

System House

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

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Of bell-wethers

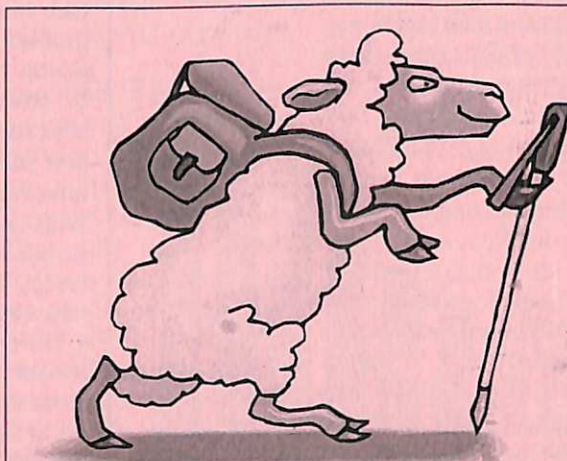
Bell-wethers paradoxically cause sane and intelligent people grief. After having all agreed that something is a bell-wether, what do you do if it leads you off in a direction that you don't like? The human reaction is to pretend that suddenly that something is a bell-wether no longer.

IT Staff Agencies (ITSAs) are the bell-wether of the UK IT services industry. Tracking Computer People/Delphi's fortunes for the last ten years has given a remarkably accurate forward prediction for the fortunes, or otherwise, of the whole IT services industry. The first to emerge from the recession of the early 1990s, hitting the floor again in that awful year of 1994, when the likes of CMG had to pull their float, and then remarkably strong growth...until the downturn in 1997 clearly presaged the general downturn of 1999/2000.

There are other bell-wethers. In the US, Intel is the semiconductor bell-wether which gave notice a year back of the problems which are now hitting PC bell-wethers like Dell. So why was everyone so surprised? You don't get a more important bell-wether than Microsoft. Microsoft's sales of its core products actually declined for the very first time in its history in the last quarter. Earnings growth at Microsoft is forecast at a third of its rate just a year back. Similar worries currently surround Oracle's core product range.

In the world of the tech. bell-wether, they don't come bigger than Cisco. This month they announced results with both earnings and revenues lower than analysts had expected and gave an outlook of troubled times ahead in H1 2001 at least. Cisco shares slumped. Of course, if there has been one really bright sector in the last couple of years it has been the telcos as both mobile and internet-related activities have propelled growth - and infrastructure spending - skywards. It has done wonders for the likes of Logica. Sema hoped to get a bit of the action with LHS. It didn't quite work out that way (see p13). Returning to the ITSA link, this month Glotel, which makes much of its revenues from supplying contractors to networking companies - particularly in the US, put out a profits warning - the share price crashed by 46%. The Orange IPO was also considered the bell-wether for

all the other fund raising/debt reduction exercises by the other indebted telcos. France Telecom this month had to reduce their float price to the bottom of the indicative range and valued Orange at less than a third of the \$135bn they



bell-wether n. 1 leading sheep of a flock 2 ringleader

hoped it might fetch. The shares fell still further post IPO.

But there are other bell-wethers. One such is EDS. It was hit hard by the Y2K hangover coupled with dot.com fever (and the associated growth of the e-consultancies) which many thought would leave the IT services monoliths behind. But EDS' latest results (see p2) are most encouraging with a record forward order book, higher than expected growth in Q4 and a new found confidence in itself. There is now a generally accepted view that 30 years experience counts for something again and is as, if not more, relevant in the "new economy" as in the old.

So the lesson for today is that if you choose a bell-wether, stick with it and follow it. The bell-wethers at the moment are showing that:

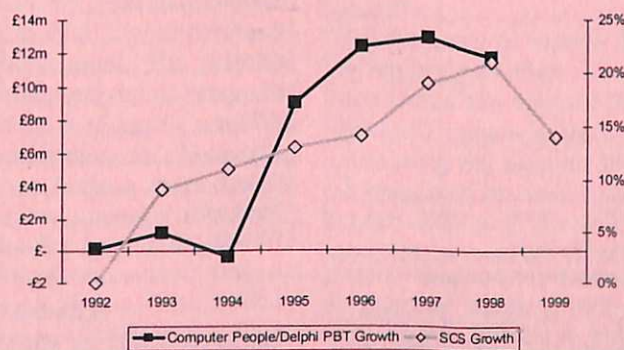
- the US is headed for a worse than soft landing
- earnings expectations for 2001 are still wildly optimistic
- once realistic expectations are factored in, share prices just must fall still further (or P/E's will rise and that just ain't on!)
- the debt problems of the telcos will not be solved by the current round of IPOs. Drastic spending cutbacks (Capex hitting the equipment suppliers, staff cuts hitting

the ITSAs and others) will ensue. It is naive to believe that the IT services companies with high exposure to telcos will be immune.

You may not like it and you may have to stomach making some decisions that today look hard. But ignoring the bell-wether, however, is much, much worse.

But the bell-wethers are also saying that it is good to be a big, Boring, quality IT services company again. Just as we have long said that, from a financial performance viewpoint, Boring companies like Sage and Capita will be the best havens in the storm, so we also believe that the likes of EDS, Cap Gemini E&Y, IBM Global Services will provide good solid - but not exciting - growth opportunities in the troubled times which lie ahead.

ITSA Fortunes as Barometer of SCS Sector?





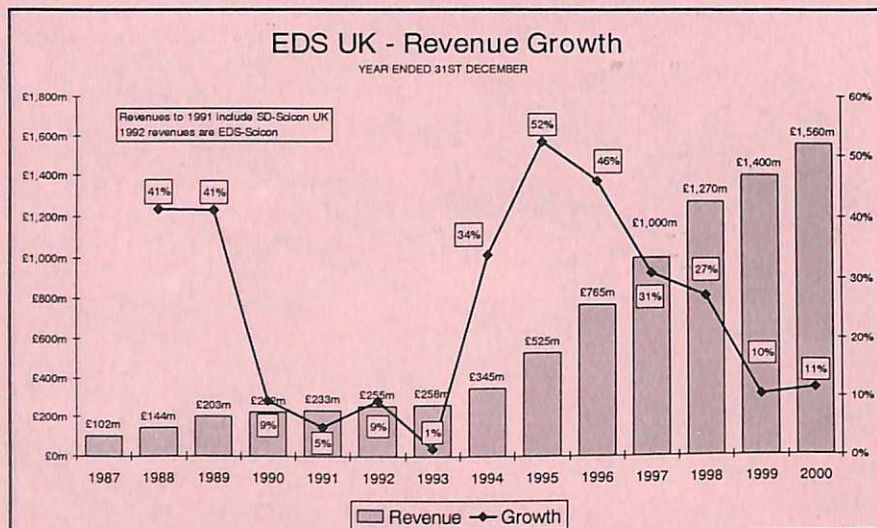
EDS - Its good to be a big, Boring IT Services company again

A year back we interviewed the top management of the UK's leading IT services companies. They were pretty universally depressed and worried - even if that wasn't the public persona! Indeed, results for the first half of 2000 bore out the pessimism. We met with EDS' Dick Fredericks and the UK's John Meyer on the day of their revenue warning which put their shares into a tail spin. It was a deeply depressing meeting. EDS had seen the Y2K having a profound effect on customers. Like Cap Gemini E&Y and most others, they had seen the "newspaper kiosk" business (i.e. that lucrative 20% of uncontracted revenues which "always seemed to come in each month") just dry up. Customers had gone into "reflective mode" over IT. I.e. they just stopped buying! New outsourcing business had died in its tracks. They were increasingly worried as they saw the upstart e-consultancies winning the web design business from their established clients. Staff were leaving in droves to join the dot.coms. Indeed on the day we met Fredericks, EDS UK MD David Courtley left to join Computacenter. EDS' CEO Dick Brown's much needed restructuring of 1999 had left "loose cannon" ex-EDS managers aplenty. To put it mildly, morale could have been better! Six months on, the situation could not be more different. Indeed, in our 30 years experience, it would be difficult to remember such a time of fast changing fortunes.

EDS' worldwide results show revenues growing again - particularly in Q4. Indeed the order book is at record levels. This month we met with Bill Thomas - EDS' "new" UK MD. Although appointed in Sep. 00, Thomas has been with EDS since the SD-Scicon days. EDS UK performed particularly well in 2000. We would estimate that overall UK revenues grew by

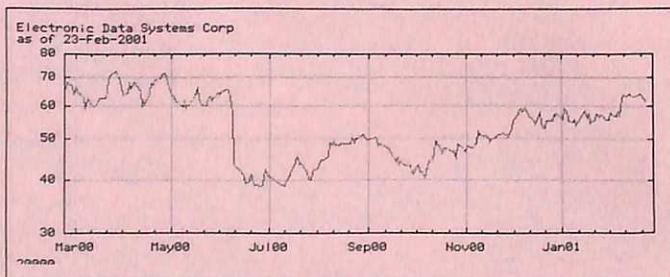
around 11% to c£1.56billion - all organic too. Indeed if you exclude GM, EDS UK probably grew over 15%.

Some might argue that it's been the Ship of State (i.e. HM Govt.) which, as it supplies c50% of EDS' UK revenue, has just ploughed on through the bad times affecting the rest of the IT services market. With DHSS, Inland Revenue, Employment Services, Prisons, Courts, Police, CCTA, DVLA...the list seems endless - EDS is now responsible for departments spending 1/3rd of Tony Blair's budget. You don't tend to get to that position overnight...or by consistently doing a bad job! But that would be to underestimate EDS' success with the private sector - Rolls Royce, for example has recently extended its original record-breaking outsourcing deal for another 12



years. EDS reports the current UK outsourcing market as "incredibly strong".

Add to this a new stable management structure and lower than market average attrition rates and you get a completely different and more positive picture at EDS. As we say in our page one feature, this just must bode well for the other big, boring IT services companies. Indeed, if you look at EDS' share price performance (below) it has held up remarkably well. Our own SCS index has fallen c80% since its high in



early Mar. 00. But EDS is pretty much unchanged - indeed it is up 46% since its low after the "revenue" warning in May 00 (referred to above). **If this is Boring...so be it!**

Other results this month

In addition to the articles in this month's System House, other results, for which information can be found on Hotnews and/or pages 5-6 are:

Alphameric	Baltimore Technologies
Brainspark	Bright Station
Gladstone	hemscott.net
Internet Business Group	Interclubnet
Interregnum	NCipher
OneclickHR	Orchestream
RDL	Royalblue
Systems International	Tornado Group

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A pretty positive first set of results

Robert Walters, the recruitment and HR outsourcing company which includes IT staffing, announced results for the year to 31st Dec. 00. Revenue rose 21.5% to £216.8m, more significantly gross profit (i.e. stripping out contractor fees) rose by 33% to £63.5m, PBT rose 62.7% to £18.3m, and EPS increased from 8.7p to 13.2p. Commenting on the results, Daniel Affolter, Chairman said: "At this early stage in the financial year, the Group is trading in line with management expectations. The company possesses dual strength in both contract and permanent recruitment and can accommodate any corresponding shifts in clients' recruiting strategies. Furthermore, the company has a global spread of operations and strength across a broad range of sectors." The company also announced the acquisition of an Australian recruitment company, **Dunhill Group**, for c£8.2m. Dunhill had revenue of c£17m and PBT of c£1.6m in the year to 31st Dec. 00.

Comment - Robert Walters (RW) returned to the London Stock Exchange in July last year, raising nearly £4m (gross) to finance the company's technology strategy. The company had originally floated in 1996, but was subsequently acquired in Nov. 98 by US-based staffing company, and NASDAQ-listed, Staffmark (now called Edgewater Technologies) in an all share deal valued at c£113m. Founder, and CEO, Walters continued to run the business as an autonomous division within Staffmark. However the 'merger' turned sour after Staffmark shares dived in value. In an ironic series of events, Staffmark decided to sell its entire shareholding in RW to pay down debts of over £180m and to focus on e-commerce opportunities. RW's return to the LSE was at a conservative 170p, having indicated a price range of 160p-200p in its prospectus - a sensible move given the state of the market

at the time. We were pleased to see another established staff agency join the London market, as the list of UK-based staff agencies gets ever shorter as consolidation within the industry continues.

Admittedly RW is not a 'pure' IT staff agency - its largest division, Professional, places staff into the finance and commerce sectors, and revenue from IT recruitment accounted for less than 20% of the total in 1999. But this sector diversification, and its global operations have helped to insulate RW from the Y2K downturn and the current uncertainty in the telecom's sector. Indeed, RW reports that net fee income in the IT recruitment division increased "substantially", as the company reacted to the increasing demand for permanent staff.

Reliance on the UK market is reducing, as this year overseas operations accounted for 27% of total revenue compared to 23% in 1999. The UK operation grew by 15%, Australia and NZ by 25%, but it was the rest of the world (ROW) that put in the best performance, growing by 109%. The ROW also contributed significantly to the PBT figure, accounting for 21% of the total (from 9% of total revenues). Overall, PBT increased c63% to £18.2m, with the UK operation up a super 77% to £12.6m.

With a presence in 13 countries including Japan, Hong Kong, Singapore and South Africa, RW is well placed to compete for global recruitment opportunities, and the addition of Dunhill will help in the "cross-border" placements of candidates. Indeed, RW is doing many of the things that we recommended ITSAs do in our most recent report on the UK IT Staff Agency Market: offering value-add services, providing permanent as well as contract recruitment services, expanding overseas, developing a web-presence to attract candidates etc. etc. So all in all, a pretty positive first set of results.

Shares in RW ended the month at 193p, down 18% from the beginning of the year where it started at 235p.

FLOMERICS Good progress during 2000

Flomerics - who provide analysis software to the telecoms, semiconductor and computer industries - has announced results for the year to 31st Dec. 00. Revenue is up 35% to £11.8m, PBT is up 48% to £1.2m with EPS up from 18.5p to 30p. Commenting on the outlook, Chairman, David Mann, said: "The directors see good prospects for the continuing growth of Flomerics' businesses. As a supplier of virtual-prototyping solutions for two of the most critical design bottlenecks challenging the electronics industry today, we believe that, despite the current turbulence in the technology markets, Flomerics is faced with major market opportunities".

Comment: Flomerics has made good progress during 2000, and now generates 56% of revenue from customers in the US (an increase of 40% in revenue terms). In addition the Far East is opening up as a good market for Flomerics with £1.5m revenue from business in the Far East in 2000, up 64%.

The company generates the majority of its revenues from its Flotherm product - used by electronics manufacturers to improve the thermal design of electronics equipment. Besides revenue from product sales, Flomerics is increasing the amount of revenue from consultancy and training, with its outsourced thermal design service having tripled sales to £750K in the recent year. All in all, another good set of results. Share price is up 14% at 825p.



Impressive set of results

SDL has announced results for the year ended 31st Dec. 00. Turnover for the period was up 129% from £13m in 1999 to £29.7m (organic growth of almost 70%). LBT of £550K in 1999 was converted to a profit of £1.1m and a loss per share of 1.78p was converted into EPS of 0.93p. Mark Lancaster, Chairman, commented "The Board anticipates that 2001 will be another year of strong revenue growth, in line with the benefits of a full year's contribution from the acquisitions and the further establishment of SDLWebFlowtm as the leading multilingual

content management system".

Comment - SDL's strategy of providing the products and services to assist its clients' globalisation has seen the Group report an impressive set of results at a time when other companies were struggling post-Y2K. The growth, which has been both organic and through acquisition (four new companies have been acquired and integrated), means that headcount in the year has grown 160% from 287 employees in 13 offices to 746 in 24 offices. SDL floated in Dec. 99 at 134p and since then, has seen its share price increase 151% to 336p.

NetStore, an ASP, has announced results for the six months to 31st Dec. 00, showing turnover up 210% to £1.15m, compared to the six months to 31st Dec. 99, LBT has deepened from £1.1m to £5.4m, and Loss Per Share has also deepened from 2.04p to 6.14p. Commenting on the

results, CE Gary Smith said: "We continue to perform well against our plans and have made real strategic progress. Our aim now is to maximise the opportunities offered by highly scalable package ASP as fully as we are able while carefully controlling costs and conserving our cash".



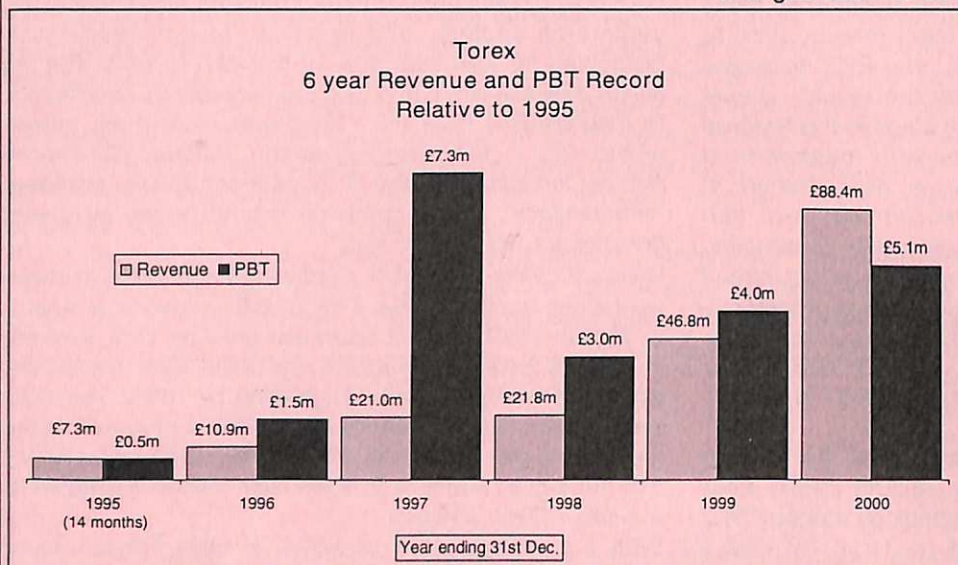
Torex - Expecting a period of consolidation

Torex, the IT solutions provider to the healthcare and retail markets, has announced preliminary results for the year ending 31st Dec.

growth in EPS and a market capitalisation of £650m by 2003. Using the adjusted basic figure (undiluted) it's claiming 75% EPS growth on the year and an average of 50% over the last four.

Torex is quite a lot different now than a year ago, but all the changes seem to be in the right direction. We are pleased

to see the tight focus with the Laufenburg deal in Germany putting much greater emphasis on the healthcare side of the business, which is more profitable (less hardware), as well as creating a strong foothold in Europe as a basis for future expansion. In 2001 around a third of the company's sales are non-UK (Germany, Holland, Switzerland and Ireland) and two-thirds come from the health sector (compared with 45% last year). The retail sector is also expanding into more profitable sectors such as leisure and hospitality and logistics. However, it is the health sector, where the company has a stronger foothold in the UK (including a 35%



00. Turnover was £88.4m compared to £46.8m in 1999 - an increase of almost 90%. PBT also increased from £4.0m to £5.1m - up 28%, but diluted EPS fell from 13.3p to 9p (adjusted diluted EPS excluding goodwill amortisation and exceptional items rose from 11.3p to 19.9p).

Comment - A year ago Torex set its targets at 20%+ annual

share of GP sites), which is the focus of growth. Whilst the company expects a 'period of consolidation' after the Laufenburg deal in Dec. 00, with strengthened management and cash still available, expect to see this acquisitive company making further inroads into Europe before long. The share price finished the month up 22% at 743p.

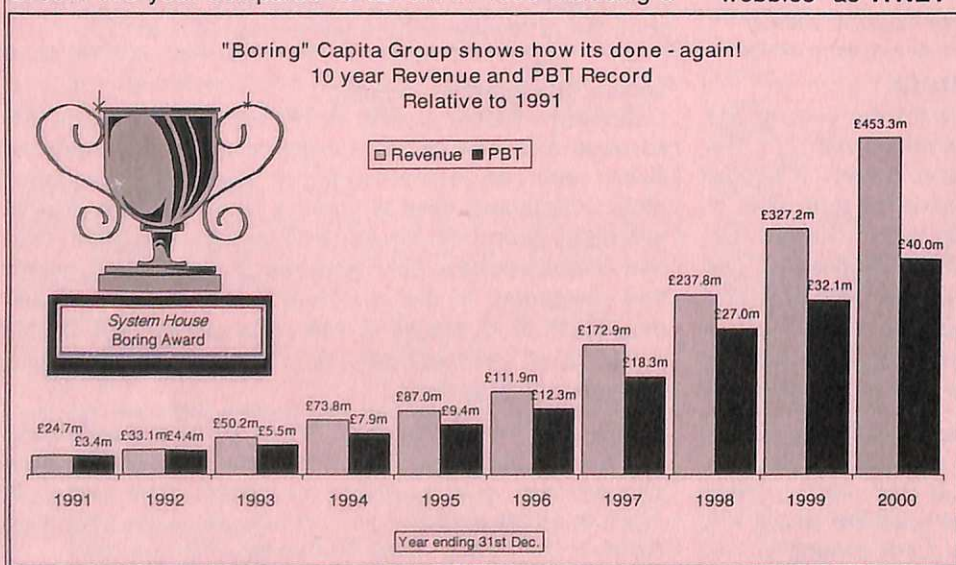
CAPITA *Capita "bores" again!*

Awesome **Capita Group** once again showed everyone how it should be done in tough times when exec. Chairman Rod Aldridge OBE announced results for the year to 31st Dec. 00. Total turnover rose 39% to £453m, PBT rose 24% to £40m (after goodwill!) and EPS increased 14% to 3.75p. Almost whichever way you look at them, the numbers are wonderful. Organic growth was up 23% to £400m and even revenue from their acquisitions grew 12% in the relatively short time under Capita's wing. 'Underlying' profit (pre-goodwill) grew 52% to £51.2m - 29% of that was organic. Overall margin was the only number to show any decrease - down from 9.8% to 8.8% (still very good indeed for an outsourcing company) - but operating margins increased from 10.9% to 12%. Phew! All this was done with a mix of major contract wins (some £700m this year compared to £270m in 1999 including a

£323m/10 year deal at Abbey National), contract extensions and, of course, their trademark acquisitions (**IRG** and **Eastgate**). And there's much more to come as, according to Aldridge, "(2001) started strongly with current trading materially ahead of the corresponding period last year ... (we view) the current year and beyond with considerable confidence".

Comment: Coming from almost anyone else, the "confidence" word would be treated with some scepticism, especially in today's market. But Capita has shown year after year after year that it can deliver the goods and more. Indeed, Capita is now the **ONLY** UK IT services company* (although they don't really like to be called that any more) that holds the coveted **System House Boring Award** for 10 years (plus) uninterrupted growth in PBT and EPS. Their local government BPO has not suffered as much of the 'wobbles' as **ITNET** - and Capita had **always** used the more conservative method for revenue/profit recognition that **ITNET** is now using. Capita is also in central government, education and increasingly (36%, up from 34%) in the private sector - but it still sticks to its knitting, basically long term outsourcing IT and back office services. What a tribute to the top team - all of whom, by the way, are 'boring' accountants! No wonder the bottom line looks so good. Nonetheless, Capita's share price fell on results day, and ended the month at 481p, down 2%.

* **Sage** is the only other current **System House Boring Award** holder - but Sage is a products company.



Quoted Companies - Results Service

Note: Highlighted Names indicate results announced this month.

Actinic plc				Delcam plc				Kewill Systems plc			
Final - Sep 99	Int 9 mos Jun 00	Final - Sep 00	Comparison	Interim - Jun 99	Final - Dec 99	Interim - Jun 00	Comparison	Interim - Sep 99	Final - Mar 00	Interim - Sep 00	Comparison
REV	£571,000	£1,437,000	£2,048,000	REV	£7,677,884	£15,774,254	£8,302,280	REV	£23,129,000	£75,245,000	£50,419,000
PBT	£775,000	£2,159,000	£3,508,000	PBT	£509,549	£1,042,075	£611,162	PBT	£2,336,000	£1,803,000	£1,803,000
EPS	-0.86%	-2.25%	-3.41%	EPS	7.00%	13.20%	8.10%	EPS	1.30%	-1.20%	-1.10%
AFA Systems plc				Diagonal plc				Keystone Software plc			
Interim - Jun 99	Final - Dec 99	Interim - Jun 00	Comparison	Final - Nov 99	Final - Nov 00	Comparison		Interim - Sep 99	Final - Mar 00	Interim - Sep 00	Comparison
REV	£386,000	£1,779,000	£2,172,000	REV	£72,376,000	£82,735,000	£4,359,000	REV	£2,384,000	£4,799,000	£1,989,000
PBT	£716,000	£581,000	£420,000	PBT	£8,184,000	£4,840,000	£40,990	PBT	£17,000	£165,000	£3,173,000
EPS	-4.70%	-3.40%	-2.20%	EPS	7.52%	3.30%	-56.1%	EPS	0.10%	-0.60%	-7.60%
AIT Group plc				Easyscreen plc				Knowledge Management Software plc			
Interim - Sep 99	Final - Mar 00	Interim - Sep 00	Comparison	Interim - Sep 99	Final - Mar 00	Interim - Sep 00	Comparison	Final - Dec 98	Final - Jun 00	Comparison	
REV	£9,765,000	£21,693,000	£14,218,000	REV	£335,957	£1,056,519	£969,022	REV	£713,010	£2,091,986	Not comparable
PBT	£1,530,000	£3,651,000	£2,003,000	PBT	£453,525	£3,425,999	£3,767,777	PBT	£58,987	£3,078,772	Profit to loss
EPS	5.05%	11.81%	6.49%	EPS	-1.23%	-9.96%	-8.23%	EPS	0.35%	-5.40%	Profit to loss
Alphameric plc				ECsoft Group plc				Knowledge Support Systems Group plc			
Final - Nov 99	Final - Nov 00	Comparison		Final - Dec 99	Final - Dec 00	Comparison		Interim - Jun 99	Final - Dec 99	Interim - Jun 00	Comparison
REV	£25,330,000	£54,408,000	+114.8%	REV	£67,304,000	£73,204,000	-8.8%	REV	£1,235,699	£1,838,025	£895,739
PBT	£3,050,000	£3,891,000	+27.6%	PBT	£37,812,000	£37,000,000	-59.9%	PBT	£317,812	£83,497	£425,722
EPS	3.62%	1.95%	-45.9%	EPS	17.30%	-4.80%	Profit to loss	EPS	0.60%	-0.10%	-0.60%
Alterian plc				Eidos plc				Logica plc			
Interim - Sep 99	Final - Mar 00	Interim - Sep 00	Comparison	Interim - Sep 99	Final - Mar 00	Interim - Sep 00	Comparison	Interim - Dec 99	Final - Jun 00	Interim - Dec 00	Comparison
REV	£374,074	£1,011,140	£666,000	REV	£44,060,000	£203,265,000	-7.6%	REV	£403,000,000	£847,400,000	£505,000,000
PBT	£75	£3,905	£976	PBT	£37,907,000	£49,275,000	£82,348,000	PBT	£35,100,000	£98,100,000	£57,900,000
EPS	-0.40%	0.38%	-2.10%	EPS	-29.20%	22.80%	-77.70%	EPS	5.40%	17.50%	9.10%
Anite Group plc				Electronic Data Processing plc				London Bridge Software Holdings plc			
Interim - Oct 99	Final - Apr 00	Interim - Oct 00	Comparison	Final - Sep 99	Final - Sep 00	Comparison		Final - Dec 99	Final - Dec 00	Comparison	
REV	£83,930,000	£158,976,000	£85,665,000	REV	£10,492,000	£8,353,000	-20.4%	REV	£42,165,000	£56,702,000	£48,592
PBT	£4,690,000	£7,171,000	£3,041,000	PBT	£2,377,000	£1,115,000	-53.1%	PBT	£7,092,000	£4,662,000	£4,339
EPS	1.00%	1.30%	-80.0%	EPS	6.85%	2.73%	-60.1%	EPS	3.18%	1.85%	-41.8%
Autonomy Corporation plc				Epic Group plc				Lorien plc			
Final - Dec 99	Final - Dec 00	Comparison		Interim - Nov 99	Final - May 00	Interim - Nov 00	Comparison	Final - Nov 99	Final - Nov 00	Comparison	
REV	£16,511,000	£49,139,000	+197.6%	REV	£1,904,000	£4,398,000	+95.0%	REV	£138,817,000	£111,588,000	-19.6%
PBT	£678,000	£15,519,000	Loss to profit	PBT	£216,000	£765,000	+162.5%	PBT	£1,649,000	£2,718,000	Loss both
EPS	-2.80%	8.00%	Loss to profit	EPS	0.85%	3.12%	+155.3%	EPS	-8.50%	-12.10%	Loss both
Axon Group plc				Eurolink Managed Services plc				Lynx Group plc			
Interim - Jun 99	Final - Dec 99	Interim - Jun 00	Comparison	Interim - Sep 99	Final - Mar 00	Interim - Sep 00	Comparison	Final - Sep 99	Interim - Mar 00	Final - Sep 00	Comparison
REV	£11,744,000	£25,378,000	£17,210,000	REV	£4,069,000	£7,596,000	-1.0%	REV	£212,541,000	£111,018,000	£250,482,000
PBT	£1,686,000	£4,560,000	£2,803,000	PBT	£189,000	£340,000	-8.5%	PBT	£8,269,000	£1,789,000	£6,106,000
EPS	2.20%	5.70%	-54.5%	EPS	1.28%	2.19%	-9.4%	EPS	4.80%	0.98%	-58.8%
Azlan Group plc				F.I. Group plc				MMT Computing plc			
Interim - Sep 99	Final - Mar 00	Interim - Sep 00	Comparison	Interim - Oct 99	Final - Apr 00	Interim - Oct 00	Comparison	Final - Aug 99	Interim - Feb 00	Final - Aug 00	Comparison
REV	£193,984,000	£410,640,000	£261,744,000	REV	£145,379,000	£307,696,000	+40.3%	REV	£41,024,210	£16,800,000	£37,734,000
PBT	£2,369,000	£9,288,000	£5,374,999	PBT	£9,539,000	£17,391,000	-£5,746,000	PBT	£9,710,952	£2,000,000	£5,976,000
EPS	1.50%	6.10%	-36.7%	EPS	2.71%	3.91%	-3.21%	EPS	52.20%	10.50%	-38.3%
Baltimore Technologies plc				Financial Objects plc				Macro 4 plc			
Final - Dec 99	Final - Dec 00	Comparison		Interim - Jun 99	Final - Dec 99	Interim - Jun 00	Comparison	Interim - Dec 99	Final - Jun 00	Interim - Dec 00	Comparison
REV	£23,272,000	£74,224,000	+218.9%	REV	£10,690,000	£22,301,000	-17.0%	REV	£17,086,000	£38,671,000	+28.5%
PBT	£31,351,000	£94,185,000	+298.1%	PBT	£2,649,000	£4,656,000	-£1,573,000	PBT	£4,751,000	£10,611,000	+22.2%
EPS	-10.27%	23.10%	Loss both	EPS	5.20%	8.70%	Profit to loss	EPS	15.30%	33.20%	-93.5%
Baron Corporation plc				Flometrics Group plc				Manpower Software plc			
Final - Aug 98	Interim - Feb 00	9/4/99	Comparison	Final - Dec 99	Final - Dec 00	Comparison		Final - May 99	Final - May 00	Comparison	
REV	£2,384,000	£1,392,585	£3,294,936	REV	£8,713,000	£11,763,000	+25.0%	REV	£1,896,518	£1,611,619	-15.0%
PBT	£1,127,831	£689,490	£1,160,000	PBT	£807,000	£1,182,000	+46.5%	PBT	£1,641,522	£2,790,867	Loss both
EPS	n/a	-3.70%	-16.00%	EPS	18.60%	30.00%	+61.3%	EPS	-20.86%	-27.73%	Loss both
Bond International Software plc				Focus Solutions Group plc				MERANT plc			
Interim - Jun 99	Final - Dec 99	Interim - Jun 00	Comparison	Interim - Sep 99	Final - Mar 00	Interim - Sep 00	Comparison	Interim - Oct 99	Final - Apr 00	Interim - Oct 00	Comparison
REV	£4,567,000	£8,457,169	£4,519,000	REV	£238,000	£721,000	+282.0%	REV	£112,351,000	£227,283,000	+96,911,000
PBT	£327,000	£789,085	£141,000	PBT	£504,000	£1,039,000	-£1,224,000	PBT	£5,015,000	£35,369,000	£7,310,000
EPS	1.58%	4.81%	0.55%	EPS	-2.70%	-5.60%	-6.20%	EPS	0.02%	24.90%	Profit to loss
Bright Station plc				Freemove plc				Microgen plc			
Final - Dec 99	Final - Dec 00	Comparison		Final - Apr 99	Final - Apr 00	Comparison		Final - Dec 99	Final - Dec 00	Comparison	
REV	£174,452,000	£57,642,000	-67.0%	REV	£2,732,000	£19,557,000	+615.8%	REV	£31,324,000	£25,344,000	-19.1%
PBT	£3,650,000	£128,944,000	Loss both	PBT	£1,511,000	£22,932,000	Loss both	PBT	£1,834,000	£3,086,000	Profit to loss
EPS	-3.40%	-77.50%	Loss both	EPS	-5220.00%	-2.20%	Loss both	EPS	5.70%	-5.20%	Profit to loss
Business Systems Group Holdings plc				Gresham Computing plc				Misys plc			
Interim - Sep 99	Final - Jun 99	Interim - Sep 00	Comparison	Final - Oct 99	Final - Oct 00	Comparison		Interim - Nov 99	Final - May 00	Interim - Nov 00	Comparison
REV	£17,085,000	£32,386,000	£17,602,000	REV	£30,350,000	£23,325,000	-23.1%	REV	£344,500,000	£708,800,000	£413,000,000
PBT	£459,000	£750,000	£145,000	PBT	£864,000	£4,273,000	Loss both	PBT	£48,300,000	£113,600,000	£37,400,000
EPS	0.43%	0.62%	-0.26%	EPS	-2.26%	-9.38%	Loss both	EPS	6.00%	14.20%	4.70%
Cadcentre Group plc				Guardian IT plc				Mondas plc			
Interim - Sep 99	Final - Mar 00	Interim - Sep 00	Comparison	Interim - Jun 99	Final - Dec 99	Interim - Jun 00	Comparison	Interim - Oct 99	Final - Apr 00	Interim - Oct 00	Comparison
REV	£10,932,203	£23,889,000	£12,900,000	REV	£19,647,000	£49,245,000	+237.7%	REV	£641,678	£1,358,811	£881,423
PBT	£1,869,919	£4,338,000	£2,300,000	PBT	£3,614,000	£7,048,000	+2,823,000	PBT	£390,090	£857,573	£446,266
EPS	7.92%	17.40%	9.35%	EPS	4.78%	10.90%	+10.6%	EPS	-3.10%	6.80%	-3.40%
Capita Group plc				Harvey Nash Group plc				Morse Holdings plc			
Final - Dec 99	Final - Dec 00	Comparison		Interim - Jun 99	Final - Jan 00	Interim - Jun 00	Comparison	Final - Jun 99	Final - Jun 00	Comparison	
REV	£327,199,000	£400,853,000	+22.5%	REV	£71,900,000	£150,998,000	+93.0%	REV	£283,943,000	£506,316,000	+78.3%
PBT	£32,200,000	£39,974,000	+24.1%	PBT	£5,326,000	£11,974,000	+5,756,000	PBT	£18,853,000	£22,919,000	+21.6%
EPS	3.30%	7.75%	+13.6%	EPS	11.81%	27.64%	+12.2%	EPS	22.70%	10.10%	-55.9%
Cedar Group plc				Highams Systems Services Group plc				MSB International plc			
Interim - Sep 99	Final - Mar 00	Interim - Sep 00	Comparison	Interim - Sep 99	Final - Mar 00	Interim - Sep 00	Comparison	Interim - Jun 99	Final - Jan 00	Interim - Jun 00	Comparison
REV	£11,688,000	£36,314,000	£23,367,000	REV	£14,967,000	£26,863,817	+10,262,000	REV	£99,869,000	£184,936,000	£75,040,000
PBT	£55,000	£4,829,000	£852,000	PBT	£2,000	£308,504	£1,744,000	PBT	£25,000	£4,958,000	£4,185,000
EPS	0.10%	4.20%	-2.10%	EPS	-0.08%	-1.58%	-8.9%	EPS	0.10%	17.30%	15.35%
Charteris plc				ICM Computer Group plc				NetBenefit plc			
Final - Jul 99	Final - Jul 00	Comparison		Final - Jun 99	Final - Jun 00	Comparison		Final - Jun 99	Final - Jun 00	Comparison	
REV	£4,654,000	£5,716,000	+24.3%	REV	£40,047,000	£49,535,000	+23.7%	REV	£1,969,751	£7,520,100	+281.8%
PBT	£476,000	£371,000	-22.1%	PBT	£4,335,000	£4,513,000	+41.1%	PBT	£279,862	£4,591,500	Profit to loss
EPS	35.30%	25.70%	-27.2%	EPS	14.50%	15.40%	-4.4%	EPS	0.02%	-0.32%	Profit to loss
Clinical Computing plc				IDS Group plc				Netstore plc			
Interim - Jun 99	Final - Dec 99	Interim - Jun 00	Comparison	Interim - Jun 99	Final - Dec 99	Interim - Jun 00	Comparison	Interim - Dec 99	Final - Jun 00	Interim - Dec 00	Comparison
REV	£1,561,000	£3,112,623	£1,331,000	REV	£6,088,000	£13,614,000	+6				
PBT	£253,000	£382,336	£157,000	PBT	£268,000	£1,125,000	£1,222,000	PBT	£58,430	£1,372,653	+1,093
EPS	1.00%	1.50%	0.60%	EPS	1.28%	6.11%	0.47%	EPS	-2.04%	-7.57%	Loss both
CMG plc				Intelligent Environments Group plc				Nettec plc			
Final - Dec 99	Final - Dec 00	Comparison		Interim - Jun 99	Final - Dec 99	Interim - Jun 00	Comparison	Interim - Jun 99	Final - Dec 99	Interim - Jun 00	Comparison
REV	£608,588,000	£810,400,000	+33.2%	REV	£4,090,000	£7,218,738	£4,721,000	REV	£2,004,000	£4,798,000	+286.1%
PBT	£83,629,000	£83,100,000	-6%	PBT	£370,000	£3,020,988	£801,000	PBT	£363,000	£2,334,000	£2,538,000
EPS	10.70%	7.80%	-27.1%	EPS	-1.20%	8.16%	-1.90%	EPS	0.70%	-19.60%	-2.70%
Comino Group plc				Innovation Group plc (The)				Northgate Information Solutions plc			
Interim - Sep 99	Final - Mar 00	Interim - Sep 00	Comparison	Interim - Sep 99	Final - Sep 00	Comparison					

Quoted Companies - Results Service

Note: Highlighted Names indicate results announced this month.

Planit Holdings plc				SDL plc				Telework Group plc			
Interim - Oct 99	Final - Apr 00	Interim - Oct 00	Comparison	Final - Dec 99	Final - Dec 00	Comparison		Interim - Sep 99	Final - Mar 00	Interim - Sep 00	Comparison
REV £6,041,000	£13,304,000	£9,119,000	+51.0%	REV £12,960,000	£29,730,000	+129.4%		REV £8,252,000	£17,363,000	£10,409,000	+66.1%
PBT £1,273,000	£2,483,000	£980,000	+23.0%	PBT £796,000	£1,059,000	+32.7%		PBT £481,000	£2,705,000	£890,000	+85.0%
EPS 1.10p	2.30p	0.80p	+27.3%	EPS -2.63p	0.93p	+106.5%		EPS 0.52p	1.04p	1.02p	+10.6%
Policy Master Group plc				Sema plc				TelMe.com plc			
Interim - Jun 99	Final - Dec 99	Interim - Jun 00	Comparison	Final - Dec 99	Final - Dec 00	Comparison		Final - Mar 99	Final - Mar 00	Comparison	
REV £7,715,000	£16,730,281	£8,100,000	+60.9%	REV £1,410,000,000	£1,510,000,000	+7.1%		REV £10,014,000	£13,974,000	£9,595,000	+39.5%
PBT £500,000	£1,062,587	£29,000	+94.2%	PBT £93,800,000	£7,345,000	+124.5%		PBT £3,381,000	£2,105,000	£2,105,000	Loss both
EPS 3.50p	6.20p	0.10p	+97.1%	EPS 14.70p	-13.10p	-183.0%		EPS -5.40p	-3.00p	-3.00p	Loss both
PSD Group plc				ServicePower Technologies plc				Terence Chapman Group plc			
Interim - Jun 99	Final - Dec 99	Interim - Jun 00	Comparison	Interim - Jun 99	Final - Dec 99	Interim - Jun 00	Comparison	Final - Aug 99	Final - Aug 00	Comparison	
REV £29,568,000	£63,428,000	£41,132,000	+49.1%	REV £1,854,000	£3,760,910	+103.1%		REV £30,641,000	£30,900,000	£30,900,000	+0.8%
PBT £6,831,000	£11,545	£10,111,000	+48.0%	PBT £1,279,000	£2,541,087	+96.2%		PBT £4,464,000	£4,100,000	£4,100,000	-8.2%
EPS 18.90p	46.40p	27.30p	+44.4%	EPS -3.22p	-6.37p	-95.3%		EPS 5.82p	4.65p	4.65p	-19.9%
QSP Group plc				Sherwood International plc				Torex plc			
Interim - Jun 99	Final - Dec 99	Interim - Jun 00	Comparison	Interim - Jun 99	Final - Dec 99	Interim - Jun 00	Comparison	Final - Dec 99	Final - Dec 00	Comparison	
REV £19,961,000	£50,538,000	£21,010,000	+45.3%	REV £22,493,000	£47,185,000	+109.8%		REV £46,762,000	£88,425,000	£88,425,000	+89.1%
PBT £783,000	£4,212,000	£1,022,000	+28.0%	PBT £2,881,000	£7,345,000	+154.3%		PBT £4,039,000	£5,133,000	£5,133,000	+27.1%
EPS -1.11p	5.38p	-1.13p	+113.0%	EPS 4.30p	11.40p	+165.1%		EPS -13.30p	9.00p	9.00p	+32.3%
Quantic plc				Skillsgroup plc				Total Systems plc			
Interim - May 99	Final - Nov 99	Interim - May 00	Comparison	Final - Nov 99	Final - Nov 00	Comparison		Interim - Sep 99	Final - Mar 00	Interim - Sep 00	Comparison
REV £8,286,000	£18,153,000	£9,278,000	+12.0%	REV £198,700,000	£140,700,000	-29.2%		REV £1,180,727	£1,958,040	£1,584,209	+34.2%
PBT £1,593,000	£3,224,000	£1,463,000	+8.2%	PBT £11,400,000	£17,400,000	+52.6%		PBT £128,216	£579,589	£156,071	+115.0%
EPS 2.64p	6.02p	2.71p	+27.2%	EPS 10.70p	-18.40p	-273.8%		EPS -0.88p	-3.97p	-3.97p	Loss to Profit
RM plc				Sopheon plc				Touchstone Group plc			
Final - Sep 99	Final - Sep 00	Comparison		Interim - Jun 99	Final - Dec 99	Interim - Jun 00	Comparison	Interim - Sep 99	Final - Mar 00	Interim - Sep 00	Comparison
REV £162,210,000	£207,560,000	+28.0%		REV £506,000	£3,098,000	+512.3%		REV £4,812,000	£10,511,000	£5,311,000	+10.4%
PBT £12,262,000	£9,528,000	-22.3%		PBT £657,000	£2,072,000	+211.9%		PBT £678,000	£1,196,000	£410,000	+39.5%
EPS 9.80p	7.90p	-19.4%		EPS -3.40p	-10.10p	-197.1%		EPS 4.75p	9.50p	2.48p	+47.8%
Raft International Plc				Spring Group plc				Trace Computers plc			
Final - Oct 99	Final - Oct 00	Comparison		Interim - Oct 99	Final - Apr 00	Interim - Oct 00	Comparison	Interim - Nov 99	Final - May 00	Interim - Nov 00	Comparison
REV £7,570,000	£9,173,000	+21.2%		REV £206,641,000	£396,106,000	+91.9%		REV £8,693,000	£17,067,000	£8,382,000	+3.6%
PBT £388,000	£1,711,000	+55.9%		PBT £1,400,000	£6,420,000	+358.6%		PBT £973,000	£2,311,000	£1,085,000	+11.5%
EPS 0.37p	1.11p	+19.3%		EPS 0.60p	-5.09p	-95.0%		EPS 4.82p	11.62p	5.25p	+8.9%
Rage Software plc				Staffware plc				Triad Group plc			
Final - Jun 99	Final - Jun 00	Comparison		Final - Dec 99	Final - Dec 00	Comparison		Interim - Sep 99	Final - Mar 00	Interim - Sep 00	Comparison
REV £8,945,000	£4,218,000	-52.3%		REV £23,152,000	£37,057,000	+60.5%		REV £24,366,000	£48,366,000	£25,003,000	+41.1%
PBT £3,121,000	£2,641,000	-15.7%		PBT £841,000	£3,042,000	+261.7%		PBT £903,000	£1,905,000	£1,265,000	+40.1%
EPS 1.03p	-0.94p	-19.4%		EPS 4.20p	10.40p	+147.6%		EPS -3.35p	5.06p	2.43p	+27.2%
RDL Group plc				StatPro Group plc				Ultima Networks plc			
Final - Sep 99	Final - Sep 00	Comparison		Final - Dec 99	Final - Dec 00	Comparison		Interim - Jun 99	Final - Dec 99	Interim - Jun 00	Comparison
REV £18,172,000	£16,246,000	-10.6%		REV £3,144,000	£3,172,000	+0.9%		REV £6,476,000	£12,541,000	£3,889,000	+39.9%
PBT £1,335,000	£1,092,000	-18.2%		PBT £183,000	£4,879,000	+2584.7%		PBT £610,000	£1,783,000	£496,000	+39.5%
EPS 8.05p	6.70p	-16.8%		EPS -1.40p	-18.40p	-124.3%		EPS -0.35p	0.44p	-0.25p	+15.7%
Recognition Systems Group plc				Superscape plc				Ultrasis Group plc			
Final - Sep 99	Final - Sep 00	Comparison		Final - Jul 99	Final - Jul 00	Comparison		Final - Jul 99	Final - Jul 00	Comparison	
REV £2,315,000	£8,620,000	+272.4%		REV £3,071,000	£2,153,000	-29.9%		REV £2,520,000	£986,000	£986,000	-60.9%
PBT £1,609,000	£4,749,000	+195.7%		PBT £2,765,000	£6,817,000	+148.8%		PBT £2,316,000	£4,984,000	£4,984,000	+113.0%
EPS -2.30p	5.40p	+333.3%		EPS -22.50p	-26.80p	-19.1%		EPS -1.60p	-2.40p	-2.40p	Loss both
Retail Decisions plc				SurfControl plc				Vega Group plc			
Interim - Jun 99	Final - Dec 99	Interim - Jun 00	Comparison	Final - May 99	Final - May 00	Comparison		Interim - Oct 99	Final - Apr 00	Interim - Oct 00	Comparison
REV £5,875,000	£11,937,000	+103.2%		REV £4,003,000	£8,706,707	+117.5%		REV £18,531,000	£40,201,000	£18,249,000	+1.9%
PBT £1,166,000	£1,671,000	+43.4%		PBT £1,314,000	£14,871,341	+1054.7%		PBT £1,932,000	£4,843,000	£1,322,000	+38.6%
EPS 0.59p	1.11p	+88.2%		EPS -12.72p	-70.35p	-450.8%		EPS 7.02p	17.17p	-5.72p	+17.0%
RexOnline plc				Synigence Plc				VI Group plc			
Interim - Oct 99	Final - Apr 00	Interim - Oct 00	Comparison	Final - Dec 99	Interim - Jun 00	Comparison		Interim - Jun 99	Final - Dec 99	Interim - Jun 00	Comparison
REV £217,000	£658,000	+203.2%		REV £626,921	£1,089,700	+74.8%		REV £2,201,000	£4,545,000	£2,699,000	+22.6%
PBT £144,000	£326,000	+125.7%		PBT £783,781	£60,201	-92.3%		PBT £137,000	£438,000	£229,000	+69.1%
EPS -2.40p	4.50p	+288.0%		EPS -3.80p	0.20p	+102.6%		EPS 0.37p	1.24p	0.68p	+83.8%
Rolle & Nolan plc				Synstar plc				Vocalis Group plc			
Interim - Aug 99	Final - Feb 00	Interim - Aug 00	Comparison	Final - Sep 99	Final - Sep 00	Comparison		Interim - Sep 99	Final - Mar 00	Interim - Sep 00	Comparison
REV £10,700,000	£22,856,000	+111.7%		REV £213,048,000	£233,438,000	+9.6%		REV £1,318,000	£2,694,000	£2,008,000	+52.4%
PBT £642,000	£1,838,000	+186.4%		PBT £8,178,000	£4,954,000	-39.4%		PBT £1,963,000	£4,507,000	£2,478,000	+52.4%
EPS 3.30p	9.30p	+182.1%		EPS 3.70p	0.60p	-83.8%		EPS -4.84p	-11.57p	-5.60p	+50.6%
Royalblue Group plc				Systems Integrated Research plc				Wealth Management Software plc			
Final - Dec 99	Final - Dec 00	Comparison		Interim - Nov 99	Final - May 00	Interim - Nov 00	Comparison	Interim - Jun 99	Final - Dec 99	Interim - Jun 00	Comparison
REV £39,693,000	£57,383,000	+44.6%		REV £658,000	£1,536,000	+130.8%		REV £5,829,000	£12,818,000	£7,320,000	+73.8%
PBT £6,511,000	£6,918,000	+6.3%		PBT £42,000	£215,000	+414.3%		PBT £328,000	£1,005,000	£215,000	+169.0%
EPS 13.10p	13.70p	+4.6%		EPS 0.15p	0.65p	+333.3%		EPS -1.06p	-0.80p	-0.87p	+18.8%
Sage Group plc				Systems International Group plc				XKO Group plc			
Final - Sep 99	Final - Sep 00	Comparison		Interim - Dec 99	Final - Jun 00	Interim - Dec 00	Comparison	Interim - Sep 99	Final - Mar 00	Interim - Sep 00	Comparison
REV £307,041,000	£412,153,000	+34.2%		REV £3,368,000	£17,952,851	+433.6%		REV £13,485,000	£29,628,000	£20,197,000	+49.9%
PBT £74,313,000	£108,748,000	+46.3%		PBT £33,000	£218,355	+567.9%		PBT £551,000	£6,263,000	£2,311,000	+170.0%
EPS 0.35p	1.03p	+194.4%		EPS 0.07p	0.35p	+400.0%		EPS -3.50p	-28.20p	-10.10p	+64.2%
SBS Group plc				Systems Union plc				Xpertise Group plc			
Interim - Feb 99	Final - Aug 99	Interim - Feb 00	Comparison	Interim - Jun 99	Final - Dec 99	Interim - Jun 00	Comparison	Interim - Jun 99	Final - Dec 99	Interim - Jun 00	Comparison
REV £28,300,000	£53,305,000	+88.3%		REV £287,000	£600,000	+108.0%		REV £2,048,000	£3,707,000	£2,919,000	+27.2%
PBT £1,400,000	£2,219,000	+58.5%		PBT £448,000	£1,953,000	+335.3%		PBT £172,000	£1,711,000	£2,228,000	+29.7%
EPS 9.60p	16.10p	+67.9%		EPS 2.90p	9.80p	+234.5%		EPS 0.45p	-0.84p	-0.76p	+10.5%
Science Systems plc											
Interim - Jun 99	Final - Dec 99	Interim - Jun 00	Comparison								
REV £16,615,000	£30,966,000	+86.9%									
PBT £1,511,000	£2,633,000	+74.6%									
EPS 6.30p	11.40p	+81.3%									

A quality act!
Logica's interims show an impressive 25% increase in revenue over last year, reaching £505m for the six months to Dec. 31st 2000. PBT was up an even more stunning 65% at £57.9m, giving a basic EPS up 51% to 11.0p. In all, 22% of growth was organic, with acquisitions (which is primarily PDV in Germany bought in Nov. 00) contributing a further £12.7m to revenue and £1.9m to operating profit. Chief Executive Martin Read said 'This has been an excellent period of development for the business. Strong organic revenue growth and significant improvements in both margin and EPS reflect the continuing successful implementation of the company's strategy'.

Comment - The star turn was the energy and utilities business, with

revenues up 56%. The operation is getting business on the back of the successful delivery of the NETA (New Electricity Trading Arrangements) system last year. But telecoms also continues to forge ahead - 46% growth in revenue - thanks to the company's continued, well, dominance is not too strong a word for it, in some sectors of the messaging market (93% growth in messaging solutions). Even financial services, the part that suffered most from the Y2K impact last year, has shown a return to growth of 9%. But to prove our point last year about never firing on all cylinders at once, public sector revenue was down 13%, with some blame put on defence contracts in the UK.

The fastest growing market (by client location) was again Asia Pacific/Middle East (+46%) and even US sales grew by 11%, ahead of continental Europe, at 8%. The picture is a little different by operating unit, though, with revenue falling in both AP/ME and in the US. But there again, the entire mobile

network business is lumped together and allocated to Ireland (this is 24% of the business, but with an operating margin of 19.5%!) It's the margins that really impress. Read promised to reach 10% when he joined Logica in 1993 and broke through that barrier last year. But he hasn't stopped there - operating margin is now 11.8% overall, compared with 10.2%, and looks like its going to be even higher if PDV is anything to go by (almost 15% margin for the contribution to date, compared with Logica's current European margin of just 6.2%). Revenue up, profit up (and not many can say that) and margin up; Logica once again shows what a quality act it is.

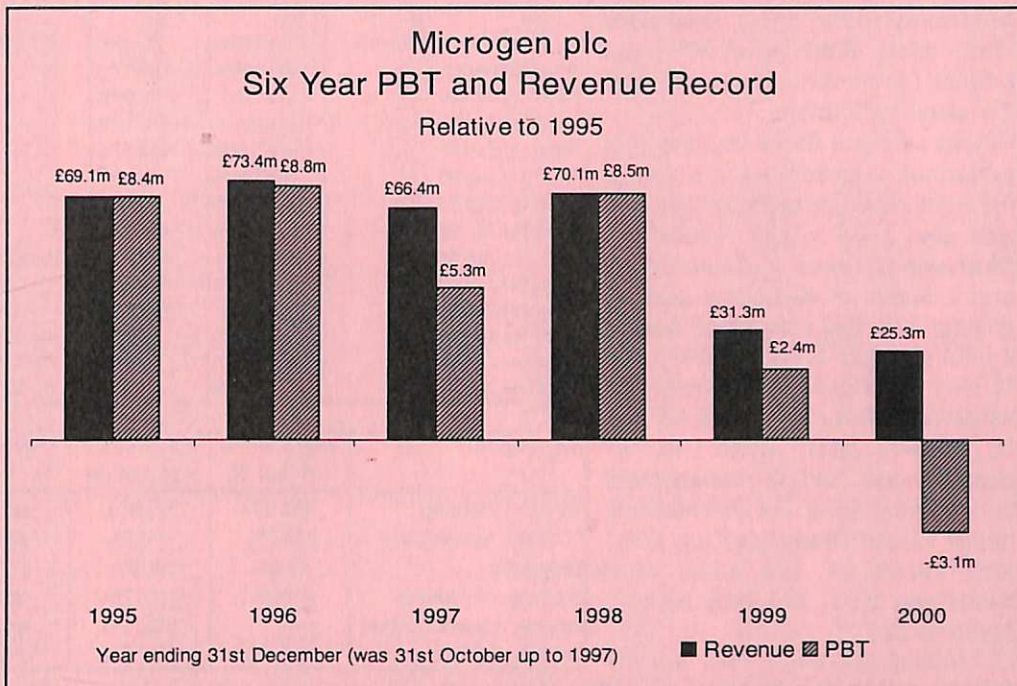
Transformation appears to be complete

Microgen has announced results for the year to 31st Dec. 00: total revenue is down 19% to £25.3m, but from continuing ops is up 15%, PBT of £2.4m turned into a LBT of £3.1m, and EPS of 3.6p in 1999, turned into a Loss Per Share of 5.2p. Commenting on the results, Martyn Ratcliffe, Executive Chairman said: "Microgen has completed a successful transition into an information management services group and has established a market-leading position in B2B e-billing...while the viability and prospects of some e-business models have come under scrutiny during the past year, the transition from paper to electronic billing in a B2B environment is a natural evolution."

Comment: Microgen's transformation from legacy COM services into e-business services appears to be complete. Indeed the revenues from the e-businesses (either acquired or developed over the past two years) now generate c60% of the group's revenue. Microgen now consists of two

operating divisions: Billing and Database Management and Microgen-Kaisha. The former made revenues from continuing operations of £13.7m compared to £14.9m in 1999. The decrease occurred in the legacy print business – this trend is set to continue but the capability will continue to be an important part of the division's overall offering. The consultancy division, Microgen-Kaisha, which focuses on CRM, KM and e-business systems implementation,

fared particularly well with reported revenue of £8m compared to £4.7m in 1999, and OP (before Group overheads and goodwill amortisation) of £2.2m – also up on 1999. Its "emphasis on the integration of legacy and new application data" is likely to have given it significant competitive advantage over some of the newer entrants in the e-business sector, as will its expertise in CRM and



KM, and the relationship between billing and CRM. We have been impressed with Martyn Ratcliffe's strategy for Microgen and the execution of it, since his appointment as Chairman in 1998, and as we would have expected, even during this period of obvious change, Microgen has retained a positive operating cash flow. We look forward to a return to profitability in the near future. Microgen's share price is down 33% this month to 173p.



First full-year profit in line with expectations

Cambridge-based, NASDAQ and EASDAQ-listed and now a FTSE 100 company, **Autonomy** has announced results (unfortunately in \$US) for the year to 31st Dec. 00. Turnover has tripled to \$65m, as has gross profit to \$61.5m, net income (excluding expenses related to the listing on LSE in Nov. 00) has turned from a loss of \$5.3m into a \$13.3m profit. Last year's Loss Per Share of \$0.04 has improved into a diluted EPS of \$0.10.

Autonomy's gross margin had increased from 87% to 94% in the last year, and the recent quarter has seen a flurry of sales to Philips, Royal & SunAlliance, Qwest Communications, Nestle UK, General Electric and others. Geographic expansion has also continued – helped by the purchase of the remaining 67% of Autonomy Nordic AS, one of the company's VARs – with 46% of revenue from the US.

Commenting on the results, CEO Mike Lynch said: "Perhaps most importantly, our fourth quarter and year-end results highlight our profitable and scalable business model. Marked by consistently high gross margins and increasing profitability.... Finally, our balance sheet is strong, with over \$137 million in cash at year-end, which leaves us well-placed to expand upon our leadership position and to penetrate new and existing markets worldwide."

Comment - This was the company's first full year profit and came in in line with expectations. Among the good news was the fact that Autonomy has signed up more OEM and reseller partners during the year (including IBM Global Services, SAIC and Booz Allen & Hamilton) and sees this channel providing a recurring high-margin revenue stream. This is the sort of business we like to see – the company made \$448,000 in Q4 alone from OEM royalties.

But despite all the good news the share price has continued on its slide since the placing price in Nov. 00 of £32.76p, and share price finished the month down 35% at £14.00p. Mike Lynch has expressed frustration at rumours that have impacted share prices – about executives leaving the company to join Microsoft, about the stature of some of its OEM licensees, increased competition for its offerings etc. – and had sought redress through his lawyers for some comments emanating from brokers. This probably hasn't helped relations with the City where these precious souls hate criticism of any kind!

But bluntly, the nervous market for Autonomy shares is not really surprising given the state of the IT sector as a whole, the complexity of the company's technology and the fact that Autonomy currently has a P/E of 175. We would be amongst the frontrunners in terms of Autonomy supporters, but justifying that kind of valuation is much more difficult.

Another sharp fall in SCS share prices

The "false dawn" in Jan. was exactly that (see below). Our unweighted SCS index fell 12% - much less than the 20% fall in the FTSE IT SCS Index and 18% fall in techMARK - as the larger SCS companies were hit the hardest. Indeed current and ex-FTSE100 components like **Autonomy** (down 35%), **Baltimore** (down 39%), **CMG** (down 30%) and **Logica** (down 28%) were amongst the worst performers.

Having said that **Sema** was the best performer - up 86% as a result of the Schlumberger takeover (p13). It was also good to see recent IPO **Charteris** (Chaired by David Mann and a bunch of ex-Logica people) gaining 28% this month and now at a 80% premium to its 90p IPO price in Nov 00. For keen followers of valuation trends - that's an 8.4xPSR. It shows that even in e-consultancies, "old" IT management consultancy skills are increasingly highly valued. **Trace** p10 (up 26%) and **Torex** p4 (up 22%) both benefited from positive trading statements.

IT staffing operation **SBS** got the wooden spoon this month (down 43% as a result of its profits warning) - closely followed by **Orchestream** for similar reasons.

All sectors were badly hit with the bigger system houses faring the worst.

28-Feb-01	SCSI Index					7649.83
	FTSE IT (SCS) Index					1776.43
	techMARK 100					2303.40
	FTSE 100					5917.90
	FTSE AIM					1335.30
	FTSE SmallCap					3190.88
SCSI Index =1000on 15th April 1989						
Changes in Indices	SCSI Index	FTSE 100	techMARK 100	FTSE IT SCS Index	FTSE AIM Index	FTSE Small Cap
Month (01/02/01 to 28/02/01)	-12.39%	-6.03%	-17.97%	-19.94%	-7.88%	-4.09%
From 15th Apr 89	+664.98%	+188.17%				
From 1st Jan 90	+731.41%	+150.55%				
From 1st Jan 91	+980.68%	+173.93%				
From 1st Jan 92	+632.14%	+137.37%				
From 1st Jan 93	+380.04%	+107.90%				+130.00%
From 1st Jan 94	+358.19%	+73.12%				+70.76%
From 1st Jan 95	+410.27%	+93.05%				+82.71%
From 1st Jan 96	+238.71%	+60.41%	+191.85%		+40.05%	+64.35%
From 1st Jan 97	+185.71%	+43.69%	+151.83%		+36.80%	+46.16%
From 1st Jan 98	+152.05%	+15.24%	+141.44%	+77.64%	+34.61%	+37.94%
From 1st Jan 99	+94.09%	+0.60%	+58.20%	+22.85%	+66.58%	+54.08%
From 1st Jan 00	-33.31%	-14.61%	-39.05%	-52.22%	-30.91%	+3.00%
From 1st Jan 01	-8.63%	-4.90%	-10.22%	-8.85%	-7.13%	+0.24%

End Feb 01	Move since 1st Jan 98	Move since 1st Jan 99	Move since 1st Jan 00	Move since 1st Jan 01	Move in Feb 01
System Houses	151.1%	62.5%	-36.7%	-14.8%	-22.2%
IT Staff Agencies	-50.7%	-41.0%	-48.6%	-18.2%	-14.9%
Resellers	49.3%	58.8%	-23.5%	1.2%	-15.9%
Software Products	236.6%	187.7%	-30.8%	-0.5%	-14.4%
Holway Internet Index		392.5%	-40.1%	-11.9%	-12.9%
Holway SCS Index	166.2%	105.0%	-29.6%	-8.7%	-12.4%

"Start Bottom Fishing at 2000"

At the risk of annoying more readers, we would point out one of the many outrageous statements we made at the end of Dec. 00 and repeated at the Regent Conference on 23rd Jan. 01. We believed that - even though the NASDAQ

Bottom fishing?

• "Start bottom fishing when NASDAQ at around 2000"

Holway 1st Jan 01 - probably already out of date!

Regent Conference 23rd Jan 01 © 2001 Ovum Holway

was heading towards 2800 - that this was all a false dawn and that the bottom would not be reached until the Index had slumped to 2000. Oh, by the way for NASDAQ read techMARK 100, are they are both pretty similar in number and in pattern.

This month, NASDAQ slumped 24% to 2151 and the techMARK slumped by another 18% to 2303. (That means that Techmark is back to its close on its first trading day in Nov 99). **We were alone back in Dec. 00. But not anymore!** The Mail on Sunday (25th Feb. 01) reported many analysts

now with the "gloom bug" like Terry Smith (CEO of Collins Stewart) saying "we are in for a climatic sell off...NASDAQ the real world barometer(?) will fall as low as 2000 - a further 10% before bouncing".

So given that everyone now agrees with us (which always makes us feel uneasy!) let us add some more flesh; - we still believe that, even though its only got another 7% to go, 2000 is "the bottom"...**well, give or take a further 10%!**

- once the "bottom" is reached do not expect a sudden bounce. Earnings expectations for 2001 as a whole only justify 2000. If we get better news/expectations for 2002/2003 then we might see an increase.

- that increase will occur in the latter part of 2001.

- the increase will be modest 10% to 20% and in line with expectations for earnings growth. In other words we are most likely to see NASDAQ/techMARK bumping around 2000 for most of 2001 before finishing at 2200-2400.

- as always there will be many variations. The telco sector will be the worst hit. (We intend to develop this scene in next month's *System House*). We wouldn't go near any telco with a 3G created debt mountain. We believe that many of the telco related players (hardware, software, IT services) will be hard hit along side their customers. See Logica (p6)....

- although we have every admiration for the likes of Autonomy, Baltimore etc, even at their current lower levels, their current share prices are still difficult to justify.

- the winners? As we have said countless times before, go for Boring companies. We have already stated our belief that EDS will be a solid (NOT exciting!) performer. We would add Cap Gemini E&Y and others. But that goes for **System House Boring Award** winners like Sage and Capita too.

Holway/System House SCS Share Prices and Capitalisation

	SCS Cat.	Share Price 28-Feb-01	Capitalisation 28-Feb-01	Historic P/E	PSR Ratio Cap/Rev.	SCS Index 28-Feb-01	Share price move since 31-Jan-01	Share price % move in 2001	Capitalisation move since 31-Jan-01	Capitalisation move (€m) in 2001
Actinic	SP	£0.21	£25.8m	Loss	12.82	259	-22.22%	-45.45%	-£7.40m	-£21.60m
AFA Systems	SP	£1.64	£19.0m	Loss	10.67	1363	-18.86%	-17.63%	-£27.52m	-£13.12m
AIT Group	CS	£11.73	£238.0m	99.3	10.97	7817	-1.47%	-1.05%	-£3.63m	-£2.62m
Alphametric	SP	£2.72	£277.0m	138.8	5.09	1245	-17.98%	-1.09%	-£60.69m	-£3.05m
Alterian	SP	£2.56	£100.3m	673.7	100.32	1280	4.07%	7.79%	-£230.63m	£7.22m
Anite Group	CS	£1.82	£432.3m	39.2	3.10	1064	-11.00%	8.01%	-£60.83m	£42.98m
Autonomy	SP	£14.00	£1,762.4m	175.0	30.7	427	-34.79%	-34.90%	-£940.40m	-£665.52m
Axon	SP	£5.10	£261.8m	65.3	10.32	2314	-24.52%	-32.67%	-£76.24m	-£116.22m
Aztec Group	R	£1.44	£154.7m	18.0	0.38	626	-22.16%	-20.22%	-£43.95m	-£39.21m
Baltimore Technologies	SP	£2.53	£1,281.9m	Loss	17.27	25949	-38.89%	-26.67%	-£816.76m	-£467.05m
Baron	SP	£0.70	£3.1m	Loss	0.96	700	-21.0%	-31.71%	-£10.07m	-£1.47m
Bond International	SP	£0.52	£7.4m	Loss	0.87	792	-11.97%	-11.97%	-£1.00m	-£1.00m
Bright Station	CS	£0.31	£54.1m	Loss	0.94	284	-36.22%	-32.98%	-£32.61m	£13.38m
Business Systems	CS	£0.67	£53.9m	108.1	1.66	559	-17.39%	-16.88%	-£11.30m	-£10.90m
Cadcentre Group	SP	£5.14	£85.8m	23.6	3.59	2568	-4.47%	-6.72%	-£3.97m	-£6.10m
Capita Group	CS	£4.81	£3,169.8m	128.3	7.91	129889	-21.4%	-3.90%	-£26.13m	-£85.18m
Cedar Group	SP	£2.90	£222.7m	49.5	6.13	2762	-15.33%	-6.45%	-£40.37m	-£15.42m
Charlens	CS	£1.62	£56.1m	6.3	8.36	1794	27.67%	27.67%	£12.15m	£12.12m
Clinical Computing	SP	£0.35	£8.8m	30.7	2.83	282	12.90%	32.08%	£1.01m	£2.14m
CMG	CS	£7.54	£4,622.3m	52.0	5.70	20800	-30.25%	-15.75%	-£2,004.83m	-£864.65m
Comino	CS	£4.64	£163.0m	25.4	3.08	3555	-3.55%	-3.55%	-£6.70m	-£6.70m
Compass Software	R	£1.80	£19.3m	60.2	13.12	1800	-0.83%	-2.70%	-£0.17m	-£0.51m
Compel Group	R	£1.08	£33.5m	12.7	0.12	860	-12.24%	31.90%	-£4.65m	£8.17m
Computecenter	R	£3.55	£648.9m	16.2	0.37	530	-8.39%	5.97%	-£59.42m	£36.54m
DCS Group	CS	£0.59	£14.3m	3.7	0.09	983	-40.10%	-37.89%	-£9.56m	-£8.72m
Dalcem	SP	£1.88	£11.2m	12.8	0.71	721	-15.73%	-10.71%	-£2.04m	-£1.30m
Diagonal	CS	£3.13	£272.2m	94.8	3.29	4543	-2.34%	58.23%	-£3.32m	£106.03m
DRS Data & Research	SP	£0.15	£5.2m	21.2	0.63	136	11.11%	17.65%	£0.52m	£0.78m
Easyscreen	SP	£0.44	£19.2m	Loss	18.20	256	-13.00%	-26.89%	-£2.91m	-£7.08m
ECSoft	CS	£9.25	£108.2m	Loss	1.67	512	13.85%	51.64%	£13.17m	£36.80m
Eidos	SP	£2.28	£234.4m	10.0	1.15	11395	-15.56%	6.05%	-£43.20m	£13.41m
Electronic Data Proc	SP	£0.54	£14.1m	32.7	1.69	1653	-16.92%	-21.74%	-£2.90m	-£3.97m
Epic	A	£3.64	£88.7m	77.7	20.17	3462	-7.62%	4.91%	-£7.33m	£4.22m
Eurolink	CS	£0.54	£5.6m	24.7	0.74	540	-6.90%	-23.94%	-£0.53m	-£1.76m
FI Group	CS	£3.79	£1,208.5m	53.2	3.93	9718	-14.35%	40.89%	-£201.73m	£350.70m
Financial Objects	SP	£0.38	£37.2m	26.7	1.67	426	-20.65%	-3.45%	-£19.69m	-£1.37m
Flometrics Group	SP	£8.25	£24.0m	27.5	2.04	6346	14.19%	22.22%	£2.95m	£4.35m
Focus	SP	£1.15	£28.9m	Loss	40.09	590	-33.53%	-43.35%	-£14.50m	-£22.10m
Freeerve	CS	£1.08	£1,098.4m	Loss	56.16	717	-24.03%	9.69%	-£347.56m	£106.63m
Gresham Computing	CS	£0.24	£10.8m	Loss	0.46	253	-11.32%	-5.05%	-£1.31m	-£0.51m
Guardian IT	CS	£8.20	£572.4m	75.2	11.62	3216	-18.41%	-14.14%	-£129.15m	-£94.21m
Harvey Nash Group	A	£6.25	£182.5m	19.6	1.21	3571	-20.38%	-27.95%	-£46.68m	-£70.78m
Highams Systems Servs	A	£0.15	£2.8m	Loss	0.11	403	-14.71%	-35.56%	-£0.49m	-£1.57m
IS Solutions	CS	£1.14	£28.5m	29.7	2.41	4248	4.59%	-40.00%	£1.28m	-£19.00m
ICM Computer	CS	£1.88	£36.4m	12.2	0.73	20211	-13.79%	-13.79%	-£5.76m	-£5.81m
IDS Group	SP	£0.75	£42.4m	8.3	3.11	833	8.70%	-56.14%	£3.44m	-£54.20m
IE Group	SP	£0.40	£17.0m	Loss	2.35	426	-8.05%	-3.61%	-£1.46m	-£0.61m
Innovation Group	SP	£8.95	£1,153.0m	372.9	120.56	3908	9.82%	11.88%	£103.12m	£122.00m
ISOFT Group	SP	£2.30	£257.8m	237.1	14.51	2091	3.84%	12.20%	£9.51m	£27.98m
ITNET	CS	£2.23	£156.4m	Loss	1.14	636	-10.64%	69.20%	-£18.64m	£64.02m
Jasmin	SP	£1.59	£7.4m	Loss	1.77	1057	8.19%	24.31%	£0.57m	£1.46m
Kalamazoo Computer	CS	£0.15	£6.4m	Loss	0.10	429	0.00%	-9.09%	£0.00m	-£0.65m
Kewill Systems	SP	£2.62	£199.6m	Loss	2.65	5178	-33.67%	-18.13%	-£101.38m	-£44.19m
Keystone	SP	£0.20	£23.0m	Loss	0.09	256	-26.98%	-33.81%	-£1.33m	-£1.43m
Knowledge Management	SP	£0.59	£61.4m	Loss	29.36	450	-24.52%	-27.55%	-£19.77m	-£23.35m
Knowledge Support	SP	£1.98	£145.8m	Loss	79.30	898	-24.05%	-46.48%	-£46.10m	-£126.54m
Logica	CS	£13.80	£6,098.9m	78.9	7.20	18899	-27.67%	-21.14%	-£5,255.62m	-£1,636.03m
London Bridge Software	SP	£3.30	£560.0m	60.4	9.88	8250	-24.57%	0.00%	-£182.49m	-£0.00m
Lorian	A	£0.72	£14.0m	Loss	0.13	715	-8.33%	-6.54%	-£1.28m	-£1.00m
Lynx Holdings	SP	£0.91	£155.3m	20.8	0.62	2275	-15.74%	2.82%	-£13.38m	£17.10m
Macro 4	SP	£8.35	£173.7m	36.2	4.49	3367	-7.22%	-7.22%	-£13.54m	-£13.50m
Manpower Software	SP	£0.37	£5.1m	Loss	3.15	381	-1.33%	39.62%	-£0.07m	£1.44m
MERANT	SP	£0.80	£108.0m	Loss	0.48	386	-21.18%	-15.79%	-£29.03m	-£33.83m
Microgen Holdings	CS	£1.73	£87.8m	Loss	3.46	737	-33.01%	-43.90%	-£43.24m	-£68.73m
Misys	SP	£6.01	£3,458.9m	40.5	4.88	7471	-6.90%	-9.02%	-£255.76m	-£342.08m
MMT Computing	CS	£4.53	£54.8m	14.7	1.45	2633	-17.35%	-14.22%	-£11.44m	-£9.04m
Mondas	SP	£0.23	£4.5m	Loss	1.31	300	-10.00%	-43.75%	-£0.50m	-£3.50m
Morse	CS	£3.39	£495.7m	21.8	0.98	1570	-21.83%	3.97%	-£138.97m	£18.89m
MSB International	R	£1.07	£21.7m	6.2	0.12	561	2.90%	-7.39%	£0.60m	-£1.80m
NetBenefit	CS	£0.80	£12.7m	Loss	1.69	398	5.30%	-37.65%	£0.66m	-£7.68m
Nettore	CS	£0.38	£33.6m	Loss	29.17	253	-14.61%	-53.37%	-£5.75m	-£38.40m
Nettec	CS	£0.32	£34.4m	Loss	7.17	133	-15.79%	8.47%	-£6.37m	£2.70m
Northgate Information Solutions	CS	£0.72	£203.6m	Loss	1.23	277	-0.69%	4.73%	-£1.39m	£11.18m
NSB Retail Systems	CS	£1.73	£546.3m	480.6	25.67	15000	-2.82%	2.99%	-£15.80m	£152.80m
Orbital Software	SP	£0.65	£29.1m	Loss	153.07	0	-34.01%	-35.64%	-£15.11m	-£16.16m
Orchestream	SP	£1.61	£196.0m	Loss	71.37	868	-43.19%	-41.64%	-£148.52m	-£139.82m
Parity	A	£1.48	£226.2m	22.8	0.72	24583	1.03%	26.07%	£2.23m	£46.73m
Patsystems	SP	£0.67	£84.5m	Loss	138.97	621	-31.79%	-35.44%	-£39.44m	-£46.41m
Plant	SP	£0.70	£57.3m	25.3	4.30	2917	-13.58%	-32.69%	-£8.97m	-£27.84m
Polycymaster	SP	£2.70	£43.2m	33.2	2.58	1800	-12.90%	-18.18%	-£5.49m	-£8.60m
PSD	A	£6.38	£238.3m	15.8	3.25	4080	-11.38%	-10.02%	-£28.83m	-£14.84m
OSP	SP	£0.30	£27.0m	5.3	0.53	394	-18.92%	-0.83%	-£0.32m	-£0.20m
Quanta	A	£0.51	£20.0m	8.2	1.10	411	-17.07%	-7.27%	-£4.18m	-£1.60m
Reit International	SP	£0.41	£26.9m	215.8	2.93	651	-11.83%	-34.92%	-£3.60m	-£15.10m
Rage Software	SP	£0.09	£28.1m	Loss	6.67	327	-12.82%	-20.93%	-£4.23m	-£6.16m
RDL	A	£1.05	£16.1m	15.7	0.99	1167	-34.78%	-40.00%	-£8.50m	-£10.70m
Recognition Systems	SP	£2.19	£199.1m	Loss	23.10	3129	-30.59%	-21.36%	-£87.67m	-£54.08m
Retail Decisions	SP	£0.86	£120.6m	77.5	10.10	1162	-30.92%	-30.36%	-£50.00m	-£48.60m
RexOnline	A	£0.77	£5.1m	Loss	6.87	911	-15.00%	-20.73%	-£0.89m	-£1.32m
RM Group	SP	£5.60	£525.5m	64.1	2.53	16000	-7.05%	-1.75%	-£37.22m	-£6.92m
Rolle & Nolan	SP	£2.90	£40.9m	19.1	1.79	3452	-14.71%	-25.83%	-£7.10m	-£14.23m
Royalblue Group	SP	£10.13	£304.9m	108.9	5.31	5956	-23.30%	-3.57%	-£92.54m	-£11.25m
Sage Group	SP	£2.91	£3,687.0m	49.4	8.95	111923	-23.57%	-5.13%	-£1,136.22m	-£199.04m
SBS Group	A	£0.51	£4.6m	10.4	0.09	505	-43.26%	-49.50%	-£3.50m	-£4.50m
Science Systems	CS	£5.73	£144.2m	51.4	4.66	4438	-5.37%	15.66%	-£8.22m	£19.53m
SDL	CS	£3.36	£132.9m	69.5	4.47	2237	-0.59%	-9.69%	-£14.23m	-£14.23m
Sema	CS	£5.48	£3,360.2m	49.8	2.38	6887	45.71%	85.75%	£1,054.02m	£1,351.21m
ServicePower	SP	£0.57	£28.9m	Loss	7.67	565	-6.61%	-18.71%	-£2.04m	-£6.64m
Sherwood International	CS	£3.80	£162.1m	15.9	3.43	12660	14.46%	19.87%	£20.45m	£26.88m
Skillsgroup	CS	£1.37	£120.5m	Loss	0.86	612	-3.53%	-0.73%	-£4.42m	-£0.90m
Sopheon	SP	£1.20	£47.6m	Loss	31.53	1727	-13.67%	-25.00%	-£7.61m	-£15.89m
Spring	A	£0.59	£88.6m	Loss	0.22	656	-29.76%	-33.33%	-£37.55m	-£44.25m
Staffware	SP	£13.50	£189.9m	129.8	5.02	6000	-13.60%	-3.57%	-£30.01m	-£7.07m
StaffPro	SP	£0.66	£19.4m	Loss	6.11	825	-0.75%	-5.04%	-£0.12m	-£1.02m
Superscape VR	SP	£1.11	£40.4m	Loss	18.77	561	-42.34%	-55.42%	-£29.64m	-£50.18m
SurfControl (was USB)	SP	£9.98	£300.7m	Loss	34.54	4988	-19.72%	-14.19%	-£68.93m	-£45.20m
Syngence	CS	£0.32	£13.4m	Loss	21.43	606	0.00%	-39.42%	-£0.00m	-£2.00m
Synstar	CS	£0.46	£75.2m	14.7	0.32	280	-13.55%	-2.63%	-£11.70m	-£2.00m
Systems Integrated	CS	£0.32	£4.3m	17.2	2.79	278	-13.51%	3.23%	-£0.67m	£0.14m
Systems International	CS	£0.35	£11.9m	100.0	0.67	609	0.00%	-6.67%	-£0.01m	-£0.86m
Systems Union (was Freecom)	CS	£0.85	£87.7m	Loss	146.44	654	-19.43%	21.43%	-£21.17m	£15.52m
Telework	SP	£1.66	£299.7m	159.6	17.26	0	-17.62%	-12.40%	-£64.07m	-£42.34m
Telme.com										

Buyer	Seller	Seller Description	Acquiring	Price	Comment
Affinity Internet	Australia.com Pty	"Private internet and telecommunications company"	53.38% of company	£880K	Increasing its shareholding from 8.62% to 52%. Affinity will issue 140,240 shares at 10p each, valued in the transaction at £880K to outgoing shareholders
Cap Gemini Ernst & Young	United Utilities	Northwest Water/Norweb etc	12.5% stake in Vertex		Vertex is the outsourcing/BPO part of United Utilities. CGEY took over Vertex's BPO operations in return for the 12.5% stake in Vertex. CGEY takes over the IT operations and 320 staff for 5 years and has the option to increase its stake to 15%
emondo.com	BasicNet		IT division - basicfactory	£350K	7m new ordinary shares of 5p each. Basicfactory has been newly incorporated for the purpose of the transaction. Basicnet has also agreed to employ emondo as a consultant for a 3-year period
GlobalNetFinancial.com	AlSoftw@re		Further 20% of Italia-iNnest	Shares	GlobalNetFinancial.com has issued 326,000 shares to AIS. It now owns 60% of Italia-iNvest.
Guardian IT	Allegro Group Nordic AS	a "leading data storage solutions expert"	100% of company	£6.5m	The initial purchase price will be £3.8m - £1.9m in cash and the issue of 195,680 Guardian IT ordinary shares. A maximum £1.1m of deferred consideration is payable within 3 months and the rest, upon achievement by Allegro of targeted PBT (to 31st Dec. 01)
Magic Moments Internet MBO	One-to-One Advertising and Lynx		51% interest	DM5.4m	Initial cash consideration of DM5.4m and a placing of 62.5 new ordinary shares at 4p per share with Atlantic
Merant	NetObjects	An IBM affiliate	Enterprise Division	\$18m	IBM will be making a "limited equity investment in Merant on the open market to demonstrate its commitment to Merant".
Netb2b2	ITM Graphics	"a magazine and newspaper production company"	100% of company	£1.8m	£1.275m and a deferred consideration of £0.525m. The acquisition follows the announcement in Mar. 00 of a new business strategy based on the provision of internet based B2B services
Orchestream	CrossKeys Systems Corporation	Canadian company providing s/w for 'performance management and reporting'	100% of company	£24.7m	Cash and shares
Sage	TAS Software Group	Develops, markets and supports the TAS Books suite of s/w products	100% of company	£9.7m	Cash and loan notes
Sherwood	Old Mutual	Global Edge is a S-Afr IT Solutions provider to financial services industry	32% of Global Edge Technologies	£1.3m	"the investment will enable it to capitalise on its strong client presence in South Africa...and further develops the Group's international reach"
Teamtalk.com	MMC Sport-Redaktion	German independent sports radio production business	100% of company	DM7m	The consideration comprises DM5m payable on completion of the deal and a further DM2m payable by Mar. 03 on meeting certain EBIT targets
Telework	Open Business Solutions	London-based supplier of staff scheduling software	Solus Business Unit	£6.75m	Cash. Acquisition is expected to "enhance significantly the Workplace software product offering"
The Innovation Group	Huon Holdings	"a global provider of business solutions focused on the Property and Casualty insurance and financial services industries"	Reverse takeover		Conditional on several factors, including the "satisfactory completion of a detailed due diligence exercise" and the approval of shareholders.
The Innovation Group	Holber Estimating Systems	solutions provider - principal product is "Inter-Est" - vehicle accident damage estimating, authorisation and invoicing	100% of company	£15.29m	Initial consideration of £2.87m (£1.6m in cash and £1.27m in loan notes) and a deferred consideration of up to £12.42m in shares dependent upon the total sales of Inter-Est in the UK insurance sector for a period of 2 years following acquisition
Virtual Internet	Webcontrol	German web hosting company	100% of company	£885.9K	To be satisfied through the payment of £644.3K in cash and the balance in ordinary shares. The acquisition is intended to extend Virtual Internet's pan-European network to the key European markets of UK, France, Germany and Italy.



A chequered financial record at Trace

Trace Computers, a financial software solutions provider, has announced its interim results for the six months to 30th Nov. 00. Revenue has fallen 4% to £8.4m, compared to the six months to 30th Nov. 99. However PBT grew 11% to £1.1m which meant that profit margins increased from 11% to a quite healthy 13%. EPS increased from 4.82p to 5.25p.

Commenting on the results, Clive Ingham, Trace's new Chairman, said: "It is encouraging to see our bottom line and earnings per share growing and the balance sheet strengthening. The challenge remains to grow both the top and bottom lines. I am pleased to report that we are now finding that vendors' expectations are far more realistic than in the recent past and we are looking at a number of

potential acquisitions. We shall also explore partnership opportunities as we seek to continue to grow our company successfully and profitably."

Comment: The fall in turnover is, according to the statement, in the lower margin areas of the business (such as hardware sales and contractor placement), whereas the bespoke solutions and services areas enjoyed growth. So that's some good news. But we have not been impressed with Trace in the past, and the company has had a very chequered financial record. The new management - Ingham (Chairman) and Wolf (Chief Exec) - will have a lot of convincing to do. Ingham said that "Our financial position has never been stronger and so it is a disappointment that our share price remains so low."

The shares ended the month up 26% on 87p.

Forthcoming IPOs

Name	Activity	SCS or Dotcom Index	Index Class	Market	Issue Price	Est Mkt Cap.	IPO Date
Altodigital	Internet Services	Dotcom	S&S	MAIN	tbc	£140.0m	early 2001
Cityjobs.com	Internet Recruitment	Dotcom	B2C	AIM	tbc	tbc	Q1 2001
Cityreach	Internet Services	Dotcom	SS	MAIN	tbc	tbc	Q2 2001
Digital Brain	Online Education Service	SCS	CS	TBA	tbc	£50.0m	early 2001
ebookers.com	Online travel company	Dotcom	B2C	MAIN	tbc	c£50m	H1 2001
elateral	S/w for marketing campaigns	SCS	SP	Main	tbc	£90.0m	01-Jun-01
Embedded Solutions	Software	SCS	SP	TBA	tbc	tbc	H1 2001
Michael Page Consultancy	Recruitment consultant	SCS	A	MAIN	tbc	£800.0m	01-Apr-01
MoneyGuru	Online financial services	Dotcom	C&M	AIM	tbc	£10.0m	Apr-01
Netalogue Technologies	Procurement Software	SCS	SP	TBA	2p	£0.8m	Mar-01
Patientline	Healthcare IT	SCS	SP	AIM	tbc	£100.0m	22-Mar-01
Popkin Software & Systems	Software & Systems	SCS	SP	MAIN	tbc	£70m	01-Mar-01
theoilsite.com	B2B exchange	Dotcom	B2B	AIM	tbc	£5.0m	Mar-01
Timberweb	Online Marketplace Provider	Dotcom	B2B	AIM	tbc	£25.0m	early 2001

Recent IPOs

Name	Activity	SCS or Dotcom Index	Index Class	Market	Issue Price	Market Cap.	IPO Date	Price end Dec 00	Premium/Discount
Warthog	Computer games developer	SCS	SS	AIM	43p	£18.0m	01-Feb-01	44p	1%
Tribal Group	Online Support Services	Dotcom	SS	AIM	165p	£56.3m	23-Feb-01	237p	44%

Good progress but no return to the old days

M macro 4 Macro 4 has announced interim results for the six months ending 31st Dec. 00. The results reveal revenue of £21.95m, an increase of 21% on the £17.1m reported for the comparative period in 1999. UK revenue increased from £3.3m to £5.1m, up by 54%, so a lesser increase than that overall. However, the UK has increased its share of overall revenue, which now stands at 23% as opposed to the 19% in the same period last year. PBT was £1.6m, a decrease of 67% from the £4.8m reported in 1999. PBT before exceptional items was £3.3m. Diluted EPS was 1p (before exceptional items, diluted EPS was 7.5p). Chairman, Bert Morris, explained the exceptional items in his statement, "The Group incurred £1.75m of exceptional costs, £1.5m of which were related to a potential acquisition which was investigated in depth during the period".

Comment - At one time, Macro 4 was in line for a "Boring Award" (we wouldn't have given them one as they were then REALLY Boring!). For far too long they relied on the "cash cow" licence revenues from their mainly old hat mainframe products. As customers defected in droves, Macro 4 slumped. But a complete change of both management and direction has at last resulted in revenue increases. The Group now has a "commitment to the development of customer-focused products and solutions" and is focusing not only on its traditional activities but also on the area which it calls Emerging Systems Management Solutions. Indeed, revenue from the Emerging Systems Management Solutions division almost trebled in this period and now accounts for 27% of the total as opposed to only 12% in 1999. The company has also made a number of acquisitions to strengthen its products range and investigated others during the latter period of 2000. Always "cash rich", at the end of 1999 it had a cash balance of £16m.

However, its profits have slumped as it integrated newly acquired business and spent money investigating new opportunities. Once the acquisitions are fully integrated and the new product innovation begins to bear fruit, we hope to see an upturn in profits as well as turnover (although it seems unlikely that we will see a return to the 'good old days' when Macro 4 consistently headed our profit margin tables at c50%!). The shares decreased 7% to 835p this month.

Announcements from Lynx

- 1) it has disposed of its Spanish and UK Automotive Systems Businesses to their respective managements for a total of £6.4m (with Lynx Group retaining a 20% stake in the UK business)
- 2) its value added services business is to withdraw from the distribution of IBM products, by the end of May 01,
- 3) and Bankhall's vendors have achieved their max. earnout of £24m as the company achieved a PBT of £5.8m by the designated cut-off date of 31st Dec. 00.

DIAGONAL

A year of change

Diagonal, the IT consulting company specialising in SAP implementation, EAI and e-commerce, has announced results for the 53 weeks ending 1st Dec. 00. Turnover for the period was £82.7m compared to £72.4m for the 52 weeks ended 28th Nov. 99 - an increase of 14%. PBT decreased by 41% over the same periods from £8.2m to £4.8m and diluted EPS fell by 56% from 7.82p to 3.3p. Graham Creswick, CEO, commented on the outlook for the company, "By adopting the strategy of offering professional services of the highest standard in each of our selected high growth markets, we believe that Diagonal can achieve its ambitions to become the provider of choice and can deliver superior levels of performance".

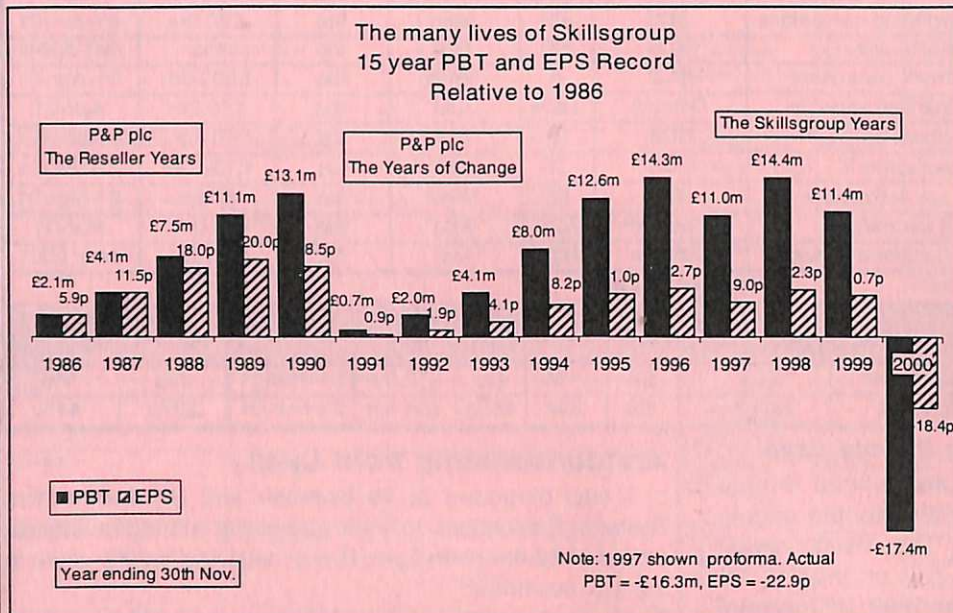
Comment - It has certainly been a year of considerable change for Diagonal as it moved to a strategy of a higher margin consultancy-led business. The consultancy division was restructured and the newly acquired Eurostar, CenturyCom and Interop businesses became part of the Secure Networks division. On top of the divisional changes, changes at Board level began in Dec. 99 with the resignation of one of the company's founders, Bryan Churcher, followed in Apr. 00 by the resignation of co-founder, Colin Burnside. Many Board changes followed throughout the year but it was in April that Graham Keswick was left with the task of taking the company through a difficult year, starting in June with the responsibility of announcing a disappointing set of first half results blamed on reduced IT spending post Y2K. The second half picked up though with both the consultancy division and Secure Networks divisions showing definite signs of recovery. Now things have settled, we expect to see Diagonal continue to reap the benefits of its shift up the value chain. Share price is down 2% to 313p this month.

Skillsgroup sheds another skin

Skillsgroup – the constantly morphing reseller-to-services company – announced a 41% decrease in turnover to £140.7m for the year ending 30th Nov. 00. However, turnover from continuing operations increased 2% to £56.4m. PBT of £11.4m in 99 was converted into a loss of £17.4m

Acuma that completed the transition from products distributor to information technology specialist...has taken six years and has been a very major factor in the volatility of our results and share price over that period. The major disposals of our lower margin businesses during the past year...leave us more focused than at any time on Skillsgroup's recent history". Skillsgroup's share price ended the month 3.53% down at 137p.

Comment: They've certainly come a long way since the old P&P days! Mind you, depending on which way you look at it, the recent spate of 'spring cleaning' at Skillsgroup either came somewhat early or perhaps rather late. New (Nov. 00) exec. Chairman (and ex-Andersen Consulting/Accenture 'lifer') Keith Burgess came on board and oversaw the final 'purge' of non-core businesses (especially the heavily loss-making reseller arm, Acuma) and is ready to start with a "clean sheet". Well, almost. He has restructured the company into three training-related divisions plus consulting (mostly the 'old' Pontis business) and they are to rename



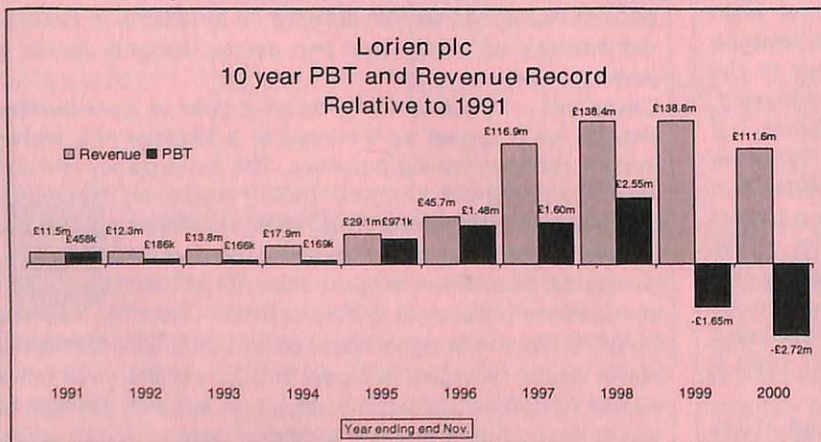
and diluted EPS of 10.7p in 99 turned into a loss per share of 18.4p. Revenue at 'core' business QA Training rose 6% to £44.4m – they are still the largest UK IT training company – and 'base' profit grew 26% to £9.6m. But revenue at other 'core' business, Pontis Consulting, dropped 10% to £12m – it's the Y2K thing again – and profits dropped 16% to £2.7m. But the 'problem children' were IT staff agency (ITSA) QA Myriad (sold to Hays in Jun. 00) where revenue halved to c£31m, and loss-making reseller arm Acuma, finally sold off in Dec. 00. Skillsgroup had also 'invested' £6.6m in web initiatives across all its businesses. Skillsgroup's Chairman Dr Keith Burgess, reported that "the disposal of

themselves QA plc.

We've been saying for years that they needed to find some knitting and stick to it and we completely agree that IT training is the right choice – even though we have doubts on the long-term viability of the products side, based around the recently acquired DMT. We're also not sold on the idea that Pontis really 'belongs' – but it's probably too small to jettison yet and at least it's bringing in some profit, which Skillsgroup sorely needs. Although we question the return they'll get from the c£7m spent on web initiatives, we think they're at least now pointing roughly in the right direction, so it would be churlish of us not to give Burgess and his team at the 'new' QA a 'fair go'.

Lorien holds its nerve!

As expected, **Lorien** reported lower revenues and deeper losses for the year ended 26th Nov. 00. Turnover dropped



20% to £111.6m, pre-tax losses deepened 65% to £2.7m, and loss per share increased to 12.1p. But there was mitigation and some cautiously 'good' news too. £1.8m of the losses were the write-off from the disposal of PDN, plus there was another £400K in one off costs relating to property and the aborted sale to an 'unnamed' US player last year. The 'good' news is that business picked up in H2 for the core IT staffing business (this is now 80% of Lorien's

revenue) and gross margins in the other businesses (Specialist Services and Consulting) also improved in H2. Net debt and interest payments are also down. Exec Chair-

man Bert Morris believes the cupboard is now clean and "the long term outlook for the Group is positive".

Comment: Since Morris stepped into the exec. Chairman role in 1999 he has instigated and overseen a massive overhaul of Lorien's operations. As a result a lot of cost (inc. bodies) have been taken out of various parts of the business, other bits (PDN) sold off, and focus restored to the core ITSA business. They've seen orders pick up in H2 (to Nov. 00) and beyond – but they know they're not out of the woods yet. They've also put the failed sale behind them. OK, we still don't think their Specialist Services and Consulting business really 'belong', but so long as Lorien can put them

back into consistent profit – and make sure they are not a drain on cash – we can't criticise them for keeping these businesses on for the short term at least. We congratulate Morris on taking some tough decisions and we'd now say they have turned the corner – but we'd like to see a couple of years of progress (i.e. profits) before we can truly say they're back on track.

Sema wears cost of ill-omened LHS

In the wake of the agreed offer from **Schlumberger** (see below), **Sema Group** caught most analysts (including us) on the hop and brought forward their announcement of their full year 2000 results by a few days. Total turnover (inc. five months of the ill-omened LHS acquisition) grew 7% to £1.51 billion – but organic growth was under 4%. Operating profit was a shade under line-ball at £94m, but the massive goodwill amortisation bill for LHS pushed Sema into a pre-tax loss of £49.3m (inc. £8m operating losses at LHS on just £49m revenue) resulting in a 13.1p loss per share. At the country level, Italy was the shining star, with revenue up 35% to £127m, although UK was about the only other major country showing an increase – up 13% to £587m. France was in the doldrums due to the 35 hour week plus

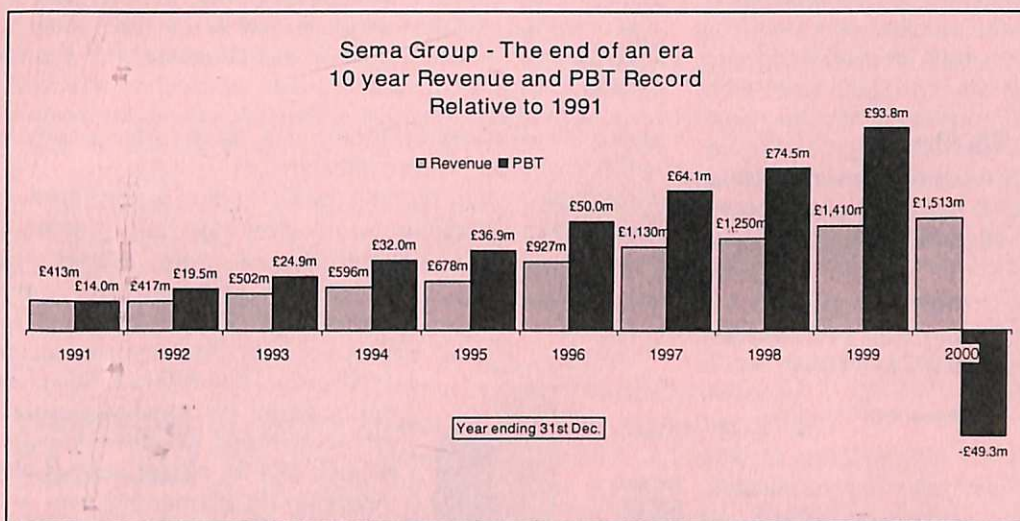
damage done by LHS. Their web business has not grown as fast as anticipated (no surprises there then) and indeed they now expect to focus most of this effort on their established customers rather than see much more in the way of new business. So the big question (for us, anyway) is how 'comfortably' Sema will sit in its new parent company – they will need to work hard to ensure their established customers stay with them when the mega-deal contracts come up for renewal.

Sema is dead. Long live "new Sema"!

As we all now know, Sema and Schlumberger agreed terms of a recommended cash offer - 560p for each Sema share valuing Sema at £3.6bn. If it all goes ahead, Schlumberger will merge its own IT services operation (massive – some 10,000 staff) with Sema (c21,000 employees) and, voila,

"new Sema" is born. The offer has been accepted by 21% of shareholders (**France Telecom** and **BNP Paribas**) and documents were filed at LSE & SEC on 22 February. If all goes to plan, they are looking for the offer to go unconditional mid-March assuming there's no other firm bidder – and we'd have to say we don't think one will surface with as much cash on the table.

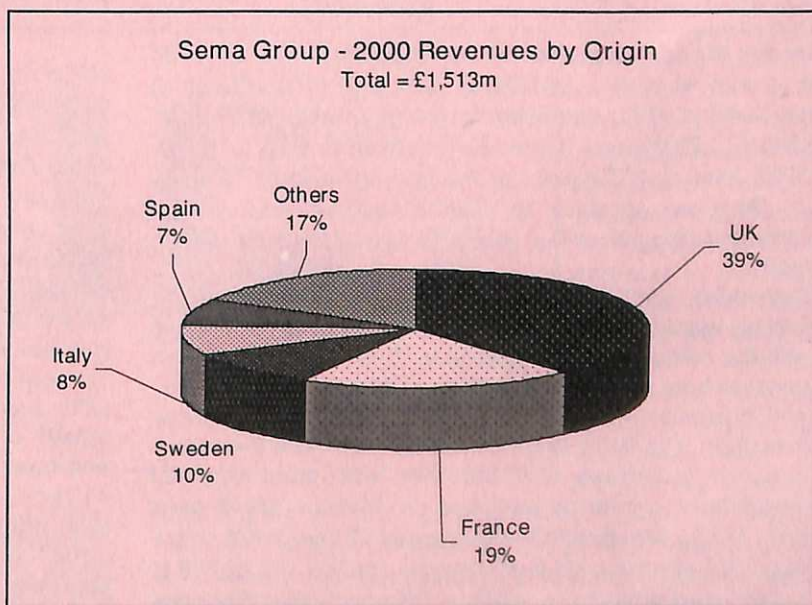
We were at first mystified as to the rationale behind the deal. In the initial press release, Schlumberger talks



general Y2K malaise, especially in outsourcing, and Germany and Sweden also belonged in the kennels. At 39% of total revenue UK is now by far Sema's largest market, double the size of France, a mere 19%. *Vive la difference!* By line of business, Sema's SI revenue grew just 2% to £636m but margins dropped from 8.7% to 6.7%. Outsourcing revenue dropped the merest shade to £463m but margins improved markedly from 5.4% to 8.3% - a really top-end result. Of course, it was Sema's (telecoms) products business (inc. LHS) that caused most grief, with revenue down 9% to £232m and losses deepening from £2m to £7.7m. Sema's small – but perfectly formed – disaster recovery business saw revenue shoot up 23% to £46m although margins dropped from c20% to just over 14%. In the analyst telecon, Sema's long time CEO Pierre Bonelli commented how the market came good at the end of the year, with order books full (there is apparently £850m already earmarked for 2001 turnover), etc., but the damage is done. Sema's outgoing chairman Sir Julian Oswald felt the results were "disappointing" compared to previous years but "believes that the strategic direction of Sema remains sound". Well, we'd say that's very much in the hands of the (prospective) new owners, wouldn't you?

Comment: Like almost every other SCS company, Sema greatly underestimated the impact of Y2K ... and then went and bought LHS. The rest, as they say, is about to become history. On the bright side, their major restructuring mid-2000 seems to have paid dividends in their outsourcing business (especially in the UK) in margin although not in revenue growth. Sema has said the products business is now picking up – but it'll need to pick up fast to repair the

about using Sema to boost its IT service capabilities in its 'focus' markets, primarily oilfield services, energy & utilities, and smartcard technology (they recently boosted the latter with the acquisition of Bull's smartcard unit). Yeah, but the last year we had detailed numbers (1999), Sema only got about 7% of its revenue from Energy & Utilities sector. Its



largest markets worldwide are public sector (26%), Finance (19%) and Telecoms (17%) - which also includes LHS, the visible cause of Sema's downfall. In the UK, of course, Sema has a number of major public sector outsourcing contracts, notably the £300m+/5year deal at DSS Benefits Agency, signed in Feb. 98, along with 'sundry' other contracts in sensitive areas like Met. Police, and even the Labour Party. Hardly 'core' to Schlumberger's business.

Continued on page 14

We are even more mystified by Schlumberger's view that increasing their exposure to the IT sector will help protect them from cyclical swings in their core energy business. That kind of assumes that when the oil business goes down, then the IT sector will be on the rise. Hmmmm. Also, there was much in the official release about how good the deal is for Schlumberger - not much (i.e. nothing) about how good it is for Sema's customers!

We have since spoken to Sema and the mists are clearing - a bit. Schlumberger needs much greater SI and outsourcing capability than it has at present to keep its main rivals (IBM, EDS, et al) at bay with its very well 'oiled' customers. Sema also needed a global network for much the same reason - Schlumberger owns one of the world's largest global IP networks. Sema had been talking to Schlumberger about a JV since last July - but the profits warning in Nov. 00 added a certain sense of urgency. Clearly, Schlumberger had to 'fish or cut bait' else one of

the more usual suspects would have pounced. We think merging these two IT services giants will be a huge challenge - but there again it would have been with any of the other players. Apparently the two bits of "new Sema" will remain mainly separate - just the common energy/utilities etc parts will be integrated - which, OK, reduces initial disruption, but potentially makes it harder to get the economies of scale and common infrastructure that they will surely need to provide a 'global' operation. Arguably the cultural 'fit' with Schlumberger is better than with a wholly US-owned company, but that has to be proven. We are still of a mind that - much like ICL - the sum of Sema's parts is worth more than the whole - but we'd have to say at 560p cash in hand, and with time rapidly running out, we can understand why they did the deal.

By the way, with the 'demise' of Sema, there is now no even remotely UK-owned player left in the Top Ten list of leading suppliers of software and IT services to the UK market. A sorry situation indeed.

Outlook looks good at Staffware

Staffware, "a leader in business process automation" which moved from AIM to a full listing in Apr. 00, has announced full year results for the period ending 31st Dec. 00. Turnover

up of the eProcess offering was "faster than originally anticipated", but who's complaining?

eProcess is Staffware's pitch at the automation of businesses processes conducted over the internet. It

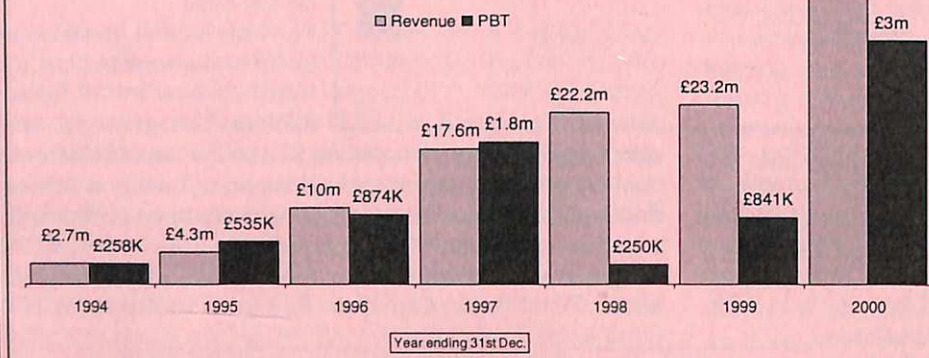
comprises 4 units: eCRM (the integrated Staffware and MarketForce CRM product suite), New Product Development in the SCM arena (for which a "template application" is now available), eProcurement (in alliance with Biomni, due for launch in Apr.) and eBanking (in partnership with AIT, to be launched in early March). All this has cost £6.9m to develop, in addition to the £6.3m spend on R&D (maintained at 17% of revenues). Staffware expects a further £11m investment in eProcess during FY01. But the return on this investment is coming through, with 35 customers on board, and real

evidence of cross-selling from the established Enterprise division's customer base, to Abbey National, Deutsche Bank and others. The eProcess division is expected to breakeven in the FY02, and move into "significant profits" in FY03.

Staffware has a mix of international clients, with 53% or revenues generated by its core Enterprise operation, coming from overseas, and sells across many vertical markets. Indeed, 2000 was a bumper year for Staffware in the telco sector with revenues now accounting for 17% of sales (compared to 5% in 99) in its Enterprise division.

The outlook looks good too, especially selling into the utilities and government sectors, which were slow in the uptake of workflow automation initially. We would like to see revenues from professional services accelerate from its current 21% of total revenue, but let's not be churlish. With both of Staffware's chosen markets - workflow and CRM - growing rapidly FY01 should not disappoint. The shares are trading this month 14% down at 1350p.

Staffware plc
7 year Revenue and PBT Record
Relative to 1994



for the period has increased from £23.2m to £37.9m - an increase of 63% - £912K of this was attributable to acquisitions. PBT increased by an impressive 262% from £841K to £3.0m and diluted EPS rose from 4.2p to 10.4p. CEO John A. O'Connell commented on outlook, "Trading in the year to date is significantly ahead of the corresponding period last year and sales prospects remain high".

Comment: Well, what a super set of results. O'Connell and his team at Staffware have every reason to be pleased with the company's performance in 2000. Stripping out the revenue from acquisitions, (US-based MarketForce in May and Australian FPS in Sep.) Staffware's organic revenue grew 60%. The lion's share comes from the core Enterprise division (software and services that automate an organisation's internal business processes), which grew 50% to £34.8m. Enterprise generated all the profits in the year. The eProcess division, launched in Feb. 00, got off to a good start with £3.1m revenue. O'Connell says that take-



A high level of repeat business

Epic, the "UK's leading e-learning company" has announced interim results for the six months to 30th Nov. 00. Turnover for the period was up 95% to £3.71m and PBT increased 163% to £567K. Diluted earnings per share were up 155% to 2.17p. Epic claims that the successful results have "been fuelled by demand for e-learning solutions from existing and new

customers...we are pleased to see a high level of repeat business". New clients have been won in the financial sector, as well as services, manufacturing, retail and telecoms. The Group is working with training organisations such as Skillsgroup to take their content online and has also recruited an e-government team.

Epic's share price has decreased 8% this month and finished on 364p.

ECsoft, "the first wholly European IT services company to complete an IPO on NASDAQ" is to downgrade its NASDAQ listing to an 'over-the-counter' programme "due to the continued shrinking of the ADR shareholder base and the high cost of maintaining the listing". ECsoft will continue to report quarterly this year at least – and only in Sterling (UK GAAP). As this takes effect in 30 days, their current full year results (to 31st Dec. 00) are still reported in both £ and \$. But the news wasn't that bright. Although top-line revenue grew 9% to £73.2m, organic revenue dropped 4% to £64.9m. Operating profit pre-goodwill etc. almost disappeared – down 78% to just £749K – turning last year's OP after goodwill etc. from a c£1m 'plus' to a £2.6m 'minus'. It was only bank interest received of £2m that kept PBT above the line – though this dropped 60% to £1.37m. But a £2m tax bill left them with an after-tax loss of £627K (was +£2m in 1999). Loss per share was 4.8p (EPS=17.3p in 1999).

It was the Scandinavian business that was the 'problem child'. Revenue fell 15% to £30.8m, but profits of c£2m turned to losses of £1.3m (pre-goodwill etc). Indeed, they appointed a new MD in Norway in Jul. 00 as it announced its first ever operating loss for Q2 00. UK grew revenue 5% to £27.4m but OP soared 73% to £1.74m. Business in rest of Europe was boosted by acquisitions earlier in the year – revenue tripling to £15m, though OP fell 31% to £300K.

New CEO Jerry Ellis (joined as COO in Apr. 00 then ascended the throne in Dec. 00) reported "progressive improvement" during H2 by "restructuring and strengthening the management team ... (and) focusing on our core competencies".

ECsoft also announced that Keith Todd (ex-ICL supremo) and Ken Briddon (ex-JBA CEO) have joined as NEDs.

Comment: We had a very pleasant lunch with CEO Jerry Ellis this month and he was pretty blunt about the situation he found ECsoft in when he joined. He has set about some serious spring-cleaning, both at the management level and also at the business level, disposing of their managed services business to Dutch PinkRoccade last month. The (in effect) de-listing from NASDAQ means they can escape from the problems of unfavourable exchange rates which are depressing the reporting in \$ of non-US activities and 'confusing' US analysts. Indeed, they don't have any offices in the US and the NASDAQ listing (Dec. 96) has served its purpose. They have been listed on the LSE since Jul. 98 – where we think all UK companies belong! At least business improved for ECsoft in H2 (especially in Q4), so hopefully the worst is now behind them.

Mind you, whether new NEDs Keith Todd & Ken Briddon are the 'right' role models for their business must be up for debate!

Share price is up 14% this month on 925p.

ITNET

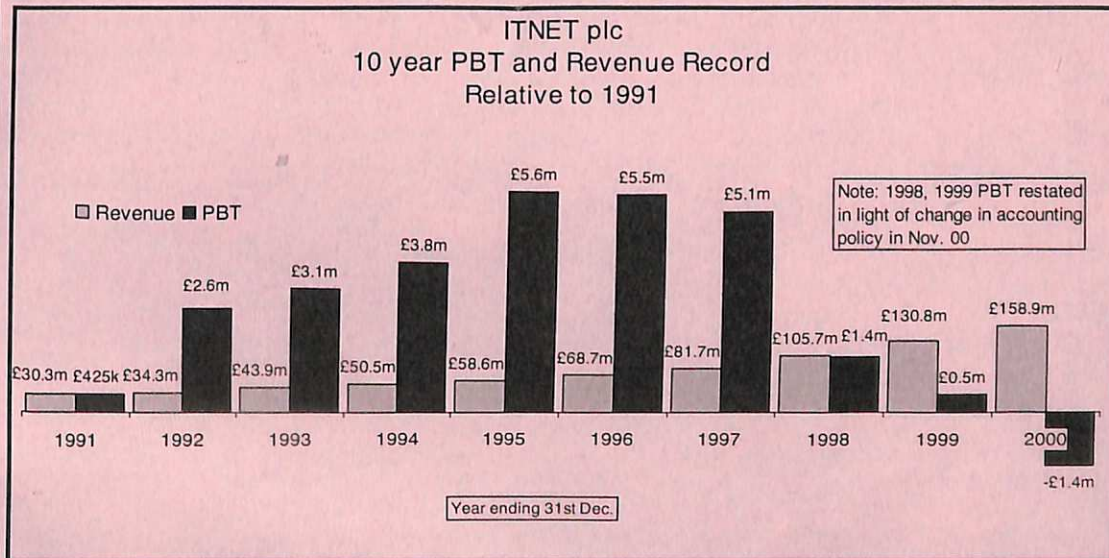
No more Hackney's in the closet at ITNET

Outsourcing company ITNET 'took it on the chin' when they announced pre-tax losses of £1.4m for the year ending 31st Dec. 00. Total turnover for the year rose 21% to £158.9m, including c£22m from acquisitions French Thornton and Easams. Organic growth was a more modest 5% to £137m. Loss per Share

BPS is down to 16p – a market ITNET (with measured understatement) calls "challenging". They also announced two new ASP contracts (Enfield and Worcestershire), an ASP partnership with US-based software company Novient, and 'preferred supplier' status at SW Regional Development Agency for desktop services. The order book is very strong

– up 23% to £270m (exc. Hackney) – and £98m is 'in the bag' for 2001. CEO Bridget Blow expressed "confidence that much improved levels of profitability and shareholder value will be achieved in 2001".

Comment: It was of course the ill-fated contract at Hackney that was the main cause of the woes at ITNET which prompted (a) a change in accounting policy, (b) a restatement of previous years' profits,



was 0.18p compared to EPS of 0.6p in 99. ITNET's core IT services activities (mainly outsourcing) did quite well, with revenue up 11% to £78m, but revenue from their business process services (mainly revenue and benefits processing in local authorities) only grew 3% to £26m. E-business grew fastest at 30% but this contributes just £8m to revenues. Revenue from application outsourcing (application development and management plus their new ASP service) fell 12% to £25m – mainly victim to Y2K. ITNET has done a good job at building up its commercial sector business – this is now over half (53%) of total revenue compared to 43% last year, helped by the £35m/4year deal at Equitas.

and (c) a pre-tax loss – although goodwill amortisation also 'helped'. There's still some £600K provision set aside in 2001 to flush out the residue of the Hackney deal, but after that ITNET will be able to start again with a 'clean sheet'. Nonetheless, we still believe that ITNET's underlying business and strategy is sound – there's a lot more opportunity yet in local government – along with the inroads they are making in the private sector. But it ain't going to be easy! Of course, this also assumes there are no more 'Hackneys in the closet' – and we are certainly happy to trust Bridget Blow's assurance that there aren't. ITNET's share price has fallen 11% this month to 223p.

Another "pearl in the crown" at CMG

CMG has announced preliminary results for the year to 31st Dec. 00. Turnover was £810.4m up from £608.6m in 99 - an increase of 33%, PBT of £83.1m is down from the £83.6m reported in 99, although only a decrease of 0.6% and diluted

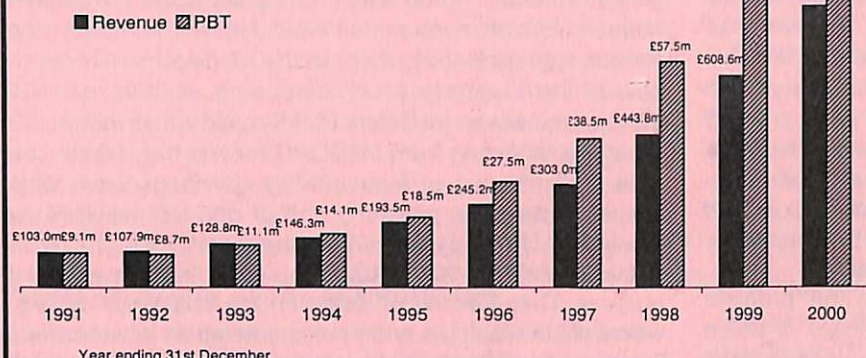
either e- or m- related. Revenue for Wireless Data Solutions increased by 112% in 2000, from £73.2m to £155.3m (revenue from acquired business accounted for about 6% of total revenue in this area). PBT was up from £11.6m to £42.3m - a 264% increase (£1.5m of goodwill amortisation was attributable to the Wireless Data Solutions division). With the increased importance of Wireless Data Solutions has come an increase in R&D spend - expected to be upped by 50% in 2001.

The company has seen a slowdown in demand from the telecoms products sector in the first half of 2001, but expects demand to pick up again in H2 as operators "gear up for the December peak". Despite the large 3G licence debt of the mobile operators and the risk that some may go broke, perhaps resulting in a downturn in spend in the sector, CMG states that it expects "wireless data solutions business to grow significantly faster than the traditional services business over the next few years, and become an increasingly important part of Group revenue and profits". Stutterheim does not believe the

mobile operators will "shoot themselves in the foot by not providing the capacity that their customers need".

CMG does state, however, that it is likely the company will see more growth in the industries of trade, transport and industry over the next year (which only experienced a 1% increase in turnover in 2000) and less in growth in the telecoms sector. The good thing about CMG is that (unlike Logica) it is not quite so exposed to the telco arena and it is those LARGE companies like CGEY, EDS etc that have a BROAD spread that will weather the storm best. In addition, CMG has also always boasted very flexible resourcing allowing consultants to move around the company to allow for changes in demand. Also reducing risk in the telco area, the Wireless Data Solutions offerings will now be extended beyond the traditional mobile operator customer base to other commercial enterprises, "seeking to exploit the benefits of wireless data". So despite believing that demand from the wireless sector will continue to grow, a broad spread, wider customer base and flexible resourcing should go some way to helping CMG if the mobile operators do hit trouble.

CMG plc
Ten Year PBT and Revenue Record
Relative to 1991



EPS fell from 10.7p to 7.8p. Cor Stutterheim, Chairman, commented, "We are experiencing some slowing in the growth of demand for telecom products in the beginning of the year...we are stepping up our product development, demonstrating management's belief in long-term growth projects. This will impact our short-term margin."

Comment - This was CMG's first set of full year results since the Admiral acquisition - the integration of Admiral was completed at the end of last year. The two companies were similar sizes in the UK, which saw an increase in turnover, including the seven-month contribution from Admiral, of 64% from £125.9m to £206.1m. PBT in the UK increased by 105% to £21.1m. Organic revenue growth was c7% in the UK, however this figure was higher in H2 at 11%.

The area of most interest was Wireless Data Solutions, which now reports separately (not as part of the individual countries). Stutterheim referred to this as "another pearl in the crown" for CMG and an area that offered outstanding opportunities for the company - everything, he said, that we do at the moment, is

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