

System House

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

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Fixed price projects - the real reason?

"Logica admitted it is making provisions in its second half figures for cost overruns on two major fixed price contracts" Source Computing 31st May 1990.

Sema's UK division had run into trouble "as costs outran income, reflecting overly aggressive bidding for contracts, lack of central management control and the acceptance of a number of risky projects" Source - FT 14th Sept 1989.

Radius profits slip after an "exceptional debit of £500K related to a provision in the current year for cost overrun on a major software contract" Source FT 30th March 1990.

Headland suffered "cost overruns on two fixed price contracts" which cost Headland £284K. Source - Headland press release.

"SD-Scicon has reported that it is certain to make considerable losses in the first half of 1990 and will do well to break even for the whole year"

SD's Chairman, Philip Swinstead, "Blamed the losses on the company's inexperience in estimating fixed price contracts for large scale systems integration projects" Source - FT 7th August 1990.

We could go on....

It does look as if fixed price projects and systems integration are the "in vogue"

reason for the considerable lack of performance in our industry at present. But we tend to think this is somewhat of a smokescreen. *"Research ... indicates a critical shortage of project managers... We estimate that the active pool... is in the region of 1000 individuals. Approximately half this number, however, are engaged in line-management duties within their companies" Source - Computing Services Industry 1986 - 1996 - DTI report produced by Coopers & Lybrand and IDC.*

That report, published some 3 years ago, highlighted the problem rather better. We have a shortage of good project managers anyway, because the industry has failed to train its best people. This is compounded by experienced project managers who find that the best way to earn increased salaries is to take profit centre responsibility or to form their own companies.

In every case listed above, the companies have used their best managers to help integrate new, major acquisitions into the fold. *The result?current projects are ignored, cost overruns ensue and new contracts are incorrectly estimated.*

"None of the UK software houses have upgraded their management systems to match the rise in average value of contracts from £500K to £15m" Source - Philip Swinstead of SD-Scicon in FT 7th August 1990.

"Systems integration is the easiest way of losing money that our industry has so far invented" Source - Philip Hughes, Logica's Chairman, speaking at 1990 CSA Conference in March.

Both these statements are damning indictments on our industry. After all, we are meant to be the experts on control systems - wasn't critical path analysis one of the first management applications for computers in the 1960s?

All this talk of systems integration is starting to rankle. Nobody yet has shown that systems

integration is any different to the turnkey type contracts that the industry first became involved with 20 years ago. The only stated difference seems to be that SI involves more suppliers. If our industry does not have the managers capable of dealing with 15+ different suppliers on a contract, then there are many other industries that do. Most manufacturing, engineering and construction companies have been used to these demands for years. MIsys, for example, has brought in key managers from other non computing

services disciplines. Maybe other companies should try this route. Others stick to the no risk approach. Ceri James of Admiral told us, after their excellent and consistent results (see page 2), that less than 10% of their revenue came from contracts which had any form of associated risk. Richard Guy from Sherwood told us that they wouldn't touch a fixed price contract. There are many others who take a similar approach.

But customers now want to know how much their developments are going to cost. They are fed up with taking all the risk; with the computing services company charging on a time & materials basis. As Philip Hughes of Logica, speaking of the habits of our industry in the 70s and 80s, said *"Some gained from a lack of productivity the slower you build software the more people you need and the more you can charge the customer" Source - Speech at 1990 CSA Conference.*

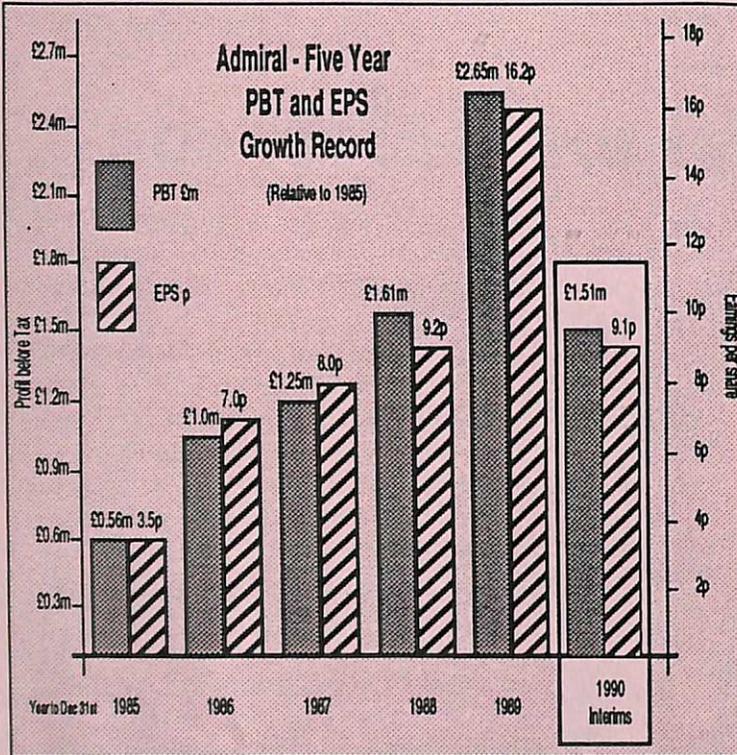
We should use our best project managers to win and successfully manage large international projects rather than ill-conceived acquisitions. If we had, our industry might be stronger today.



Admiral does it again

We have commented before on the recent exemplary performance at Admiral. The latest interim results to June 1990 continue that performance with PBT up 37% at £1.51m on revenues up 36% at £9.78m. EPS is up even higher at 49%.

Admiral is one of the very few not to report an EPS reversal in the last six years and, indeed, to have grown EPS largely in line with PBT as shown below.



PBT was helped by an increase in net interest receivable from £127K to £205K on the £3.5m cash in hand which the group currently holds.

Chairman, Clay Brendish, told shareholders at the AGM of his "expectation of healthy progress in the year as a whole". He now adds "Despite the risk of a UK recession, I still believe that the strength of the company's management will reinforce my optimism". Indeed the order book now stands at £14m - up from the £13m reported in April. "these figures and the healthy order book speak for the future success of the company".

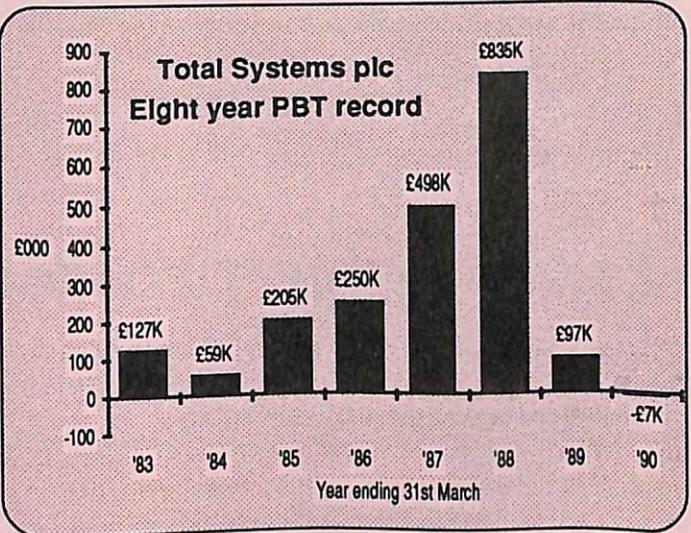
One of the reasons, in our view, for Admiral's exemplary performance has been the absence of the dilutionary effects of acquisitions. In Aug 88, they bought ITTECH for £1.15m and now announce the purchase of Intra Systems which employs 20 consultants specialising in video based training. The purchase price did not have to be disclosed so is not significant in relationship to Admiral's £25m capitalisation.

A strong cash position, small but sensible acquisitions, the absence of risk (see page 1) and a spread of business in defence (39%), financial services (32%) and government (16%) make Admiral one of the safest havens in the storms currently raging in our industry.

County Natwest is reported to be forecasting £3.3m for the full year - up 25% on 1989. That would put Admiral on a prospective P/E of around 11. Given the 23 P/E that CGS is paying for Hoskyns, the interest shown by other French companies and the 4.6% Paribas stake in Admiral, Brendish and James should not fear for their retirement.

Total's depression deepens

When Total came to the USM in March 1988, the shares were placed at 85p and the directors forecast PBT for the year to 31/3/88 of "not less than £825K". Since that point the company's performance has gone into reverse.



Latest results to 31st March 1990 show a loss of £6.7K on revenue down 15% at £1.77m. Chairman, Terry Bourne, said "The unilateral cancelling of a contract by a new client towards the end of our financial year served not only to depress our results but also to cause a pre-tax loss". This contract was worth £150K in profits. At the interim stage Bourne had said "prospects remain strong and we are in a position to take advantage of an upturn in the market which surely must come". This time Bourne just says "Whilst it was unfortunate that a number of expected orders did not come through during the year, their deferral does help us to face the future with more confidence than we have had over the last two years".

Bourne also says "it is comforting to note that our balance sheet remains strong in these difficult business times.. and has no borrowings to pay off". Interest receivable, however, reduced from £43K in 1989 to £33K now even though group cash increased from £168K to £229K.

Total develops custom software and the financial services arena is their largest market. Over 90% of work is on a time and materials basis. It seems to be Total's City business which "had fallen especially sharply" that has caused the greatest problem. Staff have fallen from 68 to just 59 at 31st March 1990.

At the time of the placing just two years ago, the directors realised £1.7m in cash for 20% of the company. However, the whole of Total now has a capitalisation of just £1.65m and their shares have slumped to 17p - just a fifth of the offer price. Total has been one of the worst performers in the sector and, indeed, was recently awarded the dubious honour of being the third worst performing share on the USM in 1989.

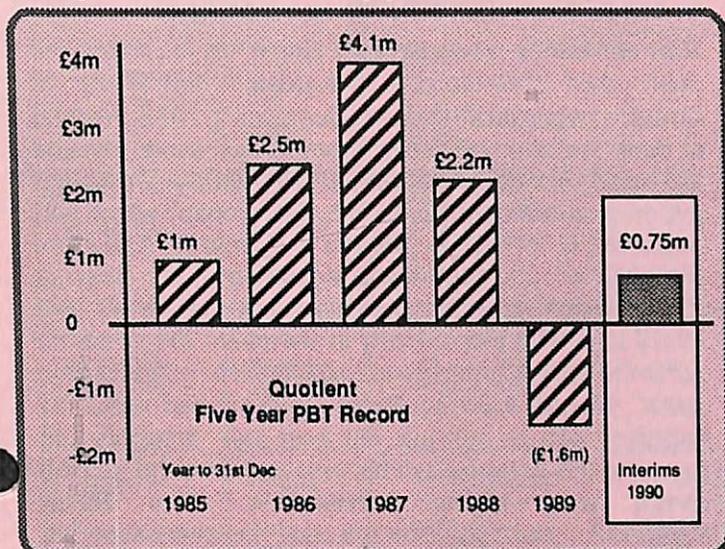
A totally depressing performance.

✓ Further support for FM

Yankee Group's latest survey predicts that virtually all US organisations will consider "outsourcing". The US market, currently worth \$26b, is growing at 15% pa and will benefit from the current recession. Most observers believe this trend is already present in the UK which will benefit FM suppliers like Hoskyns and Capta.

Quotient back in the black

Back in March, after Quotient had announced a loss of £1.58m for the year to Dec 89, Chairman Tim Simon said "Pessimism should not be allowed to linger too long ... we have now rediscovered our ability to earn profits". Latest interims to June 90 showed that new found ability with a PBT of £747K on revenue up 8% at £9.9m. EPS was 3.19p compared to a loss of 10.73p per share last time.



The major reason for the turnaround was reductions in costs to bring them "in line with existing business opportunities" as Stock Exchange volumes, on which Quotient still depends for much of its revenue, remained low. The French office contributed profits of £175K in only its second year of operation but the US operations lost £246K compared to profits of £190K last time.

Prospects, however, look good. The acquisition of Datacorp in June for £100K will enhance Quotient's presence in the supply of dealing room systems, it has converted some of its core systems to UNIX and development of its new international equities trading system, reputed to have cost £2m so far, is underway. As Simon said "Overall, the changes taking place in the world's financial markets present many opportunities".

SD-Scicon warns of heavy losses

SD-Scicon has warned that it will make substantial losses in the first half and will do well to break even for the full year. The reason given is overruns on fixed price contracts. (p1) The 1989 results included a £2.5m exceptional charge "written off against a Government project which had been mismanaged as a result of the merger (with Scicon in 1988)". Many thought that this provision had sorted out the problem. However, analysts now reckon the overruns this year could cost a further £10m. Other reports suggested that the Government may sue SD-Scicon "in what could be the first case of the state bringing a contractor to court over a fixed price contract" Source - Computer Weekly 9th August 1990 - over a contract with the DoE (Northern Ireland) which has gone badly wrong.

Analysts are now predicting a £5m loss for the first half to June 90 and a probable breakeven for the full year.

SD-Scicon shares fell 45% in the month wiping £61m off their capitalisation as a result both of the profits warning and the realisation that British Aerospace is now unlikely to sell its 25% stake in the short term.

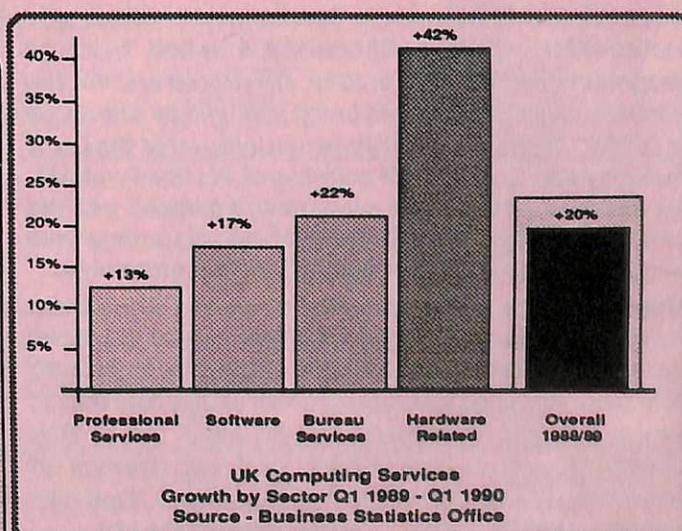
Latest DTI statistics show 20% growth

The latest Business Monitor, produced by the Business Statistics Office of the DTI for Q1 1990, shows a 20% growth in billings - similar to the 19% growth experienced in the previous quarter (see *System House* June 90).

All figures £000	1990 1st Quarter	Increase %
BUREAU SERVICES		
Database services	45,727	-4
Value added network serv.	38,201	50
Other services	124,813	26
TOTAL BUREAU SERVICES	208,741	22
SOFTWARE		
Bespoke Software	175,646	7
Software Products	135,869	27
Software Support & Maint.	46,957	29
TOTAL SOFTWARE	358,472	17
HARDWARE		
Hardware	104,732	38
Hardware Maintenance	23,008	62
TOTAL HARDWARE	127,740	42
PROFESSIONAL SERVICES		
Consulting	91,971	8
Education & Training	26,223	23
Other unclassified	66,279	15
TOTAL PROFESSIONAL SERVICES & OTHER	184,473	13
TOTAL BILLINGS	879,426	20

Yet again, hardware experienced the largest growth with a 62% increase in hardware maintenance as more computing services companies move to systems integration and associated support services.

Bespoke software, the largest category, had a very modest 7% growth with only an 8% growth in IT consultancy. Indeed, people related activities seem to have the lowest growth rates of all.



However, we must repeat our suspicions of these figures. As the DTI does not filter out the effects of acquisition activity, the growth rates are overstated. Our researches would indicate a growth rate nearer 15%. We expect growth to drop into single figures in the period to come.

HEADLAND

the aftermath

As we reported last month, Headland was placed in the hands of the receiver on 26th July 1990. Since then all the businesses have been sold.

Multisoft, the most valuable part of the group, went in an MBO lead by founder Tony Nicholls. The MBO is backed by Hillsdown Investment Trust. Hillsdown were the "third party" who might have saved the whole of Headland but who pulled out on 25th July precipitating Headland's bankers pulling the rug. Nicholls, we understand, was not impressed with the terms of the Hillsdown rescue #1 but was able to move at incredible speed with Hillsdown rescue #2 to win against several other trade bidders. "I'm very pleased that the worst year in my life is out of the way. We've got a revitalised company, good backing, our dealers are happy and I'm personally well-chuffed" said Nicholls Source - Microscope 8th August 1990.

The management get a controlling stake which could get better given good performance. But Nicholls' fighting talk must hide deep bitterness. Last October, Nicholls sold Multisoft to Headland for £11m. The Multisoft shareholders took £2.7m in cash/placing - about equal to the price reputed to have been paid for the whole of Multisoft now. Their Headland shares, worth about £8m in October, are now worthless.

Compsoft, the developers of Delta V, went for £550K to **Cellular Communications**. Compsoft was the original "management buy-in" vehicle for Wilmot and Bristow back in 1987. Bristow's first action as Chairman was to raise £1.3m in a rights issue.

Six months later, in March 1988, a further £2.4m rights issue was announced; £1.6m of which was to purchase **Wootton Jeffreys plc**. In Feb 90, the transportation arm of WJ was sold for around £500K in an MBO and now the receiver has sold the systems development and packages part of WJ for £300K to **Sherwood**. This had "made an unaudited loss before tax of £25K on revenue of £3m. The net book value of the assets being acquired by Sherwood is £525K". Richard Guy of Sherwood told us that the Local Authority and Government activities of WJ fitted well with his own operation and he seemed well pleased with the bargain he had got. People from WJ have told us they were trading profitably this year and had a good order book.

Mega Systems was sold to **Calidus** (the DEC system house setup five years ago by many ex-Hoskyns people) for, we understand, around £225K. Calidus had become a distributor for Mega's Miracle product so the deal makes sense. We also understand that an MBO, led by Bob Thompson, did a back-to-back deal with Calidus to acquire the DG version of the Miracle software. Their new company is to be called **Miracle Products Ltd**.

That just leaves Multisoft Supplies and the buildings in Godalming and Brookwood which have been on the market for some time. It therefore looks as if the receiver will raise between £4 - £4.5m in the end. Almost enough to satisfy the banks who were owed £5m+. But nothing for the creditors or shareholders.

HEADLAND

the inquest

The Headland story is one of hype and mismanagement. We have publically criticised Headland for some time and Headland have often criticised us for doing so.

Why did things go so wrong? Some say the seeds had been sown from the day that Bristow and Wilmot of Octagon began their rescue of Compsoft in 1987. We tend to think that the first really wrong move came with the acquisition of Mega in Sept 88. An initial £4m was paid with a £6m deferred consideration for a company which had declared PBT of £391K. "Mega's budget at the start of the year was £1.1m. Due to the existence of the deferred consideration arrangement, Mega was run by its own board until 31st Dec 89 and in the event the company achieved approx. breakeven result before reorganisation costs". Mega's founder, Peter Guymer, had ruled the company with an iron rod. His post sale thoughts had turned to the enjoyment of his new found wealth and the result was highly predictable. **The Mega lessons?.....**Don't pay over the odds however desperate you are to do a deal, ensure there is management succession and gain control quickly (which is difficult when a performance related deal is in place).

But the Mega situation on its own would not have been terminal for Headland. In Oct 89, Headland acquired **Multisoft** for a consideration of £11m - about the same as Headland's capitalisation. Headland had some cash left in the bank before, but the cash part of the consideration (£1.1m) and the excessive £750K fees relating to the acquisition overstretched Headland's gearing. Multisoft experienced three flat years until 1989, when 11 months profits surged to £1.2m from £456K the previous year. Multisoft had expected a 25% growth but in the event sales were down 30-40%. **The Multisoft lessons?...**Don't overstretch your gearing, don't acquire companies the same size as your own, look carefully at companies that suddenly make big profits in the year they are for sale and don't go for growth in times of obvious recession.

And then there was the hype. Just 12 months ago Bristow was still forecasting a £100m turnover within 4 years. As the FT's Alan Cane, said "Such ambitions are commonplace in the volatile software world; the Headland plan, however, is backed by some of the most prestigious names in UK computing circles" Source - FT 3rd July 1989. Even in October 1989, Bristow said "The combination of Mega and Multisoft will enable us to obtain increased benefits from R&D activities to enhance earnings growth. The outlook for the future looks buoyant". Yet the problems at Mega must have been apparent at that point.

Bluntly, if this is what happens to a company "backed by the most prestigious names in UK computing circles" then readers might wish to think again before wanting to join such circles. Some of the most successful leaders in our industry also have the lowest profiles.

The staff, the creditors and the small shareholders in Headland are the ones that have really suffered.

And, unfortunately, the reputation of our industry.

Richard Holway Limited - Results Service

Admiral plc	Results Revenue PBT EPS	Interim - June 89 £7,221,000 £1,104,000 6.1p	Final - Dec 89 £15,971,000 £2,653,000 16.2p	Interim - June 90 £9,785,000 £1,511,000 9.1p	Interim Comparison +35.5% +36.9% +49.2%
ACT plc	Results Revenue PBT EPS	Final - Mar 89 £105,773,000 £6,012,000 6.22p		Final - Mar 90 £140,712,000 £8,026,000 7.07p	Final Comparison +33.0% -33.5% -13.7%
Butler Cox plc	Results Revenue PBT EPS	Final - Dec 88 £7,699,791 £924,994 10.24p		Final - Dec 89 £9,370,000 £1,324,095 16.43p	Final Comparison +21.7% +43.2% +60.4%
Capita plc	Results Revenue PBT EPS	Final - Dec 88 £4,301,000 £747,000 6.65p		Final - Dec 89 £6,880,000 £1,300,000 10.39p	Final Comparison +60.0% +74.0% +56.2%
Computer People plc	Results Revenue PBT EPS	Final - Dec 88 £47,023,000 £3,229,000 17.84p		Final - Dec 89 £69,919,000 £4,219,000 21.8p	Final Comparison +48.7% +30.7% +22.2%
Electronic Data Processing plc	Results Revenue PBT EPS	Interim - Mar 89 £7,600,000 £373,000 3.41p	Final - Sept 89 £16,034,000 £1,040,000 8.45p	Interim - Mar 90 £8,330,000 £822,000 7.14p	Interim Comparison +9.6% +120.4% +109.4%
Ferrari Holdings plc	Results Revenue PBT EPS	Final - Dec 88 (Restated) £16,621,000 £399,000 Not available		Final - Dec 89 £32,003,000 £1,419,000 Not available	Not comparable due to accounting period change
Hoskyns Group plc	Results Revenue PBT EPS	Interim - Apr 89 £87,300,000 £6,730,000 5.4p	Final - Oct 89 £188,706,000 £15,229,000 23.9p	Interim - Apr 90 £111,700,000 £8,160,000 6.3p	Interim Comparison +27.9% +21.2% +16.9%
INSTEM plc	Results Revenue PBT EPS	Final - Dec 88 £7,565,000 £681,000 9.7p		Final - Dec 89 £8,003,000 £885,000 12.9p	Final Comparison +5.8% +30.0% +33.0%
Kewill plc	Results Revenue PBT EPS	Final - Mar 89 £11,325,000 £1,805,000 19.71p		Final - Mar 90 £17,107,000 £2,668,000 27.11p	Final Comparison +51.1% +47.8% +37.5%
LBMS plc	Results Revenue PBT EPS	Final - Apr 89 £12,774,000 £1,453,000 7.9p		Final - Apr 90 £18,470,000 £450,000 2.3p	Final Comparison +44.6% -69.0% -70.9%
Logica plc	Results Revenue PBT EPS	Interim - Dec 88 £77,270,000 £7,440,000 7.9p	Final - Jun 89 £179,505,000 £18,835,000 20.0p	Interim - Dec 89 £91,341,000 £6,022,000 6.2p	Interim Comparison +18.2% -19.1% -21.5%
Logitek plc	Results Revenue PBT EPS	Final - Mar 89 £29,200,387 £2,752,013 15.28p		Final - Mar 90 £59,580,000 £3,830,000 16.27p	Final Comparison +104.0% +39.2% +6.5%
Macro 4 plc	Results Revenue PBT EPS	Interim - Dec 88 £5,875,000 £2,775,000 7.9p	Final - Jun 89 £13,500,000 £6,501,000 18.4p	Interim - Dec 89 £6,947,000 £3,279,000 9.2p	Interim Comparison +18.2% +18.2% +16.5%

Richard Holway Limited - Results Service

Micro Focus plc	Results Revenue PBT EPS	Final - Jan 89 (Restated) £21,314,000 £2,637,000 16.3p		Final - Jan 90 £35,639,000 £8,223,000 37.4p	Final Comparison +67.2% +211.8% +129.4%
Microgen plc	Results Revenue PBT EPS	Interim - Apr 89 £22,982,000 £4,847,100 8.0p	Final - Oct 89 £45,071,000 £7,179,000 11.1p	Interim - Apr 90 £25,050,000 £4,530,000 7.1p	Interim Comparison +9.0% -7.0% -13.0%
Misys plc	Results Revenue PBT EPS	Final - May 89 £25,386,000 £5,630,000 22.8p		Final - May 90 £76,741,000 £11,070,000 23.5p	Final Comparison +202.3% +96.6% +3.1%
MMT plc	Results Revenue PBT EPS	Interim - Feb 89 £3,464,000 £922,000 5.5p	Final - Aug 89 £7,443,898 £2,151,953 12.8p	Interim - Feb 90 £3,735,000 £1,012,000 5.7p	Interim Comparison +7.9% +9.8% +3.6%
NMW Computers plc	Results Revenue PBT EPS	Final - Dec 88 £10,318,000 (£1,327,000) (4.6p)		Final - Dec 89 £9,119,000 £87,000 0.2p	Final Comparison -11.6% Loss to profit Loss to profit
P&P plc	Results Revenue PBT EPS	Interim - May 89 £79,850,000 £5,000,000 9.9p	Final - Nov 89 £168,869,000 £11,066,000 20.8p	Interim - May 90 £109,400,000 £6,800,000 11.4p	Interim Comparison +37.0% +36.0% +15.2%
P-E International plc	Results Revenue PBT EPS	Final - Dec 88 £48,234,000 £4,511,000 17.5p		Final - Dec 89 £58,017,000 £5,622,000 21.1p	Final Comparison +20.3% +24.6% +20.6%
Pegasus plc	Results Revenue PBT EPS	Interim - Jan 88 £3,910,000 £1,290,000 15.6p	Final - Jul 89 £10,873,000 £3,084,000 36.7p	Interim - Jan 90 £7,830,000 £1,340,000 16.1p	Interim Comparison +100.3% +3.9% +3.2%
Proteus plc	Results Revenue PBT EPS	Final - Sept 88 nil (£436,000) not available		Final - Sept 89 £21,000 (£588,000) not available	Final Comparison Not comparable Loss both Loss both
Quotient plc	Results Revenue PBT EPS	Interim - June 89 £9,203,000 (£1,984,000) (10.73p)	Final - Dec 89 £19,095,000 (£1,577,000) (8.8p)	Interim - June 90 £9,924,000 £747,000 3.19p	Interim Comparison +7.8% Loss to profit Loss to profit
Radius plc	Results Revenue PBT EPS	Interim - May 89 £13,445,000 £1,015,000 2.5p	Final - Nov 89 £28,630,000 £2,000,000 4.74p	Interim - May 90 £14,521,000 £1,394,000 3.2p	Interim Comparison +8.0% +37.3% 28.0%
Rolfe & Nolan plc	Results Revenue PBT EPS	Final - Feb 89 £3,841,000 £757,000 18.7p		Final - Feb 90 £5,460,000 £1,142,000 27.6p	Final Comparison +42.2% +50.9% +47.6%
Sage Group plc	Results Revenue PBT EPS	Interim - Mar 89 £4,539,000 £1,438,000 6.2p	Final - Sep 89 £9,304,000 £2,911,000 12.6p	Interim - Mar 90 £6,703,000 £2,341,000 7.65p	Interim Comparison +47.7% +62.8% +55.6%
Sanderson Electronic plc	Results Revenue PBT EPS	Interim - Mar 89 £6,187,000 £1,509,000 11.5p	Final - Sep 89 £12,008,000 £3,013,000 23p	Interim - Mar 90 £6,446,000 £1,780,000 14.0p	Interim Comparison +4.2% +18.0% +21.7%

Richard Holway Limited - Results Service

SD-SCICON plc	Results Revenue PBT EPS	Final - Dec 88 £221,565,000 £13,354,000 4.01p		Final - Dec 89 £283,304,000 £7,230,000 0.59p	Final Comparison +27.9% -45.8% -85.3%
Sema Group plc	Results Revenue PBT EPS	Final - Dec 88 £266,893,000 £12,929,000 8.4p		Final - Dec 89 £293,021,000 £17,457,000 11.6p	Final Comparison +9.8% +35.0% +38.1%
Sherwood Group plc	Results Revenue PBT EPS	Final - Dec 88 £26,528,000 (£1,965,000) (36.8p)		Final - Dec 89 £25,397,000 £2,024,000 25.0p	Final Comparison -4.3% Loss to Profit Loss to Profit
Star plc	Results Revenue PBT EPS	Interim - Dec 88 £6,911,000 £464,000 3.5p	Final - Jun 89 £14,213,000 (£930,000) (11.7p)	Interim - Dec 89 £6,392,000 (£649,000) (9.5p)	Interim Comparison -7.5% Profit to Loss Profit to Loss
Synapse plc	Results Revenue PBT EPS	Interim - Jan 89 £4,072,400 £463,100 8.54p	Final - Jul 89 £9,074,050 £1,096,967 20.19p	Interim - Jan 90 £4,674,800 (£249,200) (7.07p)	Interim Comparison +14.8% Profit to loss Profit to loss
Systems Reliability plc	Results Revenue PBT EPS	Final - Dec 88 (Restated) £24,070,000 £1,362,000 3.32p		Final - Dec 89 £134,586,000 £7,863,000 12.76p	Final Comparison +459.1% +477.3% +284.3%
Tele- computing plc	Results Revenue PBT EPS	Interim - Mar 89 £1,310,000 (£332,000) (6.97p)	Final - Sep 89 £2,519,080 (£777,000) (16.47p)	Interim - Mar 90 £1,232,000 (£44,000) (0.99p)	Interim Comparison -6.0% Loss both Loss both
Total Systems plc	Results Revenue PBT EPS	Final - Mar 89 £2,100,508 £96,543 0.59p		Final - Mar 90 £1,777,084 (£6,722) (0.8p)	Final Comparison -15.4% Profit to loss Profit to loss
Touchstone plc (was MBS)	Results Revenue PBT EPS	Final - Dec 88 £116,283,000 (£14,095,000) (14.6p)		Final - Dec 89 £77,317,000 (£4,817,000) (4.7p)	Final Comparison -33.5% Loss both Loss both
Trace plc	Results Revenue PBT EPS	Interim - Nov 88 £4,612,000 £847,000 4.97p	Final - May 89 £9,814,976 £1,709,233 9.96p	Interim - Nov 89 £5,798,000 £934,000 4.78p	Interim Comparison +25.7% +10.3% -3.8%
Vistec Group plc	Results Revenue PBT EPS	Final - Apr 89 £11,961,000 £1,318,000 0.86p (5 months only)		Final - Apr 90 £36,048,000 £1,580,000 0.92p	Final Comparison Not comparable Not comparable Not comparable

Mytec goes into liquidation

The latest in an increasingly long line of company failures in the computing services industry is **Mytec Group plc** where receivers Poppleton & Appleby were appointed in the week ending 17th August. Latest filed accounts are to December 1988 and show PBT of £270K on revenues of £2.25m. No accounts had been filed for 1989 which is usually a bad omen.

Mytec achieved plc status in Aug 1989 but, according to the London Gazette, Connect Data (Reading) Ltd presented a petition to wind up the company as early as 7th March 1990; so problems must have been brewing for some time.

What makes the Mytec failure of importance is that they were a dedicated UNIX systems house - just the kind that was a popular acquisition target in 1989.

John Spencer of Poppleton & Appleby was reported as saying "It's too early to name the scale of Mytec's liabilities, but it owes substantial amounts to **Tetra**, **TIS** (part of Misys) and **Tamarisk**" Source Microscope 22nd August 1990. So, yet again, there are some sad faces amongst our more avid readers this month.

The "profitable" maintenance arm has already been sold by the receiver to **Open Technology** and, two months before the failure, **Mytec Micros** had been sold in an MBO to a new outfit called **IT Mandate**.

Acquisitions and disposals

Vistec buys one and sells one

Vistec sold its loss making National Computer Supplies subsidiary to "a small private company" for £500K in cash. NCS lost £290K on revenues of £6.9m in the year to April 1990. The Vistec board considered that it "would require a disproportionate amount of group management time to return to profitability". Source - Microscope 8th August 1990.

In the same week, Vistec, via its Level V subsidiary, also bought the assets of the loss making distribution and support division of Sphinx from Pegasus. Sphinx was acquired by Pegasus for £2.75m in March 89 but apparently lost £277K in the six months to Jan 90. Vistec is paying net asset value plus £500K although Pegasus are retaining "the benefit of all trade debtors". The further consideration is "not expected to exceed £200K".

Ferrari sells software subsidiary to Sanderson

Ferrari, which issued a profits warning last month, has sold 55% of its PICK software subsidiary UCL Computer Factors to PICK system house, Sanderson, for £55K cash. Sanderson has the option to purchase the remaining 45% "at a price of £500K plus attributable asset value at any time up to 31st December 1991". The subsidiary lost £520K on revenues of £5.1m in the year to Dec 89. Sanderson's Chairman, Paul Thompson, believes that the acquisition will further strengthen its position as one of the leading suppliers of PICK based systems. "All UCL's products are PICK based and its existing vertical markets complement our own present range".

Ferrari has entered into a maintenance referral agreement with Sanderson. But these arrangements often disappoint as MBS realised with Technology plc. The deal looks good value and logical for Sanderson which continues its successful "stick to the knitting" approach.

Others.... Admiral has bought video training business Intra Systems for an undisclosed amount (see p 2). PC maintenance company DCM Services has bought the engineering and maintenance subsidiary of Data Dynamics which has 26 staff and revenues of £1m. Sintrom Group plc has acquired Swindon based networking company IPAC Systems Ltd for £450K. IPAC specialises in the design and installation of WANs on open systems standards. Microgen has acquired the COM business of Microscribe for an initial consideration of £1.8m. A further £250K is payable if turnover reaches £3m in the year after acquisition.

See elsewhere for disposals by the receivers of Headland subsidiaries (page 3) and Mytec (page 7).

High Flyer Torus falls

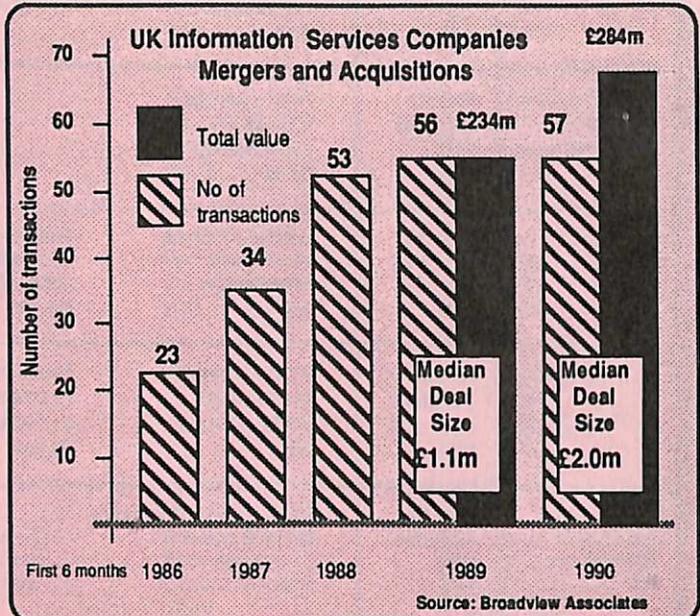
Torus, the UK's great white hope in the LAN area with over 100,000 users, has gone into receivership. Telemetrix has acquired the assets for between £250K and £500K.

Hoskyns shareholders don't take the money

Hoskyns shareholders obviously decided that the CGS offer of a minimum of £4.69 per share in late 1992 was too good an offer to miss. Only 525,516 (0.6%) Hoskyns shares were sold for the £3.30 cash offer leaving CGS with 70.2% when the offer closed on 21st August 1990.

Broadview report continued acquisition activity

The latest Broadview report on mergers and acquisitions effecting UK CSI companies in the first half of 1990 shows a continuation of the frenetic pace witnessed in 1989. The diagram shows comparisons for the first six months in each year.



"The growth in total value - up 21% at £284m - was achieved despite the absence of megadeals". "The bulk of acquisitions in the first half were software products companies (60%) followed by consultancy firms (32%)".

"As a result of the positive economic conditions elsewhere in Europe, we expect the pace of the consolidation of the European computing services industry to grow during the second half". Although Broadview does not exactly use the words, it does look likely that the UK CSI industry will be at the receiving end of such "European consolidation" as the recent Hoskyns and SD-Scicon deals amply demonstrate. Stephen Bachmann, a Broadview director, told us "the French are certainly the most acquisitive Europeans in our industry in particular CGS, whom we represented in the SD-Scicon SCS (WG) deal, has no intention of changing its acquisition policy or slowing its pace, despite what you may have read in the press".

For further details contact Broadview on 071 836 8081.

ComputerGroup in two acquisitions

ComputerGroup has bought Colston Computers of Bristol. The purchase did not include Colston's multiuser subsidiary Computer Answers. Then on 10th August, they bought the corporate sales business of of Logitek's CSM subsidiary for £1.684m. This part of the business comprises stocks of £326K and book debts of £1.358m. The proceeds will be used to reduce Logitek's borrowings.

AT&T Istel in first purchases

AT&T Istel has made its first acquisitions since the AT&T takeover in Sept 1989 by buying Daton for £2.5m. WP Associates, which Daton itself was to acquire, is also included in the deal. Daton is an ICL Traderpoint system house specialising in the local government arena. WP is a Bull and Philips VAR. The new operation has annual revenues of £4.5m and 60 staff. Daton should allow AT&T to accelerate its growth in the local authorities sector.

Gulf crisis hits index hard

The mounting crisis in the Gulf has hit both the FTSE 100 and the Computing Services Index hard. The only comfort for hard pressed shareholders is that both indices fell by around 11% in the last month.

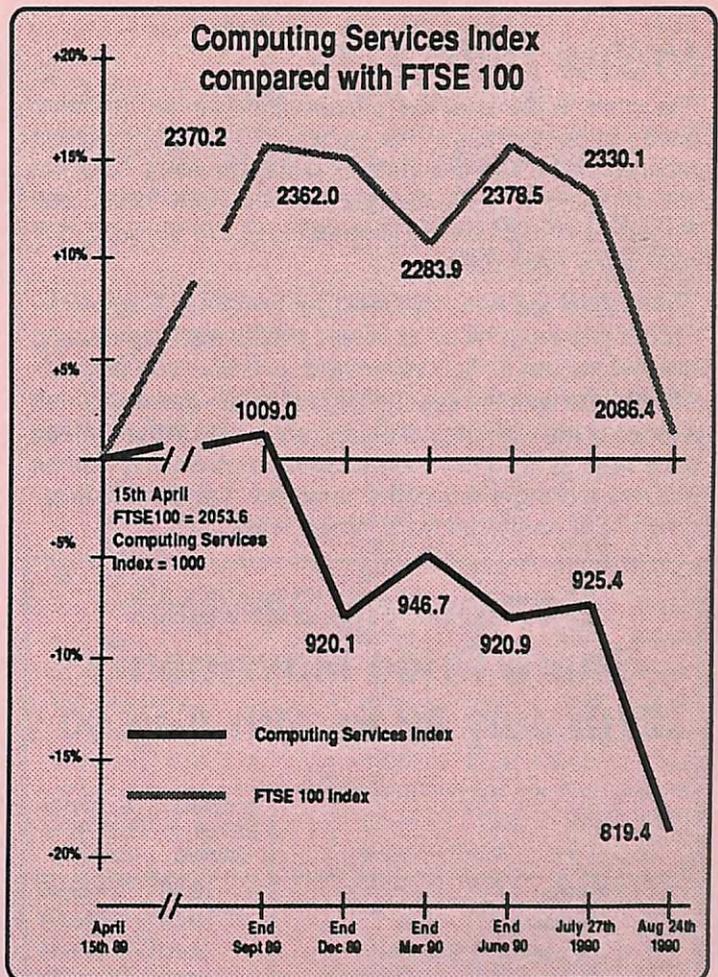
Only 14 of the 39 quoted computing services companies is showing a gain since April 1989. **Micro Focus** still leads the chart but even they have fallen 10% in the last month. At the other end of the scale, **Ferrari** has lost 85% of its value and **Star** is now under a fifth of its share price in April 1989.

As can be seen, we have deleted both **Headland** and **Optim** from our index and have added **Proteus** which came the market in May 1990. Surprisingly, given the absence of any profit record, **Proteus** has gained 27% since its placing.

Computing Services Share Price Index 24th Aug 90

Index Rank	15th April 1989 = 1000	Share Price 24/8/90	Index 24/8/90
1	Micro Focus ●	£7.15	3454.10
2	Hoskyns ●	£3.50	1707.31
3	Sema Group ●	£5.30	1666.67
4	Admiral ●	£2.25	1630.43
5	Capita ●	£1.59	1590.00
6	Sage Group ●	£1.98	1523.07
7	Rolfe & Nolan ●	£1.10	1299.42
8	Proteus ●	£1.07	1273.81
9	Computer People ●	£2.61	1074.07
10	Sanderson ●	£2.45	1042.55
11	Sherwood ●	£1.25	1041.66
12	Macro 4 ●	£2.56	1032.26
13	ACT ●	£0.65	1031.75
14	Butler Cox ●	£1.78	1017.14
15	P-E International ●	£2.33	958.85
16	Kewill ●	£2.30	909.09
17	INSTEM ●	£0.90	900.00
18	P&P ●	£1.87	838.57
19	Electronic Data Processing ●	£0.77	785.71
20	Systems Reliability ●	£0.91	728.00
21	Pegasus ●	£2.40	653.95
22	Quotient ●	£0.74	643.48
23	MMT ●	£1.04	619.05
24	Learmonth & Burchett ●	£0.72	600.00
25	Trace ●	£0.75	600.00
26	Logitek ●	£1.01	583.24
27	SD-Scicon ●	£0.37	474.36
28	Logica ●	£1.67	457.54
29	Microgen ●	£1.07	457.26
30	NMW ●	£0.26	433.34
31	Vistec ●	£0.09	393.33
32	Radius ●	£0.52	376.81
33	Total ●	£0.17	311.32
34	Synapse ●	£0.90	310.35
35	Misys ●	£1.18	293.53
36	Telecomputing ●	£0.25	268.81
37	MBS (now Touchstone) ●	£0.12	255.32
38	Star ●	£0.23	191.67
39	Ferrari ●	£0.18	146.94

Note: Index set at 1000 on 15th April 1989. Any new entrants to the market are allocated an index of 1000 based on the issue price.



CSA trend survey points to downturn

The CSA Business Trend Survey for Q2 1990 states "that the high expansion rates of the end of the 80s are no more". "The rate of expansion.. fell markedly. It has clearly dropped from the 20%+ pa of 1989/90 but has not yet gone negative".

The 160 CEOs who responded to the survey "recorded their lowest-yet level of business confidence" with more companies predicting that the prospects for their companies would worsen in the next year than in any previous CSA survey.

Turnkey business "recorded a negative growth rate indicating an actual decline in business during Q2". Corporates delaying capital expenditure has been widely used as a reason for profits warnings from computing services companies recently and the CSA survey bears out the problems effecting the systems integration segment of the market.

The survey also reveals that there is likely to be an actual decline in staff numbers in Q3. Indeed, there has been a rush of layoff news recently. This month, for example, **Sema** cut over 100 jobs in their defence and financial services divisions. Graeme Ferrero, Sema's marketing director, described the financial sector as dead and that there had been no change in defence even though the MOD embargo on new contracts was ended three months ago.

The latest survey from the CBI also warned of a recession in the second half of the year. The computing services sector was hardly effected by the last recession in 1980/81. This time, it looks as though the industry will suffer very badly.

Index falls 11%

The crisis in the Gulf has caused mayhem to the share prices of companies in the sector. 37 of the companies recorded falls. The only gainers were **Vistec** up 12%, but still showing a 33% decrease since April 1990, and **Pegasus** up 0.8%. Only 9 companies are showing any gain since April 1990.

The largest fall was recorded by **Ferrari** - down 49%. Ferrari has been hit by its recent profits warning causing the resignation of Bob Woodland as CEO - see page 12. **SD-Scicon** was the second largest loser - down 45% - as a result of the warnings of significant losses in the first half (see page 3). **Star** fell another 34% on continuing worries over the management of the company. **Telecomputing** - down 32% - suffered from similar fears.

Computing Services Share Price Movements 27th July 90 to 24th Aug 90

Rank		% Change 27/7/90 to 24/8/90	% Change 20/4/90 to 24/8/90
1	Vistec	12.50	-33.33
2	Pegasus	0.84	-18.09
3	Learmonth & Burchett	0.00	-38.46
4	Synapse	0.00	-23.73
5	Sema Group	-1.12	19.10
6	Butler Cox	-1.66	-10.55
7	Hoskyns	-2.51	1.16
8	Admiral	-3.43	2.27
9	Sage Group	-3.88	5.32
10	Sanderson	-3.92	-16.38
11	Radius	-5.45	13.04
12	Computer People	-6.12	-2.61
13	Trace	-7.41	-27.18
14	MBS (now Touchstone)	-7.69	-33.33
15	P-E International	-7.91	-8.27
16	Capita	-8.62	-4.79
17	Sherwood	-9.42	-13.79
18	Systems Reliability	-9.90	-12.50
19	Micro Focus	-10.40	28.14
20	INSTEM	-12.62	0.00
21	Total	-13.16	3.13
22	MMT	-13.33	-36.20
23	NMW	-13.33	-16.13
24	ACT	-13.33	-23.53
25	Proteus	-14.40	27.38
26	Electronic Data Processing	-14.44	14.93
27	P&P	-14.61	-16.89
28	Macro 4	-16.88	-13.51
29	Logica	-16.92	-43.96
30	Quotient	-18.68	-29.52
31	Microgen	-18.94	-1.83
32	Rolfe & Nolan	-20.00	-9.84
33	Logitek	-21.09	-28.87
34	Kewill	-22.82	-20.14
35	Misys	-27.16	-47.56
36	Telecomputing	-32.43	-28.57
37	Star	-34.29	-52.08
38	SD-Scicon	-45.19	-53.16
39	Ferrari	-48.57	-73.33

Computing Services Index 24th August 1990

April 15th 1989 = 1000

819.24

Misys continued its spiral downwards with a further 27% decline. Their share price is now just a quarter of their high of £4.50. Press reports have indicated that Misys would be lucky to equal last year's profits of £11m.

It is difficult to find too many bright spots in a thoroughly depressing picture. But **Hoskyns** share price has kept up well due to the guaranteed nature of the CGS buy back of shares at £4.69 in late 1992. If the fortunes of the industry and the Stock Exchange continue downwards, the price CGS paid will look highly favourable.

Given the prognosis for financial accounting systems sales, it is interesting to note the relative resistance of the share prices for both **Pegasus** and **Sage**. Multisoft had hit a major sales downturn and Sage had already admitted market problems with their Sky range.

Sanderson also did well, losing just 4%, probably as a reaction to their buy out of the BT option in Telecom Capita (see August edition). **Sema** also lost just 1% with a share price still buoyed by bid speculation.

Changes in Indices	Computing Services Index	FTSE 100
Month 27th July 90 to 24th August 90	-11.4%	-10.4%
16 months 15th April 89 to 24th August 1990	-18.1%	+1.6%
4 months 20th April 90 to 24th August 1990	-13.5%	+4.8%

Joint ventures gain popularity

Both **Logica** and **SD-Scicon** have announced major joint ventures in the last month. Logica and British Airways have setup a joint venture, owned 51% by BA, to develop and market software for the international air transport industry. Speedwing-Logica starts trading on 1st Sept employing c150 people with a £10m revenue target in three years.

Then **SD-Scicon** announced a joint venture with Union Internationale de Chemins de Fer - a consortium of 11 European national rail companies - to provide rail reservation and freight monitoring systems. The Dutch company PS Groep is being used as the vehicle for the venture. SD had held 25% of PS via its West German SCS operation which was sold to CGS last month. SD has now taken 35% of PS with the intention of increasing its holding to 50% within two years.

Many in our industry have forecast that these kind of joint ventures will become the hallmark of the 90s. If our industry can exploit opportunities in this manner, rather than being acquired by foreign predators, then perhaps the UK stands a chance of retaining its influence in the 90s.

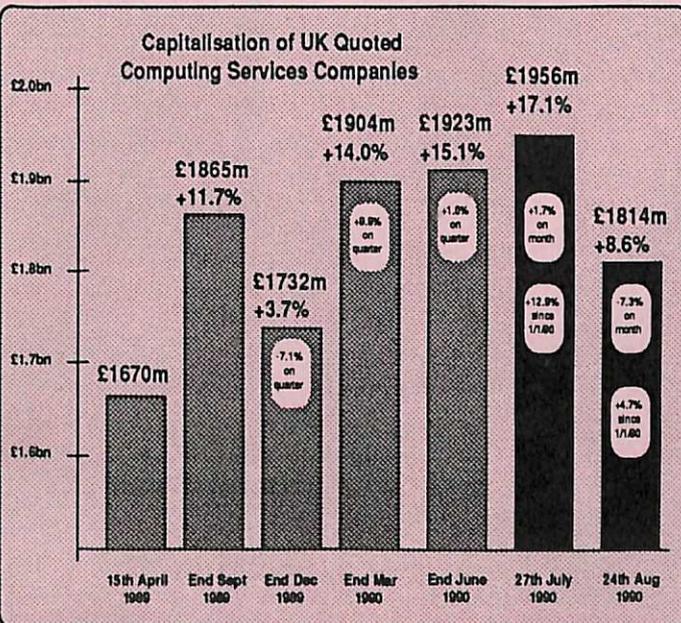
£143m wiped off share values

The total capitalisation of quoted UK computing services companies fell by £143m in the last month - the largest monthly fall since our records began, even though we have added **Proteus** (£23m) and deleted **Headland** (£4.34m when shares were suspended).

SD-Scicon shed £61m - down 53% in the month due to the profits warning - and now has a capitalisation of just £75m but **Logica** also lost £21m to end at £102m.

P&P is now in the number 3 position at £140m due to the success of their recent £27.7m rights issue. The money will be used to repay bank borrowings and fund future European acquisitions. The fact that P&P has now overtaken **Logica** and **Micro Focus** has moved ahead of **SD-Scicon**, upsetting a "Top Four" order set since "time began", is testimony as much to those companies' excellent management and their well focussed market strategies as to the declining fortunes of our established players.

We now have three companies - **Star**, **Telecomputing** and **Total** - with capitalisation less than £2m.



Windows

Microsoft shipped 500,000 copies of their Windows 3.0 GUI in the first six weeks since launch and now Dataquest has come up with a forecast that, from an installed base of 860,000 in 1990, this will grow to a massive 13.2m by 94.

ZX80 for sale

I would suspect that most readers, like me, have a cupboard full of Sinclair ZX80s, Spectrums etc. I bought them to introduce my kids to computers but they failed to get the bug. It was only when I bought my Apple Mac home that the interest started. Now, no school project can be considered unless it is professionally produced via our DTP system. Sir Clive Sinclair has now sold his controlling interest in **Cambridge Computer** to US based **SCI**. Seems like a wise move, but would anyone like *my* kit?

Computing Services Capitalisation - 24th Aug 90

Rank		Capitalisation 24/8/90 £m	% Change since 15/4/89	% Change since 27/7/90	£m Change since 27/7/90
1	Sema Group	£472.71	66.39	-1.11	(£5.29)
2	Hoskyns	£299.30	81.61	-2.51	(£7.70)
3	P&P	£140.20	87.69	61.34	£53.30
4	Logica	£101.52	-54.02	-16.86	(£20.58)
5	Micro Focus	£89.59	247.23	-14.19	(£14.81)
6	SD-Scicon	£74.56	-52.57	-45.17	(£61.44)
7	ACT	£60.83	53.61	-13.23	(£9.27)
8	Systems Reliability	£58.43	34.33	-9.69	(£6.27)
9	Macro 4	£56.61	5.03	-16.87	(£11.49)
10	Microgen	£41.40	-53.17	-18.99	(£9.70)
11	P-E International	£38.64	-2.42	-7.78	(£3.26)
12	Misys	£37.04	-51.13	-27.23	(£13.86)
13	Computer People	£35.49	15.60	-6.12	(£2.31)
14	Sage Group	£32.61	53.80	-2.96	(£0.99)
15	Admiral	£24.36	66.84	-3.34	(£0.84)
16	Proteus	£22.99	27.34	-14.55	(£3.91)
17	Kewill	£21.85	30.06	-23.06	(£6.55)
18	Sanderson	£21.20	7.61	-4.07	(£0.90)
19	Capita	£20.23	149.73	-2.75	(£0.57)
20	Logitek	£17.01	-16.20	-21.25	(£4.59)
21	MBS (Touchstone)	£15.60	-74.47	-7.69	(£1.30)
22	Pegasus	£14.70	-25.76	1.38	£0.20
23	Radius	£11.97	-62.48	-5.75	(£0.73)
24	MMT	£10.98	-36.51	-13.52	(£1.72)
25	Quotient	£10.18	-34.78	-17.94	(£2.23)
26	Vistec	£10.08	358.18	12.37	£1.11
27	Trace	£9.81	-39.08	-7.47	(£0.79)
28	Ferrari	£9.66	-50.70	-48.60	(£9.14)
29	Butler Cox	£9.51	2.07	-1.63	(£0.16)
30	Learmonth & Burchett	£8.75	-40.07	0.00	£0.00
31	Electronic Data Processing	£6.65	-21.38	-14.40	(£1.12)
32	Sherwood	£6.56	6.42	-9.45	(£0.68)
33	Rolle & Nolan	£5.59	27.82	-24.31	(£1.79)
34	NMW	£5.34	-56.59	-13.46	(£0.83)
35	INSTEM	£4.05	-10.11	-12.63	(£0.58)
36	Synapse	£3.18	-68.82	0.00	£0.00
37	Total	£1.65	-68.87	-13.16	(£0.25)
38	Telecomputing	£1.59	-64.12	-32.37	(£0.76)
39	Star	£1.57	-80.67	-34.03	(£0.81)

It's not all gloom

We try our best to bring you as much good news as we can in these troubled times and it is therefore encouraging to report on a private company going great guns.

Brook Street Computers Ltd of Guildford has developed the UNIX based UNITY suite of financial products. They compete with the likes of Multisoft and Tetra but sell dealers the source code for £50K-£120K, rather than charging per licence. They also sell to end users on IBM UNIX kit. Latest results to March 1990 show revenue up 83% at £2.38m and PBT up 94% at £593K. That's an excellent 23% profit margin. Chairman Ian Skinner tells us that he hopes for margins of 25-30% fairly soon. That would be in line with Sage and Pegasus but not as high as the 40%+ margins from the likes of Macro 4 and Synon.

Footnote: We discovered that Ian Skinner is the brother of Gordon Skinner (of TIS and Misys). *Another dynasty?*

Pity the creditors

It's tough enough running a business these days without your customers going bust owing you a lot of money. The number of computing services companies going into receivership is increasing by the month (see Mytec - p7 and Torus p8) and there is growing concern over the ease with which the old management can effect an MBO. As a creditor, describing himself as "one of the casualties from the **Multisoft holocaust**", said in a letter to Microscope "Why is it that the same leaders can emerge completely unscathed to command more crusades while their previous disasters, along with their indebtedness, are wiped clean?"

After the collapse of **Memory** last year, many in the industry - including some very small companies - were left with considerable debts. We were amongst them. Yet several of the subsidiaries were sold by the receiver to the old Memory managers.

We are not suggesting that any of the directors involved at either Headland or Memory acted improperly but perhaps there should be a change in the law to stop any existing director having an involvement in any businesses sold by the receiver unless creditors are paid in full.

In next month's System House

The vast majority of the interim results due for the period to June 1990 will be announced before our next issue. We will bring you these results and analyse the performance of the sector in the most difficult trading period the industry has faced for decades.

But if you think the first six months were bad, we would tend to believe "You ain't seen nothing yet".

Colourful characters....

Woodland quits Ferrari

Bob Woodland resigned as CEO of Ferrari on 8th August to be replaced by Viv Butler, formerly a main board director of Plessey. This follows the Ferrari profits warning last month and the appointment of Peter Marshall as Chairman.

A shame to lose one of the more colourful people in the industry but we had severe doubts about the policies adopted by Ferrari. TPM without product sales is a difficult market to play in. Indeed, James Warhurst an analyst with Henry Cooke Lumsden said of the management changes "The changes should be positive - it now has a much better understanding of the business".

Listening to the Oracle

Geoff Squire, him of the high salary, turbo Bentley and Lear jet, has been promoted to number two in Oracle worldwide. Ian Thacker takes over as UK MD and started his reign with this fighting statement "Oracle will overtake Computer Associates as the world's largest software supplier - but our real competitors now are people like DEC" Source - Computer Weekly 16th August 1990.

Oracle increased revenue by 66% to \$971m for the year to May 1990. UK revenues increased 79% to £86m. No profit figures are available as yet, but their UK profit margin was a disappointing 5.4% in 1989. (see June's edition)

Oracle's fastest growing new area is systems integration where they will increasingly come into direct competition with their many system house users. Logica's Philip Hughes described SI as "the easiest way of losing money that our industry has so far invented". It will be interesting to see how Oracle fare.

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