

# System House

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## FTSE International launches IT Index

This month, after much lobbying from us and other organisations like Granville Davies and the CSSA, FTSE International finally agreed to launch an IT Index as a sub-sector of the Support Services Index and, due to the enthusiastic response, brought the start date forward to

2nd Jan. 98. This required some bending of the FTSE rules as, at present, the constituents have a combined market cap equal to <0.9% of the total market and the "rules" say that it must >1%.

The term "IT Index" has been greatly misunderstood. It is actually a software and IT services index as it excludes all hardware manufacturers (like Psion) and information providers (like Dialog). As

readers know, we wanted the FTSE Index to mirror our SCSI Index. *We have largely got what we wanted but there are differences:*

- our SCSI Index contains 90 companies (see page 9 for constituent companies) but the FTSE Index contains 62 (for a full list see [www.ftse.com](http://www.ftse.com) - you will need to register as a member, but its free!). The major reason for the difference is that FTSE excludes all AIM companies.

- there are some serious omissions from the FTSE list - CRT, Lorien and Riva are the major companies missing.

- also some very strange companies like RMS Communications are included

- the FTSE IT Index will be weighted - our SCSI Index is not. The five largest companies in

the FTSE IT Index will represent c64% of the Index. All FTSE Indices are weighted - one of the

reasons for the major swings in the FTSE100 recently was as a result of a few "Top Ten" companies with Far East exposure. But we doubt if there are any other FTSE indices with such a significant weighting towards the five largest companies. **Indeed if we had weighted our SCSI**

**Index at inception, it would now be up 700% - compared with a "mere" 180% "unweighted" rise.**

*The bigger companies have clearly performed much better than their smaller cousins!* But the converse is equally true - if Misys or Sema sneeze, the IT Index will catch pneumonia!

But let's not be too negative. This is, in our opinion, excellent news. We have been inundated with requests for

comments and have been hard pressed to think of any downside. More analysis, more tracker funds, more ITs etc. dedicated towards the sector. (By the way, we have had about our best ever month for new subscribers - practically all from the "investment" community).

But, perhaps, the best consequence is that more UK companies will float in the UK - rather than on NASDAQ or EASDAQ.

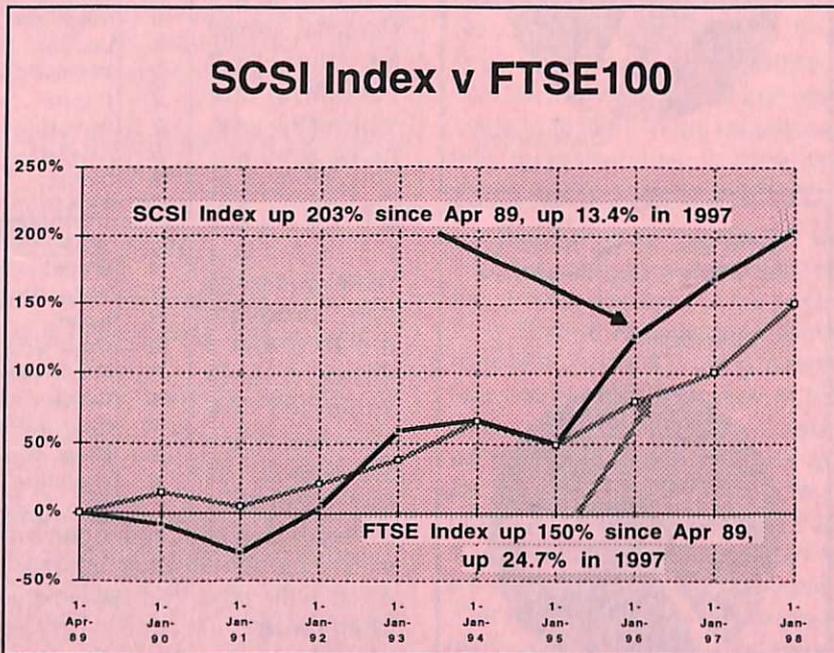
### NASDAQ IPOs

On 17th Dec. 97, Delphi announced that it was pulling its NASDAQ IPO due to "a rapid deterioration in market conditions for new issues in the US". Indeed, we know of several other non-US companies (like Cyrano) which have also this month decided to pull their IPOs. *It gets worse.*

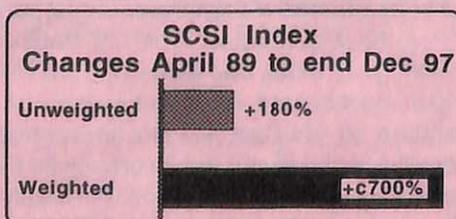
Apparently (Source - Computer Reseller News 15th Dec. 97) "of the 125 companies expected to go public (on NASDAQ) in Nov. 97, just 75 IPOs were completed".

Given that Chris Price's article (Source - FT 11th Dec. 97) used our research, we are sure he will not mind us quoting his interview with UK NASDAQer Dr. Solomons. "If the London market would have given us a decent valuation we would definitely have looked at it. The existence of an IT sector on the London market could have made a difference to where the company was listed".

*Continued on page two....*



FTSE International IT Index	
Top Five	Weighting
Sema	18.59%
Misys	16.97%
CMG	10.31%
Sage	10.03%
Logica	8.43%
<b>Total Top Five</b>	<b>64.33%</b>



**Continued from page one**

And that comes from a products company! We have long said that services companies like ECsoft would have been much better off with a UK IPO than on NASDAQ.

**Winners and Losers in 1997**

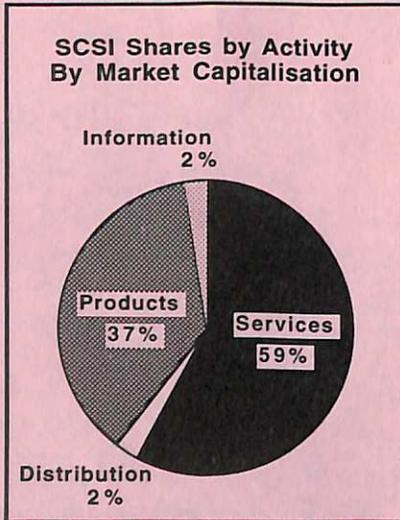
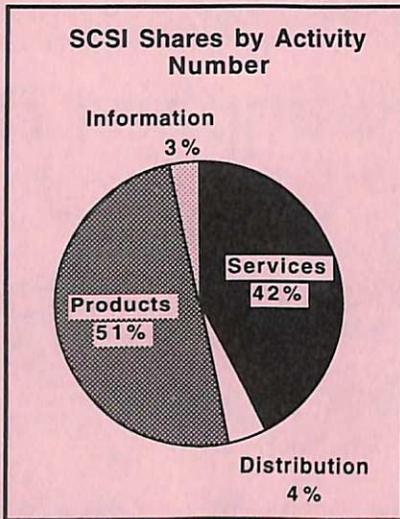
The UK - and all of you as *System House™* subscribers - have had access to (OK, an unweighted) FTSE IT Index in our own SCSI Index since April 1989. A majority of

companies in our index are products companies - the two largest being Misys and Sage. But, IT Services still represents nearly 60% of the index by value (market cap.) Although our SCSI Index is showing a 204% rise since 1989, that is really little more than the 151% rise in the FTSE100. Given the "risks" involved in our sector, you might have expected a much larger increase. But we did point out last year that we thought the peak relative valuations were reached in 1996 - and so it has come to pass.

But, of course, the SCSI Index "average" covers many very different changes in the various sub sectors of our index.

Main market listed companies - the larger companies - did far better than those on AIM. Indeed our SCSI AIM index showed a 2% fall in 1997 - the same fall as in the BDO AIM Index.

Yet again, the IT Services companies were the star performers of our SCSI Index; registering a 38% gain in 1997. But this was a quarter of the increase we reported



for 1996. Products companies, on average, have increased by just 4% in the last two years compared with a doubling of IT services stock prices. But this was nothing compared to the 9% fall in Distribution (caused by the Azlan fallout) and the 39% decline in Information companies with On Demand Information losing c80% of its value in 1997.

Whereas last year ALL the Top Ten share price increases - and NONE of the worst performers - came from IT services companies, this year is less clear cut. Sherwood leads the lists. Terry Bourne at Total Systems might be chuckling at his #2 position - but probably not as much as Mike Tilbrook at MMT Computing which currently holds a 5.6% stake! We will also be uncharitable and point out that although Total ended 1997 on 75p - that's still less than the 85p IPO price back in 1988! We were delighted

to see local services company Diagonal ranked as the best performing new issue of the year. At the other end of the scale IT services company Wakebourne and VR products company Virtuality both appointed the receivers. Azlan did almost as bad - certainly the reputation of its management and advisers suffered much more. On the other hand we could easily be reporting Azlan in the other Top Ten next year.

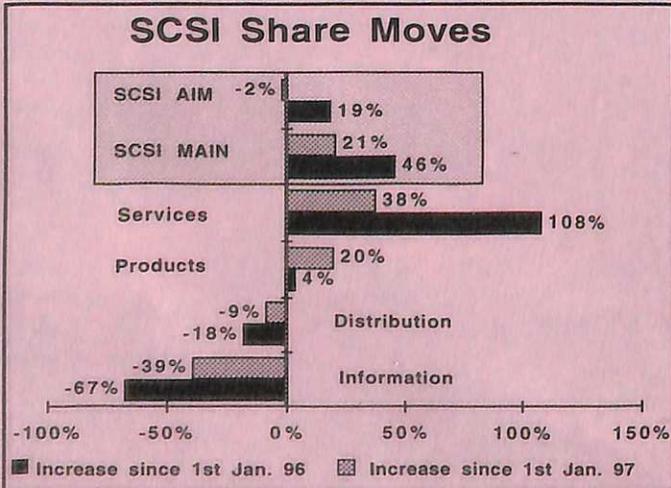
Rank	Company	Change
1	Sherwood	172%
2	Total	157%
3	Diagonal	155%
4	London Bridge	154%
5	Micro Focus	147%
6	Capita	128%
7	Royalblue	101%
8	Admiral	97%
9	Druid	95%
10	JBA	94%

Rank	Company	Change
1	Wakebourne	-100%
2	Virtuality	-100%
3	Azlan	-90%
4	OmniMedia	-89%
5	On Demand	-83%
6	Superscape	-73%
7	Recognition	-63%
8	Rage Software	-63%
9	Intelligent Environments	-62%
10	ilion (was Persona)	-59%

**The Future?**

We published our views of *life in the new millennium* last month. We more firmly than ever believe that relative valuations will continue to head southwards. Earnings growth, even in the IT services sector, will be hit by rising costs and reducing margins. Business systems products suppliers (Sage, JBA etc.) will see a short term upturn as SME's, in particular, install new systems as a way out of their Y2K difficulties. Distributors will have a wretched time. Few will be able to develop their services business fast enough to compensate.

The Information subsector will increasingly be the place to be. But probably not the companies currently in our index. Dialog (MAID) is the only company of size but the risks relating to the recent Knight Ridder acquisition are clearly huge. We suspect (indeed hope) that more dedicated information services providers will come to the market in 1998, but most of the business will be done by US companies and by divisions of larger UK players. We should also remember that our sector is not immune from the wider scene. The US Pacific Stock Exchange High Tech. Index has fallen by 25% in the last quarter of 1997 - not helped, of course by the 30% plunge in Oracle shares on 9th Dec. 97. On an even wider level, many predict a slowdown in UK growth in 1998 followed by a possible worldwide recession. Perhaps the building society is not such a bad place after all!



## **Maiden results ..**

### **...from SBS Group**

Old established **SBS** is *another* quoted IT staff agency/recruitment agency although they do not figure in the UK's Top Ten. They were a new float on AIM at 100p in June 97. "Maiden" results for the year to 31st Aug. 97 show revenue up 25% at £19m with PBT up a massive 94% to £728K. If exceptionals for both years are excluded, the profit rise is a much lower, but still a most creditable, 48%. EPS before exceptionals was up 107% (although this is a comparison with 1996's proforma results).

Although contractor rates are being pushed up in the UK (£13.2m revenue) and Europe (£1.8m revenue) they are continuing to increase their market share. In the US (revenue £4m) "SBS is adopting innovative new approaches... including sourcing contractors from outside the US". Chairman John Davies is "confident that we have an excellent platform to improve our turnover and profitability in the current year which may, as appropriate, include acquisitions". That's as may be, but with the current trend in the UK, SBS must be under some threat as a target itself.

The new financial year has evidently started well with a record number of over 280 contractors on billing. The share price rose 24% in the month to 175p - a premium of 75% to the float price.

### **...from AIT Group**

**AIT** provides systems for large organisations in the retail financial sector and was a main market float in June 97 at 150p.

Maiden interim results for the six months to 30th Sep. 97 show revenue up 22% at £6.2m, PBT up 37% to £958K with EPS up 38%. The company ended the year with over £3.3m in the bank although they have earmarked £1.3m of this for new offices. Chairman Garf Collins commented "Market demand continues to be strong... AIT continues to be well placed in growth markets and we remain confident of a satisfactory outcome for the full year".

The share record since flotation has been fairly good ending December on 171p, a premium of 14% on the flotation price.

## **Statement from Intelligent Environments**

**Intelligent Environments** has issued a trading statement saying that losses in H297 are expected to reduce by almost 50% from £2.1m in the first half on similar revenues. Total revenues for the full year are expected to be c£4.4m. Further statements are expected early in the new year.

## **Wirszycz leaves CSSA for EDS**

**CSSA** Director General Rob Wirszycz is leaving to join **EDS UK** as Director of Communications and Alliances. We have developed great respect for Rob - not least for his capacity for hard work. He will clearly be missed at the CSSA but is a great catch for EDS. Although CSSA President Geoff Styfield says the DG role "will attract considerable interest" we are not so optimistic.

## **Benton leaves Capita**

Richard Benton is leaving one of our most **Boring Companies - Capita** - at the end of the year "to pursue outside unrelated interests". He will no doubt be helped with these interests with the proceeds from his sale of 1.5m shares in Capita at £3.21 raising £4.8m.

## **Encouraging results from Real Time Control**

**Real Time Control (RTC)** (systems for retailers) has announced revenue up 14% at £7.2m, PBT increasing a higher 28% to £1.5m with EPS up 32%.

The UK retail systems business has "performed well" and Chairman B Carrell reports "an encouraging level of interest in our systems for the remote monitoring of CCTV". They are also hoping to build up the European side of the business after a obtaining successful German contract.

## **Far from encouraging results from Proteus**

We have included **Proteus International** in our index at least in part because we believed that taking a stake in the success of products created by your own software was the way to go. Well so far we have been disappointed, at least as far as Proteus is concerned.

Losses continued and, in the six months to 30th Sep. 97, increased to £1.9m (from £1.8m) on revenue of just £21K (yes thousands not millions). Every press release gives hope of an imminent breakthrough in some new drug/vaccine and we suppose that one day one of them might come to fruition. In the meantime shareholders can only pray for deliverance. In 1992, their shares were valued at over 500p - they ended Dec. on just 44p.

## **.... but Total does much better**

We have been rather scathing at times with our comments about **Total Systems** in the past. Despite this Chairman Terry Bourne recently took Richard Holway out to (an excellent) lunch; admitting to being human and that Total had made some mistakes in the past. Of course, no amount of "free" lunches will make us change our view! **All the same we must admit that the interim results for the six months ending 30th Sep. 97 are really quite good.** Revenue rose 37% to £2m, PBT increased a massive 157% to £476K with EPS up 140%. But there is still a deal of room for improvement!

"Our aim of achieving sustainable organic growth is now beginning to take fruit. The trend of higher volume and prospects continue" says Bourne.

Total, in our opinion, is really too small to be a main market quoted company. But as Bourne owns most of the equity, there is little that can be done without his approval and he appears to want to soldier on regardless. Total was our 2nd best performing share of 1997 - up 157%. This must have pleased Mike Tilbrook of MMT Computing greatly as, on the last announcement, MMT holds 5.6% of Total's equity.

## **Micro Focus - back into profit and buys XDB**

After hefty losses for the last two years, UK NASDAQer **Micro Focus'** results at the interim stage showed a profit of £5.1m. They have continued this trend in Q397 with a PBT of £3.8m on revenues of £25.4m. The Y2000 problem is certainly their saviour at present; with orders at an all time high.

Micro Focus also announced the acquisition of US-based **XDB Systems Inc** for \$13.4m + \$3.1m for "certain assets". XDB provides DB2 database development etc and had revenues of \$10.1m (but made a loss of \$3.2m) in the year to 31st Jan. 97.

Micro Focus' share price has continued to rise dramatically this year and ended 1997 on £23.93 - that's a rise of 147% in the year (but still some way to go before they reach their all time high of over £30).

# SCH

Specialist Computer Holdings

Peter Rigby's **Specialist Computer Holdings** increased revenues by an impressive 38% to £440.7m in the year to 31st Mar. 97. However, PBT was down 26% at £12m. That's a near halving of the margin and, for the first time,

Computacenter now has a higher margin than SCH - 4.7% compared with 2.8%. Cash reduced by c40% to £9m but net assets were up 30% at £43m.

In the year SCH made the following acquisitions:

- the **Network SI** maintenance business
- **Qudis** and **DTN** (distribution)
- 46 former Escom concessions in Office World stores
- **Hugh Symonds** Data Preparation.

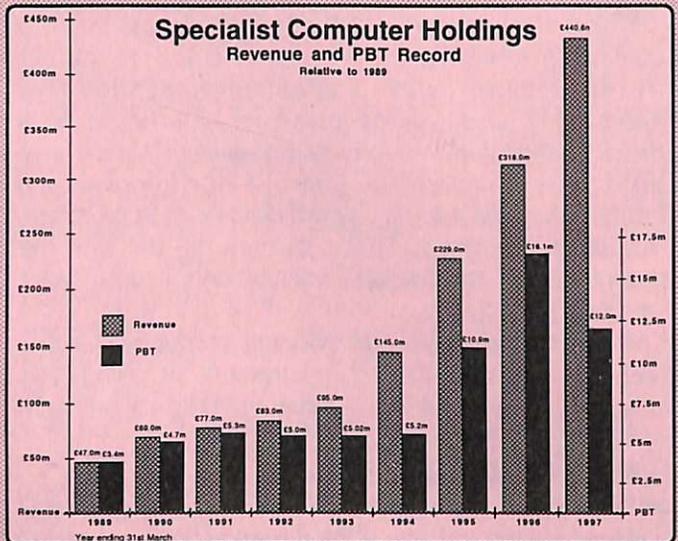
SCH is a private company and therefore these acquisitions were made with cash rather than shares.

Rigby tells us that business in the current fiscal year is very strong with "new business wins alone representing an incremental £80m of business". Revenues of c£600m are expected.

Our reviews of SCH - and the letters we have received from Rigby - over the years make interesting reading. Rigby's early criticism of us was that we placed too much emphasis on his wealth. (For the record, his dividend was halved to £2m this year although remuneration (incl. pension) increased by 60% to £571K). For our part we have never much liked the **Byte** retail operation. We think that SCH should have focused on the corporate sector and developed its services revenues. Two years ago Rigby told us that he "could easily have pulled out/sold out/given up (on Byte) but we are **made of sterner stuff than that**. I believe in the fullness of time that the channel we have built and the style in which we have built it will become an acknowledged standard. We certainly intend to invest heavily in this". And so he has. But Rigby admits that "we are finding the retail market difficult in common with other retailers and vendors. Nonetheless we have pushed

ahead with the growth in Byte and expect that this long term investment will come good for SCH in the long run". Byte's revenues increased by 60% to £83.7m but produced a profit of just £130K.

**The rest of the SCH really powered ahead.** SCC, the direct PC seller + value added service provider, produced the bulk of the profits although, at £9.3m, this was 11% lower than last year. The distribution arm - **ETC** - seems to have been the real star boosting revenue by 50% to £150m and producing a quite superb £5.2m PBT. **SCS**, largely bureau based payroll, produced profits of £391K, and the highest margin in the group.

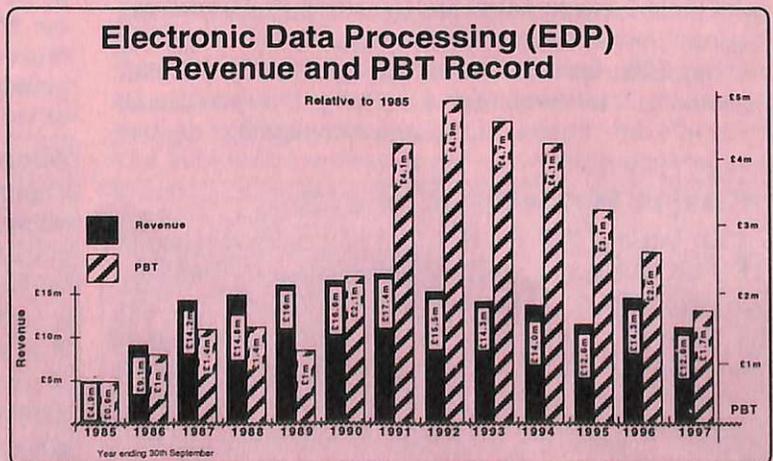


To be honest, this kind of group performance in today's market conditions is excellent. As a private company, Rigby has invested for the long term and has never been afraid of taking risks. But if SCH had been on the Stock Market we dread to think how the knee jerkers in the City would have reacted to these results. As Rigby says there really are "few downsides to being a private company!"

### EDP puts the blame elsewhere but...

**Electronic Data Processing** is now mainly a supplier of turnkey solutions to wholesalers and distributors. Their main products are MERCHANT and CHARISMA. They, like others have done in the past, are finding the transition from mainly hardware oriented to services rather difficult - especially as they have been trying now for about five years. The results for the year to 30th Sep. 97 were disappointing with revenue down 12% at £12.6m. PBT slumped from £2.5m to £1.7m and EPS declined 32%. However Chairman Michael Heller said "our overall margins for the year at 14% continued to be at an attractive level". He failed to point out that margins were approaching 33% in 1993!

Now for the excuses. Heller went on to say that "the reduction in profits and sales reflects the continuing compression in selling prices, albeit at a slower rate, in hardware maintenance revenues". MD Richard Jowitt commented. "The economic climate has remained tough". He went on to put more of the blame onto Microsoft who "disappointed... by announcing in Mar. 97 over a year's delay in the delivery of the next version of NT". According to some reports, Jowitt is not just cross, he's "hopping mad". "First Microsoft said it would be ready in Jun. 97, then it was delayed until Mar. 98 and now they say it's the back end of 1998". Of course both Heller and Jowitt are promising better things in 1997/98 and are confident that 1998 "will be a productive year as a whole". But we've heard all this before - on several occasions.



**Comment.** EDP is another "wasted opportunity" company - just look at the continuing decline in their profit margins. Back in 1993, EDP was a wonder stock with the share price hitting a high of 230p. As at the end of December, they languish on 55p - that's a drop of 21% in 1997 alone. They have taken some five years to try to reduce their dependence on hardware. Any excuses they come up with now are rather threadbare. It's all very well continually blaming others but if senior management can't change with the times, then perhaps the management itself should be changed.

**Quoted Companies - Results Service**

Note: Shaded = Results announced this month.

Admiral plc					Division Group plc				
HEV	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparison	HEV	Interim - Apr 96	Final - Oct 96	Interim - Apr 96	Comparison
	£ 43,009,000	£ 90,819,000	£ 54,118,000	+25.8%		£ 3,034,000	£ 4,900,000	£ 2,387,000	+21.3%
PBT	£ 5,180,000	£ 11,243,000	£ 7,200,000	+39.0%	PBT	-£ 2,283,000	-£ 1,678,000	-£ 956,000	Loss both
EPS	5.50p	11.60p	7.40p	+34.5%	EPS	-5.20p	-3.80p	-2.20p	Loss both
AFA Systems plc					Druid Group plc				
	Final - Dec 95 (5 mos)		Final - Dec 96	Comparison		Final - Jun 96		Final - Jun 97	Comparison
HEV	£ 0		£ 364,000	n/a	HEV	£ 2,013,000		£ 22,066,000	+83.7%
PBT	-£ 121,000		-£ 913,000	Loss both	PBT	£ 3,011,000		£ 5,004,000	+66.2%
EPS	-1.62p		-10.50p	Loss both	EPS	7.41p		13.94p	+88.1%
AIT Group plc					Eidos plc				
	Interim - Sep 96	Final - Mar 97	Interim - Sep 97	Comparison		Interim - Sep 96	Final - Mar 97	Interim - Sep 97	Comparison
HEV	£ 5,063,000	£ 10,675,000	£ 6,184,000	+22.1%	HEV	£ 20,492,000	£ 75,531,000	£ 21,817,000	+6.5%
PBT	£ 697,000	£ 1,546,000	£ 958,000	+37.4%	PBT	-£ 12,497,000	£ 7,626,000	-£ 18,331,000	Loss both
EPS	2.42p	5.68p	3.33p	+37.6%	EPS	-100.70p	44.40p	-70.80p	Loss both
Anite Group plc					Electronic Data Processing plc				
	Interim - Oct 96	Final - Apr 97	Interim - Oct 97	Comparison		Final - Sep 96	Final - Sep 96	Final - Sep 96	Comparison
HEV	£ 103,593,000	£ 193,399,000	£ 78,948,000	-23.7%	HEV	£ 14,287,000		£ 12,585,000	-11.9%
PBT	-£ 63,454,000	-£ 50,377,000	-£ 526,000	Loss both	PBT	£ 2,519,000		£ 1,741,000	-30.9%
EPS	-27.40p	-21.20p	0.00p	n/a	EPS	6.64p		4.50p	-32.2%
Aran plc					F.I. Group plc				
			Final - Mar 97	Comparison		Final - Apr 96		Final - Apr 97	Comparison
HEV			£ 2,600,000	#DIV/0!	HEV	£ 78,824,000		£ 98,800,000	+25.3%
PBT			-£ 400,000	Profit to loss	PBT	£ 3,763,000		£ 6,575,000	+74.7%
EPS			n/a	Profit to loss	EPS	7.70p		14.20p	+84.4%
Azlan Group plc					Flomerics Group plc				
	Interim - Sep 96	Final - Mar 97	Interim - Sep 97	Comparison		Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparison
HEV	£ 126,464,000	£ 292,900,000	£ 140,990,000	+11.5%	HEV	£ 2,146,559	£ 5,332,409	£ 2,335,584	+8.8%
PBT	£ 6,034,000	-£ 14,100,000	-£ 7,897,000	Profit to loss	PBT	-£ 154,643	£ 477,885	-£ 416,188	Loss both
EPS	15.00p	-44.30p	-23.10p	Profit to loss	EPS	n/a	12.30p	n/a	n/a
Cadcentre Group plc					Gresham Computing plc				
	Interim - Sep 96	Final - Mar 97	Interim - Sep 97	Comparison		Interim - Apr 96	Final - Oct 96	Interim - Apr 97	Comparison
HEV	£ 7,795,000	£ 17,339,000	£ 8,249,000	+5.8%	HEV	£ 4,579,000	£ 9,271,000	£ 4,503,000	-1.7%
PBT	£ 204,000	£ 1,777,000	£ 841,000	+312.3%	PBT	£ 708,000	£ 1,682,000	£ 487,000	-31.2%
EPS	-0.05p	7.13p	3.32p	Loss to profit	EPS	1.32p	3.15p	0.88p	-33.3%
Capita Group plc					Harvey Nash Group plc				
	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparison		Interim - Jul 96	Final - Dec 96	Interim - Jul 97	Comparison
HEV	£ 50,067,000	£ 111,869,000	£ 79,067,000	+57.9%	HEV	£ 16,403,000	£ 36,321,000	£ 23,767,000	+44.9%
PBT	£ 4,588,000	£ 12,292,000	£ 7,062,000	+53.9%	PBT	£ 1,788,000	£ 797,000	£ 2,111,000	+18.1%
EPS	1.83p	4.77p	2.49p	+36.1%	EPS	4.43p	1.80p	5.26p	+18.7%
Cedardata plc					Highams Systems Services Group plc				
	Final - Mar 96		Final - Mar 97	Comparison		Interim - Sep 96	Final - Mar 97	Interim - Sep 97	Comparison
HEV	£ 12,071,000		£ 10,363,000	-14.1%	HEV	£ 7,359,000	£ 16,394,589	£ 11,318,000	+53.8%
PBT	£ 4,384,000		£ 1,589,000	-63.8%	PBT	£ 388,000	£ 878,707	£ 647,000	+66.8%
EPS	9.50p		3.60p	-62.1%	EPS	3.30p	7.20p	4.90p	+48.6%
CFS Group plc					ilion group plc				
	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparison		Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparison
HEV	£ 1,751,000	£ 4,569,000	£ 3,702,000	+111.4%	HEV	£ 65,164,000	£ 146,875,000	£ 88,389,000	+35.6%
PBT	£ 26,000	£ 552,000	£ 252,000	+869.2%	PBT	£ 2,707,000	£ 6,009,000	£ 4,030,000	+48.9%
EPS	1.60p	6.40p	2.50p	+56.3%	EPS	7.80p	17.20p	11.00p	+41.0%
Chemical Design Holdings plc					Intelligent Environments Group plc				
	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparison		Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparison
HEV	£ 634,000	£ 1,866,000	£ 1,079,000	+70.2%	HEV	£ 2,028,000	£ 3,475,554	£ 2,074,000	+2.3%
PBT	-£ 161,000	-£ 165,000	-£ 79,000	Loss both	PBT	£ 35,000	-£ 1,379,256	-£ 2,046,000	Profit to loss
EPS	-2.58p	-2.93p	-1.21p	Loss both	EPS	0.20p	-7.10p	-9.20p	Profit to loss
Clinical Computing plc					IS Solutions plc				
	Final - Dec 95		Final - Dec 96	Comparison		Final - Dec 95		Final - Dec 96	Comparison
HEV	£ 2,167,131		£ 1,979,890	-8.5%	HEV	£ 7,627,038		£ 7,571,000	+0.8%
PBT	-£ 714,879		-£ 2,079,530	Loss both	PBT	£ 38,084		£ 219,000	+475.0%
EPS	-4.40p		-12.30p	Loss both	EPS	n/a		n/a	n/a
CMG plc					JBA Holdings plc				
	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparison		Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparison
HEV	£ 116,616,000	£ 245,159,000	£ 140,704,000	+20.7%	HEV	£ 68,039,000	£ 161,810,000	£ 88,102,000	+33.4%
PBT	£ 11,340,000	£ 27,522,000	£ 15,117,000	+33.3%	PBT	-£ 2,421,000	£ 11,259,000	-£ 1,297,000	Loss both
EPS	11.40p	27.40p	14.90p	+30.7%	EPS	-4.03p	18.26p	-2.56p	Loss both
Coda Group plc					Kalamazoo Computer Group plc				
	Interim - Apr 96	Final - Oct 96	Interim - Apr 97	Comparison		Final - Mar 96		Final - Mar 97	Comparison
HEV	£ 15,264,000	£ 33,889,000	£ 19,962,000	+30.8%	HEV	£ 66,665,000		£ 77,776,000	+16.7%
PBT	-£ 3,688,000	-£ 4,899,000	£ 60,000	Loss to profit	PBT	£ 5,882,000		£ 3,882,000	-34.0%
EPS	-13.90p	-18.80p	0.20p	Loss to profit	EPS	10.20p		6.80p	-33.3%
Comino plc					Kewill Systems plc				
	Interim - Sep 96	Final - Mar 97	Interim - Sep 97	Comparison		Interim - Sep 96	Final - Mar 97	Interim - Sep 97	Comparison
HEV	£ 3,268,000	£ 7,792,000	£ 5,087,000	+66.1%	HEV	£ 19,830,000	£ 41,348,000	£ 19,334,000	+2.5%
PBT	£ 594,000	£ 1,420,000	£ 830,000	+39.7%	PBT	£ 3,243,000	£ 7,425,000	£ 3,580,000	+10.4%
EPS	4.25p	9.95p	4.89p	+15.1%	EPS	17.50p	40.50p	18.80p	+7.4%
Compel Group plc					Logica plc				
	Final - Jun 96		Final - Jun 97	Comparison		Final - Jun 96		Final - Jun 97	Comparison
HEV	£ 85,620,000		£ 111,792,000	+30.6%	HEV	£ 284,810,000		£ 338,465,000	+18.8%
PBT	£ 3,235,000		£ 5,057,000	+56.3%	PBT	£ 24,710,000		£ 28,148,000	+13.9%
EPS	12.50p		16.20p	+29.6%	EPS	27.10p		31.00p	+14.4%
CRT Group plc					London Bridge Software Holdings plc				
	Interim - Oct 96	Final - Apr 97	Interim - Oct 97	Comparison		Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparison
HEV	£ 55,497,000	£ 134,334,000	£ 119,326,000	+115.0%	HEV	£ 2,013,000	£ 6,306,376	£ 4,095,000	+103.4%
PBT	£ 3,367,000	£ 12,056,000	£ 6,574,000	+95.2%	PBT	£ 501,000	£ 2,499,071	£ 953,000	+90.2%
EPS	2.40p	6.86p	3.07p	+27.9%	EPS	1.67p	8.26p	2.66p	+59.3%
DCS Group plc					Lorien plc				
	Interim - Jun 96	Final (6 mos) Dec 96	Interim - Jun 97	Comparison		Interim - May 96	Final - Nov 96	Interim - May 97	Comparison
HEV	£ 16,147,000	£ 19,095,000	£ 23,742,000	+47.0%	HEV	£ 17,997,000	£ 45,706,000	£ 52,884,000	+193.7%
PBT	£ 1,162,000	£ 1,870,000	£ 2,036,000	+75.2%	PBT	£ 600,000	£ 1,481,000	£ 889,000	+48.2%
EPS	4.07p	6.21p	6.48p	+59.2%	EPS	7.10p	11.80p	1.15p	-83.8%
DRS Data & Research Services plc					Lynx Holdings plc				
	Interim - Jul 96	Final - Dec 96	Interim - Jul 97	Comparison		Final - Sep 96		Final - Sep 97	Comparison
HEV	£ 2,918,000	£ 4,822,000	£ 4,268,000	+46.3%	HEV	£ 67,644,000		£ 120,752,000	+77.8%
PBT	-£ 363,000	-£ 1,734,000	£ 43,000	Loss to profit	PBT	£ 6,953,000		£ 9,805,000	+41.0%
EPS	-0.72p	-3.43p	0.10p	Loss to profit	EPS	5.36p		6.83p	+27.4%
Delcam plc					MMT Computing plc				
	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparison		Final - Aug 96		Final - Aug 97	Comparison
HEV	£ 6,331,811	£ 13,579,346	£ 7,065,514	+11.6%	HEV	£ 16,861,201		£ 24,639,075	+46.1%
PBT	£ 297,227	£ 1,036,812	£ 372,410	+25.3%	PBT	£ 4,531,686		£ 5,554,611	+22.6%
EPS	3.40p	11.10p	4.40p	+29.4%	EPS	24.60p		29.80p	+21.1%
Delphi Group plc					M-R Group plc				
	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparison		Final - Jun 96		Final - Jun 97	Comparison
HEV	£ 100,174,000	£ 210,635,000	£ 133,413,000	+33.2%	HEV	£ 38,361,000		£ 39,430,000	+2.8%
PBT	£ 5,700,000	£ 12,302,000	£ 7,000,000	+22.8%	PBT	£ 4,810,000		£ 5,604,000	+16.5%
EPS	15.10p	33.05p	16.60p	+9.9%	EPS	5.70p		7.30p	+28.1%
Diagonal plc					MDIS Group plc				
	Interim - Jun 96	Final - Nov 96	Interim - Jun 97	Comparison		Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparison
HEV	£ 12,628,000	£ 28,326,000	£ 17,847,000	+41.4%	HEV	£ 60,540,000	£ 116,995,000	£ 54,377,000	+0.2%
PBT	£ 781,000	£ 2,007,000	£ 1,072,000	+37.3%	PBT	-£ 9,213,000	-£ 49,545,000	£ 3,910,000	Loss to profit
EPS	2.70p	7.10p	3.80p	+40.7%	EPS	-9.39p	-48.94p	3.82p	Loss to profit
Dialog Corporation plc					Macro 4 plc				
	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparison		Final - Jun 96		Final - Jun 97	Comparison
HEV	£ 9,584,000	£ 21,443,000	£ 14,037,000	+46.5%	HEV	£ 25,317,000		£ 23,448,000	-7.4%
PBT	-£ 3,284,000	-£ 7,034,000	£ 2,013,000	Loss to profit	PBT	£ 12,147,000		£ 10,300,000	-15.2%
EPS	-3.68p	-7.82p	0.88p	Loss to profit	EPS	37.50p		33.80p	-9.9%

**Quoted Companies - Results Service**

Note: Shaded = Results announced this month.

Micro Focus plc				Roife & Nolan plc					
REV	Interim - Jul 96	Final - Jan 97	Interim - Jul 97	Comparison	REV	Interim - Aug 96	Final - Feb 97	Interim - Aug 97	Comparison
PBT	£34,140,000	£73,089,000	£41,349,000	+21.1%	PBT	£6,630,000	£20,299,000	£9,692,000	+12.3%
EPS	-£9,463,000	£5,809,000	£5,171,000	Loss to profit	EPS	£1,107,000	£2,758,000	£569,000	Profit to loss
	-62.20p	-48.00p	22.70p	Loss to profit		5.57p	14.50p	-2.93p	Profit to loss
Microgen Holdings plc				Romtec plc					
REV	Interim - Apr 96	Final - Oct 96	Interim - Apr 97	Comparison	REV	Interim - Jul 96	Final - Jan 97	Interim - Jul 97	Comparison
PBT	£38,291,000	£73,391,000	£34,052,000	-11.1%	PBT	£1,990,000	£4,734,677	£2,491,000	+25.2%
EPS	£4,875,000	£8,783,000	£4,211,000	-13.6%	EPS	£128,000	£326,125	£130,000	+1.6%
	8.00p	15.10p	6.90p	-13.8%		1.70p	4.30p	1.90p	+11.8%
Microvitex plc				Royalblue Group plc					
REV	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparison	REV	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparison
PBT	£33,840,000	£85,176,000	£20,892,000	+38.3%	PBT	£5,383,000	£11,679,000	£8,892,000	+85.2%
EPS	£1,610,000	£461,000	£424,000	Profit to loss	EPS	£1,006,000	£2,016,000	£221,000	-78.0%
	1.40p	0.21p	0.10p	-92.9%		2.39p	4.66p	-0.35p	Profit to loss
Misys plc				Sage Group plc					
REV	Final - May 96	Final - May 97	Comparison	REV	Final - Sep 96	Final - Sep 97	Comparison		
PBT	£279,867,000	£325,470,000	+16.3%	PBT	£136,238,000	£152,089,000	+11.6%		
EPS	£50,437,000	£62,533,000	+24.0%	EPS	£30,053,000	£37,635,000	+25.2%		
	44.00p	53.90p	+22.5%		18.50p	23.43p	+26.6%		
Mondax plc				Sanderson Group plc					
REV	Final - Apr 96	Final - Apr 97	Comparison	REV	Final - Sep 96	Final - Sep 97	Comparison		
PBT	n/a	£56,609	n/a	PBT	£61,385,000	£67,143,000	+9.4%		
EPS	n/a	-£421,192	n/a	EPS	£6,201,000	£2,778,000	-55.2%		
	n/a	-10.50p	n/a		10.10p	4.70p	-53.5%		
Moorepay Group plc				SBS Group plc					
REV	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparison	REV	PF Final - Aug 96	PF Final - Aug 97	Comparison	
PBT	£2,717,246	£5,118,415	£2,731,803	+0.5%	PBT	£15,187,000	£18,981,000	+25.0%	
EPS	£851,417	£1,327,894	£886,148	+4.1%	EPS	£70,000	£728,000	+940.0%	
	5.37p	11.56p	5.69p	+6.0%		4.15p	8.60p	+107.2%	
MSB International plc				Science Systems (Holdings) plc					
REV	Interim - Jul 96	Final - Jan 97	Interim - Jul 97	Comparison	REV	Final - Dec 95	Final - Dec 96	Comparison	
PBT	£29,961,000	£89,755,000	£54,893,000	-83.2%	PBT	£12,355,133	£14,300,000	+15.7%	
EPS	£2,166,000	£5,431,000	£3,714,000	+71.5%	EPS	£1,443,739	£1,200,000	-16.9%	
	7.00p	17.60p	12.10p	+72.9%		n/a	n/a	n/a	
NSB Retail Systems plc				Sema Group plc					
REV	Final - Dec 95	Final - Dec 96	Comparison	REV	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparison	
PBT	£1,490,000	£2,161,000	+45.0%	PBT	£426,919,000	£926,965,000	£559,539,000	+31.1%	
EPS	£422,000	£296,000	-29.9%	EPS	£19,754,000	£50,019,000	£26,214,000	+32.7%	
	n/a	n/a	n/a		12.91p	30.94p	16.03p	+24.2%	
OmniMedia plc				Sherwood International plc					
REV	Final - Dec 95	Final - Dec 96	Comparison	REV	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparison	
PBT	£275,275	£1,003,861	+264.7%	PBT	£11,801,000	£24,828,000	£13,069,000	+10.7%	
EPS	-£1,684,980	-£2,314,967	Loss both	EPS	£705,000	£2,065,000	£1,025,000	+45.4%	
	-9.97p	-10.10p	Loss both		5.60p	19.20p	7.90p	+41.1%	
On Demand Information plc				Skillsgroup plc					
REV	Interim - Jan 96	Final - Jul 96	Interim - Jan 97	Comparison	REV	Interim - May 96	Final - Nov 96	Interim - May 97	Comparison
PBT	£5,677,000	£11,429,000	£5,601,000	-1.3%	PBT	£179,200,000	£344,337,000	£181,600,000	+1.3%
EPS	-£1,284,000	-£2,900,000	-£2,291,000	Loss both	EPS	£6,500,000	£14,277,000	£6,500,000	+0.0%
	-2.50p	-6.60p	-4.20p	Loss both		5.80p	12.70p	5.80p	+0.0%
Oxford Molecular plc				Spargo Consulting plc					
REV	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparison	REV	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparison
PBT	£4,350,000	£9,789,000	£6,188,000	+41.8%	PBT	£4,040,000	£7,853,000	£4,228,000	+4.7%
EPS	-£950,000	-£1,849,000	-£677,000	Loss both	EPS	£602,000	£1,204,000	£625,000	+3.8%
	-1.70p	-3.30p	-1.10p	Loss both		3.10p	6.17p	3.25p	+4.8%
Parity plc				Staffware plc					
REV	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparison	REV	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparison
PBT	£76,363,000	£162,091,000	£90,625,000	+18.7%	PBT	£4,044,061	£10,009,325	£7,701,192	+90.4%
EPS	£4,303,000	£10,060,000	£5,678,000	+32.0%	EPS	£159,812	£873,879	£549,023	+243.5%
	6.75p	15.81p	8.90p	+31.9%		0.40p	5.60p	3.30p	+725.0%
Pegasus Group plc				Superscape VR plc					
REV	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparison	REV	Final - Jul 96	Final - Jul 97	Comparison	
PBT	£3,729,000	£7,914,000	£5,567,000	+49.3%	PBT	£3,888,000	£3,106,000	-20.1%	
EPS	£511,000	£1,160,000	£810,000	+58.5%	EPS	-£2,873,000	-£5,961,000	Loss both	
	6.50p	15.40p	12.80p	+96.9%		-37.90p	-69.60p	Loss both	
PhoneLink plc				Systems Integrated Research plc					
REV	Interim - Sep 96	Final - Mar 97	Interim - Sep 97	Comparison	REV	Interim - Nov 95	Final - May 96	Interim - Nov 96	Comparison
PBT	£2,155,000	£4,316,000	£1,850,000	-14.2%	PBT	n/a	£1,246,000	£507,000	n/a
EPS	-£3,152,000	-£6,173,000	-£1,742,000	Loss both	EPS	n/a	-£642,000	-£1,194,000	n/a
	-8.70p	-12.90p	-3.60p	Loss both		n/a	-5.80p	-9.10p	n/a
Proteus International plc				Tetra plc					
REV	Interim - Sep 96	Final - Mar 97	Interim - Sep 97	Comparison	REV	Final - May 96	Final - May 97	Comparison	
PBT	£413,000	£573,000	£21,000	-94.9%	PBT	£19,088,000	£22,358,000	+17.1%	
EPS	-£1,820,000	-£3,824,000	-£1,931,000	Loss both	EPS	-£1,168,000	£2,096,000	Loss to profit	
	-3.67p	-7.31p	-3.49p	Loss both		-4.04p	6.10p	Loss to profit	
Quality Software Products Holdings plc				Total Systems plc					
REV	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparison	REV	Interim - Sep 96	Final - Mar 97	Interim - Sep 97	Comparison
PBT	£11,797,000	£25,360,189	£13,431,000	+13.9%	PBT	£1,477,822	£3,279,609	£2,017,128	+36.5%
EPS	-£1,117,000	£28,480	£180,000	Loss to profit	EPS	£185,697	£412,545	£476,206	+156.6%
	-8.60p	0.20p	1.40p	Loss to profit		1.33p	2.76p	3.19p	+139.8%
RM plc				Trace Computers plc					
REV	Final - Sep 96	Final - Sep 97	Comparison	REV	Final - May 96	Final - May 97	Comparison		
PBT	£95,032,000	£110,170,000	+11.2%	PBT	£20,534,553	£17,271,000	-15.9%		
EPS	£6,806,000	£8,018,000	+17.8%	EPS	-£5,135,296	£635,000	Loss to profit		
	25.10p	30.80p	+22.7%		-35.88p	3.35p	Loss to profit		
Radius plc				Triad Group plc					
REV	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparison	REV	Final - Mar 96	Final - Mar 97	Comparison	
PBT	£13,934,000	£27,267,000	£13,288,000	-4.6%	PBT	£11,680,000	£18,827,000	+61.2%	
EPS	£1,006,000	£1,591,000	£805,000	-20.0%	EPS	£2,131,000	£2,656,000	+24.6%	
	2.40p	4.05p	1.93p	-19.6%		7.09p	7.25p	+2.3%	
Rage Software plc				Vega Group plc					
REV	Final - Jun 96	Final - Jun 97	Comparison	REV	Final - Apr 96	Final - Apr 97	Comparison		
PBT	£9,504,000	£6,758,000	-28.9%	PBT	£16,032,000	£17,977,000	+12.1%		
EPS	-£3,224,000	-£15,430,000	Loss both	EPS	£3,452,000	£3,261,000	-5.5%		
	-1.34p	-6.30p	Loss both		16.16p	13.79p	-14.7%		
Real Time Control plc				Workplace Technologies plc					
REV	Interim - Sep 96	Final - Mar 97	Interim - Sep 97	Comparison	REV	Final - Dec 95	Interim - Jun 97	Final - Dec 96	Comparison
PBT	£6,314,000	£12,585,000	£7,181,000	+13.7%	PBT	£38,848,000	£30,752,000	£52,086,000	+34.1%
EPS	£1,156,000	£2,547,000	£1,477,000	+27.8%	EPS	£488,000	£986,000	£1,972,000	loss to profit
	11.00p	25.50p	14.50p	+31.8%		-3.43p	1.17p	-0.36p	loss both
Rebus Group plc				Xavier Computer Group plc					
REV	Interim - Sep 96	Final - Mar 97	Interim - Sep 97	Comparison	REV	Interim - Sep 96	Final - Mar 97	Interim - Sep 97	Comparison
PBT	£30,255,000	£66,436,000	£40,676,000	+34.4%	PBT	£3,740,000	£8,981,457	£7,805,000	+108.7%
EPS	£2,313,000	£5,808,000	£2,941,000	+27.2%	EPS	£260,000	£582,000	£501,000	+92.7%
	1.72p	4.61p	1.96p	+14.0%		0.33p	0.82p	0.38p	+15.2%
Recognition Systems Group plc				Zergo Holdings plc					
REV	Final - Sep 96	Final - Sep 97	Comparison	REV	Interim - Oct 96	Final - Apr 97	Interim - Oct 97	Comparison	
PBT	£324,000	£773,000	+138.6%	PBT	£4,670,000	£10,398,871	£5,371,000	+15.0%	
EPS	-£1,286,000	-£2,255,000	Loss both	EPS	£185,000	£725,736	£78,000	-57.8%	
	-5.50p	-8.30p	Loss both		0.50p	3.40p	-0.30p	Profit to loss	
Riva Group plc				Lynx has acquired Globelle (network products and services) for £3.07m. Globelle had revenues of £13.7m and PBT of £519K in the 17 months to 31st May 97.					
REV	Interim - Jun 96	Final - Dec 96	Interim - Jun 97					Comparison	
PBT	£32,348,000	£84,438,000	£32,661,000					-1.0%	
EPS	-£905,000	£518,000	£190,000					Loss to profit	
	-3.00p	0.90p	0.30p	Loss to profit					

## UK M&A

IBM is hoping to acquire the Dutch state owned **Roccade Informatica Groep** at a price estimated to be around \$600m. Dutch government approval is required, and, if IBM is successful, the merger would overtake EDS as #1 in the Netherlands.

US **Cadence Design Systems** is poised to set up a software tool design factory in Scotland. This could lead to some 1,800 new jobs over the next five years.

**Eidos** (computer games) has acquired the European and US rights to publish best selling Final Fantasy V11 for the PC market from **Square Co. Ltd.**

**Network Associates** in the UK has acquired **Pretty Good Privacy**. Network is the newly named company resulting from the recent merger of McAfee Associates and Network General. US **CACI International** has acquired UK-based database marketing software company **AnaData** for \$2m. AnaData has current revenues of \$2.8m.

**Speed 6388**, a subsidiary of the **Wilmington Group**, has purchased the business of **Abacus Software** for £300K. Abacus had revenues of £925K and a PBT of £69K in 1996. Speed is in fact 25% owned by the management of Abacus and Wilmington has a put and call arrangement to acquire this 25% before 2006 at a max. of a further £2m.

US based **ExecuTrain** has boosted its UK presence by buying the Educational Division of **Unisys**. No consideration has officially been disclosed but it is believed to be around £1m.

**Lorier** has acquired **Chatsfield Technologies** (systems integration and software development solutions) for £750K. In the year to Apr. 97, Chatsfield had revenues of £703K and made a profit of £35K although the eight month figures to Nov. 97 are better with an OP of £75K on revenues of £650K.

VCs **Granville** has acquired a 31% stake in French IT services company - **SII**.

**Skillsgroup** has continued its policy of moving out of low margin distribution into higher value IT services by selling its Swedish PC business **Nordic Datadistribution AB** to **Arle AB** for £10.2m net + repayment of £3.1m intercompany debt. The operation had rev. of £51.7m and made PBT of £2.2m in the year to 30th Nov. 96.

**CMG** has acquired **Ernst & Young's** "expatriate" payroll processing business for "£1-£2m - max. £5m" depending on revenue in the next 5 years. Current turnover £1.25m.

**Reuters** has acquired a 67% stake (with the option to buy the rest in 2001) in French **Marvin SA** ("real time calculation software for use by financial professionals") for "<£10m".

### **Biggest ever acquisition for FI Group**

**FI Group** has acquired Indian IT specialist IIS Infotech for £22m + the UK operation of IIS for a further £200K. FI will also make payments not exceeding £2.7m over the next 18 months to certain IIS directors. IIS made a PBT of £1.5m in the year to 31st Mar. 97 on revenues of £8.7m. IIS is involved in AM (35%), Y2000 (30%), provision of IT staff (18%) and IT training (15%). They employ some 633 staff, mainly in India, but 90 are currently on secondment in the UK. However some 60% of revenues are generated from UK and Irish clients and about 16% in the US. The rest, mainly training, comes from India.

"The directors expect the acquisition to be earnings enhancing". The cost has been met from a 1-for-12 rights issue at 640p which raised £14.6m. Valid acceptances for the rights were received for 96% of the new shares. Hardly surprising as FI Group ended the year on 933p - up 26% in the month. The share price rise was largely caused by a bullish trading statement estimating PBT for the first six months of FY98 to be up a massive 54% at £4.3m with a near doubling in the forward order book to £136m. FI was also the only IT Services company to be tipped for 1998 by the Sunday papers.

FI was a new issue in Mar. 96 at just 235p. As, just after flotation, the workforce and related trusts still owned c46% of the company, they should all have had a very merry Christmas! Well deserved in our opinion.

**Comment.** We admit to being a fan of FI. This acquisition does matter a lot to FI and seems absolutely right. It will give them unrivalled access to scarce IT staff in the run up to 2000. It will also help offset rising staff costs as well as giving them a foothold in the US for the first time.

### **Select Appointments soon to become Top Ten UK-owned SCSl Company.....**

**Select Appointments** is the UK's largest staff and recruitment agency with revenues of £370m and PBT of £19.9m in the year ending 31st Dec. 97. About 50% of revenues come from the US and 44% from the UK. **Select has had a busy month.** Select Appointments is quoted in London, with market cap. of £560m. On 3rd Dec. 97 they completed their NASDAQ IPO at \$19, but they have since fallen to end Dec. on \$18.25. (Please don't confuse them with the other UK NASDAQer - Select Software Tools).

Then they acquired 75% of **MVM Recruitment** for an initial £1.1m (existing management have retained the other 25%) and Select has "entered into a put and call option whereby they may purchase the remaining 25%... for a maximum consideration of £4m". MVM had revenues of £3.4m and a PBT of (just) £55K in the year to 31st Dec. 96.

Later in the month Select acquired **Abraxus** for £27.8m in shares. Abraxus is an IT staff agency/recruitment consultancy in the UK, US and Australia and has more than 800 contractors on assignment. They had revenues of nearly £51m (some £45m from the UK) in the year to 30th Sep. 97 and made a PBT of £1.8m.

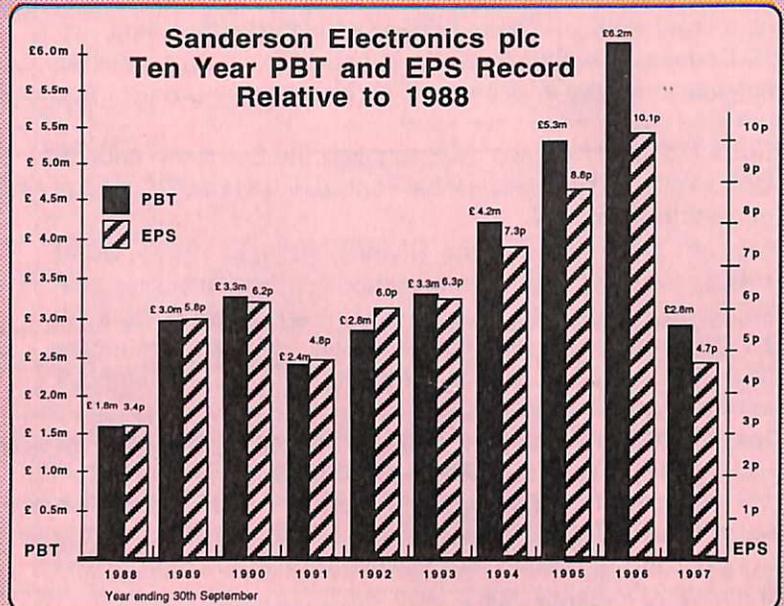
We have not really covered Select before. But after these acquisitions (and others such as US DB Concepts and Indian Client Server Software in 1996 and US Aztec Consulting in Oct. 97) c30% of Select's revenues in the nine months to 30th Sep. 97 comes from IT. However until these recent UK acquisitions, most of this came from the US and Japan. The latest acquisitions boost ongoing IT-related staffing to 40% of the forecast £680m revenues for FY98. That's over £250m and would make Select one of the Top Ten largest UK-owned SCSl companies. *Obviously we will have to include them in some manner in the future!*

**Footnote** - Showing how difficult this all becomes, Select this month also bought Reliance, which supplies residential care workers, and Kelter (industrial workers).

## Sanderson Group - final results as expected

Last month Sanderson Group (they have slipped in a quick change of name from Sanderson Electronics at the end on November) issued a profits warning and so the results for the year ended 30th Sep. 97 come as no surprise. Revenue went up just 9% at £67m, PBT fell 55% to £2.8m with EPS down 54%. Even £1.8m of the revenue increase was due to acquisitions, so organic growth was an even lower 6%. Exceptional £3.9m costs were provided to cover the abandonment of two product developments. The UK "performed well" with profits (before exceptionals) up 28% at £6.2m. As pre-warned, Sanderson Pacific "performed disappointingly" with profits down from £1.7m to £1.1m despite "very good performances" in New Zealand and Australia. We will not mention again Sanderson's myriad activities and sponsorships - just reread last month's System House if you want our views. Chairman Paul Thompson commented "The quality of our software products in the open systems arena... provides us with considerable business opportunities to expand internationally... Sanderson is well placed to make progress in the current year". Let's hope so - the long suffering shareholders deserve it.

After last month's large fall, the shares have recovered somewhat with a 16% rise to 74p - but that's still a fall of 51% in the year.



## Xavier - well up at interim stage

Xavier Computer Group provides software for the distribution industry and was a new float on AIM in Jul. 96 at 10p. They have grown mainly by a series of acquisitions including Bleasdale, Xavier Computer Systems, Xavier Southern and CSL in 1996, and Xavier Midlands in Aug. 97. This makes comparisons rather meaningless. For the record in the six months to 30th Sep. 97, revenue more than doubled to £7.8m, PBT was up 93% at £501K with EPS only up 15%. New Chairman Nicholas Bounds concludes "we look forward to an encouraging set of results for the full year".

Since the AIM launch, the shares have generally been trading below the launch price. They ended the year on just 8p - down 30% on the year.

## Another new SCSI float?

We must admit that even our massive database did not include Bond International Software - a computer programming company specialising in the recruitment and tourism industry. But after reading that they are seeking admission to the AIM market soon, which will value them at c£10m, we have now rectified this.

The latest results filed for the 13 months ending 31st Dec. 96 show revenue of £4.3m, a PBT of £220K and 63 staff. We will be adding them to our Index shortly if the AIM float succeeds.

But what of Aran and JSB? For so long heralded as new UK IPOs. Still no new definite dates yet.

## Highams does well at the interim stage

AIM quoted Highams Systems Services specialises in the provision of consultants and development resources to the financial services sector.

For the six months ending 30th Sep. 97, revenue rose 54% at £11.3m, PBT increased 67% to £647K with EPS up 49%. The IT agency/recruitment activity is by far the largest - accounting for £10m of revenue and £1.1m operating profit. Chairman Nigel Graw said "the pilot project of introducing contract recruitment services in the Netherlands has succeeded beyond our targets, justifying a more permanent future commitment". The remaining parts of Highams' business are relatively small. Business Solutions had revenues of £533K and made a small profit of just £12K. Financial Systems revenue was £764K but made a larger profit of £305K.

Highams shares ended the year on 155p - that's a 115% premium on the AIM flotation price of 72p just one year ago.

## CRT continues to impress

Really excellent results from CRT - the UK's #1 staff agency with an estimated annual UK IT agency revenue of c£130m. In their interims for the six months to 31st Oct. 97, revenue rose 115% to £119.3m, PBT was up 95% at £6.6m with EPS up a lower 28%. And these figures are after £400K exceptional integration costs of acquisitions.

Of course much of the revenue increase was from acquisitions but, even so, underlying growth was impressive at around 25%.

The number of contract and temporary IT staff on assignment increased to 2,500 and, if you add permanent staff, this increases to around 3,250. CEO Karl Chapman has told us that fee rates are up an average of 11%. We are a little surprised that the rise is this low bearing in mind what we have heard from others in this sector. Their newly launched CareerIT programme has gone off like a rocket with an amazing 7,000 "non-IT" applicants in less than a month - and the calibre is apparently much higher than anticipated as over 40% are graduates.

As CRT's results are heavily weighted towards H2 we can only agree with Chapman's comments that the company is "commercially and financially well positioned to generate growth". The market liked the news with the shares rising (again) by 4% to end the year on 355p - that's a 42% rise in 1997. Current predictions are for a PBT in excess of £20m - a heady 37 prospective P/E.

# SCSI Index breaks 3000

The introduction of the FTSE International IT Index (see p1) gave a major boost to SCSI shares. Indeed the top five largest companies saw their shares rise by 12.2% in Dec. 97 which contributed towards a 8% rise in our SCSI Index to over 3000 for the first time. **Phonelink** led with a recovery of 65% - but that's still a third of their new issue price. 1997 newcomer **Royalblue** managed a 54% rise - that's a 100% premium to the IPO price - as the call centre systems market takes off. But other recent newcomer - **Delcam** - was another AIM flop; now at a 37% discount to the IPO price.

31-Dec-97	SCSI Index	3035.03		
	FTSE 100	5135.50		
	BDO AIM	1399.98		
	FTSE SmallCap	2313.25		
SCSI Index - 1000 on 15th April 1998				
Changes in Indices	SCSI Index	FTSE 100	BDO AIM Index	FTSE Small Cap
Month (30/11/97 - 31/12/97)	+8.24%	+6.25%	+1.11%	+1.81%
From 15th Apr 98	+203.50%	+150.07%		
From 1st Jan 90	+229.86%	+117.42%		
From 1st Jan 91	+328.76%	+137.71%		
From 1st Jan 92	+190.47%	+105.99%		
From 1st Jan 93	+90.45%	+80.41%		+66.74%
From 1st Jan 94	+81.78%	+50.23%		+23.70%
From 1st Jan 95	+102.45%	+67.53%		+32.46%
From 1st Jan 96	+34.38%	+39.20%		+19.14%
From 1st Jan 97	+13.35%	+24.69%	-1.60%	+5.96%

## System House SCSI Share Prices and Capitalisation

	Share Price 31/12/97 (£p)	Capitalisation 31/12/97 (£m)	Historic P/E	PSR Ratio Cap./Rev.	SCSI Index 31/12/97	Share price % move since 30/11/97	Share price % move in 1997	Capitalisation move (£m) since 30/11/97	Capitalisation move (£m) in 1997
Admiral	£7.19	£454.15m	54.1	5.00	25969.11	17.59%	96.85%	£67.95m	£224.25m
AFA Systems	£1.08	£12.90m	Loss	35.83	895.83	-4.44%	-22.94%	-£0.60m	-£1.00m
AIT	£1.71	£34.58m	27.3	3.24	1136.67	-3.94%	13.67%	-£1.42m	£4.18m
Anite	£0.47	£111.65m	Loss	0.58	274.85	14.63%	28.77%	£14.25m	£25.15m
Azlan	£0.56	£59.14m	Loss	0.20	241.57	-3.37%	-90.21%	-£2.06m	-£141.76m
Cadcentre	£3.25	£53.93m	32.3	3.11	1625.00	20.37%	27.20%	£9.13m	£11.43m
Capita	£3.69	£706.68m	68.1	6.32	33243.24	12.67%	127.78%	£79.48m	£422.58m
Cedardata	£1.05	£33.29m	57.7	3.21	1000.00	-3.23%	-58.00%	-£1.11m	-£45.91m
CFS	£1.05	£7.73m	14.9	1.69	1161.11	18.08%	25.15%	£1.18m	£1.55m
Chemical Design	£1.00	£6.60m	14.8	2.59	909.09	-4.76%	-31.03%	-£0.33m	-£2.84m
Clinical Computing	£0.43	£10.67m	Loss	5.39	342.74	34.92%	41.67%	£2.76m	£3.14m
CMG	£15.25	£977.49m	49.5	3.99	5258.62	14.45%	81.55%	£123.39m	£439.09m
Coda	£1.50	£41.81m	Loss	1.23	638.30	-3.23%	39.53%	-£1.39m	£11.91m
Compel	£3.05	£87.23m	18.6	0.78	2440.00	1.67%	72.80%	£1.43m	£60.33m
Comino	£1.23	£14.80m	10.4	1.90	942.31	-3.92%	-5.77%	-£0.60m	£0.45m
CRT Group	£3.55	£508.38m	49.4	3.78	3944.44	3.50%	42.00%	£17.18m	£167.18m
DCS Group	£3.23	£70.96m	25.4	2.33	5375.00	24.28%	19.44%	£13.86m	£19.16m
Delcam	£1.65	£9.70m	13.6	0.71	634.62	-29.18%	-36.54%	-£4.00m	-£5.70m
Delphi Group	£6.70	£194.30m	18.4	0.92	2757.20	1.52%	-8.53%	£2.90m	-£16.70m
Diagonal	£7.03	£130.00m	69.5	4.59	2554.55	34.58%	155.45%	£33.40m	£79.10m
Dialog (was MAID)	£1.50	£224.83m	Loss	10.49	1363.64	-15.25%	-25.56%	-£40.47m	£40.03m
Division Group	£0.39	£16.90m	Loss	3.45	962.50	0.00%	-30.00%	£0.00m	-£7.20m
DRS Data & Research	£0.22	£7.53m	Loss	1.56	200.00	-6.38%	-10.20%	-£0.51m	-£0.85m
Druid	£6.63	£151.72m	47.7	6.88	2409.09	5.58%	94.85%	£8.02m	£73.92m
EDP	£0.55	£14.24m	11.8	1.13	1668.71	-1.80%	-21.01%	-£0.26m	-£3.86m
Eidos	£6.70	£113.24m	30.4	1.50	6700.00	2.29%	-7.27%	£2.54m	£17.14m
FI Group	£9.33	£276.92m	66.4	2.80	3968.09	25.76%	64.03%	£56.72m	£108.12m
Flomerics	£1.20	£3.12m	58.8	0.59	923.08	-7.69%	-44.19%	-£0.26m	-£2.39m
Gresham Computing	£0.23	£7.52m	8.5	0.81	247.31	-14.81%	-56.19%	-£1.31m	-£9.68m
Harvey Nash	£3.37	£93.95m	187.2	2.59	1925.71	7.50%	92.57%	£6.55m	£45.15m
Highams Systems	£1.55	£13.82m	17.6	0.84	2152.78	29.17%	13.55%	£3.12m	£1.72m
Ilion (was Persona)	£1.28	£32.02m	6.3	0.22	796.88	-18.53%	-58.74%	-£7.28m	-£44.58m
Intelligent Environments	£0.25	£5.76m	Loss	1.66	260.64	19.51%	-62.31%	£0.94m	-£8.74m
I S Solutions	£1.46	£6.98m	49.2	0.91	1085.82	-1.36%	8.58%	-£0.10m	£0.59m
JBA Holdings	£10.29	£376.45m	51.0	2.33	6428.13	4.95%	94.06%	£17.75m	£195.75m
Kalamazoo	£0.70	£29.80m	10.1	0.38	1985.71	0.00%	-35.35%	£0.00m	-£1.20m
Kewill	£5.70	£73.55m	13.7	1.78	2252.96	0.62%	8.88%	£0.45m	£7.05m
Logica	£11.58	£846.10m	37.1	2.50	3171.23	15.46%	26.02%	£113.30m	£262.90m
London Bridge	£5.09	£147.49m	51.0	23.41	2542.50	42.64%	154.25%	£44.09m	£100.49m
Lorien	£5.05	£86.38m	74.8	1.89	5050.00	23.93%	50.30%	£16.68m	£48.08m
Lynx Holdings	£1.21	£124.27m	17.7	1.03	3012.50	21.72%	39.31%	£22.17m	£39.57m
M-R Group	£1.13	£62.76m	15.3	1.59	446.43	0.90%	32.35%	£0.56m	£15.36m
Macro 4	£3.40	£67.00m	10.1	2.86	1370.97	0.00%	-30.61%	£0.00m	-£29.50m
MDIS	£0.47	£98.51m	Loss	0.84	180.77	9.94%	42.42%	£8.91m	£63.91m
Micro Focus	£23.93	£370.88m	47.8	5.07	11557.97	20.38%	146.65%	£62.78m	£224.38m
Microgen	£0.70	£27.72m	5.0	0.38	299.15	-6.67%	-53.33%	-£1.98m	-£31.48m
Microvitac	£0.18	£13.76m	83.3	0.21	426.83	48.94%	-38.60%	£4.52m	-£8.64m
Misys	£18.30	£2,512.06m	34.0	7.72	4552.24	9.58%	63.91%	£1,061.06m	£1,561.96m
MMT Computing	£8.40	£99.86m	28.3	4.05	4997.02	25.77%	47.02%	£20.46m	£32.46m
Mondas	£0.70	£4.24m	Loss	74.34	926.67	-4.14%	-16.77%	-£0.18m	-£0.79m
Moorepay	£2.83	£30.55m	33.4	5.97	4767.47	4.63%	41.25%	£1.35m	£9.25m
MSB International	£6.25	£127.44m	27.6	1.83	3289.47	21.95%	68.69%	£22.94m	£52.14m
NSB Retail	£1.92	£18.57m	74.4	8.60	1665.22	1.32%	66.52%	£0.24m	£7.37m
OmniMedia	£0.01	£0.31m	Loss	0.31	13.33	0.00%	-89.47%	£0.00m	-£2.03m
On Demand	£0.08	£4.14m	Loss	0.36	96.15	15.38%	-83.33%	£0.55m	-£20.66m
Oxford Molecular	£2.40	£173.47m	Loss	17.72	3000.00	18.81%	-32.58%	£27.47m	-£43.33m
Parity	£6.36	£276.65m	35.4	1.71	35333.20	1.60%	43.73%	£4.35m	£88.55m
Pegasus	£2.60	£18.17m	11.0	2.30	708.45	8.79%	-30.48%	£1.47m	-£5.43m
Phonelink	£0.55	£26.26m	Loss	6.09	351.61	65.15%	-10.66%	£10.36m	-£2.94m
Proteus	£0.44	£24.46m	Loss	42.68	523.81	14.29%	17.33%	£3.06m	£3.86m
Quality Software	£2.20	£29.96m	21.5	1.18	578.95	-6.38%	7.84%	-£2.04m	£3.46m
Radius	£0.35	£9.80m	9.7	0.36	253.62	-1.41%	-44.44%	-£0.14m	-£7.80m
Rage	£0.04	£10.40m	Loss	1.54	163.46	0.00%	-63.04%	£0.00m	-£17.50m
Real Time Control	£3.21	£22.43m	11.1	1.78	6551.02	-3.75%	38.06%	-£0.87m	£6.13m
Rebus	£0.79	£73.10m	17.1	1.10	897.73	-9.20%	8.97%	-£7.40m	£20.30m
Recognition Systems	£0.22	£7.91m	Loss	10.28	307.14	2.38%	-63.25%	£0.18m	-£7.89m
Riva	£0.42	£12.97m	10.1	0.20	298.50	6.33%	78.72%	£0.77m	£5.87m
RM	£7.98	£141.96m	25.4	1.29	4557.14	-6.18%	28.63%	-£9.35m	£31.56m
Rolle & Nolan	£3.43	£45.55m	57.1	2.24	4077.38	14.17%	-5.52%	£5.65m	-£0.15m
Romtec	£1.05	£5.43m	22.4	1.15	1672.00	0.00%	29.81%	£0.00m	£1.24m
Royalblue	£3.43	£113.14m	65.6	9.69	2014.71	53.93%	101.47%	£39.64m	£66.44m
Sage Group	£8.30	£897.25m	35.3	5.90	31923.08	9.00%	56.60%	£74.05m	£328.55m
Sanderson Electronics	£0.74	£33.99m	7.0	0.51	1259.57	15.63%	-50.67%	£4.59m	-£33.71m
SBS Group	£1.75	£12.37m	20.3	0.65	1750.00	23.67%	75.00%	£2.37m	£5.32m
Science Systems	£1.66	£28.10m	24.4	1.97	1282.95	0.00%	28.29%	£0.00m	£6.20m
Sema Group	£14.83	£1,704.73m	44.0	1.84	4661.95	12.52%	36.64%	£189.73m	£497.73m
Sherwood	£5.30	£45.59m	24.7	1.85	4416.67	45.21%	171.79%	£14.19m	£28.79m
Skillsgroup	£1.83	£148.32m	14.3	0.43	818.39	15.87%	17.74%	£20.32m	£23.22m
Spargo Consulting	£1.51	£18.83m	23.8	2.40	1584.21	0.67%	3.44%	£0.13m	£0.63m
Staffware	£3.54	£42.78m	46.3	4.27	1571.11	18.82%	36.22%	£6.78m	£12.78m
Superscape	£1.08	£9.47m	Loss	3.05	542.93	-8.90%	-72.96%	-£0.93m	-£23.93m
Systems Integrated	£0.09	£1.21m	Loss	0.97	78.26	0.00%	-48.57%	£0.00m	-£1.14m
Tetra	£1.76	£44.20m	29.5	1.98	1100.00	1.15%	10.00%	£0.50m	£3.90m
Total	£0.75	£7.52m	16.1	2.29	1405.66	6.43%	156.90%	£0.45m	£4.62m
Trace	£0.66	£9.43m	24.5	0.55	524.00	-12.67%	87.14%	-£1.37m	£4.50m
Triad	£2.98	£75.01m	41.1	3.98	2203.70	20.20%	42.00%	£12.61m	£22.31m
Vega Group	£2.28	£35.08m	16.4	1.95	1864.75	9.64%	-14.95%	£3.08m	-£6.02m
Workplace	£1.95	£56.19m	24.7	1.08	1111.43	2.91%	11.14%	£1.59m	£5.49m
Xavier	£0.08	£4.67m	6.8	0.52	777.50	11.07%	-29.32%	£0.47m	-£1.09m
Zergo	£2.18	£20.03m	64.0	1.93	2230.77	1.16%	-25.00%	£0.23m	-£6.67m

## Where are the profits at Recognition Systems?

In the June edition of *System House* we headed our review of the interim figures for **Recognition Systems Group** with the comment "profitable soon"? We only did this because Chairman David Bounds said that he expected the group to be profitable "by the end of the year". We are tempted now to ask "which year?"

The preliminary results for the year ended 30th Sep. 97 show revenue more than doubled (but still only £773K) and losses also almost doubled at £2.3m - yet another member of the "losses exceed revenue" club.

Chairman Bounds now says "Breaking into the USA has been a major achievement and it gives us a strong base on which to build. The pipeline of potential new customers is very encouraging and has grown over each of the last three quarters. As a result, there are very significant opportunities for the company in 1998". We hope so. Recognition is an innovative company that deserves to succeed. With recent sales of their systems to some of the largest US organisations - Prudential, Sears, Roebuck and Dime Savings Bank- there is potential. Cash has reduced in the year from £2.6m to £407K with net assets down from £2.7m to under half a million. Last month Recognition launched a rights issue at 21p to raise £1.9m - not included in the figures above. It was a bit of a flop with a 34% take up - but Bounds got his money. Obviously the next period really is make-or-break. We sincerely hope its the former! Recognition was a new entrant to the main market in May 96 at 70p. The shares ended the year on just 22p.

## Results from the deal makers

Without counting the final tally, it is clear that 1997 was a record year for UK M&A with both the value and number of deals scaling previously unknown heights. Latest results from the UK's two largest deal makers show a rather mixed picture - although it must be remembered that these figures do not cover the bulk of 1997.

**Regent Associates**, headed by MD Peter Rowell, increased revenues by nearly 50% to a record £3.1m with PBT up from "just" £35K to £373K in the year to 31st Mar. 97. About 70% of their revenues are in the UK.

**Broadview Associates**, however, managed a more modest 18% increase to £7.8m in the year to 31st Dec. 96. But it must be remembered that they had more than doubled their revenues in 1995. PBT, however, sank from £719K to £40K. Being a private company with a US parent, that means not a jot!

Last year, you may remember, Broadview's chairman Steve Bachmann topped our Highest Paid Director rankings pulling in £1.1m. He's now returned to the US but the current HPD managed £748K. Chairman Victor Basta managed an even more paltry £514K.

## Methods Application

**Methods Application** provide contract IT consultants mainly to improve the software development process (hence the name). Their business is roughly 50/50 private and public sector. Results show revenue and profit up for every year since the company was started in its present form in 1990 by Tony Webb - who is still in charge. In the year to 30th Apr. 97, revenue increased 37% to £7.3m with PBT up 29% to £1.2m. Their interim results for the six months to October continue the excellent trend. Revenue was up at £5.5m with a PBT of £392K. Indeed Webb is forecasting revenues of £11m and PBT of £1.7m in FY98. Surely a company to watch. But is Webb aware of the fate that a mention in *System House* usually creates?

## OmniMedia - RIP?

Sometimes one has regrets. Including **OmniMedia** in our SCSI Index is one. OmniMedia develops interactive "edutainment" software with such titles as "The Greatest Toyshop on Earth". Now you might not think that we should take such activities seriously. But remember that the UK has c40% of the IPRs in the world market for such software - rather more than for more "serious" systems! OmniMedia moved to AIM in mid 1995 at c64p. It has been a disaster since.

Anyway, this month Omnimedia put its only operating subsidiary into voluntary liquidation. Joint MDs Tim Rosen and Leslie Kent have agreed to subscribe for 9m shares at 1p - "yesterday's closing mid market price". If these proposals are rejected "the future of the company is extremely uncertain".

## Oracle "the wrong sort of revenue"

**Oracle** set a trading record on NASDAQ after the announcement of disappointing Q298 results. Some 172m shares in Oracle were traded which represented about 31% of the total day's trading. Oracle's share price dived 29% in the day. CEO Larry Ellison apparently broke the record of biggest individual fall in personal wealth in 24 hours too. Previous executive share dealing are now being scrutinised.

The market viewed Oracle's excuse of problems in Asia with some scepticism as Asia in fact only accounts for c15% of total revenue.

The problem with Oracle is that the revenues generated from new licence sales ground to a halt. The headline 23% increase in revenues was as a direct result of services revenues increasing by 41% to \$968m. Indeed services now represents over 60% of Oracle's revenues.

Although we do not wish lower licence revenues on anyone, we happen to think that services is the place to be. The problem is that we seem to be one of few analysts who thinks this way. A report we read on the Pointcast Network said "US analysts said that Oracle's revenue growth was of the wrong sort and there wasn't enough of it". Greg Vogel, an analyst with Montgomery Securities, said "Oracle's problem is that the services side of the business is growing much faster than the product side. Ideally it should be the other way around. Services aren't nearly as profitable because of the labour overhead. The most profitable part of the software business is the software itself".

Well, yes, that was true. But times really have changed. We really wish the US could keep up with events! With a 11% profit margin at present, Oracle might look with envy at the c20% margins at Sage and Misys. Both these products companies make even more than 60% of their revenues from services. But if we really wanted to rub their faces in it we could suggest they looked at Druid, MMT and many other 100% services companies making 20-30% margins. Even CMG and Admiral now make higher profit margins than Oracle.

And what has happened at the #2 products company in the world will eventually happen at the #1 - **Microsoft** - too. Goldman Sachs now estimate a "modest" 15% increase in both revenue and profits in 1998.

We hesitate to say "We told you so"...but we did.

# SAGE

THE SAGE GROUP PLC

We never really doubted that Sage (accounting software) would retain the coveted **System House Boring Award** presented

two years back when they achieved ten years of uninterrupted EPS growth at >20% p.a. But, as we have taken two awards away in the last year without adding any newcomers, one can never be too confident.

In the event, Sage's results were pretty good. Revenues are up 12% at £152.1m. But we should point out that without acquisitions (in particular KHK in Germany in Feb. 97 for £40.1m) revenues would actually have declined by £1.5m. But PBT was up 25% at £37.6m and EPS increased by an even higher 27%. For aficionados that's an average 39% p.a. growth in EPS over the 10 years 1987-97 with no reversals. Do you really wonder why we rave about "Super Sage"?

And as a gesture to the other excuse makers, "foreign exchange adversely affected PBT

by £2.0m". In other words, it could have been even better! The "stick to the knitting" pattern for Sage is well established. Sage and Multisoft in the UK are now managed as one business where rev. in the second

half was "particularly strong". SAARI and Sybel in France have also been integrated into one business. The same recipe "putting in place a different and more profitable business model" is now underway with KHK in Germany. But it was the US which produced the poorest performance with revenues actually down by 8% at £19m although operating profits were up by 5.6% at £3.85m. CEO Peter

Walker said that he wanted to strengthen Sage's position in the US and "was looking at acquiring larger players which would certainly have turnover over \$60m". Walker also mentioned Italy and Holland as likely acquisition targets.

### The future?

The future, in our view looks particularly good and almost too "opportunity rich" for Sage. We believe that most SMEs (exclusively Sage's market) will solve the Y2K and Euro problem by installing new software. Sage will start marketing its Euro compliant software in 1998.

A few years back we addressed a distinguished audience which included our hero David Goldman, the founder of Sage, who sadly stepped down from the board wef 30th Sep. 97 due to ill health. We introduced the "all products will be free, make money from services" theme. We used Sage as an example of a company which would provide services over the internet or other electronic medium, charging per transaction, per

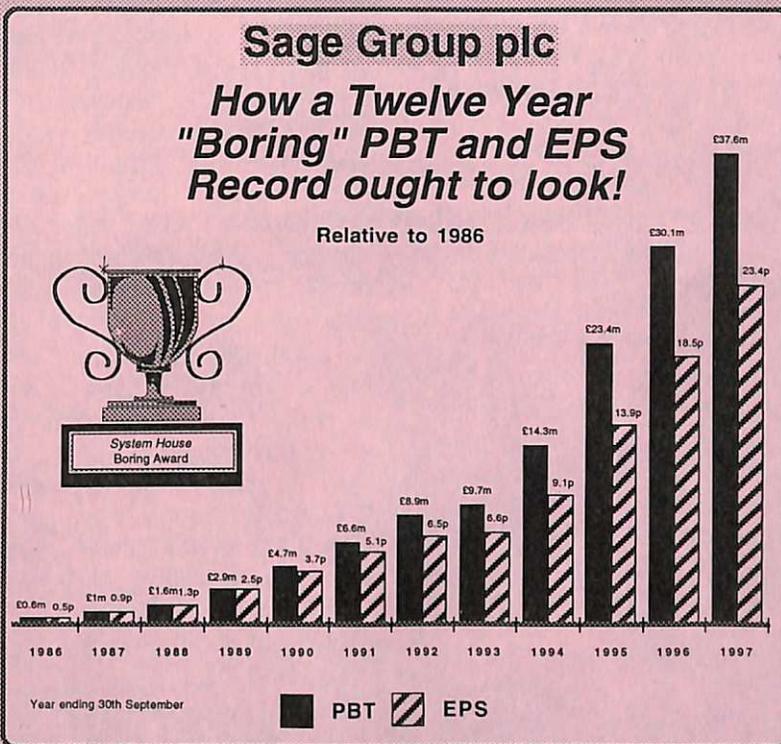
payslip, much in the manner of the computer bureaux of the 1960s. Goldman approached us afterwards saying how interested he was but saying that he had experienced little customer demand for this.

That was two years ago.

Now Sage recognises the "significant opportunities" and is "well positioned to take advantage". In particular "the rapidly developing market in on-line banking services".

Current estimates are for another near 20% increase in PBT to £44.6m in the current year. That's a prospective P/E of c30. Given the quality of earnings and the opportunity value that looks quite reasonable. If you added a bid premium from the likes of Microsoft or others it still looks cheap.

Either way, Sage looks set to retain its **Boring Award** for some time to come!



1997	Revenue	OP	Margin
UK	£63.0m	£24.4m	39%
France	£70.1m	£11.8m	17%
USA	£19.0m	£3.9m	21%
<b>Total</b>	<b>£152.1m</b>	<b>£40.1m</b>	<b>26%</b>

### Phonelink - Wonderstock again?

Phonelink was a new issue in Jun. 93 at 155p. Their Tel-me product, which allowed PC users to access such things as the WH Smith supplies database, inspired such headlines as "technology wonderstock" and the shares roared up to 424p. Five years growth of the Internet has rather made it all redundant.

Latest results for the six months to 30th Sep. 97 show revenues down 14% at just £1.85m but losses were cut by a third to £2.05m - so Phonelink is still a member of the rare the losses > revenue club!

The founding Burke's, who at one time headed our "richest UK IT" list, sold c9%, and an option on the rest, to Dutch investors Reggeborgh in Oct. Quite what the future holds is unclear. An exercise "to identify acquisition or merger targets has commenced". But the shares ended Dec. 97 up 65% on 55p.



### Zergo

Zergo provides security software for use on networks. They were a new AIM issue in Sep. 95 at 97p.

Latest results for six months to 31st Oct. 97 show revenues up 15% at £5.37m but PBT down 58% at £78K. Zergo point out that gross profit was up 21% and that the downturn was due to increased development costs - all expensed we are pleased to read.

The order intake was up 60% in a strong market. So the directors "expect a satisfactory outcome for the year".

### The never ending Anite Saga

There are some stories that just dog you for ever it seems. The Cray Electronics/**Anite** saga is as old as *System House*. And, to be blunt, it has been about the most disappointing.

After years of campaigning that Anite should become a "100% SCSI company" we ought now to be rejoicing. After all the final part of the networking operation has been sold to **Cable & Wireless** for £47m. This provides an exceptional profit of £37m and leaves Anite with £40m in cash. Anite Networks had revenues of £57.8m but made PBT of just £1.1m in the year to 30th Apr. 97. Given the circumstances, it seems an excellent price. Almost as good as the £42m Anite got in the sale of CASE Technology (Denmark) to Intel earlier in 1997.

We should also be celebrating Anite's record £63m improvement in their "profits". In the six months to 31st Oct. 96 Anite reported a loss before tax of £63.5m. In the latest interims, that's reduced to £526K.

But we had all been expecting a *profit*. In particular the remaining Anite Systems, run by Mike Shone, managed to reduce profits from £2.85m to £746K on basically fiat revenues of £39m. The major reason for this was a £1.3m provision for a fixed price contract in their Space and Defence division "which failed to recognise the complexity of the customer's requirements". Anite Systems also took a £400K hit from the strength of sterling. The FT (17th Dec. 97) also said "Industry analysts were concerned at the high level of fixed price contracts and revenue from hardware sales which made up about 10% of Anite Systems turnover".

**Comment** - We had expected much better from Anite Systems. Sure, it seems that the IT staff agency bit increased revenues by 18%, but we wanted it to achieve an "Admiral"-type quality of earnings. We are also now even more concerned about the one-on-one-on-one reporting structure of Shone, new CEO John Hawkins and Chairman Alec Daly.

We were not alone in our concerns. After rising to a high of 50p in the month, the shares initially fell 11% on the news but have recovered since. Still a very far cry from its 200p high in 1994.

### DCS appoints new CEO...buys Procon

DCS has at last appointed a Chief Executive naming Tim Robinson - not a well known name to us at least. Robinson was responsible in 1992 for IBM UK's network products "a £100m turnover business" and then moved to run IBM UK's software business where he "achieved similar success". In 1995 he then moved to Silicon Graphics as European Marketing Director where "business has almost doubled in size". We quote, of course from the official press release from DCS' PR agency.

But we have a couple of problems here. Robinson looks to us like a "products" man and we thought that DCS wanted to be a "service" business. Products men have had a notable lack of success in running services business - and that's putting it mildly. And what of acting CEO Robert Arrowsmith who we know wanted the job? Chairman Robin Lodge admits that Arrowsmith is "very disappointed" but that he would be staying on at DCS. We promised not to print Arrowsmith's reaction to us on the news - we do try to be a "family" newsletter after all!

Lodge has gone public saying he "intends to make DCS a £250m revenue company within three years". With present revenues of £55m, this will take some doing. Let's hope that Lodge does not become a hostage to fortune as we have heard this sort of comment before from the likes of Headland and EIT. *Need we say more.*

DCS also announced this month the acquisition of **Procon** - which implements Mapics software - for £500K. Procon made PBT of £206K on revenues of £1m in the year to 31st Oct. 97.

The City liked all this news marking DCS shares up 24% in December.

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