System House

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

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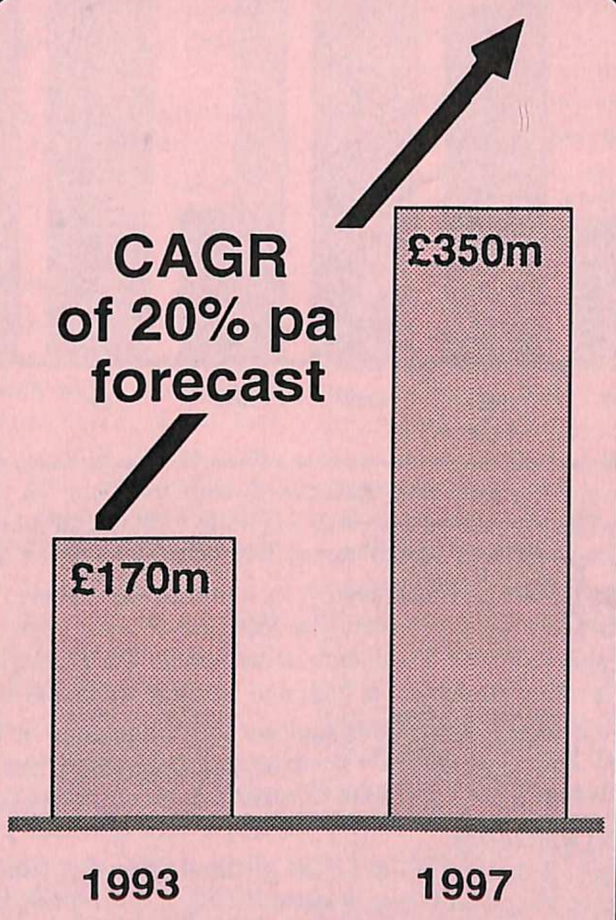
Application Management

presents major growth opportunity

There is growing evidence that Application Management (AM) is the fastest growing outsourcing sector in the UK. **Hoskyns** currently estimates the UK AM market to be worth around £170m p.a. and is expected to experience annual growth of around 20% to be worth over £350m by 1997. Many other observers expect market growth to exceed this.



UK Applications Management (AM) Market Source - Hoskyns estimates

This is demonstrated by one of the UK's AM market leaders, **FI Group**. Last year their AM revenues were £14m and grew in excess of 40% (full FI results on p2). The whole setup at FI, with its associates and contractor base, is such that AM fits it like a glove. Their biggest deal to date was with Whitbread. This five year contract involved FI taking on 100 Whitbread employees in a contract now probably worth over £15m. CEO Hilary Cropper describes their AM business as *"fantastic"* and says that two further 5 year contracts have been signed recently. FI offers AM via its Mainstay and Software Factory *"products"*. Their AM methodology has taken years to develop which is why Cropper firmly believes that FI has a two year market lead.

AM does not have a glamorous image. But it is unfair to think that the service is only applicable to "legacy" systems as more companies see the advantages for newly installed systems too. In any event, we have often pointed out that around 90% of IT spend each year goes on supporting and updating systems installed two or more years ago.

What is AM?

AM is not to be confused with software support offered by the vendors of application software products or even bespoke systems. It also does not cover the maintenance activities taken on as part of an operational FM contract. In an AM contract the system house takes over the management and maintenance of in-house systems from the user. The in-house system would typically have been developed over a period of time using a variety of bespoke and product sources.

What AM does do is provide very high quality earnings. Companies with predictable and stable revenue streams have always been highly valued. As Cropper says, initially contracts were for a year, now three years is the norm and five years is far from exceptional. *"As customers learn to rely on us they want us to be locked into the relationship too".*

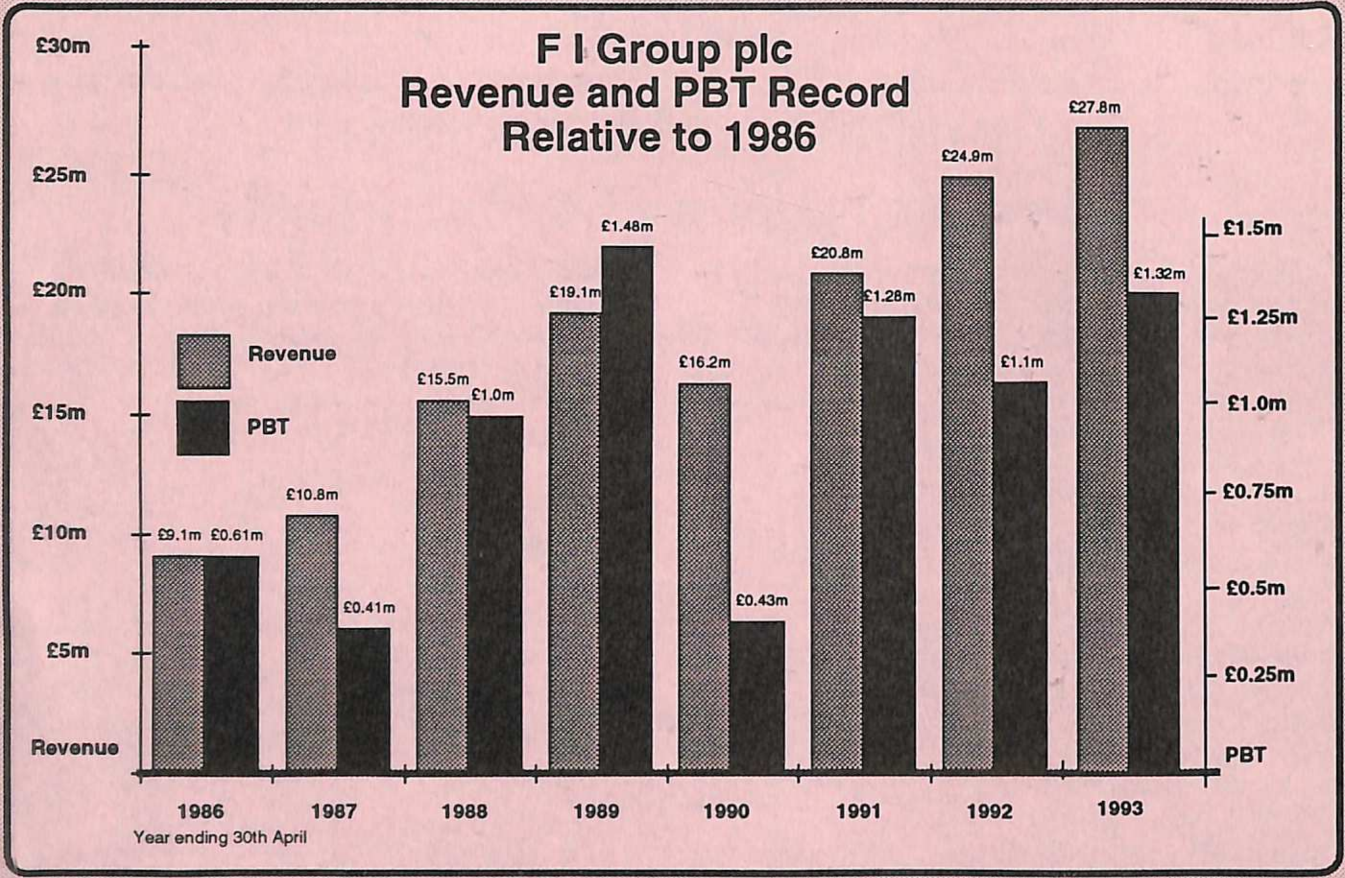
The opportunities have not been lost on Hoskyns either. After pioneering operational FM in the UK, last year Hoskyns spearheaded the adoption of AM within **CGS**. In the UK Hoskyns has already signed AM deals with TSB, Coventry Building Society and Prudential Life. This month the first international AM deal was signed, with assistance from Hoskyns, by **Cap Gemini America** with Total Petroleum. The five year deal is one of the largest ever signed by CGS in the US.

The new CGS structure consists of country organisations and product/service champions which operate internationally. Hoskyns is the product champion for outsourcing with some notable successes to its credit already in Europe. Hoskyns is now clearly extending its product champion position into AM. So, apart from demonstrating the significant opportunities presented by AM, the Total deal really does demonstrate that the new CGS organisation is starting to work.

AM really does present a major opportunity for high quality revenue growth.

Steady progress at FI Group

In Nov. 91 founder Steve Shirley offered around half of her previously controlling interest in **FI Group** to existing share holders, employees and associates. Given that the shares were offered at 270p, valuing FI at £6.2m, it was not surprising that the offer was oversubscribed by 13% and, as a result, the workforce with 51% took effective control. This month, FI Group has announced its first full financial year results since that momentous day. Results to 30th April 93 were rather good considering the problems so many others have faced recently. Revenues increased 12% to £27.8m - a record - and PBT was up 17% to £1.28m - still not eclipsing the record £1.48m made in the heydays of 1989. EPS was up a more modest 9%.



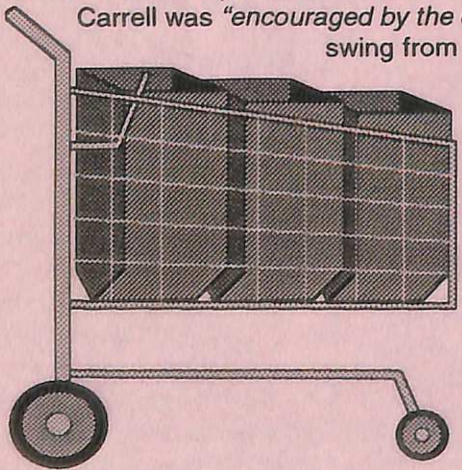
In June 91, FI Group paid £1.35m for the loss-making **Kernel Group**. Indications are that this acquisition caused rather more problems than expected. The share offer also cost FI Group £500K. But these costs are now behind them and the balance sheet has *"recovered well"* with cash of nearly £4m at the end of the financial year.

It is FI Group's Application Management services (see p 1 for more details), where they are one of the market leaders, which has both contributed towards current success and the *"burgeoning order book"* with which FI has started its current year. But CEO Hilary Cropper also says that *"the culture of ownership and participation (resulting from the workforce buyout) is having a tremendous effect"*. Optimism is high and *"trading prospects for the year look good"*.

After buying in at 270p, the latest internal market this April set a share price of 365p - up 35% on the offer price. But that still only values FI at c£9m - about half what we would expect if FI was to float on the Stock Exchange in today's receptive climate. As we said in Nov. 91, we just wish FI would let us buy some shares at that price!

Signs of upturn for retail systems

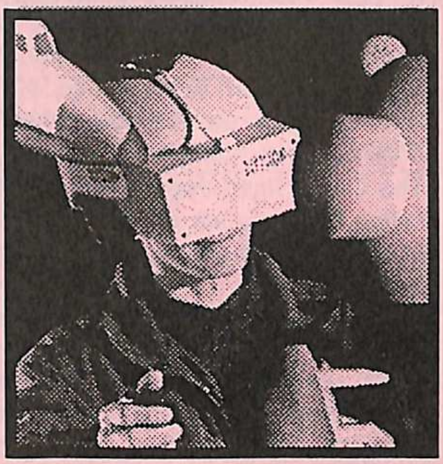
Last month we reported on the 57% drop in PBT at EPOS systems operation, **Real Time Control**, but that Chairman Carrell was *"encouraged by the current level of sales activity"*. This month, one of their rivals, **Riva**, reported a swing from PBT of £314K to a loss of £425K in the six months to 30th June 93. In both companies, trading in the first part of the period had been *"severely affected by recession"* but *"trading from March to June had shown an improvement which, combined with further reductions in overheads, had brought a return to profitability on a month by month basis"*. Source - FT 25th Aug. 93. It is Europe which has most affected Riva's results. Indeed, the unprofitable German subsidiary is to be sold, major staff reductions, costing £282K, have been actioned in France and urgent cost reduction measures were being taken in Spain, which lost £377K.



On the one hand, we are quite optimistic about the prospects for retail systems in the UK market. But continental Europe will pose a different, depressing picture. There is, however, a fundamental difference between the future prospects for RTC and Riva. RTC has cash balances of £4m - Riva has net borrowings of £2m. Interest payments on this are in excess of operating profits.

It's all in the future at Division

Division Group plc, which was launched onto the Stock Exchange in May 93 at 40p, has reported its interim results for the six months to 30th April 93. These show a loss of £10K against PBT of £73K last time on revenues up 83% at £913K.



Division Group is one of the new breed of floats which are all about phenomenal future potential rather than any kind of track record. In the last six months Division has launched its ProVision 100 virtual reality workstation and has started working with Glaxo and the University of York on applying its virtual reality technology to drug design and, with Thorn EMI and Queen Mary Westfield College, on lighting design.

After the launch at 40p, the shares rose like a rocket to 102p but have since settle back to end the month on 78p. There is something rather satisfying in seeing the UK back a company right at the forefront of a technology with enormous international potential.

..and for James Warhurst too

James Warhurst from brokers **Henry Cook Lumsden** was an avid (if not always totally supportive) reader of *System House*. We upset him greatly with our comments on **Microvitec**; questioning his prediction in Mar 92 that they would make profits of £2.5m in 1992. (In the event they *lost* £2m). But Warhurst and his colleague Darren Mercer had some spectacular successes - the launch of Division (above) was one and **Tadpole** is, so far, their all-time greatest hit.

This month they have quit HCL to join rival broker **Albert E Sharp**. We wish them well and hope they take out a subscription to *System House* at their new firm.

...talking of Microvitec

We have commented before on the rumours that networking specialist **Azlan** is about to be sold. This month PC Europa ran a report claiming that Swiss telecomms company **Ascom** had come *"with a hairs-breath of buying Azlan for a stunning £30m"*. Apparently it was turned down by Ascom's main board at the last minute. You may remember that, as part of their bid defence against Microvitec, Logitek sold Azlan in an MBO for £4.3m just two years ago in 1991. Since then Azlan's results themselves have been "stunning" - reporting PBT of £2.95m in the year to 31st Mar. 93. Shareholder returns are also likely to be equally stunning.

MD David Randall clearly deserves much of the praise for Azlan's success. But readers should note that canny investors Mike Brooke and Gordon Skinner are also Azlan directors.

Some really good news...

Clay Brendish, Chairman of **Admiral**, has been appointed as an adviser to HM Govt to help develop strategies at the Stationery Office, Central Office of Information, Civil Service College, Occupational Health Service, Recruitment Assessment Services and Chessington Computer Centre. He will spend around 5 days a month in the role. As readers will know, Admiral has the most consistent performance record you will find. The appointment of one of the best managers in the IT industry to this role is very good news. (Admiral interim results - see page 11)

Another of *System House's* star performers - **JBA International** - has announced that it is looking for an additional 100 programmers *"in response to growing demand for its AS/400 based systems"*.

Unisys - the software and services supplier

Unisys is now one of the best performing hardware manufacturers having just recorded its seventh consecutive profitable quarter. But perhaps we shouldn't use that description any more. This month Unisys has reorganised to reposition itself as a software and services supplier. The hardware division has been separated from Information Services & Systems and Government Systems. These two service divisions are now free to decide whether (or not) to use Unisys hardware for their projects.

Move to services pays dividends for Kode

Kode International has reported revenues up 27% at £12.3m and PBT up a massive 115% at £710K for the six months to 2nd July 93. EPS advanced 72%. In July 92, Kode acquired TPM supplier **DCM** from Hillsdown for £3.2m. Together with Kode's existing TPM operations a profit of £123K was recorded compared with a loss of £453K last time. Kode's CSI revenues therefore represent 38% - or £4.7m - of H1 revenues; somewhat less than the 50% indicated to us as the run rate six months ago. But Kode points out that market conditions for TPM are, and are likely to remain, *"difficult...with intense price competition. However, continued success has been achieved in non-maintenance activities such as FM and network management"*. Indeed, we believe that Kode is well positioned to benefit from the growing PC FM market.

Of course, Kode's historic core business is printed circuit manufacture via Kam Circuits. Market difficulties meant that *"profits were down on 1992"*.

"Another difficult year"

Standard Platforms is quoted on the USM and has made losses in each of the last three financial years. It develops UNIX software for optical disks. Latest results for the year to 31st Mar 93 show decreased losses (before tax) of £405K (£847K) on revenues up 71% at £2.7m. Chairman Peter Stephens said *"the downturn in orders continued....the company remains dependent on the continued support of its bankers"*. You can't get a more depressing Chairman's statement than that!

DEC UK depresses Digital

DEC UK has reported revenues up 5% to £866m in the year to 30th June 93. DEC worldwide reported a return to profits in Q4 (but still lost $251m in the year) but DEC UK only managed to breakeven - reversing a long trend where the UK outperformed its parent.

Input forecasts that CSI growth rates in UK and Germany (AAGR 10%) will lead Italy (8%) and France (7%) in the five years to 1998. CSI is considered to be one of the main beneficiaries if (when) Europe moves out of recession. This perhaps was the reason for **CGS** shares advancing 8.1% on 27th Aug.

Down to Earth at Micro Focus

System House readers will be only too aware that **Micro Focus**, the developers of COBOL Workbench, has held most of the important awards since we launched back in 1989. These have included:

- their shares have been the best performers in the sector - at one time up nearly twelve times at a high of 2378p
- the most profitable UK-owned SCSI company. PBT hit £22.8m in the year to 31st Jan. 93
- highest proportion of exports - 90% of revenues earned outside the UK last year.

There have been rumours of performance problems before. Last August an analyst's report sent the shares into a dive to 1400p - but full year results, to 31st Jan. 93, confounded the critics and they soon rose again to 2400p. In Feb. 93, Chairman Paul O'Grady expected the next year to *"maintain or exceed current growth rates"* and analysts were confidently forecasting PBT of £34m.

Last month we reported another analyst writing about customers preferring alternate development tools. Micro Focus shares fell to a low of around 1800p. The problem is that analysts have been predicting the end of COBOL as a development tool for thirty years. But the latest Micro Focus results for the six months to 31st July 93 do show the first reversal in the company's fortunes for a long while.

In £ terms, revenues were up 33% at £40.8m, PBT up 20% at £11.6m and EPS up 20%. Cash was unchanged at a massive £53.5m which generated £919K interest in the six months.

But, as we have said, the vast majority of Micro Focus earnings are from outside the UK - over 50% in the US. The weakness of the £ means that in $ terms profits fell marginally from $17.6m to $17.4m. Costs increased by 15% in $ terms *"in line with plan"* - so it was clearly sales which did not live up to expectations.

We should also point out that Micro Focus is one of the few companies to capitalise its R&D - a practice of which we greatly disapprove. These now total £16.4m of Micro Focus assets on their latest balance sheet. However, in recent years the amount capitalised has been less than or equal to the amount amortized. Readers should note that in the last period R&D increased from £5.3m to £7.4m and *"software development costs capitalised **exceeded** those amortised by £1.5m"*.

Micro Focus has moved fast to reflect the trends in computing with enhancements tackling *"cross-platform architectures, GUIs, 32-bit platforms, object oriented programming in COBOL and tools for downsizing from IBM mainframes"*. But Micro Focus will face more competition in this new world with perhaps even veteran COBOL users seeing this as the time for the ultimate change. Anyway, Chairman Paul O'Grady has disbanded the 4 man committee which exercised executive control and becomes CEO himself in order to exercise *"more decisive leadership"*. As the FT said he will now *"take to the road ..and drive the sales growth himself"*. Analysts have reduced profit forecasts for the full year from £31m to £27m - which is still a pretty impressive performance in anyone's books.

The future still looks good for Micro Focus but we suspect that the days of meteoric growth - in earnings and the share price - are now over.

Pegasus - fact or myth?

The Greek myth says that Pegasus, the winged horse, fell to earth. *System House* readers will know the relevance of that part of the story to **Pegasus Group**. Briefly, Pegasus is a leading supplier of financial accounting software. It hit a low in 1992 resulting in the appointment of Jonathan Hubbard-Ford as CEO. Founder Derek Moon was not happy. He ousted H-F only to find that the shareholders ousted him at an EGM in Dec. 92. Since then H-F has upset his dealer base by doing what Pegasus should have done all along - cultivate the revenue potential of its users.

The Greek myth then continues - from the imprint the falling Pegasus left on earth flowed spring. The latest interim results therefore have further uncanny similarities to this tale.

PBT for the six months to 30th June 93 increased by 204% to £1.02m on revenues up 27% at £5.3m. EPS was up 147%. First half revenues had been boosted by the introduction of Pegasus V6 with its VAT and payroll "statutory *upgrades*". 50% of users took the upgrade. This is part of a new (yes, new) policy to emphasise *"additional recurrent sources of related revenue to reduce reliance on new software sales"*. But these kind of statutory changes do not happen every six months, so Pegasus warned that *"software sales would continue at reduced levels"* in the second half. Pegasus' future is based on the success of the soon to be released Opera suite which it purchased last year.

In the business forms operation "volumes, *revenues and profits are ahead of 1992"* - increasing the likelihood that US Deluxe will exercise its option to purchase Pegasus' 75% stake in 94. This could be very good news for shareholders.

Cash remained at around £2.4m. Pegasus shares rose 14p to 201p on the news, but closed the month on 192p.

A bit of light relief

Producing an edition of *System House* in August is not exactly easy. The computing industry silly season = no news at all! We have also discovered that it takes a lot to make an old computer hack laugh - other than his own jokes. When you get inundated with about 40 press releases a day - all written in the most turgid manner imaginable - the latest offering from **CODA** really seems quite amusing. They have published two Guides - The Accountants Guide to Computing and The Computing Guide to Accountancy. The definitions are generally useful and of course contain all kinds of positive references to Coda's superior accounting products. But it is all done with considerable humour. *A few examples:*

ALU: Arithmetic and Logic Unit: Of no earthly use to anyone except candidates for GSCE Computing.

Bug: A programming error...described by software vendors as features.

Trial Balance: The need to test whether the left hand side really does equal the right...This testing process is probably the most exciting point in an accountants day/week/life!

It even has **the accountant's joke** which goes:

Q: *If my wife is an asset to me, can she also be a credit to me?*

A. *No, credits are liabilities.*

You can now see what a mundane life we lead that such press releases can be a source of *some* enjoyment. Coda's CEO, Rodney Potts says he would be happy to send you a copy if you phone him on 0423 509999.

ACT Group plc	Results	Final - Mar 92		Final - Mar 93	Final Comparison
	Revenue	£ 119,447,000		£ 152,926,000	+28.0
	PBT	£ 17,020,000		£ 20,478,000	+20.3%
	EPS	10.83p		11.33p	+4.6%
Admiral plc	Results	Interim - Jun 92	Final - Dec 92	Interim - Jun 93	Interim Comparison
	Revenue	£ 13,656,000	£ 30,870,000	£ 17,710,000	+29.7%
	PBT	£ 1,960,000	£ 3,986,000	£ 2,185,000	+11.5%
	EPS	11.6p	24.2p	13.3p	+14.7%
Capita Group plc	Results	Interim - Jun 92	Final - Dec 92	Interim - Jun 93	Interim Comparison
	Revenue	£ 13,732,000	£ 33,098,452	£ 22,102,000	+61.0%
	PBT	£ 1,769,000	£ 4,406,012	£ 2,038,000	+15.2%
	EPS	2.53p	6.43p(Restated)	2.86p	+13.0%
Comac Group plc	Results	Final - Dec 91		Final - Dec 92	Final Comparison
	Revenue	£ 9,971,456		£ 11,118,158	+11.5%
	PBT	£ 362,424		£ 394,723	+8.9%
	EPS	4.05p		3.94p	-2.7%
Computer People Group plc	Results	Final - Dec 91		Final - Dec 92	Final Comparison
	Revenue	£ 67,660,000		£ 62,735,000	-7.3%
	PBT	£ 1,006,000		£ 145,000	-85.6%
	EPS	5.48p		(0.97p)	Profit to Loss
Cray Electronics Holding plc	Results	Final - Apl 92 (restated)		Final - Apl 93	Final Comparison
	Revenue	£ 84,786,000		£ 200,785,000	+136.8%
	PBT	£ 2,352,000		£ 29,014,000	+1133%
	EPS	1.9p		13.8p	+626%
Division Group plc	Results	Interim - Apl 92	Final - Oct 92	Interim - Apl 93	Interim Comparison
	Revenue	£ 498,564	£ 1,081,913	£ 913,508	+83.0%
	PBT	£ 73,100	(£ 107,783)	(£ 10,212)	Profit to Loss
	EPS	0.7p	(1.0p)	(0.1p)	Profit to Loss
EIT Group plc	Results	Final - Mar 91		Final - Mar 92	Final Comparison
	Revenue	£ 485,052		£ 7,028,738	+1349%
	PBT	(£ 246,437)		(£ 190,510)	Loss both
	EPS	(4.15p)		(1.3p)	Loss both
Electronic Data Processing plc	Results	Interim - Mar 92	Final - Sep 92	Interim - Mar 93	Interim Comparison
	Revenue	£ 7,468,000	£ 15,455,000	£ 7,350,000	-1.6%
	PBT	£ 2,407,000	£ 4,877,000	£ 2,341,000	-2.7%
	EPS	18.83p	38.4p	18.07p	-4.0%
Enterprise Computer Holdings plc	Results	Interim - Sep 92	Final -15 mos to Mar 92	Interim - Sep 92	Interim Comparison
	Revenue	£ 57,604,000	£ 157,857,000	£ 35,524,000	-38.3%
	PBT	(£ 3,398,000)	(£ 8,330,000)	(£ 3,392,000)	Loss both
	EPS	(4.6p)	(9.8p)	(4.3p)	Loss both
Gresham Telecomputing plc	Results	Interim - Apl 92	Final - Oct 92	Interim - Apl 93	Interim Comparison
	Revenue	£ 3,954,000	£ 7,250,000	£ 3,060,000	-22.6%
	PBT	£ 284,000	£ 767,000	£ 419,000	+47.5%
	EPS	0.57p	1.94p	0.86p	+50.9%
INSTEM plc	Results	Final - Dec 91		Final - Dec 92	Final Comparison
	Revenue	£ 15,810,000		£ 14,272,000	-9.7%
	PBT	£ 1,010,000		£ 575,000	-43.1%
	EPS	15.2p		8.5p	-44.1%
Kalamazoo Computer Group plc	Results	Final - 8 mos- Mar 92		Final - Mar 93	Final Comparison
	Revenue	£ 38,300,000		£ 56,700,000	Not comparable
	PBT	£ 611,000		£ 1,800,000	Not comparable
	EPS	Nil		1.6p	Not comparable
Kewill Systems plc	Results	Final - Mar 92		Final - Mar 93	Final Comparison
	Revenue	£ 41,824,000		£ 33,341,00	-20.3%
	PBT	£ 2,421,000		£ 435,000	-82.0%
	EPS	19.91p		(0.60p)	Profit lo Loss
Kode International plc	Results	Interim - Jun 92	Final - Dec 92	Interim - Jun 93	Interim Comparison
	Revenue	£ 9,637,000	£ 20,915,000	£ 12,277,000	+27.4%
	PBT	£ 330,000	£ 1,031,000	£ 710,000	+115.2%
	EPS	2.5p	8.6p	4.3p	+72.0%
Learmonth & Burchett Management Systems plc	Results	Final - Apl 92		Final - Apl 93	Final Comparison
	Revenue	£ 21,404,000		£ 23,645,000	+10.5%
	PBT	£ 303,000		£ 1,610,000	+431.4%
	EPS	0.7p		7.0p	+900.0%
Logica plc	Results	Interim - Dec 91	Final - Jun 92	Interim - Dec 92	Interim Comparison
	Revenue	£ 98,575,000	£ 200,383,000	£ 104,208,000	+5.7%
	PBT	£ 2,155,000	£ 7,062,000	£ 4,136,000	+91.9%
	EPS	2.1p	7.0p	3.7p	+76.2%
MR Data Management plc	Results	Interim - Dec 91	Final - Jun 92	Interim - Dec 92	Interim Comparision
	Revenue	£ 16,338,000	£ 33,711,000	£ 18,629,000	+14.0%
	PBT	£ 3,809,000	£ 8,227,000	£ 4,020,000	+5.5%
	EPS	4.58p	10.6p	4.89p	+6.8%
Macro 4 plc	Results	Interim - Dec 91	Final - Jun 92	Interim - Dec 92	Interim Comparison
	Revenue	£ 8,829,000	£ 19,016,000	£ 11,213,000	+27.0%
	PBT	£ 3,828,000	£ 8,750,000	£ 4,935,000	+28.9%
	EPS	11.5p	26.5p	14.8p	+28.7%
Maddox Group plc	Results	Final - Dec 91		Final - Dec 92	Final Comparison
	Revenue	£ 222,809		£ 24,171,000	Not comparable
	PBT	(£ 311,542)		£ 1,134,000	Loss to Profit
	EPS	(1.43p)		0.39p	Loss to Profit
Micro Focus plc	Results	Interim - Jul 92 (restated)	Final - Jan 93 (restated)	Interim - Jul 93	Interim Comparision
	Revenue	£ 30,644,000	£ 68,882,000	£ 40,800,000	+33.1%
	PBT	£ 9,628,000	£ 22,777,000	£ 11,554,000	+20.0%
	EPS	44.5p	106.6p	53.5p	+20.2%

Microgen Holdings plc	Results	Interim - Apl 92	Final - Oct 92	Interim - Apl 93	Interim Comparison
	Revenue	£ 24,974,000	£ 49,316,000	£ 26,137,000	+4.7%
	PBT	£ 4,368,000	£ 8,243,000	£ 3,758,000	-14.0%
	EPS	7.1p	13.8p	6.1p	-14.1%
Microvitec plc	Results	Final - Dec 91		Final - Dec 92	Final Comparison
	Revenue	£ 36,873,000		£ 49,888,000	+35.3%
	PBT	(£ 3,847,000)		(£ 2,137,000)	Loss both
	EPS	(5.3p)		(3.4p)	Loss both
Misys plc	Results	Final - May 92		Final - May 93	Final Comparison
	Revenue	£ 68,023,000		£ 88,761,000	+30.5%
	PBT	£ 9,118,000		£ 15,125,000	+65.9%
	EPS	17.8p		27.4p	+53.9%
MMT Computing plc	Results	Interim - Feb 92	Final - Aug 92	Interim - Feb 93	Interim Comparision
	Revenue	£ 3,009,000	£ 6,220,000	£ 3,165,000	+5.2%
	PBT	£ 712,000	£ 1,500,000	£ 865,000	+21.5%
	EPS	3.9p	7.9p	4.8p	+23.1%
P & P plc	Results	Interim - May 92	Final - Nov 92	Interim - May 93	Interim Comparision
	Revenue	£ 119,300,000	£ 222,752,000	£ 121,800,000	+2.1%
	PBT	£ 1,000,000	£ 2,012,000	£ 2,000,000	+100%
	EPS	1.0p	1.9p	2.1p	+110%
P-E International plc	Results	Final - Dec 91		Final - Dec 92	Final Comparision
	Revenue	£ 68,750,000		£ 71,108,000	+3.4%
	PBT	£ 1,622,000		£ 160,000	-90.1%
	EPS	4.9p		(0.22p)	Profit to Loss
Pegasus Group plc	Results	Interim - Jan 92	Final - Dec 92	Interim - Jun 93	Interim Comparison (Note yr end)
	Revenue	£ 3,367,000	£ 10,269,000	£ 5,300,000	not comparable
	PBT	£ 320,000	£ 620,000	£ 1,020,000	not comparable
	EPS	3.8p	7.3p	9.4p	not comparable
Phonelink plc	Results	Final - Mar 92		Final - Mar 93	Final Comparison
	Revenue	£ 819,709		£ 922,557	+12.5%
	PBT	£140,420		£ 30,905	-78.0%
	EPS	0.5p		0.1p	-80.0%
Proteus International plc	Results	Final - Mar 92		Final - Mar 93	Final Comparison
	Revenue	£ 3,000		£ 21,000	+600%
	PBT	(£ 2,408,000)		(£ 3,547,000)	Loss both
	EPS	(10.86p)		(13.52p)	Loss both
Quality Software Prod. Holdings plc	Results	Final - Dec 91		Final - Dec 92	Final Comparison
	Revenue	£ 11,105,698		£ 13,118,000	+18.1%
	PBT	£ 1,501,039		£ 1,201,000	-20.0%
	EPS	21.9p		16.2p	-26.0%
Radius plc	Results	Interim - May 92	Final - Nov 92	Interim - May 93	Interim Comparison
	Revenue	£ 11,988,000	£ 24,012,000	£ 10,723,000	-10.6%
	PBT	£ 525,000	£ 1,231,000	(£ 466,000)	Profit to Loss
	EPS	1.0p	2.9p	(1.3p)	Profit to Loss
Real Time Control plc	Results	Final - Mar 92		Final - Mar 93	Final Comparison
	Revenue	£ 6,835,000		£ 6,114,000	-10.5%
	PBT	£ 1,192,000		£ 492,000	-58.7%
	EPS	11.1p		4.9p	-55.9%
Rolfe & Nolan Computer Services plc	Results	Final - Feb 92		Final - Feb 93	Final Comparison
	Revenue	£ 6,737,000		£ 11,232,000	+66.7%
	PBT	£ 1,390,000		£ 1,216,000	-12.5%
	EPS	15.9p		17.7p	+11.3%
Sage Group plc	Results	Interim - Mar 92	Final - Sep 92	Interim - Mar 93	Interim Comparison
	Revenue	£ 14,489,000	£ 27,274,000	£ 20,983,000	+44.8%
	PBT	£ 4,340,000	£ 8,853,000	£ 5,380,000	+24.0%
	EPS	14.53p	30.9p	17.68p	+21.7%
Sanderson Electronics plc	Results	Interim - Mar 92	Final - Sep 92	Interim - Mar 93	Interim Comparison
	Revenue	£ 10,610,000	£ 21,398,000	£ 12,057,000	+13.6%
	PBT	£ 1,801,000	£ 2,805,000	£ 1,803,000	+0.1%
	EPS	16.0p	24.0p	14.2p	-11.3%
Sema Group plc	Results	Final - Dec 91		Final - Dec 92	Final Comparison
	Revenue	£ 412,501,000		£ 416,675,000	+1.0%
	PBT	£ 14,015,000		£ 19,458,000	+38.8%
	EPS	11.02p		13.22p	+20.0%
Sherwood Computer Services plc	Results	Interim - Jun 92	Final - Dec 92	Interim - Jun 93	Interim Comparison
	Revenue	£ 10,710,000	£ 21,103,000	£ 11,837,000	+10.5%
	PBT	£ 1,748,000	£ 3,004,000	£ 541,000	-69.1%
	EPS	16.7p	27.5p	3.4p	-79.6%
Standard Platforms plc	Results	Final - Mar 92		Final - Mar 93	Final Comparison
	Revenue	£ 1,606,610		£ 2,700,000	+66.8%
	PBT	(£ 847,471)		£ 405,368	Loss Both
	EPS	n/a		n/a	n/a
Total Systems plc	Results	Final - Mar 92		Final - Mar 93	Final Comparision
	Revenue	£ 2,796,777		£ 2,869,359	+2.6%
	PBT	£ 756,880		£ 832,906	+10.0%
	EPS	5.11p		6.08p	+19.0%
Trace Computers plc	Results	Interim - Nov 91	Final - May 92	Interim - Nov 92	Interim Comparison
	Revenue	£ 9,715,000	£ 19,491,000	£ 8,835,000	-9.1%
	PBT	£ 221,000	£ 502,000	£ 105,000	-52.5%
	EPS	1.52p	2.89p	0.78p	-48.7%
Vega Group plc	Results	Final - Apl 92 (amended)		Final - Apl 93	Final Comparison
	Revenue	£ 6,269,000		£ 8,089,000	+29.0%
	PBT	£ 1,387,000		£ 1,705,000	+27.0%
	EPS	6.69p		7.99p	+19.4%
Vistec Group plc	Results	Final - Apl 92		Final - Apl 93	Final Comparison
	Revenue	£ 32,287,000		£ 38,665,000	+19.8%
	PBT	£ 2,714,000		£ 3,503,000	+29.1%
	EPS	1.52p		2.07p	+36.2%

Acquisitions, disposals and liquidations

Capita buys

Capita, one of the most consistent and high-performing UK CSI companies, has bought **West Wiltshire Software** (WWS) for £4m in cash. It has also been awarded a £3m FM contract with West Wiltshire District Council. WWS, which claims over 100 local authority clients made a rather remarkable profit of £3.1m on revenues of £4.9m in the year to April 5th 93. This was because they marketed software products for both community charge and council tax in the year. The buy will strengthen still further Capita's strong position in the LA software and FM markets.

Superstores - mixed tale

Earlier this year **Dixons** paid £8.5m for the **PC World** chain of four PC superstores. Around £30m of PC World's £49m revenues came from mail order activities which were sold recently to **Action Computer Supplies** for a consideration understood to be well under £1m. That makes the price paid for the superstores bit quite exceptionally high.

This month **Technology plc** (part of ICL) has bought the PC superstore **Icon** in Dudley for an undisclosed sum. IBM took its by now usual "shoot in foot" decision and stopped supplying them with product. Also this month, **Specialist Computer Holdings**, run by reputedly the richest man in the sector - Peter Rigby, opened his first PC **Byte** superstore in Gateshead. An investment of £1m was required to open to store which must turnover £12m a year to breakeven. This month PC World has opened a store in Cardiff - its first store outside London.

But bringing the superstore hype into some kind of perspective, **Kaytech plc,** which runs 5 PC superstores has appointed the receivers. Only a few months ago Kaytech were talking confidently about a stock market float. Now debts in excess of £1m are rumoured after both Compaq and Apple withdrew supplies.

Vistec strengthens move to software

Vistec has one of the best performance records around - all the more remarkable as much of their revenue was previously derived from hardware distribution/sales/support.

This month they strengthened their rapidly growing software operations by purchasing the **Quality Workbench** quality management software product from **Trisoft plc** which has gone into liquidation. Vistec has set up a new subsidiary - **IdeaGen Software** to handle the product and say they are looking to add other niche products.

The rest of Trisoft, which was also a Pegasus/Tetra dealer, went to **Servo Computer Services plc**. No consideration was disclosed but we would not expect this to have been material.

Canny old Schroders...

Realising how many *System House* readers have **Schroder Ventures** as a shareholder, they might therefore be interested in the Mitel story. **BT** bought a 51% stake in Canadian **Mitel** for £180m then sold it last year to funds managed by Schroders for the equivalent of £29.8m. This month they have sold under a quarter of their holding for £33.2m - ie more than they paid for the whole lot. Now that's a decent war chest to invest back in the UK CSI sector!

The others... **Source I Solutions** has been forced into liquidation after losing a court case against customer Saxon Hawk which claimed that its UNIX based accounting and stock control package was riddled with errors. Interestingly DEC VAR **Cambridge Online** saved the day by supplying its DEC VAX VMS based product. **Arrival Systems,** where Jeff Trendall is MD, has acquired rival AS/400 system house **Syan**. The combined operations will have revenues of £3m and employ 30 people. Although no consideration was disclosed, the reason for the acquisition was *"to provide improved financial stability and credibility"*. Contrary to our report last month, **Pentasonic** pulled out of its rescue of **Kaytech** which has now gone into voluntary liquidation. **Hays Business Services** has acquired **DataCartel**, which specialises in magnetic media storage. Consideration was £960K plus assumption of £290K borrowings. Dental practice software supplier, **Shire Medical Systems**, has appointed the receivers. **Longman Training**, a division of **Pearson**, has bought the assets of **Interactive Information Systems** for £1.7m. Financial services software house **TCAM** says it is looking for a buyer. TCAM, which has revenues of £4.5m, provides an Oracle based share settlement system. It says it needs to be part of a larger group to successfully bid for larger contracts. But other City software houses like Premier and Synergo have been hard hit recently. **Cadtek Systems**, an HP CAD VAR, has acquired its main competitor **Open Solutions. Reuters** has bought **Futures Pager** - a pocket information product. **HM Holdings plc**, a quoted shell company, has acquired **Metric Group** - which supplies retail EPOS terminals. Metric (as it will be known) is raising *"between £500K and £2.1m"* and will be refloated immediately. Interestingly, **CMG** founder, Brian Mills will be a non-exec. **Ingram Micro** has bought various parts of Belgium distributor, **Zaventem**, from **P&P**. This was acquired by P&P, together with Micro Business, for £4.75m in 1990. However, P&P have decided to move out of distribution since. IT market research operation, **Romtec** has acquired comms MR company **Telematica** from **Intelidata** - it will be merged with **Systems Dynamics** acquired in 1992. The MBO at **JWP Information Systems** UK was completed this month. The UK arm will change its name to **Lantec Information Services**. MD Jim Rousou is the largest shareholder. ISDN protocol conversion specialist, **3Net Ltd** has been acquired by **Securicor Communications.** No terms were disclosed.

Surprise, surprise. **ACT** received 97.4% acceptances for its rights issue at 123p to acquire **BIS**. The remaining 2.6% were sold for 173p. Then, on 26th Aug. 93, **Singer & Friedlander** sold its entire 10.3% holding ACT at 161p per share netting c£31m. The sale had no adverse effect on ACT's share price which ended the month at 174p.

S&F has held these ACT shares for many years and must have registered a gain in excess of £20m. S&F's other forays into CSI investments were not quite so successful. They were major (34%) shareholders in **Ferrari** (which went into liquidation) and thereby in **Telecomputing;** buying at the top and force selling before Sid Green's Gresham pushed the share price into the stratosphere.

Many readers 'phoned us with their (incredulous) comments on our exchange of views with **Sanderson** Chairman Paul Thompson last month. Clearly the *Mail on Sunday* was on the ball. On 31st Aug. Sanderson sold a 20% stake in **General Automation** to Larry Michels.

Misys buys from Data Sciences

In January 1992, **Misys** made its first foray into the hotel systems market by purchasing **Innsite** for £3.55m plus the assumption of responsibility for £1.7m of debts. Innsite was founded by ADP in 1981 and had annual revenues of c£8m and PBT of £662K at the time. Its systems are installed in over 1200 hotels worldwide. This month, Misys has bought one of the oldest players in the hotel systems market - **Champs** - from **Data Sciences** for £725K. The Champs system was of more interest to the larger/more prestigious hotel and had just 80 installations which generated annual revenues of around £1.2m.

On the basis of the Tom Peters' *"Stick to the knitting"* principle, the purchase looks spot on. But does this indicate that all of Data Sciences' "non-core" businesses are for sale...at almost any price? More Misys - see page 10.

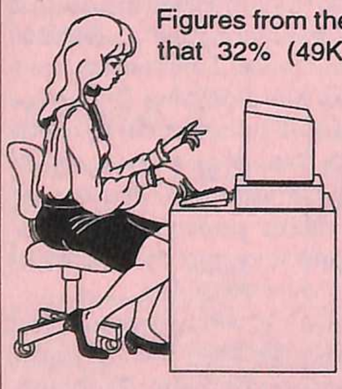
The Last Word from The Last Word?

Loss-making DTP bureau **The Last Word** is seeking a refinancing package in a last ditch effort to save the company. In *a lesson to us all* Chairman Ray Hammond blamed the financial difficulties on a breakdown in accounting practices and said he had only recently become fully aware of the company's problems. Source - MicroScope 18th Aug. 93. Even more of a shame as we used their services which we always thought were excellent.

Cray director sells entire shareholding

Sir Peter Michael, the former Chairman of **Cray Electronics**, has sold his entire holding of 9m shares for an estimated 140p realising C£12.5m. 6m of these shares came from the performance related deal awarded when he, together with Roger Holland, Jon Richards and Jeff Harrison *"rescued Cray from almost certain receivership"* back in 1989. Given the size of deal, it was a great surprise to see the shares rise by 2p to 149p on the announcement.

Women still under represented in CSI



Figures from the Dept. of Employment show that 32% (49K) of the people working in computing services are female. However, 28% of these jobs are part time. Indeed, women constitute two thirds of all part time jobs in CSI but only a quarter of the full time jobs.

With all the controversy over further education places after the A level results were announced this month, it is interesting to note that UCCA received 4000 more (total 30,930) applications for computer studies this year. Only 16% of places have been awarded to women.

Up, up and away

Speedwing - the software and services subsidiary of **British Airways** - reports that its non BA revenues increased by £11m to £35m in the year to 30th Nov. 92. Speedwing has just announced that it has secured an FM contract with Thames Television from **Data Sciences**.

Cray Communications, basically the old **Dowty IT** bit of **Cray Electronics**, has won four contracts worth in excess of £20m this month. The largest is with the Post Office to upgrade its nationwide data network. Proving, yet again, that the Dowty IT acquisition was about the best on record.

Another strange attempted Phoenix story

- **Diamond Computers** is (was) a PC dealer which runs 10 stores.
- last year Diamond had to write off £400K when Actionbyte collapsed. Soon after Diamond's £490K overdraft was withdrawn. Suppliers then withdrew credit facilities
- the MD of Diamond is Mike Brown
- Diamond owes creditors £2.7m and appointed Pannell Kerr Forster to action a company voluntary arrangement
- Diamond creditors were being asked to accept a bid from **Marstom** giving them 28p in the £
- Marstom is a subsidiary of **Ricewood** in which Brown has a 30% stake
- the arrangement was promised the backing of creditor **Direction Technology** which is owed £649K.
- Direction Technology is a subsidiary of Ricewood
- French **V3i** owes Diamond £232K. V3i is 65% owned by Direction

Other creditors like **Micro Peripherals**, which is owed £154K, smelt a rat and said it has *"absolutely no intention of supporting"* the plan.

"Furious creditors" attacked the plan at a meeting on 16th Aug. The proposal was withdrawn. Camden Council has closed Diamond's Tottenham Court Road store.

- Touche Ross has now been appointed provisional liquidator.
- creditors are not greatly pleased with Brown. He accused them of pursuing him when he brought his wife home from hospital after an operation. Brown says the Diamond collapse could make him personally bankrupt.

The reasons for failure? Diamond failed for all the reasons we have expounded for years - so perhaps the poor old creditors really only have themselves to blame. But we offer this quote as an epitaph.

"The financial controls were hopelessly inadequate. Diamond MD Mike Brown attempted to lay some of the blame at the door of the former financial controller, who ***"never produced any monthly accounts".*** *When pushed, Brown conceded he had failed to get the information he required from the £30,000 p.a. employee over 12 months".*

Source - Continued excellent reporting in **MicroScope** throughout Aug. 93.

The problems and potential of the Small Business Market

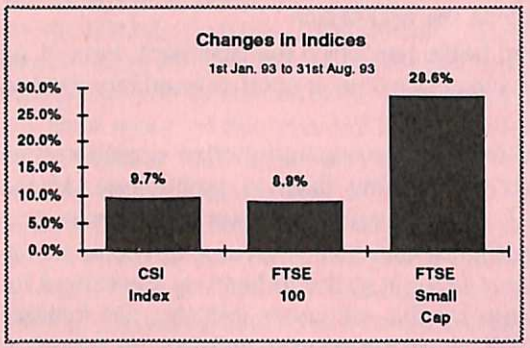
The ***Sage Business Survey*** has declared that 80% of the UK's 1.9m small businesses which are not computerised have no plans to buy a system in the coming two years. 57% of companies gave computerising their accounts as the main reason for installing a computer. It's all a bit sad really given the advantages that computerisation has provided for the small business which produces System House. It also demonstrates the huge potential offered by this market to those suppliers that really can get their act together in addressing this market.

STOP PRESS! STOP PRESS! STOP PRESS!

On 1st Sept 93, **Cray Electronics** announced that it was bidding £16.24m (74.25p per share) for **P-E international**. The shares had closed at 65p the night before. P-E also announced a loss of £896K (PBT £515K) for the six months to 30th June 1993. More details next month.

FTSE 100 Records, but...

The FTSE 100 ended the month over 3100 for the first time. But the record CSI Index (1776) was reached earlier this year in June. We have said on many occasions that the major rise in the CSI Index has already happened - the rest of the Stock Exchange is just catching up. If you really want to have made spectacular gains you should have started your investment in 1991. This year we have added the FTSE Small Cap. Index to our tracking system - many readers told us that they thought this index was nearer to CSI companies than the FTSE 100. The FTSE Small Cap has risen (caught up?) three times faster this year than the CSI Index.



This month's share price rankings are headed by **Capita** - up 29% on results reported last month and expectations of major gains from HM Govt. market testing. **Division** was up 26% - report see page 3. Losses did not deter investors from the excitement of breakthrough contracts. **Maddox** rise of 23% could well be the dreaded *"dead cat bounce"* - although the directors must be relieved that they survived their recent AGM.

At the other end of the scale **Sherwood** fell 30% (see report page 11). This month we have had several *"Did you know that x, y or z were buying Sherwood?"* calls. The x, y and z were big and rather interesting. **Computer People** fell again - this time by 14% - as further pressure is put on the contract staff sector by over supply. **P-E** had lost 8% - until the **Cray** bid reversed all those losses on 1st Sept.

Computing Services Index
31st August 1993
April 15th 1989 = 1000

1748.67

Changes in Indices	CSI Index	FTSE 100	FTSE Small Cap
Month (29/7/93 - 31/8/93)	+3.97%	+6.25%	+8.51%
From 15th Apr 89	+74.87%	+50.95%	
From 1st Jan 90	+90.05%	+31.24%	
From 1st Jan 91	+147.03%	+43.49%	
From 1st Jan 92	+67.36%	+24.34%	
From 1st Jan 93	+9.73%	+8.91%	+28.56%

System House CSI Share Prices and Capitalisation

	Share Price 31/8/1993 (£p)	Capitalisation 31/8/1993 (£m)	Historic P/E	CSI Index 31/8/93	Share price % move since 29/7/93	Share price % move in 1993	Capitalisation move (£m) since 29/7/93	Capitalisation move (£m) in 1993
ACT	£1.74	£320.90m	18	2761.90	4.19%	17.57%	£13.00m	£112.20m
Admiral	£4.70	£50.80m	20	3405.80	6.33%	22.08%	£3.10m	£9.50m
Capita	£1.93	£91.50m	30	5795.80	28.67%	36.88%	£20.40m	£27.60m
Comac Group	£0.94	£6.03m	24	2186.05	10.59%	422.22%	£0.57m	£4.87m
Computer People	£0.97	£13.50m	Loss	399.18	-14.16%	31.08%	-£ 2.20m	£3.20m
Cray Electronics	£1.49	£319.20m	15	871.35	0.68%	36.70%	£18.80m	£98.70m
Division Group	£0.78	£26.30m	Loss	1950.00	25.81%	95.00%	£5.40m	£12.80m
Electronic Data Processing	£5.53	£48.10m	15	5642.86	0.55%	15.21%	£0.30m	£6.30m
Enterprise	£0.34	£27.70m	Loss	272.00	-4.90%	65.85%	-£ 1.40m	£12.50m
Gresham Telecomputing	£1.72	£55.00m	89	1849.46	-2.82%	493.10%	-£ 1.40m	£45.76m
INSTEM	£1.61	£7.70m	12	1610.00	11.03%	89.41%	£1.17m	£3.88m
Kalamazoo	£0.78	£14.30m	18	2214.29	6.16%	192.45%	£0.80m	£9.42m
Kewill	£1.99	£23.80m	Loss	786.56	1.53%	261.82%	£0.40m	£17.23m
Kode International	£1.90	£17.70m	22	883.72	1.06%	90.00%	£0.20m	£8.41m
Learmonth & Burchett	£2.47	£44.30m	35	2058.33	-0.40%	94.49%	-£ 0.20m	£23.10m
Logica	£2.54	£156.20m	30	695.89	8.55%	53.94%	£12.30m	£54.90m
Macro 4	£6.40	£144.80m	22	2580.65	-4.33%	22.37%	-£ 6.30m	£27.10m
Maddox Group	£0.04	£17.80m	22	888.89	23.08%	-44.83%	£3.30m	-£ 14.50m
Micro Focus	£19.93	£281.00m	19	9628.02	2.05%	-25.91%	£5.60m	-£ 87.50m
Microgen	£1.72	£67.80m	12	735.04	17.01%	-8.51%	£9.90m	-£ 5.50m
Microvitec	£0.30	£19.30m	Loss	719.51	13.46%	22.92%	£2.30m	£3.60m
Misys	£5.09	£197.90m	19	1266.17	-1.74%	42.18%	-£ 2.90m	£60.10m
MMT	£1.28	£13.60m	16	761.90	1.59%	15.32%	£0.20m	£1.80m
MR Data Management	£2.09	£115.50m	20	829.37	16.11%	7.73%	£16.00m	£9.20m
P&P	£0.66	£36.60m	35	295.96	-4.35%	127.59%	-£ 1.70m	£20.50m
P-E International	£0.65	£14.20m	Loss	267.49	-8.45%	32.65%	-£ 1.30m	£3.50m
Pegasus	£1.92	£12.40m	49	523.16	14.97%	66.96%	£1.60m	£5.09m
Phonelink	£2.48	£88.00m	n/a	1600.00	0.00%	60.00%	£0.00m	£33.00m
Proteus	£4.12	£112.90m	Loss	4904.76	7.85%	-0.72%	£8.20m	£1.40m
Quality Software	£5.44	£42.30m	27	1431.58	-0.91%	43.16%	-£ 0.40m	£12.70m
Radius	£0.36	£9.82m	12	260.87	-7.69%	-16.28%	-£ 0.78m	-£ 1.88m
Real Time Control	£0.77	£5.39m	16	1571.43	2.67%	-10.47%	£0.14m	-£ 0.63m
Rolfe & Nolan	£2.23	£12.60m	13	1327.38	1.36%	-7.08%	£0.20m	-£ 1.00m
Sage Group	£3.90	£80.00m	13	3000.00	-8.02%	-20.08%	-£ 6.90m	-£ 20.00m
Sanderson	£3.31	£29.50m	14	1408.51	5.75%	45.81%	£1.60m	£9.50m
Sema Group	£3.65	£332.10m	30	1147.80	1.11%	14.06%	£3.60m	£40.90m
Sherwood	£1.55	£9.45m	5	1291.67	-29.55%	-39.22%	-£ 3.95m	-£ 6.35m
Total	£0.64	£6.40m	11	1207.55	-1.54%	-15.79%	-£ 0.10m	-£ 1.20m
Trace	£0.43	£6.10m	15	344.00	0.00%	19.44%	£0.00m	£1.10m
Vega Group	£1.61	£22.70m	19	1319.67	11.81%	43.75%	£2.40m	£6.90m
Vistec	£0.30	£35.80m	17	1282.61	0.00%	20.41%	£0.00m	£8.00m

Note: CSI Index set at 1000 on 15th April 1989. Any new entrants to the Stock Exchange are allocated an index of 1000 based on the issue price. The CSI Index is not weighted; a change in the share price of the largest company has the same effect as a similar change for the smallest company.

Misys and the new breed of successful UK CSI Companies

In the four years that we have produced *System House*, the Top Ten UK SCSI companies have changed radically. Only one (Sema) of the Top Five was in the listings when we started - and even they are now 90% non-UK owned. The rankings now are:

Rank		Capitalisation end Aug
1	**Sema Group**	£331.20m
2	**ACT**	£320.90m
3	**Cray Electronics**	£319.20m
4	**Micro Focus**	£280.60m
5	**Misys**	£197.90m
6	**Logica**	£156.80m
7	**Macro 4**	£147.00m
8	**MR Data Management**	£117.20m
9	**Proteus**	£115.40m
10	**Capita**	£91.50m

Misys was launched onto the USM in Mar. 87 at 95p with a capitalisation of £8m - they are now valued at over £200m and the share price is over 500p. But, as the chart below shows, its been a rise and fall...and rise again... story.

We reported on the latest results for the year to 31st May 93 last month. Briefly they showed revenues up 30% at £88.8m. PBT increased 66% at £15.1m. Misys' legendary cash management skills in part contributed to an increase in cash balances from £10m to £21m in the year. Profits from continuing businesses contributed 72% of total profits and grew by a healthy 19%. Acquisitions in the year - Countrywide and Specialist - contributed profits of £4.1m.

Misys, just like the other new comers in the CSI top rankings, is quite happy to be regarded as outside the old-established CSI club. Indeed, they resigned from the CSA and, like the other newcomers, play no real role in that organisation. Misys, ACT and Cray have many other similarities. In particular they all:

• have been very active in acquisitions and, because of that, now probably turn down many more acquisition propositions than they even have time to investigate.

• but their approach to the companies they acquire is often very "hard-nosed". Top management goes immediately - second level management has to sharpen its approach or it goes quickly too. In any event, large scale job losses follow *quickly* on the acquisition.

• have strong, battle hardened management. Indeed, all their CEOs have at one time or another been regarded as *"arrogant"*.

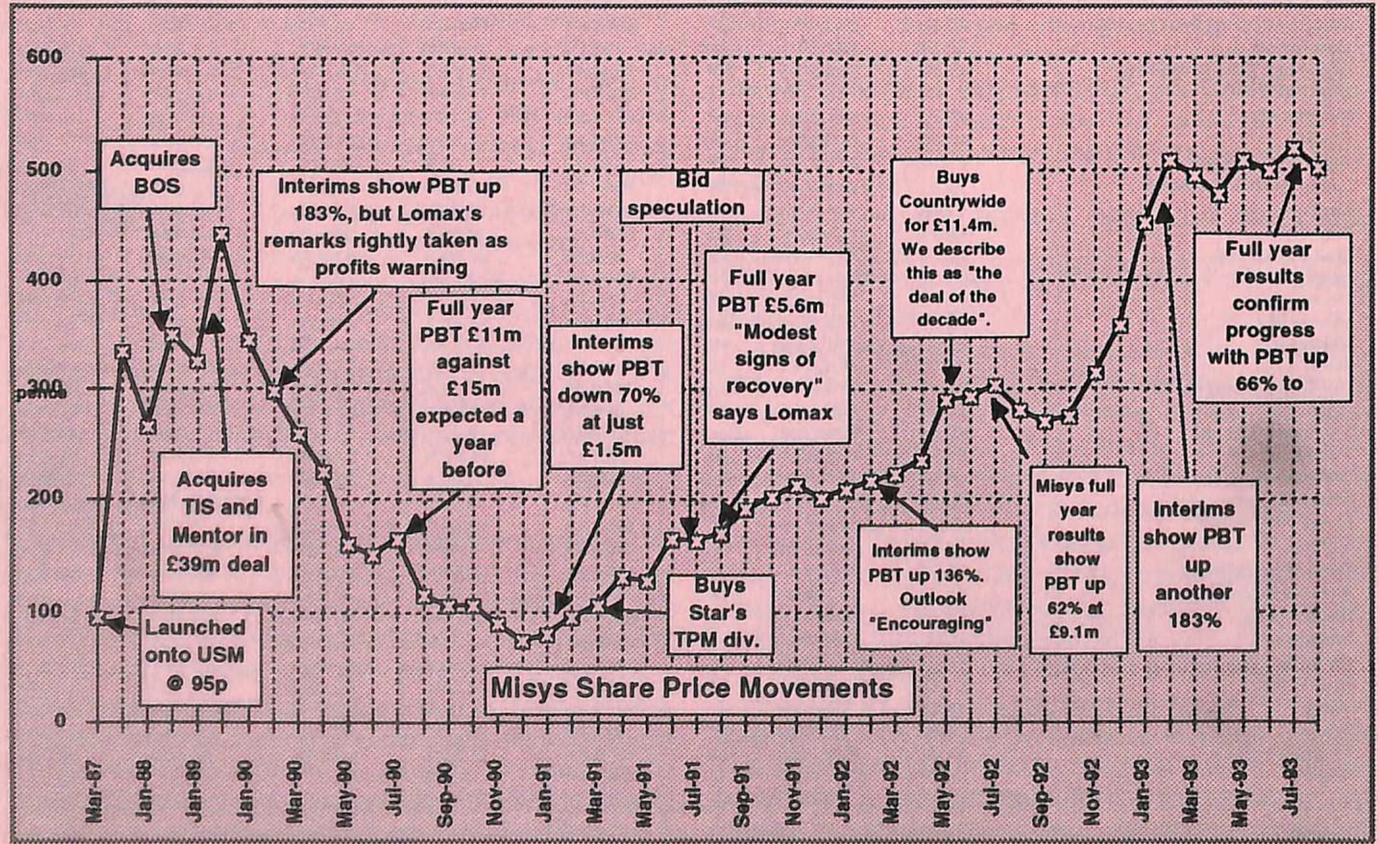
• are *"City-wise"* with management often considered as more atuned to the CIty than to technology. Many, unfortunately, believe that you have to be versed in decades of computer technology to run a CSI company. In fact the biggest failures in the industry are reserved for companies run by the computer industry old faithfuls (Headland, EIT would be good examples). At the other end of the scale, Geoff Unwin took Hoskyns to market on the slogan *"I've never touched a computer in my life"*, Kevin Lomax from Misys is an ex-Hanson manager, Bob Morton at Vistec *("the unsung hero of the industry")* was not previously involved in computer services.

• concentrate on clearly defined niche markets - albeit that their niche markets are large and fast growing. The news this month that Misys is to acquire Data Sciences' Champs hotel systems activities (see p8) to add to their Innsite operations is a good example of continued market concentration.

• put top priority on cash management. Every company in the top five is matched by similar rankings in the Cash Balances listings.

So what does it really add up to? If you really want to be successful in building a major UK CSI company you have to be...hard, non-technical, City-wise, unemotional and have a "cash is king" mentality.

It's sad but, if you test that against most in our industry... the test fails.



Not the best six months at Sherwood

In Apr. 93 we interviewed **Sherwood Computer Services** CEO Richard Guy- just after record PBT of £3m had been announced for the year to 31st Dec. 92. Guy was bullish. He said that their Lloyds insurance systems had achieved *"significant growth"* and that he reckoned Sherwood was the only CSI company making profits in that market. He felt that prospects for 1993 were *"encouraging"* and looked forward to *"another successful year"*. Sherwood shares had then just hit a high of 350p.

At the AGM on 2nd June, Guy warned of problems in the Lloyds market and followed this with a formal profits warning in early Aug. 93. This stated that H1 profits would be *"substantially below"* last years ***and*** blamed the downturn on *"the well publicised difficulties in the Lloyds market"*. The shares plummeted - all the way to 140p. That is the biggest fall we have recorded this year but is yet another example of the knee jerk reaction the City has to smaller companies.

In the event a *"substantial reduction"* meant a 69% PBT reduction to £541K on revenues up 10% at £11.8m for the six months to 30th June 93. But revenues from continuing operations were down 6% at £10.1m and a £315K operating loss (£1.6m profit last time) was recorded. A £747K operating profit from recent acquisitions saved the day. EPS fell by an even more dramatic 80%. Interest receivable fell from £88K to just £5K, as cash balances fell from £1.6m at the year end to £365K. At least the warning meant that the shares were little moved.

Clearly the reorganisation at Sherwood's largest Lloyds client - Sturge - and other well publicised difficulties caused *"a substantial reduction in the anticipated levels of licence revenues"*. Sturge had signed a 10 year contract with Sherwood for its UNIX based systems but reorganisation has led to a major reduction in software licence revenues just as Sherwood was enhancing its Sceptre product to meet Sturge's requirements. Sherwood made 41% of its revenues from the Lloyds market in the period; compared with 57% last year.

Local Govt. also *"failed to achieve the levels of new business necessary to make a contribution"*. At least that was one area where problems were anticipated in April. But to be fair, we would have thought that *"uncertainties"* and the introduction of the Council Tax would be *opportunities* not *"major contributing factors to poor sales performance"*. The changes have particularly affected the sales of their Threshold housing association product. But two new contracts have been signed since the year end (*"That's two more than in the first half"* Guy told us) and a further two letters of intent since.

On a brighter note Sherwood:

- *"continues to benefit from a strong performance"* in central govt.
- formed a new company to offer FM services to the financial services markets and has won five FM contracts worth £4.5m since.
- Guardian (the disaster recovery joint venture with ICL) *"continues to provide good returns"*.

As to the future - *"The directors remain positive about prospects for the remainder of the year"* and to illustrate this has held its interim dividend at 1.75p.

We happen to believe that Sherwood is really a rather sound company with net assets exceeding £6m. The problem is that we - and rather more importantly the City - does not like surprise bad news. We will give Guy the benefit of the doubt and accept that he had no idea of the impending problems when he spoke to us just five months ago. But that begs the inevitable question *"if he didn't know, why didn't he?"*. Guy responded that as soon as he did know, he told the shareholders.

"Admirable Growth for Admiral"

By the way, that's Admiral's own headline for the press release of their results for the six months to 30th June 93. In comparison with most other recent company results in the sector, it is hard to argue with the headline. Revenues were up 30% at £17.7m, operating profits improved by 30%, PBT increased 11% to £2.2m and EPS was up 15%. Even though cash balances increased from £4.4m at the year end to £5.5m, decreases in interest rates meant that interest receivable was halved to £129K - explaining the difference between operating and PBT growth. The difference between revenue and profits growth is more interesting. In a predominately people based company, the reason could be either lower utilisation - somewhat unlikely as Admiral has commendably increased staff numbers from 602 to 660 in the six months - or lower fee rates. Admiral confirmed the reason to be increasing fee rate competition.

Admiral still makes around 90% of its revenues from the UK market - the other 10% comes from Australiasia. Non-UK revenues, and staff, have grown significantly but it does not appear that profits have kept pace. Indeed, it looks as if the 27 strong contingent in Singapore (51% owned) operated at a *"slight loss"* in the period.

Admiral has continued its strong move into the Commercial/ Industrial arena. Back in 1985, Admiral's largest market was defence. We suspect that defence represented less than 30% of revenues in the last six months. Commercial/ Industrial has grown from 15% of revenues in the first part of 1992 to 25% so far in 1993.

Admiral's move into products is likely to accelerate and their project-based activities will clearly benefit from any upturn in the economy. Chairman, Clay Brendish, with his now almost legendary caution, does *"not expect to see real improvement in trading conditions in the short term. I am confident Admiral will continue to grow"*.

Comment

Although commendable, Brendish's caution has to be put into the context of a Chairman who has just reported a revenue increase of 30% in an otherwise largely static market! Admiral's acquisitions have been small and therefore their growth has been almost totally organic. They are one of the only quoted companies where PBT and EPS have grown in parallel since 1985. Brendish says *"our reputation is unrivalled, our staff are of the highest quality and our financial position is strong"*. Even their arch rivals would have difficulty knocking that claim. If Admiral really did something "exciting" (like take over a people-based company in Europe) then we really would be worried. As it is, analysts are busy upgrading profit expectations for the year to in excess of£4.5m

Interpreting the employment statistics

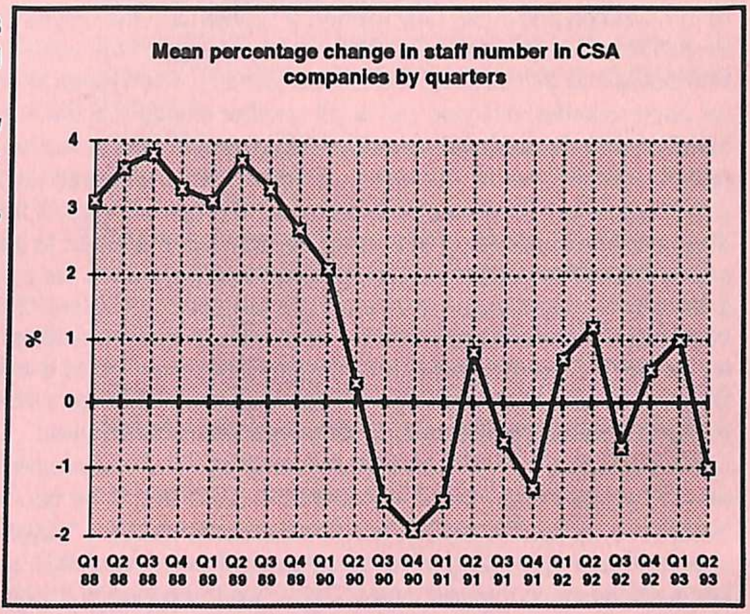
Consider the following findings:

• the c1000 CSI companies featured in the 1993 Holway Report employed 5,000 - or 4% - fewer staff in 1992 than in 1991. Source - 1993 Holway Report

• *"computer services"* employed 8% more employees (a total of 153,800) in Dec. 1992 than in Dec. 91. Source Department of Employment May 93 .

• CSA members employed 82,138 staff in mid 1993 - up 11% on 1992. Source - about to be published CSA Annual Report.

• *"CSA companies were, in aggregate, still laying off staff in Q2 1993".* Source - CSA Quarterly Business Trend Survey July 93.



Can all these findings possibly be correct?

Surprisingly, the answer is ***probably yes***.

We have no doubts about our own research - afterall the 537 job losses at Sema, 295 at Logica, 200 at Hoskyns, 142 at Fraser Williams et al. are public facts. The DoE was (remarkably) helpful. They confirm that they classify employment *"according to the main activity of the workplace"*. In the last year there has been a major switch between those claiming *computer manufacture* to those claiming *computer services* as their main activity. An interesting example of this was a *certain major hardware manufacturer* who 'phoned us to point out the discrepancy in the figures, saying that none of their staff had ever been classified as computer services but that most of the *many thousands* who had left in the last few years had setup operations classified as computer services. Furthermore, the reason for the CSA member employee increase is that over 13,000 of these staff now relate to the *services* activities of new hardware manufacturer members *"most of which have increased the number of personnel involved in computing services during the last year"*. The word "reclassified" would have been better than *"increased"*. We suspect that if the employment figures for the non hardware manufacturer CSA members were available, they would show a similar decrease to the 4% we recorded. Indeed the CSA's comment on the Q2 trend survey stated *"Roughly one third of companies had net staff increases, one third decreasing and one third remained the same. But the companies which were shedding staff were the larger companies, while the growing companies tended to be the small and medium CSA members"*.

The future?

Hardware manufacturers reclassifying thousands of staff as CSI employees has serious consequences on the industry. We believe that fee rates will be adversely affected by the over hang of this over supply for some considerable period. The profitability of "people-based" companies (IT consultants, bespoke developers, contract staff agencies, etc.) will therefore suffer for a prolonged period. We do not anticipate that the *real* employment levels of the industry will recover for quite some time to come.

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