

System House

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

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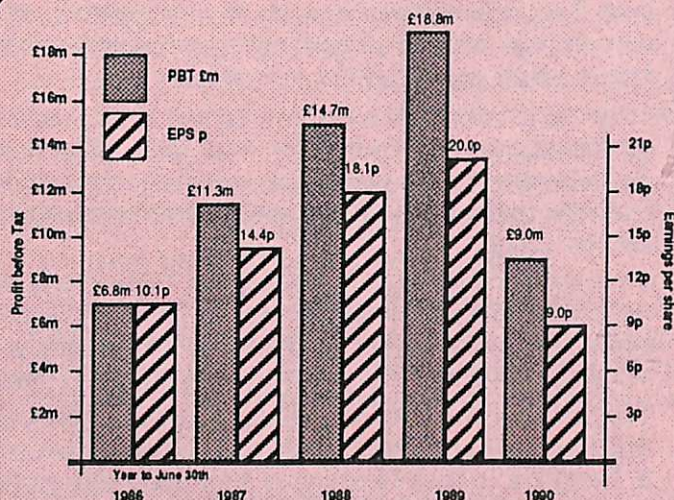
Logica - Still one of the best

Talking to Logica's Managing Director, David Mann, this month was a breath of fresh air. It is sometimes easy for old financial commentators to forget that companies are more than just market capitalisation and EPS growth. David Mann comes over as a quiet person immensely proud of the technical achievements of his company and the people who are its real assets.

That's not to say that Mann isn't concerned with the financial performance of his group. The year to June 1990 saw profits halve and Logica's capitalisation has slumped from £210m to £110m in the last year.

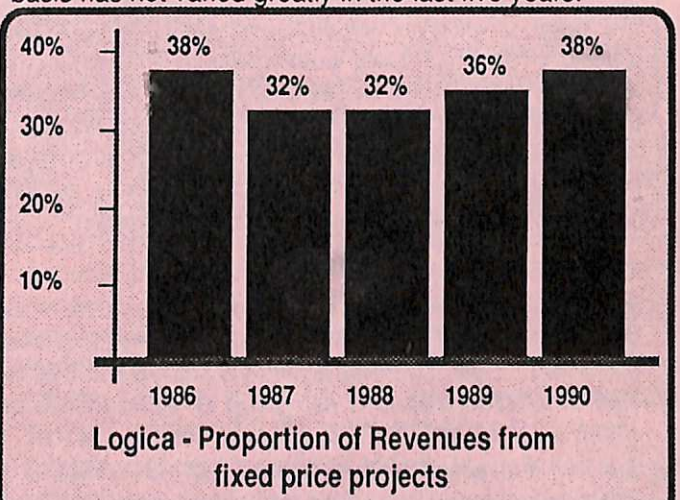
have produced respectable results in the current climate. Mann said he was horrified when one analyst asked him if he had considered selling Data Architects - as SD-Scicon has done with its US subsidiary. Data Architects is now so much a part of the Logica ethos and strategy that any thoughts of disposal seem not to have arisen.

It is the current controversy over fixed price systems integration projects which causes Mann the most concern. As he rightly says, fixed price projects have been a way of life at Logica for as long as he can remember. Indeed, the proportion of contracts undertaken on this basis has not varied greatly in the last five years.

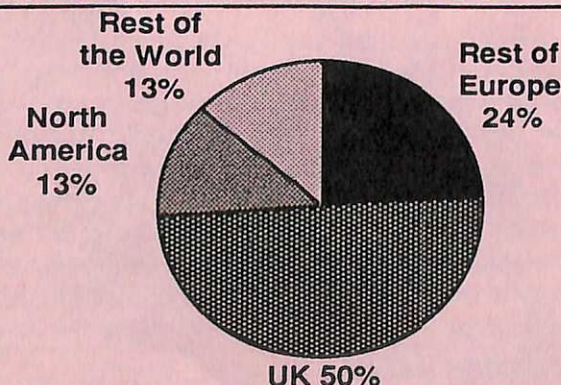


Logica - Five Year PBT and EPS Record

Logica is one of the very few UK CSI companies which makes 50% of its revenue from outside the UK.



Logica - Proportion of Revenues from fixed price projects



In some respects, the US has been main reason for the downturn in profits in the last year. Data Architects, purchased for £26m in March 1988, moved from a £4m profit to a £2m loss this year. Without that hit, Logica would

Mann says that fixed price projects can be very profitable but inevitably things go wrong sometimes. He considers that Logica is one of the few international operators that can successfully undertake large SI projects and believes that this is an undervalued strength which will be to the advantage of shareholders in the years to come. "It has become clear via the Parliamentary Defence Committee that there has been some overrun on a complex system related to the Trident programme, but how many other companies could have undertaken this?"

Mann believes that "analysts are understandably cautious about the rate of recovery in the current trading climate". Estimates are between £12-15m PBT for the current year.

After the meeting it struck us that Hoskyns and Logica have many similarities in the pride in their achievements, ethos and high regard for their people. Business activities, however, are complementary. The logic of a Logica/Hoskyns merger was but a fleeting dream.

NMW continues profits recovery

NMW continued its recovery with PBT up 338% at £210K on revenues down 5% at £4.42m for the six months to June 90. EPS increased from 0.1p to 0.6p. After Black Monday in 1987, NMW crashed from a 1987 PBT of £1.7m to a loss of £1.3m in 1988.

NMW is still heavily dependent on Stock Exchange volumes and the Chairman warned that *"Unless levels of activity improve, NMW's task of maintaining profits will be made considerably more difficult"*.

But there are positive indicators for the company. NMW have acquired the rights to the TOPS traded options processing system from the receivers against considerable competitive bids. *"The new derivatives market is expected to become a major growth area over the next year"*. Andrew Murray has joined the board to head up stockbroking sales.

NMW also announced that their diversification into the FM area was starting to bear fruit. The most recent deal is with ACTive Computer Services (see Oct 90 *System House*) which processes payroll systems for many of the clearing banks. The deal is worth £2m.

NMW had a net asset value of £5.8m, backed by property and prudently depreciated hardware, as at 30th June 1990, but their market capitalisation is currently just £4.7m. We know of no other quoted computing services company in such a position. Debtor days at NMW would be the envy of every computing services company and indeed borrowings have been reduced by over a £1m since the end of 1989 to just £250K. It is only a matter of time before NMW becomes a takeover target although its medium term prospects as an independent company are improving by the day. **Note:** Richard Holway, the editor of *System House*, is a non-executive director of NMW.

Another mad story of TPM folk

In November 1989, MBS (now Touchstone - see opposite) and Ferrari announced they were discussing a possible merger. This was soon abandoned and Ferrari's Bob Woodland said *"I'm not going to teach (MBS) any tricks ... they lost £18m in the last 18 months not me"*. FT Nov 1989. **Ferrari shares at 90p on 24th Nov 1989.**

"The Chairman is confident that 1990 will prove a very rewarding year for shareholders". Ferrari press release April 1990. **Ferrari shares at 90p on 23rd March 1990**

"It is likely that Ferrari will approx. break even in the first six months". Ferrari press release July 1990. **Ferrari shares at 35p on 27th July 1990.**

"Ferrari today shocked shareholders by revealing that they do not at present have sufficient distributable reserves to pay the interim dividend on the preference shares". Cityservice on-line information service. **Ferrari shares at 14p on 10th October 1990.** FD, R Lewis, resigns.

Anyone who tells you that rampant acquisition activity in the TPM world is good for shareholders deserves a visit from the men in little white coats.

Just to add to the problems.... Ferrari took a 29.8% stake in Telecomputing back in Nov 89 paying 87p per share. We have reported gathering problems at Telecomputing. Now they face a fresh challenge for business from OSS, backed by ex-Telecomputing managers. Telecomputing shares are now at 20p.

Yesterday MBS, today Touchstone, tomorrow....?

"Touchstone almost back in profit", as headlined by the FT on 8th Oct 90, is misleadingly optimistic. MBS's full year accounts for 1989 showed an operating profit of £1.2m on continuing activities but the interim results for the six months to June 1990 show an operating loss of £562K. The group was saved by net interest payable switching from £1.27m in the first 6 months of 1989 to interest receivable of £500K this time. Interim results therefore show a loss of £66K (£7.1m last time) on revenues of £9.8m (£64.4m last time).

Of course, Touchstone has changed radically from its previous days as MBS. The product sales activities were sold in an MBO to Technology plc and Microtex was sold to Logitek. Since then VISIsystems and Exchange Telegraph have been purchased. Touchstone is now predominately a third party maintenance operation but without a product sales wing. Any reader of *System House* will know of our deep scepticism of the TPM market - basically we think it is untenable without the total systems support which comes from organisations well versed in all aspects of networking, application software and systems integration. Indeed, Touchstone says *"The general downturn in the British economy has impacted badly on the IT sector. In the maintenance sector we compete with a number of companies which, in the interests of their own cash flow, have reduced margins to win contracts. As a consequence of these difficult trading conditions...further losses will be incurred in the second half"*.

Touchstone does, however, have £8m in cash against a current capitalisation of £16.9m. That must make them increasingly vulnerable to a takeover which might put an end to the misery that shareholders have suffered over the last few years.

On the other hand, sources indicate that Technology plc made over £5m PBT in its first year - a pretty impressive performance. We, therefore, remain convinced that you cannot run a viable TPM operation without product sales.

Touchstone's problems were compounded with news that Touchstone Computers has hired solicitors Simmonds & Simmonds to stop Touchstone from using their name. We can understand why they would not relish any confusion. A second name change in a year could well be the straw that breaks the camel's back.

Seeing through the Trace ing paper

On 28th August 1990 Trace's Chairman, Bob Carefull, said his *"group is in a stronger position after last year's work and we are now confident about our future"*. We were rather less confident about Trace's ability *"to turn recent acquisitions into real profits growth"*. (*System House* Oct 90) It seems Mr Carefull has come around to our view as he told the AGM that *"trading for the current year to date was below budget and that PBT for the six months to 30/11/90 is likely to be below those achieved in the corresponding period last year"*. Trace shares fell 11% on the news.

Torus hits Acorn

Acorn held 25% of network company, Torus, which went into receivership in August 90. Acorn had to write off this £284K investment in their interim results to June 90 which assisted a reduction in PBT from £2.1m to just £42K.

Pi continues meteoric growth

Bryan Mills is an old-stager in our business. He was the founder of CMG back in 1965, was the first President of the CSA and is now the Chairman of **PI Holdings**. John Croucher is an old sailor who was the leader of Hoskyns DEC activities back in the 1970s. In 1985, Croucher left Hoskyns, taking many of his team with him, to form **Calidus**.

In the last week of September, Pi Holdings announced that it was to acquire Calidus. Croucher said of Mills *"We like what he's doing, we like his style...it's like going back to the Hoskyns we liked in the early days... The marketplaces we are going for are really taking off and this deal enables us to address them in a way we couldn't do on our own"*.

Calidus will not reveal the price paid but it looks as if it's mainly a share deal for the executives. Calidus made PBT of £619K on revenues of £6m in the year to June 1989. Revenues this year increased to c£8m before they acquired the Miracle product from the Headland receivers in August 1990 for *"around £225K"*. Calidus is a DEC systems house specialising in the provision of distribution systems based around the DMS product from Cullinet. Calidus makes the majority of its revenues outside the UK - from the US and Europe.

Bryan Mill's Pi Holdings was formed in 1988 and has had a meteoric record since. Revenues have risen from £1.4m in 88 to £7m in 89 and a likely £17m in 90. The end 90 run rate will be c£25m. A minimal £55K PBT was reported in 1989. *"We have a group, it is growing, it's not very profitable, certainly not adequately profitable as yet, and therefore it has not yet begun to reward the shareholders for their risks"* says Mills. Source - CW 30th August 1990.

Pi Holdings has undertaken many acquisitions since its formation. The first was **Timegate** in 1988.

Since Jan 89, the acquisitions have included:

	Consideration	Stake
Orion Networks	£2200K	100%
On-Line	£5000K	100%
SIA (incl. Langton)	£650K	100%
Information Management	£163K	100%
Computer Special Systems	£130K	100%
Uniface	£40K	40%
Griffin International	£700K	13%

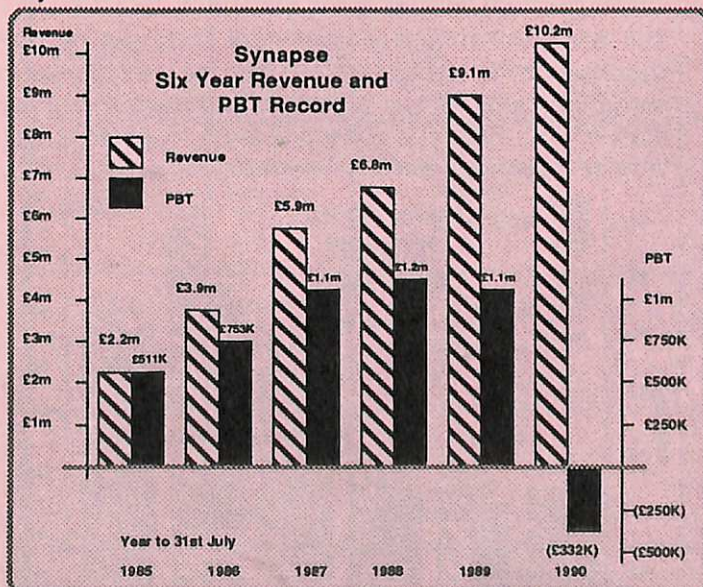
Considerations have been a mix of shares, loan stock and cash. Excluding Calidus, nearly £9m has been invested in the process since Jan 89. Around 60% of the shares are held by employees/directors and other significant shareholders include the Belmont Bank, the Growth Fund, Alta-Berkeley and Baronsmead.

Under the terms of a shareholders agreement made in 1988, Pi **must** be floated or sold before 1995. In the next phase, Mills wants to maximise organic growth and the opportunities between the various companies in the group. However, he is against "homogenizing" the acquired companies. He believes that UNIX is one of the obvious gaps in the group's offerings and would like to see acquisitions in this area and on mainland Europe.

Many have tried and failed in the objective of building a large and successful CSI group by acquisition. But Mills has the required large company experience and a deep understanding of the business. Pi has, in our opinion, a better chance of success than any company we have so far investigated and could be a very satisfactory staging post for companies wishing to realise their value by 1995.

Second half recovery at Synapse

Synapse, which supplies third party support and maintenance of systems software to large IBM mainframe users, declared a loss of £332K for the year to July 90 compared to a £1.1m profit last year. Revenues increased by 13% to £10.2m.



However, losses of £249K were declared at the interims. It seems that, after taking exceptional costs of £326K, relating to USA losses and redundancy costs, the swift

remedial action taken by Synapse has led to a second half recovery. The major contributory factors to Synapse's poor results were a significant reduction in demand for systems programming support in the UK and a lack of conversion sales in the US. They also took a £130k knock on *"two anticipated USA contracts which were lost"*.

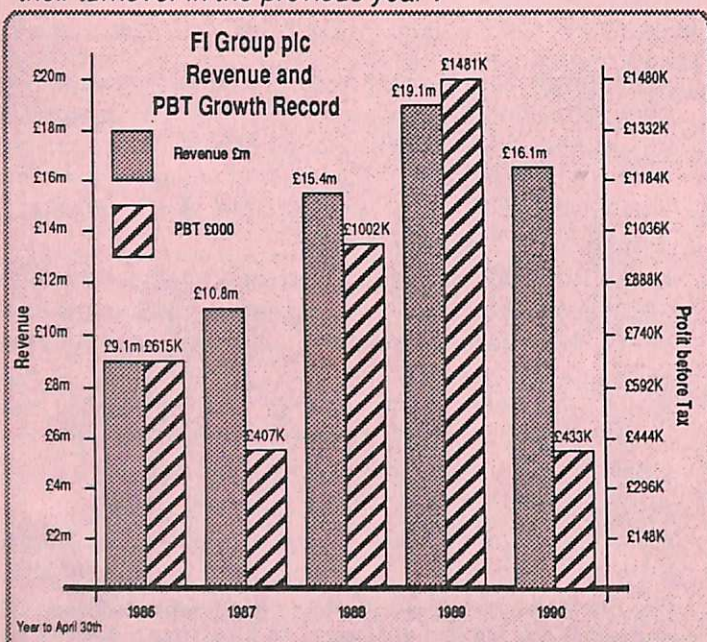
Beacon, the IBM mid-range agent acquired in 1989 for £300K, and Westwood seem to have performed well. However, *"the rate of growth was insufficient"* to continue the provision of application programming services and plans to establish a recruitment agency were abandoned. The announcement of the ES/9000 series, which replaces IBM complete mainframe range, is of great importance to the future of Synapse. *"anticipation of these announcements caused a slowdown in 1990. Now that they have been made, it is reasonable to expect more activity and change in the mainframe market....Synapse thrives on change"*.

Chairman, Mike Godman, *"looks forward to the current year with increasing confidence of showing a much improved performance"*.

Synapse shares have fallen by 66% since April 1989 and market capitalisation is now just £3.5m. Given the long term security of the IBM mainframe market and the increasing requirements for third party software support, Synapse ought to do well in the medium term... provided they continue to keep their act together. See p 9 for share sale.

FI Group

Do you want the good news or the bad news? The FI bad news was headlined by the computer press as "*FI nosedives*". With a revenue reduction of 16% to £16.1m and a PBT reduction of 71% to £433K the headline looks justified. It looks even worse when exceptional items are stripped out as profits would have fallen to just £140K. "CEO, Hilary Cropper, blamed the reduced profits entirely on cancellations and postponements of projects by the financial services sector which represented almost half their turnover in the previous year".



But a deeper inspection shows a rather more positive picture. FI admitted to losses in the first half of the year which therefore means a significant return to profits in the second half. Cost cutting has resulted in a 20% reduction in overheads. The year end order book is reported to be up 65% and cash balances were £1.37m. Cropper said "We have started the current year with an earning rate higher than at any time during 1989/90....the first quarter's results confirm that our improved performance has been sustained".

We are particularly impressed with FI's move into Support and Maintenance. We have long predicted that users require total maintenance covering every aspect rather than just hardware. MMT has proved the success of this route and it looks as if FI might repeat this success "in an area which is key for all major corporations".

It looks as though a Stock Exchange flotation has been put on ice - at least for the time being. Sir Peter Thompson, late of NFC, has been appointed as Chairman - quite a coup for a small private company. Sir Peter told us that he wanted to dedicate the next stage of his career to increasing employee share ownership; as he had so successfully achieved at the NFC. It is well known that founder Steve Shirley would like to reduce her c50% holding and sales to employees look the most likely route.

FI has avoided problems with fixed price contracts to date and has a talented and motivated workforce. Provided the recession does not deepen further, any staff taking up the shares could realise significant gains - not by way of flotation - but because FI could be a highly valued prize for many overseas predators in a few years time.

Latest DTI statistics show slower growth

The latest Business Monitor, produced by the Business Statistics Office of the DTI for Q2 1990, shows a 17% growth in billings - down from the 20% growth experienced in the previous quarter (see *System House* - Sept 1990).

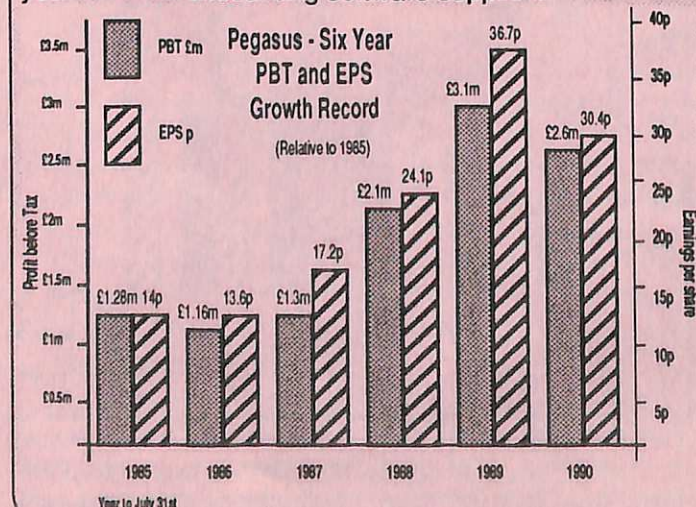
All figures £000	1990 2nd Quarter	Increase %
BUREAU SERVICES		
Database services	46,394	7
Value added network serv.	37,454	29
Other services	130,065	28
TOTAL BUREAU SERVICES	213,913	23
SOFTWARE		
Bespoke Software	177,217	10
Software Products	121,764	15
Software Support & Maint.	51,476	27
TOTAL SOFTWARE	350,457	14
HARDWARE		
Hardware	96,451	28
Hardware Maintenance	25,642	18
TOTAL HARDWARE	122,093	26
PROFESSIONAL SERVICES		
Consulting	98,213	11
Education & Training	21,559	0
Other unclassified	61,965	18
TOTAL PROFESSIONAL SERVICES & OTHER	181,737	12
TOTAL BILLINGS	868,200	17

Pegasus swoops lower

Accounting software supplier, **Pegasus**, saw profits fall by 17% to £2.55m on revenues up 20% at £13m for the full year to July 90. EPS also declined 17%. Profits reduction was excused "as a result of a policy decision by the board to increase R&D spend by £520K to £1.3m". Cash has increased by £800K to £3m since the year end.

Pegasus reckons it has a 36% share of the PC accounting software market. Pegasus Nine is now attacking the UNIX marketplace; where CEO, Derek Moon, says he is winning customers from rivals Multisoft and Tetra.

The board "does not consider that there will be any expansion in the overall market during the next year but is confident that it will see growth in its penetration of the market". In our view, it's going to be pretty tough in the next year for most accounting software suppliers.



Richard Holway Limited - Results Service

Admiral plc	Results Revenue PBT EPS	Interim - June 89 £7,221,000 £1,104,000 6.1p	Final - Dec 89 £15,971,000 £2,653,000 16.2p	Interim - June 90 £9,785,000 £1,511,000 9.1p	Interim Comparison +35.5% +36.9% +49.2%
ACT plc	Results Revenue PBT EPS	Final - Mar 89 £105,773,000 £6,012,000 6.22p		Final - Mar 90 £140,712,000 £8,026,000 7.07p	Final Comparison +33.0% -33.5% -13.7%
Butler Cox plc	Results Revenue PBT EPS	Interim - June 89 £4,194,600 £633,800 8.1p	Final - Dec 89 £9,370,000 £1,324,095 16.43p	Interim - June 90 £5,239,100 £400,100 4.7p	Interim Comparison +24.9% -36.9% -42.0%
Capita plc	Results Revenue PBT EPS	Interim - June 89 £3,630,000 £560,000 4.4p	Final - Dec 89 £6,880,000 £1,300,000 10.39p	Interim - June 90 £9,167,000 £956,000 5.9p	Interim Comparison +152.5% +70.7% +34.1%
Computer People plc	Results Revenue PBT EPS	Interim - June 89 £32,400,000 £1,810,000 9.5p	Final - Dec 89 £69,919,000 £4,219,000 21.8p	Interim - June 90 £38,988,000 £2,138,000 11.25p	Interim Comparison +20.3% +18.1% +18.4%
Electronic Data Processing plc	Results Revenue PBT EPS	Interim - Mar 89 £7,600,000 £373,000 3.41p	Final - Sept 89 £16,034,000 £1,040,000 8.45p	Interim - Mar 90 £8,330,000 £822,000 7.14p	Interim Comparison +9.6% +120.4% +109.4%
Ferrari Holdings plc	Results Revenue PBT EPS	Final - Dec 88 (Restated) £16,621,000 £399,000 Not available		Final - Dec 89 £32,003,000 £1,419,000 Not available	Not comparable due to accounting period change
Hoskyns Group plc	Results Revenue PBT EPS	Interim - Apr 89 £87,300,000 £6,730,000 5.4p	Final - Oct 89 £188,706,000 £15,229,000 23.9p	Interim - Apr 90 £111,700,000 £8,160,000 6.3p	Interim Comparison +27.9% +21.2% +16.7%
INSTEM plc	Results Revenue PBT EPS	Interim - June 89 £4,012,000 £382,000 5.32p	Final - Dec 89 £8,003,000 £885,000 12.9p	Interim - June 90 £5,349,000 £505,000 7.07p	Interim Comparison +33.3% +32.2% +32.9%
Kewill plc	Results Revenue PBT EPS	Final - Mar 89 £11,325,000 £1,805,000 19.71p		Final - Mar 90 £17,107,000 £2,668,000 27.11p	Final Comparison +51.1% +47.8% +37.5%
LBMS plc	Results Revenue PBT EPS	Final - Apr 89 £12,774,000 £1,453,000 7.9p		Final - Apr 90 £18,470,000 £450,000 2.3p	Final Comparison +44.6% -69.0% -70.9%
Logica plc	Results Revenue PBT EPS	Final - Jun 89 £179,505,000 £18,835,000 20.0p		Final - June 90 £187,489,000 £9,011,000 9.0p	Final Comparison +4.5% -52.2% -55.0%
Logitek plc	Results Revenue PBT EPS	Final - Mar 89 £29,200,387 £2,752,013 15.28p		Final - Mar 90 £59,580,000 £3,830,000 16.27p	Final Comparison +104.0% +39.2% +6.5%
Macro 4 plc	Results Revenue PBT EPS	Final - Jun 89 (amended) £13,131,000 £6,132,000 17.3p		Final - June 90 £14,775,000 £7,353,000 20.6p	Final Comparison +12.5% +19.9% +19.1%

Richard Holway Limited - Results Service

Micro Focus plc	Results Revenue PBT EPS	Interim - July 89 £14,807,000 £2,459,000 12.4p	Final - Jan 90 £35,639,000 £8,223,000 37.4p	Interim - July 90 £23,298,000 £7,127,000 34.2p	Interim Comparison +57.3% +189.8% +175.8%
Microgen plc	Results Revenue PBT EPS	Interim - Apr 89 £22,982,000 £4,847,100 8.0p	Final - Oct 89 £45,071,000 £7,179,000 11.1p	Interim - Apr 90 £25,050,000 £4,530,000 7.1p	Interim Comparison +9.0% -6.5% -11.3%
Misys plc	Results Revenue PBT EPS	Final - May 89 £25,386,000 £5,630,000 22.8p		Final - May 90 £76,741,000 £11,070,000 23.5p	Final Comparison +202.3% +96.6% +3.1%
MMT plc	Results Revenue PBT EPS	Interim - Feb 89 £3,464,000 £922,000 5.5p	Final - Aug 89 £7,443,898 £2,151,953 12.8p	Interim - Feb 90 £3,735,000 £1,012,000 5.7p	Interim Comparison +7.9% +9.8% +3.6%
NMW Computers plc	Results Revenue PBT EPS	Interim - June 89 £4,663,000 £48,000 0.1p	Final - Dec 89 £9,119,000 £87,000 0.2p	Interim - June 90 £4,423,000 £210,000 0.6p	Interim Comparison -5.2% +337.5% +500%
P&P plc	Results Revenue PBT EPS	Interim - May 89 £79,850,000 £5,000,000 10.5p	Final - Nov 89 £168,869,000 £11,066,000 20.8p	Interim - May 90 £109,400,000 £6,800,000 11.7p	Interim Comparison +36.8% +36.0% +11.4%
P-E International plc	Results Revenue PBT EPS	Interim - June 89 £27,444,000 £2,429,000 9.4p	Final - Dec 89 £58,017,000 £5,622,000 21.1p	Interim - June 90 £32,381,000 £2,753,000 10.3p	Interim Comparison +18.0% +13.3% +9.6%
Pegasus plc	Results Revenue PBT EPS	Final - Jul 89 £10,873,000 £3,084,000 36.7p		Final - July 90 £13,039,000 £2,554,000 30.4p	Final Comparison +19.9% -17.2% -17.2%
Proteus plc	Results Revenue PBT EPS	Final - Sept 88 nil (£436,000) not available		Final - Sept 89 £21,000 (£588,000) not available	Final Comparison Not comparable Loss both Loss both
Quotient plc	Results Revenue PBT EPS	Interim - June 89 £9,203,000 (£1,984,000) (10.73p)	Final - Dec 89 £19,095,000 (£1,577,000) (8.8p)	Interim - June 90 £9,924,000 £747,000 3.19p	Interim Comparison +7.8% Loss to profit Loss to profit
Radius plc	Results Revenue PBT EPS	Interim - May 89 £13,445,000 £1,015,000 2.5p	Final - Nov 89 £28,630,000 £2,000,000 4.74p	Interim - May 90 £14,521,000 £1,394,000 3.2p	Interim Comparison +8.0% +37.3% +28.0%
Rolfe & Nolan plc	Results Revenue PBT EPS	Final - Feb 89 £3,841,000 £757,000 18.7p		Final - Feb 90 £5,460,000 £1,142,000 27.6p	Final Comparison +42.2% +50.9% +47.6%
Sage Group plc	Results Revenue PBT EPS	Interim - Mar 89 £4,539,000 £1,438,000 6.2p	Final - Sep 89 £9,304,000 £2,911,000 12.6p	Interim - Mar 90 £6,703,000 £2,341,000 7.65p	Interim Comparison +47.7% +62.8% +23.4%
Sanderson Electronic plc	Results Revenue PBT EPS	Interim - Mar 89 £6,187,000 £1,509,000 11.5p	Final - Sep 89 £12,008,000 £3,013,000 23p	Interim - Mar 90 £6,446,000 £1,780,000 14.0p	Interim Comparison +4.2% +18.0% +21.7%

Richard Holway Limited - Results Service

SD-SCICON plc	Results Revenue PBT EPS	Interim - June 89 £143,771,000 £1,060,000 0.37p	Final - Dec 89 £283,304,000 £7,230,000 0.59p	Interim - June 90 £138,192,000 (£9,794,000) (6.16p)	Interim Comparison -3.9% Profit to loss Profit to loss
Sema Group plc	Results Revenue PBT EPS	Interim - June 89 £137,682,000 £7,124,000 4.8p	Final - Dec 89 £293,021,000 £17,457,000 11.6p	Interim - June 90 £189,921,000 £7,185,000 4.5p	Interim Comparison +37.9% +0.9% -6.3%
Sherwood Group plc	Results Revenue PBT EPS	Interim - June 89 £12,171,000 £580,000 7.7p	Final - Dec 89 £25,397,000 £2,024,000 25.0p	Interim - June 90 £12,249,000 £883,000 9.5p	Interim Comparison +0.6% +46.6% +23.4%
Star plc	Results Revenue PBT EPS	Interim - Dec 88 £6,911,000 £464,000 3.5p	Final - Jun 89 £14,213,000 (£930,000) (11.7p)	Interim - Dec 89 £6,392,000 (£649,000) (9.5p)	Interim Comparison -7.5% Profit to Loss Profit to Loss
Synapse plc	Results Revenue PBT EPS	Final - Jul 89 £9,074,050 £1,096,967 20.19p		Final - Jul 90 £10,226,000 (£332,000) (8.9p)	Final Comparison +12.7% Profit to loss Profit to loss
Systems Reliability plc	Results Revenue PBT EPS	Interim - June 89 £44,606,000 £3,022,000 6.21p	Final - Dec 89 £134,586,000 £7,863,000 12.76p	Interim - June 90 £95,345,000 £5,012,000 6.25p	Interim Comparison +113.8% +65.9% +0.6%
Tele-computing plc	Results Revenue PBT EPS	Interim - Mar 89 £1,310,000 (£332,000) (6.97p)	Final - Sep 89 £2,519,080 (£777,000) (16.47p)	Interim - Mar 90 £1,232,000 (£44,000) (0.99p)	Interim Comparison -6.0% Loss both Loss both
Total Systems plc	Results Revenue PBT EPS	Final - Mar 89 £2,100,508 £96,543 0.59p		Final - Mar 90 £1,777,084 (£6,722) (0.08p)	Final Comparison -15.4% Profit to loss Profit to loss
Touchstone plc (was MBS)	Results Revenue PBT EPS	Interim - Jul 89 £64,398,000 (£7,101,000) (7.0p)	Final - Dec 89 £77,317,000 (£4,817,000) (4.7p)	Interim - Jun 90 £9,809,000 (£66,000) (0.0p)	Interim Comparison Not comparable Loss both Loss both
Trace plc	Results Revenue PBT EPS	Final - May 89 £9,814,976 £1,709,233 9.96p		Final - May 90 £13,933,504 £1,807,644 10.49p	Final Comparison +42.0% +5.8% +5.3%
Vistec Group plc	Results Revenue PBT EPS	Final - Apr 89 £11,961,000 £1,318,000 0.86p (5 months only)		Final - Apr 90 £36,048,000 £1,580,000 0.92p	Final Comparison Not comparable Not comparable Not comparable

Mixed fortunes for hardware manufacturers

IBM announced a 27% increase in profits in Q3 to \$1.11b, although 30% of the gain was due to the weakness of the dollar. DEC, on the other hand, reported an 82% profits decline from \$150.8m to \$26.2m for the same quarter; substantially lower than expected.

MIPS shares dived after warning of a likely loss in Q3, but came in with a small profit. Apple reported profits down 39% at \$98.5m for Q4, but ended with full year profits of \$475m on revenues of \$5.6b - both up 5% on last year.

At a recent seminar, Charles Burrows of James Capel, predicted that IBM and Fujitsu would be the only major

global players by the end of the decade. He had little good cheer for DEC or Apple but reserved his gravest warnings for Unisys. Unisys has stopped paying dividends for the first time in its history and their shares fell sharply this month after their \$357m Q3 loss and Moody's Investor Services downgraded \$5.2b of Unisys' debt.

On the software scene, Microsoft's Q1 profits increased by 77% due to the success of Windows 3 - over 1m copies have now been shipped. But Lotus reported a 63% decline in Q3 profits. Oracle lost \$36m in Q1 - much worse than the \$27m forecast. Although Oracle expects a turnaround, Morgan Stanley reserved judgement saying that Oracle was now a "show me" company.

Acquisitions, disposals and liquidations

Hoskyns in first purchase since CGS acquisition

Hoskyns has made their first acquisition since CGS took their 70% stake by purchasing **Technodata** - a West German supplier of DEC-based software products to the construction industry. Maximum consideration is £11.1m made up of 2m Hoskyns shares initially with a further 1.2m shares based on profits to Oct 91. CGS has agreed to buy 1.4m (c£4.9m) of the initial consideration shares. In the year to June 90 Technodata showed a profit of DM 3.8m (£1.3m) on revenues of DM 21.9m (£7.5m) - a very healthy 17% margin.

Hoskyns executive chairman, Geoff Unwin, told us that their earlier German acquisition of Programm-Standard had been "a superb purchase...the German economy is doing very well and much of the growth is construction led".

It is excellent to see CGS backing by action the words they used in their press release back in July - "CGS expects Hoskyns to continue its programme of expansion by acquisition both in the UK and internationally and will fully support this growth". We were surprised that the first acquisition was in Europe as we expected CGS to want Hoskyns to concentrate on the UK. The Technodata deal is at a P/E of between 8 and 14 (depending how you value the earn out). Considering that CGS is obliged to buy the remaining Hoskyns shares at a 23 P/E at the end of 1992, purchases like this make it more likely that the maximum £6.60 price might be achieved at that time.

The French march on.....

It seems you should forget about the US and Japanese threat to the UK CSI industry; the French are now the real predators. After the CGS purchases of Hoskyns and SD's German operations, **Group Segin** has purchased a 6.2% stake in **MMT** - the software facilities management operation that we rate highly. Segin is 60% owned by Credit du Nord.

Sligos, 63% owned by Credit Lyonnais, has acquired five software houses in mainland Europe this month and now their bid for UK payments processing company, **Signet**, has been referred to the MMC.

But CGS's acquisition appetite is effecting its profits - down 6% to £36m in the first half on revenues up 18% at £394m.

It seems the French institutions take a rather longer term view than some of the UK's short term investors.



Computer Options leaves £2m debts

Compaq dealer **Computer Options**, collapsed in October with debts over £2m. **Compaq**, which is believed to be the creditor that pulled the plug, is owed £458K but **P&P** is owed £154K and **Apple** over £67K. Source - MicroScope 24th Oct 90.

As we have said before, it's bad enough that the market is in recession - it's even worse when your customers can't pay their debts. Depressing as it may be, readers are warned to be especially careful in extending credit to dealers and VARs at the present time.

SD-Scicon buys French FM company

After the sales of US and West German activities and the recent declaration of a £9.8m loss at the interim stage, **SD-Scicon** has started buying overseas again. Their French subsidiary, **Groupe Francals d'Informatique** (GFI) has acquired a 51% interest in loss-making **Charbonnage de France Informatique** (CdFI). CdFI, a former subsidiary of the French state-owned coal producer, specialises in FM and software services. Initial consideration is £3.5m. The remaining shares may be purchased over the next five years for between £3.4m and £9.5m. GFI claim they will then be the second largest FM supplier in France.

Logica buys into GSO in Italy

Logica's associate company in Italy, **LGS**, has bought a controlling interest in **GSO Informatics** which specialises in the health care and manufacturing industry sectors. "The basis for successful business development in Italy will be significantly improved" Logica said. GSO had PBT of £300K on revenues of £2.9m in 1989.

The others... Hot on the heels of their acquisition of Colston Computers, **ComputerGroup** has acquired **ComputerLand's** two centres in the North East. This brings the number of stores to over 14. ComputerGroup is owned by the Canadian group, **Systemhouse**. CAD specialist, **Nemesls**, has gone into receivership owing £750K. Expert systems company, **Expertech**, has gone into receivership. **ICL** had a 20% stake. **Nova Systems**, the UK's third largest IBM AS/400 agent, has been bought from the receivers by rival **CSI**. The recent cut in IBM commissions was blamed for its failure. CSI had revenues of c£6.5m last year and Nova turned over £4m. **West Wiltshire District Council** expects to find a buyer for its software section by the end of 1990 after the demise of **West Wiltshire Information Services**. **Computer Task Group** has acquired **Rendeck International** which supplies consultancy, training and mainframe systems software. Rendeck had revenues of \$24m in 1989 and has 60 employees in the UK. **IBM** has a 15.3% stake in **Computer Task Group**. CAD turnkey systems house, **Instagraphic**, has acquired **Compucad**. **Radius** has taken over the business and assets of **Merit Health Systems**. The deal is costing Radius nothing. The new operation will be owned 75% by Radius and the remainder of the equity will go to Merit's managers. The Darlington based **Mac Centre** has ceased trading and its FD, Mike Ross, is being sought by the fraud squad investigating "certain irregularities" Source - MicroScope 17th Oct 90. **Northamber** has bought a majority stake in **Xitan's Image Makers** division. **Denetre**, which went into receivership last month, has been bought by its management. The deal was backed by 3i. Denetre had PBT of £100K on revenues of £2.5m to March 90. **Thorn-EMI Software** has sold its accounting software subsidiary, **SMB**, to **Michael Business Systems**.

Director's share sales

Macro 4 directors have sold around 200,000 shares this year realising around £475K. This month, all of **Hoskyns** executive directors sold a total of 440,000 shares at 345p realising around £1.5m in order to pay income tax relating to the Plessey Trust shares. Executive chairman, Geoff Unwin, sold shares worth £480K. In both cases, the Sunday Times suggested other shareholders should consider "lightening their holdings". Frankly, we disagree.

Index falls just 1%

The benefits, for stock prices, of the UK entering the ERM have largely evaporated. In the last month, the CSI index lost 0.9% and the FTSE 100 gained just 1.9%.

Micro Focus still leads the list, but it should be remembered that they make a significant part of their revenue from the US and had warned, prior to ERM entry, that "if the \$ continued to be weak, this would adversely affect profits and cash balances in the second half".

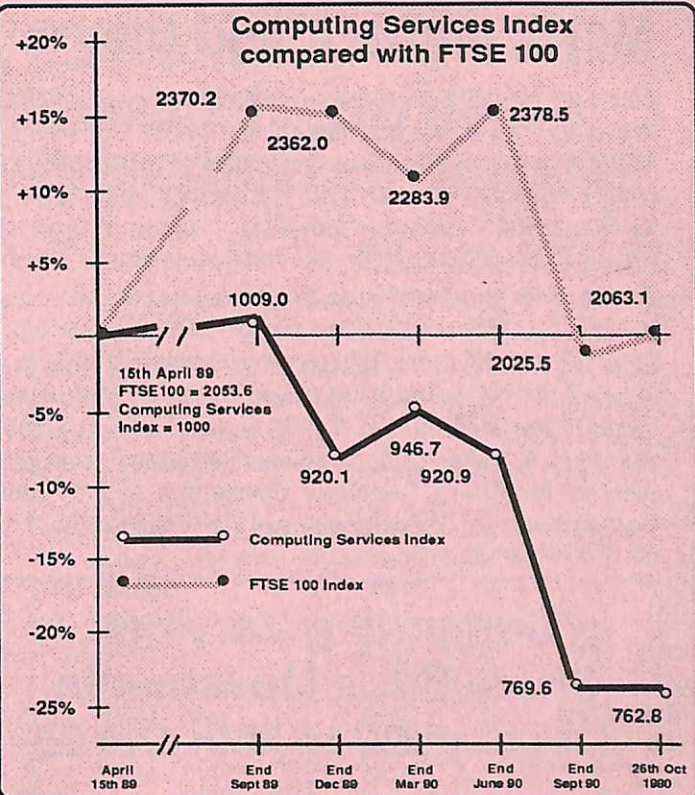
Macro 4 would be similarly affected and perhaps this is the reason for the recent directors' share sales (see p 8).

Michael Whittaker has the dubious distinction of an involvement in three of the four worst performing shares since our index began - **Ferrari**, **Star** and **Telecomputing** (where Ferrari holds a 29.8% stake).

Computing Services Share Price Index 26th Oct 90

Index Rank	15th April 1989 = 1000	Share Price 26/10/90	Index 26/10/90
1	Micro Focus •	7.38	3565.21
2	Hoskyns •	3.55	1731.70
3	Capita •	1.69	1690.00
4	Rolfe & Nolan •	1.43	1689.24
5	Sema Group •	5.34	1679.24
6	Sage Group •	2.00	1538.46
7	Admiral •	2.10	1521.74
8	Proteus •	0.91	1083.33
9	ACT •	0.67	1072.43
10	Sherwood •	1.25	1041.66
11	Macro 4 •	2.33	939.52
12	INSTEM •	0.90	900.00
13	Computer People •	2.03	835.39
14	Sanderson •	1.90	808.51
15	P-E International •	1.83	753.09
16	Electronic Data Processing •	0.70	714.28
17	MMT •	1.17	696.43
18	Butler Cox •	1.17	668.57
19	Systems Reliability •	0.79	632.00
20	Quotient •	0.67	582.61
21	Kewill •	1.45	573.12
22	Learmonth & Burchett •	0.65	541.67
23	P&P •	1.19	533.63
24	Microgen •	1.19	508.54
25	Trace •	0.63	504.00
26	Logica •	1.82	498.63
27	Pegasus •	1.80	490.47
28	Logitek •	0.78	450.42
29	NMW •	0.23	383.34
30	Vistec •	0.09	371.48
31	SD-Scicon •	0.28	358.97
32	Synapse •	0.98	337.93
33	Radius •	0.46	333.33
34	Total •	0.15	283.02
35	Misys •	1.05	261.19
36	Telecomputing •	0.20	215.05
37	Touchstone (was MBS) •	0.09	191.49
38	Star •	0.20	166.67
39	Ferrari •	0.14	114.29

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



Capita

Readers of *System House* will be aware of our enthusiasm for **Capita**. They have been one of the best performing companies in the sector since they came to the USM in April 1989.

Unlike many others in the sector, **Capita** is likely to be "recession proof" with their market focus in the public sector. FM now accounts for 25% of revenues but, with the BT option in Telecom **Capita** bought out, this will rise to 40% next year. Analysts are forecasting £2.5m on revenues of £20m for 1990 and £3.4m on £30m for 1991 and Richard Benton, **Capita's** Group Sales Director, does not have any great quarrel with these estimates.

Bedding down recent acquisitions of Penn Communications, JE Greatorex and the BT option in Telecom **Capita** will, sensibly, be the major task for the next period. However, **Capita** will be looking for new FM contracts in the LA arena to add to their existing deals with Berkshire CC and Oxfordshire CC.

We still believe that **Capita** is one of the safest bets around and our recent meeting with their top managers only reinforces this opinion.

Wham! ...Trendell buys into Synapse

WC Williams, the ex-Chairman of **Synapse**, disposed of his 24.5% holding at 122.5p per share on 23rd Oct 90 to **Delimar**. "Off-the-shelf" company, **Delimar**, is backed by Jeff Trendell, who used to run US systems house, Data Three, was involved with Wham's first record and was CEO for a time at Insight (subsequently bought by Hoskyns). The Times speculated that Mr Trendell would soon take over as **Synapse** CEO; a view rejected by **Synapse** although the board "was continuing a dialogue to ascertain the exact intent" of Mr Trendell's initiative. Given Trendell's reputation as a "flip merchant", this is not altogether good news for **Synapse**.

Synapse shares stood at around 80p before the deal was announced and have increased by 18p to 98p since.

Major gainers and losers

Although the CSI Index fell less than 1% in the last month, that disguises some dramatic share price fluctuations. **NMW**, for the first time leads our table with a 35% gain on continued profits recovery (see p2) and continued buying by Specialist Computer Holdings. **Logica** staged a recovery with a 20% gain - see front page story.

On the other hand, **P&P** was the largest loser with a 31% decline. Schrodgers has downgraded profit forecasts by £1.8m to £13.5m due to problems with dealer sales in the last quarter. P&P shares are now at 119p - 66p below the recent rights issue price. P&P is now on a prospective P/E of just 4.7; which is substantially below the prices paid recently for SRH's Corporate Computers (9 P/E) and Computacenter (17 P/E). **Pegasus** also declined by 21% on recent disappointing results (see p4).

Computing Services Share Price Movements 21st Sept 90 to 26th Oct 90

Rank		% Change 21/9/90 to 26/10/90	% Change 20/4/90 to 26/10/90	Historic P/E
1	NMW	35.29	-25.81	115.00
2	Rolfe & Nolan	22.22	17.21	5.18
3	Logica	19.74	-38.93	20.22
4	ACT	13.56	-21.18	9.48
5	Microgen	9.17	9.17	10.72
6	Synapse	8.89	-16.95	Loss
7	Electronic Data Processing	7.69	4.48	8.28
8	MMT	7.34	-28.22	9.14
9	Proteus	7.06	8.33	n/a
10	Systems Reliability	5.33	-24.04	6.19
11	Hoskyns	5.03	2.60	14.85
12	INSTEM	3.45	0.00	6.98
13	Total	3.45	-6.25	Loss
14	Sage Group	1.01	6.38	15.87
15	Sema Group	0.38	20.00	46.03
16	Admiral	0.00	-4.55	12.96
17	Capita	0.00	1.20	16.27
18	Logitek	0.00	-45.07	4.79
19	Touchstone (was MBS)	0.00	-50.00	Loss
20	Quotient	0.00	-36.19	Loss
21	Star	0.00	-58.33	Loss
22	Vistec	0.00	-37.04	9.24
23	Macro 4	-1.27	-21.28	11.31
24	Sherwood	-1.57	-13.79	5.00
25	Butler Cox	-2.50	-41.21	7.12
26	Misys	-2.78	-53.33	4.47
27	P-E International	-5.18	-27.95	8.67
28	Micro Focus	-5.75	32.26	19.73
29	Radius	-8.00	0.00	7.72
30	Learmonth & Burchett	-9.72	-44.44	28.26
31	Computer People	-10.18	-24.25	9.31
32	Trace	-11.27	-38.83	6.01
33	Ferrari	-12.50	-79.26	n/a
34	Telecomputing	-13.04	-42.86	Loss
35	Sanderson	-13.64	-35.15	8.26
36	SD-Scicon	-17.65	-64.56	n/a
37	Kewill	-19.44	-49.65	5.35
38	Pegasus	-20.70	-38.57	5.92
39	P&P	-31.21	-47.11	5.72

Computing Services Index 26th October 1990

April 15th 1989 = 1000

762.77

P/E ratios added

At the request of several subscribers, we have added historic P/E ratios to the table opposite this month. **NMW** leads the table with a rather meaningless P/E of 115. **Sema**, with a 46 P/E, comes second in the table on bid hopes and **Micro Focus**' P/E of 21 is due to sparkling 1990 interim results. **Rolfe & Nolan** must be one of the most undervalued stocks around at a depressingly low 5 P/E. Even though their share price has increased by 22% in the last month, the valuation seems rather unfair given their consistent performance. The P/E ratio is calculated as the latest share price divided by the last full year's EPS. Readers will be only too well aware of the changes in fortunes since and should take care in their interpretation.

Has the bottom been reached? Probably not yet, but there are certainly some interesting bargains around at present.

Changes in Indices	Computing Services Index	FTSE 100
Month 21st Sept 90 to 26th Oct 90	-0.88%	+1.86%
18 months 15th April 89 to 26th Oct 1990	-23.72%	+0.46%
1st Jan 90 to 26th Oct 1990	-17.09%	-12.65%

"A real steal"?

Headland creditors and shareholders are pretty miffed already but they must be getting more angry by the day when they read about the immediate successes of the successful bidders for the various parts of the business.

Microscope (10th Oct 90) quoted Hillsdown's Mike Teacher saying that the **Multisoft** deal was "a real steal". "The really staggering thing is that £1.7m (of the c£2.2m paid to the receiver) was for the freehold on Cross & Pillory House. In other words Nicolls paid around £500K for Multisoft itself". Headland valued Multisoft at £11m last November.

Sherwood's have already said they thought the £300K paid for Wootton Jeffreys was a bargain (*System House* - Sept 90); particularly as they acquired assets of £525K.

Calldus bought the Miracle rights for "around £225K" and sold the DG rights for not much less than that figure to Bob Thompson's MBO. He now says "the company expects a £2.5m turnover in its first trading year which will also show a profit". Within ten days of the contract being signed, he was awarded a £500K contract from Hounslow RHA.

We know that any liquidation is highly complex and this one was handled with great haste. The creditors might like to ask receivers, Peat Marwick, for their views.

A further £31m fall

Capitalisation of quoted UK computing services companies has fallen another £31m this month to £1.71 billion - a reduction of £246m since the Gulf crisis began.

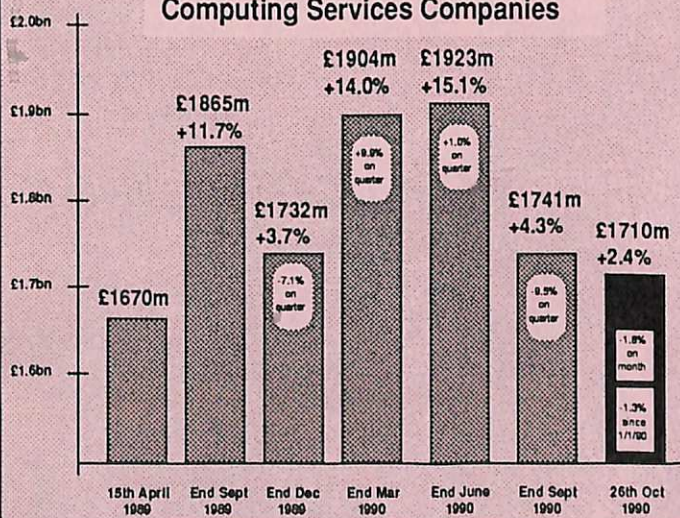
P&P was the major loser - down £40m in the month - losing their number 3 place to **Logica** which gained £18m on reassessment after their disappointing interims.

SD-Scicon continues its slide - down £12m in the month to just £56m. This must now be petty cash to many international predators. In the first issue of *System House*, a year ago, SD-Scicon was the fourth highest in our capitalisation tables at £137m - they have lost £81m since. Now ranked number 8, they have since been overtaken by the likes of **ACT** and **SRH**. In the last year **Sema** has been the major gainer, up £161m, followed by **Hoskyns**, up £109m. **Logica** is the largest loser - down £99m.

Fifteen companies now have capitalisation of less than £10m and you could buy the lot - if you were that masochistic - for £85m. If trends continue, we might see the first sub £1m capitalisation with **Telecomputing** - now just £1.27m - the most likely candidate.

All but three of our companies would now be regarded as "smaller companies". No wonder some are finding it difficult to find market makers for their stocks.

Capitalisation of UK Quoted Computing Services Companies



Bucking the trend

It's not all gloom in the industry. Patrick Whale, from **KPMG's** Systems Development operation, tells us that he has doubled revenues for the second year in a row for the year ending 31st September 1990; to around £10m. This was achieved with just a 29% increase in staff numbers. His group is now the largest part of his firm's consultancy operations - which had revenues of £55m in 1989 and £75m in 1990 - and is amongst the most profitable.

In his normal shy manner, Patrick Whale - who was elected as the Vice President of the CSA on 25th Oct - attributes this to superb management. But more seriously he believes that it is because they are not now wholly dependent on the UK market.

The IT activities of the main management consultancies and accountants are showing about twice the growth rate of the conventional CSI companies. Watch this space.

Computing Services

Capitalisation - 26th Oct 90

Rank		Capitalisation 26/10/90 £m	% Change since 15/4/89	% Change since 21/9/90	£m Change since 21/9/90
1	Sema Group	£478.19	68.32	0.80	£3.79
2	Hoskyns	£303.63	84.24	5.03	£14.53
3	Logica	£110.62	-49.90	19.71	£18.22
4	Micro Focus	£92.45	258.34	-5.76	(£5.65)
5	P&P	£89.27	19.51	-31.17	(£40.43)
6	ACT	£62.66	58.24	13.52	£7.46
7	Systems Reliability	£57.53	32.25	19.35	£9.33
8	SD-Scicon	£56.47	-64.08	-17.57	(£12.03)
9	Macro 4	£51.50	-4.45	-1.34	(£0.70)
10	Microgen	£46.06	-47.89	9.15	£3.86
11	Sage Group	£32.94	55.36	1.03	£0.34
12	Misys	£32.60	-56.99	-2.69	(£0.90)
13	P-E International	£30.30	-23.48	-5.31	(£1.70)
14	Computer People	£27.53	-10.33	-10.33	(£3.17)
15	Admiral	£22.72	55.59	0.07	£0.02
16	Capita	£21.50	165.43	0.00	£0.00
17	Proteus	£19.54	8.28	6.80	£1.24
18	Sanderson	£16.47	-16.41	-13.33	(£2.53)
19	Kewill	£13.80	-17.86	-19.30	(£3.30)
20	Logitek	£13.20	-34.98	0.00	£0.00
21	MMT	£12.40	-28.32	7.83	£0.90
22	Touchstone (MBS)	£11.65	-80.94	-0.45	(£0.05)
23	Pegasus	£11.02	-44.36	-20.75	(£2.88)
24	Radius	£10.57	-66.86	-8.09	(£0.93)
25	Vistec	£9.53	333.18	0.00	£0.00
26	Quotient	£9.17	-41.19	0.04	£0.00
27	Trace	£8.26	-48.70	-11.28	(£1.05)
28	Learmonth & Burchett	£7.90	-45.89	-9.71	(£0.85)
29	Rolfe & Nolan	£7.71	76.43	22.19	£1.40
30	Ferrari	£7.53	-61.58	-12.54	(£1.08)
31	Sherwood	£6.56	6.49	-1.50	(£0.10)
32	Butler Cox	£6.25	-32.94	-2.50	(£0.16)
33	Electronic Data Processing	£6.04	-28.61	7.66	£0.43
34	NMW	£4.73	-61.58	35.40	£1.24
35	INSTEM	£4.05	-10.00	3.58	£0.14
36	Synapse	£3.46	-66.09	8.77	£0.28
37	Total	£1.50	-71.70	0.00	£0.00
38	Star	£1.36	-83.25	0.00	£0.00
39	Telecomputing	£1.27	-71.33	-13.01	(£0.19)

Apple takes volume path

Three years ago my very first "solo" assignment was with Apple UK for the then MD, David Hancock. Relooking at my overheads for the first presentation I gave to Apple, I suggested then that that they might produce the low priced, volume products they announced in October 90.

I have been associated with many of Apple's new system house partners - most are now Mac users and subscribers to *System House*. I am also the Chairman of Rothwells; one of Apple's largest corporate resellers. *System House* is produced on a Mac, so Apple runs in the blood.

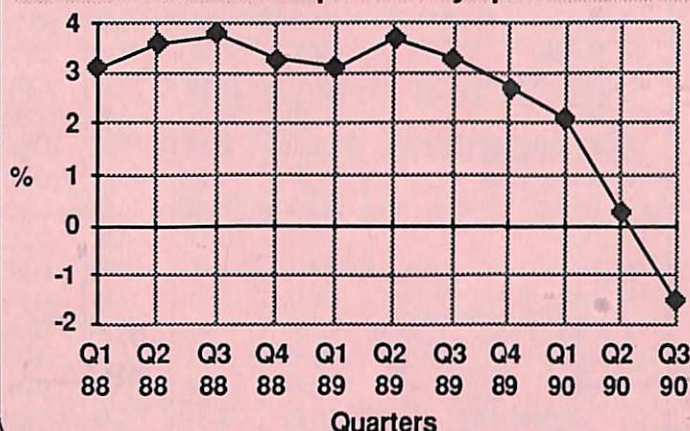
It is therefore interesting to read the "knocking copy" in many of the computer papers after Apple announced the availability of a Mac for just £575; although the Mac 11si at £2295 (around half the price of the previous equivalent model) will be of most interest to our readers. *I think that Apple has made one of its best moves for years.*

How bad is IT?

The latest CSA trend survey confirms what most in the industry know only too well - we are in the first recession since 1971. The graph below is based on staff numbers employed, which is a far better indication of the current state of the industry than the qualitative measures.

The CSA Director General, Doug Eyeions, said "Employee numbers have expanded at a compound annual rate of 11% since 1982. In 1988/9, it reached 14%. That has come hurtling downwards in the last four quarters and is accelerating downwards. This is much worse than the last recession". The flip-over into actual staff losses in Q3 is the equivalent of around 4000 staff per year.

Mean percentage change in staff numbers in CSA companies by quarter

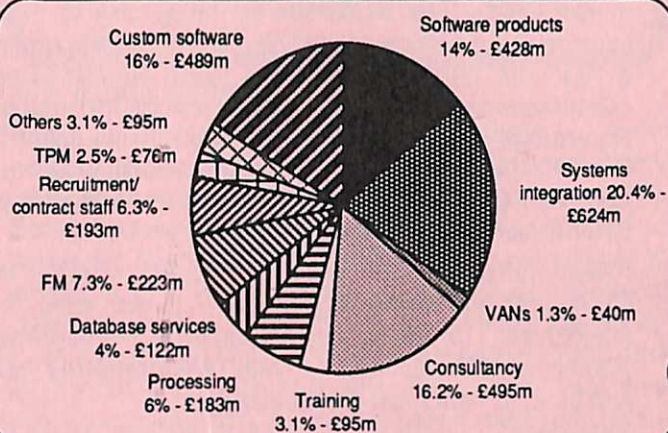


Reinforcing the downturn, SD-Scicon has made 120 "managers and non-fee earners" redundant; eventually saving the company £4m pa.

How good was IT?

The CSA Annual Survey for the calendar year 1989 was published this month. CSA member companies had revenues of £3billion in 1989 - up 21.8% on 1988. This growth shows a very minor reduction on previous years. But if acquisitions were excluded, the growth rate would fall significantly - our estimate for 88/89 is around 15%.

The break down of revenue by business sector shows the continued decline of processing services - representing an actual decline from £250m in 1981 to £182m in 1989.



FM, however, continues to grow at an above average rate as does systems integration and consultancy. Disaster recovery, although less than 1% of revenues, was one of the fastest growth areas.

Overseas sales represented 13.6% of revenues - or £417m in 1989. 11% of CSA members had ownership changes in 1989; 50% are now owned by larger groups.

More details from CSA Tel: 071 405 2171

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