

# System House

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## Worst year on record for UK quoted SCS Companies

We had forecast that 2000 would not be a good year for the UK Software and IT Services industry but the revenue and profit growth (or lack of it!) figures surprised even us. In 2000, the 150 quoted companies in our Holway SCS Index experienced revenue growth of just 14% compared to 23% in 1999. It should be remembered that the figure of 14% growth is total worldwide revenue growth (i.e. not just for the UK market) AND includes the effect of acquisitions. Measuring organic growth alone, the figure would be much lower.

Revenue growth is one thing, but the decline in profit has been even more dramatic. We have seen a complete reversal from the exceptional profit growth of 116% in 1998. In 1999, the profits of quoted companies were hard hit and growth slumped to just 8.2%. With the results of all the companies swinging from profit to loss (or vice versa) excluded, profit growth was an even lower 5.2%.

In 2000, we have returned to a situation worse than that seen at the last great SCS slowdown/recession in 1991 when profits declined by "just" 17% and in 1995 when the decline was "only" 21%. The decline in 1999/2000 has been a staggering 78% (an equally high 68% even if swings from profit to loss, or vice versa, are ignored).

The recession of 1991 was followed by a profits recovery in 1992 and 1993, but it was the effects of "cost cutting" i.e. job losses followed by recruitment drives and the return of skills shortages in some areas that had the effect of profits sliding, until 1995, when the decline peaked at 21%.

The EPS performance chart makes even more gloomy reading. Perhaps we should rename it the LPS chart this year as a majority (52%) of quoted SCS companies reported a Loss per share with a further 24% reporting reduced EPS.

This is by far the worst earnings performance on record.

But it would be incorrect to put all of 2000's fall down to a poor operating environment. In the first part of 2000, we believe that profits went "out of fashion" as the dot.com fever was rife. It was considered more important to report growth in revenue, market share or even "eyeballs" as this would send your share price rocketing. *Who cared about profits?*

Then the dot.com fever evaporated and mainstream IT spend

was affected too. Stemming cashburn became the priority for many. That meant cutting costs and a return to the profit mentality.

Operating in a slowing market is always difficult. The UK SCS sector has not seen a slowdown of this magnitude ever - it doesn't even compare to the slowdown in 1989/91. This means that nobody much younger than 45 has ever managed their way through anything like these kind of problems before. Even the most experienced managers privately admit that they were too slow to take remedial action (as in "Surely it will get better next month...I'll wait until then before I cut...") Just as nobody on their deathbed has ever regretted spending *too little* time in the office, nobody we know has ever regretted cutting "too hard".

### The future?

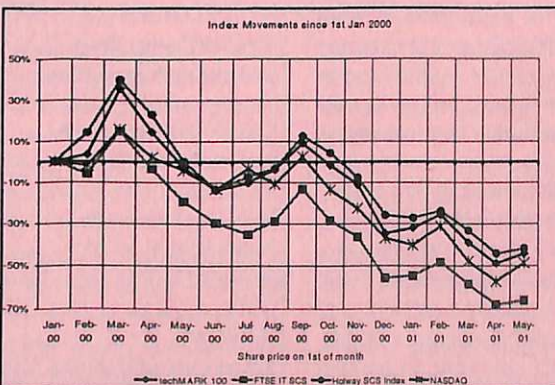
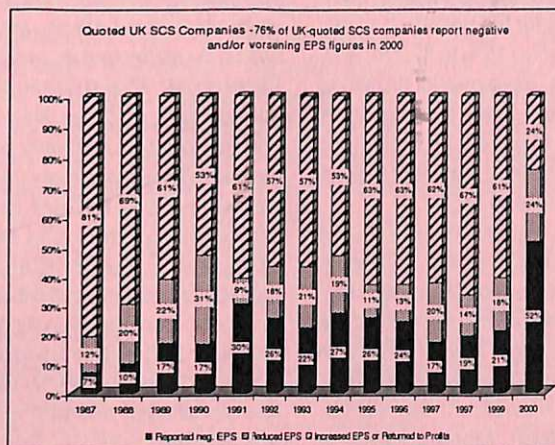
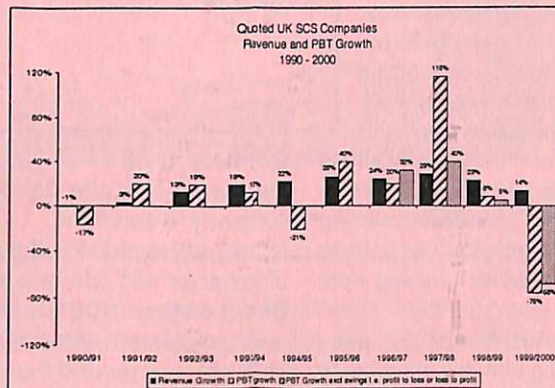
We fully expect the performance of quoted SCS companies to get worse in 2001 as "restructuring" costs bite. We hope, however, that investors have already taken account of this and that a bottom has been reached for our indices. As you can see in the chart, our own SCS Index has, at end Apr. 01, fallen by a massive 59% since its high of 16077 at end Feb. 00.

We do not expect share prices to recover (and then only modestly) until Q4 when we should be able to

accurately forecast an improving financial performance in 2002 and beyond.

As usual, there will be bright spots amongst the gloom. In times of national or international economic slowdown, outsourcing usually performs well as companies struggle to contain and/or reduce IT costs. We have already seen this in the recent excellent figures from EDS UK and IBM Global Services and, of course, the most "Boring" IT services of them all - Capita.

**2001 is a time to stand up and be proud to be both Boring and Profitable.**



The (14th annual edition) 2001 Holway Report is in its final stages and will be available in June. It's now available as a constantly updated annual service (see p12).

The figures above relate to 150 quoted companies ONLY. We will bring you the headline growth rates for the UK SCS sector after analysis of over 1000 companies next month.



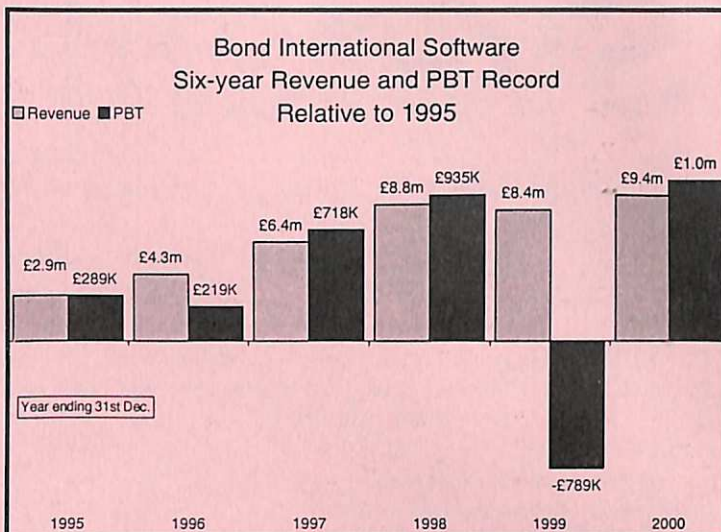
## Business opportunities from "established" recruitment companies

**Bond International Software** - supplier of software and services to the recruitment and tourism industries - announced results for the year to 31st Dec. 00.

Turnover rose 11% to £9.4m, a LBT of £789K in 99 has become a PBT of £1m, and Loss Per Share last year of 4.81p is now an EPS of 5.02p. Commenting on the results, Chairman Martin Baldwin, said: "After an excellent 2000 we enter the current year optimistic about the group's performance, particularly in the second half when a number of significant new orders are expected to be delivered".

**Comment:** After losses in FY99, Bond has posted a solid set of results for 2000 based on organic growth. Whilst the tourism division had a "disappointing year" and was unprofitable, the recruitment software and services division reported 18% growth in sales in the UK and Europe, and "steady improvement" in the US market where it claims there is no market-leader in the supply of recruitment software. Indeed Bond has been busy building up its overseas presence and reports that its operations in Australia and Asia are "making good progress". It also has two offices in the US, one in Canada, one in South Africa and is considering opening an office in continental Europe within 18 months, based upon the "notably higher level of sales enquiries" coming from Europe.

Unsurprisingly, Bond reports that in H2, the business opportunities were, once again, coming from the established recruitment companies as the internet-based recruiters struggled to obtain further funding. Deals have been clinched



with PwC, Blue Arrow and Kelly Services, and since year-end, the company's largest ever single order, from US staffing company Westaff Inc.

Bond's web-enabled offering has already been sold to a number of "established" players and it has launched an ASP offering. Bond enters 2001 with a record order book and "an encouraging prospect list". Hopefully the problems and losses of 99 are well behind them. We'd like to see an improvement on the 11% margin. The share price has fallen during the month, ending 9% lower at 72p.

### Group

**VI Group**, the CAD/CAM providers, have announced results for the year to 31st Dec.

00. Turnover on continuing operations rose 15% to £5.2m, and, with a further £426K from acquisitions, gave overall growth of 24%. PBT grew by slightly less to £465K, a rise of 6% giving a diluted EPS of 1.05p. However, operating profit on continuing activities fell marginally, from £427K to £420K, with acquisitions contributing an additional £23K of operating profit.

Research and development costs increased by 75% on the previous year, to £1.1m, partly as a result of the Tecnomac acquisition, albeit through a deliberate consolidation strategy. Don Babbs, Chief Executive, commented on the success of the company's strategy of consolidation, "The strategy of concentrating on specific applications of CAD/CAM for industry, particularly in the mould and die manufacturing sector, continued to show results during 2000. Opportunities for

accessing finance and a share listing in the United States are at an advanced stage, increasing the Group's potential through carefully selected acquisitions."

**Comment:** The management of VI Group clearly believe that consolidation is the key to success over the next few years, and have been actively pursuing this goal. While the company has delivered year on year growth in revenues and profits for two years, this did not impress the markets during 2000. The company is planning to list in the US in the immediate aftermath of a general slump in shareprices, and a crash in technology stocks. The management must be hoping that they will be able to raise enough funds to finance further acquisitions, and possibly find some bargains among US software vendors. For this plan to succeed, VI Group will need to impress more than it has done over the last year. Share price is unchanged at 27p this month.



Computer Associates

US software giant **Computer Associates (CA)** has announced preliminary Q4 and year end results ahead of expectations, with revenue up 7.6% to \$5.565b and anticipated operating EPS of \$1.61 compared with \$1.31 for the year to 31st Mar. 01. The company puts much of the credit on its new business model, which relies on subscription licenses rather than enterprise license payments.

**Comment** - We certainly support CA's new licensing model, which looks like a win-win - customers get more flexibility and CA gets a more regular cash flow. But it's hard to see this as a significant generator of extra revenue, except perhaps in the short-term transition. Certainly in a slow mainframe market and difficult economic conditions it's not enough to change fortunes. On the other hand, the company has, in the past, trumpeted services as the route to future growth - CA set up a professional services organisation in 1998 and, of course, made that unsuccessful bid for CSC. There was no comment in this announcement on the reason for the fall in services revenue this year by 32%; from \$764m last year to \$517m this time around.

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## MSB shook off the legacy of the 'glorious' Goldberg years in 2000

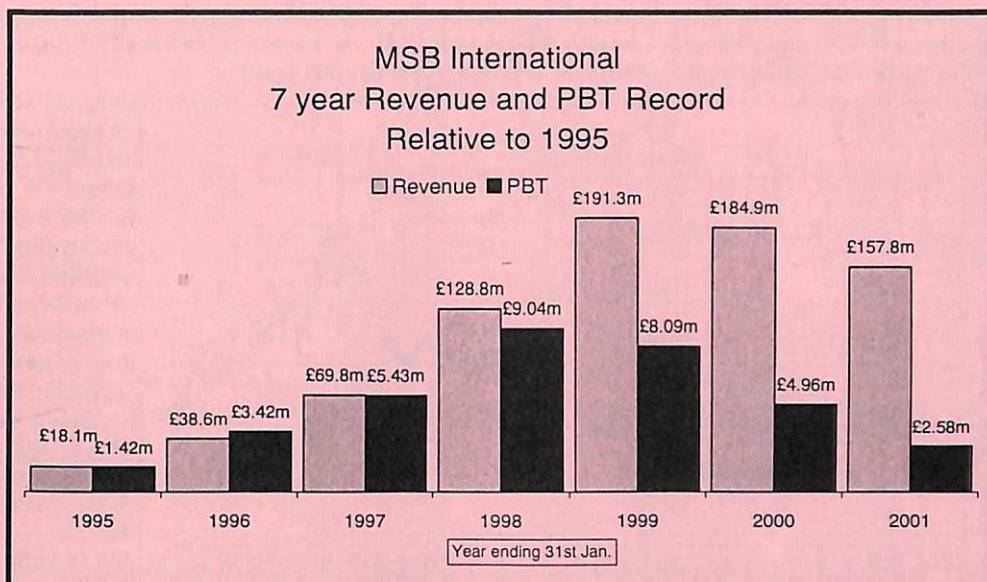
MSB International "a leading provider of human capital solutions" (ie IT staff agency) saw revenues drop 15% to £158m for the year to 31st Jan. 01. PBT at £2.6m is about half what it was last year,

and

EPS is down from 17.3p to 7.5p. Nonetheless, new CEO John Bateman reported that: "MSB is well positioned for growth and has an exciting future ahead of it. I look forward to working with the board and the very strong team at MSB in realising the significant growth opportunities that are available to us". Bateman (ex Executive VP at EDS), joined MSB as NED in Mar. 00 and became Chairman very soon after. He replaced long time director - and latterly CEO - Peter Flaherty in a surprise announcement on the day these results were released.

Flaherty, who has "left the company", effectively led MSB's resurrection after the tumultuous Goldberg years and was also instrumental in setting up ITSA industry body, ATSCo. We have greatly enjoyed our relationship with Peter - whom we class as 'a scholar and a gentleman' - and wish him well.

**Comment:** MSB, in common with many other IT staff agencies, has been through a difficult time these past two years, with declining revenues and profits. Like most other companies we've spoken to, 2000 was a 'year of two halves' for MSB, i.e. H1 a real stinker, but definite signs of life in H2. However, according to Bateman, 2001 has started a bit patchy so caution is still the byword. Nonetheless, 2000 has been a milestone year for MSB as it finally shook off the Goldberg 'legacy'. Since then, MSB has radically shaken up its operations (and sales force) and brought costs down to a level more commensurate with their revenues. They've also started to move up the value chain, with new permanent recruitment, 'consulting' (i.e. project teams), and managed service offerings, albeit rather late in the day. They've also started to live up to the 'International' tag, opening offices in Utrecht, Glasgow (well, sort of international), Dublin and Frankfurt. We'd have to say MSB now looks in better shape than we've seen them for some time - and it's been a long time since we've been able to say anything nice about them at all! They now have 'global' aspirations - which go beyond IT staffing (we don't think that's a good idea at all at this stage of their 'recovery') though as John Bateman told us, "you've got to shoot for the stars ...". Fine - so long as you don't crash into a meteorite on the way.



## QSP - Optimistic for an improving situation

QSP - provider of financial management and business solutions - has announced results for the year to 31st Dec. 00 (the last of the 'larger' quoted SCS companies to announce for FY00) showing revenue virtually static at £40.9m, LBT deepened from £3m to

£4.7m, and Loss Per Share, previously 4p, is now 5.2p. Commenting on the outlook, Chairman John Bateman said: "Although 2001 will continue to provide a challenging trading environment, we have taken necessary actions and are optimistic for an improving situation in the coming year". The shares tumbled following the results, but recovered to end the month up 11% at 23p. **Note.** 99 figures restated.

## Systems Union - Withdrawal from a dot.com-based business strategy

**Systems Union** (formerly freecom.net) announced results for the year to 31st Dec. 00 - turnover rose to £53.8m but is not really comparable to last year's £600K (£49.9m came from the acquisitions of Pegasus and Systems Union), LBT of £1.9m in 99 turned into a LBT of £105.9m (of which £78.5m is from discontinued ops), and Loss Per Share has deepened from 9.8p to 125.3p. Commenting on the results, Chairman Bob Morton said: "This has been a significant and challenging year for the group in which we have seen a complete restructuring of our business. We have removed significant loss making activities from the group with our withdrawal from a dot.com based business strategy...the major restructuring of the cost base has restored the group to financial stability and lays the solid foundation for our future profitability".

Readers may recall that the "old" freecom.net was an embryonic provider of "virtual retailing services on the internet", for SMEs - a loss-making business, needless

to say. The acquisitions of Pegasus (Feb. 00) with its financial and business software for SMEs and Systems Union (May 00) with its SunSystems financial suite, aimed more at the "M"s amongst the SMEs, has given the company a worldwide network of channel partners and close to 60,000 customers. The challenge for the new Systems Union now is to build on its market share, and produce some profits. Paul Cole (CEO and former FD) has set about reducing the cost base - c250 personnel and contractors have been cut - with a view to restoring financial stability and delivering profits, and early indications in FY01 are encouraging. A return to activities based on "traditional profit models" is welcome.

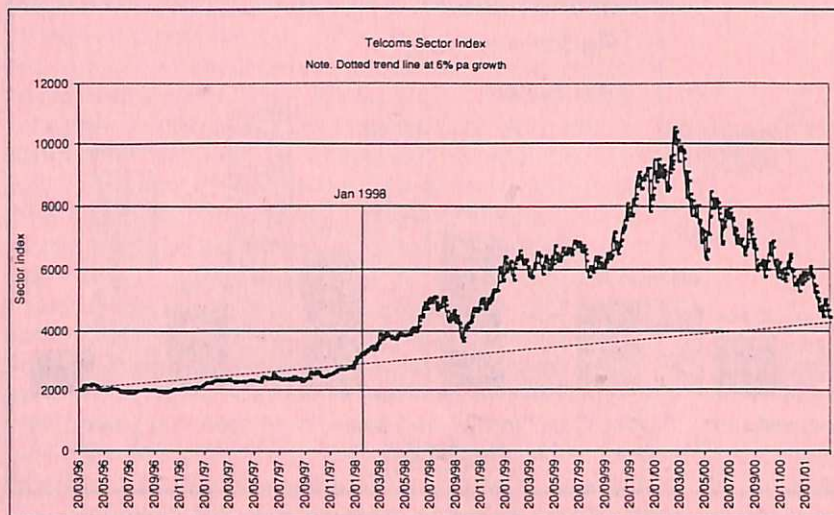
Since the results announcement, Systems Union disposed of "surplus property assets" (formerly Systems Union's global HQ and R&D facility in Hants until its acquisition in May 00), for £7.75m.

The share price ended the month up 20% at 78p.



## Are incumbent telcos undervalued?

Our parent Ovum is recognised globally for its analysis of the telecoms market. Partly encouraged by its acquisition of Richard Holway Ltd, Ovum is now itself venturing into financial analysis of the telecoms sector. The first fruits of this are just about to be published, and this article highlights some surprising conclusions about the market valuation of telcos. The recent volatility in the stock prices of telcos is proving very damaging to the sector. The result has been reduced credit ratings, postponed IPOs, and a general lowering of confidence. As can be seen from the chart, prices are now returning to their long-term trend, before the dot.com and tech boom and bust cycle of 1999/2000.



Because of this volatility, Ovum decided to focus on determining the value of the incumbent telcos' so-called "home wireline business" (normally referred to as "HWLB"). By this, we mean the normal fixed-line services in the telcos home country (the "boring" bit in Holway-speak!). Why? Because this is the part that is the most complex to value and that financial analysts least understand. Analysts have focused mainly on the wireless and Internet parts of telcos. In particular, they have argued that, as cellular and IP based network services cannibalised the HWLB, and as its margins decline under price competition, it looks increasingly worthless. Ovum believes otherwise. Our conclusions are that:

- the HWLBs of incumbents facing competition are currently undervalued by analysts
- in comparison the alternative network operators

which compete with the HWLB are significantly over valued

the HWLB is, and will remain a low growth, relatively low risk, high cash generating business.

These conclusions result from an extensive model that Ovum has built to predict cash generation by HWLBs over a 15-year period. The model uses a discounted cash flow approach to provide a theoretically sound valuation.

The model takes into account the main threats to the HWLB, which include:

- Loss of market share (when incumbents are exposed to competition, there's only one way for their market share to go!)
- Erosion of margins
- Substitution by mobile
- Over intrusive regulation.

At the same time, contrary to popular belief, there are some excellent opportunities for HWLBs:

- Absolutely the critical success factor will be their ability to exploit the predicted move to broadband. Most broadband traffic will be carried by fixed (not mobile) networks, and incumbents are well-positioned to capture the majority of this traffic from small business and residential customers – but only if they organise themselves to make this happen. For example, BT's current structure does not look as though it will easily enable this.
- They can grow their wholesale business, i.e. providing services that others resell to end customers. Telcos are starting to treat this as a serious opportunity – rather than a threat!

- They can also cut costs through the deployment of a single multi-service IP network, and deployment of DSL technologies. Most HWLBs in the developed world are deploying these two technologies.

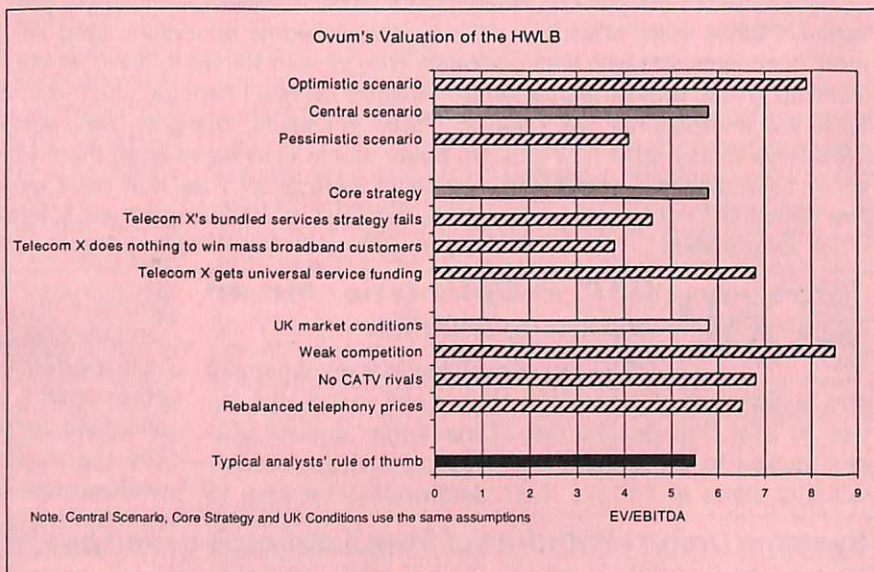
The common value metric of HWLBs is the multiple of EBITDA. Analysts usually use a multiple of 5 to 6 when carrying out a sum of parts analysis. Under Ovum's central scenario the HWLB of incumbents has a underlying value of 5.8 EBITDA (see chart), in countries with market conditions like the UK. The model also examines a range of scenarios, with a range of multiples between about 4 and 8.

However, outside North America, the UK market is at least as competitive as any other. Therefore, in many other countries, this multiple could be substantially higher. **In other words, Ovum believes that analysts are undervaluing telcos in many markets by up to 50%.**

More controversial are the valuations of the HWLB's competitors – the new entrants such as Colt and Energis in the UK, and many others across the world. Analysts are basing their valuations on average growth rates of about 22% p.a. over the long term. However, Ovum's model suggests that these growth rates are far too optimistic – if they are sustained, then the new entrants will soon come to occupy over 100% of the available market! Ovum's model suggests that average growth rates of 11% p.a. is what the market will support for these players collectively. Hence, we conclude that these new players are likely to be collectively overvalued by analysts.

As far as the incumbent telcos are concerned, they need to pay more attention to the ongoing success of their HWLBs. Although low growth, they are relatively low risk and high cash generating businesses, and are therefore a great complement to their wireless and Internet businesses which are high risk and cash hungry.

For more information on this research, please call David Lewin or Tony Lavendar at Ovum on 020 7551 9000.





# Quoted Companies - Results Service

Note: Highlighted Names indicate results announced this month.

Actinic plc					Delcam plc					Keystone Software plc				
REV	Final - Sep 99	Int 9 mos Jun 00	Final - Sep 00	Comparison	REV	Final - Dec 99	Final - Dec 00	Comparison		REV	Interim - Sep 99	Final - Mar 00	Interim - Sep 00	Comparison
PBT	£571,000	£1,437,000	£2,048,000	+258.7%	PBT	£15,774,254	£17,011,059	+7.8%		PBT	£2,384,000	£4,799,000	£1,989,000	-16.6%
EPS	-£775,000	£2,159,000	£3,508,000	Loss both	EPS	£1,042,075	£1,642,845	+57.7%		EPS	£17,000	£165,000	£3,173,000	Profit to loss
	-0.86p	2.25p	3.41p			13.20p	19.60p	+48.5%			0.10p	0.60p	7.60p	Profit to loss
AFA Systems plc					Diagonal plc					Knowledge Management Software plc				
REV	Final - Dec 99	Final - Dec 00	Comparison		REV	Final - Nov 99	Final - Nov 00	Comparison		REV	Interim - Dec 99	Final - Jun 00	Interim - Dec 00	Comparison
PBT	£1,779,000	£4,291,000	+141.2%		PBT	£72,376,000	£82,735,000	+14.3%		PBT	£333,078	£2,091,986	£2,194,089	+621.4%
EPS	£581,000	£2,609,000	Loss both		EPS	£8,184,000	£8,440,000	+40.9%		EPS	£81,459	£3,078,772	£5,773,764	Loss both
	-3.40p	11.90p	Loss both			7.52p	3.30p	-56.1%			-1.17p	5.40p	5.51p	Loss both
AIT Group plc					Easyscreen plc					Knowledge Support Systems Group plc				
REV	Interim - Sep 99	Final - Mar 00	Interim - Sep 00	Comparison	REV	Interim - Sep 99	Final - Mar 00	Interim - Sep 00	Comparison	REV	Final - Dec 99	Final - Dec 00	Comparison	
PBT	£93,600	£21,693,000	£14,218,000	+45.6%	PBT	£335,957	£1,056,519	£969,022	+214.5%	REV	£1,838,025	£2,803,736	+52.5%	
EPS	£1,530,000	£3,651,000	£2,003,000	+30.9%	PBT	£453,525	£3,425,999	£3,767,777	Loss both	PBT	£83,497	£2,116,580	Loss both	
	5.05p	11.81p	6.49p		EPS	-1.23p	-9.96p	-8.23p	Loss both	EPS	-0.10p	-3.00p	Loss both	
Alphameric plc					ECsoft Group plc					Logica plc				
REV	Final - Nov 99	Final - Nov 00	Comparison		REV	Final - Dec 99	Final - Dec 00	Comparison		REV	Interim - Dec 99	Interim - Dec 00	Comparison	
PBT	£25,330,000	£54,408,000	+114.8%		PBT	£67,304,000	£73,204,000	+8.8%		REV	£403,000	£847,400,000	£505,000,000	+25.3%
EPS	£3,050,000	£3,891,000	+27.6%		EPS	£3,416,000	£1,370,000	-59.9%		PBT	£35,100,000	£98,100,000	£57,900,000	+65.0%
	3.62p	1.96p	-45.9%			17.30p	4.80p	Profit to loss		EPS	5.40p	17.50p	9.10p	+68.5%
Alterian plc					Eidos plc					London Bridge Software Holdings plc				
REV	Interim - Sep 99	Final - Mar 00	Interim - Sep 00	Comparison	REV	Interim - Sep 99	Final - Mar 00	Interim - Sep 00	Comparison	REV	Final - Dec 99	Final - Dec 00	Comparison	
PBT	£374,074	£1,011,140	£606,000	+62.0%	PBT	£44,060,000	£203,265,000	£40,715,000	-7.6%	REV	£42,165,000	£56,702,000	+34.5%	
EPS	-£75	£3,905	-£976	Loss both	PBT	£37,907,000	£49,275,000	£82,348,000	Loss both	PBT	£7,092,000	£4,662,000	-34.3%	
	-0.40p	0.38p	-2.10p	Loss both	EPS	-29.20p	22.80p	-72.70p	Loss both	EPS	3.18p	1.85p	-41.8%	
Anite Group plc					Electronic Data Processing plc					Lorien plc				
REV	Interim - Oct 99	Final - Apr 00	Interim - Oct 00	Comparison	REV	Final - Sep 99	Final - Sep 00	Comparison		REV	Final - Nov 99	Final - Nov 00	Comparison	
PBT	£83,930,000	£158,976,000	£85,665,000	+42.1%	PBT	£10,492,000	£8,353,000	-20.4%		PBT	£138,817,000	£111,588,000	-19.6%	
EPS	£4,690,000	£7,171,000	£3,041,000	-35.2%	PBT	£2,377,000	£1,115,000	-53.1%		PBT	£1,649,000	£2,718,000	Loss both	
	1.02p	1.30p	0.20p	-80.0%	EPS	6.85p	2.73p	-60.1%		EPS	-8.50p	-12.10p	Loss both	
Autonomy Corporation plc					Epic Group plc					Lynx Group plc				
REV	Final - Dec 99	Final - Dec 00	Comparison		REV	Interim - Nov 99	Final - May 00	Interim - Nov 00	Comparison	REV	Final - Sep 99	Interim - Mar 00	Final - Sep 00	Comparison
PBT	£16,511,000	£45,118,620	+173.3%		PBT	£1,904,000	£4,398,000	£3,712,000	+95.0%	REV	£212,541,000	£111,018,000	£250,482,000	+17.9%
EPS	£678,000	£14,270,344	Loss to profit		PBT	£216,000	£765,000	£567,000	+162.5%	PBT	£8,269,000	£1,789,000	£6,106,000	-26.2%
	-7.20p	8.00p	Loss to profit		EPS	0.65p	3.12p	1.71p	+155.3%	EPS	4.80p	0.98p	1.28p	-58.8%
Axon Group plc					Eubank Managed Services plc					MMT Computing plc				
REV	Final - Dec 99	Final - Dec 00	Comparison		REV	Interim - Sep 99	Final - Mar 00	Interim - Sep 00	Comparison	REV	Final - Aug 99	Interim - Feb 00	Final - Aug 00	Comparison
PBT	£25,378,000	£42,737,000	+68.4%		PBT	£4,069,000	£2,596,000	£4,027,000	-1.0%	REV	£11,024,210	£15,800,000	£15,800,000	-3.0%
EPS	£4,560,000	£7,174,000	+57.3%		PBT	£189,000	£340,000	£173,000	+8.5%	PBT	£9,710,952	£2,000,000	£5,976,000	-38.5%
	5.70p	8.60p	+50.9%		EPS	1.28p	2.15p	1.16p	+9.4%	EPS	52.20p	10.50p	32.20p	-38.3%
Azlan Group plc					F.I. Group plc					Macro 4 plc				
REV	Interim Sep 99	Final - Mar 00	Interim - Sep 00	Comparison	REV	Interim - Oct 99	Final - Apr 00	Interim - Oct 00	Comparison	REV	Interim - Dec 99	Final - Jun 00	Interim - Dec 00	Comparison
PBT	£193,984,000	£410,604,000	£261,744,000	+84.9%	REV	£145,379,000	£307,696,000	£204,018,000	+40.3%	REV	£1,086,000	£38,671,000	£21,952,000	+28.5%
EPS	£2,369,000	£9,258,000	£5,374,999	+126.9%	PBT	£9,539,000	£17,391,000	£5,746,000	+76.0%	PBT	£4,751,000	£1,611,000	£1,554,000	-67.3%
	1.50p	6.10p	3.30p	+306.7%	EPS	2.71p	3.91p	-3.21p	Profit to loss	EPS	15.30p	33.20p	1.00p	-93.5%
Baltimore Technologies plc					Financial Objects plc					Manpower Software plc				
REV	Final - Dec 99	Final - Dec 00	Comparison		REV	Final - Dec 99	Final - Dec 00	Comparison		REV	Interim - Nov 99	Final - May 00	Interim - Nov 00	Comparison
PBT	£23,272,000	£74,224,000	+218.9%		PBT	£22,301,000	£18,369,000	-17.6%		REV	£747,363	£1,611,619	£1,089,618	+45.8%
EPS	£31,351,000	£94,185,000	Loss both		PBT	£4,656,000	£887,000	Profit to loss		PBT	£1,770,276	£2,790,867	£494,449	Loss both
	-10.27p	-23.10p	Loss both		EPS	8.87p	-2.61p	Profit to loss		EPS	-21.59p	-27.73p	-3.74p	Loss both
Baron Corporation plc					Homerics Group plc					MERANT plc				
REV	Final - Aug 98	Interim - Feb 99	9/4/99 - Aug 00	Comparison	REV	Final - Dec 99	Final - Dec 00	Comparison		REV	Interim - Oct 99	Final - Apr 00	Interim - Oct 00	Comparison
PBT	£2,384,000	£1,392,585	£3,294,936	Not comparable	PBT	£8,713,000	£11,763,000	+35.0%		REV	£112,351,000	£227,283,000	£96,911,000	-13.7%
EPS	£175,000	£127,831	£489,490	Loss both	PBT	£807,000	£1,182,000	+46.5%		PBT	£5,015,000	£25,369,000	£7,310,000	Profit to loss
	n/a	-3.70p	-16.00p	Loss both	EPS	3.72p	6.00p	+61.3%		EPS	0.02p	24.20p	-0.05p	Profit to loss
Bond-International Software plc					Focus Solutions Group plc					Microgen plc				
REV	Final - Dec 99	Final - Dec 00	Comparison		REV	Interim - Sep 99	Final - Mar 00	Interim - Sep 00	Comparison	REV	Final - Dec 99	Final - Dec 00	Comparison	
PBT	£8,457,169	£9,376,878	+10.9%		PBT	£238,000	£721,000	£828,000	+247.9%	REV	£31,324,000	£25,344,000	-19.1%	
EPS	£789,085	£1,031,979	Loss to profit		PBT	£504,000	£1,039,000	£1,224,000	Loss both	PBT	£2,410,000	£3,086,000	Profit to loss	
	-4.81p	5.02p	Loss to profit		EPS	-2.70p	-5.60p	6.20p	Loss both	EPS	5.70p	5.20p	Profit to loss	
Bright Station					Gresham Computing plc					Misys plc				
REV	Final - Dec 99	Final - Dec 00	Comparison		REV	Final - Oct 99	Final - Oct 00	Comparison		REV	Interim - Nov 99	Final - May 00	Interim - Nov 00	Comparison
PBT	£174,452,000	£57,642,000	-67.0%		PBT	£30,350,000	£23,325,000	-23.1%		REV	£344,500,000	£708,800,000	£413,000,000	+19.9%
EPS	£3,650,000	£1,284,000	-65.0%		EPS	£864,000	£4,273,000	Loss both		PBT	£48,300,000	£113,600,000	£37,400,000	-22.6%
	3.40p	1.20p	Loss both			7.29p	9.38p	Loss both		EPS	6.00p	14.20p	4.70p	-21.7%
Business Systems Group Holdings plc					Guardian IT plc					Mondas plc				
REV	Final - Jun 99	Interim - Sep 00	9 months to Mar 00	Comparison	REV	Final - Dec 99	Final - Dec 00	Comparison		REV	Interim - Oct 99	Final - Apr 00	Interim - Oct 00	Comparison
PBT	£32,386,000	£17,602,000	£25,000,000	Not comparable	PBT	£49,245,000	£86,397,000	+75.4%		REV	£64,678	£1,358,811	£881,263	+47.3%
EPS	£750,000	£1,450,000	£980,000	Not comparable	EPS	£7,048,000	£3,857,000	-43.3%		PBT	£390,090	£857,573	£466,426	Loss both
	0.62p	0.26p	0.81p	Not comparable		10.30p	13.70p	+33.0%		EPS	-3.10p	-6.80p	-3.40p	Loss both
Cadcentre Group plc					Harvey Nash Group plc					Morse Holdings plc				
REV	Interim - Sep 99	Final - Mar 00	Interim - Sep 00	Comparison	REV	Final - Jan 00	Final - Jan 01	Comparison		REV	Interim Dec 99	Final - Apr 00	Interim - Dec 00	Comparison
PBT	£10,932,203	£23,889,000	£12,900,000	+18.0%	PBT	£11,974,000	£22,249,000	+49.8%		REV	£203,703,000	£506,316,000	£301,986,000	+61.2%
EPS	£1,869,919	£4,338,000	£2,300,000	+23.0%	PBT	£11,974,000	£22,249,000	+49.8%		PBT	£10,427,000	£22,919,000	£13,804,000	+42.4%
	7.92p	17.40p	9.35p	+18.0%	EPS	27.64p	24.63p	-10.9%		EPS	4.30p	10.10p	6.30p	+45.5%
Capita Group plc					Highams Systems Services Group plc					MSB International plc				
REV	Final - Dec 99	Final - Dec 00	Comparison		REV	Interim - Sep 99	Final - Mar 00	Interim - Sep 00	Comparison	REV	Final - Jan 00	Final - Jan 01	Comparison	
PBT	£327,199,000	£453,348,000	+38.6%		PBT	£14,967,000	£26,863,817	£10,262,000	-31.4%	REV	£184,936,000	£157,760,000	-14.7%	
EPS	£32,148,000	£39,974,000	+24.3%		PBT	£2,000	£308,504	£1,744,000	+14.8%	PBT	£4,958,000	£2,584,000	-47.9%	
	3.22p	3.75p	+14.0%		EPS	-0.08p	-1.58p	-8.99p	Loss both	EPS	17.30p	7.50p	-56.6%	
Cedar Group plc					ICM Computer Group plc					NetBenefit plc				
REV	Interim - Sep 99	Final - Mar 00	Interim - Sep 00	Comparison	REV	Interim - Dec 99	Final - Jun 00	Interim - Dec 00	Comparison	REV	Final - Jun 99	Final - Jun 00	Comparison	
PBT	£11,688,000	£36,314,000	£23,367,000	+99.9%	PBT	£22,328,000	£49,535,000	£31,520,000	+41.2%	REV	£1,969,751	£7,520,100	+281.8%	
EPS	£55,000	£4,829,000	£852,000	Profit to loss	PBT	£1,773,000	£4,513,000	£2,035,000	+14.8%	PBT	£279,862	£4,591,500	Profit to loss	
	0.10p	4.20p	2.10p	Profit to loss	EPS	7.00p	15.40p	6.00p	+14.3%	EPS	0.02p	0.32p	Profit to loss	
Charteris Plc					IDS Group plc					Netstore plc				
REV	Interim - Jan 00	Final - Jul 00	Interim - Jan 01	Comparison	REV	Final - Dec 99	Final - Dec 00	Comparison		REV	Interim - Dec 99	Final - Jun 00	Interim - Dec 00	Comparison
PBT	£3,408,000	£6,716,000	£4,829,000	+41.7%	REV	£13,614,000	£12,509,000	-8.1%		REV	£546,430	£1,372,632	£1,152,321	+10.9%
EPS	£346,000	£371,000	£61,000	-82.4%	PBT	£1,125,000	£-28,596,000	Profit to loss		PBT	£-1,113,200	£-4,894,738	£-5,425,820	Loss both
	0.80p	25.70p	0.14p	-82.5%	EPS	6.15p	-108.74p	Profit to loss		EPS	-2><			



# Quoted Companies - Results Service

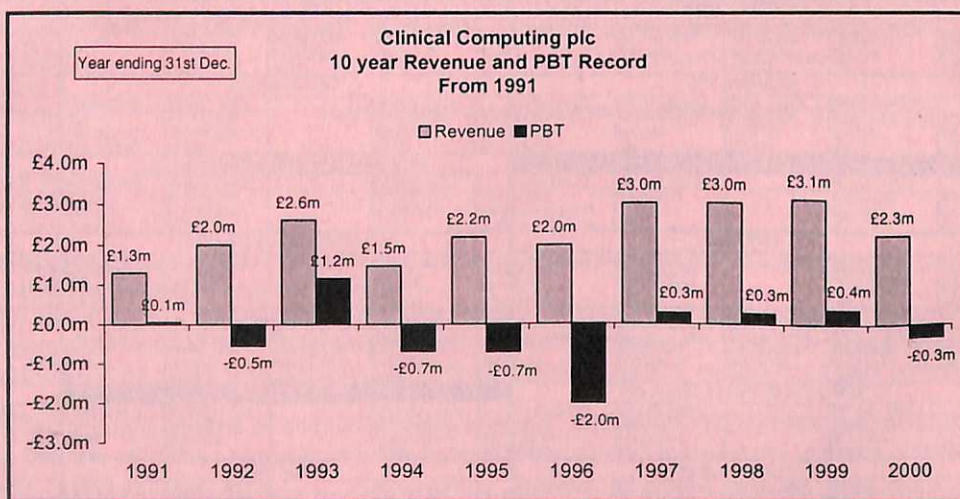
Note: Highlighted Names indicate results announced this month.

PSD Group plc				Sema plc				Telework Group plc			
Final-Dec 99	Final-Dec 00	Comparison		Final-Dec 99	Final-Dec 00	Comparison		Interim-Sep 99	Final-Mar 00	Interim-Sep 00	Comparison
REV £53,428,000	£58,549,000	+9.6%		REV £1,410,000,000	£1,510,000,000	+7.1%		REV £8,252,000	£17,363,000	£10,409,000	+66.1%
PBT £16,525,000	£21,385,000	+29.4%		PBT £93,800,000	£49,300,000	-47.1%		PBT £481,000	£2,705,000	£1,690,000	+60.0%
EPS 45.40p	57.00p	+25.8%		EPS 14.70p	13.10p	-11.0%		EPS 0.52p	1.08p	1.09p	+10.6%
QSP Group plc				ServicePower Technologies plc				TelMe.com plc			
Final-Dec 99	Final-Dec 00	Comparison		Final-Dec 99	Final-Dec 00	Comparison		Final-Mar 99	Final-Mar 00	Comparison	
REV £40,859,000	£40,959,000	+0.2%		REV £3,760,910	£3,292,000	-12.5%		REV £10,014,000	£13,974,000	£13,974,000	+39.5%
PBT £2,988,000	£4,652,000	+55.9%		PBT £2,541,087	£3,928,000	+54.5%		PBT £3,381,000	£2,105,000	£2,105,000	-37.3%
EPS 4.00p	5.20p	+30.0%		EPS 6.37p	8.10p	+27.8%		EPS 5.40p	3.00p	3.00p	-44.4%
Quantica plc				Sherwood International plc				Terence Chapman Group plc			
Final-Nov 99	Final-Nov 00	Comparison		Final-Dec 99	Final-Dec 00	Comparison		Final-Aug 99	Final-Aug 00	Comparison	
REV £18,153,000	£23,753,000	+30.8%		REV £17,185,000	£54,277,000	+215.0%		REV £30,641,000	£30,900,000	£30,900,000	+0.8%
PBT £3,224,000	£3,768,000	+16.9%		PBT £7,345,000	£6,634,000	-9.7%		PBT £4,464,000	£4,100,000	£4,100,000	-8.2%
EPS 5.02p	6.50p	+29.5%		EPS 19.80p	13.30p	-33.3%		EPS 5.82p	4.66p	4.66p	-20.1%
RM plc				Sirius plc (was Policy Master)				Torex plc			
Final-Sep 99	Final-Sep 00	Comparison		Final-Dec 99	Final-Dec 00	Comparison		Final-Dec 99	Final-Dec 00	Comparison	
REV £12,210,000	£207,560,000	+1680.0%		REV £16,730,281	£17,135,457	+2.4%		REV £46,762,000	£88,425,000	£88,425,000	+89.1%
PBT £12,262,000	£9,528,000	-22.3%		PBT £1,062,587	£727,215	-31.6%		PBT £4,039,000	£5,133,000	£5,133,000	+27.1%
EPS 9.80p	7.50p	-23.4%		EPS 6.90p	4.40p	-36.2%		EPS 13.30p	9.00p	9.00p	-32.3%
Raft International plc				Skillsgroup plc				Total Systems plc			
Final-Oct 99	Final-Oct 00	Comparison		Final-Nov 99	Final-Nov 00	Comparison		Interim-Sep 99	Final-Mar 00	Interim-Sep 00	Comparison
REV £7,570,000	£9,173,000	+21.2%		REV £198,700,000	£140,700,000	-29.2%		REV £1,180,727	£1,958,040	£1,584,209	+34.2%
PBT £388,000	£171,000	-55.9%		PBT £11,400,000	£14,700,000	+29.0%		PBT £128,216	£579,589	£156,071	+156.0%
EPS 0.37p	0.19p	-48.6%		EPS 10.70p	18.40p	+72.9%		EPS 0.88p	3.92p	1.09p	+342.2%
Rage Software plc				Sopheon plc				Touchstone Group plc			
Interim-Dec 99	Final-Jun 00	Interim-Dec 00	Comparison	Final-Dec 99	Final-Dec 00	Comparison		Interim-Sep 99	Final-Mar 00	Interim-Sep 00	Comparison
REV £3,450,000	£2,218,000	£2,696,000	-34.2%	REV £1,510,000	£763,000	-49.4%		REV £4,812,000	£10,511,000	£5,313,000	+104.9%
PBT £947,000	£2,641,000	£7,995,000	+738.0%	PBT £2,072,000	£1,945,000	-6.1%		PBT £678,000	£1,196,000	£1,196,000	+75.9%
EPS 0.42p	0.94p	2.23p	+438.1%	EPS 10.10p	33.40p	+231.7%		EPS 4.75p	9.50p	2.48p	+282.3%
RDL Group plc				Spring Group plc				Trace Computers plc			
Final-Sep 99	Final-Sep 00	Comparison		Interim-Oct 99	Final-Apr 00	Interim-Oct 00	Comparison	Interim-Nov 99	Final-May 00	Interim-Nov 00	Comparison
REV £18,172,000	£16,246,000	-10.6%		REV £206,641,000	£396,106,000	+91.7%		REV £8,693,000	£17,067,000	£8,382,000	+103.6%
PBT £1,335,000	£1,092,000	-18.2%		PBT £1,400,000	£6,420,000	+358.6%		PBT £973,000	£2,311,000	£1,085,000	+113.5%
EPS 8.05p	6.70p	-16.5%		EPS 0.60p	5.09p	+748.3%		EPS 4.82p	11.66p	5.25p	+122.2%
Recognition Systems Group plc				Staffware plc				Triad Group plc			
Final-Sep 99	Final-Sep 00	Comparison		Final-Dec 99	Final-Dec 00	Comparison		Interim-Sep 99	Final-Mar 00	Interim-Sep 00	Comparison
REV £2,315,000	£8,620,000	+272.4%		REV £23,152,000	£37,857,000	+63.5%		REV £24,253,000	£48,366,000	£25,003,000	+93.1%
PBT £1,609,000	£4,749,000	+195.7%		PBT £841,000	£3,042,000	+261.7%		PBT £293,000	£1,905,000	£1,265,000	+40.1%
EPS 2.30p	8.40p	+265.2%		EPS 4.20p	10.40p	+147.6%		EPS 3.36p	5.06p	2.43p	+79.5%
Retail Decisions plc				StatPro Group plc				Ultima Networks plc			
PFFinal-Dec 99	Final-Dec 00	Comparison		Final-Dec 99	Final-Dec 00	Comparison		Interim-Jun 99	Final-Dec 99	Interim-Jun 00	Comparison
REV £11,937,000	£17,674,000	+48.1%		REV £3,144,000	£3,172,000	+0.9%		REV £6,476,000	£12,541,000	£3,889,000	+322.0%
PBT £2,438,000	£2,292,000	-5.9%		PBT £1,833,000	£3,879,000	+111.3%		PBT £6,100,000	£7,883,000	£4,906,000	+58.8%
EPS 1.11p	1.64p	+47.7%		EPS 1.40p	3.80p	+171.4%		EPS 0.36p	0.44p	0.26p	+69.2%
RexOnline plc				Superscape plc				Ultrasis Group plc			
Interim-Oct 99	Final-Apr 00	Interim-Oct 00	Comparison	Interim-Jan 01	Final-Jul 00	Interim-Jan 01	Comparison	Final-Jul 99	Final-Jul 00	Comparison	
REV £144,000	£326,000	£932,000	+548.6%	REV £708,000	£2,153,000	+204.0%		REV £2,520,000	£986,000	£986,000	-60.9%
PBT £144,000	£326,000	£932,000	+548.6%	PBT £2,897,000	£6,817,000	+235.4%		PBT £2,316,000	£4,984,000	£4,984,000	+115.9%
EPS 2.40p	4.50p	9.90p	+208.3%	EPS 16.30p	26.80p	+64.4%		EPS 1.60p	2.40p	2.40p	+50.0%
Rolfe & Nolan plc				SurfControl plc				Vega Group plc			
Interim-Aug 99	Final-Feb 00	Interim-Aug 00	Comparison	Final-May 99	Final-May 00	Comparison		Interim-Oct 99	Final-Apr 00	Interim-Oct 00	Comparison
REV £10,700,000	£22,856,000	£12,700,000	+117.7%	REV £4,003,000	£8,706,707	+117.5%		REV £18,531,000	£40,201,000	£18,249,000	+119.5%
PBT £642,000	£1,838,000	£1,030,000	+60.4%	PBT £1,314,000	£14,871,341	+1030.0%		PBT £1,932,000	£4,843,000	£1,322,000	+264.7%
EPS 3.30p	9.30p	4.10p	+282.2%	EPS 12.78p	70.35p	+453.2%		EPS 7.02p	17.17p	5.72p	+200.0%
Royalblue Group plc				Synigence Plc				VI Group plc			
Final-Dec 99	Final-Dec 00	Comparison		Final-Dec 99	Final-Dec 00	Comparison		Final-Dec 99	Final-Dec 00	Comparison	
REV £39,693,000	£57,383,000	+44.6%		REV £626,921	£1,984,010	+216.5%		REV £4,545,000	£5,642,000	£5,642,000	+24.1%
PBT £6,511,000	£6,918,000	+6.3%		PBT £783,781	£750,018	-4.3%		PBT £438,000	£465,000	£465,000	+6.2%
EPS 13.10p	13.70p	+4.6%		EPS 3.80p	2.80p	-26.3%		EPS 1.24p	1.05p	1.05p	-15.3%
Sage Group plc				Synstar plc				Vocalis Group plc			
Final-Sep 99	Final-Sep 00	Comparison		Final-Sep 99	Final-Sep 00	Comparison		Interim-Sep 99	Final-Mar 00	Interim-Sep 00	Comparison
REV £307,041,000	£412,153,000	+34.2%		REV £213,048,000	£233,438,000	+9.6%		REV £1,318,000	£2,694,000	£2,008,000	+62.4%
PBT £74,313,000	£108,748,000	+46.3%		PBT £8,178,000	£4,954,000	-39.4%		PBT £1,963,000	£2,478,000	£2,478,000	+25.9%
EPS 0.35p	0.39p	+10.0%		EPS 3.70p	0.60p	-83.8%		EPS 4.84p	11.57p	5.60p	+105.0%
SBS Group plc				Systems Integrated Research plc				Wealth Management Software plc			
Interim-Feb 99	Final-Aug 99	Interim-Feb 00	Comparison	Interim-Nov 99	Final-May 00	Interim-Nov 00	Comparison	Final-Dec 99	Final-Dec 00	Comparison	
REV £28,300,000	£53,305,000	£22,900,000	+91.1%	REV £658,000	£1,536,000	+132.1%		REV £12,818,000	£15,533,000	£15,533,000	+21.2%
PBT £1,400,000	£2,219,000	£1,124,000	+57.5%	PBT £42,000	£215,000	+414.3%		PBT £1,005,000	£2,251,000	£2,251,000	+124.4%
EPS 9.60p	16.10p	8.00p	+83.3%	EPS 0.14p	1.25p	+800.0%		EPS 0.41p	0.67p	0.67p	+63.4%
Science Systems plc				Systems International Group plc				XKO Group plc			
Final-Dec 99	Final-Dec 00	Comparison		Interim-Dec 99	Final-Jun 00	Interim-Dec 00	Comparison	Interim-Sep 99	Final-Mar 00	Interim-Sep 00	Comparison
REV £30,966,000	£49,624,000	+60.3%		REV £8,368,000	£17,952,851	+114.6%		REV £13,485,000	£29,628,000	£20,197,000	+46.8%
PBT £2,633,000	£2,732,000	+3.8%		PBT £33,000	£218,355	+567.7%		PBT £551,000	£6,263,000	£2,311,000	+170.8%
EPS 11.40p	6.50p	-43.0%		EPS 0.07p	0.35p	+400.0%		EPS 3.50p	28.20p	10.10p	+182.0%
SDL plc				Systems Union plc				Xpertise Group plc			
Final-Dec 99	Final-Dec 00	Comparison		Final-Dec 99	Final-Dec 00	Comparison		Interim-Jun 99	Final-Dec 99	Interim-Jun 00	Comparison
REV £12,960,000	£29,730,000	+129.4%		REV £600,000	£53,778,000	+8961.7%		REV £2,048,000	£3,707,000	£2,919,000	+27.2%
PBT £550,000	£1,059,000	+90.8%		PBT £1,953,000	£105,924,000	+5372.0%		PBT £172,000	£1,710,000	£2,228,000	+29.1%
EPS 1.78p	0.93p	-48.3%		EPS 9.80p	125.30p	+1278.6%		EPS 0.45p	0.84p	0.76p	+10.5%

## R&D spend increases despite falling revenues

**Clinical Computing's** results for the year to 31st Dec. 00 showed turnover down 27% to £2.26m, last year's modest profit of £328K, and EPS last year of 1.5p is now a Loss Per Share of 1.3p. **Comment:** Clinical provides specialist "treatment information" software to the medical community. They IPO'd in Feb. 94 and then proceeded to post appalling results for three years. FY00 sees a return to "form", if you can call it that.

The results were hit by development delays affecting orders for Clinical's new Clinical Vision product. Sales in both the UK and the US fell, but it was the US that really dragged things down with a 31% decline in revenue. Indeed, the US is Clinical's main market (accounting for 77% of total revenues), with the UK second largest at c20%. Clinical's R&D spend increased at 14%, despite falling revenues.



We have commented before that Clinical's shareholders must be running out of patience (no pun intended), as turnover has hovered around the £3m mark for the past four years. Indeed, they would be a classic example of a small company which should never have gone or stayed public. From a float price of 124p back in Feb. 94, the share price at the end of the month down 2% at just 27p.



## Harvey Nash certainly seems to be a class act!

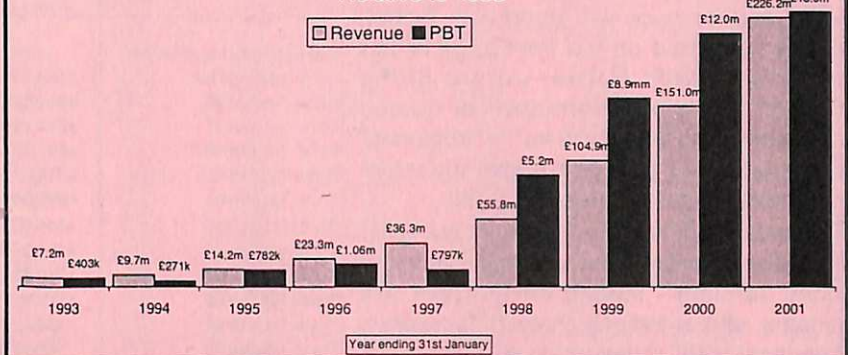
**Harvey Nash**

Results from **Harvey Nash** (ITSA - IT contractors and permanent recruitment) for the year to 31st Jan 01 were pretty good with revenue up 50% at £226.2m (up still very good 30% organically), and operating profits up 23% at £15.4m (before amortisation of goodwill and exceptionals). However, PBT was up just 8.3% at £12.97m representing a PBT margin of 5.7% and diluted EPS (after adj. for amortisation of goodwill and exceptionals) was down from 27.64p to 24.63p.

But it's the outlook which gives more cause for concern. Harvey Nash has warned that the slowdown in the US (6% of revenue and contributing £518K of operating profits) will mean that part of their operations are currently performing below expectations and will breakeven this year. You may remember that the US was "born" out of the acquisition of techPartners. From an operational viewpoint this is performing OK and will give HN a platform when the US market does recover. From a convoluted logic viewpoint, we could point out that as techPartners was a performance-related deal, the amount paid could slump from £49m to £18m if that element was not earned. In the US, telecoms and technology are particularly badly affected. Indeed although the UK (65% of HN's revenue - up 38% in year) continues broadly in line with expectations, there has been a slowdown in these sectors here too. Broadly, the UK was "holding up well".

Our conversation with Harvey Nash's CEO David Higgins on the day of the results announcement, really did confirm the picture we have heard from others. The "conventional" IT markets are holding up reasonably well. For example, the pharmaceutical sector with its long lead times still needs to test and then bring drugs to market so has held up well. On the other hand the new economy activities have been hit badly. HN's US West Coast operations have "fallen off a cliff" whereas its East Coast operations are "still rolling with mission critical systems". Whereas a year back the professional services companies were losing staff at a

Harvey Nash Group plc  
9 year Revenue and PBT Record  
Relative to 1993



record rate, HN reports that this is a much more buoyant market as more staff move B2C (Back to Consulting). The very strength of HN today comes from its relatively broad spread of activities - both by sector and geography. Although we must not claim any credit, Higgins did say that Ovum Holway's Anthony Miller's CSSA presentation in 1998, had influenced his views that HN must "move further up the food chain" and that's exactly what he has done.

Harvey Nash was an IPO in May 97 at 175p and even at its current 340p (it fell 35p on the day of the results announcement) has performed very well in the circumstances and compared to many of its peers. Anyway, HN seem a class act in a sector where it is not often possible to use such descriptions!

Well if you had your money on Bonfield leaving BT you lost. It's Iain Vallance that's taken the long walk and will hand over the chairmanship to Sir Christopher Bland (chairman of the BBC since 1996) from May 1st. But will it be enough? We doubt it. Bonfield is still there and yet to prove he can make the sort of radical changes required (and didn't make at ICL). He's now backed by a long time television man, and to cap it all Vallance will hang around as President Emeritus (whatever that is).

### Buoyant about ability to become profitable

We well remember the great white hope for UK technology was its world



leadership in virtual reality software. We were all to live our lives with goggles and every new design concept could be viewed inside-and-out from every angle. It didn't quite work out and most of those earlier players like **Division** and **Virtuality** are not around anymore. But **Superscape** has survived and this month announced results for the six month period to 31st Jan. 01, having changed their FYE from July. Turnover was £1.4m, compared with £2.2m for the year to Jul. 01. This included £293K of revenue from RTZ, which Superscape acquired in July 2001. The company made a pre-tax loss of £4.3m, compared to £6.8m in the prior period, giving a loss per share of 12p (26.8p).

Turnover was broken down between £1.2m from consultancy (83% of total) and £0.2m from royalties (17%). In the prior year, revenues from software sales and licencing were £323K, but these had dropped to £6K for the six month period. The majority of Superscape's business is in the UK (£695K) and the US (£430K), with RTZ contributing £293K of European revenue. The Asia Pacific region did not

contribute any revenue during the six month period, as activities there have been concentrating, "predominantly on business development."

Superscape attributed their increased loss to staff costs as the company gears up for increased activity, noting that business was strong in the US and that repeat business was becoming an increasing feature of Superscape's activities.

**Comment:** Despite continued losses, Chairman John King remains buoyant about Superscape's ability to turnaround and become profitable. But Superscape has not returned a profit since listing on the main market in 1994. Superscape now has a European catalyst with the acquisition of RTZ Virtual Worlds, but the collapse of the 'dot.coms' has removed an important source of business for Superscape, as acknowledged in a Jul. 00 trading statement. John King shrugged off concerns about the wider market in his comments on the results, "Despite weaknesses in the technology sector over recent months and the concomitant fall in share prices, the Board remains confident that the radical new strategy announced in November 1999 will deliver strong revenue growth and improved profitability in the medium term, which we believe will lead to a steady improvement in shareholder value."



## Has the bottom been reached in our indices?

We believe that the answer to the above question is probably 'yes'. And we are not the only ones to think this. The media in the past few days has expressed the same view (and for once we agree with them!). As we have said on the front page of this month's *System House*, we are of the opinion that the performance of quoted companies will get worse as "restructuring" costs bite, but that (we hope) investors have already taken account of this.

This month saw all the indices in our table increase - the first time we have seen this since January - indeed for the past two months, all the indices showed decreases. The techMARK managed to rise above the 2000 mark, but the FTSE100 didn't quite make it to 6000.

In our SCS index, the increases were led by the System Houses and Software Products companies with increases in their share prices of 4% and 6% respectively. The ITSAs and Resellers are still struggling. Mondas saw the biggest rise in its share

price this month - increasing an impressive 147% and hence recovering to Jan. 01 levels - followed by Surfcontrol at 'just' 47%. Showing the biggest fall was Recognition Systems, followed by CMG, which saw a share price fall of 39% as a result of its Wireless Data Solutions business trading update, hence knocking £1.4bn off its market value. Bright Station's share price has also taken a tumble, down 27%, after the announcements that they are down to their last £4m cash and that CEO Dan Wagner is 'stepping down' from the Board (more on [www.ovumholway.com/hotnews](http://www.ovumholway.com/hotnews)).

30-Apr-01	SCSI Index					6662.37
	FTSE IT (SCS) Index					1454.27
	techMARK 100					2100.40
	FTSE 100					5966.90
	FTSE AIM					1202.90
	FTSE SmallCap					3051.40
SCSI Index =1000 on 15th April 1989						
Changes in Indices	SCSI Index	FTSE 100	techMARK 100	FTSE IT SCS Index	FTSE AIM Index	FTSE Small Cap
Month (01/04/01 to 30/04/01)	+4.29%	+5.91%	+8.96%	+6.05%	+2.65%	+5.84%
From 15th Apr 89	+566.24%	+190.56%				
From 1st Jan 90	+624.09%	+152.62%				
From 1st Jan 91	+841.19%	+176.19%				
From 1st Jan 92	+537.63%	+139.34%				
From 1st Jan 93	+318.07%	+109.62%				+119.94%
From 1st Jan 94	+299.04%	+74.55%				+63.29%
From 1st Jan 95	+344.40%	+94.65%				+74.72%
From 1st Jan 96	+194.99%	+61.74%	+166.13%		+26.17%	+57.16%
From 1st Jan 97	+148.83%	+44.88%	+129.63%		+23.23%	+39.77%
From 1st Jan 98	+119.52%	+16.19%	+120.16%	+45.43%	+21.26%	+31.91%
From 1st Jan 99	+69.03%	+1.43%	+44.26%	+0.57%	+50.06%	+47.35%
From 1st Jan 00	-41.92%	-13.90%	-44.43%	-60.89%	-37.76%	-1.50%
From 1st Jan 01	-20.43%	-4.11%	-18.13%	-25.38%	-16.34%	-4.14%
End Apr 01	Move since 1st Jan 98	Move since 1st Jan 99	Move since 1st Jan 00	Move since 1st Jan 01	Move in Apr 01	
System Houses	121.8%	43.5%	-44.1%	-24.8%	4.3%	
IT Staff Agencies	-55.0%	-46.1%	-53.0%	-25.2%	-1.5%	
Resellers	44.7%	53.9%	-25.9%	-2.0%	0.1%	
Software Products	187.2%	145.5%	-41.0%	-57.2%	5.9%	
Holway Internet Index		300.8%	-51.2%	-28.3%	1.6%	
Holway SCS Index	119.5%	69.1%	-41.9%	-24.7%	4.3%	

## IS Solutions

### Viewing the future with "prudent optimism"

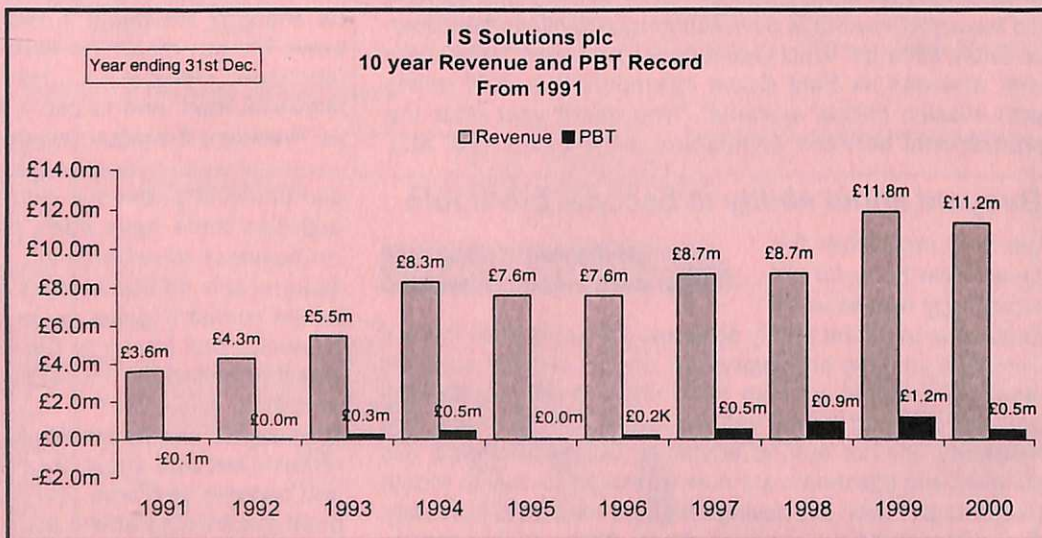
**IS Solutions** - projects and contract technical services - results for the year to 31st Dec. 00 show turnover down 5% to £11.2m (continuing ops actually declined 5%), PBT fell 55% to £547K and EPS was down from 3.42p last year to 1.17p. Commenting on the results, Chairman Barrie Clark said: "Contract wins announced on 14 February 2001 indicate ongoing demand for project and recurring revenue work, and the board believes that this will provide a more balanced revenue stream for the current year".

**Comment:** It is becoming a familiar tale....delays in clinching contracts in the US and at home in H2 meant that IS Solutions produced disappointing results. Admittedly the company is taking a "prudent view" on the amortisation of goodwill arising from the AXL acquisition (solutions

provider for the financial sector, acquired Apr. 00), and will be writing it off over five years (resulting in a charge of £321K in 00). But without the £981K contribution to turnover from AXL in 00, revenue for the group as a whole would have declined 5%. An over reliance on contractors (especially in the web side of the business) impacted on margins (down from 10.2% to 4.1%), but we understand that efforts were made in Q4 to redress the balance between permanent and freelance staff. The board is viewing the future with "prudent optimism".

Overseas operations revenue declined c26% to £2m, but profitability improved to £0.1m, and with it, margin to 5%. But that's still a very slim margin for a "people based" system house, and overall profit margin was just 4.1% - not much better than many IT staff agencies!

IS Solutions moved to the main market in May 00, and did a four-for-one stock split in June 00. The shares ended the month down 12% at 83p.





# Holway/System House SCS Share Prices and Capitalisation

	SCS Cat	Share Price 30-Apr-01	Capitalisation 30-Apr-01	Historic P/E	PSR Ratio Cap/Rev	SCSI Index 30-Apr-01	Share price move since 30-Mar-01	Share price % move in 2001	Capitalisation move since 30-Mar-01	Capitalisation move (€m) in 2001
Actinic	SP	£0.10	£12.3m	Loss	6.11	123	25.00%	-74.03%	£2.46m	-£35.10m
AFA Systems	SP	£1.51	£34.8m	Loss	8.12	1258	16.60%	8.63%	£4.94m	£2.74m
AIT Group	CS	£8.90	£180.6m	64.1	8.33	5933	3.19%	-24.89%	£5.52m	-£59.98m
Alphameric	SP	£2.46	£251.0m	44.2	4.61	1128	30.16%	-10.38%	£58.15m	-£29.05m
Altanet	SP	£1.81	£53.4m	344.7	51.40	655	-14.16%	-44.84%	£8.40m	-£41.70m
Anita Group	CS	£1.41	£390.5m	30.2	2.46	822	-0.35%	-16.62%	£9.28m	-£58.52m
Autonomy	SP	£5.91	£744.1m	73.9	15.14	180	-19.70%	-69.35%	-£182.52m	-£1.683.85m
Avon	SP	£5.50	£282.3m	64.0	6.61	3143	4.76%	-27.39%	£12.80m	-£95.70m
Aslan Group	R	£1.42	£154.6m	17.7	0.38	615	5.99%	-21.61%	£8.99m	-£39.31m
Baltimore Technologies	SP	£0.81	£416.5m	Loss	5.61	8333	-8.96%	-76.45%	-£35.98m	-£1.332.48m
Baron	SP	£0.31	£1.4m	Loss	0.43	310	-27.05%	-69.76%	-£0.51m	-£3.21m
Bond International	SP	£0.72	£10.2m	14.2	1.09	1100	-8.92%	22.22%	-£0.97m	£1.86m
Bright Station	CS	£0.15	£26.4m	Loss	0.46	139	-27.38%	-35.11%	-£9.94m	-£14.34m
Business Systems	CS	£0.49	£39.9m	63.6	1.21	408	-12.61%	-39.38%	-£5.70m	-£25.50m
Cadcentre Group	SP	£5.15	£87.1m	23.7	3.65	2575	15.08%	-6.45%	£12.42m	-£4.78m
Capita Group	CS	£4.95	£3,218.4m	132.0	8.03	133673	3.45%	-1.10%	£107.37m	-£36.63m
Cedar Group	SP	£2.72	£208.5m	46.3	5.74	2586	45.58%	-12.42%	£65.31m	-£29.59m
Charteris	CS	£1.47	£50.9m	5.7	7.58	1628	-4.56%	15.81%	-£2.50m	£6.90m
Clinical Computing	SP	£0.27	£6.8m	Loss	3.00	218	-1.82%	1.89%	-£0.12m	£0.13m
CMG	CS	£3.67	£2,249.5m	25.3	2.78	10124	-38.78%	-58.99%	-£1,425.54m	-£3,237.54m
Comino	CS	£4.38	£60.4m	24.0	2.95	3365	6.71%	-14.63%	£3.80m	-£9.30m
Compass Software	SP	£1.70	£19.0m	56.8	7.97	1133	0.00%	-8.11%	£0.00m	-£0.80m
Compel Group	R	£0.78	£24.1m	91.2	0.08	620	-20.51%	-4.91%	-£6.23m	£1.23m
Computacenter	R	£4.58	£836.3m	20.5	0.42	1433	32.61%	36.57%	£205.57m	£223.87m
DACS Group	CS	£0.86	£20.8m	Loss	0.15	683	-43.33%	-9.47%	£5.31m	£22.19m
Delcam	SP	£2.00	£11.3m	10.2	7.43	743	-2.43%	-4.76%	£0.00m	-£0.50m
Diagonal	CS	£2.85	£248.2m	43.5	3.00	4144	-8.06%	44.30%	-£21.82m	£82.05m
DRS Data & Research	SP	£0.14	£4.3m	12.4	0.60	130	3.64%	11.76%	£0.16m	£0.51m
Easycraen	SP	£0.18	£7.7m	Loss	7.33	103	-20.45%	-70.59%	-£1.98m	-£18.56m
ECSoft	CS	£6.33	£74.0m	Loss	1.14	350	-8.00%	3.69%	-£6.45m	£2.55m
Eidos	SP	£2.92	£300.1m	12.8	1.48	14594	41.06%	35.81%	£87.33m	£79.13m
Electronic Data Proc	SP	£0.58	£15.0m	35.8	1.80	1761	16.16%	-16.67%	£2.04m	-£3.06m
Epic	A	£3.14	£76.5m	67.0	17.39	2986	-3.09%	-9.52%	-£2.40m	-£8.00m
Eurolink	CS	£0.54	£5.6m	24.7	0.74	540	1.89%	-23.94%	£0.11m	-£1.76m
Financial Objects	SP	£1.32	£50.0m	Loss	2.72	572	16.89%	29.56%	£7.18m	£11.38m
Flometrics Group	SP	£1.75	£25.4m	26.5	2.16	1346	29.63%	29.63%	£0.50m	£5.80m
Focus	CS	£0.80	£20.1m	Loss	27.88	410	-15.79%	-60.59%	-£3.70m	-£30.90m
Gresham Computing	SP	£0.24	£11.1m	Loss	0.48	261	24.36%	-2.02%	£2.17m	-£0.20m
Guardian IT	CS	£8.38	£584.6m	60.6	6.77	3284	39.58%	-12.30%	£165.80m	-£82.00m
Harvey Nash Group	A	£3.40	£393.3m	13.8	0.44	1943	-29.90%	-60.81%	-£42.30m	-£154.00m
Highams Systems Servs	A	£0.15	£2.8m	Loss	0.11	403	0.00%	-35.56%	£0.00m	-£1.57m
IS Solutions	CS	£0.83	£20.6m	70.9	1.83	3074	-12.23%	-56.58%	-£2.90m	-£26.90m
ICM Computer	CS	£3.05	£60.4m	20.4	1.92	1694	34.07%	40.23%	£16.28m	£18.18m
IDS Group	SP	£1.03	£57.9m	Loss	4.63	1139	9.63%	-40.06%	£5.14m	-£38.65m
Innovation Group	SP	£8.95	£1,153.0m	372.9	120.56	3908	0.00%	11.88%	£0.00m	£122.00m
Intelligent Environments	SP	£0.45	£19.1m	Loss	2.16	479	-6.25%	8.43%	-£1.34m	£1.46m
SOFT Group	CS	£2.34	£262.3m	241.2	14.76	2127	12.77%	14.15%	£29.70m	£32.50m
ITNET	SP	£1.93	£135.7m	78.4	0.99	551	-16.63%	46.77%	-£27.02m	£43.28m
Jasmin	SP	£1.37	£6.4m	Loss	1.53	910	0.00%	7.06%	£0.00m	£0.43m
Kalamazoo Computer	CS	£0.11	£4.5m	Loss	0.07	300	-18.00%	-36.38%	-£0.86m	£2.58m
Kewill Systems	SP	£1.41	£107.1m	28.3	1.42	2777	5.64%	-66.03%	£5.79m	-£186.71m
Keystone	SP	£0.23	£26.6m	Loss	5.54	258	14.81%	-33.03%	£3.39m	£11.89m
Knowledge Management	SP	£0.28	£29.3m	Loss	14.04	215	9.80%	-65.33%	£2.65m	-£55.35m
Knowledge Support	SP	£0.79	£57.9m	Loss	26.39	357	0.00%	-78.73%	£0.00m	-£214.40m
Logica	CS	£10.00	£4,419.3m	48.6	5.22	13695	1.01%	-42.86%	£44.32m	-£3,315.68m
London Bridge Software	SP	£1.78	£301.2m	40.5	5.31	4438	-19.32%	-46.21%	-£72.13m	-£258.83m
Lorien	A	£0.69	£13.5m	Loss	0.12	690	-6.12%	-9.80%	-£0.90m	-£0.90m
Lynx Holdings	SP	£0.82	£139.0m	18.6	0.56	2038	-3.55%	-7.91%	-£5.15m	£0.85m
Macro 4	SP	£5.38	£111.8m	23.4	5.09	2167	-15.35%	-40.28%	-£20.32m	-£75.42m
Manpower Software	SP	£0.25	£5.9m	Loss	3.64	253	-2.00%	-7.55%	-£0.12m	£2.24m
MERANT	CS	£0.71	£95.2m	Loss	0.42	341	4.44%	-25.79%	£4.08m	-£46.63m
Microgen Holdings	SP	£2.40	£122.1m	Loss	4.82	1026	0.00%	-21.95%	-£0.06m	-£34.36m
Misys	SP	£6.37	£3,668.6m	43.0	5.18	7925	26.39%	-3.48%	£765.57m	-£182.43m
MMT Computing	CS	£2.90	£33.1m	9.4	0.93	1726	-17.14%	-45.02%	-£7.30m	-£28.70m
Mondas	SP	£0.37	£7.4m	Loss	5.45	493	146.67%	-7.50%	£4.40m	£0.60m
Morse	R	£3.28	£413.7m	15.2	0.82	1310	-16.08%	-13.25%	-£78.93m	-£63.13m
MSB International	A	£0.88	£17.8m	31.6	0.11	461	-11.33%	-23.91%	-£0.30m	-£5.70m
NetBenefit	CS	£0.31	£4.9m	Loss	0.65	153	3.39%	-76.08%	£0.16m	-£15.52m
Netstore	CS	£0.32	£27.8m	Loss	24.13	210	-19.23%	-61.35%	-£6.70m	-£44.20m
Nettec	CS	£0.27	£31.8m	Loss	1.84	113	-5.26%	-8.47%	£0.20m	£0.10m
Northgate Information Solutions	CS	£0.59	£167.5m	Loss	1.01	228	13.94%	-13.82%	£20.48m	-£24.92m
NSB Retail Systems	CS	£0.71	£223.2m	28.6	5.45	6130	25.89%	-57.91%	£45.93m	-£170.27m
Orbital Software	SP	£0.56	£24.9m	Loss	130.78	383	20.65%	-45.05%	£4.20m	-£20.40m
Orchestream	SP	£1.35	£174.3m	Loss	63.47	730	2.66%	-50.91%	£13.68m	-£161.52m
Ority	A	£1.08	£164.3m	17.3	0.61	1917	-4.87%	-8.12%	-£8.43m	-£14.63m
Patsystems	SP	£0.69	£87.1m	Loss	34.51	640	7.03%	-33.50%	£5.80m	-£43.80m
Plant	CS	£0.70	£10.1m	26.6	4.52	3063	20.49%	-29.33%	£10.23m	-£24.97m
PSD	A	£6.23	£156.2m	10.8	1.76	2830	-5.32%	-34.82%	£8.80m	-£50.50m
QSP	CS	£0.23	£20.2m	Loss	0.49	296	11.11%	-25.62%	£2.02m	-£6.98m
Quantic	A	£0.69	£27.1m	9.6	1.14	556	22.12%	25.45%	£4.83m	£5.49m
Raft International	SP	£0.38	£24.6m	200.0	2.68	595	-5.06%	-40.48%	£4.70m	-£17.40m
Rage Software	SP	£0.07	£2.3m	Loss	0.55	269	21.74%	-34.88%	-£16.78m	-£31.98m
RDL	A	£1.10	£14.7m	16.0	0.90	1222	-5.17%	-37.14%	-£3.15m	-£12.15m
Recognition Systems	SP	£0.37	£33.1m	Loss	3.85	521	-69.96%	-86.89%	-£77.25m	-£220.05m
Retail Decisions	SP	£0.50	£69.4m	Loss	3.93	669	-18.85%	-59.92%	-£16.20m	-£99.80m
RexOnline	A	£0.69	£4.6m	Loss	6.19	821	-0.72%	-28.50%	-£0.04m	-£1.82m
RM Group	SP	£4.68	£438.7m	53.5	2.11	13357	10.00%	-17.98%	£39.89m	-£93.71m
Rolle & Nolan	SP	£1.85	£26.1m	12.2	1.14	2202	12.80%	-52.69%	£2.95m	-£29.05m
Royalblue Group	SP	£9.13	£274.8m	58.5	4.79	5368	-3.95%	-13.10%	£11.22m	-£41.32m
Sage Group	SP	£2.96	£3,746.7m	50.2	9.09	11375	-3.50%	-50.70%	£67.70m	-£139.30m
SBS Group	A	£0.45	£4.0m	34.3	0.09	445	-11.00%	-55.50%	£0.50m	£5.05m
Science Systems	SP	£5.35	£134.8m	83.1	41.47	417	-0.93%	8.08%	£1.26m	£10.14m
SDL	CS	£1.83	£75.3m	97.9	2.55	1220	-26.80%	-50.74%	-£27.71m	-£71.21m
Sema	CS	£5.60	£3,433.9m	50.7	2.27	7038	0.63%	89.82%	£1,624.93m	£1,624.93m
ServicePower	SP	£0.34	£17.1m	Loss	5.20	335	-24.72%	-51.80%	-£5.58m	-£18.38m
Sherwood International	CS	£3.52	£151.8m	20.3	2.80	11727	8.31%	11.04%	£13.23m	£16.63m
Sirius (was Policymaster)	SP	£2.10	£33.6m	47.7	1.96	1400	-4.55%	-36.36%	-£1.60m	-£18.20m
Skillsgroup	CS	£1.47	£129.3m	Loss	0.92	657	19.11%	6.55%	£20.74m	£7.94m
Sophon	SP	£0.78	£30.8m	Loss	3.97	1115	-22.50%	-51.56%	-£8.90m	-£32.70m
Spring	SP	£0.51	£75.9m	Loss	0.19	561	-12.17%	-42.94%	-£10.50m	-£57.00m
StatPro	SP	£15.13	£212.9m	128.8	5.62	6722	12.87%	8.04%	£24.30m	£15.90m
StatPro	SP	£0.68	£19.8m	Loss	6.24	844	12.50%	-2.88%	£2.20m	-£0.60m
Superscope VR	SP	£0.72	£26.0m	Loss	12.07	361	21.19%	-71.29%	£4.43m	-£64.61m
SurfControl (was JSB)	SP	£6.60	£159.0m	Loss	22.85	3300	47.49%	-43.23%	£64.07m	-£146.93m
Synigence	CS	£0.38	£16.0m	Loss	8.07	721	-1.32%	-27.88%	-£0.19m	-£6.09m
Syndar	CS	£0.35	£56.9m	11.1	0.24	212	0.00%	-26.32%	£0.01m	-£20.29m
Systems Integrated	SP	£0.54	£7.2m	29.1	4.71	470	38.46%	74.19%	£2.01m	£3.09m
Systems International	CS	£0.30	£9.6m	69.5	0.53	513	31.11%	-21.33%	£1.85m	-£3.25m
Systems Union (was Freecom)	CS	£0.78	£80.0m	Loss	133.53	596	20.16%	10.71%	£13.48m	£7.78m
Telework	SP	£1.37	£246.3m	78.8	14.19	0	-0.73%	-27.97%	-£1.85m	-£95.65m
Telme.com	CS	£0.24	£18.7m	Loss	7.34	152	38.24%	-25.40%	£5.20m	-£6.40m
Terence Chapman	CS	£1.02	£68.3m	21.3	2.25	752	9.14%	-36.56%	£5.84m	-£39.66m
Torex Group	CS	£7.68	£332.8m	48.6	3.76	14903	3.72			



## Mergers & Acquisitions

Buyer	Seller	Seller Description	Acquiring	Price	Comment
Anite Group	ICL's gov. applications business	Software and services for local authorities	100%	£13m	Anite is taking on c110 people from ICL. The operation will be merged with Anite's existing public sector business.
Anite Group	Delta Partners SA	Developer of telecoms software and consultancy	100%	£2.15m	Initial consideration of £1.8m and max. earn-out of £350K (both in shares) for the French company.
Anite Group	Business Computer Technology	Public sector apps	100%	£1.35m	Glasgow-based BCT develops and maintains software for the public sector. It will be merged with Anite's existing public sector division.
CSC	Softlab's UK Automotive software & services business	Software & services for the automotive industry	100%	n/a	CSC will provide services for BMW, Ford and MG Rover.
Dimension Data	Matrix Networking Group	US-based network services company	100%	£11.1m	Matrix had revenues of £17.3m in year to Feb.01. Didata paid £5.3m upfront, rest deferred over 18mths.
EDS	Systematics AG	German IT Services Firm	100%	Euro635m	Systematic's revenue to 31st Dec. 00 was Euro365m i.e. PSR = 1. UK revenue was cEuro28m. Systematic has c250 staff in the UK.
FI Group	Synergy International Consulting	US consulting company	remaining 80%	£27.7m	FI picked up 20% of Synergy when it acquired Druid, and an option to purchase the remaining shares.
IBM	Informix Software from Informix Corp.	Database	100%	\$1bn	IBM will integrate Informix's database business ops and personnel into its Software data management division. Informix Corp will focus on its other independent business, Ascential Software and will be renamed Ascential Software.
Knowledge Management Software	Raging Knowledge	Web-based software developer	100%	£2m	US-based Raging Knowledge provides collaboration software, to be integrated with KMS's search products. The deal was funded with 9m shares at 24p per share.
Morse	Delphis Holdings Ltd	IT services	100%	£40m	Delphis provides professional services from helpdesk to project management, and employs 265 staff. Morse paid £15m upfront and a further £25m is dependent upon performance.
Oxygen Holdings	Tera Group OY	Finnish incubator	remaining 82.7%	£5m	Tera invest in early stage technology companies in the Nordic region.
Wilco International Ltd	TCA Synergo	Software for brokers and fund managers	100%	£15.5m	Wilco paid cash for Terence Chapman Group's Synergo business.

## Trading Updates

**MMT:** Full year results to 31st Aug 01 are expected to fall below expectations after "uneven trading conditions" in its business and IT solutions division, and losses in its energy software and services subsidiary. Turnover has declined in its contracting operation Summers. Talks are continuing to dispose of the energy division.

**Recognition Systems:** Revenue for the year to 30th Sep. 01 is expected to be "significantly below market expectations and the loss commensurately higher". This is due to the slowdown in the US market. Progress in the UK and Far East is not expected to offset the shortfall of sales in the US.

**Mondas:** It is "encouraged by current trading". In the securities and investments sector, its software solutions operation for corporate actions and reconciliations "has met with significant success". Also DSR (acquired Oct. 00) is "progressing well" with new client wins, particularly in the education sector. Consequently, the operating loss for year to 30th Apr. 01 is expected to be "significantly smaller" than previously anticipated.

**Kewill:** Operating profit for FY01 (to 31st Mar.) is expected to be in line with market expectations, although revenue will be "marginally below the consensus". It also reported that Geoffrey Finlay is stepping down as CE, to be replaced by Robert Malley (currently President of Kewill's US e-commerce division).

**Autonomy:** Shares slumped - that is the right word this time - by 42.9% to 325p, as Autonomy issued a major warning this month. Goldman Sachs cut its earnings forecast in half for 2001. The really bad news from the warning was that it was a slowdown in Europe rather than in the US that was blamed. Orders expected in the dying days of Q1 did not materialise. And when Q1 results were announced at the end of the month, they revealed revenue of \$14.7m compared to analyst expectations of "\$20-24m". The shares recovered slightly following the initial warning but only to 591p - this still wiped another £183m from the market value this month. Indeed Autonomy is now worth just £744m compared to over £5bn at its peak.

**Comment:** We are in a bit of a quandary re: Autonomy. The UK

needs companies like Autonomy and people like Mike Lynch (for whom we have great respect). But how anyone ever believed Autonomy was "worth" £5b+ is beyond us. Even at £744m, Autonomy is still trading at over 16 x 2000 revenues. But we should not overlook the wider implications for all of us. Lynch believes that what he has witnessed might well be signs of a "global recession". "Large multinationals across all regions have taken radical steps very quickly".

**Bright Station** is burning cash and is down to its last £4m. The Board has agreed (but is so far not legally contracted) to a convertible bond facility with CSFB, but this is dependent of Bright Station's market value staying above £30m.

**Total Systems:** "Due to queries received from shareholders, the board wishes to advise the market that Total Systems plc will meet or exceed current market expectations for the year ending 31st March 01 and that orders previously anticipated have been received".

**Comment:** "Glass half full?" Well Total shares are up 12% at 69p this month, which values them at £7.1m. Pretty good considering that Total had revenue of just £1.96m and a loss of £579K in the year to 31st Mar 00.

**"Glass half empty?"** Total was an IPO on the USM (remember it?) in Mar 88 at 85p (Wow, even the Abbey National BS beats this) but in 1988 Total had a PBT of £835K.

So what exactly went wrong in the last 13 years and why are shareholders hanging on in there rather than selling out to some other party who might inject some life into this moribund body?

**Cedar Group:** Group revenue for the year to 31st Mar 01 is expected to be £110m, over three-times the £36.3m reported in 2000. PBT is expected to be in the range of £11.5m to £13m compared to £5.8m in 2000. This indicates a much better H2 for the company as interim results for the period ending Sep. 00 revealed losses of £852K and revenue of just £23m. H2 has been helped along by the integration of ESG, acquired in Oct. 00. ESG is expected to show revenues of £38m with European Q4 revenues "the highest ever". The message from Cedar Group is similar to that from IBM Global Services - it comments



## Recent IPOs

Name	Activity	SCS or Dotcom Index	Index Class	Market	Issue Price	Market Cap.	IPO Date	Price end Apr. 01	Premium/Discount
Marlborough Stirling	Financial Software Company	SCS	SP	MAIN	140p	£329.0m	09-Apr-01	189p	35%
OMG	Software	SCS	SP	AIM	75p	£37.0m	10-Apr-01	84p	12%
ebookers.com	Online travel company	Dotcom	B2C	MAIN	n/a	£46.0m	23-Apr-01	157p	n/a

## 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
Akaei	Computer games developer	SCS	SP	AIM		£12.5m	May-01
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
Embedded Solutions	Software	SCS	SP	TBA	tbc	tbc	H1 2001
MoneyGuru	Online financial services	Dotcom	C&M	AIM	tbc	£10.0m	09-May-01
Netalogue Technologies	Procurement Software	SCS	SP	TBA	2p	£0.8m	Mar-01
Kinetic Information Systems	Financial Software	SCS	SP	MAIN	tbc	tbc	H2 2001
PC Medics	IT Support Services	SCS	SS	AIM	2p	£2.2m	08-May-01
Timberweb	Online Marketplace Provider	Dotcom	B2B	AIM	tbc	£25.0m	early 2001

### Trading Updates Continued...

"In the UK, growth in traditional markets has been good"...but as with everyone else at the moment, it is approaching the year ahead with uncertainty and caution.

**Baltimore Technologies:** expects Q1 revenues to be £23.7m, up from the £9.5m recorded in the same period last year but below the £25m it predicted in a trading statement in March. Unexpected contract deferrals, which it believes will be completed in Q2, are blamed.

**Diagonal:** Trading in Q1 "was consistent with expectations" with a strong order book.

**Kalamazoo:** Market conditions in the second half have continued to be difficult. "Whilst the Group has continued to incur operating losses in the second half, these have been at a greatly reduced level to the first half. However, the loss for the year will exceed market expectations at the pre exceptional, pre tax level".

**Misys:** The outlook to May, its year end, remains in line with expectations. The upbeat statement said that the company "is confident of a progressive return to its long-term growth rate during this year".

**CMG:** CMG issued a significant profits warning causing its shares to drop 19% to 360p on the day of the announcement. The anticipated increase in demand in for its Wireless Data Solutions is not being realised so it expects turnover for the division in H12001 to be lower than in H12000. The division, which last year generated 1/3 of Group profits, will report a loss of £10m for the full year – that's compared to a profit of £42.3m in 2000. Cor Stutterheim, Chairman, claims to remain confident that telecoms network operators would start spending on text messaging software upgrades when they "have resolved their own funding issues" i.e. it is a case of "if" and not "when".

The company tried to reassure the market by saying that business derived from ICT consultancy services continues to trade in line with expectations set out at the time of the 2000 results. It states, "the improvement experienced in the latter stages of last year has continued including a strong increase in demand for ERP". The statement then goes on to emphasise that CMG has no direct and little indirect exposure to the US market and expects double digit organic revenue to continue in its key ICT services business.

**Hewlett Packard:** is to slash 3000 management jobs following a warning that earnings for the quarter ended 30th Apr. 01 would be "less than half Wall Street expectations".

**Microgen:** "following the completion of the restructuring last year, the Group has returned to operating profitability and continues to produce a positive operating cash flow. In the first quarter of 2001, all businesses produced positive profit contribution before Group overhead and goodwill amortisation".

**NSB:** The new business pipeline is continuing to grow "satisfactorily" in both the US and the UK, with UK trading in the current year also satisfactory. Concerns about a slowdown in the US economy have not yet impacted the business to date. New contract wins were announced with a number of retailers including PC City (a continental European division of Dixons). The integration of Canadian STS is proceeding well, and a reduction in headcount of 87 is expected to result in annual cost savings of £1.9m.

At Capita's AGM this month the company said that "The Board is delighted by current trading and at the end of the first quarter the Group is significantly ahead of the corresponding period in 2000. We are also encouraged by the level of major sales wins and the growth being achieved across the business". But then that's what we have come to expect from the company.

## Microsoft Better than its rivals in Q3...

**Microsoft** has announced revenue of \$6.46bn for its Q3 ended 31<sup>st</sup> Mar. 01, a 14% increase over the same quarter last year. Net income and diluted earnings per share were \$2.45bn (up just 3%) and \$0.44 (from \$0.43).

Although growth was across the board, desktop software, which accounts for c70% of sales, grew by just 10.8%, due to the slow down in the PC market. The enterprise software fared much better, particularly Windows 2000 Professional and the accelerating demand for the .NET Enterprise Server products. European revenue was actually down 3% compared with last year, attributed to the weak euro – at constant exchange rates it would have been 7% growth, 3% better than last year.

**Comment** - It was this time last year that Microsoft first encountered problems, when revenue growth slumped to just 1% in Q4 2000 compared with Q4 1999. For the first two quarters

of this financial year the company reported revenue growth of c8%, so 14% in Q3 is a distinct improvement for this bell-wether of the industry (and better than its rivals). Microsoft said that the results were at the high end of expectations (which were lowered at the end of last year), but they still show a significant decrease in the revenue growth reported this time last year of 23%.

The company is forecasting c\$25.25b revenue for the full year to June 30<sup>th</sup> up just 10% on FY2000.

In a conference call accompanying the announcement Microsoft said that it believes the PC market has stabilised, with c7-8% growth worldwide, but that the company's 'success' in the last quarter was much to do with less exposure to dot.coms and the telecoms sector than some rivals as well as a broader server product line than this time last year. Certainly the company's Q4 results will be interesting – anything more than 10% growth over Q4 2000 will be an achievement.





## IBM Global Services - a superb Q1!

IBM Global Services reported excellent Q101 results, whereas the rest of IBM did not do quite so well. Overall, IBM's revenues totalled \$21.0bn, up 9% on Q1 2000 (up 14% at constant currency), with EMEA revenues up 3% (11% at constant currency) to \$5.6bn. But IBM Global Services revenues, including maintenance, grew 12% (18% in constant currency) to \$8.5bn. Excluding maintenance (which grew at just 2%), the revenues increased by 15% (21%). Global Services accounted for 40% of IBM's Q1 revenue, neck-and-neck with hardware. Revenues from e-Business services - into which IBM has put a lot of investment in the last year or so with its Innovations Centres and other initiatives - increased more than 40%.

The only down side to the Global Services results was that the gross profit margin dipped slightly (from 25.9% to 25.5%) whereas it increased for the rest of the business (to 36.1% overall). But the organisation signed a Q1 record of \$10.2bn of service contracts giving them a total services backlog of c\$87bn.

**Comment** - The Global Services operation saw good growth across the board; 16% in outsourcing (which constituted c40% of business), 26% in business innovation services (consulting and systems integration) and 29% in Integrated Technology Services (support services). We can only agree with Louis Gerstner, IBM's Chairman and CEO, comment that "times like these play to our strengths as a diversified, services-led company". We have heard a similar story from other services companies recently - EDS and Capita to name but two. On the other hand, contrast with CMG where the 'exciting' Wireless Data Solutions business let them down.

We particularly liked the second part of Gerstner's comment "Moreover, many in our industry have gotten a bit carried away over the last few years by the exaggerated expectations for the Internet world" - now there's an understatement!

It's worth noting that, by way of contrast, IBM's software revenues were flat at \$2.9bn (up 5% in constant currency). Operating software grew just 2% and middleware 6%.

## New Ovum Holway Products launched this month

**Hotnews** - Post 1st May [www.holway.com/hotnews](http://www.holway.com/hotnews) (and [techmarkresearch.com/newsdesk](http://techmarkresearch.com/newsdesk)) are now a customer only based service. Assuming (as you are reading *System House*!) that you are already a subscriber, you should have received a User Name and Password for Hotnews (If not please contact Priya Scarfiello on 0207 551 9242). If you have just borrowed this copy (or worse...), you can subscribe NOW by using the order form below.

**2001 Holway Report** - The Ovum Holway team is in the final stages of producing the massive 14th edition of the tome. Except this year, the "tome" will be available as a continuous service on the web. This really makes much more sense as the all important company profiles, data sheets, ranking tables etc. will now be continuously updated throughout the year.

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- **System House** each month - supplied in both paper and on the web.

- Access to **Hotnews**

- **Ticket to the CSSA Dinner** on 12th July (worth £240) (subject to availability). Most CEOs (like Geoff Unwin/CGEY, Martin Read/Logica, Hilary Cropper/Fl) already booked and places already in short supply (honest).

This package is available for just £6000 +VAT (single user) and represents a considerable saving on the cost of this "package" last year.

**Note.** The service runs for one year from 1st June...so you get even better value if you subscribe before then. Also note that existing customers will get the equivalent refund for the unexpired part of the *System House* subscription. There are many options available - from buying the Industry Report on its own for just £2500 all the way through to the company-wide licences and advisory services (poa).

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