 11,801,000	£ 24,628,000	£ 13,069,000	+10.7%
PBT	£ 705,000	£ 2,065,000	£ 1,025,000	+45.4%
EPS	5.60p	19.20p	7.90p	+41.1%

Skillsgroup plc

	Interim - May 96	Final - Nov 96	Interim - May 97	Comparision
REV	£ 179,200,000	£ 344,337,000	£ 181,600,000	+1.3%
PBT	£ 6,500,000	£ 14,277,000	£ 6,500,000	+0.0%
EPS	5.80p	12.70p	5.80p	+0.0%

Spargo Consulting plc

	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparision
REV	£ 4,040,000	£ 7,853,000	£ 4,228,000	+4.7%
PBT	£ 602,000	£ 1,204,000	£ 625,000	+3.8%
EPS	3.10p	6.17p	3.25p	+4.8%

Staffware plc

	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparision
REV	£ 4,044,061	£ 10,009,325	£ 7,701,192	+90.4%
PBT	£ 159,812	£ 873,879	£ 549,023	+243.5%
EPS	0.40p	5.60p	3.30p	+725.0%

Superscape VR plc

	Final - Jul 96		Final - Jul 97	Comparision
REV	£ 3,888,000		£ 3,106,000	-20.1%
PBT	-£ 2,873,000		-£ 5,961,000	Loss both
EPS	-37.90p		-69.60p	Loss both

Systems Integrated Research plc

	Interim - Nov 95	Final - May 96	Interim - Nov 96	Comparision
REV	n/a	£ 1,246,000	£ 507,000	n/a
PBT	n/a	-£ 642,000	-£ 1,194,000	n/a
EPS	n/a	-5.80p	-9.10p	n/a

Total Systems plc

	Final - Mar 96		Final - Mar 97	Comparision
REV	£ 2,892,802		£ 3,279,609	+13.4%
PBT	£ 222,329		£ 412,545	+85.6%
EPS	1.60p		2.76p	+72.5%

Trace Computers plc

	Final - May 96		Final - May 97	Comparision
REV	£ 20,534,553		£ 17,271,000	-15.9%
PBT	-£ 5,135,296		£ 635,000	Loss to profit
EPS	-35.88p		3.36p	Loss to profit

Triad Group plc

	Final - Mar 96		Final - Mar 97	Comparision
REV	£ 11,680,000		£ 18,827,000	+61.2%
PBT	£ 2,131,000		£ 2,656,000	+24.6%
EPS	7.09p		7.25p	+2.3%

Vega Group plc

	Final - Apr 96		Final - Apr 97	Comparision
REV	£ 16,032,000		£ 17,977,000	+12.1%
PBT	£ 3,452,000		£ 3,261,000	-5.5%
EPS	16.16p		13.79p	-14.7%

Xavier Computer Group plc

	Period - Mar 96		Final - Mar 97	Comparision
REV	£ 457,000		£ 8,961,457	not comparable
PBT	-£ 86,000		£ 582,000	Loss to profit
EPS	-0.13p		0.62p	Loss to profit

Zergo Holdings plc

	Final - Apr 96		Final - Apr 97	Comparision
REV	£ 8,483,877		£ 10,398,871	+22.6%
PBT	-£ 214,693		£ 725,736	Loss to profit
EPS	-5.10p		3.40p	Loss to profit

From a high of 778p, VR developer **Superscape** had sunk to a low of just 56p. Results to 31st July 97 show losses doubled to £6m on rev. down 20% at £3.1m. News that their 3D Internet Browser would be available soon sent the shares up 22%.

UK M&A

Joel Jervis (formerly MD of the products division of 4Front) has joined with VC **Cairnsford Associates** to head a new fund which will focus specifically on building an IT group. They are looking at companies in the networking and SI marketplace *"and currently have a short-list of six and expect to acquire at least two before the end of the year"*. *Ed - Have we heard this before?*

Parity has acquired **McCourt Consultants** (IT recruitment) for up to £3m. McCourt had revenues of £2.2m and a PBT of £260K in FY97.

Capita has acquired an (initial) 60% in quantity surveyor and cost consultancy **Tozer Gallagher** for £3.96m plus up to £2m more of profits to Mar. 2000. TG had 96 revenues of £22.5m. Capita have an option to buy the remaining 40% for £2.64m after Apr. 98.

Andata has acquired **Crystalclear Computer Services** for an undisclosed amount. Crystalclear is small and had 95 revenues (last filed) of only £437K and PBT of £8K. Evidently last month Andata acquired **AI International**.

Select Appointments has purchased US **Aztec Consulting Services** for a max. of $7.2m (c£4.5m). Aztec is an IT staff agency with 96 sales of $12.6m and PBT of $749K.

Depends how you tell them

We had a mutual commiseration session with a director at **IBM Global Services** that media reports headlined the poor performance in hardware, software, maintenance etc. whereas 26% growth in services hardly gets a mention.

So the headline *"**Oracle** below expectations"* dwelt on a lacklustre 6% increase in *"Oracle's core database software"* but spent rather less on the 96% growth in applications or the 42% increase in services.

Oracle is fast becoming an applications and services company. *Are we alone in regarding this as a good move?*

What price TPM?

4Front continues buying

NASDAQ quoted, but UK based, **4Front International** has acquired all the shares of **Stratagem's** maintenance subsidiary **Firstpoint** for $6.1m (c£3.85m) including the assumption of $1.4m inter-company debt. $3.9m has already been paid, with the balance over the next 18 months. Firstpoint has a $19m maintenance contract base which should more than double 4Front's hardware maintenance revenues. The price seems very high considering Firstpoint's loss of £374K in the first six months. We had rather expected an MBO led by Jim Stoddart *who we are sure will officially be staying on ...*

Granada MBO

We will, for once, assume you know the story thus far. (If not, please e-mail us and we send the complete background built up over the last ten years)

Finally **Granada** sold its *"computer services arm"* (TPM arm?) to an MBO for an amazingly high £89m + an £8m intercompany dividend. GCS *says* it had operating profits of £8.7m on revenues of £133.5m in the year to 30th Sept. *"CVC* (i.e. Citicorp) *is investing in excess of £30m, with further equity being funded by management. Société Générale is arranging senior debt facilities"* . The MBO team will have about 15% of the equity.

Comment *We really got this one wrong!* Firstly our main contact was ex-Compel Gordon Towell. We thought he was behind the MBO. But no. He will retreat to the backwaters of Granada as the MBO was led by MD Richard Ferre. And then we got the price wrong *(we expected £20m!)* and also the validity of the H-P counterbid. *("The MBO team had exclusivity at the time of the H-P approach anyway")* . ***Or did we?***

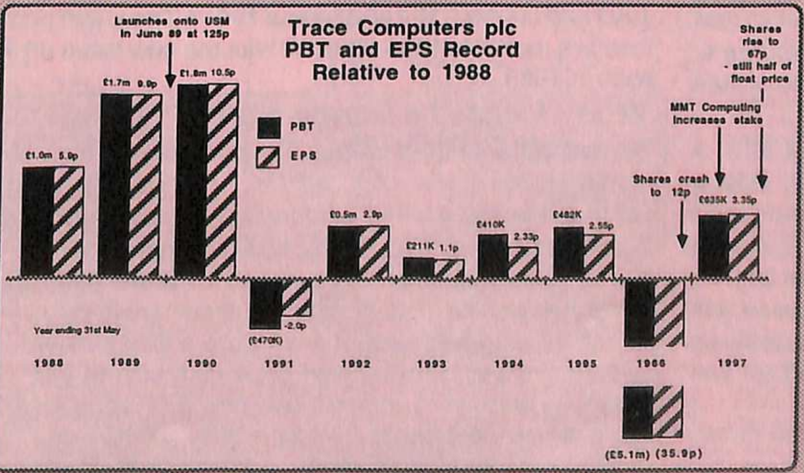
Computer Sciences (CSC) Q197 results show revenue up 14% to $1.49 billion with net income up 16% to $52.6m. US revenue was up 27% at $605m with European revenue also up 27% at $381m.

Trace - the only consistent feature is their ability to annoy

Trace Computers as a quoted SCSI company is as old as *System House. System House* has, we are big-headed enough to reveal, been rather more consistently successful in its performance. Here we all are 8 years after the float with yet another profits revival (to a mere third of the 1990 level) and a share price (even allowing for the 93% increase in 1997 already) still half the new issue price.

For the record, revenues were down 16% at £17.27 and a PBT of £635K (loss a staggering £5.1m in FY96) were reported in the year to 31st May 97. What really incensed us, though, was new *(well, brought out of retirement after 35 years at Unisys)* Chairman John Perry's boast that this was *"our best performance since 1989/90, the year of our float"*. Though true, we cannot tell you how much that annoys us!

Anyway, the revenue reductions were exacerbated by the disposals of Proteus and Wordflow but organic revenue growth from continuing operations was pretty slim anyway. The profits "recovery" seems to have come mainly from cost reductions. Perry says *"the fundamental structure of the group is correct and we have no plans to make further disposals"*. But the problem with Trace is that it is *still* involved in too many niche markets - property, reinsurance, financial, HR, bespoke development. Trace Financial and Imaging/ Workflow are *still* loss-making. Perry admits *"disappointment with the levels of return from our high levels of R&D investment"*.



The balance sheet *still* shows a net liability (of nearly £500K). Not that much to show for eight years as a listed company and certainly nothing to boast about.

One of the reasons for the share price increase this year has, of course, been canny investor Mike Tilbrook of **MMT Computing** taking a 7%+ stake.

CMG - excellent interims

CMG has announced superb results for the six months ending 30th Jun. 97. Revenue rose 21% to £141m, PBT increased a higher 33% at £15m with EPS up 31%. Almost all the revenue growth was organic, and (if converted at a constant exchange rate) would have been up some 39%. On a similar basis PBT increased a massive 56%. And what's more, CMG has broken the 10% profit margin barrier at 10.4%.

All parts of the company appear to have done well. The Netherlands' revenue now accounts for 70% of the total at £97m; contributing c84% of profit before common costs. UK revenue was up 27% to £33m and declared £2m profit *"due mainly to greater concentration on specific market sectors and niches"*. Germany had static revenues at nearly £11m. But, at last, Germany has made a small profit (£500K) - and this is before the Orga-Team contribution.

Chairman Cor Stutterheim, commenting on the group's outlook for the remainder of the year, said *"The group's performances since the end of June continues to be very satisfactory and our main markets remain buoyant"*. However he went on to warn of the *"tight recruitment market"* but is still anticipating *"the second half, traditionally CMG's better half"* which will *"enable us to produce a further strong set of results for the full year"*.

Analysts have now upgraded profit forecasts for the full year by about 10% to £36.6m. One said *"if the currency swings back in CMG's favour, even these could be very conservative forecasts"*. The market loved it all and the share price continued its meteoric rise with a further small increase of 2% to end Sept. on £14.78p. Remember CMG was a new float in Dec. 95 at just 290p and the present price is therefore up over 5-fold in less than two years. Perhaps this phenomenal rise can, in part at least, be attributed to CMG's policy of wide staff share ownership with average value now - we understand - of c£100K per employee. CMG has also intensively courted graduates (paid air fares to attend interviews etc.) which has helped overall staff numbers to increase by about 20% in the last six months to over 4,200.

Pegasus - solid at the interim stage

Last year, **Pegasus** (financial accounting software) was the subject of an unsolicited bid from **Sage**. But this all came to nought (we thought this was probably a good thing as far as Sage was concerned). The FY96 results for Pegasus were good ... but these was followed by even better interims for the six months to 30th Jun. 97. Revenue rose 49% to £5.6m including revenue from their new CSM acquisition (Mar. 97 for £6.7m) of £928K. PBT went up 59% to £810K with EPS up a massive 97%. Even if CSM figures are excluded, organic revenue growth was 24%. *"A solid performance"* according to CEO Jonathan Hubbard-Ford.

With recurrent revenues now some 34% of the total, a 21% increase in sales of their flagship product, Opera, and continual updating of all products, the future now looks much brighter for Pegasus. Indeed even after the cash outlay of £3.8m for CSM, they ended the half with £2.24m cash in the bank. And this has been further increased with a £1m plus interest tax refund in respect of tax previously paid. This was due on the disposal of a subsidiary and has now been "reinvested" in CSM.

The shares ended Sep. on 270p, down 6% in the month and still well below the Sage bid price of 475p.

INSTEM - boringly consistent

INSTEM (computer control systems for power stations, water boards etc.) has announced another set of consistent, but not overly exciting, results for the six months to 27th Jun. 97. Revenue rose 5% to £11.3m, PBT increased 34% to £538K with EPS up 33%. INSTEM operates with three Divisions. Instem Electronics *"continues to meet its growth targets"*, Instem Computer Systems *"received substantial orders during the first half"* but these will not be reflected in deliveries until 1998 and Instem-Apoloco *"received key orders but overall its financial performance was disappointing"*. According to Chairman & CEO David Gare, *"the company has broadly achieved its overall business objectives"*.

US **Harnischfeger** acquired a 35% stake in INSTEM in 1995 when they bought Dobson Park Industries (which then owned 35%). We have long expected them to take control but so far there has been no developments.

Maiden interims from Royalblue

Royalblue came to the main market in Jun. 97 at 170p and a P/E of 37. They were formerly known as **Intercom Data Systems** (call centre support software). Maiden results the six months to 30th Jun. 97 show revenue rising 65% to £8.9m and PBT, before exceptional flotation costs of £986K, increased 20% to £1.2m. But after the float costs are taken into account, profits actually dropped 78% to just £221K. *Why does it cost nearly £1m to float a relatively small company in London?*

CEO John Hamer commented *"We are experiencing encouraging levels of interest in all our products"*. There was particularly strong growth in their *Fidessa* financial trading systems in both the UK and US. Hamer is expecting *"to return a good result for our shareholders for the full year"*.

The shares ended Sep. on 225p, a rise of 8% in the month and a premium of 32% to the new issue price.

Flomerics increases losses

Flomerics (software to predict fluid flow and heat transfer) was a new issue on AIM in Dec. 95 at 130p. The FY96 results were good but the interims are not. *"Traditionally a high proportion of licence renewals occurs at the end of the year"*. Quite why this should be is a little difficult to fathom.

However at the interim stage for the six months to 30th Jun. 97, revenue rose 9% to £2.3m (but up 17% on constant exchange rates) and losses increased from £155K to £416K.

Anyway Chairman David Mann sees *"excellent prospects for a return to strong growth in revenues and earnings in 1998 and beyond"*. But what about 1997? The share price rose this month to 130p - but this was the new issue price back in 1995.

Vega - Please be Boring again

We met with Dr. Roger Gilbert, the new CEO at **Vega**, this month. He had just announced that *"profits to 30th Apr 98 will be lower than in 1997"* but forecast a recovery in 1999. With a pedigree at EDS-Defence (UK), Gilbert is well used to the Vega business. He seemed to understand the fundamentals like high utilisation and not taking your eye off the existing business. But we were a little concerned at the significant shift to fixed price contracts (a third of revenues this year) and his warning that Vega's 20% margins were a thing of the past - *"they will be more like Admirals in future"*. *If only they could be that Boring again!*

Further recovery for SCSI Index In the month when the FTSE100 broke the 5200 barrier with a 7.7% rise, our SCSI Index followed suit with a 4.8% rise. But we should point out that the FTSE is now up 27% in 1997 compared to a rather modest 6.8% rise in our index. The AIM and FTSE Small Cap. Indices have done even worse.

Eidos (computer games) led the increases with a 73% rise. **Diagonal**, **Compel** and **Phonelink** all rose 27% and joined 10 companies whose share price rose by >10% in Sept. **Intelligent Environments** fell 33% (see p10) followed by a 17% fall at **Recognition Systems.**

29-Sep-97	SCSI Index			2858.19
	FTSE 100			5220.30
	BDO AIM			1366.00
SCSI Index = 1000 on 15th April 1989	FTSE SmallCap			2324.65
Changes in Indices	SCSI Index	FTSE 100	BDO AIM Index	FTSE Small Cap
Month (28/8/97 - 29/9/97)	+4.77%	+7.74%	-0.87%	+3.42%
From 15th Apr 89	+185.82%	+154.20%		
From 1st Jan 90	+210.64%	+121.01%		
From 1st Jan 91	+303.77%	+141.64%		
From 1st Jan 92	+173.55%	+109.39%		
From 1st Jan 93	+79.36%	+83.39%		+67.56%
From 1st Jan 94	+71.19%	+52.71%		+24.40%
From 1st Jan 95	+90.65%	+70.29%		+33.11%
From 1st Jan 96	+26.55%	+41.50%	6.54%	+19.73%
From 1st Jan 97	+6.75%	+26.75%	0.76%	+6.48%

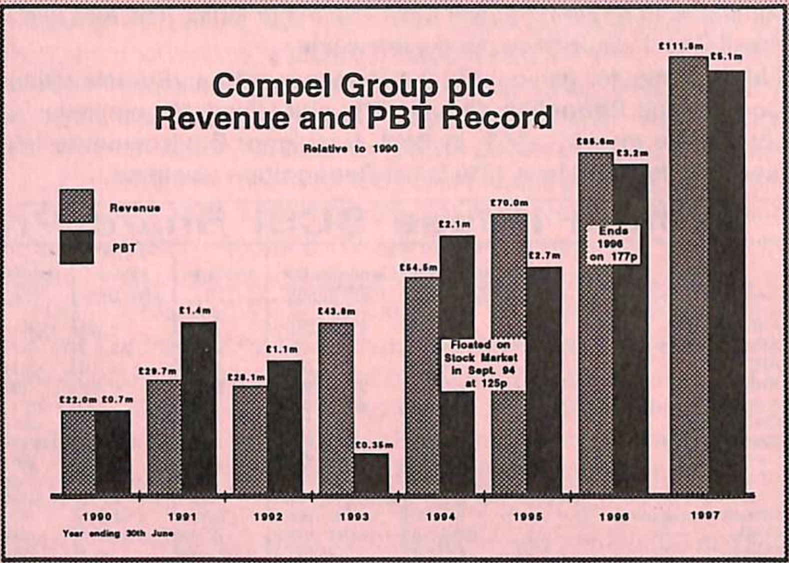
System House SCSI Share Prices and Capitalisation

	Share Price 29/9/97 (£p)	Capitalisation 29/9/97(£m)	Historic P/E	PSR Ratio Cap./Rev.	CSI Index 29/9/97	Share price % move since 28/8/97	Share price % move in 1997	Capitalisation move (£m) since 28/8/97	Capitalisation move (£m) in 1997
Admiral	£5.00	£316.00m	37.6	3.48	18071.76	6.95%	36.99%	£20.50m	£86.10m
AFA Systems	£1.18	£14.10m	Loss	39.17	979.17	-1.67%	-15.77%	£2.20m	£0.20m
AIT	£1.68	£34.00m	31.5	3.19	1116.67	5.68%	11.67%	£2.20m	£3.60m
Anite	£0.45	£106.90m	Loss	0.55	263.16	13.92%	23.29%	£13.10m	£20.40m
Azlan	£5.55	£197.00m	17.7	1.00	2413.04	0.00%	-2.20%	£0.00m	-£3.90m
Cadcentre	£2.82	£46.80m	37.9	2.70	1410.00	6.42%	10.37%	£2.80m	£4.30m
Capita	£2.89	£552.60m	53.4	4.94	26036.04	8.44%	78.40%	£54.50m	£268.50m
Cedardata	£0.91	£28.70m	25.1	2.77	861.90	0.00%	-63.80%	£0.00m	-£50.50m
CFS	£1.03	£7.58m	14.6	1.66	1138.89	5.13%	22.75%	£0.37m	£1.40m
Chemical Design	£2.10	£13.90m	29.8	5.45	1909.09	23.53%	44.83%	£2.80m	£4.46m
Clinical Computing	£0.40	£10.00m	Loss	5.05	322.58	23.08%	33.33%	£1.84m	£2.47m
CMG	£14.78	£947.10m	47.9	3.86	5094.83	2.07%	75.89%	£19.30m	£408.70m
Coda	£1.67	£46.30m	Loss	1.37	708.51	8.47%	54.88%	£3.60m	£16.40m
Compel	£2.59	£68.80m	15.8	0.62	2068.00	27.03%	46.46%	£15.90m	£41.90m
Comino	£1.51	£16.60m	13.9	2.13	1157.69	0.00%	15.77%	£0.00m	£2.25m
CRT Group	£2.71	£384.50m	39.5	2.86	3011.11	8.62%	8.40%	£31.00m	£43.30m
DCS Group	£2.84	£57.00m	22.3	1.87	4725.00	6.38%	5.00%	£3.60m	£5.20m
Delphi Group	£7.03	£203.00m	21.3	0.96	2890.95	-2.09%	-4.10%	-£3.60m	-£8.00m
Diagonal	£4.66	£86.30m	46.1	3.05	1694.55	27.15%	69.45%	£18.40m	£35.40m
Division Group	£0.45	£19.60m	Loss	4.00	1112.50	-4.30%	-19.09%	-£0.90m	-£4.50m
DRS Data & Research	£0.26	£8.89m	Loss	1.84	236.36	-11.86%	6.12%	-£1.21m	£0.51m
Druid	£4.95	£113.40m	44.1	9.44	1800.00	11.86%	45.59%	£12.10m	£35.60m
EDP	£0.68	£17.70m	14.3	1.24	2066.75	22.73%	-2.17%	£3.30m	-£0.40m
Eidos	£8.10	£136.90m	36.8	1.81	8100.00	73.26%	12.11%	£57.90m	£40.80m
FI Group	£6.28	£186.40m	43.8	1.89	2670.21	10.48%	10.38%	£17.70m	£17.60m
Flomerics	£1.30	£3.38m	63.7	0.63	1000.00	13.04%	-39.53%	£0.39m	-£2.13m
Gresham Computing	£0.31	£9.97m	11.3	1.08	327.96	-11.59%	-41.90%	-£1.33m	-£7.23m
Harvey Nash	£2.18	£60.60m	128.1	1.67	1242.86	0.93%	24.29%	£0.50m	£11.80m
Highams Systems	£1.20	£10.70m	16.7	0.65	1666.67	-4.00%	-12.09%	-£0.40m	-£1.40m
ilion (was Persona)	£3.23	£80.90m	15.7	0.55	2015.63	-10.29%	4.37%	-£9.30m	£4.30m
INSTEM	£2.05	£9.63m	9.9	0.42	2050.00	24.24%	41.38%	£1.88m	£2.96m
Intelligent Environments	£0.25	£5.60m	Loss	1.61	265.96	-33.33%	-61.54%	-£2.80m	-£8.90m
JBA Holdings	£8.58	£313.80m	42.5	1.94	5359.38	1.18%	61.79%	£3.60m	£133.10m
Kalamazoo	£0.80	£34.30m	11.7	0.44	2285.71	0.00%	-25.58%	£10.90m	£3.30m
Kewill	£5.57	£71.20m	13.8	1.72	2199.60	-6.08%	6.30%	-£4.00m	£4.70m
Logica	£8.40	£614.00m	27.1	1.81	2301.37	6.67%	-8.55%	£38.30m	£30.80m
London Bridge	£3.69	£106.90m	37.0	16.97	1842.50	10.49%	84.25%	£10.20m	£59.90m
Lorien	£3.15	£53.90m	46.7	1.18	3150.00	2.44%	-6.25%	£1.30m	£15.60m
Lynx Holdings	£1.01	£104.10m	16.6	1.19	2525.00	11.60%	16.76%	£10.80m	£19.40m
M-R Group	£0.96	£53.30m	13.1	1.35	378.97	-5.91%	12.35%	-£3.30m	£5.90m
Macro 4	£3.35	£66.00m	10.0	2.81	1350.81	3.08%	-31.63%	£2.00m	-£30.50m
MAID	£2.18	£207.30m	Loss	9.67	1977.27	5.07%	7.94%	£14.40m	£22.50m
MDIS	£0.39	£81.70m	Loss	0.70	150.00	4.00%	18.18%	£3.10m	£47.10m
Micro Focus	£21.63	£333.00m	58.7	4.56	10446.86	5.62%	122.94%	£17.70m	£186.50m
Microgen	£1.12	£44.20m	8.0	0.60	476.50	0.00%	-25.67%	£0.00m	-£15.00m
Microvitec	£0.15	£12.00m	72.6	0.18	371.95	3.39%	-46.49%	£0.40m	-£10.40m
Misys	£15.43	£1,337.00m	28.6	4.11	3837.06	-3.44%	38.15%	-£46.00m	£386.90m
MMT Computing	£5.19	£61.70m	20.9	3.66	3086.31	8.93%	-9.19%	£5.10m	-£5.70m
Mondas	£0.78	£4.73m	Loss	82.98	1033.33	1.31%	-7.19%	£0.06m	-£0.30m
Moorepay	£2.80	£30.20m	33.1	5.90	4725.28	1.82%	40.00%	£0.50m	£8.90m
MSB International	£4.73	£95.90m	25.5	1.37	2486.84	2.16%	27.53%	£2.00m	£20.60m
OmniMedia	£0.02	£0.55m	Loss	0.55	30.00	-10.00%	-76.32%	-£0.06m	-£1.79m
On Demand	£0.10	£5.51m	Loss	0.48	128.21	0.00%	-77.78%	£0.00m	-£19.29m
Oxford Molecular	£2.79	£201.40m	Loss	20.57	3481.25	-5.59%	-21.77%	-£7.80m	-£15.40m
Parity	£5.57	£239.30m	31.0	1.48	30916.55	8.27%	25.76%	£19.30m	£51.20m
Pegasus	£2.70	£18.90m	11.4	2.39	735.69	-5.59%	-27.81%	-£1.10m	-£4.70m
Phonelink	£0.43	£20.50m	Loss	4.76	274.19	26.87%	-30.33%	£4.30m	-£8.70m
Proteus	£0.38	£20.80m	Loss	36.30	446.43	-11.76%	0.00%	-£2.80m	£0.20m
Quality Software	£2.35	£30.60m	23.0	1.21	618.42	13.25%	15.20%	£3.60m	£4.10m
Radius	£0.45	£12.50m	12.4	0.46	322.46	0.00%	-29.37%	£0.00m	-£5.10m
Rage	£0.05	£11.00m	Loss	1.16	173.08	5.88%	-60.87%	£0.60m	-£16.90m
Real Time Control	£2.82	£19.70m	11.1	1.57	5755.10	3.87%	21.29%	£0.70m	£3.40m
Rebus	£0.76	£70.30m	17.2	1.06	863.64	10.14%	4.83%	£6.50m	£17.50m
Recognition Systems	£0.29	£7.70m	Loss	24.06	407.14	-17.39%	-51.28%	-£1.61m	-£8.10m
Riva	£0.34	£10.40m	8.0	0.16	238.09	17.54%	42.55%	£1.59m	£3.30m
RM	£8.30	£147.70m	30.7	1.49	4742.86	-0.30%	33.87%	-£0.50m	£37.30m
Rolfe & Nolan	£3.43	£45.60m	23.6	2.25	4077.38	7.87%	-5.52%	£5.60m	-£0.10m
Romtec	£0.98	£5.07m	20.9	1.07	1560.00	2.09%	21.12%	£0.10m	£0.88m
Royalblue	£2.25	£74.30m	41.9	6.36	1323.53	8.43%	32.35%	£5.80m	£27.60m
Sage Group	£6.87	£742.60m	33.3	5.45	26423.08	-3.58%	29.62%	-£27.60m	£173.90m
Sanderson Electronics	£0.97	£44.30m	9.0	0.72	1642.55	19.88%	-35.67%	£7.40m	-£23.40m
SBS Group	£1.15	£8.13m	20.1	0.54	1145.00	1.78%	14.50%	£0.14m	£1.08m
Sema Group	£12.95	£1,489.00m	38.4	1.61	4072.33	-7.50%	19.35%	-£74.00m	£282.00m
Sherwood	£3.35	£28.80m	15.6	1.17	2791.67	-10.67%	71.79%	-£3.40m	£12.00m
Skillsgroup	£1.45	£117.90m	11.4	0.34	650.22	0.00%	-6.45%	£0.00m	-£7.20m
Spargo Consulting	£1.23	£15.30m	19.4	1.95	1289.47	4.26%	-15.81%	£0.60m	-£2.90m
Staffware	£2.80	£32.50m	36.7	3.25	1244.44	4.67%	7.90%	£1.50m	£2.50m
Superscape	£0.82	£7.22m	Loss	2.32	414.14	22.39%	-79.37%	£1.32m	-£26.18m
Systems Integrated	£0.11	£1.47m	Loss	1.18	95.65	0.00%	-37.14%	£0.00m	-£0.88m
Total	£0.61	£6.11m	21.9	1.86	1141.51	-3.20%	108.62%	-£0.19m	£3.21m
Trace	£0.68	£9.72m	22.9	0.56	540.00	26.17%	92.86%	£2.02m	£4.79m
Triad	£2.44	£61.40m	33.6	3.26	1803.70	8.95%	16.23%	£5.10m	£8.70m
Vega Group	£1.87	£28.70m	13.4	1.60	1528.69	-7.44%	-30.28%	-£2.30m	-£12.40m
Xavier	£0.09	£5.25m	9.8	0.59	875.00	-2.78%	-20.45%	-£0.15m	-£0.50m
Zergo	£2.70	£24.80m	79.5	2.38	2769.23	-3.57%	-6.90%	-£1.00m	-£1.90m

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.

Strong performance from Compel Group

Old established **Compel** is *"one of the UK's leading corporate reseller/systems integrators, providing a range of integrated PC and UNIX based computer systems and services to major end users throughout the UK"*. They floated in Sep. 94 at 125p.



Given the nature of their business, the full year results to 30th Jun. 97 were OK. Revenue rose 31% to £111.8m, PBT was up 56% at £5.1m with EPS increasing 25%. Just over £20m revenue is due to the acquisition of Hamilton Rentals (Jan. 97 for £12.5m), so organic growth was a meagre 7%. *Compare this to the superb performance at Computacenter (page two)*

Hamilton also contributed operating profits of £1.4m. But at least net profit margins have increased from 3.8% to 4.5% - due mainly to an increase in systems and services revenue (gross margins went up to 18.6% with even higher margins at Hamilton of 23.3%). Although at the time we expressed a small degree of worry that the sheer size of Hamilton (which increased Compel by over a third) might cause some *"acquisition indigestion"*, we did comment that in the world of resellers *"size does matter"* and Compel was following the golden rule of *"sticking to the knitting"*.

According to Chairman & CEO Neville Davis *"This year has seen the group develop substantially by way of organic growth and acquisition... This provides a strong platform for further progress in the current year and beyond. Compel enters the new financial year in a strong position... the opportunities available are very considerable"*. In April this year, Compel were appointed as sole UK member of GlobalServe - one of the leading worldwide alliances of corporate resellers/systems integrators.

The shares have risen 29% in the month to end Sep. on 259p - that's an increase of 62% on the rights issue price of 160p in Jan. 97 to fund the Hamilton acquisition.

London Bridge does not fall down

London Bridge Software provides software and services for credit risk management and is now one of the UK's leaders in this field. They were a new float in Mar. 97 at 200p - an initial valuation of £47m and a 24 P/E. At the time we were far from enthusiastic as, amongst our other doubts, was the PSR of nearly 7.5 (more than double what we would have expected). We were not alone in these views as the Investors Chronicle headlined its review *"London Bridge is Falling Down"*. But, so far at least, our doubts seem groundless.

In August this year, London Bridge acquired US **RMS** from CheckFree Corp. for a maximum consideration of £20.1m funded mainly by a £16.2m, 4-for-17, rights issue at 308p. Maiden results for the six months to 30th Jun. 97 are nothing less than sparkling. Revenue more than doubled to £4.1m, PBT went up 90% to £953K with basic EPS up 59%. And this is *after* the balance of £237K of float costs and a further £224K costs of a new establishment in Singapore. Non-UK revenues went from nil to £1.5m with UK revenue up 30% at £2.6m.

Gordon Crawford commented *"Since flotation the group has continued to expand... With RMS, we now enjoy the same leading position in the US as the UK.... We have made new licence sales in new markets.... We look forward to continued growth in the second half of the year as we strengthen our market position worldwide"*.

As we have said on many occasions, we are not a share tip newsletter. *Just as well really.* The shares now stand at 369p - a premium of 85% to the new float price and well above the recent rights issue price.

Note: At a recent lunch with ex-ACT Roger Foster we reminded him that he sold Charterhouse (the forerunner of London Bridge) to Crawford in 1993 for £1. *It's now "worth" £107m. It quite put him off his food.*

Intelligent Environments - more losses expected

Intelligent Environments (products for Internet/Intranet applications) has announced a loss of £2m (£35K profit last time) on revenues up just 2% to £2.1m in the six months to 30th Jun. 97. Mind you, if you quickly read the headlines in the official press release, you would be forgiven if you thought that revenue had increased 40% (they compared to H296 and not H196).

Losses *"were in line with expectations"* after *"significant expenditure on R&D and marketing"*.

The current strategy is *"expected to enhance revenue growth whilst losses are expected to reduce substantially in H297. The Board has the objective of achieving month on month profitability during 1998"*.

Let's hope so. IE shares ended Sep. on 25p, a substantial discount of 73% to the Jun. 96 AIM issue price of 94p.

Romtec - on course for record year

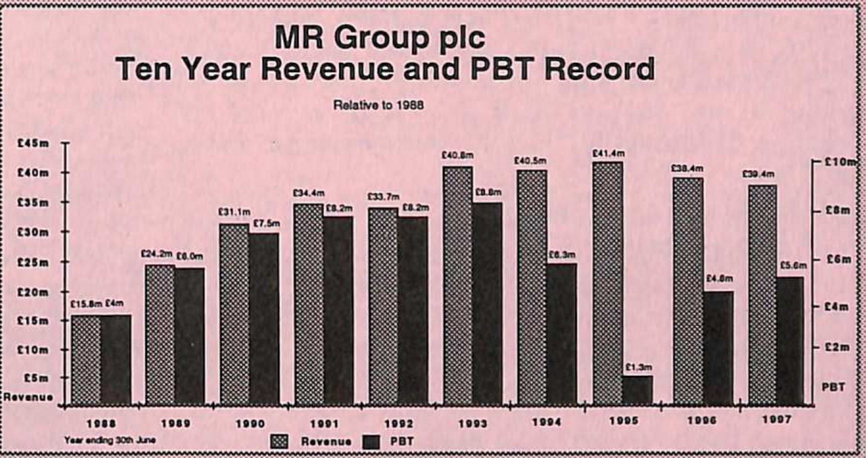
Romtec (one of the leading UK companies in IT and telecoms market research) has announced revenue up 25% to £2.5m but both operating profit and PBT were static at £116K and £130K respectively in the six months to 31st July 97. EPS rose 12%.

Chairman Russ Nathan said *"Revenues and profits in the second half should benefit from a combination of the momentum now established this year... and year end performance should comfortably exceed that achieved last year"*. Revenue of £5m and PBT of £400K are forecast by analysts for the full year.

Romtec was a new AIM issue in Apr. 96 at 62.5p, but, after an initial surge, has been a bit sleepy since. This month the price rose 2% to 98p - a PSR of only c1. This is out of line in comparison to valuations on other information groups but, as Nathan holds c87% of the shares, liquidity is zilch. *Perhaps this is one time where the Chairman selling shares could result in a positive market response!*

M-R Group - slowly continues its recovery

M-R Group is *"a technology led outsource and document service solution provider"*. They were originally a COM bureau (they are still No.2 in the UK) but this is currently less than a third of revenue as they now have an *"enhanced product mix in three areas: data capture; electronic delivery and archiving and retrieval services"*. The metamorphosis however has proved difficult. Changing the profile of a business when your major market is in decline is no easy task as the chart below shows.



The full year results to 30th Jun. 97 are encouraging. Revenue went up only 3% to £39.4m, but PBT increased 17% to £5.6m with EPS up a higher 28%. Their profit margin has increased from 12.5% to 14.2% - due of course to the higher level of service offerings. Chairman, Colin Haylock, *"believes that we have made excellent progress both in terms of implementing our strategic priorities and the pipeline of opportunities which have resulted, especially in the financial sector"*. After the acquisition of Kalexis in Aug. 96, M-R has developed a SI division and have obtained notable contracts with blue chips such as Barclays Bank, Citibank and General Accident. The US operation has seen declining revenues but the disposal of their box storage business for $1.35m has helped with restructuring. But by far the *"most impressive performance of the year has been the turnaround effected in Memex Technology by Chris Lewis and his new management team"*. Losses of £800K has been into a PBT of £1m. Mind you, without this turnaround, the results would have been pretty dismal!

We are encourage by M-R's common sense attitude. The foundations are now in place for a continued recovery - the opportunity certainly appears to be there. The share price at the end of Sep. has fallen to 96p but is still up 12% this year.

DCS Group - new acquisition, excellent results but......

DCS (systems for motor dealers, distribution and manufacturers) has announced revenues up 47% to £23.7m, PBT up 75% at £2m with EPS up 59% for the six months to 30th Jun. 97.

Chairman Robin Lodge said "*The outlook is good. Results for the first half are extremely encouraging... The second half has started well, with a strong order book and more opportunities for growth than at any time. We look forward to reporting continued profitable growth at the year end*".

"Lodge has indicated to institutional investors that he plans to make DCS a £250m turnover group within three years, compared with its turnover of £31m in 1996". Source - Mail on Sunday 14th Sept. 97. Lodge was a little less forthcoming when we met him this month. Certainly these kind of openly stated ambitions have a habit of backfiring.

But DCS did announce the acquisition of **VHA Computers** for £4.5m - part cash, part loan notes, part shares. VHA is a systems integrator with 41 staff. 1997 revenue was £9.8m with PBT £889K. Lodge said *"The acquisition will add desktop networking and systems integration skills as well as adding critical mass to the Group's outsourcing business"*. The acquisition looks right and is in line with DCS's overall strategic growth plans

Lodge did admit that the resignation of MD Bob Williams in June had been somewhat mishandled. This had followed on from the resignation of Ray Spence (due to *"irreconcilable differences"*) in Apr. 96. As they say *"to lose one CEO is unfortunate, to lose two is ..."*. DCS shares had dived by £1 as a result. *"Gross overreaction.. a total misreading by the market"* Lodge said. But it was only recently that we learnt that Williams had departed due to ill-health but had wanted to keep that quiet at the time. We now feel sorry for acting COO Robert Arrowsmith who clearly wants the CEO role but has to await the trawl of suitable external candidates. The longer the position is vacant, the more demoralised Arrowsmith (also FD) will become - especially if he does not get the job.

Anyway, the results and bullish newspaper reviews boosted the DCS share price by 6% this month to end Sep. on 284p.

Excellent interims from Sema

Sema's results for the six months ending 30th Jun. 97 were excellent. Revenue rose 31% to £560m, PBT increased 33% to £26.2m with EPS up 24%. This strong first half performance came from a combination of organic growth and acquisitions (Italian Syntax (from Olivetti), French Telis and BR Business Systems in the last year). Even without these acquisitions and exchange rate fluctuations, organic growth was 16%. The star was telecoms with a 91% increase. UK revenue (helped by BR) grew 41% to £235m, and France an impressive 50% (helped by Telis) to £149m. But organic growth in France was still a very satisfactory 11% and demonstrates what our partners PAC in Paris have said that the French SCSI market is recovering fast from many years of recession. Outsourcing revenues grew 51% to £232m with SI up 29% to £273m. Products revenue more than doubled to £55m.

After the recent share reorganisation concerning the Paribas holding, Sema is no longer classed as a bank in the US and is now free to expand its operations in the US. CEO Peter Bonelli said this is a *"challenge we will vigorously pursue to become a truly global provider of IT services"*.

Despite the interim figures, the share price has fallen 8% to £12.95p in the month.

Beyond the Millennium

A report from Ovum into EMU and Y2000 has come up with the conclusion that there will be massive skill shortages in the short term and massive job losses once the problems are sorted. Dennis Keeling from Ovum is predicting that the software development industry will decrease by at least half (and possibly two thirds) by 2006. This is similar to other doomsday reports recently. However, we know that many of our readers do not *(do not want to?)* accept this - believing that the general growth in IT is unstoppable.

FTSE IT Classification

Granville and **CSSA** have conducted research amongst UK fund managers and the IT industry which rejects the current FTSE proposals for an IT classification which would include (and be dominated by) hardware, telecomms and media players.

Needless to say, we support this. Our SCSI Index (p9) includes only IT services, software product, information service providers and distributors/dealers with significant added value revenues. Fund managers seem to want a FTSE classification just like that..... *we are open to offers.*

Regent Associates - Top in Europe

Regent are UK M&A specialists and are now one of the (few) companies that have benefited from a strong pound. This has helped UK companies to buy in Europe and Regent were involved as advisers in European deals with a total of 24 deals with a value of £353m (£189m in UK and £164m in Europe) in the IT sector for the year to Jun. 97.

Richard Holway is presenting again at the next annual **Regent Conference.** Make a note in your diary for 29th Jan. 98. Further information can be obtained direct from Regent on 01784 450000.

We should now have a regular feature on ***"unexpected resignations"***. *We don't have the space though!*

This month Jon Moynihan (CH and CEO of **PA Consulting**) has resigned due a dispute with major shareholder the Butten Trust. Despite the £11m Inland Revenue back payment, PA seems to be going great guns.

JBA *"very satisfactory"*

JBA's Chairman Alan Vickery described the results for the six months to 30th Jun. 97 as *"very satisfactory"*. Revenues were up 33% at £88.1m and the loss before tax was halved from £2.4m to £1.2m. Product licence revenues were up 52% and *"every trading region improved strongly"*.

As JBA is one of only five *System House* Boring Award winners, we were delighted that Vickery has *"great confidence for another successful result at year end"*. JBA is one of those companies which always seems to make all its profits in the second half (for some reason). Analysts are forecasting PBT of £5.2m for 1997 - up 35% on 1996. We were interested in JBA's success with their off shore developments centres in Sri Lanka with additional staff being recruited in Colombo which should bring the total to over 100 in early 1998.

Accounting rules can damage your results

JBA had to change the way it accounted for its maintenance revenues which caused the 1996 restated loss above. In the longer term, of course, it becomes a benefit.

Some years ago JBA also decided to capitalise R&D on its new toolset. We were alarmed and just might have had some effect on Vickery's decision to abandon this practice. So no new intangibles added this time, but amortisation of the previous capitalised R&D depressed profits by £627K. *Will we ever get to the time when we have a consistent set of accounting rules that enables us to compare companies on a like-for-like basis?*

Acquisitions

JBA consummated one of its first acquisitions this year - French AS/400 distributor **Presys**. JBA is now looking for further *"bolt on"* purchases with Scandinavia being a particular target.

Bring back the Oldies

Our suggestion, some time back, that to solve the Y2K problem we should encourage some of the now 60 year old (and therefore peacefully retired) COBOL programmers back to work, has draw many supporters. But we were intrigued with the report (Computergram 24th Sep. 97) that an old book has *"re-entered"* MacMillan's Top Ten this month with advance copies of over 6,000 for the new edition. The title?...***"Teach yourself COBOL in 21 days"***.

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