

System House

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Increasing unease

"Five years ago, Microsoft's shares were worth around 30 times earnings. Today, the multiple has grown to 65 times - even as the company's growth rate has slowed from over 40% in the early 1990s to under 30% now." - Source - Richard Walters in Financial Times 18th July 98.

"The bull run in UK IT stocks showed signs of faltering further following the slowing of performance in the second quarter of the year. Graham Brown of Sutherlands told clients "Ratings look expensive in comparison with historic earnings and no longer appear to offer value relative to international competitors. Medium term we expect the shortage of equity in the sub-sector to ease, suppressing the relative performance". Source - Company Report - FT 21st July 98.

In Mar. 96, FI Group was a new issue on the London Stock

Exchange at 235p. This equated to a P/E of around 30 based on results to 30th Apr. 96. FI Group grew earnings by 29% in FY97 and have just reported a superb 62% increase in FY98 (see p3). In the 2+ years since their IPO, FI Group's share price has increased by a massive 717% to

£19.20p. It is now trading on an historic P/E of 82 - getting on for three times the relative valuation at the time of the float. But, whereas, earnings growth of 62% was experienced in the last year, growth of a much lower 35% is forecast for the current year.

We picked on FI Group because they have one of the highest relative valuations in the sector. But the argument holds true for many other companies too. I.e. as relative valuations go into the stratosphere, forecast earnings growth is showing signs of slowing even in the short term let alone post 2000. As the many CEOs who attended Richard Holway's CSSA presentation on 16th July 98 will know, we believe that the current "vintage" trading conditions will not continue past 1999 when a return to more normal 7-8% growth is anticipated. Again, can we stress that we are not anticipating a recession.

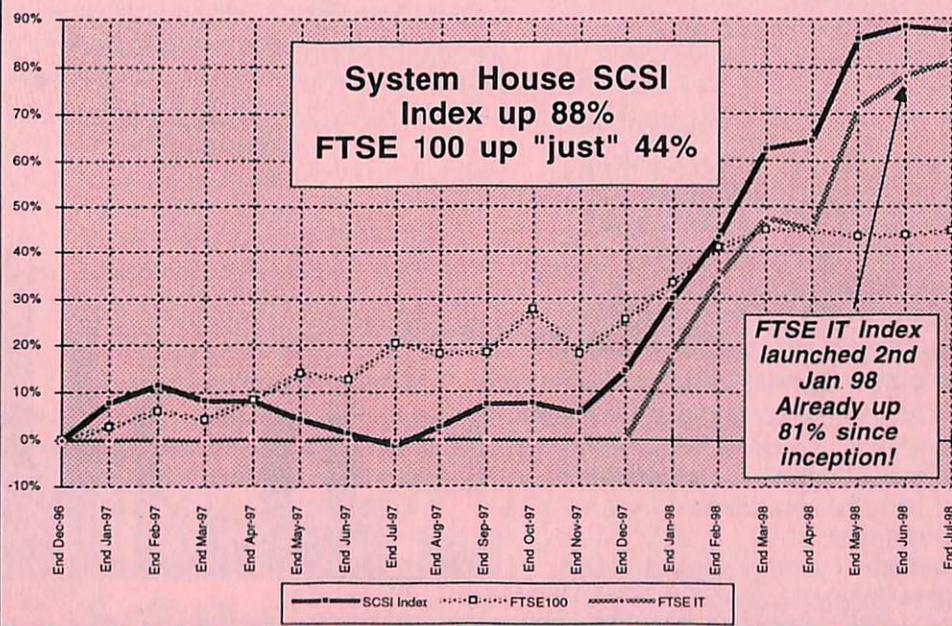
Indeed we forecast that the current high spend on Y2K will not only be replaced, but the market will grow on top of that. A very positive story.

But the problem is that certain sectors of the market are experiencing their strong growth almost entirely because demand considerably outstrips supply. A slowdown will correct this - indeed at current recruitment rates we might have a glut of IT staff in the industry in 2001! The effect of this on the business - and share prices - of IT staff agencies and recruitment companies could be dire.

Although we firmly believe that quality companies - of which FI Group is clearly such a company - will continue to thrive, we just cannot see how valuations based on today's growth rates can be sustained when growth is cut to a third.

Perversely, perhaps it's not the current high valuations which is the major problem. More, it is the speed of the change. Just a year back, in the Aug. 97 edition of *System House*, we were bemoaning the fact that our SCS Index had fallen by 2% in the first seven months of 1997 against a 20% rise in the FTSE100. In

Changes in Indices since January 97



twelve short months, the SCS Index has roared ahead by 88% - double the 44% rise in the FTSE100. Given that the two year outlook for the industry was better a year ago than now, the only real reason for the re-rating was panic institutional (and private!) share buying of stock in short supply pushing prices ever upwards. Brokers now issue "Logica good to £24" Buy notices which become immediately self fulfilling.

Worryingly there are commentators who believe that the IT Index is a one-way ride. **But the steeper the rise, the steeper the fall could be.** The effects of that on market confidence could see new issues and associated fund-raising come to an abrupt halt. It could even make UK companies more vulnerable to overseas predators.

We believe we have just cause for our increasing unease.

Services the place to be?

We offer this selection of news and results from some of the world's biggest SCSI players as further food for thought in the "Services v Products" debate...

IBM...IBM is the world's largest SCSI supplier. Their services revenues grew by \$1bn, or 22%, to \$5.6bn in Q298. In contrast, hardware revenue declined by \$1bn. Software products revenue was up a minuscule 4.6% to \$3.2bn and maintenance revenue declined (again) this time by 9.3% to \$1.48bn.

Footnote - These results mean that Microsoft (\$4b quarterly revenue) has overtaken IBM (\$3.2b quarterly revenue) as the world's largest software provider. Microsoft's profit margin is 5-times that of IBM.

Cap Gemini...In contrast to IBM above, **Cap Gemini** released stunningly good figures for the six months to 30th Jun. 98. Revenue was up 32% at FFr12.4b, operating profits up 60% to FFr1090m (that's an increase in margins from 7.3% to 8.8%). Net income doubled to FFr450m with 4,000 staff added taking the tally to 35,000. Cap Gemini forecast revenue of FFr25b for the full year with net income "at least FFr1 billion". Interestingly, Cap Gemini reported "strong growth in most of the countries in which we operate, confirming the recovery of investment in IT which has been going on virtually everywhere in Europe".

We expect that **Cap Gemini UK** is the real star with revenues anticipated to be up over 50% in 1998 to over £600m.

EDS...EDS had its best quarter ever; with \$4.1b new contracts signed - 50% from outside the US. Revenues were up 13.7% at \$4.2b. But the strike hit GM revenues - down

9% at \$1.1b which meant that non-GM rev. were up 24% at \$3.14b. Profits were up 10-fold at \$222m.

CSC ... also saw revenues up 18% at \$1.75m and profits up 22% at \$64m in their Q1.

SAP...SAP, on the other hand, actually blamed its reduced 25% margin on its switch to training new consultants. SAP's results looked pretty good, nonetheless. PBT was up 40% at \$446m but revenue was up an even higher 57% at \$2.05b in Q1. SAP shares immediately fell 10% as a result of the announcement, but recovered later.

BAAN.."Beware of your product partners?". Baan has acquired its largest UK partner **Compact 3000 Ltd** for c\$1.5m in shares.

Informix....Informix' "licence revenue plummeted by 21% to \$86m" but "services revenue jumped by 20% to \$88m". Note that Informix' services revenue exceeded those from products in Q298.

Computer Associates...Computer Associates' shares dropped over 30% as it reported a Q1 loss and warned of slower growth over the next three quarters. Sales of mainframe software (50% of CA's revenue) are expected to fall 15% in Q2.

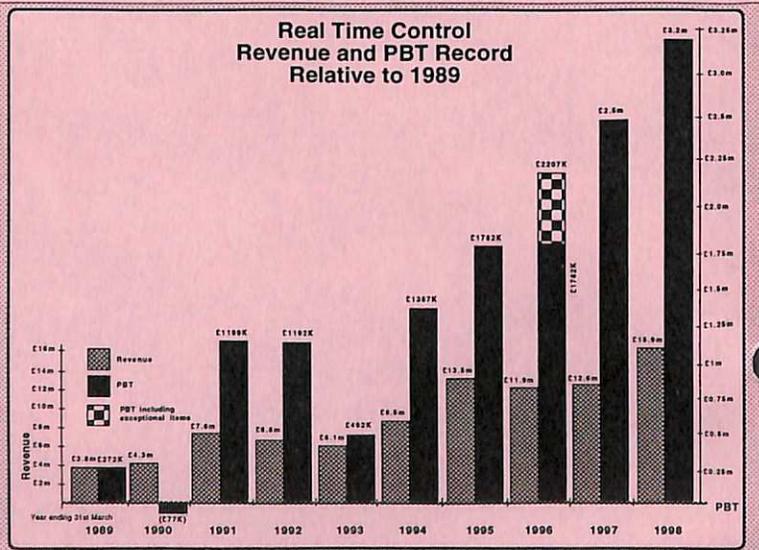
The downturn was particularly galling as it not only came without warning but in the face of positive statements made very recently. This caused CA's share price to reach record heights and triggered \$1b of share options to top CA executives. "If trading has deteriorated so rapidly in such a short time, the market is entitled to wonder whether something more fundamental is amiss". FT 23rd July 98.

Real Time Control

Real Time Control (RTC) is a long established, leading supplier of retail systems. RTC, like many others, has been trying to reposition themselves from being a hardware supplier (i.e. EPOS systems where "revenues from the original keyboard manufacturing division are reducing as expected") to a SCSI operator. Like all that have tried the transition, "the conversion of opportunity to revenue is a protracted process...revenue from this area was disappointing in the year". In context, RTC has probably done better than most.

In the year to 31st Mar. 98, RTC has increased revenue by 26% to £15.9m, PBT is up 24% at £3.16m with EPS up 21% at 30.8p.

RTC shares have performed well - ending July on 458p, a rise of 43% in 1998 so far.



Full circle at Radius

We'll miss you? No more "Round and round in circles at **Radius**" headlines - our most oft-used headline in the history of **System House**. No more jibes at Chairman Mike Roberts for using the "confidence" word in every statement - regardless of current or anticipated trading performance.

This month an MBO team, comprising what looks like the whole **Radius** board, formed **Sudiar** which has acquired **Radius** for £15.4m. If shareholders agree the bid (and acceptances have already been received for 49% of the equity), **Radius**' listing will be cancelled.

The offer - at 55p - represented a 31% premium on the previous day's closing price. On the other hand, still somewhat below the 79p twelve month high.

Comment - A pretty depressing state of affairs. **Radius** has suffered from acquisition indigestion compounded by management incompetence for as long as we can remember. Three profits warnings in the last year are testimony to the failure. Indeed, in Jan. 98 founder Edward Sharp called an EGM to oust the current MBO team. It failed.

Quite why we should have any more faith now in the failed management team is beyond us. At least the general share owning public do not have to worry anymore. But did they really give shareholders a fair run at getting an outside trade bid at > than 55p?

No. On second thoughts...we will not miss you **Radius**.

F•I•GROUP PLC

FI Group was a new issue only just over two years ago

helped to offset our concerns over FI's many AM SLAs where UK staff wage rises might not be able to be passed on to the client. However, Ian Spence of Granville was concerned about FI's lack of acquisition experience - particularly exacerbated by making such a "first" large purchase in a foreign land. But FI says that "the integration of IIS is progressing well and its financial contribution for the first four months is encouraging".

in Apr. 96 at 235p. Last year we wrote...

"Now that the share price has risen to 538p, FI Group is on an historic P/E of 42 and a prospective P/E of 30. Although we are the first to say that FI is a real quality company, these kind of stratospheric valuations make us increasingly uneasy". System House - Aug. 97.

If we were uneasy then, that's nothing to what we feel "now that the share price has risen to £19.20p, FI Group is now on an historic P/E of 82 and a prospective P/E of 64."

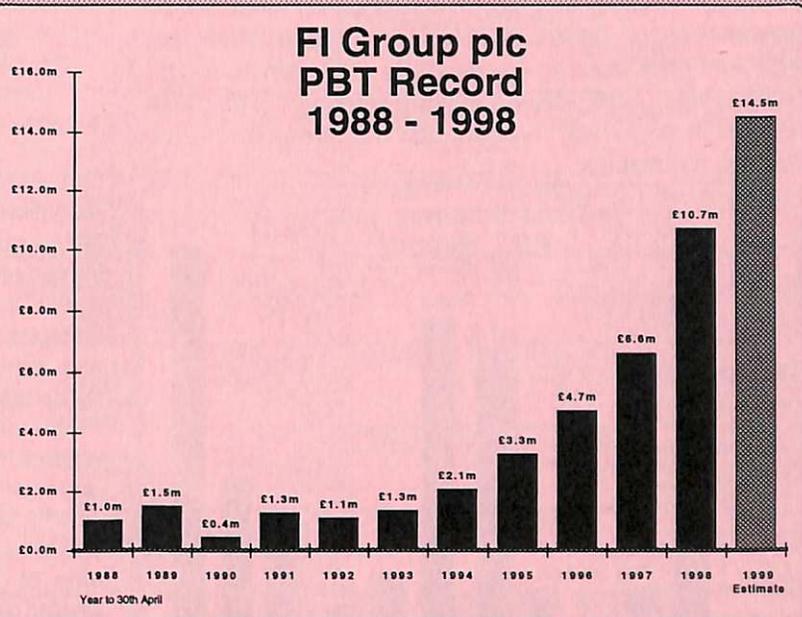
FI... "a quality act"

FI Group's results for the year to 30th Apr. 98 were, after all, superb. Revenues were up 64% at £161.6m, PBT up 62% at £10.67m and diluted EPS up 57% at 22.3p. Analysts are forecasting slower earnings growth of 35% to a PBT of £14.5m in the year to 30th Apr. 99.

We have used the word "quality" to describe FI (and a small number of other SCSi players) for many years. The FY98 results really demonstrate this. Application Management - with its long term customer relationships - is still 68% of revenues. Indeed the order book was up over 60% at £178m at the year end.

FI Group has seen strong expansion in its external IT staff agency activity - c12% of revenues. FI Training increased its revenue by 88%. A new ERP division, Enterprise Solutions, was established at the end of the year at the request of customers and is focused on FI's AM strengths rather than initial package implementation. And, as previously announced, a JV with Bank of Scotland was established after the year end.

In a year filled with significant news at FI, perhaps the most important was its acquisition in Dec. 97 of Indian IIS **Infotech** for an eventual £25.8m. We were very positive about this at the time as the "cheap" labour it provided



CEO Hilary Cropper said that c15% of revenue were Y2K related - about what we had expected. Cropper expected such expenditure would be succeeded by conversions to the Euro. With its increasingly long term relations, FI Group is exactly the kind of quality act that will continue to thrive post 2000.

As we have said time and time before, we have few doubts about FI... it's just the share price that causes us concern.

Footnote - FI Group joins a long line of companies proposing a 5-for-1 bonus issue. We just hope that there will not be too many anxious subscribers 'phoning us when the share price falls by 80%!'

Computerland - Cowboy or Services Co?

We had always thought of **Computerland** as a pretty basic PC reseller but when The Times said the name sounded like "a cowboy retailer operating from a run-down industrial estate in Dagenham" this seemed like a sound-bite too far. Source - The Times 18th July 98. However, recent acquisitions position them more as an up-and-coming services provider.

A new AIM issue in Sept. 97 at 100p, the shares have already risen to end Jul. 98 on 288p. Results for the year to 30th Apr. 98 show revenue up 12.9% at £20.5m, PBT up 38% at £811K and EPS up 12% at 10.0p. "Services performed particularly strongly whilst product turnover, which was affected by price deflation, was only marginally ahead of 1996/97".

The results include short term contributions from **Netman** (IT services - acquired in Mar. 98 for £3.6m) and **KDL** (acquired in Apr. 98 for £3.4m).

Last year services revenue grew in excess of 60%, from £2.2m to £3.6m - and although that's <20% of turnover, we understand that it represents >50% of profit.

Forecasts are for revenue to more than double to £43m in the current year with PBT of £1.8m. Of this £10m (or c23%) will be from services - a higher percentage than at both Computacenter and Compel.

Royalblue - Great company in two great sectors

Royalblue was a new issue a year back in June 97 at 170p and have more than doubled since to end July 98 on 395p.

They are involved in two sectors - financial trading systems with their **finessa** product and customer support software with their **Helpdesk** and other products. Both these sectors are currently booming. Latest results for the six months to 30th June 98 show revenue up 50% to £13.3m - financial systems up 45% to £6.92m and Helpdesk up an even higher 69%. Overseas revenues were up 110% at £2.1m. PBT was up over 8-fold at £1.82m and EPS (as a result of share dilution over the float) up 30%.

Royalblue is a great company involved in two of the fastest growing sectors in our industry. US sales could boost performance even more.

Royalblue also announced the completion of the purchase of US **Utopia** for \$500K now + \$2m deferred.

Amazing 36% margins at Moorepay

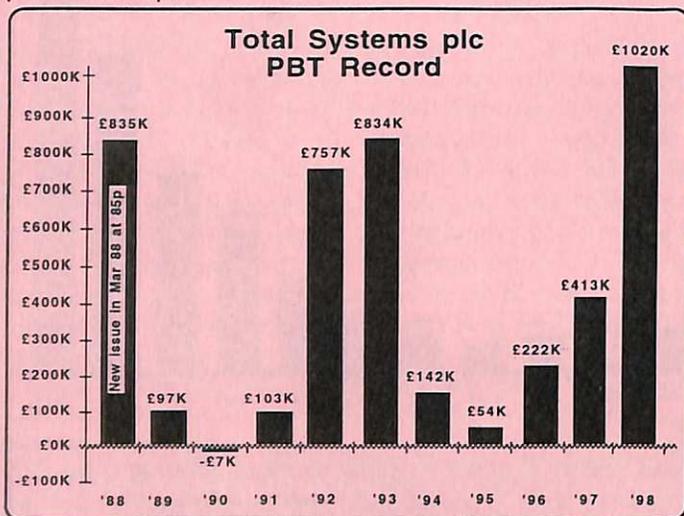
Payroll processing bureau, **Moorepay**, has announced revenue up 16.5% at £3.2m, PBT up 29% at £1.14m and EPS up 26% in the six months to 30th Jun. 98. That's a really quite amazing 36% profit margin! **Mills Associates**, acquired in May 98 for £2.96m, is expected to make a small contribution in the full year.

Moorepay (est. 1966) transferred to AIM in Aug. 95 at 83p and has been one of the best performers - ending July on 250p.

At long last, records broken at Total

It's taken ten years but **Total Systems** has finally made it. Yep they have managed to report PBT greater than the PBT reported in 1988 - the year they were a new issue. The market rewarded them by pushing up the share price. It too, at 94p, is now just a bit above the IPO price of 85p. So the grannies who feared their money would be better in a building society *were indeed right!*

In the year to 31st Mar. 98, Total increased revenues by 26% to £4.13m (all those years, and its still <£5m) but PBT and EPS were up nearly 150% at £1.02m and 6.8p respectively. A 25% margin - worth pointing out for those who think such high margins can only be achieved by product companies.



Terry Bourne's Chairman's statements are always a joy to read. Whereas everyone else is trying to play down the benefits of the Y2K on their business, Bourne warns that *"much current investment by users is going into systems to overcome Y2K problems"*. But although *"the current financial year has started with a large number of prospects; the speed of decision making is encountering some delays due to Y2K, with the possibility of demand levelling off"*. Maybe that's why brokers Albert E Sharp are forecasting EPS up just 19% in the current year.

Xavier Computer Group

Xavier Computer Group (XCG) was founded in late 1985 by Allen Harle and Nicholas Barham. The theory was that Harle brought his experience in IT services to the party whereas Barham, a director of Park Street Investments, brought his venture corporate finance expertise. XCG was a new float on AIM in Jul. 96 at 10p. The company currently comprises three businesses:

- **Xavier Computer Systems**, an MBO from Xerox in 1982 and acquired in Mar. 96. Its key product is the Xeres distribution and accounting software for which Xavier offers full hardware and software maintenance in addition to software development and consultancy. XCG also acquired Xavier Computer Systems (Southern) in Jun. 96 and Xavier Midlands (completed in Aug. 97).

- **Bleasdale Computer Systems**, acquired in Jan. 96. Bleasdale is involved in the design, development, implementation and support of multi-user and networked systems and the provision of hardware maintenance, software support, consultancy and integration facilities. It also markets ambulance command and control systems. Bleasdale grew revenue by 21% and profits by 43% in FY98.

- **Computer Systems Ltd (CSL)**, based in Jersey and also operates in Guernsey and the Isle of Man, predominantly serving the financial services industry in those centres. CSL was acquired in Jan. 97 and is involved in almost every area of computer services. Since 1993 CSL had been wholly owned by Brian Beverley, co-founder of Mentor Systems plc.

In Apr. 98 it was announced that Beverley had increased his stake in Xavier to just over 19% of the enlarged capital following conversion of loan stock held by Park Street Investments; which now hold 53.3% of the enlarged capital base. Allan Harle is no longer involved with XCG, Barham is exec. Chairman and Brian Beverley is Dep. Exec. Chairman.

Results for the year to 31st Mar. 98 show revenue nearly doubled to £16.3m. Recurring support revenue exceeds £2m. PBT was up 28% at £743K and EPS up 25%. Current trading is said to be ahead of budget and *"prospects are very encouraging"*. Even so, XCG's share price remains stubbornly at 11p - little different from the 1996 float price.

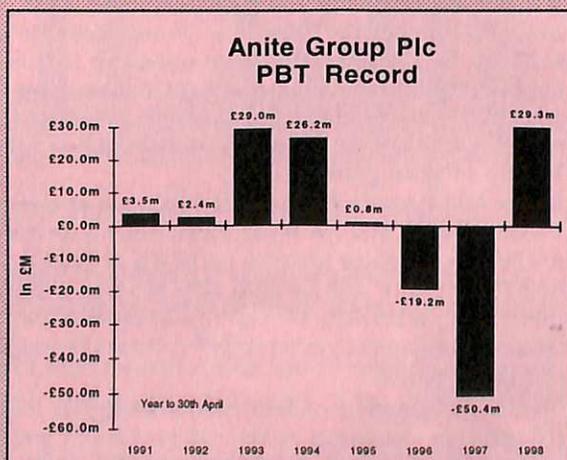
Jury still out at Anite

The PBT chart shown here probably says it all - the glory, the misery and the (hopefully) renaissance of **Anite**. We have told the history so many times before. In the last year, Anite has got rid of all its hardware/networking operations and is now 100% a SCSI operation. Not only that, but they have appointed a new CEO (John Hawkins) and Mike Shone (who ran Anite Systems) has moved into a consultancy role. Results for the year to 30th Apr. 98 show revenue reduced from £193.4m to £149.5m as a result of the disposals, but they grew (marginally) by 3.4% on a continuing basis to £102.7m. PBT was £29.3m (compared with a loss of £50.4m last time) - but most of this was made on the disposal of the final bits of Anite Networks to Cable & Wireless. Indeed, profits on the continuing operations actually fell from £5m to £3.75m. Cash balances of £45.9m *"offer the opportunity to develop our business by acquisition..."* Strong order books of £46m were reported at the year end.

However, Anite Systems' Space and Defence business *"the mainstay of the profits at Anite Systems for several years"* has been closed as *"in 97/98, the European space budget, on which a large part of the business depends, shrank significantly"*. Losses at the Australian operation increased 50% to £400K.

In addition, Anite has acquired **Houdstermaatschappij Quality & Results B.V (Q&R)** - a Dutch IT development, consulting and IT contractor company. Q&R had revenue of £8.4m and PBT of £800K to 30th Dec. 97.

Comment - the performance at Anite Systems was depressing - to say the least - and probably explains why Shone is no longer there. Our "jury" is still out on Anite. They still have everything to prove with a management team that is very new.



Quoted Companies - Results Service

Note: Shaded = Results announced this month.

Admiral plc				Eidos plc					
	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison		Final - Mar 97	Final - Mar 98	Comparison	
REV	£ 54,118,000	£ 117,191,000	£ 65,805,000	+21.6%	REV	£ 75,531,000	£ 137,234,000	+81.7%	
PBT	£ 7,200,000	£ 17,552,000	£ 10,329,000	+43.5%	PBT	£ 6,831,000	£ 16,507,000	Loss to profit	
EPS	7.40p	17.80p	10.50p	+41.9%	EPS	-60.40p	59.80p	Loss to profit	
AFA Systems plc				Electronic Data Processing plc					
	Final - Dec 98	Final - Dec 97	Comparison		Interim - Mar 97	Final - Sep 97	Interim - Mar 98	Comparison	
REV	£ 364,000	£ 226,000	-37.9%	REV	£ 6,490,000	£ 12,565,000	£ 5,812,000	-10.4%	
PBT	£ 913,000	£ 1,801,000	Loss both	PBT	£ 803,000	£ 1,741,000	£ 1,235,000	+53.8%	
EPS	-10.50p	-16.80p	Loss both	EPS	2.01p	4.50p	3.23p	+60.7%	
AIT Group plc				F.I. Group plc					
	Final - Mar 97	Final - Mar 98	Comparison		Final - Apr 97	Final - Apr 98	Comparison		
REV	£ 11,218,000	£ 13,558,000	+20.9%	REV	£ 98,800,000	£ 161,595,000	+63.8%		
PBT	£ 1,546,000	£ 2,164,000	+40.0%	PBT	£ 6,575,000	£ 10,670,000	+62.3%		
EPS	5.36p	7.17p	+33.8%	EPS	14.20p	22.30p	+57.0%		
Anite Group plc				Flomerics Group plc					
	Final - Apr 97	Final - Apr 98	Comparison		Final - Dec 96	Final - Dec 97	Comparison		
REV	£ 193,909,000	£ 149,540,000	-22.7%	REV	£ 5,332,409	£ 5,786,456	+8.5%		
PBT	£ 50,377,000	£ 29,347,000	Loss to profit	PBT	£ 477,885	£ 48,085	-89.9%		
EPS	-21.20p	8.90p	Loss to profit	EPS	12.30p	0.30p	-97.6%		
Azlan Group plc				Gresham Computing plc					
	Final - Mar 97	Final - Mar 98	Comparison		Interim - Apr 97	Final - Oct 97	Interim - Apr 98	Comparison	
REV	£ 292,900,000	£ 292,000,000	-0.3%	REV	£ 4,500,000	£ 8,689,000	£ 8,520,000	+89.3%	
PBT	£ 14,100,000	£ 7,860,000	Loss both	PBT	£ 487,000	£ 667,000	£ 1,017,000	+108.8%	
EPS	-27.20p	-12.20p	Loss both	EPS	0.88p	1.17p	1.98p	+125.0%	
Bond International Software plc				Guardian IT plc					
	Final - Dec 98	Final - Dec 97	Comparison		Final - Dec 98	Final - Dec 97	Comparison		
REV	£ 4,317,123	£ 6,396,027	+48.2%	REV	£ 15,224,000	£ 23,026,000	+51.2%		
PBT	£ 219,784	£ 718,250	+226.8%	PBT	£ 2,345,000	£ 4,033,000	+72.0%		
EPS	0.99p	3.54p	+257.6%	EPS	17.90p	29.90p	+67.0%		
Cadcentre Group plc				Harvey Nash Group plc					
	Final - Mar 97	Final - Mar 98	Comparison		Final - Jan 97	Final - Jan 98	Comparison		
REV	£ 17,339,000	£ 17,727,000	+2.2%	REV	£ 36,327,000	£ 55,797,000	+53.3%		
PBT	£ 1,777,000	£ 2,754,000	+55.0%	PBT	£ 797,000	£ 5,527,000	+593.5%		
EPS	7.13p	10.30p	+44.5%	EPS	1.80p	13.36p	+642.2%		
Capita Group plc				Highams Systems Services Group plc					
	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison		Final - Mar 97	Final - Mar 98	Comparison	
REV	£ 79,067,000	£ 172,904,000	£ 117,907,000	+49.1%	REV	£ 16,394,589	£ 25,143,421	+53.4%	
PBT	£ 7,062,000	£ 18,312,000	£ 10,590,000	+50.0%	PBT	£ 878,707	£ 1,383,327	+57.4%	
EPS	2.49p	6.51p	3.49p	+40.2%	EPS	3.60p	5.08p	+41.1%	
Cedardata plc				ICM Computer Group plc					
	Final - Mar 97	Final - Mar 98	Comparison		Final - Jun 96	Final - Jun 97	Comparison		
REV	£ 10,363,000	£ 12,506,000	+20.7%	REV	£ 33,370,000	£ 33,988,000	+1.9%		
PBT	£ 1,589,000	£ 2,564,000	+61.4%	PBT	£ 1,720,000	£ 1,437,000	-16.5%		
EPS	3.60p	5.30p	+47.2%	EPS	6.40p	8.90p	+39.1%		
CFS Group plc				Ilion Group plc					
	Final - Dec 98	Final - Dec 97	Comparison		Final - Dec 96	Final - Dec 97	Comparison		
REV	£ 4,569,000	£ 6,828,000	+49.4%	REV	£ 148,875,000	£ 203,134,000	+36.3%		
PBT	£ 552,000	£ 813,000	+47.3%	PBT	£ 6,009,000	£ 6,100,000	+1.5%		
EPS	6.44p	8.29p	+28.7%	EPS	17.20p	15.10p	-12.2%		
Clinical Computing plc				Intelligent Environments Group plc					
	Final - Dec 98	Final - Dec 97	Comparison		Final - Dec 98	Final - Dec 97	Comparison		
REV	£ 1,979,890	£ 3,025,110	+52.8%	REV	£ 3,475,554	£ 4,443,146	+27.8%		
PBT	£ 2,079,530	£ 275,564	Loss to profit	PBT	£ 1,379,256	£ 3,009,417	Loss both		
EPS	-12.30p	-1.10p	Loss to profit	EPS	-7.10p	-13.30p	Loss both		
CMG plc				IS Solutions plc					
	Final - Dec 98	Final - Dec 97	Comparison		Final - Dec 96	Final - Dec 97	Comparison		
REV	£ 245,159,000	£ 302,992,000	+23.6%	REV	£ 7,671,000	£ 8,750,000	+14.1%		
PBT	£ 27,522,000	£ 38,645,000	+40.4%	PBT	£ 219,181	£ 539,845	+146.3%		
EPS	27.40p	38.60p	+40.9%	EPS	3.77p	8.63p	+128.9%		
Comino plc				ITNET plc					
	Final - Mar 97	Final - Mar 98	Comparison		Final - Dec 96	Final - Dec 97	Comparison		
REV	£ 7,792,000	£ 13,151,000	+68.8%	REV	£ 68,875,000	£ 81,713,000	+19.0%		
PBT	£ 1,420,000	£ 1,950,000	+37.3%	PBT	£ 5,543,000	£ 6,834,000	+23.3%		
EPS	9.95p	11.46p	+15.2%	EPS	3.10p	4.40p	+41.9%		
Compel Group plc				JBA Holdings plc					
	Interim - Dec 98	Final - Jun 97	Interim - Dec 97	Comparison		Final - Dec 97	Comparison		
REV	£ 39,542,000	£ 111,762,000	£ 88,833,000	+119.1%	REV	£ 181,810,000	£ 221,737,000	+22.0%	
PBT	£ 1,696,000	£ 5,057,000	£ 3,666,000	+116.2%	PBT	£ 11,259,000	£ 5,233,000	-53.5%	
EPS	6.70p	16.20p	8.80p	+31.3%	EPS	18.26p	10.12p	-44.6%	
Computacenter Services Group plc				JB Software Technologies plc					
	Final - Dec 98	Final - Dec 97	Comparison		Final - May 96	Final - May 97	Comparison		
REV	£ 931,209,000	£ 1,193,523,000	+27.7%	REV	£ 3,709,000	£ 3,400,000	+8.3%		
PBT	£ 34,012,000	£ 47,099,000	+38.5%	PBT	£ 56,000	£ -53,000	Profit to loss		
EPS	n/a	n/a	n/a	EPS	n/a	n/a	n/a		
DCS Group plc				Kalamazoo Computer Group plc					
	PF Final - Dec 98	Final - Dec 97	Comparison		Final - Mar 97	Final - Mar 98	Comparison		
REV	£ 35,242,000	£ 59,777,000	+69.6%	REV	£ 77,776,000	£ 65,711,000	-15.5%		
PBT	£ 3,032,000	£ 4,920,000	+62.3%	PBT	£ 3,882,000	£ 2,329,000	Profit to loss		
EPS	10.30p	15.68p	+52.2%	EPS	6.85p	-3.00p	Profit to loss		
DRS Data & Research Services plc				Kewill Systems plc					
	Final - Dec 98	Final - Dec 97	Comparison		Final - Mar 97	Final - Mar 98	Comparison		
REV	£ 4,822,000	£ 6,765,000	+40.3%	REV	£ 41,348,000	£ 45,088,000	+9.0%		
PBT	£ 1,734,000	£ 826,000	Loss both	PBT	£ 6,314,000	£ 6,813,000	+7.9%		
EPS	-3.43p	-1.99p	Loss both	EPS	31.60p	30.60p	-3.2%		
Delcam plc				Logica plc					
	Final - Dec 98	Final - Dec 97	Comparison		Interim - Dec 96	Final - Jun 97	Interim - Dec 97	Comparison	
REV	£ 13,579,348	£ 14,558,443	+7.2%	REV	£ 147,887,000	£ 338,465,000	£ 216,256,000	+36.3%	
PBT	£ 1,036,812	£ 504,036	-51.4%	PBT	£ 10,632,000	£ 28,148,000	£ 15,517,000	+45.9%	
EPS	12.70p	7.40p	-41.7%	EPS	11.40p	30.30p	16.00p	+40.4%	
Delphi Group plc				London Bridge Software Holdings plc					
	Final - Dec 98	Final - Dec 97	Comparison		Final - Dec 98	Final - Dec 97	Comparison		
REV	£ 210,835,000	£ 276,914,000	+31.8%	REV	£ 8,308,376	£ 11,320,000	+36.5%		
PBT	£ 12,302,000	£ 12,853,000	+4.5%	PBT	£ 2,499,071	£ 3,701,000	+48.1%		
EPS	33.02p	28.79p	-12.8%	EPS	7.82p	10.03p	+28.3%		
Diagonal plc				Lorien plc					
	Final - Nov 98	Final - Nov 97	Comparison		Interim - May 97	Final - Nov 97	Interim - May 98	Comparison	
REV	£ 28,326,000	£ 44,788,000	+58.1%	REV	£ 52,864,000	£ 118,930,000	£ 67,988,000	+28.8%	
PBT	£ 2,007,000	£ 3,302,000	+64.5%	PBT	£ 899,000	£ 1,585,000	£ 2,488,000	+179.9%	
EPS	7.70p	13.60p	+76.6%	EPS	1.10p	4.50p	7.40p	+572.7%	
Dialog Corporation plc				Lynx Holdings plc					
	Final - Dec 98	Final - Dec 97	Comparison		Interim - Mar 97	Final - Sep 97	Final - Mar 98	Comparison	
REV	£ 21,443,000	£ 46,082,000	+114.3%	REV	£ 53,915,000	£ 120,752,000	£ 80,393,000	+49.1%	
PBT	£ 7,034,000	£ 20,432,000	Loss both	PBT	£ 3,710,000	£ 9,805,000	£ 5,526,000	+48.9%	
EPS	-7.82p	-20.52p	Loss both	EPS	2.58p	6.83p	3.65p	+41.5%	
Division Group plc				MMT Computing plc					
	Final - Oct 98	Final - Oct 97	Comparison		Interim - Feb 97	Final - Aug 97	Interim - Feb 98	Comparison	
REV	£ 4,900,000	£ 6,678,000	+36.3%	REV	£ 10,703,000	£ 24,639,075	£ 16,991,000	+58.7%	
PBT	£ 1,678,000	£ 1,783,000	Loss both	PBT	£ 2,424,000	£ 5,554,611	£ 4,250,000	+75.3%	
EPS	-3.80p	-4.10p	Loss both	EPS	13.30p	29.80p	23.20p	+74.4%	
Druid Group plc				M-R Group plc					
	Interim - Dec 98	Final - Jun 97	Interim - Dec 97	Comparison		Interim - Dec 96	Final - Jun 97	Interim - Dec 97	Comparison
REV	£ 9,384,000	£ 22,066,000	£ 14,276,000	+52.1%	REV	£ 18,509,000	£ 39,430,000	£ 20,824,000	+12.5%
PBT	£ 1,800,000	£ 5,004,000	£ 2,404,000	+33.6%	PBT	£ 2,354,000	£ 5,604,000	£ 3,004,000	+27.6%
EPS	5.12p	13.94p	6.92p	+35.2%	EPS	2.90p	7.30p	3.80p	+31.0%
ECsoft Group plc				MDIS Group plc					
	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison		Final - Dec 96	Final - Dec 97	Comparison	
REV	£ 23,442,000	£ 44,235,000	£ 31,138,000	+32.8%	REV	£ 117,799,000	£ 116,925,000	-0.7%	
PBT	£ 2,119,000	£ 4,111,000	£ 3,166,000	+49.4%	PBT	£ 49,545,000	£ 221,000	Loss to profit	
EPS	14.38p	35.60p	20.00p	+39.1%	EPS	-48.94p	0.22p	Loss to profit	

Quoted Companies - Results Service

Note: Shaded = Results announced this month.

Macro 4 plc				Royalblue Group plc					
REV	Interim - Dec 96	Final - Jun 97	Interim - Dec 97	Comparison	REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison
PBT	£ 11,747,000	£ 23,448,000	£ 12,150,000	+3.4%	PBT	£ 8,892,000	£ 20,647,000	£ 13,312,000	+49.7%
EPS	£ 5,135,000	£ 10,300,000	£ 5,250,000	+2.2%	EPS	£ 221,000	£ 2,041,000	£ 1,815,000	+721.3%
	16.50p	33.80p	17.60p	+6.7%		2.70p	6.10p	3.50p	+29.6%
Micro Focus plc				Sage Group plc					
REV	Final - Jan 97	Final - Jan 98	Comparison	REV	Interim - Mar 97	Final - Sep 97	Interim - Mar 98	Comparison	
PBT	£ 73,089,000	£ 97,015,000	+32.7%	PBT	£ 73,554,000	£ 152,089,000	£ 88,798,000	+20.7%	
EPS	£ 5,809,000	£ 15,217,000	Loss to profit	EPS	£ 19,286,000	£ 37,639,000	£ 23,967,000	+24.3%	
	-48.00p	65.00p	Loss to profit		12.03p	23.43p	14.68p	+22.0%	
Microgen Holdings plc				Sanderson Group plc					
REV	Interim - Apr 97	Final - Oct 97	Interim - Apr 98	Comparison	REV	Interim - Mar 97	Final - Sep 97	Interim - Mar 98	Comparison
PBT	£ 34,052,000	£ 66,398,000	£ 32,560,000	-4.4%	PBT	£ 33,408,000	£ 67,143,000	£ 34,743,000	+4.0%
EPS	£ 4,211,000	£ 5,324,000	£ 1,285,000	-69.5%	EPS	£ 3,504,000	£ 2,778,000	£ 4,049,000	+15.6%
	6.90p	8.80p	0.40p	-94.2%		5.90p	4.70p	6.20p	+5.1%
Misys plc				SBS Group plc					
REV	Final - May 97	Final - May 98	Comparison	REV	Interim - Feb 97	PF Final - Aug 97	Interim - Feb 98	Comparison	
PBT	£ 325,470,000	£ 447,700,000	+37.6%	PBT	£ 8,565,000	£ 18,981,000	£ 11,308,000	+32.0%	
EPS	£ 62,533,000	£ 51,700,000	-17.3%	EPS	£ 353,000	£ 728,000	£ 529,000	+49.9%	
	52.80p	29.10p	-44.9%		3.40p	8.60p	4.90p	+44.1%	
Mondas plc				Science Systems plc					
REV	Interim - Oct 96	Final - Apr 97	Interim - Oct 97	Comparison	REV	Final - Dec 96	Final - Dec 97	Comparison	
PBT	£ 11,183	£ 56,609	£ 143,075	+1179.4%	PBT	£ 14,603,000	£ 18,601,000	+27.4%	
EPS	-£ 104,718	-£ 421,192	-£ 250,795	Loss both	EPS	£ 1,271,000	£ 1,855,000	+45.9%	
	-5.40p	-10.50p	-4.10p	Loss both		3.70p	6.80p	+83.8%	
Moorepay Group plc				Sema Group plc					
REV	Interim - Jun 97	Final - Dec 97	Interim - Jun 98	Comparison	REV	Final - Dec 96	Final - Dec 97	Comparison	
PBT	£ 2,731,603	£ 5,283,379	£ 3,181,393	+16.5%	PBT	£ 926,955,000	£ 1,130,086,000	+21.9%	
EPS	£ 886,148	£ 1,385,201	£ 1,141,281	+28.8%	EPS	£ 50,019,000	£ 64,073,000	+28.1%	
	5.69p	9.04p	7.14p	+25.5%		30.94p	39.14p	+26.5%	
MSB International plc				Sherwood International plc					
REV	Final - Jan 97	Final - Jan 98	Comparison	REV	Final - Dec 96	Final - Dec 97	Comparison		
PBT	£ 89,755,000	£ 128,793,000	+84.6%	PBT	£ 24,628,000	£ 30,036,000	+22.0%		
EPS	£ 5,431,000	£ 9,043,000	+66.5%	EPS	£ 2,065,000	£ 3,095,000	+49.9%		
	17.60p	29.00p	+64.8%		18.80p	22.80p	+21.3%		
NSB Retail Systems plc				Skillgroup plc					
REV	Final - Dec 96	Final - Dec 97	Comparison	REV	Interim - May 97	Final - Nov 97	Interim - May 98	Comparison	
PBT	£ 2,161,000	£ 3,284,464	+52.0%	PBT	£ 181,800,000	£ 376,969,000	£ 115,000,000	-36.7%	
EPS	£ 296,000	£ 837,516	+182.9%	EPS	£ 6,500,000	£ 16,308,000	£ 8,600,000	+1.5%	
	2.30p	6.30p	+173.9%		5.80p	-22.90p	5.80p	+0.0%	
Oxford Molecular plc				Spring Group plc (was CRT Group)					
REV	Final - Dec 96	Final - Dec 97	Comparison	REV	Interim - Oct 96	Final - Apr 97	Interim - Oct 97	Comparison	
PBT	£ 9,789,000	£ 15,641,000	+59.8%	PBT	£ 55,497,000	£ 134,334,000	£ 119,326,000	+115.0%	
EPS	-£ 1,849,000	£ 256,000	Loss to profit	EPS	£ 3,367,000	£ 12,056,000	£ 6,574,000	+95.2%	
	-3.30p	0.20p	Loss to profit		2.40p	6.86p	3.07p	+27.9%	
Parity plc				Staffware plc					
REV	Final - Dec 96	Final - Dec 97	Comparison	REV	Final - Dec 96	Final - Dec 97	Comparison		
PBT	£ 162,091,000	£ 202,078,000	+24.7%	PBT	£ 10,009,325	£ 17,585,000	+75.7%		
EPS	£ 10,060,000	£ 13,506,000	+34.3%	EPS	£ 873,879	£ 1,772,000	+102.8%		
	15.81p	20.91p	+32.3%		5.60p	10.80p	+92.9%		
Pegasus Group plc				Superscape VR plc					
REV	Final - Dec 96	Final - Dec 97	Comparison	REV	Interim - Jan 97	Final - Jul 97	Interim - Jan 98	Comparison	
PBT	£ 7,914,000	£ 12,447,000	+57.3%	PBT	£ 1,901,000	£ 3,108,000	£ 2,568,000	+35.1%	
EPS	£ 1,160,000	£ 1,698,000	+46.4%	EPS	-£ 3,128,000	-£ 5,961,000	-£ 956,000	Loss both	
	15.40p	29.30p	+90.3%		-37.40p	-69.60p	-10.90p	Loss both	
PhoneLink plc				Systems Integrated Research plc					
REV	Final - Mar 97	Final - Mar 98	Comparison	REV	Interim - Nov 96	Final - May 97	Interim - Nov 97	Comparison	
PBT	£ 4,316,000	£ 3,206,000	-25.7%	PBT	£ 507,000	£ 1,450,000	£ 516,000	+1.8%	
EPS	-£ 6,173,000	-£ 3,746,000	Loss both	EPS	-£ 1,194,000	-£ 1,938,000	-£ 296,000	Loss both	
	-12.90p	-7.80p	Loss both		-9.10p	-13.30p	-2.40p	Loss both	
Policy Master plc				Systems International Group plc					
REV	Final - Dec 96	Final - Dec 97	Comparison	REV	Final - Dec 96	Final - Dec 97	Comparison		
PBT	£ 7,147,000	£ 8,745,000	+22.4%	PBT	£ 301,300	£ 189,160	-57.8%		
EPS	£ 350,000	£ 459,000	+31.1%	EPS	-£ 4,594,324	-£ 1,728,336	Loss both		
	2.85p	3.70p	+29.8%		-20.04p	-6.94p	Loss both		
Proteus International plc				Tetra plc					
REV	Final - Mar 97	Final - Mar 98	Comparison	REV	Interim - Nov 96	Final - May 97	Interim - Nov 97	Comparison	
PBT	£ 573,000	£ 178,000	-68.9%	PBT	£ 9,867,000	£ 22,358,000	£ 13,312,000	+34.9%	
EPS	-£ 3,824,000	-£ 4,127,000	Loss both	EPS	£ 830,000	£ 2,096,000	£ 2,608,000	Profit to loss	
	-7.31p	-7.44p	Loss both		2.71p	6.10p	-13.17p	Profit to loss	
Quality Software Products Holdings plc				Torex plc					
REV	Final - Dec 96	Final - Dec 97	Comparison	REV	Final - Dec 96	Final - Dec 97	Comparison		
PBT	£ 25,360,189	£ 28,016,991	+10.5%	PBT	£ 10,870,000	£ 21,029,000	+93.5%		
EPS	£ 28,480	£ 2,655,299	+9223.4%	EPS	£ 1,467,000	£ 7,277,000	+396.0%		
	0.20p	20.20p	+10000.0%		4.30p	16.20p	+276.7%		
Quantica plc				Total Systems plc					
REV	Final - Nov 97	Comparison	REV	Final - Mar 97	Final - Mar 98	Comparison			
PBT	£ 5,635,000	n/a	n/a	PBT	£ 3,279,609	£ 4,134,866	+26.1%		
EPS	£ 1,011,000	n/a	n/a	EPS	£ 412,645	£ 1,019,675	+147.2%		
	1.29p	n/a	n/a		2.76p	6.80p	+146.4%		
RM plc				Touchstone Group plc					
REV	Interim - Mar 97	Final - Sep 97	Interim - Mar 98	Comparison	REV	Final - Mar 97	Final - Mar 98	Comparison	
PBT	£ 48,985,000	£ 110,170,000	£ 50,373,000	+31.1%	PBT	£ 5,180,000	£ 6,154,000	+19.3%	
EPS	£ 1,683,000	£ 8,018,000	£ 636,000	-62.2%	EPS	£ 601,000	£ 841,000	+39.9%	
	6.30p	30.80p	2.40p	-61.9%		n/a	n/a	n/a	
Radius plc				Trace Computers plc					
REV	Final - Dec 96	Final - Dec 97	Comparison	REV	Interim - Nov 96	Final - May 97	Interim - Nov 97	Comparison	
PBT	£ 27,267,000	£ 27,728,000	+1.7%	PBT	£ 9,737,000	£ 17,270,621	£ 7,170,000	-26.4%	
EPS	£ 1,591,000	£ 1,122,000	-29.5%	EPS	£ 145,000	£ 634,601	£ 409,000	+182.1%	
	4.05p	2.94p	-27.4%		1.03p	3.35p	2.16p	+109.7%	
Rage Software plc				Triad Group plc					
REV	Final - Jun 96	Final - Jun 97	Comparison	REV	Final - Mar 97	Final - Mar 98	Comparison		
PBT	£ 9,504,000	£ 6,758,000	-28.9%	PBT	£ 18,827,000	£ 32,161,000	+70.8%		
EPS	-£ 3,224,000	-£ 15,430,000	Loss both	EPS	£ 2,656,000	£ 6,609,000	+148.6%		
	-1.34p	-6.30p	Loss both		7.25p	17.78p	+145.2%		
Real Time Control plc				Ultima Networks plc					
REV	Final - Mar 97	Final - Mar 98	Comparison	REV	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparison	
PBT	£ 12,565,000	£ 15,880,000	+26.4%	PBT	£ 33,840,000	£ 85,176,000	£ 20,892,000	-38.3%	
EPS	£ 2,547,000	£ 3,163,000	+24.2%	EPS	£ 1,610,000	£ 461,000	-£ 424,000	Profit to loss	
	25.50p	30.80p	+20.8%		1.40p	0.21p	0.10p	-92.9%	
Rebus Group plc				Vega Group plc					
REV	Final - Mar 97	Final - Mar 98	Comparison	REV	Final - Apr 97	Final - Apr 98	Comparison		
PBT	£ 86,436,000	£ 87,730,000	+32.1%	PBT	£ 17,977,000	£ 22,457,000	+24.9%		
EPS	£ 5,808,000	£ 8,390,000	+44.5%	EPS	£ 3,261,000	£ 3,081,000	-5.5%		
	4.61p	5.74p	+24.5%		13.79p	13.75p	-0.3%		
Recognition Systems Group plc				Workplace Technologies plc					
REV	Interim - Mar 97	Final - Sep 97	Interim - Mar 98	Comparison	REV	Final - Dec 96	Final - Dec 97	Comparison	
PBT	£ 326,000	£ 773,000	£ 327,000	+0.3%	PBT	£ 52,086,000	£ 85,938,000	+26.6%	
EPS	-£ 1,128,000	-£ 2,255,000	-£ 1,333,000	Loss both	EPS	£ 1,040,000	£ 1,830,000	+76.0%	
	-4.10p	-8.10p	-3.80p	Loss both		-0.38p	2.17p	loss to profit	
Riva Group plc				Xavier Computer Group plc					
REV	Final - Dec 96	Final - Dec 97	Comparison	REV	Final - Mar 97	Final - Mar 98	Comparison		
PBT	£ 64,438,000	£ 70,208,000	+9.0%	PBT	£ 3,981,457	£ 16,252,000	+81.4%		
EPS	£ 518,000	£ 1,339,000	+158.5%	EPS	£ 582,000	£ 743,000	+27.7%		
	0.90p	2.00p	+122.2%		0.85p	1.06p	+24.7%		
Roife & Nolan plc				Zergo Holdings plc					
REV	Final - Feb 97	Final - Feb 98	Comparison	REV	Final - Apr 97	Final - Apr 98	Comparison		
PBT	£ 20,299,000	£ 21,714,000	+7.0%	PBT	£ 10,395,871	£ 13,178,770	+28.7%		
EPS	£ 2,758,000	£ 894,000	Profit to loss	EPS	£ 620,664	£ 296,664	-52.2%		
	14.50p	-10.20p	Profit to loss		2.30p	-1.00p	Profit to loss		
Romtec plc				Hilary Cropper - CEO at FI Group - has exercised options giving her a "paper profit" of £17.2m. Cropper now holds FI shares worth >£20m.					
REV	Final - Jan 97	Final - Jan 98	Comparison						
PBT	£ 4,734,877	£ 4,217,440	-10.9%						
EPS	£ 326,125	£ 310,718	-4.7%						
	4.30p	4.10p	-4.7%						

UK M&A

Cedardata has acquired **GRAD Systems Ltd** for £250K now, £1.05m in Apr. 99 and £3.45m in 36 months time. GRAD Systems made PBT of £81.4K on revenue of £415K in the year to 31st May 98.

Think News Ideas Inc. has bought **Netcoms** - the UK e-commerce subsidiary of **Ubicoms**. The deal which included US-based **Red Dot Interactive** was worth \$6.5m initially, and up to \$17.5m maximum.

Fast expanding SCSI company **Torex** has acquired **Quota Computer Associates** for a maximum of £1.88m (£1m cash, £390K shares, rest performance related). Quota supplies retail systems for the leisure and hospitality markets and had revenue of £2.1m and PBT of £80K in the year to 30th June 97.

AEA Technology has acquired **EA Systems**, a US-based software developer for use by engineers in the chemical, power generation, oil and gas industries. The consideration is \$5.5m cash now + \$9.29m performance related over three years. EA made a loss of \$3.1m on revenue of \$7.4m in 1997. **CMG** has acquired French **COMETH** for £2.94m in cash. COMETH supplies SAP consultancy and had revenue of £1.7m and PBT of £330K in 1997.

London Bridge Software has acquired **CheckFree Corp.'s Mortgage Products** division for up to \$24m in cash and shares. This division had revenue of \$11.7m in the year to 30th Jun. 97 and "would be expected to make a positive contribution to the group". LBS bought CheckFree's Recovery Management Services business in Aug. 97. LBS also announced a \$3m order for its RMS product from US Govt. DoJ.

Derek Lewis (ex of Technology plc, ICL and, recently, Chairman of United Utilities' Vertex) has launched **DataGroup** "his IT services group building business". He intends to make acquisitions totalling £150m over the next three years. "All the companies will have high growth potential and turnovers of between £5m and £20m". The new venture is backed by Schroder Ventures.

Abacus Recruitment, has acquired **Expand** for just £30K. Expand (with revenue of c£2m) had "run out of cash".

Paribas has sold an 8% stake in **Sema** for £270m at 710p per share to a variety of institutions. This reduces the Paribas stake to 14%.

Equifax Inc. has acquired a 40% stake in **Request UK** which provides an innovative e-commerce gateway between consumers and financial services, travel, telecomms and other businesses. Yellow Pages also holds a stake in the parent UK company which it acquired for just £1.25m in Sep. 97.

Penna Holdings has acquired **Talisman Info. Systems** for £12m.

Although not quite in the SCSI sector, it is significant that **Cable & Wireless** acquired the wholesale Internet interests of **MCI** for \$2 billion.

Spring (nee CRT Group) has acquired **Elizabeth Hunt Recruitment Consultants** for £14.03m (£1.48m in cash; rest in shares). EHRC, which is a leading supplier of teachers on contract, had revenue of £15.1m and PBT of £1.3m in the year to 30th Mar. 98. This makes Spring the market leader. Karl Chapman told us to expect even more acquisitions from his highly acquisitive group.

Capita has increased its stake in **Equitable Holdings** (debt recovery) from 49% to 66% for £3.95m.

Catalyst Solutions plc, which acquired Pacific last month, has now bought the systems integration activities of **Decision Data**. "Further acquisitions are being researched. A float looks highly likely for early next year" we are told.

After a hiccup with funding which saw Electra Fleming pulling out, **Kingston-SCL** (mobile phone billing and support

UK M&A - continued

software) has been sold in a 3i/RBoS MBO for £55m + £10m for further acquisitions etc. Kingston-SCL made PBT of £1.6m on revenue of £20m in 1997.

Delphi has acquired **Learning Curve Training** (IT staff agency & training) for £300K cash and £322K shares based on profit performance. LCT had revenue of £800K in year to 30th June. 98.

General Physics Corp. (UK) last month acquired the **Learning Technology** division of **SHL Technology Solutions** for an undisclosed sum. GPC (UK) is a subsidiary of NYSE quoted General Physics Corp. **FAME Information Services Inc** has acquired **Saladin Ltd** of the UK. Last accs for 1996 show revenue of c£8.6m. US **Cadence Design** has acquired **Esperan Ltd** (automation training).

Logica

Logica has been busy on the M&A front this month. Firstly they bought **Administra-CIM/Hardi** "a Belgian IT consulting, systems development and enterprise resource planning company" in a deal worth £9.1m. The operation had revenue of c£10.5m and PBT of c£725K in the year to 31st Mar. 98. The 100 new staff will more than double Logica's size in Belgium.

A few days later, Logica acquired the **Quaestor** branch and electronic retail banking products suite from Indian-based **Synectics Group**. The consideration was an initial £8m but up to a further £22m is payable based on profitability to June 2000. 75 IT staff based in India will transfer.

Quaestor's NT-based systems are being further developed into "additional delivery channels such as home, telephone and internet banking".

End of "annus horribilus" at Azlan?

Imagine the scene. You have just retired as Chairman and CEO of **IBM UK** and think that the odd non-exec. directorship should fill the odd day between the golf club, the garden and the beach. *What better than a networking company that looked set to report a 40% increase in profits to nearly £15m?* Little chance of any skeletons in the cupboard either. After all, **KPMG** had issued a letter of comfort just four months earlier to support a rights issue at 630p. And there were other experienced directors like Tony Robinson - MD of **Cap Gemini UK**. *Piece of cake this one.* Probably be able to take on another half dozen like this in one's spare time...

Think on. After at most two board meetings at **Azlan**, Barrie Morgans found out the ghastly truth. As the SFO investigation is on-going, we better take some care, but deception, falsifying accounts, gross mismanagement are all words that have been used before.

Poor old Morgans saw all the board depart and (like a true man) took on the executive Chairmanship himself after the shares were suspended at 555p and a rescue rights issue had been undertaken at just 37p.

However difficult the year was, Morgans could report a recovery to profits in the last six months. In June, it was announced that **Azlan** had received a bid approach. But this month negotiations have been called off as not being in shareholders long term interests.

But, at least, Morgans can now step down from the hot seat. He has handed over the CEO role to Peter Bertram, the FD. Morgans remains as non-exec. Chairman. Azlan shares slumped 15% on the news and ended July down 12% on 62p.

Failed bid, losses and Lighthouse sale at Rolfe & Nolan...But what now?

We are not quite sure what our feelings are now about **Rolfe & Nolan**. Over many years we lent our support whilst they spent a mint building their Lighthouse treasury derivatives system. CEO Peter Day was forever telling us they were "awfully close" to deals and his optimistic statements fuelled our faith...and the share price.

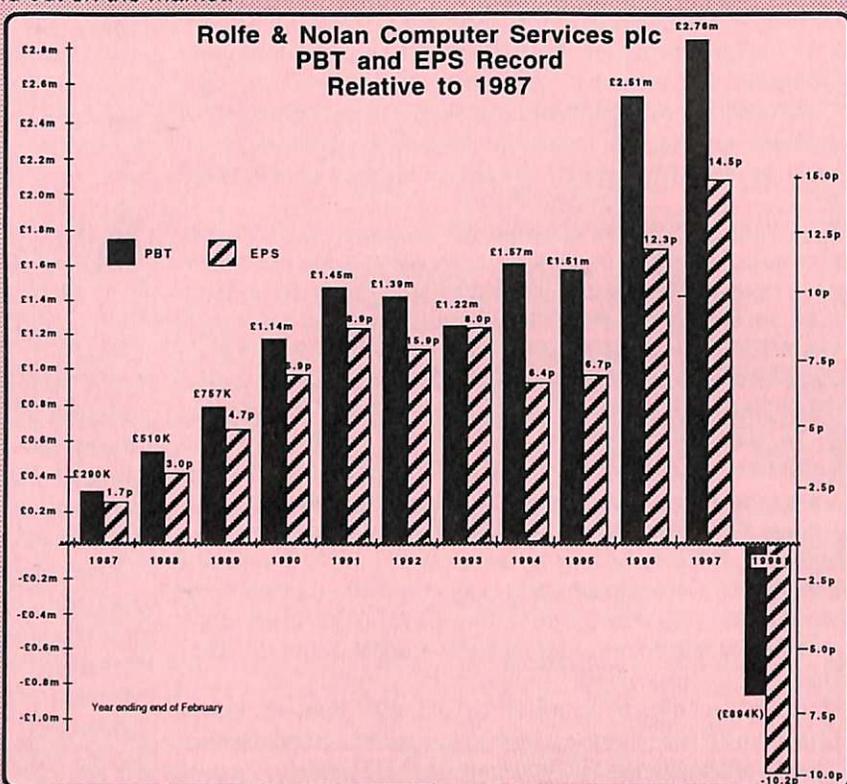
In Feb. 98, **Sungard** - R&N's main competitor - put in a bid at 525p. This was a 45% premium to the then current 360p share price. It got even better as rises in Sungard's share price pushed the bid up to over 580p. But then customers on both sides of the pond complained to the authorities that the merger would be anti-competitive. By the time the deal had lapsed many "old time" shareholders had sold out on the market.

Now R&N has put out the most dismal set of results in its history. Although revenue increased by 7% to £21.7m, a pretax loss of £894K (PBT £2.76m last time) was recorded. The aborted Sungard bid cost £857K in fees. It also caused delays in Lighthouse installations which meant that this division lost £3.73m. It further led to a £2.3m compensation payment to Credit Suisse First Boston over contractual difficulties.

All this has triggered R&N to sell its **Capital Markets** division to **IQ Financial Systems** (itself a spin-out from US Bankers Trust) for £4.6m + a commission on sales.

So now R&N is back to just its Futures & Options operation which had revenue of £20.9m in the year. Even here trading in the first four months has "started slowly".

But house brokers Greig Middleton are forecasting profits of £2m in the year to 28th Feb. 99 from this operation and PBT of £4.4m in the year to 28th Feb. 2000. And that excludes any kind of commission from the now sold Lighthouse product. If that comes about R&N is on a prospective P/E of just 13. In today's heady market that looks like a steal - albeit not quite the kind of return that the Sungard bid offered. Indeed Greig Middleton have issued a BUY notice. R&N ended Jul. 98 up 8% at 290p.



Touchstone joins AIM

This month **Touchstone Group plc** became the latest in a flood of new UK SCSI IPOs. They joined AIM by way of a placing of 2.8m shares at 105p which valued the group at £9.8m. The shares went to an immediate premium, ending July on 132p. Touchstone was established in the early 80s and provides financial accounting systems to "mid-market" companies. Solutions are based mainly (86%) on SunSystems (from Systems Union) but also Dynamics (from Great Plains). However, 62% of the £6.15m revenue in the year to 31st Mar. 98 came from associated services. PBT of £841K - i.e. a 14% margin - was reported.

Policy Master joins AIM

Given that **Policy Master** has been a client of ours for years, we really should have given them more exposure over their AIM listing where dealings began on 7th July 98. The offer, at 150p, was significantly oversubscribed and valued PM at £21.2m. They were given a warm reception - ending July 38% higher at 208p. PM was formed in 1984 and specialises in the insurance sector. It was owned by various insurance companies until a Gresham Trust/BoS backed MBO in Jan. 97.

In the year to 31st Dec. 97, revenue increased by 22% at £8.75m with PBT up 31% at £459K. As £242K interest was paid on the financing required for the MBO, the doubling of operating profit to £783K is a better indication of trading performance. 41% of revenues come from recurring maintenance. Indeed, PM is exactly the kind of company we like. After all, 57% of PM's customers have been with them for >5 years and 72% of revenue is long term. **Super company...well deserves its reception.**

Autonomy joins EASDAQ

We covered **Autonomy's** (with their "dynamic reasoning engine") launch onto EASDAQ last month. Shares began trading on 10th July 98 at \$3.70 ("the upper end of the indicated price range") and the offer was 7-times oversubscribed. This raised \$54m - \$36m of which was new money. The shares rose modestly to end July on \$3.875.

Awful year at Kalamazoo

Kalamazoo (systems for automotive dealers and general SCSI activities) has announced revenues down 15.6% at £65.7m in the year to 31st Mar. 98. Revenue from continuing operations was static at £59.6m. Even worse, a loss before tax of £1.9m (PBT £4.5m last time) was reported.

Comment - It has been an awful period for Kalamazoo...profits warnings, "falsifying of management accounts", FT raising questions over the competence of the management team, CEO Paul Heaven departing, the disposal of the old-established print operation (which raised £12m) and a rescue/cash injection from US rival Reynolds & Reynolds in return for a 26.5% stake.

On a "brighter" note a new CEO (Malcolm Roberts) has joined and profits are said to have recovered in the second half. Recovery depends on sales of the new Elite product - where R&D overspend has, in part, been blamed for past poor performance.

Although **Misys** (see p11) fell by 15%, writing over £600m from its value and allowing **Sema** (at £3.5b) to overtake it as the most valuable UK SCSI company, this made little effect on either our SCSI Index or the FTSE IT Index. This was because the other major constituents all showed compensating increases. Indeed **FI Group** (p3) was up another 25%, **Admiral** (p11) up 20%, **Capita** (p11) up 17% and **CMG** up 16%. But the best performance was this month's newcomer **Policymaster** (p8) - up 38%.

At the other end of the scale "troubled" **Lorien** (p10) lost 32% with **Total** (p4) also down 24%.

30-Jul-98		SCSI Index					4977.89
		FTSE IT Index					1811.75
		FTSE 100					5910.70
		FTSE AIM					1059.20
		FTSE SmallCap					2467.30
CSGI Index - 1000 on 15th April 1988							
Changes in Indices		SCSI Index	FTSE 100	FTSE IT Index	FTSE AIM Index	FTSE Small Cap	
Month (30/6/98 - 30/7/98)		-0.43%	+0.45%	1.71%	-3.82%	-5.75%	
From 15th Apr 89		+397.79%	+187.82%				
From 1st Jan 90		+441.02%	+150.24%				
From 1st Jan 91		+603.22%	+173.59%				
From 1st Jan 92		+376.42%	+137.08%				
From 1st Jan 93		+212.37%	+107.65%				
From 1st Jan 94		+198.15%	+72.91%				+77.84%
From 1st Jan 95		+232.04%	+92.81%				+32.03%
From 1st Jan 96		+120.41%	+60.21%				+41.28%
From 1st Jan 97		+85.92%	+43.52%		11.09%		+27.08%
From 1st Jan 98		+64.01%	+15.09%	81.18%	8.51%		+13.02%
					6.77%		+6.66%

System House SCSI Share Prices and Capitalisation

	FTSE IT Index?	Share Price 30/7/98 (£p)	Capitalisation 30/7/98 (£m)	Historic P/E	PSR Ratio Cap./Rev.	SCSI Index 30/7/98	Share price % move since 30/6/98	Share price % move in 1998	Capitalisation move (£m) since 30/6/98	Capitalisation move (£m) in 1998
Admiral	Yes	£14.83	£ 934.18m	68.5	7.97	53582.76	19.80%	106.33%	£154.38m	£480.04m
AFA Systems		£1.77	£ 18.86m	Loss	83.44	1470.83	14.98%	64.19%	£2.46m	£5.96m
AIT Group		£2.45	£ 49.41m	34.2	3.65	1633.33	-17.51%	£3.70m	£10.49m	£14.83m
Anite Group	Yes	£0.68	£ 162.09m	63.1	1.08	397.66	10.57%	44.68%	£15.49m	£50.44m
Azlan Group	Yes	£0.62	£ 66.54m	Loss	0.23	267.39	-11.51%	10.69%	£8.66m	£7.41m
Bond International		£1.04	£ 14.04m	28.5	2.19	1592.31	-10.00%	59.23%	£1.56m	£5.19m
Cadcentre Group		£2.68	£ 44.52m	26.0	2.51	1340.00	-9.15%	-17.54%	£4.48m	£9.41m
Capita Group		£6.04	£ 1,171.88m	92.7	6.78	54369.37	17.07%	63.55%	£170.88m	£465.20m
Cedadata		£1.56	£ 51.39m	29.1	4.11	1480.95	1.97%	48.10%	£0.99m	£18.10m
CFS Group		£1.74	£ 12.76m	21.1	1.87	1933.33	11.90%	66.51%	£1.36m	£5.02.1
Clinical Computing		£0.74	£ 18.16m	60.7	6.00	596.77	-9.20%	74.12%	£1.84m	£7.49m
CMG	Yes	£21.55	£ 2,743.36m	55.8	9.05	14862.07	15.70%	182.62%	£372.36m	£1,765.87m
Compel Group	Yes	£4.68	£ 132.76m	25.8	1.19	3740.00	3.31%	53.28%	£4.26m	£45.53m
Computacenter		£7.08	£ 1,215.32m	35.7	1.07	1056.72	-6.23%	5.67%	£80.68m	£84.68m
Comino		£2.58	£ 32.83m	20.9	2.50	1980.77	-3.74%	110.20%	£1.27m	£18.03m
DCS Group		£6.26	£ 137.73m	41.9	2.30	10433.33	9.92%	94.11%	£12.43m	£66.77m
Delcam		£0.85	£ 5.02m	11.5	0.34	326.92	-22.73%	-48.48%	£1.48m	£4.69m
Delphi Group	Yes	£5.42	£ 159.85m	19.0	0.58	2228.40	-8.61%	-19.18%	£15.05m	£34.45m
Diagonal	Yes	£12.88	£ 258.79m	94.7	5.78	4681.82	-0.96%	83.27%	£22.51m	£128.78m
Dialog Corporation		£1.89	£ 287.96m	Loss	6.25	1713.64	19.68%	25.67%	£47.36m	£63.13m
Division Group		£0.50	£ 21.47m	Loss	3.21	1250.00	-8.26%	29.87%	£1.93m	£4.57m
DRS Data & Research		£0.12	£ 4.16m	Loss	0.61	109.09	-4.00%	-45.45%	£0.17m	£3.37m
Druid Group	Yes	£15.43	£ 356.57m	95.8	16.16	5609.09	15.54%	132.83%	£47.97m	£204.85m
ECSOFT		£20.75	£ 226.20m	43.3	5.11	1148.31	14.83%	14.83%	£35.50m	£35.50m
Electronic Data Processing		£0.82	£ 15.25m	58.3	1.71	2510.72	-13.23%	50.46%	£3.28m	£7.28m
Eidos	Yes	£7.97	£ 137.56m	14.3	1.00	7970.00	-1.60%	18.96%	£2.24m	£24.32m
FI Group	Yes	£19.20	£ 618.29m	81.7	3.83	8170.21	25.49%	105.90%	£125.59m	£317.99m
Flomerics Group		£1.20	£ 3.12m	400.0	0.54	923.08	0.00%	0.00%	£0.00m	£0.00m
Gresham Computing		£1.00	£ 34.85m	35.9	4.01	1075.27	-0.99%	334.78%	£22.35m	£27.33m
Guardian IT		£5.23	£ 267.53m	446.6	11.62	2049.02	-7.69%	104.90%	£22.27m	£137.03m
Harvey Nash Group		£3.48	£ 97.98m	26.1	1.76	1985.71	-15.24%	3.12%	£17.62m	£4.03m
Highams Systems Services		£1.33	£ 20.10m	24.9	0.80	3694.44	-1.48%	70.51%	£0.30m	£6.28m
ICM Computer		£2.24	£ 43.24m	32.8	1.27	1244.44	-2.40%	24.44%	£1.06m	£8.94m
ilion Group		£0.81	£ 20.19m	5.3	0.10	503.13	-6.94%	-36.86%	£1.51m	£11.82m
Intelligent Environments		£0.70	£ 20.94m	Loss	4.72	744.68	19.66%	185.71%	£3.44m	£15.18m
I S Solutions		£3.75	£ 17.98m	43.5	2.05	2798.51	19.05%	157.73%	£2.88m	£10.99m
ITNET		£4.42	£ 310.01m	66.6	3.79	1262.86	1.38%	26.29%	£4.21m	£63.91m
JBA Holdings	Yes	£5.69	£ 208.60m	53.3	0.94	3553.13	-8.31%	-44.73%	£18.90m	£167.85m
JSB Software		£2.14	£ 20.09m	n/a	5.91	1070.00	-6.14%	7.00%	£1.31m	£1.19m
Kalamazoo Computer		£0.48	£ 20.36m	6.9	0.31	1357.14	-9.52%	-31.65%	£2.14m	£9.44m
Kewill Systems	Yes	£10.88	£ 137.24m	30.4	3.04	4298.42	32.22%	90.79%	£33.44m	£63.69m
Logica	Yes	£21.85	£ 1,614.14m	62.7	4.77	5986.30	12.48%	88.77%	£179.14m	£768.04m
London Bridge Software	Yes	£15.50	£ 449.53m	154.5	39.71	7750.00	32.76%	204.82%	£110.93m	£302.05m
Lorien		£5.10	£ 99.97m	24.7	0.85	5100.00	-32.36%	0.99%	£47.83m	£13.59m
Lynx Holdings	Yes	£2.37	£ 246.18m	30.1	2.04	5912.50	8.74%	96.27%	£19.78m	£121.90m
M-R Group		£1.50	£ 79.95m	19.8	2.03	593.25	-5.38%	32.89%	£4.55m	£17.20m
Macro 4	Yes	£4.65	£ 92.60m	13.4	3.95	1875.00	0.00%	36.76%	£0.00m	£25.60m
MDIS Group	Yes	£0.88	£ 187.16m	400.0	1.60	338.46	-3.83%	87.23%	£7.44m	£88.65m
Micro Focus	Yes	£4.68	£ 373.57m	29.4	3.85	2257.93	7.47%	17.17%	£25.97m	£2.69m
Microgen Holdings		£1.20	£ 56.87m	13.6	0.86	512.82	-6.61%	71.43%	£4.03m	£29.15m
Misys	Yes	£29.40	£ 3,341.02m	44.2	7.46	7313.43	-15.40%	60.66%	£607.98m	£1,297.82m
MMT Computing	Yes	£11.15	£ 134.35m	29.4	5.45	6336.90	-8.61%	32.82%	£12.65m	£34.49m
Mondas		£0.73	£ 4.06m	Loss	71.23	966.67	0.00%	4.32%	£0.00m	£0.18m
Moorepay Group		£2.50	£ 29.25m	24.1	5.54	4219.00	-5.66%	-11.50%	£1.75m	£1.31m
MSB International	Yes	£7.50	£ 148.08m	25.9	1.15	3947.37	-20.00%	20.00%	£37.02m	£20.64m
NSB Retail Systems		£3.28	£ 36.07m	51.5	10.98	2847.83	-2.24%	71.02%	£0.83m	£17.50m
Oxford Molecular		£1.74	£ 130.96m	Loss	8.37	2168.75	-9.87%	-27.71%	£14.34m	£42.51m
Parity	Yes	£7.73	£ 383.26m	36.9	1.90	42916.51	-1.90%	-21.46%	£7.44m	£69.76m
Pegasus Group		£3.74	£ 25.81m	12.9	2.07	1017.71	4.48%	43.65%	£1.11m	£7.64m
PhoneLink		£0.37	£ 17.62m	Loss	5.50	235.48	-16.09%	-33.03%	£3.38m	£8.64m
Policymaster		£2.08	£ 29.33m	45.4	3.36	1383.33	38.33%	38.33%	£8.13m	£8.13m
Proteus International		£0.35	£ 25.80m	Loss	144.92	410.71	-21.59%	-21.59%	£7.10m	£1.34m
Quality Software Products		£4.77	£ 64.84m	23.5	2.31	1253.95	-4.22%	116.59%	£2.86m	£34.88m
Quantica		£1.24	£ 48.30m	20.9	8.57	1000.00	-17.33%	0.00%	£9.70m	£0.30m
Radius		£0.52	£ 13.75m	17.7	0.50	376.81	19.54%	48.57%	£2.25m	£3.95m
Rage Software		£0.12	£ 32.23m	Loss	4.77	461.54	-2.04%	182.35%	£0.67m	£21.83m
Real Time Control		£4.58	£ 34.20m	14.9	2.15	9336.73	-11.17%	42.52%	£4.30m	£11.77m
Rebus Group	Yes	£1.42	£ 127.08m	25.5	1.45	1613.64	2.16%	79.75%	£2.68m	£53.99m
Recognition Systems		£0.33	£ 11.29m	Loss	14.66	464.29	20.37%	51.16%	£1.91m	£3.38m
Riva Group		£0.79	£ 25.02m	35.7	0.36	557.91	-4.85%	86.90%	£1.28m	£12.05m
RM Group	Yes	£3.85	£ 395.42m	70.5	3.04	11000.00	5.48%	140.63%	£17.42m	£193.47m
Rolfe & Nolan		£2.90	£ 41.09m	Loss	1.89	3452.38	8.41%	-15.33%	£3.19m	£4.46m
Romtec		£1.07	£ 5.54m	26.0	1.31	1704.00	-4.48%	1.91%	£0.26m	£0.11m
Royalblue Group	Yes	£3.95	£ 108.57m	46.6	5.26	2323.53	12.86%	15.33%	£12.37m	£4.57m
Sage Group	Yes	£16.38	£ 1,897.57m	64.6	12.48	62980.77	-3.68%	97.29%	£72.43m	£1,000.32m
Sanderson Group		£1.42	£ 65.16m	12.9	0.97	2408.51	-6.91%	91.22%	£4.84m	£31.17m
SBS Group		£2.63	£ 22.60m	26.5	1.19	2625.00	-16.00%	50.00%	£4.30m	£10.23m
Science Systems		£2.24	£ 37.99m	33.1	2.04	1732.56	-1.32%	35.05%	£0.51m	£9.89m
Sema Group	Yes	£7.53	£ 3,456.63m	77.0	3.06	9471.70	2.45%	102.96%	£82.63m	£1,751.89m
Sherwood International		£9.45	£ 81.95m	39.8	2.73	7875.00	4.13%	78.30%	£3.25m	£36.36m
Skillsgroup	Yes	£2.90	£ 239.39m	26.4	0.64	1300.45	1.22%	58.90%	£2.89m	£91.07m
Spring		£3.74	£ 543.62m	52.0	4.05	4155.56	-10.63%	5.35%	£64.68m	£35.23m
Staffware		£5.50	£ 69.06m	51.1	3.93	2444.44	-21.43%	55.59%	£18.84m	£26.29m
Superscape VR		£1.79	£ 21.99m	Loss	7.07	904.04	-15.76%	68.51%	£4.11m	£12.51m
Systems Integrated		£0.05	£ 0.67m	Loss	0.53	43.48	-16.67%	-44.44%	£0.13m	£0.54m
Tetra		£2.54	£ 63.83m	57.6	2.85	1584.38	13.17%	44.03%	£7.43m	£19.63m
Torex Group		£1.46	£ 44.05m	24.3	2.09	2825.24	14.12%	67.24%	£5.45m	£16.75m
Total Systems		£0.94	£ 9.69m	13.8	2.34	1764.15	-23.67%	25.50%	£3.01m	£2.17m
Touchstone		£1.32	£ 12.80m	19.0	2.08	1252.38	25.24%	25.24%	£3.00m	£3.00m
Trace Computers		£1.22	£ 17.70m	31.9	1.02	972.00	-8.30%	85.50%	£1.60m	£8.27m
Triad Group		£6.97	£ 179.43m	39.5	5.58	5159.26	3.96%	134.12%	£6.83m	£104.42m
Ultima		£0.09	£ 8.59m	40.5	0.13	207.32	-15.00%	-51.43%	£1.52m	£5.18m
Vega Group		£4.13	£ 63.49m	30.0	2.83	3381.15	4.43%	81.32%	£2.69m	£28.41m
Workplace Technologies		£2.18	£ 63.20m	35.3						

Still more self inflicted problems at Lorien

Now you might think that when you announce revenues up 29% at £68m, PBT up around threefold to £2.5m and EPS up from 1.1p to 7.4p in the six months to 31st May 98, that the market would rejoice and your share price rocket. If you have the quite appalling PR ability of **Lorien**, the opposite happens and your share price crashes 32% to end July 98 on 510p.

Lorien has been beset by problems - *most, we do have to say, of their own making*. The £2m payment to new CEO Malcolm Coster, ousted after only 8 months, was one cause. Now they intend to give *another* three exec. directors up to £6m over the next two years. To get this Lorien needs to make PBT of £8.2m this year and £11.8m in FY99. As these are the current analyst forecasts, it hardly seems "*demanding*" as FD Ian Brookes described the target. It all seems rather excessive and tends to give the industry a bad name. If they had put their houses on the line to buy shares, that would be a different matter but this is a one-way bet at the shareholders expense.

Other problems encountered recently were the loss of its second largest customer, UBS when acquired by SBC. It has also invested heavily in its new ERP operation (where they have just won their first contract for £150K).

Analysts are still expecting £8.2m for the full year but as Williams de Broe said "*this leaves no room for slippage*". This should be a vintage time for Lorien. *If you can't do well in today's climate for IT resourcing you never will.*

It's a long, long way from distribution to services..

The move from P&P - the volume distributor and reseller - to **Skillsgroup** - the high value IT services group - has taken most of the decade. Skillsgroup has still to dispose of some last remaining bits. Its reseller business - **MSB** - in Belgium was sold this month for £1.8m + £2.8m intergroup debt repayments (MSB contributed revenue of £25.8m and PBT of £300K in the year to 30th Nov. 97). Its PSL Unix hardware business is now for sale.

But when that is complete, Skillsgroup will consist of QA (IT staff agency, consultancy and training) and Acuma (enterprise solutions based on HP, IBM, Sun and Digital). Results for the six months to 31st May 98 were greatly affected by the disposals of the distribution businesses. Technically, revenues decreased from £181.6m to £115m and PBT and EPS were static at £6.6m and 5.8p. But continuing revenue from QA and Acuma increased by 21% to £77.2m with operating profits up 44% at £5.6m. QA, as you might expect, was the best performer - increasing revenue by 32% to £48.8m.

Current expectations are for the full year PBT of £13.8m - which is a prospective P/E of 23. Compared to many of the others in the sector, that looks positively cheap - particularly if you believe that the long, long transformation to IT services is now complete.

Reuters to sell Tibco?

There are many who consider **Reuters** to be the biggest UK-owned SCSi company. Latest results show revenue up 3% at £1.45b in the six months to 30th Jun. 98. It was also announced that Reuters was considering a float of its US **Tibco** internet software subsidiary. "*Reuters regards speculation that Tibco could be worth £1.5b as being over optimistic but believes that it could be worth several hundred million pounds*". Source - Times 23rd July 98. *Tibco recorded a loss of £3m in H1....*

New Age dawns at Microgen

Microgen had issued three profits warnings in the last year resulting from "*declining COM revenues*" which culminated in Martyn Ratcliffe (#2 at Dell until recently) undertaking an MBI. Although announced in April, Ratcliffe did not take up his post as exec. chairman until 31st July. So, it came as no surprise to us that the results for the six months to 30th Apr. 98 were pretty depressing. For some reason, it did seem to surprise the market which marked the shares down 7% to 120p this month.

On revenues down 4% at £32.6m, PBT plunged by 70% to £1.29m with EPS down an even higher 94% at 0.4p due to an exceptionally high tax charge. These poor results were due to high R&D costs on the Axess internet based information management service, the high cost of integrating the TSB acquisition and the strength of sterling (Microgen makes around 50% of its revenue outside the UK in the Nordic countries and Germany).

Comment - we have increasing respect for Ratcliffe. The Microgen vehicle looks right for him and we expect some exciting times post the strategic review which is now underway. Acquisitions - particularly in the complimentary workflow area - are likely. Indeed Ratcliffe's first action was to appoint Michael Phillips from Price Waterhouse, where he had "*extensive M&A experience*", as FD.

We would be very surprised if Microgen was not a very different company - with a very different share price - in a few years time.

The Dialog opportunity

The more Dan Wagner thumbs his nose at the City, the more our sneaking respect for him increases. Quite why the UK seems to want those that have the guts to *go-get-it* to fail, whilst at the same time bemoaning the lack of UK presence on the world IT scene, is beyond us. **Dialog's** software was so good it was used by Digital as part of its well respected Alta Vista search engine. Dialog use it as the means to deliver on-line information (particularly research) to corporate desktop users.

The really big?, bold?, unwise? event for Dialog in the last year was the c£260m acquisition of US **Knight Ridder Information** in Oct. 97. At the time Dialog itself had a market capitalisation of c£200m. The fact that now the combined group has a market cap. of just £288m shows the problem.

In an attempt to "*prompt a re-rating of its shares*" (FT 14th July 98), Dialog has this month stated that its Internet revenues have already doubled to exceed \$50m in the first half of 1998 and could exceed \$100m by year end. Compare that to Yahoo, in a pretty similar field, which currently has less revenue but a market cap. of \$8.5 billion! It was also pointed out that Autonomy (see p8) had just achieved an EASDAQ quote valuing it at >£100m. Autonomy is pretty similar to Muscat which Dialog acquired in Aug. 97 for £5.6m which on a like-for-like basis would value Muscat now at £30m!

Dialog shares have moved up 20% this month and, at the time of going to press, were still rising rapidly. *The buy opportunity of the century perhaps?*

Homecoming for ECsoft

UK-NASDAQer **ECsoft** had a raptuous reception on its return to the LSE this month. Placed at 1807p, they had hit nearly £25 but ended July on £20.75p. Results to 30th Jun. 98 show rev. up 33% at \$49.4m, PBT up 49% at \$5.1m (an increased 10.6% profit margin) and EPS up 39%.

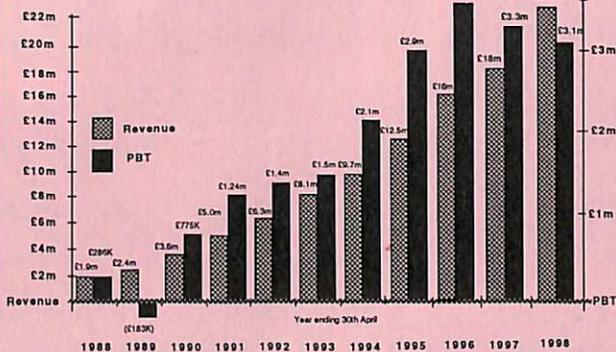
Results from three Boring..or not so Boring..companies

Vega

There is no lower form of life than an excommunicated **System House Boring Award** winner. Vega has produced yet another set of "negative growth" results. In the year to 30th Apr. 98, PBT was down 6% at £3.1m, EPS was down 0.3% on revenue which increased by 25% to £22.5m. Staff increased by 23% to 475.



Vega Group plc
Ten Year Revenue and PBT Record
Relative to 1988



But - to be fair - the outlook looks much better. There is a new management team in place with Roger Gilbert as CEO and Andy Roberts as Chairman. A review of operations has led to significant change and Vega is "well on the way to becoming a business with a cohesive and market focused strategy and organisation". Vega has three divisions: Defence & Aviation, Commerce & Industry and Space. Profits in H2 were up 23% and forward orders up 70% at £32.5m. "A resumption in profits growth is expected in the year to 30th Apr. 99" when analysts expect £4.1m (i.e. an increase of c30%) Vega ended July 98 up 4% on 413p.

Admiral

The "original and still the best" **System House Boring Award** winner - Admiral - has reported yet another set of good results for the six months to 30th June 98. Revenue was up 22% at £65.8m, PBT up 43% at £10.3m and EPS up 42%. Cash doubled to £22.8m. A 16% profit margin is superb and shows what an efficient IT services company can achieve.



Although "all operating companies delivered sustainable growth", we were a bit disappointed with the 4% growth in IT training and the lower than market average 17% revenue growth in the UK. A 41% increase in Europe to £14m boosted growth - but much of this resulted from acquisitions.

Capita

Capita - another **System House Boring Award** winner - produced even better results than Admiral above. Revenue was up 49% at £117.9m (45% organic - only 5% from acquisitions) but PBT was up 85% at £10.6m. EPS increased 40%. CEO Rod Aldridge said Capita is "enjoying buoyant demand and an intense level of bid activity...we are confident about the results for the full year". Indeed Capita secured £151m of new/continuation business in H1 - up from £50m in 1997. Although Local Govt. is still Capita's major activity, £80m of this was Central Govt. and £11m of private sector business was won in H1. All contracts due for renewal have been extended for terms up to seven years. Growth in Business Services (+56% to £98.5m) was higher than in Property Services (+21% at £19.4m). Capita's shares have soared - up 64% in 1998 alone. Analysts were busy upgrading PBT forecasts to over £26m in 1998. Indeed, Capita is well positioned to thrive in the BPO arena which we covered last month.



"Mixed" reaction to results at Misys

Although Misys was (until overtaken by Sema this month) the most valuable SCSl company and the only current FTSE100 constituent, it is unlikely to get a Boring Award. At the operating level, Misys reported revenue up 38% at £448m (but a more modest 19% organic growth) and operating profit up 52% at £97.8m. But a net £37m loss on the disposal of much of its Information Division to Cyberdesk in Feb. 98, pushed PBT down 17% to £51.7m with EPS nearly halved to 29.1p. Misys makes the bulk of its profits from its Banking operations - the real jewel in the Misys crown. On revenue up 24% at £252m, profits were up 31% at £70m. Order books doubled in the year. Insurance was the original core of Misys but, although revenue increased 22% to £50m, profits were flat at £13m "held back by the investment" in developing the Internet version of the product. The remaining bits of the Information Division increased revenue by 12% to £47m with profits up 20% at £5m.

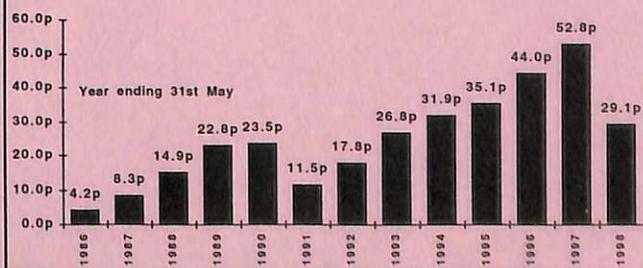
All eyes were on the Healthcare Division after the £566m acquisition of Medic in Nov. 97. It looks as if the market for the "lower priced" MedicPM product "grew well" but our concerns over the lumpiness of sales from the \$1m+ MedicVision product were borne out. "While lead times remain variable, the trend in orders is upwards". But the full benefit will not become apparent until the latter half of 1999.

Our comments to the media on these results can be summed up as "mixed" and "the jury is still out on Medic". Investors are also jittery. Misys share price has plunged 15% to £29.40p this month - hitting a low at one time of £27.

But let us remind you again. Misys was a new issue on the USM in Mar. 96 at 95p and a value of £8m. Misys is now valued at £3.34 billion! But Sema has overtaken them this month with a valuation of £3.46 billion.

Footnotes - Misys is proposing a 5-for-1 share split effective 21st Sep. 98. As results announced on our press day, more detailed review in next month's *System House*.

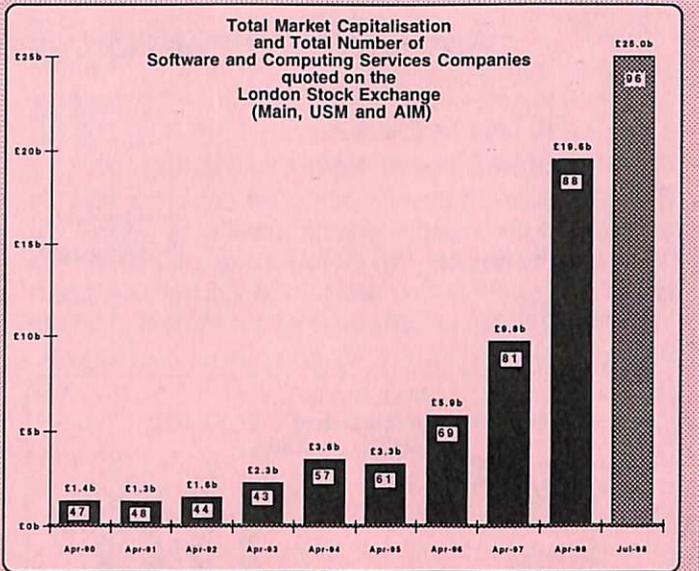
Misys EPS Record



Bringing you down to earth

When we presented the chart shown here at the CSSA seminar on 16th July, it was meant to demonstrate how the quoted SCSl sector had grown in significance of late and explain why City analysts are starting to pay attention to the sector. The total valuation of all quoted SCSl companies had languished at less than £3 billion for most of the decade. *In other words, all the companies together would not have made it into the FTSE100!* Now, by a combination of a doubling in the number of quoted companies and an increase in their value, the total was c£20 billion in Apr. 98 and had increased to c£25b by the end of July. We have seen Misys entering the FTSE100 with Sema sure to join them soon. It made us all feel proud. The sector was being taken seriously at last. But let's not get too carried away. Firstly, the five most valuable companies represent over £13b or >50% of the total.

Secondly the sector can be put into context by the following note as Sir Ernest Harrison stepped down as Chairman of Vodafone this month. *"Vodafone is perhaps the most successful UK company of its generation. Spun off from Racal Electronics with a market value of £1.7b in 1988, it is now worth £27b"* - Source - FT 21st July 98. In other words, just one company has exceeded the growth and size of the entire quoted UK SCSl sector! Perhaps that puts it all into context again.



E-mails to the editor

Dear Richard

In your article concerning **Micro Focus** (upon their purchase of **Intersolv Inc.** for £335m) in the July issue of *System House* you state that the "majority of shareholders reside in the US". In fact, 87% of our shares are held in the UK by UK investors and, although primarily traded in the UK, we consider ourselves to be a global company with distributed operations in over 40 countries"

Regards

Martin Waters, President & CEO, Micro Focus.
Editors Note: We are not only delighted to print this correction but also delighted that Micro Focus is still, indeed, a UK-owned company. Mind you, we suspect the figures given above apply pre-Intersolv only!

MSL Index

One of the reasons for the hiccup in the share prices of many of the IT staff agencies/recruitment houses in the last month was the publication of the latest MSL Index which showed IT recruitment advertising DOWN 3% in Q298. The Index, which covers all executive recruitment, showed a 1% decline overall and was used as evidence "that the UK economy is slowing down".

Europe the place to be for M&A

Broadview's M&A report for the first half of 1998 shows the number of SCSl deals in Europe up 7% but their value soared by 65% to \$4.3bn. One of the biggest was **Network Associates** acquisition of UK NASDAQer **Dr Solomons** for \$640m. In services, **Experian's** \$114m acquisition of French **SG2** led the field.

"The increase in deal values reflects the leap in valuations and the scarcity of good targets across the sector" said **Victoria Basta**.

In IT M&A as a whole "the UK remained the shopper's choice - 357 companies were acquired, representing over a third of all European deals". In addition "investors scrambled to get onto the European IT bandwagon - 25 IPOs in June alone while the US IPO market experienced a continued slowdown".

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