

System House

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

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Avoiding "Acquisition Indigestion"

"Acquisition indigestion" has had a serious effect on the recent financial performance of many computing services companies - like SD-SCICON, Sema, Logica, Radius and Star. Yet others - like Hoskyns (p6&7) and Misys (p2) - seem to avoid it. We have studied the companies and

present, below, a check list of what to do and what not to do. Readers will probably take issue with many of the points - but there is considerable evidence to backup all the issues raised. More details in the *System House Review of Acquisitions in 1989*. See page 12.

Acquisitions Checklist

✓ Ensure acquisition is for less than 10% of your current capitalisation.

❓ Avoid performance related deals.

Acquire only companies in your own business sector. Software products companies shouldn't acquire bespoke systems houses, consultancies shouldn't acquire hardware manufacturers etc.

❓ Take care when buying in countries where you do not already have a presence. The industry has an appalling record of success with overseas acquisitions.

✓ Ensure you already have the top management to run the acquired company, **because you will probably have to**. Most top executives leave within a year.

✓ Only purchase profitable companies. The "we can turn this company around" approach seldom works within the time and costs originally projected.

✓ Ensure there is synergy with your existing operations. If there are economies of scale, extra buying discounts, expansion of an existing dealer base etc, then profits and margins can be increased.

✓ Ensure you have the financial controls to impose on the acquisition immediately. **"Control tight - act fast"** is the way to win.

❓ You might have problems if you have to bring out a new product within 2-3 years to meet profit projections. The original innovators have now probably been made rich. They are unlikely to have the same motivation in the future.

✗ Do not buy - as many do - at the peak of profit performance. Eg., if the company relies on the sale of new projects and the technology used is forecast to have a low growth rate, take care.

✓ However, there are great opportunities in **supporting** yesterday's technologies. That's why software maintenance, facilities management and certain third party maintenance operations are good buys.

❓ Be prepared to walk away if the price demanded is too high. Paying too much depresses your EPS growth, and therefore your share price, and makes future acquisitions more difficult - if not impossible.

In this month's System House

This is the fourth edition of System House. As well as all the usual features, a major review of the financial performance of the Hoskyns Group is presented on pages 6 & 7.

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Review of the Latest Company Results

Misys profits up 183%

Misys is perhaps the only quoted company which is currently showing consistent performance from a policy based on acquisitions. The latest interim results to Nov 89 show PBT up 183% at £5.14m. Revenue increased by over 350% to £38.4m whereas EPS only increased by 20%. Organic growth was stated as 20% Source Times 26th Jan 90. But, historically, the performance of the 13 companies now in the Misys group is biased towards the second half.

The Misys trading record is as follows:

to 31st May	1985	1986	1987	1988	1989	1989 Interims
Revenue	£1.1m	£1.7m	£3.0m	£7.9m	£25.6m	£38.4m
PBT	£144k	£269k	£918k	£2.2m	£5.8m	£5.14m

In the last trading period Misys has purchased four companies for c£50m:

TIS	UNIX systems and maintenance	£26.5m
Mentor	UNIX systems for construction	£12.2m
Team	UNIX systems	£10m
Enterprise	DEC manufacturing systems	£1.5m

Chairman, Kevin Lomax said "some 60% of Misys business is now in open systems and this is expected to rise to 80% within 2 years" Source - FT 26th Jan 90. The "Open Systems and Computer Solutions divisions both produced results ahead of forecast". The Financial Services division - in essence the original Misys Dataller and Base-Sys operations - produced "a first half performance, which whilst good, was less sparkling than we would have wished" Source - Misys Chairman's Statement to Shareholders.

Brokers estimates for full year profits are around £15m (£5.85m last time). On current capitalisation of around £100m that would infer a prospective P/E of just 10; at least 50% lower than the sector as a whole.

Telecomputing - the Saga Continues

We thought that capitalising your R&D went out with the ark. Few of the other 40 quoted computing services companies do it except Telecomputing. For what the other companies do, see page 9. This was fairly clear for everyone to see in the 1988 accounts. But Ferrari, which has a 29.8% stake, only seemed to notice it "post acquisition".

So, rather than profits of £145k in the interims to Mar 89, we are now to expect a loss of £1.4m. Bernard Panton now has an injunction preventing him from communicating with the group's advisers, bankers and shareholders. Source - Times 16th Jan 90.

We understand that "Top One" - "a disastrous move" - is to be abandoned and that several software companies are likely to be acquired in the near future. There is obviously another "let's build a software company" in the making. As Ferrari's MD - Bob Woodland (Ferrari own 29.8% of Telecomputing) - is a subscriber, he already has the hints on how not to do it in back issues of *System House*.

Planning Research & Systems Reports Losses

PRS joined the USM in Dec 1988 at 120p, valuing the company at £5.49m. Profits to Mar 89 were forecast as "not less than £700k". PRS provides computer based information services to the auto industry. They are not included in our results service but, some would say they are just as much a computing services company as, say, Datastream.

Recent trading record is as follows:

Period £m	Dec 1985	Dec 1986	Mar 1988	Mar 1989	Sept 1989
Revenue	0.65	1.4	2.0	2.72	1.51
PBT	(126k)	129k	115k	619k	(172k)

The latest interims show a loss of £172k on revenue up 43% on same period last time. This was attributed to "the costs of relocation and equipping the business for the next 5 years". The chairman added that "the group is trading profitably in the second half".

This seems yet another example of an IT company joining the market and producing disappointing results soon after.

Logitek "static" at halfway point

Logitek reported interim profits to Sept 30th 1989 up just £49k at £1.31m on revenues up 44% at £18.72m. EPS declined by 5.4% to 6.69p.

Logitek had had a consistent record of growth in previous years as shown below:

to March 31st	1985	1986	1987	1988	1989	1989 Interims
Revenue	£5.6m	£7.3m	£12.8m	£21.4m	£29.2m	£18.7m
PBT	£0.5m	£0.7m	£1.2m	£2.1m	£2.75m	£1.31m

Have the recent purchases of Advansys and Microtex really had the desired effect?

Back to the Future at Apricot...sorry, ACT

In the mid 70s, the editor of System House attended numerous trade meetings with ACT when they were a bureau and budding DEC systems house. ACT then decommitted from those computing services activities in favour of the emerging micro hardware sector and changed their name to Apricot. In the early 80s the company floated on the Stock Exchange capitalised at around £8m and rose to nearly £140m at its height.

Capitalisation is now down to £65m and future concentration will be on ... computing services. In particular, maintenance (£34m), financial systems (£17m), systems integration (£12m), networking (£10m) and medical systems (£6m). The division will trade as..... ACT.

If Rip van Winkle awakes in the mid 90s, he will not notice that anything too much has changed in 20 years.

Richard Holway Limited - Results Service

Admiral Group plc	Results Revenue PBT EPS	Interims - Jun 88 £4,500,000 £562,000 3.55p	Final - Dec 88 £11,239,000 £161,000 9.20p	Interims - Jun 89 £7,200,000 £1,100,000 6.96p	Interim Comparison +60% +95.7% +96.1%
Apricot plc	Results Revenue PBT EPS	Interims - Sept 88 £46,645,000 £4,150,000 4.31p	Final - Mar 89 £105,773,000 £6,012,000 6.22p	Interims - Sept 89 £56,440,000 £2,020,000 1.85p	Interim Comparison +21% -51.3% -57.1%
Butler Cox plc	Results Revenue PBT EPS	Interims - Jun 88 £3,900,000 £503,000 6.2p	Final - Dec 88 £7,699,791 £924,449 20.37p	Interims - Jun 89 £4,190,000 £634,000 8.10p	Interim Comparison +7.4% +26.04% +30.65%
Capita plc	Results Revenue PBT EPS	Interims - Jun 88 £1,970,000 £311,000 2.9p	Final - Dec 88 £4,301,000 £747,000 6.65p	Interims - Jun 89 £3,010,000 £502,000 4.4p	Interim Comparison +52.8% +61% +51.7%
Computer People plc	Results Revenue PBT EPS	Interims - Jun 88 £20,673,000 £1,419,000 7.92p	Final - Dec 88 £47,023,000 £3,229,000 17.84p	Interims - Jun 89 £32,400,000 £1,810,000 9.50p	Interim Comparison +56.7% +27.5% +20%
Electronic Data Processing plc	Results Revenue PBT EPS	Final - Sept 88 £14,755,000 £1,373,000 11.77p		Final - Sept 89 £16,034,000 £1,040,000 8.45p	Final Comparison +8.7% -24.3% -28.2%
Ferrari Holdings plc	Results Revenue PBT EPS	Final - Sept 88 £2,977,000 (£280,000) Not available		Interims - Jun 89 £14,500,000 £688,000 0.29p	Not comparable 9 month period
Headland Group plc	Results Revenue PBT EPS	Interims - Jun 88 £3,494,000 £161,000 0.53p	Final - Dec 88 £8,198,000 £851,000 2.39p	Interims - Jun 89 £5,367,000 £351,000 0.64p	Interim Comparison +53.6% +118% +20.75%
Hoskyns Group plc	Results Revenue PBT EPS	Final - Oct 88 £110,002,298 £9,511,030 16.1p		Final - Oct 89 £188,710,000 £15,230,000 23.9p	Final Comparison +71.6% +60.1% +48.4%
INSTEM plc	Results Revenue PBT EPS	Interims - Jun 88 £3,497,000 £302,000 4.16p	Final - Dec 88 £7,565,000 £681,000 9.7p	Interims - Jun 89 £4,012,000 £382,000 5.32p	Interim Comparison +14.7% +26.4% +27.9%
ITL plc	Results Revenue PBT EPS	Final - Apr 88 £31,120,000 £2,519,000 5.66p		Final - Apr 89 £31,605,000 (£1,148,000) -2.52p	Final Comparison +1.6% Profit to Loss Profit to Loss
Kewill plc	Results Revenue PBT EPS	Interims - Sept 88 £5,414,000 £726,000 7.52p	Final - Mar 89 £11,330,000 £1,810,000 19.7p	Interims - Sept 89 £8,064,000 £1,125,000 10.12p	Interim Comparison +48.9% +55.0% +34.6%
LBMS plc	Results Revenue PBT EPS	Interims - Oct 88 £5,491,000 £373,000 2.0p	Final - Apr 89 £12,774,000 £1,453,000 7.9p	Interims - Oct 89 £8,032,000 £513,000 2.7p	Interim Comparison +46.3% +37.5% +35%
Logica plc	Results Revenue PBT EPS	Final - Jun 88 £132,548,000 £14,738,000 18.1p		Final - Jun 89 £179,505,000 £18,835,000 20.0p	Final Comparison +35.4% +27.8% +10.5%

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Macro 4 plc	Results Revenue PBT EPS	Final - Jun 88 £11,008,000 £5,509,000 15.5p		Final - Jun 89 £13,500,000 £6,501,000 18.4p	Final Comparison +22.6% +18.0% +18.7%
MBS plc	Results Revenue PBT EPS	Interims - Jun 88 £61,641,000 £215,000 0.2p	Final - Dec 88 £116,283,000 (14,095,000) (14.6p)	Interims - Jun 89 £64,400,000 (£7,100,000) (7p)	Interims Comparison +4.5% Profit to Loss Profit to Loss
Memory Computer plc	Results Revenue PBT EPS	Final - Jun 88 £12,982,000 £313,000 0.54p		Final - Jun 89 £ £ Results delayed	Results for year to Jun 89 delayed due to impending MBO.
MicroFocus plc	Results Revenue PBT EPS	Interims - Jul 88 £10,000,000 £900,000 5.4p	Final - Jan 89 £22,100,000 £3,100,000 19.4p	Interims - Jul 89 £16,300,000 £3,680,000 18.9p	Interim Comparison +153% +308% +250%
Microgen plc	Results Revenue PBT EPS	Interims - Apr 88 £19,380,000 £5,150,000 8.60p	Final - Oct 88 £39,526,000 £10,039,000 17.10p	Interims - Apr 89 £22,980,000 £4,890,000 8.2p	Interim Comparison +18.6% -5.0% -4.65%
Misys plc	Results Revenue PBT EPS	Interim - Nov 88 £8,511,000 £1,819,000 9.1p	Final - May 89 £25,603,000 £5,847,000 23.7p	Interim - Nov 89 £38,467,000 £5,142,000 11.0p	Interim Comparison +351.9% +182.7% +20.9%
MMT plc	Results Revenue PBT EPS	Final - Aug 88 £5,957,496 £1,634,635 10.1p		Final - Aug 89 £7,443,898 £2,151,953 12.8p	Final Comparison +25% +31.6% +26.7%
NMW Computers plc	Results Revenue PBT EPS	Interims - Jun 88 £5,916,000 (£428,000) (1.7p)	Final - Dec 88 £10,318,000 (£1,327,000) (4.6p)	Interims - Jun 89 £4,663,000 £48,000 0.1p	Interim Comparison -21.2% Loss to profit Loss to profit
Optim plc	Results Revenue PBT EPS	Interims - Apr 88 £3,790,000 (£484,000) Not available	Final - Oct 88 £10,064,000 £506,000 5.06p	Interims - Apr 89 £6,013,000 (£471,000) Not available	Interim Comparison +58.6% Loss both interims Loss both interims
P&P plc	Results Revenue PBT EPS	Interims - May 88 £50,000,000 £3,300,000 9.5p	Final - Nov 88 £106,517,000 £7,511,000 19.3p	Interims - May 89 £80,000,000 £5,000,000 10.5p	Interim Comparison +60% +51.5% +10.5%
P-E International plc	Results Revenue PBT EPS	Interims - Jun 88 £23,450,000 £2,014,000 7.8p	Final - Dec 88 £48,234,000 £4,511,000 17.5p	Interims - Jun 89 £27,440,000 £2,430,000 9.4p	Interim Comparison +17.0% +20.7% +20.5%
Pegasus plc	Results Revenue PBT EPS	Final - Jul 88 £7,604,000 £2,065,000 24.1p		Final - Jul 89 £10,873,000 £3,084,000 36.7p	Final Comparison +43% +49.3% +52.3%
Quotient plc	Results Revenue PBT EPS	Interims - Jun 88 £11,107,000 £517,000 2.48p	Final - Dec 88 £22,907,000 £2,206,000 10.3p	Interims - Jun 89 £9,203,000 (£1,984,000) (10.21p)	Interim Comparison -17.1% Profit to Loss Profit to Loss
Radius plc	Results Revenue PBT EPS	Interims - May 88 £6,115,000 £1,085,000 3.5p	Final - Nov 88 £17,726,264 £2,909,533 8.71p	Interims - May 89 £13,445,000 £1,015,000 2.5p	Interim Comparison +119.9% -6.4% -28.6%

Richard Holway Limited - Results Service

Rolfe and Nolan plc	Results Revenue PBT EPS	Interims - Aug 88 £1,892,000 £350,000 8.1p	Final - Feb 89 £3,841,000 £757,000 18.7p	Interims - Aug 89 £2,250,000 £517,000 12.9p	Interim Comparison +18.9% +47.7% +59.3%
Sage Group plc	Results Revenue PBT EPS	Final - Sep 88 £5,235,000 £1,618,000 6.7p		Final - Sep 89 £9,304,000 £2,911,000 12.6p	Final Comparison +78.1% +79.9% +88.1%
Sanderson Electronics plc	Results Revenue PBT EPS	Final - Sep 88 £7,812,000 £1,750,000 13.5p		Final - Sep 89 £12,008,000 £3,013,000 23p	Final Comparison +53.7% +72.2% +70.4%
SD-SCICON plc	Results Revenue PBT EPS	Interims - Jun 88 £77,961,000 £4,343,000 1.69p	Final - Dec 89 £221,565,000 £13,354,000 4.01p	Interims - Jun 89 £141,520,000 (£1,019,000) (0.83p)	Interim Comparison +81.5% Profit to Loss Profit to Loss
Sema Group plc	Results Revenue PBT EPS	Interims - Jun 88 £ £	Final - Dec 88 £266,893,000 £12,929,000 8.4p	Interims - Jun 89 £137,700,000 £4,600,000 4.8p	Interim Comparison Not comparable due to year end change
Sherwood Group plc	Results Revenue PBT EPS	Interims - Jun 88 £11,670,000 (£1,520,000) (29.7p)	Final - Dec 88 £26,528,000 (£1,965,000) (36.8p)	Interims - Jun 89 £12,190,000 £580,000 7.7p	Interim Comparison +4.5% Loss to Profit Loss to Profit
Star plc	Results Revenue PBT EPS	Final - Jun 88 £12,798,000 £1,210,000 3.5p		Final - Jun 89 £14,231,000 (£930,000) (11.7p)	Final Comparison +11.2 Profit to Loss Profit to Loss
Synapse plc	Results Revenue PBT EPS	Final - Jul 88 £6,805,627 £1,155,720 21.34p		Final - Jul 89 £9,000,000 £1,090,000 20.19p	Final Comparison +32% -5.6% -5.7%
Systems Reliability plc	Results Revenue PBT EPS	Interims - Jun 88 £9,050,000 £267,000 0.5p	Final - Dec 88 £24,070,000 £1,424,000 3.5p	Interims - Jun 89 £44,600,000 £3,020,000 6.2p	Interim Comparison +392% +1031% +1140%
Tele-computing plc	Results Revenue PBT EPS	Interims - Mar 88 £1,569,000 (£189,000) (1.0p)	Final - Sep 88 £3,109,000 (£194,000) (1.83p)	Interims - Mar 89 £1,704,800 £144,900 3.04p	Interim Comparison +4.5% Loss to Profit Loss to Profit
Total Systems plc	Results Revenue PBT EPS	Interim - Sep 88 £1,091,000 £51,996 0.37p	Final - Mar 89 £2,100,508 £96,543 0.59p	Interim - Sep 89 £860,474 £39,865 0.29p	Interim Comparison -21.2% -23.3% -21.6%
Trace plc	Results Revenue PBT EPS	Final - May 88 £6,231,000 £1,020,000 5.9p		Final - May 89 £9,810,000 £1,710,000 9.96p	Final Comparison +57.5% +67.6% +68.8%
UCL plc	Results Revenue PBT EPS	Interims - Jun 88 £9,940,000 £16,000 p	Final - Dec 88 £21,386,000 £105,000 0.6p	Interim - Jun 89 £9,700,000 £50,000 0.1p	Interim Comparison -2.5% +212% n/a
Vistec Group plc	Results Revenue PBT EPS		Final - Apr 89 £11,900,000 £1,190,000 0.86p (5 months only)	Interim - Oct 89 £17,300,000 £1,100,000 0.7p	Comparisons not possible

hoskyns - A Special Report

Article written on 13th Jan 90

Question.....

- 1) Which currently quoted UK computing services company has not had a Profits or EPS reversal in the last 10 years?
- 2) Which company has an average annual growth rate in EPS over the last 10 years of 34%?
- 3) Which company is now the largest supplier of computing services in the UK?

The only answer to all these questions is the Hoskyns Group. This special feature attempts to answer the most popular question currently asked by our subscribers, since the latest results to October 1989 were announced on 14th December.....*how do they do it?*

The Results

to 31st Oct	1988	1989	% increase
Revenue	£110m	£188.7m	+71.6%
PBT	£9.5m	£15.2m	+60.1%
EPS	16.1p	23.9p	+48.4%

UK revenues increased by 72% from £97m (88) to £167m (89) and now represent 88.5% of Hoskyns revenue. The other significant market is Europe at £17.2m (9.1%). It should be remembered that until October 89, Hoskyns was prohibited from operating in the US because of its agreement with its past owners - Martin Marietta. This has obviously restricted Hoskyns growth overseas but, in our opinion, has saved Hoskyns from the problems which have beset almost every other major UK computing services company.

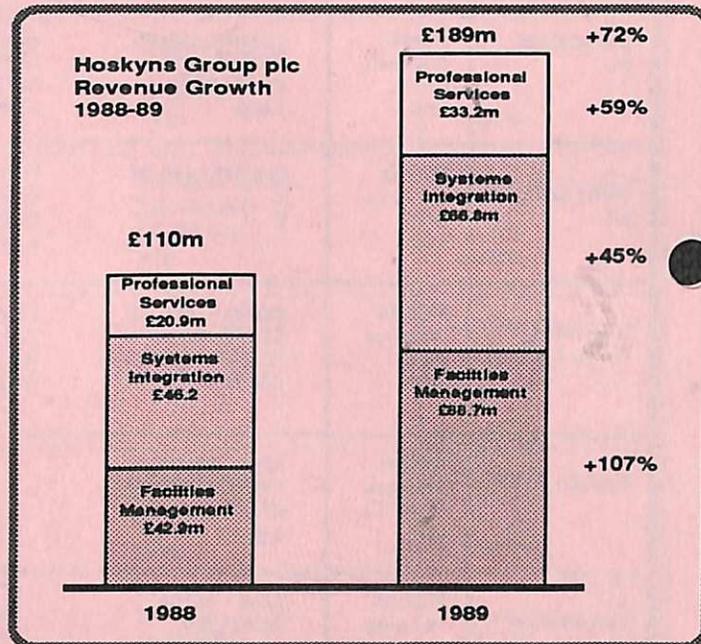
Hoskyns operates in a selection of the largest markets. The manufacturing sector benefited from £30m of Plessey revenue in 1989. Breakdown is as follows:

Markets	1988	%	1989	%
Manufacturing	£41.8m	38%	£87.2m	46%
Distribution/Retail	£11m	10%	£18.5m	10%
Services	£18.7m	17%	£32.5m	17%
Public Sector	£18.7m	17%	£26.4m	14%
Financial Services.	£19.8m	18%	£24.2m	13%

IBM and DEC are the largest and fastest growing technology suppliers, but the acquisition of the Instruction Set moves Hoskyns into the Open Systems arena.

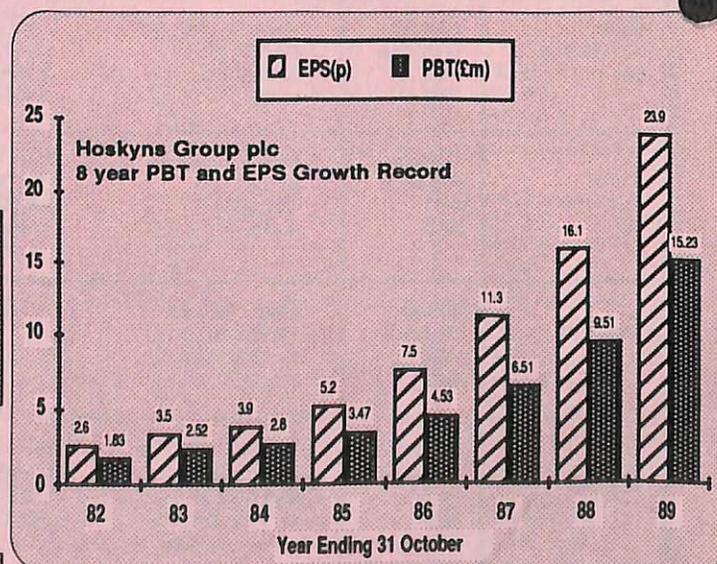
Technologies	1988	%	1989	%
IBM	£57.2m	52%	£84.7m	45%
DEC	£16.5m	15%	£49.4m	26%
ICL	£13.2m	12%	£14m	8%
HP	£7.7m	7%	£8.3m	4%
Other/non-specific.	£15.4m	14%	£32.3m	17%

By far and away, Hoskyns most significant service area is **Facilities Management**. Hoskyns estimate they have between 60-70% of the UK FM area. The great advantage of this revenue is its long term predictability - even better than the current "vogue" third party maintenance sector. Hoskyns FM revenues grew by 107% last year.



The Record

Hoskyns is the best and most consistent performer in the sector. In any one year other companies will have higher growth, but almost everyone finds consistency impossible to achieve. The Hoskyns 8 year record shows this.



Logica, with VTS, CAP, with MicroCobol, and Systems Designers have all had EPS reversals. The latest results of Sema and SD-SCICON show further "post acquisition" reversals. Who knows what effect the San Francisco rail contract will have on Logica's next results?

hoskyns - A Special Company

So how do they do it?

We offer our view on the key reasons for Hoskyns' success.

Management - Since its formation in 1964 by (Sir) John Hoskyns, the company has put great emphasis on recruiting and building strong management. This, perversely, is evidenced by the number that have left Hoskyns to form or run other successful companies. Hoskyns also has a policy of "friendship" with those that leave the "old firm" to the extent that many return with renewed vigour and experience. The current top management in Geoff Unwin (Executive Chairman), Tony Robinson (Jt MD - who left and returned), Tony Fisher (Jt MD) and Ray Harsant (FD) is one of the strongest teams in the industry. They each have over 20 years experience at Hoskyns. But the second level management is also strong. The innovative graduate recruitment program started in the 70s is now producing the top managers of the 90s.

"Think of the business as your own" - There are around 800 employee shareholders in Hoskyns. The top 100 managers now have a significant stake in the business. For this reason, Hoskyns has a very small central management team, devolving control to a number of experienced and trusted operational units. It's surprising how few other computing services companies have the advantage of such wide share ownership.

Controls - Hoskyns has had a well developed monthly control system - the "M" review cycle - since the 60s. As people have left Hoskyns, they have been surprised how few other companies produce rolling 6 month forecasts each month or demand last month's results within a few days of the end of the month. John Hoskyns once said "If you can't forecast your business for 6 months, you haven't got a business".

Avoid the white heat of technology - Hoskyns has never been in the vanguard of technology. What it does best is to recognise business change and the resulting opportunities. Examples of this are the introduction of standard application software products in the 60s and the move to DEC PDP11s and, later, VAXs in the mid 70s.

Anyway, few people seem to recognise that the bulk of expenditure in the computing services industry is spent supporting yesterday's technology. A good example of this was the launch of Hoskyns Crossroads service over a decade ago. Crossroads was an FM service which was designed to take over the responsibility for operating the "old technology" - at that time ICL mainframes - allowing the user to move to the new technology of his choice. The fact that FM is now an £89m business for Hoskyns is testimony to the policy.

Home sweet home - We have commented before on the high proportion of Hoskyns revenue that is generated in the UK. Although the company may claim that this was until recently forced upon them by their previous US owners, we would venture that it has been a significant reason for Hoskyns' financial consistency. Too many companies have - and still are - finding that good UK performance is being neutralised, or worse, by overseas' costs and losses. The UK computing services industry would, however, have an even worse export record if everyone had done the same.

Look after the organic growth and the acquisitions will take care of themselves - Hoskyns has recently undertaken a number of strategic acquisitions, but their main success has been in the 38% organic growth of the company. The acquisitions have tended to be small in comparison both to their competitors' acquisitions and to Hoskyns own capital base. They have yet to acquire a company for more than 8% of Hoskyns' current capitalisation. They therefore have both the management and the time to assimilate the new company without it having a significant effect on Hoskyns' performance - as such acquisitions have done for other companies.

The Outlook?

Left to its own devices, Hoskyns would probably continue to make consistent EPS growth year after year. They are fairly immune to technology change but they could be seriously damaged by ownership changes if these also create too many changes in the established management team. Plessey were sensible enough to establish some innovative schemes to retain the motivation of the management and it looks as if GEC have a similar attitude. **But, after a long string of owners, who knows who might be next?**

So what next?

The above article was written in the week beginning 13th Jan. We faxed the article to Geoff Unwin who described it as one of the "most perceptive articles" he had read about Hoskyns. Geoff Unwin also phoned us on 19th Jan. to tell us that GEC had put their stake in Hoskyns up for sale. We considered rewriting the article, but decided not to as the comments now are even more important.

Anyone purchasing Hoskyns would be well advised to note the points made. We believe that Hoskyns will be purchased by a major telecomms player like BT or AT&T. We believe the price paid will be over £350m. *We hope it will not be EDS as the editor values his lunchtime pint with Hoskyns executives.*

We also believe that any purchaser who ignored the "six principles" outlined by Mr Unwin would be ill advised. A Hoskyns without the continued motivation of its management would be a very poor purchase.

Acquisitions, disposals and Share Stakes

SD-Scicon disposes of US Subsidiary for £39.5m

On 12th Jan 90, SD-Scicon, which reported a £1m loss in their interims to June 89, announced that it was selling its US based Warrington Financial Services to its main competitor - Sungard Data Services. Sungard paid \$65m in cash giving SD-Scicon a profit of £24m which will "reduce the company's borrowings to virtually zero". Warringtons had been hit in 1988, post Black Monday, by the reduction in volumes in the US bond market. However, they contributed \$5m to SD's 1989 profits and "\$1.2m in the first half after reorganisation costs of \$1.9". Source - Computer Weekly 18th Jan 90

SD-Scicon is one of the many companies which has suffered from "acquisition indigestion" after it acquired loss making Scicon in 1988. Analysts are now forecasting "profits of between £5m and £7m on revenues of £280m" for the full year to Dec 89. Source - FT 13th Jan 90

However, it is still highly regrettable, at a time when the UK needs to build an international presence, that one of our largest companies has to divest itself of a major overseas subsidiary.

Computacenter valued at over £70m

Computacenter is easily the largest PC dealer in the UK although the company would prefer the "value-added systems integrator" label.

In January 90, Bahrain based investment group - Investcorp - purchased 30% of Computacenter for £22m. Half are new shares and the rest comes from existing shareholders including F&C Enterprise Trust (FACETS). Founders Peter Ogden and Philip Hulme are left with 36% between them.

In Sept 89, Ogden announced that he planned to come to the Stock Market "I can't say for certain but we've pencilled in November with our advisers Warburgs" Source - Mail on Sunday 10th Sept 89. But now Ogden says "the market went shot in October and we decided it wasn't the right time" Source - Microscope 17th Jan 90. Certainly with the continued problems of companies like MBS in that period, the decision looks right as a valuation of just £40m was mentioned in Sept 89.

Computacenter's trading record looks exemplary, as shown below. They could have made an important addition to the stock market.

Computacenter	Revenue	PBT
1984	£4.322m	£0.172m
1985	£11.383m	£0.252m
1986	£27.824m	£0.540m
1987	£55.077m	£1.968m
1988	£101.375m	£3.805m
1989	£155.0mE	n/a Operating Profit = £9.5m E

Star for sale?

The Sunday Telegraph of 21st Jan 90 reported that loss making Star was up for sale.

System House

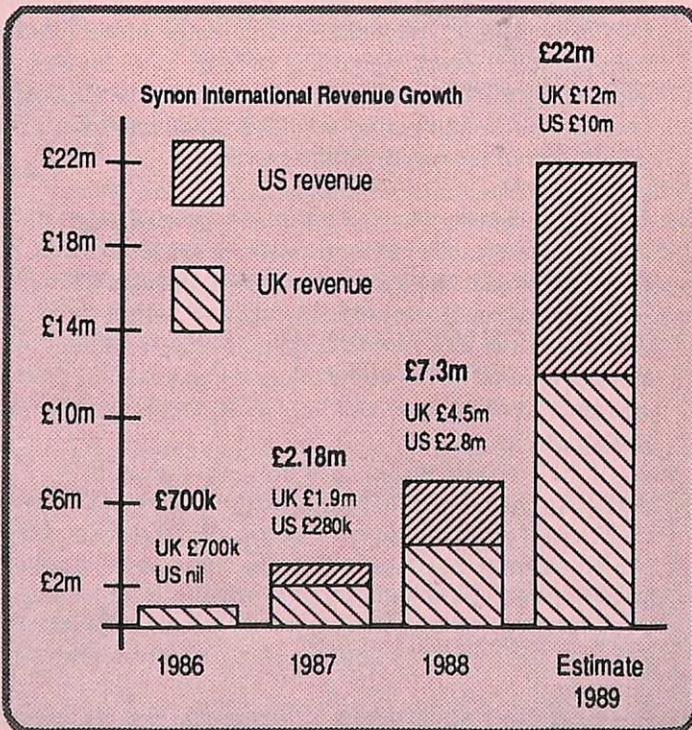
Super Synon gets its just rewards

As many readers will know, the editor of *System House* has been a fan of Synon for many years. This might have had something to do with sitting next to Melinda Horton - one of Synon's founder directors - at lunch when the company received the CSA Quality Award in 1988. But the main reason is that Synon is one of a very rare breed of UK company that is making it big in the application generator market on an international basis. Synon has one of the best regarded generators for the IBM AS/400 and S/38 platforms.

Fashion retailer - French Connection - paid just £110,000 for its 32% stake in Synon five years ago. In January 90, they sold this stake to US investment company - General Atlantic Partners - for £11.6m in cash plus a £3.4m dividend; putting a value on Synon of at least £46m.

Synon expects to have revenues of around £12m in the year to Dec 1989 plus US revenues of £10m. In fact, the company says that around 70% of group sales now come from overseas. A profit of around £6m is expected on total revenues of £22m. That means that GA has bought in at a P/E of around 12.

If only we had more companies like Microfocus and Synon; prepared to take on the world, and win, with application tools - the fastest growing market around.



Some of the others.....

MBO, led by Mike Crisp, of Thorn-EMI's old Altergo product lines by Ringwood Software French Metrologie, which already owns Rapid Recall, buys remaining stake in system distributor - Trinitec - valuing company at £20m. Trinitec had 1989 profits of £1m on £14.7m revenue. Combined group now forecasts 1990 UK revenues of over £80m. Also see Kapitl/Aregon - p12.

Computing Services Share Price Index

The Computing Services Index includes 41 companies quoted on the Stock Exchange - both full and USM - in the UK. The index was set at 1000 on 15th April 1989.

The index has performed well in the last month - up 4.3% - but is still showing a 17% underperformance against the FTSE 100 Index since April 89.

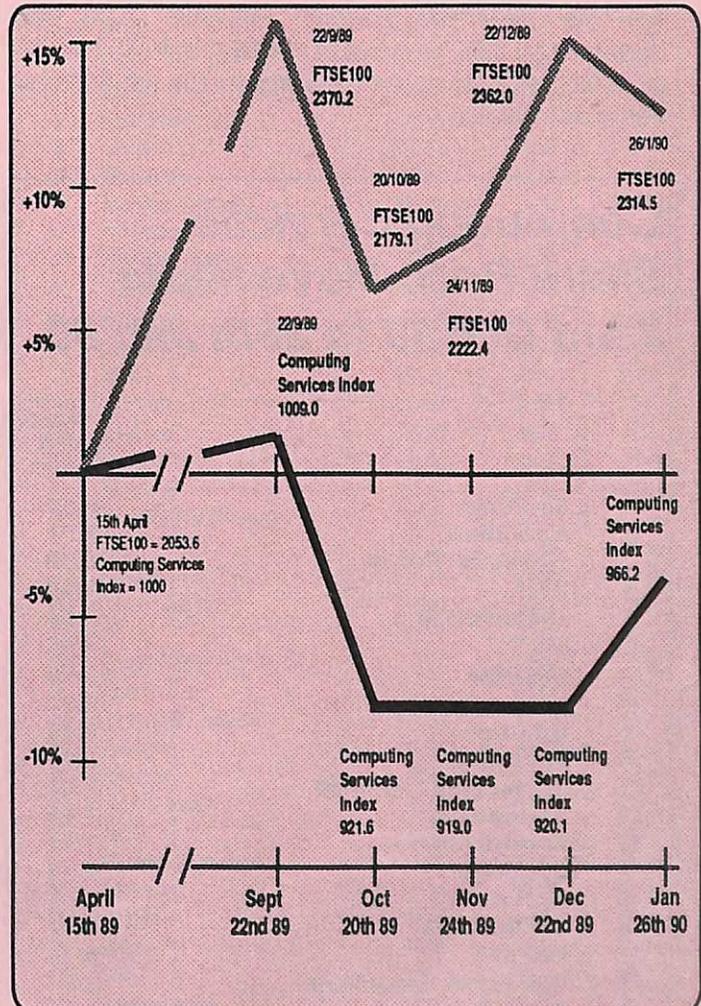
Twelve companies have, however, outperformed the FTSE 100 index; as shown below.

Computing Services Share Price Index 26th Jan '90

Index Rank	15th April 1989 = 1000	Share Price 26/1/90	Index 26/1/90
1	MicroFocus	£5.03	2429.95
2	Hoskyns Group	£3.63	1770.73
3	Admiral	£2.22	1608.70
4	ITL	£0.44	1571.43
5	Capita Group * Apr 89	£1.45	1450.00
6	Rolfe & Nolan	£2.40	1428.57
7	Sanderson	£3.10	1319.15
8	Sage * Dec 89	£1.68	1292.31
9	Kewill	£3.05	1205.53
10	Learmonth & Burchett	£1.43	1191.67
11	Sema Group	£3.71	1166.67
12	Macro 4	£2.83	1141.13
13	Apricot	£0.70	1111.11
14	Butler Cox * May 89	£1.93	1102.86
15	Computer People	£2.63	1082.30
16	INSTEM	£1.08	1080.00
17	Pegasus	£3.88	1057.22
18	Headland	£0.44	1023.26
19	MMT	£1.65	982.14
20	P&P	£2.18	977.58
21	P-E International	£2.31	950.62
22	SD SCICON	£0.74	948.72
23	Logica	£3.43	939.73
24	Trace * Jun 89	£1.13	904.00
25	Sherwood	£1.03	858.33
26	Misys	£3.38	840.80
27	Systems Reliability	£0.99	792.00
28	Ferrari	£0.09	755.10
29	Synapse	£2.18	751.72
30	Telecomputing	£0.65	698.92
31	Electronic Data Proc.	£0.65	663.27
32	Quotient	£0.75	652.17
33	Star	£0.64	533.33
34	Microgen	£1.24	529.91
35	UCL	£0.45	529.41
36	Radius	£0.70	507.25
37	NMW	£0.28	466.67
38	MBS	£0.19	404.26
39	Memory Computer (Susp)	£0.08	319.15
40	Optim	£0.14	304.35
41	Total Systems	£0.15	273.58

* denotes month of entry onto Stock Market if after 15th April 1989. Index set at launch price.

Microfocus increased its Index rating by 14.8% in the month and now shows a near 150% increase in its share price in the last 9 months but Hoskyns is catching up fast for reasons much discussed in this edition.



Writing off R&D?

The recent problems at Telecomputing - see page 2 - resulted from a dispute over the capitalisation of R&D costs. This inspired us to look again at the policies of the other quoted computing services companies. With the exception of the companies listed below, they all write off R&D and development costs as they occur.

EDP - Intangible assets = £112k. Software written off but development expenditure on hardware and operating systems written off over 3 years

Logica - Development written off "unless they result in the production of an identifiable, saleable product".

Microfocus - Software product assets = £6.2m - Initial development written off. "Product enhancement capitalised as assets and amortised over revenue producing life or 5 years"

Optim - Intangible assets = £1.3m - "expenditure on specific projects, where a successful commercial outcome is reasonably certain, is carried forward in intangible assets"

SD-SCICON - "R&D written off except...where there is an identifiable and commercially viable product"

Source - Latest Company Report and Accounts

Index up 4.3% on month

The Computing Services Index increased by 4.3% in the month whilst the FTSE 100 declined by 2%.

There were many disconnected reasons for this. The first was the "*Hoskyns Factor*". Hoskyns' share price increased by 23% on news of the GEC sell off. This had the effect of boosting the other majors like SD-SCICON, Sema and Logica.

Computing Services Share Price Movements 22nd Dec 89 to 26th Jan 90

		% Change 22/12/89 to 26/1/90
1	Quotient	36.36
2	Headland	25.71
3	Hoskyns Group	23.05
4	P&P	15.96
5	MicroFocus	14.84
6	MMT	14.58
7	INSTEM	13.68
8	Sage * Dec 89	13.51
9	Admiral	9.36
10	Microgen	8.77
11	Butler Cox * May 89	8.43
12	Sanderson	7.64
13	Total Systems	7.41
14	Pegasus	7.18
15	Apricot	6.06
16	SD SCICON	5.71
17	Ferrari	5.71
18	Electronic Data Proc.	4.84
19	Rolfe & Nolan	4.35
20	Computer People	3.14
21	Logica	2.39
22	Learmonth & Burchett	2.14
23	P-E International	1.76
24	Sema Group	1.09
25	Sherwood	0.98
26	ITL	0.00
27	Macro 4	0.00
28	Trace * Jun 89	0.00
29	Synapse	0.00
30	UCL	0.00
31	Memory Computer	0.00
32	Capita Group * Apr 89	-0.68
33	Misys	-1.46
34	Kewill	-1.61
35	Star	-3.03
36	Radius	-4.11
37	MBS	-5.00
38	Optim	-6.67
39	Systems Reliability	-9.17
40	NMW	-15.15
41	Telecomputing	-39.25

Computing Services Index 26th Jan 1990

April 15th 1989 = 1000

966.23

Quotient was, however, the main gainer rising by 36% in the month. Quotient had lost nearly £2m in the 6 months to June 89, but put out a press statement on 15th Jan 90 saying "*the second half has been profitable, the company has not had any borrowings, cash flow has been strong and the group held cash of £4m at the end of 1989...Quotient enters the 90s with a strong order book exceeding £8m*".

Headland also increased by 26% seemingly as a result of appearing as one of the Sunday Times "Ten Shares for the Decade"^{ST 31st Dec 89}. A broker's profit forecast of £1.9m was given for the year to Dec 89. Headland made PBT of £851k in 1988 (£690k in second half). Interims to June 89 showed PBT of £351k. In Oct 89, they acquired Multisoft which had been making quarterly profits of around £290k to March 89. So, if Headland make £1.9m profit it would be some achievement.

P&P, Microfocus and MMT, three of the companies that System House really rates as discussed in previous editions, also benefited with double figure % rises on expectation of even better results in the forthcoming reporting season.

Newcomer, Sage, continued to power ahead and now stand at £1.68 against a launch price of £1.30 on 14th December.

At the other end of the scale, it must have been particularly galling for Chairman Kevin Lomax of Misys to see his share price increase to £3.70 ahead of the interims on press comment that these would show a PBT of £4.7m^{Source - Sunday Times 21st Jan 90} only to see the share price tumble to £3.38 when he announced interim profits of £5.14m. To quote a much used description of Misys "*the jury is still out*"; but just how many more excellent performances do they have to produce before a verdict is announced? This remains as one of the editor's unsolved conundrums.

Telecomputing won the wooden spoon with a 39% decline on news of a likely £1.4m restated loss in the first half - see page 2.

Changes in Indices	Computing Services Index	FTSE 100
Month 22nd Dec 89 to 26th Jan 90	+4.34%	-2.01%
Nine months 15th April 89 to 26th Jan 90	-3.38%	+12.70%

Capitalisation Monitor

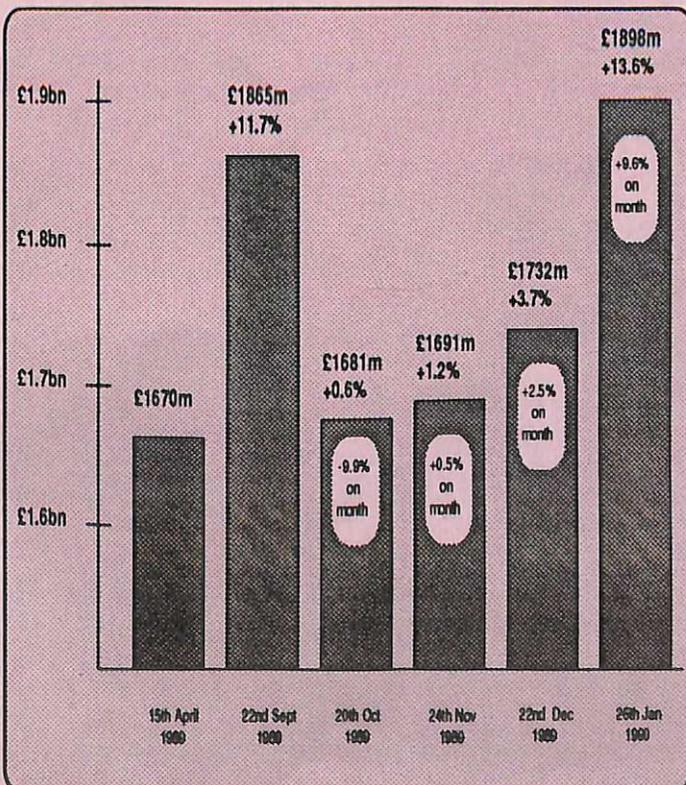
The last month has seen the largest rise in the total capitalisation of quoted UK computing services companies - up 9.6% or £167m to £1.9 bn - since our monitor began.

The *Hoskyns Factor* was, of course, the main reason; contributing 60% of the increase. Hoskyns increased their capitalisation by £101m to £308m and are now within £23m of toppling Sema from their Number One position. The *Hoskyns factor* also had a knock on effect on the other major groups with **SD-SCICON** up £8m, **Logica** up £4.8m and **Sema** up £3.5m.

P&P also gained £10m to £73m on share price rises ahead of full time results due next month.

Optim increased £8.3m to £11.2m on completion of the "rescue" package announced in Nov 89. This brought in Systems Reliability as a 13.3% shareholder in a 43m share placing. Brown Shipley - Optim's bankers - also converted £2.6m of debt into 16 million shares. **Headland** put on £4.3m on *share tip* price increases.

Interestingly **NMW**, which saw its capitalisation reduce by £1m in the month as the share price continued to slump, is now capitalised at £5.75m - £800k less than the net asset value of the company as declared in their 1988 accounts. Since then **NMW** has returned to the black with a £48k profit at the June 30th 89 interims. **NMW's** loss making competitor, **Quotient**, has put on £2.73m in the month due to share price increases reported on page 10.



February 1990

Computing Services Capitalisation- 26th Jan '90

Rank	Company	Capitalisation 26/1/90 £m	% Change since 15/4/89	% Change since 22/12/89
1	Sema Group	£330.84	16.45	1.08
2	Hoskyns Group	£307.66	86.69	48.63
3	Logica	£207.50	-6.02	2.37
4	SD SCICON	£149.10	-5.15	5.67
5	Misys	£106.18	40.07	-1.41
6	P&P	£73.00	-2.28	15.87
7	Apricot	£65.50	65.40	6.16
8	MicroFocus	£62.75	143.23	14.93
9	Macro 4	£62.61	16.15	0.01
10	Microgen	£46.81	-47.04	8.61
11	Systems Reliability	£42.03	-3.39	-9.23
12	P-E International	£37.64	-4.95	1.73
13	Computer People	£35.70	16.29	3.18
14	Sage * Dec 89	£27.40	29.25	13.50
15	Sanderson	£26.00	31.98	7.44
16	Ferrari	£24.95	27.30	5.73
17	MBS	£24.70	-59.57	-5.00
18	Admiral	£24.07	64.89	9.43
19	Pegasus	£23.70	19.70	7.24
20	Kewill	£23.30	38.69	12.56
21	Headland	£21.20	82.76	25.44
22	Learmonth & Burchett	£17.42	19.33	2.48
23	MMT	£17.40	0.58	14.47
24	Radius	£16.17	-49.31	-3.76
25	Trace * Jun 89	£14.80	-8.07	1.37
26	ITL	£13.70	57.65	0.00
27	Capita Group * Apr 89	£12.71	56.94	-0.68
28	Optim	£11.20	61.62	291.61
29	Butler Cox * May 89	£10.30	10.52	8.31
30	Quotient	£10.24	-34.34	36.39
31	Synapse	£7.69	-24.61	0.00
32	Roife & Nolan	£6.44	47.37	7.15
33	NMW	£5.75	-53.22	-15.14
34	Electronic Data Proc.	£5.61	-33.69	4.86
35	Sherwood	£5.41	-12.26	1.03
36	INSTEM	£4.86	8.00	13.82
37	Star	£4.35	-46.48	-2.56
38	UCL	£4.10	-47.10	0.00
39	Telecomputing	£3.09	-30.16	-39.21
40	Memory Computer (Susp)	£2.56	-68.12	0.00
41	Total Systems	£1.45	-72.64	20.83

The changing face of Europe's hardware scene

In the January issue of System House we predicted that Siemens would be a major influence on the 90s. On 10th Jan 90, Siemens announced that it was to take a 51% stake in loss making Nixdorf, for an estimated £1bn; thus creating the largest indigenous computer manufacturer in Europe. Siemens-Nixdorf is well positioned to take advantage of a booming single European market and the change in the fortunes of the large manufacturers brought about by the growth in open systems.

Company	Nationality	Euro sales \$bn	Total sales \$bn
IBM	US	20.5	55.0
Siemens-Nixdorf	WG	8.1	9.0
DEC	US	4.4	12.3
Olivetti	Italy	4.4	5.4
Groupe Bull	France	4.0	5.3
Unisys	US	2.6	9.1
HP	US	2.3	6.3

Source: Datamation (1988 figures)

Kapiti and Aregon Merge

Banking software specialists, **Kapiti**, announced a merger with **Aregon**, the dealing room experts. Many will remember Aregon back in the videotext days of ex-Hoskyns founder, John Pierce. The new organisation (still called Kapiti) "will have a turnover in 1989 in excess of £21m generating PBT in excess of £3.5m". This would make Kapiti amongst the most profitable "private" computing services companies in the UK.

The Kapiti track record, even without Aregon, is impressive with estimated profits this year, according to MD Dick Willott, "in excess of £2m, up 70% on 1988".

to 31st Dec	1986	1987	1988	1989 (estimate)
Revenue	£6.9m	£9.2m	£10.8m	££16.5m
PBT	£569k	£757k	£1.2m	££2.0m

Yet again, a private company has shown how to produce good consistent results by sticking to a particular market sector. It will be interesting to see whether Kapiti will ward off the approaches that they must be constantly receiving.

In next month's System House

February is the start of the reporting season for companies with Dec 31st year ends. **System House** will comment on the results and analyse the performance of the industry in 1989. Plus all the usual features.

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