System House

The monthly review of the financial performance of the UK software and computing services industry

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BPO *Play or Don't Play ... But Ignore At Your Peril!*

*You can decide to play in it. You can decide to ally with someone who's playing in it. You may even decide not to play in it at all. What you **can't** afford to do is stick your head in the sand and ignore business process outsourcing (BPO), particularly if you are in the IT outsourcing business in any shape or form.*

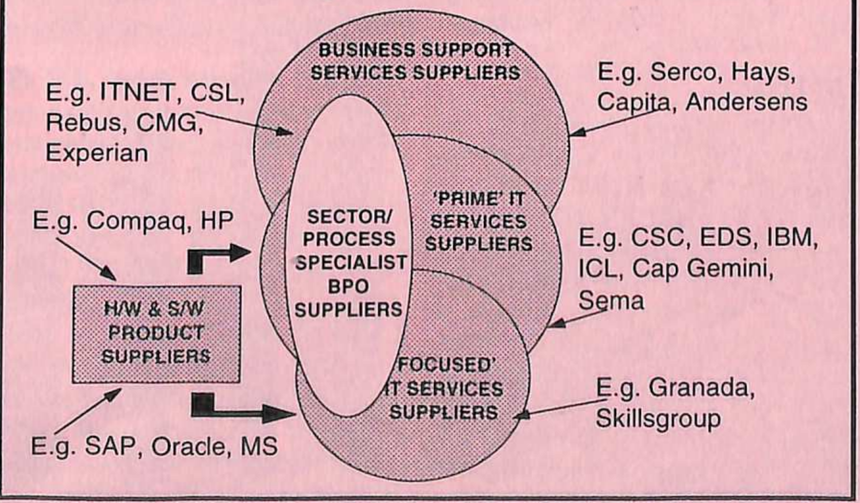
Many IT outsourcing companies we have spoken to recently are trying to get their minds around how to address the enormous potential opportunity in BPO. As best as we can tell, something like £300 -£350m million of BPO business was awarded in the UK during 1997, mainly to UK SCSI companies. With an average term of 4-7 years, these contracts add around another £50 million p.a. to a market expected to be worth £250-£300m in 1998. But this is just a drop in the ocean compared to what's out there in the future. Some estimates see the BPO market growing by nearly 60% p.a. for the next few years, far exceeding the 17% average growth rate for the UK AM/FM market.

BPO - The Value Proposition

EMPLOYEE SKILLS	Professional	Blue Collar	Clerical??
PROCESS CATEGORY	BACK OFFICE	OPERATIONAL	CUSTOMER FACING
BUSINESS VALUE	COST & SERVICE	EFFICIENCY & PRODUCTIVITY	COMPETITIVE ADVANTAGE
TYPICAL APPLICATIONS	• Financials • HR • Payroll	• Manufacturing • Logistics • Purchasing	• Order taking • Customer care • Enquiries

To be fair, in the UK today BPO is still an infant market. Until recently, most of the business came from local government to the benefit of three main players: **Capita**, **ITNET** and **CSL** (a *'quiet achiever'* and the outsourcing arm of **Deloitte & Touche UK**). Then in Feb. 98 **Sema Group** pipped Capita to the post to win a BPO 'megadeal' to manage the Benefits Agency Medical Service for the DSS – worth £305 million over 5 years, the largest (annualised) BPO deal in the UK to date. There was a certain delicious irony in this win as up to 3 years ago Sema was insistent it simply would **not** get into BPO.

The Dis-Integration of the BPO Market



In the private sector, arguably the market belongs mainly to **Andersen Consulting**, which boasts a slew of finance and administration BPO contracts, many with UK subsidiaries of multinational oil companies. But even the esteemed Andersen don't always get it right. Dare we remind readers of Andersen's abortive megadeal at Sears (£344m/10 years) signed in Jan. 96 which came to such an inglorious end in Oct. 97? And this may not be the end of Andersen's troubles! How many readers noticed the small paragraph in the computer press towards the end of last year reporting that **Arthur Andersen UK** (AA) had appointed an 'alliances manager' to forge relationships with major software companies? We spoke to said appointee to find that AA is deadly serious about competing in the BPO market, especially (no surprises here) in accounting, audit and human resources. Then it all went quiet – *a case of keeping one's powder dry?* We would think that AA's entrée into the commercial BPO market will give its sibling consulting company a good run for its money. ***Watch this space for a battle royale!***

But what of the 'majors'? Well, UK outsourcing market leader **EDS** is having a good run in UK central government - *but we suspect you knew that already!* For example, in Feb. 97, EDS and **Hogg Robinson** acquired

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Paymaster, the public sector organisation that administers pensions to 1.6 million (!) retired civil servants. Later that year EDS scooped a £450 million/10-12 year contract to manage pay, pensions and administration for Britain's Armed Forces. All in all, we reckon BPO deals contributed about £140 million towards EDS' 1997 UK revenues. And **CSC**, which appears to have put the misguided attempted acquisition by **Computer Associates** well behind it, has a number of outsourcing contracts with a business process management component.

*What about **IBM**?* Wisely, in our opinion, IBM is treading a measured step before plunging headlong in to a market that could easily turn out to be either a treasure trove or a minefield. We met their European Global Services management earlier last year and they were playing very coy. But don't be surprised if IBM's first venture into BPO has a distinct Human Resources ring about it.

But none of these are the ones to watch! Our regular readers know we like to be bold with our predictions and we're saying that the future in large-scale BPO more likely belongs to the **Serco**'s of this world. Serco describes itself as *"an international task management contractor to government and industry"* and we reckon that **at least** 30% of its near half-billion pound revenues are IT-related. While other IT services companies tentatively test the BPO market – Serco is already there!

What does this all mean for UK SCSI players? To be blunt, we believe that the challenges of managing broad-based, large-scale BPO contracts will move well beyond the comfort zone of the majority of traditional IT services companies. It's all about 'sticking to the knitting' *(after all, that's what you tell your customers, isn't it?)*. Why try to manage thousands of clerical staff (or for that matter, shop-floor workers) when there are specialist companies who do that as their core business?

That's why we reckon that the BPO market will become "dis-integrated" as IT services companies see the wisdom of sticking to what they do best and forming alliances to do the rest. Doesn't it make sense that someone like Serco manages the customer's business processes and leaves the IT processes and systems to the experts and their partners? That's not to say there isn't room for niche, 'full-line' BPO suppliers. Of course there is. 'Boutique' BPO suppliers will mainly focus on specific business processes (e.g. **Experian** with credit card processing and e-commerce) or several business processes mainly in one industry sector (e.g. ITNET with payroll processing, revenue collection and cashier services etc. in local government). These players will continue to manage both the business processes as well as the IT processes in their chosen market.

But it's not going to be quite as simple as that. We think the BPO market itself will grow into clearly defined segments broadly split by category of business process (see chart). Some BPO suppliers will feel safest focusing on back office processes and will enunciate their value proposition in terms of providing better management information to support business decision making. Others will offer the promise of improved efficiency and productivity through the management (and re-engineering) of the client's core operational processes. The truly bold BPO suppliers will sit between the client and their customers at the 'pointy end' of the business, and will sing the siren song of competitive advantage. This latter category is perhaps the most exciting as that is one of the critical intersections between BPO and electronic commerce. There you are – you can kill two birds with one stone! In any event, each of these types of BPO will require taking on client employees with widely differing skills and experience and, of course, in numbers that could range from tens to thousands.

Whether you believe our predictions or not, we hope it should at least be clear that the risks in ignoring the BPO phenomenon are too great to accept. Indeed, if you've already pitched your tent in the FM/AM field you could well find the new breed of BPO players camped around the fire eating your lunch. So whether you plan to play alone or with your friends – or not play at all – you must at least make a positive decision on what you are going to do about BPO. ***You have been warned!***

Footnote

As many of you know **Anthony Miller**, who was head of UK research at IDC, joined us a few months back - boosting our numbers by 50%! Anthony is particularly well regarded for his knowledge and views on the outsourcing sector. If you notice a "style change", it's because the above review of the BPO market is Anthony's first contribution to *System House*.

Reduced losses at ITG

Internet Technology Group, through its subsidiaries Global Internet and GX Networks, claims to be the UK's largest ISP. Our views on ISPs are well known but at least in their interim results for the six months to 30th Apr. 98, ITG managed to reduce losses from £1.18m to just £164K on revenue up nearly fourfold at £4.3m. But these results are not nearly as good as the headlines claim. Included in the latest figures are exceptional gains of £973K from investment disposal and £10K from the sale of assets. The operating loss has in fact increased from £1.09m to £1.14m. For the time being, the unsuccessful bid for **AOL** by **AT&T**, is in our view the pointer for the future. The big telecomms players will dominate. But, as Scottish Power's acquisition of Demon for £66m in May 98 showed, there could be some rich profits for ISP shareholders as they get snapped up along the way.

Maiden results from AIT Group

Old established **AIT** (systems integrator/development for clients in the financial services sector) was a new float in Jun. 97 at 150p. Blue chip clients include Tesco Personal Finance, NatWest, Bank of Scotland and the Halifax. Maiden results for the year ended 31st Mar. 98 show revenue increased 21% to £13.6m, PBT was up a higher 40% at £2.2m with EPS up 34%. Pretty good figures really. Chairman Garf Collins said *"...The Group has never been in a better position to meet the needs of a wide range of financial services organisations in locations worldwide... The year has started with continuing good financial performance and we are confident of another year of excellent progress".*

The share price has done very well since the float and ended June on 297p - that's almost double the float price just a year ago.

Azlan receives bid as times, at last, get better

Azlan has had more than its fair share of problems recently. The management team has been drastically changed as a result with Barrie Morgans, ex MD IBM UK, taking over the hot seat as Chairman and CEO in Apr. 97. *What a time he must have had over the last year!* Apart from mega losses, their accounts are at present under scrutiny by the Serious Fraud Office. The accounting problems seem to have been caused by a catalogue of mismanagement, inadequate control, and possible serious deception. Some staff (and directors) have "resigned" or faced disciplinary action. On top of this, former finance director Adrian Lamb is now suing them for a total of £154K being his after-tax salary plus unpaid bonus of £52K and benefits when he *"departed"* last October. Anyway, that's the past and perhaps we should all now turn to the future for Azlan.

Azlan has announced its **audited** results for the year ended 4th Apr. 98. Revenue was virtually static at £292m (although Azlan say that it would in fact have risen to some £321m using constant exchange rates), operating losses were reduced by almost half to £6m with losses per share also sharply down. In fact in H298 they made an operating profit of £500K before exceptionals. Stock levels (one of the past accounting problem areas) had been reduced from over £43m to £24.5m - giving a much improved stock turnover rate of nearly 12. It was the rights issue for the Akam purchase (which we so *strongly* supported) that was the catalyst to the exposure of Azlan's woes. So we are particularly pleased that the training division did so well with a 76% revenue rise (33% organic) to £37.7m. Training also contributed 41% of total gross profit with a 46% rise to £8m. Product business revenue, at £245m, was up just 1% using constant exchange rates but down 8% on actual figures. Both of their two main trading areas, the UK and France, saw decreases of 5% and 6% respectively.

Barrie Morgans made the classic understatement when he commented *"1997/98 was a difficult year for the group"*. He went on to say that *"The steps we have taken have led to Azlan regaining its reputation for reliability and innovation in its marketplace. In terms of balance sheet strength and an effective operation model we have made significant progress..."*

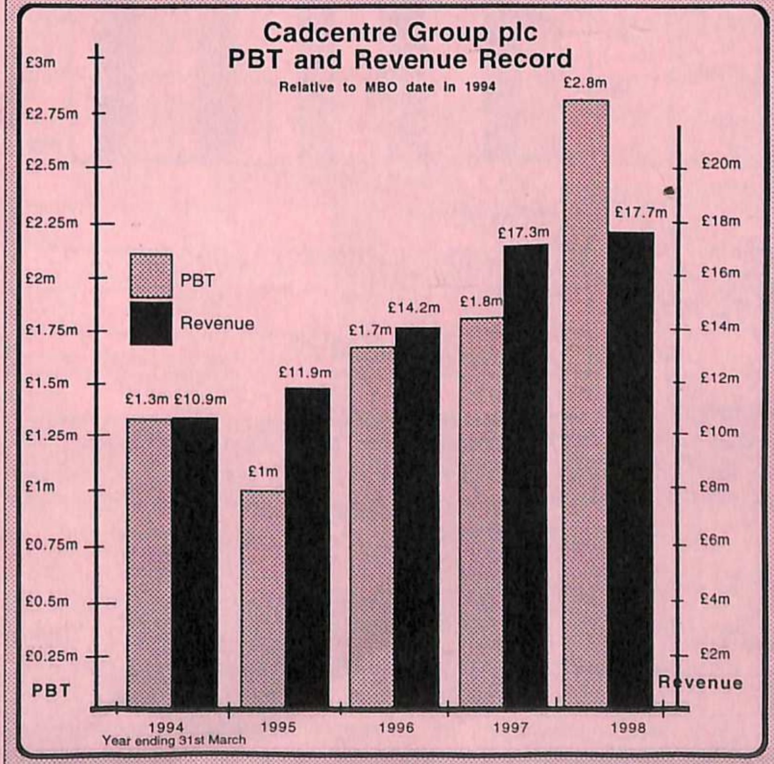
Comment. In our view, the problems for product distributors are mounting - as Azlan's main competitor **ilion** (nee Persona) is also finding. That's why Azlan must move into services. But David Southworth at **Skillsgroup** (nee P&P) found this process both long and financially fraught. But at least Azlan has taken the first steps. Now it is almost a "normal" company again. At the time we fully supported their Akam acquisition and the move more into services. There are still considerable problems for Morgans and his team to solve but they have made a start. Analysts are forecasting FY99 profits between £5m and £8m. Source FT 3rd Jun. 98. If, say, they can make £6m, the forward P/E is only just over 14 - very low compared with others.

Last August, Azlan had a "rescue" rights issue at 37p to raise £24.2m (but bear in mind that the shares were suspended in Jun. 97 at 555p!) What a good investment the rights issue shares have turned out to be - for the "new" investors at least. Azlan ended Jun. 98 on 70p.

STOP PRESS - After producing this review, Azlan confirmed that it had received a bid approach. Rumour has it that it's from US **CHS Electronics**. We expect others to express an interest. Anyway, it put a rocket under the share price which is up 32% this month. Given the troubled past, ex-IBMer Barrie Morgans must view any bid as a welcome release from his enforced Chairmanship.

Revival at Cadcentre

Cadcentre's business is the design of 3D computer systems which aid the design of process and power plants. The company was set up by the Government in 1967, was subject to a £7m MBO in 1994 with 3i. and Cambridge University major shareholders and floated on AIM at 200p per share in Nov. 96 which valued them at £33m (nearly five-times the MBO price). Their clients, on the whole, tend to be multinationals and c84% of their sales are exports. They issued a profits warning last April saying that their full year's results were expected to be *"somewhat below market expectations"* (at c£3.2m) but *"substantially ahead of the prior years"*. And so it has come to pass. In the year ended 31st Mar. 98, revenue increased a marginal 2% to £17.7m although PBT increased 55% to £2.8m. EPS was up 45%. The Americas (+15%) and France (+75%) had excellent growth, Europe (including the UK) in general was steady but Far East revenue fell 13%. Evidently due to the Far Eastern financial crisis, they have temporarily, at least, lost two major contracts. As a sign of things to come, from Jan. 99 Cadcentre intends to accept contracts in Euros as a currency hedge. Chairman Richard King said that new NT products and the expanding customer base *"is expected to result in a satisfactory growth in revenues in the current year. The Board is confident of achieving a successful outcome for the year to March 1999"*.



After the April profits warning, the share price plunged 43% initially to 240p. They have risen since to end June on 295p - level in the month.

Excellent results from Gresham

Last year was a period of major management changes at **Gresham.** The new team under Chairman Roger Graham and CEO Trevor Read has revamped and revitalised the company. Gresham go way back to 1960s but their main objective now is providing businesses with Internet Services. Although the UK is considered to be behind the US in this respect, we lead in Europe. Gresham are determined to take full advantage.

Their interim results for the six months ended 30th Apr. 98 were excellent. Revenue rose 89% to £8.52m (not far off the *total* revenue for FY97), Operating Profit increased 140%, PBT went up 109% to £1m with EPS up a higher 125%. Of course part of the revenue increase is due to acquisition revenue of over £3.2m (mainly from the Nov. 97 purchase of Circa). Even so organic revenue growth was a healthy 18%. Further acquisitions are being contemplated even though cash balances will suffer. Read is on record as saying *"The business has been run with healthy margins by cutting costs. Now is the time to invest the cash accrued".* Chairman Roger Graham is bullish. *"As regards the second half of the year, we remain optimistic about the prospects for continued growth. The fundamentals of our market remains strong, we have an excellent order book and the prospects and opportunities are good".*

House brokers, Henderson Crosthwaite has now increased their profits forecast for FY98 to £2.1m. Gresham shares have been about the best performer in the last 12 months. You could have bought them then at c21p. They ended June on 101p - up another 15% this month alone.

FI Group's biggest deal ever?

The **Bank of Scotland** (51%) and **FI Group** (49%) have created a new JV company to be called **First Banking Systems Ltd.** The new company has been set up to provide commercial software development for BOS. With 310 staff from BOS and 120 from FI, First Banking is guaranteed a *minimum* spend of £150m over the first five years from BOS.

Comment. FI has developed a long standing relationship with BOS and this JV is the sort of quality deal we have come to expect from them. Whatever happens post Y2000, this is the sort of business that will help FI (and of course BOS) to prosper whatever happens.

But, whatever the quality of FI, can they really justify their amazing 122 P/E and a prospective P/E approaching 80? A new issue only just over two years ago at 235p, the share price ended June 98 on £15.30p.

Musketeer makes first killing

AFA Systems, where ex-ACT MD Mike Hart is Chairman and CEO, has a treasury and risk management called Musketeer. They were a new AIM float at 120p in Jul. 96 but proved to be one of the weakest of the new issues and fell to 90p at one stage.

However, this month they have announced a major order from a North of England bank worth some £600K. AFA used the opportunity to raise £750K in a placing at 133p. AFA shares ended June on 154p.

"Stonking" Computerland

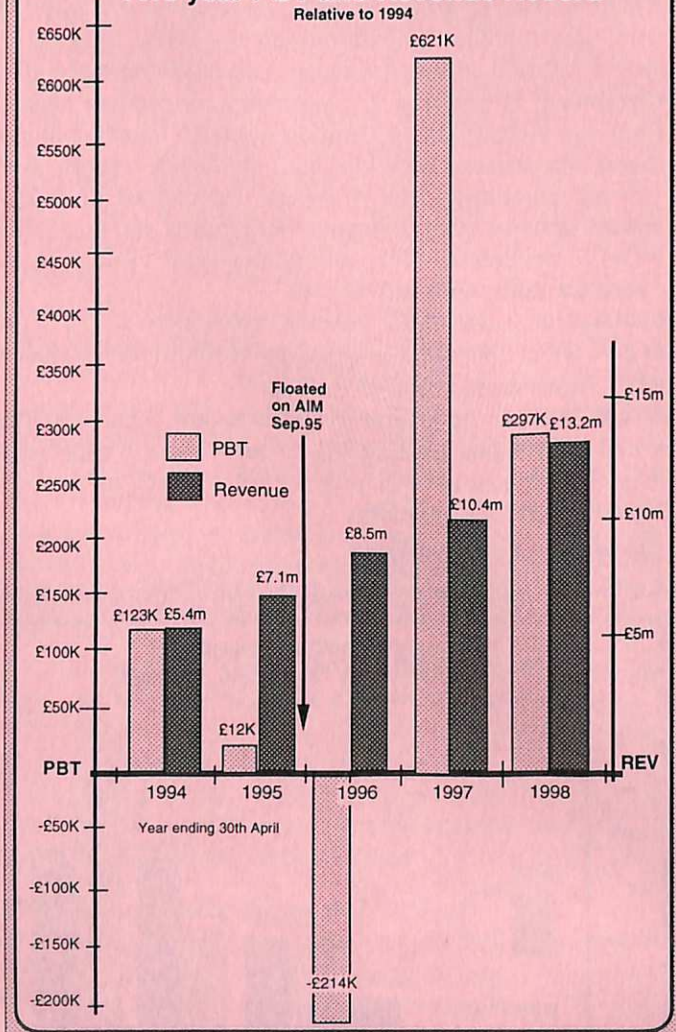
Apparently a journalist got hold of an internal **Computerland** memo describing current trading as *"stonking".* Computerland verified that results to 30th April would indeed *"meet market expectations".*

Big surge in orders - and share price - at Zergo

Zergo Holdings is a *"leading provider of cryptography based security solutions".* They were established in 1988 and came to the AIM market in Sep. 95 at 97p.

In their results for the year to 30th Apr. 98, although revenue increased 27% to £13.2m, PBT dropped 52% to just £297K with negative EPS (as a result of finance costs of non-equity shares). The 1997 accounts have now been restated. We are pleased to see that the increased R&D spend of £1.1m (up from £600K) has been fully expensed. They also increased spend on sales and marketing by £700K to £1.8m. Mind you continued R&D and sales and marketing is essential in the fast moving cryptographic products and services market where Zergo operates. But on the more positive side, their order book increased 125% to £7.4m.

The Ups and Downs at Zergo Holdings
Five year PBT and Revenue Record



Prof. Henry Beker, founder, Chairman & CEO said *"We anticipate further growth during the coming year... the Group is moving rapidly to a standard product, rather than bespoke system sales, and consequently shorter delivery cycles".*

Zergo has also announced its intention to move from AIM to a full market listing and to raise *"at least £15m. These funds will be used to make strategic investments and acquisitions as well as to underwrite the group's working capital requirements.. and to redeem preference shares and reduce indebtness".*

Zergo shares ended June on 460p - up a massive 77% in the month.

Quoted Companies - Results Service

Note: Shaded = Results announced this month.

Admiral plc

	Final - Dec 96		Final - Dec 97	Comparision
REV	£ 90,819,000		£ 117,191,000	+29.0%
PBT	£ 11,243,000		£ 17,552,000	+56.1%
EPS	11.60p		17.80p	+53.4%

AFA Systems plc

	Final - Dec 96		Final - Dec 97	Comparision
REV	£ 364,000		£ 226,000	-37.9%
PBT	-£ 913,000		-£ 1,801,000	Loss both
EPS	-10.50p		-16.80p	Loss both

AIT Group plc

	Final - Mar 97		Final - Mar 98	Comparision
REV	£ 11,216,000		£ 13,556,000	+20.9%
PBT	£ 1,546,000		£ 2,164,000	+40.0%
EPS	5.36p		7.17p	+33.8%

Anite Group plc

	Interim - Oct 96	Final - Apr 97	Interim - Oct 97	Comparision
REV	£ 103,533,000	£ 193,399,000	£ 78,948,000	-23.7%
PBT	-£ 63,454,000	-£ 50,377,000	-£ 526,000	Loss both
EPS	-27.40p	-21.20p	0.00p	n/a

Azlan Group plc

	Final - Mar 97		Final - Mar 98	Comparision
REV	£ 292,900,000		£ 292,000,000	-.3%
PBT	-£ 14,100,000		-£ 7,860,000	Loss both
EPS	-27.20p		-12.20p	Loss both

Bond International Software plc

	Final - Dec 96		Final - Dec 97	Comparision
REV	£ 4,317,123		£ 6,396,027	+48.2%
PBT	£ 219,784		£ 718,250	+226.8%
EPS	0.99p		3.54p	+257.6%

Cadcentre Group plc

	Final - Mar 97		Final - Mar 98	Comparision
REV	£ 17,339,000		£ 17,727,000	+2.2%
PBT	£ 1,777,000		£ 2,754,000	+55.0%
EPS	7.13p		10.30p	+44.5%

Capita Group plc

	Final - Dec 96		Final - Dec 97	Comparision
REV	£ 111,869,000		£ 172,904,000	+54.6%
PBT	£ 12,292,000		£ 18,312,000	+49.0%
EPS	4.75p		6.51p	+37.1%

Cedardata plc

	Final - Mar 97		Final - Mar 98	Comparision
REV	£ 10,363,000		£ 12,506,000	+20.7%
PBT	£ 1,589,000		£ 2,564,000	+61.4%
EPS	3.60p		5.30p	+47.2%

CFS Group plc

	Final - Dec 96		Final - Dec 97	Comparision
REV	£ 4,569,000		£ 6,828,000	+49.4%
PBT	£ 552,000		£ 813,000	+47.3%
EPS	6.44p		8.29p	+28.7%

Clinical Computing plc

	Final - Dec 96		Final - Dec 97	Comparision
REV	£ 1,979,690		£ 3,025,110	+52.8%
PBT	-£ 2,079,530		£ 275,564	Loss to profit
EPS	-12.30p		1.10p	Loss to profit

CMG plc

	Final - Dec 96		Final - Dec 97	Comparision
REV	£ 245,159,000		£ 302,992,000	+23.6%
PBT	£ 27,522,000		£ 38,645,000	+40.4%
EPS	27.40p		38.60p	+40.9%

Comino plc

	Final - Mar 97		Final - Mar 98	Comparision
REV	£ 7,792,000		£ 13,151,000	+68.8%
PBT	£ 1,420,000		£ 1,950,000	+37.3%
EPS	9.95p		11.46p	+15.2%

Compel Group plc

	Interim - Dec 96	Final - Jun 97	Interim - Dec 97	Comparision
REV	£ 39,542,000	£ 111,792,000	£ 86,633,000	+119.1%
PBT	£ 1,696,000	£ 5,057,000	£ 3,666,000	+116.2%
EPS	6.70p	16.20p	8.80p	+31.3%

Computacenter Services Group plc

	Final - Dec 96		Final - Dec 97	Comparision
REV	£ 931,209,000		£ 1,133,523,000	+21.7%
PBT	£ 34,012,000		£ 47,099,000	+38.5%
EPS	n/a		n/a	n/a

CRT Group plc

	Interim - Oct 96	Final - Apr 97	Interim - Oct 97	Comparision
REV	£ 55,497,000	£ 134,334,000	£ 119,326,000	+115.0%
PBT	£ 3,367,000	£ 12,056,000	£ 6,574,000	+95.2%
EPS	2.40p	6.86p	3.07p	+27.9%

DCS Group plc

	PF Final - Dec 96		Final - Dec 97	Comparision
REV	£ 35,242,000		£ 59,777,000	+69.6%
PBT	£ 3,032,000		£ 4,920,000	+62.3%
EPS	10.30p		15.68p	+52.2%

DRS Data & Research Services plc

	Final - Dec 96		Final - Dec 97	Comparision
REV	£ 4,822,000		£ 6,765,000	+40.3%
PBT	-£ 1,734,000		-£ 826,000	Loss both
EPS	-3.43p		-1.99p	Loss both

Delcam plc

	Final - Dec 96		Final - Dec 97	Comparision
REV	£ 13,579,346		£ 14,556,443	+7.2%
PBT	£ 1,036,812		£ 504,036	-51.4%
EPS	12.70p		7.40p	-41.7%

Delphi Group plc

	Final - Dec 96		Final - Dec 97	Comparision
REV	£ 210,635,000		£ 276,914,000	+31.5%
PBT	£ 12,302,000		£ 12,853,000	+4.5%
EPS	33.02p		28.79p	-12.8%

Diagonal plc

	Final - Nov 96		Final - Nov 97	Comparision
REV	£ 28,326,000		£ 44,788,000	+58.1%
PBT	£ 2,007,000		£ 3,302,000	+64.5%
EPS	7.70p		13.60p	+76.6%

Dialog Corporation plc

	Final - Dec 96		Final - Dec 97	Comparision
REV	£ 21,443,000		£ 46,082,000	+114.9%
PBT	-£ 7,034,000		-£ 20,432,000	Loss both
EPS	-7.82p		-20.52p	Loss Both

Division Group plc

	Final - Oct 96		Final - Oct 97	Comparision
REV	£ 4,900,000		£ 6,678,000	+36.3%
PBT	-£ 1,678,000		-£ 1,783,000	Loss both
EPS	-3.80p		-4.10p	Loss both

Druid Group plc

	Interim - Dec 96	Final - Jun 97	Interim - Dec 97	Comparision
REV	£ 9,384,000	£ 22,066,000	£ 14,276,000	+52.1%
PBT	£ 1,800,000	£ 5,004,000	£ 2,404,000	+33.6%
EPS	5.12p	13.94p	6.92p	+35.2%

ECsoft Group plc

	Final - Dec 96		Final - Dec 97	Comparision
REV	£ 32,302,000		£ 44,235,000	+36.9%
PBT	£ 2,523,000		£ 4,111,000	+62.9%
EPS	35.80p		35.60p	-0.6%

Eidos plc

	Final - Mar 97		Final - Mar 98	Comparision
REV	£ 75,531,000		£ 137,234,000	+81.7%
PBT	-£ 6,831,000		£ 16,507,000	Loss to profit
EPS	-60.40p		59.80p	Loss to profit

Electronic Data Processing plc

	Interim - Mar 97	Final - Sep 97	Interim - Mar 98	Comparision
REV	£ 6,490,000	£ 12,565,000	£ 5,812,000	-10.4%
PBT	£ 803,000	£ 1,741,000	£ 1,235,000	+53.8%
EPS	2.01p	4.50p	3.23p	+60.7%

F.I. Group plc

	Interim - Oct 96	Final - Apr 97	Interim - Oct 97	Comparision
REV	£ 46,254,000	£ 98,800,000	£ 71,231,000	+54.0%
PBT	£ 2,805,000	£ 6,575,000	£ 4,310,000	+53.7%
EPS	6.00p	14.20p	9.40p	+56.7%

Flomerics Group plc

	Final - Dec 96		Final - Dec 97	Comparision
REV	£ 5,332,409		£ 5,786,456	+8.5%
PBT	£ 477,885		£ 48,085	-89.9%
EPS	12.30p		0.30p	-97.6%

Gresham Computing plc

	Interim - Apr 97	Final - Oct 97	Interim - Apr 98	Comparision
REV	£ 4,500,000	£ 8,689,000	£ 8,520,000	+89.3%
PBT	£ 487,000	£ 667,000	£ 1,017,000	+108.8%
EPS	0.88p	1.17p	1.98p	+125.0%

Guardian iT plc

	Final - Dec 96		Final - Dec 97	Comparision
REV	£ 15,224,000		£ 23,026,000	+51.2%
PBT	£ 2,345,000		£ 4,033,000	+72.0%
EPS	17.90p		29.90p	+67.0%

Harvey Nash Group plc

	Final -Jan 97		Final - Jan 98	Comparision
REV	£ 36,321,000		£ 55,796,000	+53.6%
PBT	£ 797,000		£ 5,527,000	+593.5%
EPS	1.80p		13.36p	+642.2%

Highams Systems Services Group plc

	Final - Mar 97		Final - Mar 98	Comparision
REV	£ 16,394,589		£ 25,143,000	+53.4%
PBT	£ 878,707		£ 1,383,000	+57.4%
EPS	3.60p		5.33p	+48.1%

ICM Computer Group plc

	Final - Jun 96		Final - Jun 97	Comparision
REV	£ 33,370,000		£ 33,989,000	+1.9%
PBT	£ 1,720,000		£ 1,437,000	-16.5%
EPS	6.40p		8.90p	+39.1%

ilion Group plc

	Final - Dec 96		Final - Dec 97	Comparision
REV	£ 146,875,000		£ 203,134,000	+38.3%
PBT	£ 6,009,000		£ 6,100,000	+1.5%
EPS	17.20p		15.10p	-12.2%

Intelligent Environments Group plc

	Final - Dec 96		Final - Dec 97	Comparision
REV	£ 3,475,554		£ 4,443,146	+27.8%
PBT	-£ 1,379,256		-£ 3,009,417	Loss both
EPS	-7.10p		-13.30p	Loss both

IS Solutions plc

	Final - Dec 96		Final - Dec 97	Comparision
REV	£ 7,671,000		£ 8,750,000	+14.1%
PBT	£ 219,181		£ 539,845	+146.3%
EPS	3.77p		8.63p	+128.9%

ITNET plc

	Final - Dec 96		Final - Dec 97	Comparision
REV	£ 68,675,000		£ 81,713,000	+19.0%
PBT	£ 5,543,000		£ 6,834,000	+23.3%
EPS	3.10p		4.40p	+41.9%

JBA Holdings plc

	Final - Dec 96		Final Dec 97	Comparision
REV	£ 161,810,000		£ 221,737,000	+37.0%
PBT	£ 11,259,000		£ 5,233,000	-53.5%
EPS	18.26p		10.12p	-44.6%

JSB Software Technologies plc

	Final - May 96		Final - May 97	Comparision
REV	£ 3,709,000		£ 3,400,000	-8.3%
PBT	£ 56,000		-£ 53,000	Profit to loss
EPS	n/a		n/a	n/a

Kalamazoo Computer Group plc

	Interim - Sep 96	Final - Mar 97	Interim - Sep 97	Comparision
REV	£ 35,218,000	£ 77,776,000	£ 33,801,000	-4.0%
PBT	£ 2,340,000	£ 3,882,000	-£ 514,000	Profit to loss
EPS	3.72p	6.85p	-1.04p	Profit to loss

Kewill Systems plc

	Final - Mar 97		Final - Mar 98	Comparision
REV	£ 41,348,000		£ 45,088,000	+9.0%
PBT	£ 6,314,000		£ 6,813,000	+7.9%
EPS	31.60p		30.60p	-3.2%

Logica plc

	Interim - Dec 96	Final - Jun 97	Interim - Dec 97	Comparision
REV	£ 147,861,000	£ 338,465,000	£ 216,256,000	+46.3%
PBT	£ 10,632,000	£ 28,148,000	£ 15,517,000	+45.9%
EPS	11.40p	30.30p	16.00p	+40.4%

London Bridge Software Holdings plc

	Final - Dec 96		Final - Dec 97	Comparision
REV	£ 6,306,376		£ 11,320,000	+79.5%
PBT	£ 2,499,071		£ 3,701,000	+48.1%
EPS	7.82p		10.03p	+28.3%

Lorien plc

	Final - Nov 96		Final - Nov 97	Comparision
REV	£ 45,706,000		£ 116,930,000	+155.8%
PBT	£ 1,481,000		£ 1,585,000	+7.0%
EPS	11.80p		4.50p	-61.9%

Lynx Holdings plc

	Interim - Mar 97	Final - Sep 97	Final - Mar 98	Comparision
REV	£ 53,915,000	£ 120,752,000	£ 80,393,000	+49.1%
PBT	£ 3,710,000	£ 9,805,000	£ 5,526,000	+48.9%
EPS	2.58p	6.83p	3.65p	+41.5%

MMT Computing plc

	Interim - Feb 97	Final - Aug 97	Interim - Feb 98	Comparision
REV	£ 10,703,000	£ 24,639,075	£ 16,991,000	+58.7%
PBT	£ 2,424,000	£ 5,554,611	£ 4,250,000	+75.3%
EPS	13.30p	29.80p	23.20p	+74.4%

M-R Group plc

	Interim - Dec 96	Final - Jun 97	Interim - Dec 97	Comparision
REV	£ 18,509,000	£ 39,430,000	£ 20,824,000	+12.5%
PBT	£ 2,354,000	£ 5,604,000	£ 3,004,000	+27.6%
EPS	2.90p	7.30p	3.80p	+31.0%

Quoted Companies - Results Service

Note: Shaded = Results announced this month.

MDIS Group plc

	Final - Dec 96		Final - Dec 97	Comparision
REV	£ 117,799,000		£ 116,925,000	-0.7%
PBT	-£ 49,545,000		£ 221,000	Loss to profit
EPS	-48.94p		0.22p	Loss to profit

Macro 4 plc

	Interim - Dec 96	Final - Jun 97	Interim - Dec 97	Comparision
REV	£ 11,747,000	£ 23,448,000	£ 12,150,000	+3.4%
PBT	£ 5,135,000	£ 10,300,000	£ 5,250,000	+2.2%
EPS	16.50p	33.80p	17.60p	+6.7%

Micro Focus plc

	Final - Jan 97		Final - Jan 98	Comparision
REV	£ 73,089,000		£ 97,015,000	+32.7%
PBT	-£ 5,809,000		£ 15,217,000	Loss to profit
EPS	-48.00p		65.00p	Loss to profit

Microgen Holdings plc

	Final - Oct 96		Final - Oct 97	Comparision
REV	£ 73,391,000		£ 66,398,000	-9.5%
PBT	£ 8,783,000		£ 5,324,000	-39.4%
EPS	15.10p		8.80p	-41.7%

Misys plc

	Interim - Nov 96	Final - May 97	Interim - Nov 97	Comparision
REV	£ 142,809,000	£ 325,470,000	£ 177,644,000	+24.4%
PBT	£ 23,665,000	£ 62,533,000	£ 32,122,000	+35.7%
EPS	19.90p	52.80p	27.00p	+35.7%

Mondas plc

	Interim - Oct 96	Final - Apr 97	Interim - Oct 97	Comparision
REV	£ 11,183	£ 56,609	£ 143,075	+1179.4%
PBT	-£ 104,718	-£ 421,192	-£ 250,795	Loss both
EPS	-5.40p	-10.50p	-4.10p	Loss both

Moorepay Group plc

	Final - Dec 96		Final - Dec 97	Comparision
REV	£ 5,118,415		£ 5,283,379	+3.2%
PBT	£ 1,327,894		£ 1,385,201	+4.3%
EPS	8.26p		9.04p	+9.4%

MSB International plc

	Final - Jan 97		Final - Jan 98	Comparision
REV	£ 69,755,000		£ 128,793,000	+84.6%
PBT	£ 5,431,000		£ 9,043,000	+66.5%
EPS	17.60p		29.00p	+64.8%

NSB Retail Systems plc

	Final - Dec 96		Final - Dec 97	Comparision
REV	£ 2,161,000		£ 3,284,464	+52.0%
PBT	£ 296,000		£ 837,516	+182.9%
EPS	2.30p		6.30p	+173.9%

Oxford Molecular plc

	Final - Dec 96		Final - Dec 97	Comparision
REV	£ 9,789,000		£ 15,641,000	+59.8%
PBT	-£ 1,849,000		£ 256,000	Loss to profit
EPS	-3.30p		0.20p	Loss to profit

Parity plc

	Final - Dec 96		Final - Dec 97	Comparision
REV	£ 162,091,000		£ 202,078,000	+24.7%
PBT	£ 10,060,000		£ 13,506,000	+34.3%
EPS	15.81p		20.91p	+32.3%

Pegasus Group plc

	Final - Dec 96		Final - Dec 97	Comparision
REV	£ 7,914,000		£ 12,447,000	+57.3%
PBT	£ 1,160,000		£ 1,698,000	+46.4%
EPS	15.40p		29.30p	+90.3%

PhoneLink plc

	Final - Mar 97		Final - Mar 98	Comparision
REV	£ 4,316,000		£ 3,206,000	-25.7%
PBT	-£ 6,173,000		-£ 3,746,000	Loss both
EPS	-12.90p		-7.80p	Loss both

Policy Master plc

	Final - Dec 96		Final - Dec 97	Comparision
REV	£ 7,147,254		£ 8,744,713	+22.4%
PBT	£ 349,842		£ 803,359	+129.6%
EPS	n/a		n/a	n/a

Proteus International plc

	Final - Mar 97		Final - Mar 98	Comparision
REV	£ 573,000		£ 178,000	-68.9%
PBT	-£ 3,824,000		-£ 4,127,000	Loss both
EPS	-7.31p		-7.44p	Loss both

Quality Software Products Holdings plc

	Final - Dec 96		Final - Dec 97	Comparision
REV	£ 25,360,189		£ 28,016,991	+10.5%
PBT	£ 28,480		£ 2,655,299	+9223.4%
EPS	0.20p		20.20p	+10000.0%

Quantica plc

			Final - Nov 97	Comparision
REV			£ 5,635,000	n/a
PBT			£ 1,011,000	n/a
EPS			1.29p	n/a

RM plc

	Interim - Mar 97	Final - Sep 97	Interim - Mar 98	Comparision
REV	£ 48,965,000	£ 110,170,000	£ 50,473,000	+3.1%
PBT	£ 1,683,000	£ 8,018,000	£ 636,000	-62.2%
EPS	6.30p	30.80p	2.40p	-61.9%

Radius plc

	Final - Dec 96		Final - Dec 97	Comparision
REV	£ 27,267,000		£ 27,728,000	+1.7%
PBT	£ 1,591,000		£ 1,122,000	-29.5%
EPS	4.05p		2.94p	-27.4%

Rage Software plc

	Final - Jun 96		Final - Jun 97	Comparision
REV	£ 9,504,000		£ 6,758,000	-28.9%
PBT	-£ 3,224,000		-£ 15,430,000	Loss both
EPS	-1.34p		-6.30p	Loss both

Real Time Control plc

	Interim - Sep 96	Final - Mar 97	Interim - Sep 97	Comparision
REV	£ 6,314,000	£ 12,565,000	£ 7,181,000	+13.7%
PBT	£ 1,156,000	£ 2,547,000	£ 1,477,000	+27.8%
EPS	11.00p	25.50p	14.50p	+31.8%

Rebus Group plc

	Final - Mar 97		Final - Mar 98	Comparision
REV	£ 66,436,000		£ 87,730,000	+32.1%
PBT	£ 5,808,000		£ 8,390,000	+44.5%
EPS	4.61p		5.74p	+24.5%

Recognition Systems Group plc

	Interim - Mar 97	Final - Sep 97	Interim - Mar 98	Comparision
REV	£ 326,000	£ 773,000	£ 327,000	+0.3%
PBT	-£ 1,128,000	-£ 2,255,000	-£ 1,333,000	Loss both
EPS	-4.10p	-8.10p	-3.80p	Loss both

Riva Group plc

	Final - Dec 96		Final - Dec 97	Comparision
REV	£ 64,438,000		£ 70,208,000	+9.0%
PBT	£ 518,000		£ 1,339,000	+158.5%
EPS	0.90p		2.00p	+122.2%

Rolfe & Nolan plc

	Interim - Aug 96	Final - Feb 97	Interim - Aug 97	Comparision
REV	£ 8,630,000	£ 20,299,000	£ 9,692,000	+12.3%
PBT	£ 1,107,000	£ 2,758,000	-£ 569,000	Profit to loss
EPS	5.57p	14.50p	-2.93p	Profit to loss

Romtec plc

	Final - Jan 97		Final - Jan 98	Comparision
REV	£ 4,734,677		£ 4,217,440	-10.9%
PBT	£ 326,125		£ 310,718	-4.7%
EPS	4.30p		4.10p	-4.7%

Royalblue Group plc

	Final - Dec 96		Final - Dec 97	Comparision
REV	£ 11,679,000		£ 20,647,000	+76.8%
PBT	£ 2,016,000		£ 2,041,000	+1.2%
EPS	4.66p		3.33p	-28.5%

Sage Group plc

	Interim - Mar 97	Final - Sep 97	Interim - Mar 98	Comparision
REV	£ 73,554,000	£ 152,089,000	£ 88,798,000	+20.7%
PBT	£ 19,286,000	£ 37,635,000	£ 23,967,000	+24.3%
EPS	12.03p	23.43p	14.68p	+22.0%

Sanderson Group plc

	Interim - Mar 97	Final - Sep 97	Interim - Mar 98	Comparision
REV	£ 33,408,000	£ 67,143,000	£ 34,743,000	+4.0%
PBT	£ 3,504,000	£ 2,778,000	£ 4,049,000	+15.6%
EPS	5.90p	4.70p	6.20p	+5.1%

SBS Group plc

	Interim - Feb 97	PF Final - Aug 97	Interim - Feb 98	Comparision
REV	£ 8,565,000	£ 18,981,000	£ 11,308,000	+32.0%
PBT	£ 353,000	£ 728,000	£ 529,000	+49.9%
EPS	3.40p	8.60p	4.90p	+44.1%

Science Systems plc

	Final - Dec 96		Final - Dec 97	Comparision
REV	£ 14,603,000		£ 18,601,000	+27.4%
PBT	£ 1,271,000		£ 1,855,000	+45.9%
EPS	3.70p		6.80p	+83.8%

Sema Group plc

	Final - Dec 96		Final - Dec 97	Comparision
REV	£ 926,965,000		£ 1,130,086,000	+21.9%
PBT	£ 50,019,000		£ 64,073,000	+28.1%
EPS	30.94p		39.14p	+26.5%

Sherwood International plc

	Final - Dec 96		Final - Dec 97	Comparision
REV	£ 24,628,000		£ 30,036,000	+22.0%
PBT	£ 2,065,000		£ 3,095,000	+49.9%
EPS	18.80p		22.80p	+21.3%

Skillsgroup plc

	Final - Nov 96		Final - Nov 97	Comparision
REV	£ 344,337,000		£ 376,969,000	+9.5%
PBT	£ 14,277,000		-£ 16,308,000	Profit to loss
EPS	12.70p		-22.90p	Profit to loss

Staffware plc

	Final - Dec 96		Final - Dec 97	Comparision
REV	£ 10,009,325		£ 17,585,000	+75.7%
PBT	£ 873,879		£ 1,772,000	+102.8%
EPS	5.60p		10.80p	+92.9%

Superscape VR plc

	Interim - Jan 97	Final - Jul 97	Interim - Jan 98	Comparision
REV	£ 1,901,000	£ 3,106,000	£ 2,568,000	+35.1%
PBT	-£ 3,128,000	-£ 5,961,000	-£ 956,000	Loss both
EPS	-37.40p	-69.60p	-10.90p	Loss both

Systems Integrated Research plc

	Interim - Nov 96	Final - May 97	Interim - Nov 97	Comparision
REV	£ 507,000	£ 1,450,000	£ 516,000	+1.8%
PBT	-£ 1,194,000	-£ 1,938,000	-£ 296,000	Loss both
EPS	-9.10p	-13.30p	-2.40p	Loss both

Systems International Group plc (was OmniMedia)

	Final - Dec 96		Final - Dec 97	Comparision
REV	£ 401,300		£ 169,160	-57.8%
PBT	-£ 4,594,324		-£ 1,728,336	Loss both
EPS	-20.04p		-6.94p	Loss both

Tetra plc

	Interim - Nov 96	Final - May 97	Interim - Nov 97	Comparision
REV	£ 9,867,000	£ 22,358,000	£ 13,312,000	+34.9%
PBT	£ 830,000	£ 2,096,000	-£ 2,608,000	Profit to loss
EPS	2.71p	6.10p	-13.17p	Profit to loss

Torex plc

	Final - Dec 96		Final - Dec 97	Comparision
REV	£ 10,870,000		£ 21,029,000	+93.5%
PBT	£ 1,467,000		£ 7,277,000	+396.0%
EPS	4.30p		16.20p	+276.7%

Total Systems plc

	Interim - Sep 96	Final - Mar 97	Interim - Sep 97	Comparision
REV	£ 1,477,822	£ 3,279,609	£ 2,017,128	+36.5%
PBT	£ 185,587	£ 412,545	£ 476,206	+156.6%
EPS	1.33p	2.76p	3.19p	+139.8%

Trace Computers plc

	Interim - Nov 96	Final - May 97	Interim - Nov 97	Comparision
REV	£ 9,737,000	£ 17,270,621	£ 7,170,000	-26.4%
PBT	£ 145,000	£ 634,601	£ 409,000	+182.1%
EPS	1.03p	3.35p	2.16p	+109.7%

Triad Group plc

	Final - Mar 97		Final - Mar 98	Comparision
REV	£ 18,827,000		£ 32,161,000	+70.8%
PBT	£ 2,656,000		£ 6,609,000	+148.8%
EPS	7.25p		17.78p	+145.2%

Ultima Networks plc

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

Vega Group plc

	Interim - Oct 96	Final - Apr 97	Interim - Oct 97	Comparision
REV	£ 8,826,000	£ 17,977,000	£ 10,399,000	+17.8%
PBT	£ 1,405,000	£ 3,261,000	£ 805,000	-42.7%
EPS	6.35p	13.79p	3.49p	-45.0%

Workplace Technologies plc

	Final - Dec 96		Final - Dec 97	Comparision
REV	£ 52,086,000		£ 65,938,000	+26.6%
PBT	£ 1,040,000		£ 1,830,000	+76.0%
EPS	-0.38p		2.17p	loss to profit

Xavier Computer Group plc

	Interim - Sep 96	Final - Mar 97	Interim - Sep 97	Comparision
REV	£ 3,740,000	£ 8,961,457	£ 7,805,000	+108.7%
PBT	£ 260,000	£ 582,000	£ 501,000	+92.7%
EPS	0.33p	0.62p	0.38p	+15.2%

Zergo Holdings plc

	Final - Apr 97		Final - Apr 98	Comparision
REV	£ 10,398,871		£ 13,176,770	+26.7%
PBT	£ 620,698		£ 296,664	-52.2%
EPS	2.30p		-1.00p	Profit to loss

UK M&A

After last month's bad news at Rothwell, two other Apple dealers - **Performance Direct** and **Simmtech** - have appointed the receivers.

Arbor Software and **Hyperion Software** have "merged".

IT staff agency **Harvey Nash** is extending its operations in Europe with the £6.5m purchase of a 90% stake in **European Experts**, a Belgian IT contract staff agency. They have an option to acquire the remaining 10% for up to £2.1m in four years time.

Logica has acquired French **Delog Conseil** for FFr36m (£3.7m) paid for from cash reserves. Delog, a Paris based consulting firm, had revenues of £3.2m in 1997 and currently employs 54 people. The acquisition will be *"earnings enhancing"* for Logica's FY99.

Select Appointments has bought a 67% stake in Italian **Italia Lavora** for LIT17 billion (£5.9m), part cash and part with loan notes. Lavora is an employment agency operating in most of Italy's major metropolitan areas with 1997 sales of LIT15.4 billion.

WH Smith has bought Europe's leading on-line book business, the **Internet Bookshop**, for £9.4m.

Korea Securities now holds 3m shares in **Alphameric** representing a 6.89% stake.

Phonelink shares were suspended on 1st June as discussions were under way for a possible reverse takeover by **Active Roever Travel.** However negotiations did not proceed and the listing was restored later in the month (see also p11).

Schroder Ventures has backed a $20m buyout of the Dispatcher (WMS) product line from **Symbol Technologies Inc.**

Cap Gemini (UK) has agreed to purchase the UK **Finance and Commerce** arm of **AT&T**. The price has not been disclosed but we understand was around nett asset value. The division had revenues of c£12m/£15m and employs 150 staff who will now transfer to Cap Gemini.

Admiral has acquired Danish **International Datasupport** (IDS) for £4.0m + £700K deferred based on profits to 1999. IDS had revenue of £5.2m and PBT of £280K in year to 30th Apr. 98.

Sell whilst ye can...

SBS - an IT staff agency - was a new issue on AIM in Jun. 97 at 100p. In Mar. 98 they doubled their size buying **JCC Group** for £4.5m.

This month SBS has acquired **Quest Recruitment Ltd** for £435K. QRL had revenue of £1.6m and PBT of £76K in the year to 31st Dec. 97.

SBS has performed extremely well so far although its share price fell 7% this month to 313p . However, without making any specific point about SBS (we have to take care in such matters!) we have said for some time that the IT staff agency sector will be the first to feel the cold winds of any slowdown in the IT sector. Indeed, news this month that the MSL Index showed a reduction in the number of IT recruitment ads in May, caused jitters amongst many stocks with companies such as **MSB** falling by 7%.

CIMA survey confirms rising IT costs

The latest survey from the Chartered Institute of Management Accountants showed that in 76% of companies IT costs had risen > the average and the increase had topped all other areas of expenditure.

An update on the most recent new floats

ITNET

ITNET came to the market in June at a placing price of 350p, valuing the company at a sweet £246.1m. Just over 51% of the shares were placed with gross proceeds amounting to £125.8m. Net proceeds for ITNET were £28.6m. The historic P/E at the placing price was nearly 80 - although this reduced to "only" 53 on a proforma basis. In today's overheated climate, we were not in the least surprised that the shares commanded an instant premium. They ended the month on 436p - a 25% premium to the flotation price.

Comment - PBT of £7.5m and EPS of 6.9p are forecast for year to 31st Dec. 98. At 436p, that's a ***prospective*** P/E of 63. ITNET's growth has been consistent - but hardly exciting. Although we think ITNET, just like FI Group which is on an even higher P/E, is a quality act, *are these stratospheric valuations really justified or sustainable?*

Quantica

IT Staff agency, **Quantica**, came to the main market in early June at 124p, valuing them at £48.3m. This raised gross £12.1m and a net £10.8m for Quantica - *"to repay borrowing and strengthen the balance sheet"*. The P/E of 21.4 was on the low side at today's heady figures.

The group dates back to 1991 and has grown partly organically and partly by acquisition. Filed results for the 13 months to 30th Nov. 97, show a PBT of £1m on revenues of £5.6m - a relatively high margin for this type of business. Proforma figures to Nov. 97 are £11.3m revenue and operating profit of £3.3m. Forecast for the six months to May 98 is a profit of £1.9m.

Surprise, surprise, the shares ended the month on 150p, a 21% premium.

JSB Software Technologies

JSB (Internet networking and connectivity software) came to the AIM market in early June at 200p valuing then at £18.9m. But we understand that the placing (to raise a net £3m) was such a success that the company stopped counting when offers reached £20m! Just bear in mind that JSB only had revenues of £2.8m and a PBT of £10K in the ten months to Mar. 98. But in today's (almost insane) market, even at this price, JSB could be considered "cheap" compared to some.

The shares ended June, after only some two weeks trading, on 228p, a 14% premium.

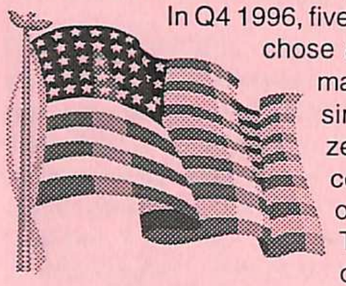
Note: We had a phone call from a young man who owns an innovative Internet company asking for our opinion as to its worth. We suggested a figure in the region of 4-times revenue. It looks now a bit on the low side after JSB - *perhaps we should have said at least 7-times revenues!*

Morse - another new float?

Distributor **Morse Group** was the subject of an £46m MBO less than three years ago. They have such an excellent financial record (see previous reviews) that they are in danger of getting an instant Boring Award. They are also extremely well run and make margins that must be the envy of other resellers. FY97 revenues were £133m with a PBT of £15.6m giving a superb 11.8% margin. Of course they do have some services revenue but it's low compared to the total.

According to the Sunday Times (7th June), they are now gearing up for a float later this year at a figure of c£600m. This seems very high for a reseller - even one as well managed as Morse. *But after the success of Computacenter who knows.*

Was NASDAQ such a good idea?



In Q4 1996, five UK based SCSI companies chose a NASDAQ IPO. Despite a massive advertising campaign since then, there have been zero new UK NASDAQers as compared to a veritable flood of new issues in London. This month, news emerged on three UK NASDAQers which will reduce their number and importance still further.

US Group buys Dr Solomons

Dr Solomons' Antivirus Toolkit is installed on a staggering 3m PCs worldwide. Despite being NASDAQ and EASDAQ quoted, they are (were) a UK company. Unfortunately no longer as this month they have been acquired by US **Network Associates** for $642m (c£391m) - all in shares. This will create one of the largest network security groups in the world. Networks Associates themselves were only formed last year out of the merger of **McAfee Associates** (probably the market leader in antivirus detection) and **Network General** (both US owned). Although there is evidently a degree of overlap, this will open up Europe to the Americans as Dr Solomons was the dominant rival to Symantec.

At this stage, it has not been decided who, if any, of the UK management will stay on according to Dr. Solomons CEO Geoff Leary. Leary, together with finance director David Stephens and operations director Keith Perrett , held 3.38m shares each in Dr Solomons- making their stake now worth around £24m each.

Comment We had given up crying over ownership. But Dr Solomons was a UK PRODUCTS company taking on the world .... *and winning.* A seriously endangered species.

Select Software Tools receives bids?

Select Software Tools plc (modelling tools) was an NASDAQ IPO in Oct. 96 at $14 but has been a disaster since plunging to a loss of $7.7m in 1997. The share price plunged to around $4. This month Select confirmed that they were in talks with a number of potential bidders - **Inprise** (nee **Borland**) and even **Microsoft** were mentioned with a price tag around the current $5.

"We're coming home, we're coming home, ECsoft's coming home"

We have long argued that UK companies should float in London. Although the argument was a little suspect for products companies, it was well made for IT services companies. ECsoft (which has its roots in Synapse, Beacon and Digitus) makes all its revenues from services in Europe. For reasons that we have always queried in our regular chats with CEO Terje Laugegrad, ECsoft was an IPO on NASDAQ in Dec. 96 at $10 which valued them at $70m.

Since then ECsoft's trading results have been superb. In 1997 they boosted revenues by 32% to $74m, PBT by 85% to $7.56m (that a >10% profit margin) and EPS was up 37%; particularly good bearing in mind the acquisitions of Astral (Sweden), Information Management (Norway) and Level-7 (UK) made in the period.

Although the share price increased threefold to c$33 in the period most of the similar stocks on the London market have done even better.

We are delighted that on 1st Jul. 98, ECsoft will start trading in London after a placing at 1807p which valued the group at £190.7m. The issue was 10-times oversubscribed and early "grey" dealings saw the price at close to £20. ***Let this be a lesson to others....***

EASDAQ or the Nouveau Marche?

EASDAQ was meant to be the European equivalent to NASDAQ but has attracted a miserable 32 companies in its 18 month history. And one of those was Dr Solomon's (see above). In contrast, the Euro.Nouveau Marche has attracted 101. Euro.NM links the "high growth" markets in France, Germany, Belgium and the Netherlands. There is talk of the UK's AIM market joining the grouping.

Cyrano chooses Nouveau Marche

We had a very personal demonstration of the appeal of the Euro.Nouveau Marche this month. Richard Holway was Chairman of **Performance Software** for several years before its sale to French IMM in 1996. IMM changed its name to **Cyrano** (testing software) and aimed for a NASDAQ quote which it had to pull at great cost in 1997. Anyway, this month they busted all NM records when their IPO was some 258-times oversubscribed. If that wasn't enough, the shares placed at FFr60 rose to FFr150 within days - boosting their valuation to over £125m. Pretty good for a company with revenue of £14m and losses of c£1.2m in 1997!

Autonomy chooses EASDAQ

As Dr Solomon's departs, **Autonomy** decided to become the sole UK representative of the UK SCSI industry on EASDAQ. The EASDAQ float is expected to raise about £30m and will value them at c£100m. Autonomy has built *"a dynamic reasoning engine"* which categorises large amounts of data on company intranets and is used by such corporates as the Royal Mail and Shell. Autonomy had revenue of just £1.8m in 1997.

CEO Mike Lynch said *"We chose EASDAQ because almost 80% of our sales are in Europe - EASDAQ is a pan-European market for a pan-European company. EASDAQ is a more sophisticated market and that's exactly where we want to be".* Source The Times 25th June 98.

UK NASDAQer Micro Focus acquires Intersolv for £335m

Whether old *"UK Coboler"* **Micro Focus** is a UK SCSI company is a mute point. Sure they still have a London quote, but the HQ is in the US and the majority of shareholders reside in the US. If you still consider them as a UK company, then this month they enter the record books with one of the largest acquisitions in our archives. Micro Focus has acquired their long term US partner **Intersolv Inc.** for $534m (c£335m) in a *"tax free all-stock transaction".* Martin Waters (CEO at Micro Focus) said *"this acquisition will create a powerhouse that delivers comprehensive enterprise application solutions".* Intersolv had revenue of $196m and PBT of $8.2m in the year to 30th Apr. 98.

Comment - If you are a simple long term investor (like us) you buy good stocks and put them in a bottom drawer. Applying that to Micro Focus would have been a frustrating experience. The ten year record has showed highs >£5 and lows of £1...twice (both prices adjusted to take into account bonus issues). Micro Focus' shares fell this month by 22% to end June on 435p.

We have described them as a roller coaster on several occasions. *Please remember what happens on a roller coaster....*

The FTSE IT Index continued its one-way journey It's now up an amazing 78% in its first 6 months of life! **Sema**, after its Capitalisation Issue, is now *"worth"* £3.4 billion and is the next company in line for the FTSE100. Mind you we should also celebrate **Capita** breaking the £1 billion barrier too. Capita was a new issue in 1989 when their market cap. was £8m! *Your initial investment would now be worth a mere 46-times more.*

Largest riser this month was **Zergo** (see p4) up 77% on bullish statement and move to main market. **Rolfe and Nolan** (bid hopes recede) and **Eidos** (profit taking) both fell 28%.

30-Jun-98		
	SCSI Index	4999.30
	FTSE IT Index	1781.21
	FTSE 100	5884.50
	FTSE AIM	1101.30
SCSI Index = 1000 on 15th April 1989	FTSE SmallCap	2617.71

Changes in Indices	SCSI Index	FTSE 100	FTSE IT Index	FTSE AIM Index	FTSE Small Cap
Month (31/5/98 - 30/6/98)	+1.35%	+0.24%	3.91%	-3.01%	-5.60%
From 15th Apr 89	+399.93%	+186.55%			
From 1st Jan 90	+443.34%	+149.13%			
From 1st Jan 91	+606.25%	+172.38%			
From 1st Jan 92	+378.47%	+136.03%			
From 1st Jan 93	+213.71%	+106.73%			+88.68%
From 1st Jan 94	+199.43%	+72.14%			+40.08%
From 1st Jan 95	+233.47%	+91.96%			+49.89%
From 1st Jan 96	+121.35%	+59.50%		15.51%	+34.83%
From 1st Jan 97	+86.72%	+42.88%		12.83%	+19.91%
From 1st Jan 98	+64.72%	+14.58%	78.12%	11.02%	+13.16%

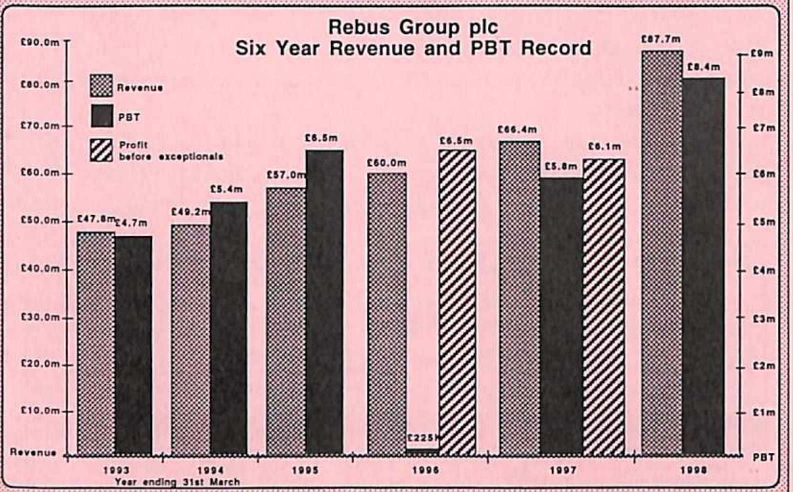
System House SCSI Share Prices and Capitalisation

	FTSE IT Index?	Share Price 30/6/98 (£p)	Capitalisation 30/6/98(£m)	Historic P/E	PSR Ratio Cap./Rev.	SCSI Index 30/6/98	Share price % move since 31/5/98	Share price % move in 1998	Capitalisation move (£m) since 31/5/98	Capitalisation move (£m) in 1998
Admiral	Yes	£12.38	£779.80m	69.5	6.65	44727.60	0.20%	72.23%	-£3.20m	£325.65m
AFA Systems		£1.54	£16.40m	Loss	72.57	1279.17	26.34%	42.79%	£1.80m	£3.50m
AIT Group		£2.97	£59.90m	50.9	4.42	1980.00	-15.14%	74.19%	-£11.10m	£25.32m
Anite Group	Yes	£0.62	£146.60m	Loss	0.76	359.65	-15.75%	30.85%	-£27.40m	£34.95m
Azlan Group	Yes	£0.70	£75.20m	Loss	0.26	302.17	32.38%	25.09%	£19.20m	£16.06m
Bond International		£1.15	£15.60m	32.0	2.44	1769.23	30.68%	76.92%	£3.70m	£6.75m
Cadcentre Group		£2.95	£49.00m	28.6	2.76	1475.00	0.00%	-9.23%	£0.00m	-£4.93m
Capita Group		£5.16	£1,001.00m	80.0	5.79	46441.44	-4.71%	39.70%	-£47.00m	£294.32m
Cedardata		£1.53	£50.40m	42.4	4.03	1452.38	-11.08%	45.24%	-£6.70m	£17.11m
CFS Group		£1.56	£11.40m	18.8	1.67	1727.78	6.87%	48.80%	£0.60m	£3.67m
Clinical Computing		£0.82	£20.00m	Loss	6.61	657.26	-8.94%	91.76%	-£2.50m	£9.33m
CMG	Yes	£18.63	£2,371.00m	48.3	7.83	12844.83	8.28%	144.26%	£166.00m	£1,393.51m
Compel Group	Yes	£4.53	£128.50m	25.0	1.15	3620.00	-5.73%	48.36%	-£7.80m	£41.27m
Computacenter		£7.55	£1,296.00m	38.1	1.14	1126.87	12.69%	12.69%	-£4.00m	-£4.00m
Comino		£2.68	£34.10m	23.3	2.59	2057.69	-1.11%	118.37%	-£1.30m	£19.30m
CRT Group		£4.19	£608.30m	58.2	4.53	4650.00	-3.57%	17.89%	-£15.80m	£99.92m
DCS Group		£5.70	£125.30m	38.2	2.10	9491.67	-8.88%	76.59%	-£12.20m	£54.34m
Delcam		£1.10	£6.49m	14.9	0.45	423.08	0.00%	-33.33%	£0.00m	-£3.21m
Delphi Group	Yes	£5.93	£174.90m	20.8	0.63	2438.27	-14.44%	-11.57%	-£26.60m	-£19.40m
Diagonal	Yes	£13.00	£261.30m	95.6	5.83	4727.27	20.09%	85.05%	£43.70m	£131.30m
Dialog Corporation		£1.58	£240.60m	Loss	5.22	1431.82	8.25%	5.00%	£22.10m	£15.77m
Division Group		£0.55	£23.40m	Loss	3.50	1362.50	0.00%	41.56%	-£0.90m	£6.50m
DRS Data & Research		£0.13	£4.33m	Loss	0.64	113.64	-16.67%	-43.18%	-£0.86m	-£3.20m
Druid Group	Yes	£13.35	£308.60m	95.8	13.99	4854.55	27.14%	101.51%	£68.20m	£156.88m
ECSoft		£18.07	£190.70m	50.8	4.31	1000.00	0.00%	0.00%	£0.00m	£0.00m
Electronic Data Processing		£0.95	£24.80m	16.5	1.97	2893.45	-4.06%	73.39%	-£1.00m	£10.56m
Eidos	Yes	£8.10	£139.80m	10.8	1.02	8100.00	-28.79%	20.90%	-£52.40m	£26.56m
FI Group	Yes	£15.30	£492.70m	122.0	4.99	6510.64	-10.00%	64.08%	-£54.70m	£192.40m
Flomerics Group		£1.20	£3.12m	400.0	0.54	923.08	-4.00%	0.00%	-£0.13m	£0.00m
Gresham Computing		£1.01	£35.20m	36.3	4.05	1086.02	15.43%	339.13%	£6.60m	£27.68m
Guardian iT		£5.66	£289.80m	483.8	12.59	2219.61	4.81%	121.96%	£13.40m	£159.30m
Harvey Nash Group		£4.10	£115.60m	30.8	2.07	2342.86	0.61%	21.66%	£1.50m	£21.65m
Highams Systems Services		£1.35	£20.40m	25.3	0.81	3750.00	8.00%	73.08%	-£1.70m	£6.58m
ICM Computer		£2.30	£44.30m	33.6	1.30	1275.00	27.50%	27.50%	£10.00m	£10.00m
ilion Group		£0.87	£21.70m	5.7	0.11	540.63	-8.47%	-32.16%	-£2.00m	-£10.32m
Intelligent Environments		£0.59	£17.50m	Loss	3.94	622.34	-5.65%	138.78%	-£1.50m	£11.74m
I S Solutions		£3.15	£15.10m	36.5	1.73	2350.75	-18.71%	116.49%	-£3.50m	£8.12m
ITNET		£4.36	£305.80m	65.7	3.74	1245.71	24.57%	24.57%	£59.70m	£59.70m
JBA Holdings	Yes	£6.20	£227.50m	58.1	1.03	3875.00	-6.06%	-39.72%	-£14.70m	-£148.95m
JSB Software		£2.28	£21.40m	n/a	6.29	1140.00	14.00%	14.00%	£2.50m	£2.50m
Kalamazoo Computer		£0.53	£22.50m	7.7	0.29	1500.00	0.00%	-24.46%	£0.00m	-£7.30m
Kewill Systems	Yes	£8.23	£103.80m	26.9	2.30	3250.99	-4.91%	44.30%	-£7.80m	£30.25m
Logica	Yes	£19.43	£1,435.00m	55.8	4.24	5321.92	7.47%	67.82%	£102.00m	£588.90m
London Bridge Software	Yes	£11.68	£338.60m	116.4	29.91	5837.50	-2.71%	129.60%	-£9.40m	£191.11m
Lorien		£7.54	£147.80m	46.9	1.26	7540.00	-4.74%	49.31%	-£5.00m	£61.42m
Lynx Holdings	Yes	£2.18	£226.40m	27.7	1.87	5437.50	-3.12%	80.50%	-£8.90m	£102.13m
M-R Group		£1.58	£84.50m	20.9	2.14	626.98	4.98%	40.44%	£0.50m	£21.74m
Macro 4	Yes	£4.65	£92.60m	13.4	3.95	1875.00	-5.10%	36.76%	-£3.90m	£25.60m
MDIS Group	Yes	£0.92	£194.60m	415.9	1.66	351.92	-4.19%	94.68%	-£8.50m	£96.09m
Micro Focus	Yes	£4.35	£347.60m	27.4	3.58	2100.96	-21.97%	9.02%	-£97.80m	-£23.28m
Microgen Holdings		£1.29	£60.90m	17.1	0.92	549.15	0.78%	83.57%	£0.50m	£33.18m
Misys	Yes	£34.75	£3,949.00m	58.1	12.13	8644.28	-5.98%	89.89%	-£190.00m	£1,905.80m
MMT Computing	Yes	£12.20	£147.00m	32.1	5.97	7261.90	-14.08%	45.32%	-£22.00m	£47.14m
Mondas		£0.73	£4.06m	Loss	71.23	966.67	-6.45%	4.32%	-£0.67m	-£0.18m
Moorepay Group		£2.65	£31.00m	30.0	5.87	4472.14	-10.92%	-6.19%	-£3.80m	£0.45m
MSB International	Yes	£9.38	£185.10m	32.4	1.44	4934.21	-6.95%	50.00%	-£20.40m	£57.66m
NSB Retail Systems		£3.35	£36.90m	52.7	11.24	2913.04	-9.46%	74.93%	-£3.80m	£18.33m
Oxford Molecular		£1.93	£145.30m	Loss	9.29	2406.25	-7.89%	-19.79%	-£11.90m	-£28.17m
Parity	Yes	£7.88	£390.70m	37.7	1.93	43749.84	-7.89%	23.82%	-£30.80m	£77.20m
Pegasus Group		£3.58	£24.70m	12.3	1.98	974.11	-3.77%	37.50%	-£1.30m	£6.53m
PhoneLink		£0.44	£21.00m	Loss	6.55	280.65	-8.42%	-20.18%	-£1.90m	-£5.26m
Proteus International		£0.44	£32.90m	Loss	184.83	523.81	-7.37%	0.00%	£6.50m	£8.44m
Quality Software Products		£4.98	£67.70m	24.6	2.42	1309.21	0.00%	126.14%	£0.00m	£37.74m
Quantica		£1.50	£58.00m	25.3	10.29	1209.68	20.97%	20.97%	£10.00m	£10.00m
Radius		£0.44	£11.50m	14.8	0.41	315.22	-3.33%	24.29%	-£1.10m	£1.70m
Rage Software		£0.12	£32.90m	Loss	4.87	471.15	-5.77%	188.24%	£1.20m	£22.50m
Real Time Control		£5.15	£38.50m	17.8	3.06	10510.20	-8.44%	60.44%	-£0.90m	£16.07m
Rebus Group	Yes	£1.39	£124.40m	24.2	1.42	1579.55	19.83%	75.95%	£17.10m	£51.30m
Recognition Systems		£0.27	£9.38m	Loss	12.18	385.71	36.71%	25.58%	£2.11m	£1.47m
Riva Group		£0.83	£26.30m	37.5	0.37	586.34	9.27%	96.43%	£3.00m	£13.33m
RM Group	Yes	£3.65	£318.00m	66.8	2.89	10428.57	18.51%	128.13%	£37.70m	£176.05m
Rolfe & Nolan		£2.68	£37.90m	44.8	1.87	3184.52	-28.19%	-21.90%	-£11.60m	-£7.65m
Romtec		£1.12	£5.80m	27.2	1.38	1784.00	2.76%	6.70%	£0.16m	£0.37m
Royalblue Group	Yes	£3.50	£96.20m	47.2	4.66	2058.82	-7.28%	2.19%	-£7.60m	-£16.94m
Sage Group	Yes	£17.00	£1,970.00m	67.1	12.95	65384.62	14.86%	104.82%	£255.00m	£1,072.75m
Sanderson Group		£1.52	£70.00m	13.9	1.04	2587.23	3.75%	105.41%	-£17.70m	£36.01m
SBS Group		£3.13	£26.90m	36.3	1.42	3125.00	-7.41%	78.57%	-£2.10m	£14.53m
Science Systems		£2.27	£38.50m	33.3	2.07	1755.81	12.41%	36.86%	£4.20m	£10.40m
Sema Group	Yes	£7.95	£3,374.00m	75.1	2.99	9245.28	22.50%	98.11%	£612.00m	£1,669.27m
Sherwood International		£9.08	£78.70m	38.2	2.62	7562.50	0.00%	71.23%	-£0.30m	£33.11m
Skillsgroup	Yes	£2.87	£236.50m	Loss	0.63	1284.75	-4.18%	56.99%	-£6.60m	£88.18m
Staffware		£7.00	£87.90m	64.8	5.00	3111.11	-11.11%	98.02%	-£7.40m	£45.12m
Superscape VR		£2.13	£26.10m	Loss	8.39	1073.23	-12.73%	97.67%	£3.70m	£16.63m
Systems Integrated		£0.06	£0.80m	Loss	0.64	52.17	-14.29%	-33.33%	-£0.14m	-£0.41m
Tetra		£2.24	£56.40m	50.9	2.52	1400.00	-3.66%	27.27%	-£2.20m	£12.20m
Torex Group		£1.28	£38.60m	21.3	1.84	2475.73	27.50%	46.55%	£4.31m	£11.30m
Total Systems		£1.23	£12.70m	26.5	3.87	2311.32	-19.67%	64.43%	-£3.00m	£5.18m
Trace Computers		£1.33	£19.30m	34.8	1.12	1060.00	-0.75%	102.29%	-£0.20m	£9.87m
Triad Group		£6.70	£172.60m	37.7	5.37	4962.96	-10.25%	125.21%	-£15.50m	£97.59m
Ultima		£0.10	£10.10m	47.6	0.15	243.90	-20.00%	-42.86%	-£2.20m	-£3.66m
Vega Group		£3.95	£60.80m	36.1	3.38	3237.70	-9.71%	73.63%	-£6.60m	£25.72m
Workplace Technologies		£2.63	£76.10m	42.5	1.15	1500.00	5.00%	34.96%	£3.60m	£19.91m
Xavier Computer Group		£0.11	£10.80m	17.3	1.21	1075.00	-4.44%	38.26%	-£0.30m	£6.14m
Zergo Holdings		£4.60	£83.20m	135.3	6.36	4717.95	76.92%	111.49%	£52.80m	£63.17m

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

Rebus impresses

First a bit of history. Old established **Rebus** was part of CE Heath until their demerger in Apr. 96 when they were floated at 88p. Rebus offers solutions in four specific markets; Human Resources, Insurance, Local Government and Media. A fifth division, Computer Services, supports these four. Their portfolio of clients is impressive, including over 60 of the Times Top 100 companies. Having said all this, we are at a loss to understand just why their share price performance has been so relatively poor compared to other, less prestigious, new floats. The share price did increase 20% this month to end on 139p - but even so this is "only" a 58% premium to the flotation price some three years ago. At this price, surely Rebus must be in someone's sights as a possible takeover target (CEO Peter Presland admitted that there has been approaches but none from "substantial" bidders). Their results for the year to 31st Mar. 98 look pretty good. Revenue rose 32% to £87.7m, PBT increased 45% at £8.4m with basic EPS up 25%. The HR division increased revenue by 9% to £41.7m and profits up 8% to £7.3m. Insurance had a massive 67% increase in revenue to £27.3m with profits nearly trebled to £2.2m. Local Government and Media also did well but are much smaller than the other two trading divisions. Computer Services grew 49% to £15.6m (organic growth a lower but still impressive 31%).

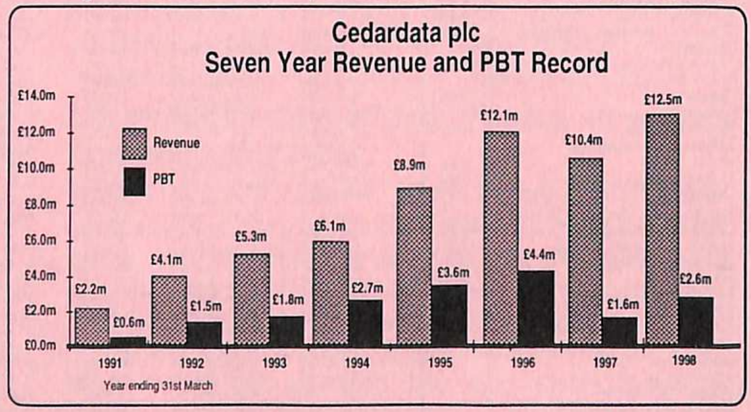


"Overall it has been a very satisfactory year.. We believe that all of the Group's divisions are trading in markets that can deliver long-term growth and in which we have or can realistically aim to have a good market share. The Board is confident that these excellent results provide a foundation for further growth in the year ahead".

Comment. Rebus must be the only *quality* IT services company to float and not now be trading at a substantial premium. Perhaps the initial 88p float price was on the high side to the benefit of CE Heath. We happen to believe that Rebus' old core activities like processing payroll systems are within the significant and fast growing BPO arena (see page 1). We are still not sure about the new media areas, but at least, sales are now being made here too.

Cedardata recovers fairly well

Cedardata has developed a Oracle based commercial and financial accounting suite called *cfacs*. Up to 1996, as can be seen from the chart below, they were in great danger of becoming "boring". But this was changed in FY97 when contract delays reduced revenue and PBT. The interims to Sep. 97 were also pretty awful. But Cedardata has staged a good recovery since and full year results to 31st Mar. 98 are not too bad. Revenue rose 20% to a record £12.5m, PBT increased 61% at £2.6m with EPS up 47%. Still not as good as the record performance in 1996 but at least the trend is upward again. Licence revenues increased 53% as their new *cfacs 8* product gained acceptance, service revenues from consulting and training somewhat surprisingly fell 9%, and maintenance was up 25% and now represents 34% of total revenues. Mike Harrison, Group MD, said *"Our goal in the next year is to integrate the Group's Product Development and Distribution activities in order to exploit these opportunities whilst we continue to delivery satisfactory results for the year".*



Comment. For such a relatively small company, Cedardata has big plans. It is spending up to £18m in buying IPRs in deals up to 2001. They are moving to larger premises and have recruited extra staff to support the new products. The majority of the costs with fall in H199 with any benefits not accruing until the second half. The market was not too impressed with the latest figures. The share price fell further in the month to end on 153p down 11%.

Sales Engineering gets quote

OmniMedia's trading operations were placed in voluntary liquidation earlier this year, leaving just the "shell". OmniMedia is now proposing to reverse into **Sales Engineering & Computer Consultants** for £17m - satisfied by a share issue of over 28m shares. £5m is being raised from a private placing and £3m net is being raised in a rights issue for additional working capital.

SEC is an IT agency and recruitment group with revenue of £9.2m in 1997 and net income of £965K. Tim Rosen and Leslie Kent, OmniMedia's joint MDs, are to resign next month and SEC's CEO Nick Reid (who will own c58% of the combined operation) will take over. We will now have to add the renamed company - **Systems International Group** - back into our Index next month. Trading in the shares started on the 29th June.

Comment. After horrendous losses and a £6m deficit on the balance sheet, OmniMedia's original hapless shareholders (AIM issue in 1995 at 64p) probably thought they had lost virtually everything. Indeed, in a legal scheme devised by their advisers, they will have to accept a 60-1 share consolidation at the equivalent of 1p per share plus the right to subscribe to a rights issue - valued at 2.5p a share. All the old OmniMedia board is quitting.

Comino rerating

Comino, the workflow technology and software applications group, has announced maiden first full year results since they were floated on AIM in Apr. 97 at 130p. On revenue up 69% to £13.2m, PBT increased 37% at £2m with EPS up 15%. Even if acquisition revenue is excluded, organic growth was an excellent 36%. The current annualised run rate is c£16m.

Comino claims to be amongst the market leaders in their three niche markets; social housing (Context), clothing supply chain (Prologic) and electronic document management (ISE).

CEO Garth Selvey *"remains determined to build shareholder value. With Context's acquisition and overseas sale success, ISE's strong order book and Prologic's early success in writing new business, Comino is well placed for a successful future".*

Comment. Although we have always tended to believe that big is often beautiful in the IT market, it just shows what a company can achieve in its own specialised fields. With over £4m net cash available for further suitable acquisitions and with a market now in Australia and Canada as well as the UK, Comino's confidence hopefully will be proved in the coming years. After a slow start, the market has now realised the value of Comino's shares which have now more than doubled since flotation and ended the month on 268p - down slightly in the month.

PhoneLink - losses down and two large acquisitions

We expressed fears from the start that **PhoneLink**'s main product - Tel-Me - would face strong competition from the Internet. They were launched at 155p in 1993, rose at one time to c440p, but since then the share price has fallen remorselessly. The shares ended June on 44p - down 8% in the month. Recent moves seem to be in the right direction.

Results for the year ended 31st Mar. 98 show revenues down 26% to just £3.2m. Due to previous cost cutting actions, losses fell from £6.2m to £3.7m (Note, still higher than revenue!) But the company still have over £8m cash in the bank which they seem to want to use on their latest proposed acquisitions.

PhoneLink is to buy **GB Mailing** for a max. of £11m (£5m now and the remainder payable on an earnout and **Seaforths** for a max. of £5.1m (£4.9m in shares on completion and a deferred £200K in cash).

GB Mailing provides address software products and achieved a profit of £1m on revenue of £6.9m in FY98. Seaforths is an independent travel agent and in the eight months to 31st. Dec. 97 made £404K profit on £26.2m revenue. Seaforths has developed an Internet-based holiday booking package called Ticket Windows.

CEO Graham Ramsey said *"The acquisitions represent a critical and exciting step in PhoneLink's strategic development. They will create significant growth opportunities for the enlarged group and, at the same time, help us to achieve our overriding objective of creating greater value for shareholders".*

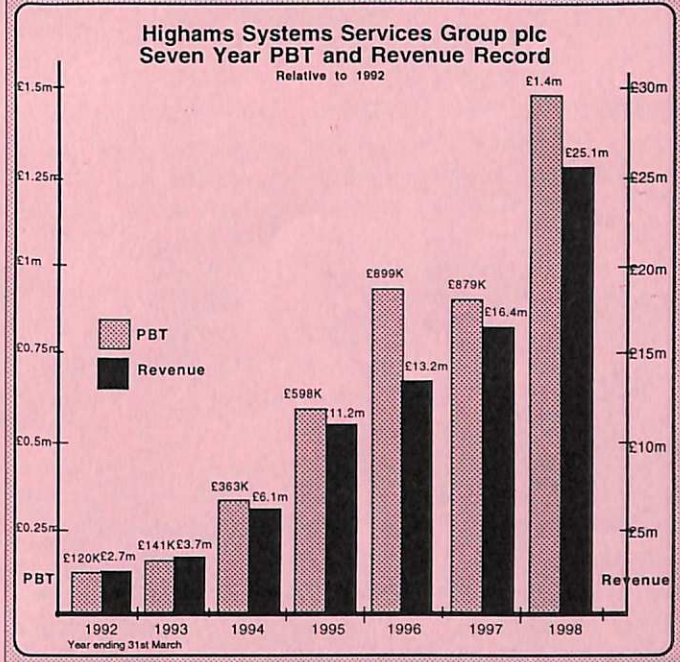
Phonelink still looks a pretty high risk operation. But at least they are now embracing the Internet.

Eidos targets acquisitions

Eidos, best known for its Tomb Raider computer games, issued a statement this month confirming that sales were strong and that they were looking at a number of acquisition targets.

Good results from Highams

Highams is a *"leading supplier of IT services to the insurance and finance sector"* with c90% of their revenue coming from their IT staff agency business. They were a new float on AIM in Dec. 96 at today's equivalent of 37p. In their results for the year ending 31st Mar. 98, revenue increased 53% to £25.1m. PBT was up 57% at £1.4m with EPS up 55% on an amended basis.



They had a 32% increase in contractors on site - to 340 at the year end. According to CEO John Higham, average fee rates have increased 18% in the year with growth fuelled by Y2K and EMU solutions. Higham is confident that *"demand will continue and we look forward to the future with enthusiasm".* Acquisitions are under active consideration but *"in general, we believe that prices being sought in this sector currently are too high".*

The remaining part of Highams' business is now known as Business Solutions and accounts for c10% of revenues. This division grew 56% with profits up 80%. It is this area which could well provide the "cushion" when IT staff agency growth declines post Y2K.

The shares have done well since flotation, and ended June on 135p - up 8% in the month and approaching 4-times the new issue price.

US acquisition for CFS Group

CFS will more than double in size after their acquisition of US **LeaseTek Inc**. for $16.25m (£9.93m), the bulk ($15.4m) in cash, and the remainder in shares. LeaseTek, with some 80 staff, provides lease administration and accounting software applications for the financial sector. They had $5.8m revenue in FY97 and made $706K profit. LeaseTek's two main founders and shareholders are entering into a service agreement with CFS's US subsidiary.

CFS is to fund the acquisition by means of a placement and/or open offer to existing shareholders to raise £12.8m. We are also pleased that CFS is taking the opportunity to write off its capitalised software development costs of £1.8m against reserves.

Comment. Another victory in our long running campaign against the capitalisation of R&D. *Continue to shame them and they surrender in the end!* But there are still a few left, so the fight will continue.

Spring is in the air at CRT

CRT (to be renamed **Spring** on 1st July) has announced that due to their eight acquisitions since May 97 (costing c£50m), they expect revenue to more than double to over £270m in FY98; spilt 75% IT Services and 25% General Services. Analysts are forecasting a PBT of around £18m - an expected 50% increase. Indeed after all the acquisitions are fully integrated, even better profits are expected for FY99. And bear in mind that CRT still has c£28m cash left and no borrowings so further acquisitions most certainly cannot be ruled out.

Continued losses at Proteus

Proteus International is unusual. They have developed a software product (Prometheus) for the modelling of biomolecular structures. Rather than sell the product, they take a "stake" in the drugs produced. All very laudable but so far, rewards have not arrived and their shareholders must be quite unhappy people.

In the year to 31st Mar. 98 revenues were down 69% to £178K and losses increased from £3.8m to £4.1m. Cash increased due to the £7.6m cash call in April which certainly eases any short term problems. It always seems that the rich rewards are just around the corner...*one day, who knows...*

The shares were launched in 1990 at 84p and at one time had risen to over £5. They ended June on 44p.

ICL gains Telecomms Licence

We applauded the ICL/British Gas Transco deal last year. Now **ICL** has been granted a temporary telecomms licence to sell surplus capacity to the business market. *Now Keith, that's what we call really significant news.*

Kewill Systems for rerating?

Kewill Systems has announced revenue up 9% at £45.1m, PBT up 8% at £6.8m (still a 15% margin) but EPS down 3% at 30.1p in year to 31st Mar. 98. (Kewill is one of the first to restate their results under FRS10).

At c20, Kewill has one of the lowest P/Es in the sector. But in the last six months Kevin Overstall has been replaced as Chairman by Andy Roberts and Geoff Finlay has joined as CEO. Sure, their "old" ERP operations - still 38% of revenue - look unexciting but e-commerce is now 27% of revenues. Their business-to-business supply chain and internet offerings are used by a host of bluechips incl. M&S, Tesco and Sainsbury. We understand that some big contracts are in the offing. Readers know of our enthusiasm for this business area which we are sure the new management will be able and willing to exploit.

Note: Kewill bought its US distributor **Granitek** for c£690K this month.

Techinvest

In nearly ten years we have only once helped to promote other people's products but this month we have included information about Conon McCarthy's **Techinvest** newsletter.

Over the years we have increased our respect for Conon. He really does have the ability to move markets. He gives share tips - we don't. He covers only those companies in which you can buy shares - we cover the whole industry. He appeals to private investors *(my word, would we love his number of subscribers)* - we appeal only to corporates. So we are pretty *complementary* really and very *complimentary* towards Conon's insights into our industry.

Lastchance to book for the Holway Evening

Last year around 300 of the very top CEOs from our industry attended Richard Holway's annual presentation on the financial state of the industry on behalf of the CSSA. It is considered by many to have been the best *"networking event"* of the year. So please make a note of this year's date - Thursday 16th July. Starting at 5.30 pm the evening this year, at the Mayfair InterContinental Hotel, London W1 includes drinks and a special dinner.

A *free place* will be awarded to all 1998 Holway Report customers who purchase before that date. Normal price from the CSSA (Tel.: 0171 395 6700) is £145.00 + VAT for CSSA members and £195.00 + VAT for non members.

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