

System House

The monthly review of the financial performance of the UK computing services industry
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UK Facilities Management Market

The Facilities Management (FM) and Managed Services (MS) marketplace in the UK is experiencing unprecedented growth. Our detailed analysis of the Annual Reports of the main FM players indicates a 25% revenue growth in 1992 to a UK market worth c£500m. We predict that this marketplace will triple to over £1.5 billion by 1997.

The ranking tables presented below are bound to cause controversy. It

Rank	1992	FM and Managed Services Rev.	Market Share
1	Hoskyns	£83m	17%
2=	EDS-Scicon	£50-£55m	10%
2=	Sema	£50-£55m	10%
2=	Andersen Consulting	£50-£55m	10%
5	AT&T Istel	£36m	7%
6	ICL/CFM	£30m	6%
7	Data Sciences	£29m	6%
8=	ITNet	£18m	4%
8=	Capita	£18m	4%
10	CMG	£12m	2%

must be pointed out that we have excluded our estimate of FM billings to parent companies. EDS-Scicon, for example, claims FM and MS revenues of £110m but we estimate that around half of this is earned from GM. Andersen claims that 25% of its £215m revenues were from FM - an increase of nearly 60% on the FM revenues in 1991. Sema reports £52m FM revenues in 1992. This means that EDS-Scicon, Andersen

Consulting and Sema's UK FM revenues are now "too close to call" - all within the £50 to £55m bracket. Adjustments have also been made to the claimed FM revenues of CFM (ICL) and ITNet (Cadbury Schweppes). The rankings still show Hoskyns in the #1 slot - but their previously dominant position has been seriously eroded.

In the last 18 months, we have recorded an explosion in the number of FM deals announced. The total contract value of new deals announced exceed £1 billion in the UK alone and will represent additional revenues of c£200m in a full year. The largest - BP Exploration - could well be regarded in future as a pioneering deal as the suppliers are sharing in the risks. Earnings will depend on the level of savings achieved and if they do not then the suppliers could make a loss. Business partnerships also forms the basis of EDS-Scicon's Co-sourcing venture and is a key element in all managed services type contracts.

It is the companies currently *not* included in the Top Ten FM market share rankings which are perhaps the most interesting. Although Perot has won two of the top three FM deals in the period, they are not an established player. Indeed, the two deals quoted are the *only* two they seem to have won so far. The largest FM deals currently being fought over are Rank Xerox (£200m p.a.), Inland Revenue (£100m p.a.), British Aerospace (£90m p.a.) and DVOIT (£26m p.a.). The short-listed companies in every case consist of: CSC, EDS, IBM (sometimes with DEC). **Only EDS is currently in the top ten.** CSC claim total UK revenues of £59m in 1992 (the filed accounts show just £35m). Although no separate FM revenues are available it was admitted that this sector was a small contributor - certainly <£10m. According to our researches, DEC also had UK FM revenues of < £10m and IBM UK had FM revenues from non-IBM sources of just £4m in 1992.

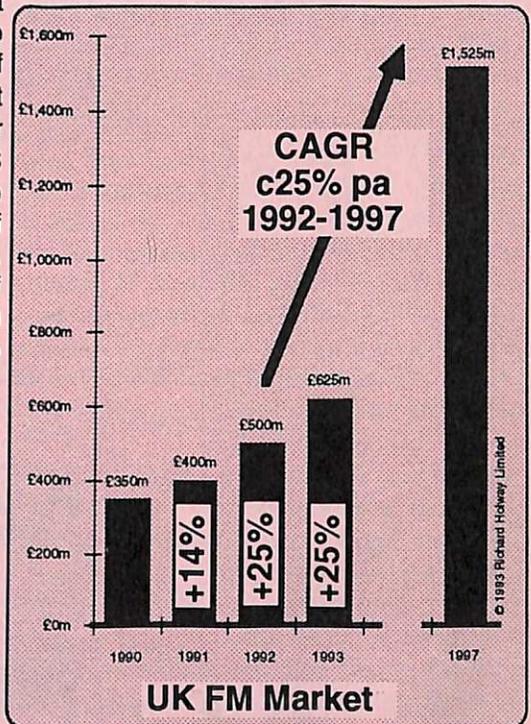
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Note: We are indebted to **Tony Collins** of *Computer Weekly* for his considerable assistance in researching this article.

LARGEST UK FM DEALS SIGNED 1992 - 1993

Date (or start date)	Customer	Supplier	Annual Value	Duration	Total Value
1-Apr-93	BP Exploration	Sema/Syncordia/SAIC	£17.00m	5	£85.00m
1-Apr-92	East Midlands Electricity	Perot	£12.50m	12	£150.00m
2-Feb-92	Europcar	Perot	£12.00m	10	£120.00m
2-Feb-93	British Home Stores	CSC	£11.00m	11	£121.00m
13-Apr-92	London Stock Exchange	Andersen Consulting	£10.00m	5	£50.00m
1-May-92	Granada Group	Hoskyns	£9.00m	5	£45.00m
1-Apr-93	LOLA	CFM	£9.00m	3	£27.00m
31-Dec-92	Citibank	Hoskyns	£6.00m	5	£30.00m
10-Nov-92	Westminster City Council	ITNet	£5.40m	7	£37.80m
1-Mar-93	Sedgwick	Data Sciences	£5.20m	2.5	£13.00m



UK stars for Sema

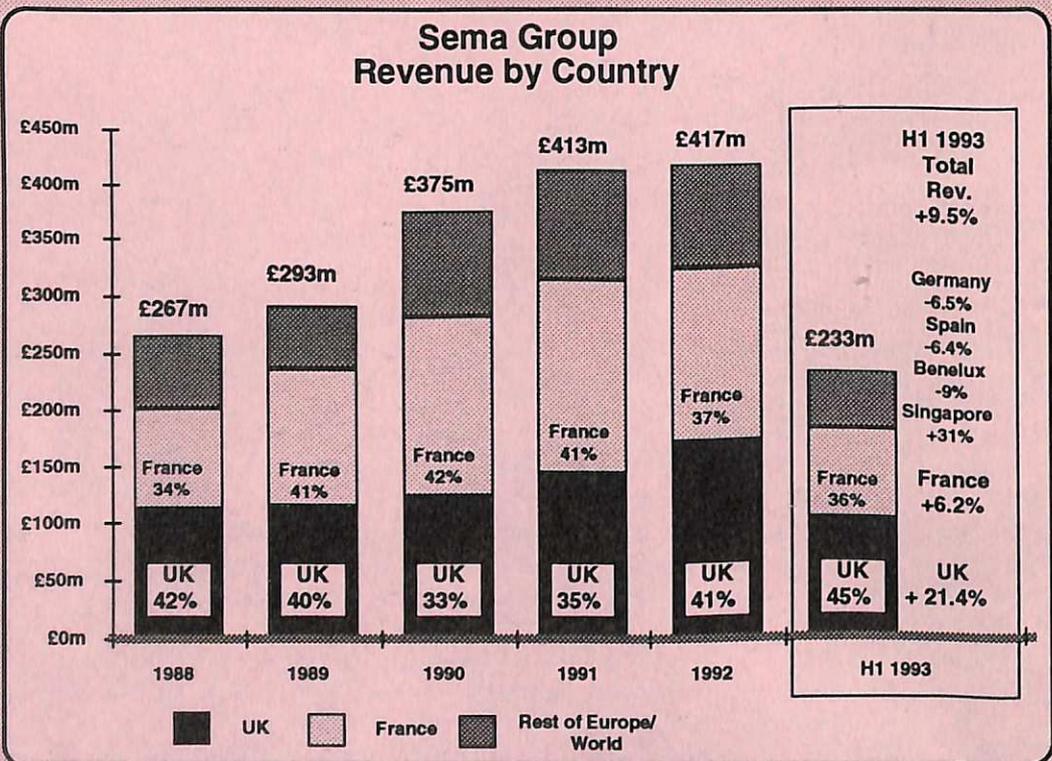
Sema Group reported revenues up 19% to £232.9m and EPS up 33% in the six months to 30th June 1993. Operating profits were up 21.6% at £9.73m. PBT was down 46.7% at £15.2m, but this was because of the exceptional profit of £20.8m last time due to the sale of Sofres. Cash trebled to £17.8m and £847K interest was earned in the first half. It is progress in the UK which has really boosted Sema. Back in 1988 when the CAP/Sema Metra took place group revenues were 42% in UK and 34% in France. The UK recession really hit Sema thereafter and UK revenues fell to a third in 1990. Now the UK represents 45% or £103.9m of group revenues - up 21.4% in the six months. Revenues from France grew by a much lower 6.2% and revenues in Germany, Spain and Benelux fell. The picture was somewhat rosier for these countries if exchange rate gains are included. The strong UK position was further demonstrated by a resurgence in UK orders in H1. The "book-to-bill" ratio in the UK was 1.24 compared with 1.14 in France and a singularly depressing 0.81 in Northern Europe.

Sema's largest activity is systems integration, which grew by 18.9% to £177.2m in H1 but FM, where the UK represents the majority of Sema's FM revenues, increased by 34% to £36.1m. Just like in CGS (which still holds its 28% stake in Sema), Sema's UK FM group is now responsible, under Frank Jones, for exploiting FM throughout Europe. In July 93, France Telecom bought a 27% stake in this Sema UK subsidiary. Sema now see the "globalisation of outsourcing activities" as one of its major strategic directions.

Steps have already been taken to reverse the down turn in Germany, which is more heavily dependent on product sales than the rest of the group. Product sales are usually much more adversely affected by recession than services, particularly those like FM which are on long contract periods. Acquisitions are not seen as a major priority in the next period although small niche players are apparently being evaluated in Sweden and South Africa.

A potted history of Sema since 1988 could read:

- undertakes major merger in 1988. UK shareholders hold around 45% of equity.
- dreaded *acquisition indigestion* coincides with major down turn in UK market.
- UK management and staff bear brunt of job cuts.
- combination of *taking the medicine earlier*, deepening recession in Europe and revived optimism in UK economy means UK subsidiary becomes star performer in 1992/3.
- service skills pioneered in the UK seen as blueprint for rest of Group.
- UK management given the key tasks of implementing policy on worldwide basis.
- UK shareholders now hold only about 10% of Sema equity.



Readers may spot obvious similarities here with other large previously UK-owned CSI companies.

"You will undoubtedly note that we are becoming a very boring company, as per your renowned definition" Letter to us this month from Alistair Fulton - MD Triad Special Systems Triad Special Systems was born in 1988 by buying a division of Triad from the receivers for £53K. Main shareholders are John Rigg of Marcol and Vega fame (46%) and Dill Faulkes (46%). Latest results for the year to 31st Mar 93 are indeed boring with revenues up 19% at £3.8m and PBT up 32% at £541K. Cash increased from £252K to £737K. The shareholders shared dividends of £135K.

Of course, Fulton's "boring" comment is a reference to the adjective we use to describe Admiral's performance. Revenues in both companies are largely people based - the excuse given for poor performance in so many other companies. Even though Admiral and Triad report intense pressure on fee rates, they both still managed to increase profits. Apart from all the obvious reasons, like good management and quality, it is a high level of repeat business from satisfied customers that seems to be the common ingredient for success.

Footnote: It is rather amusing, if not a little touching, to have feedback from both Brendish and Fulton that us calling the performance of their companies *boring* is taken as such a complement. It would be very easy to devote all the space in *System House* to disasters without giving full credit to the success stories.

A "satisfactory outcome" is expected

INSTEM specialises in computerised control systems for power stations, water boards and other customers like BNFL. A look at their trading record for the last decade would evoke memories of a Blackpool roller coaster. Latest results might indicate the water splash is not too far away. Revenues for the six months to 2nd July 93 are up 35% at £9.5m but PBT dropped 25.6% to £410K and EPS was down 24.5%.

At the AGM in May 93 Chairman David Gare said that performance was "broadly in line with the business plan". He now uses the same words to describe performance at electricity transmission, distribution, power generation and nuclear fuel processing. "On the negative side" Gare blames the failure of the team developing the update on their pharmaceutical analysis programme, Datatox. "This has resulted in management changes and a delay in the next release to early 1994". But software products account for just 5% of INSTEM's revenues, so it is a bit difficult to comprehend why this is the *only* reason put forward for the profits slump.

Last time Gare said he was confident that INSTEM would "regain its position on the growth curve in 1993". But order delays still seem to be plaguing INSTEM - they are very dependent on new capital project go-aheads.

At least we now know that "in line with business plan" means "we expected a profits slump" even if the shareholders didn't.

INSTEM shares were down 19p on the announcement.

FI Group share price up and signs biggest ever AM deal

The latest FI Group internal market has valued shares at 435p - up 61% since the market was established in 1991 and up 19% since the last share market date in April 93. That still only values FI group at c£11m.

Last month we featured AM on our front page, This month, FI has announced its "biggest ever outsourcing deal" with Barclays "for the maintenance of its card systems over the next 3-4 years". FI would not disclose the value, but the statement must mean it is worth well in excess of £3m p.a. which would make it the biggest UK AM deal to date.

FI also announced the retirement of Steve Shirley on her 60th birthday. Dr. Doug Eyeions of the CSA said "Steve Shirley's personal contribution to obtaining national recognition for IT has been immense and she is the finest role-model we have for the founder and builder of a successful British computing services company".

Hear, hear.

Quote of the month

Sarah Underwood interviewed FT IT journalist, and past Computing editor, Alan Cane for his views on the industry. Cane lamented the takeover of the UK industry by foreign predators and ended the interview commenting that he "looks forward in hope rather than anticipation to the headline Micro Focus makes \$7 billion, all paper agreed offer for Microsoft". Source - Computing 2nd Sept. 93.

Anything's possible - Paul O'Grady recently took over the CEO reins at Micro Focus to "drive the sales growth himself".

Exchange rates, rather than trading, benefit Macro 4

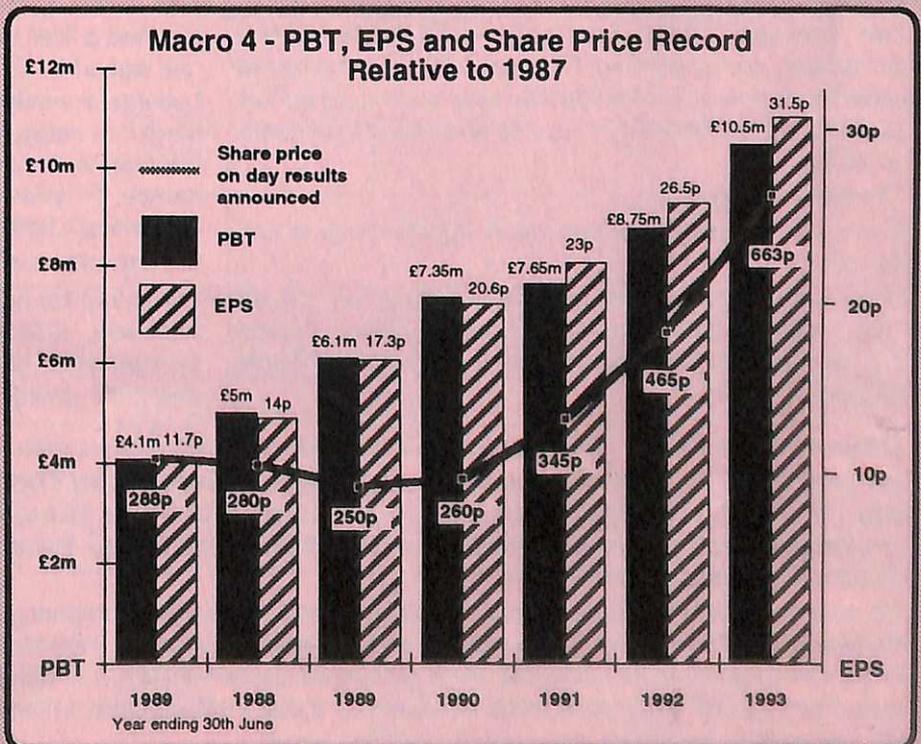
Revenues up 22.3% at £23.3m, PBT up 20% at £10.5m, EPS up 18.9% and cash balances up 26.5% at a massive £19.75m for the year to 30th June 93. And yet there is something desperately depressing about Macro 4.

In March 90, Chairman Terry Kelly said "Thanks to the rental stream, turnover would be greater in the next 12 months even if sales stagnated". Since then we have written review after review concerning the "wasted opportunities at Macro 4". Macro 4 makes the vast majority of their revenues from renting system software to IBM mainframe users. The apparently good trading performance is due almost entirely to "the positive effects on PBT brought about by the weakening of sterling - particularly against the US dollar". Kelly reported "continued difficult trading conditions in almost all trading territories". Cancellations are continuing to impact the installed revenue base "as users increasingly downsize". Kelly, in a statement reminiscent of King Canute, still believes that users are "dependent on mainframes for their applications...as the mainframe is increasingly being recognised as the only viable server in client-server systems of any size".

Macro 4 pins much of its future growth hopes on its AS/400 products. "This market is at least five times the size of mainframe market and growing rapidly. Various independent surveys report the number of installed AS/400 computers to be in excess of 200,000, with estimates of up to 500,000 units by 1996".

As to the future "the board anticipates underlying trading growth to continue at a better than nominal rate in 1993/94".

Unless Macro 4 can get a handle on the open systems software market, we expect that shareholders are unlikely to be excited by Macro 4.



Microvitec

An everyday story of computing folk

The **Microvitec** saga has as much intrigue, twists in the plot, break-ups, marriages and tantrums as any soap.

The story so far:

Loss making **Microvitec** makes hostile bid for, previously consistently successful but now in trouble, **Logitek**. **Logitek** raises cash by selling its **Azlan** network subsidiary in an MBO for £4.3m. **Microvitec** continues with bid and pays £3.5m for the rump of **Logitek**'s distribution business.

Henry Cooke Lumsden is **Microvitec**'s broker and their **James Warhurst** issues "strong buy" notice forecasting £2.5m PBT in 1992 and £5m in 1993. **System House** gets rebuked for questioning this expected miracle.

In the event **Microvitec**'s results went from bad to... a loss of £2.1m was reported in 1992. On the other hand **Azlan**'s results went from extremely good to... a profit of £2.95m in the year to 31st Mar 93 and a rumoured £30m price tag. In Jan. 93, **Microvitec** sold "loss-making" **Logitek** for £2.5m in an MBO (latest results indicate that they lost £620K on the transaction). In Aug. 93, **James Warhurst** quit HCL to move to **Albert E Sharp**.

This month's episode:

Interpreting **Microvitec**'s interim results to 30th June 93 is complex due to the disposals. Revenues were down 30% at £18.0m, but revenues from continuing operations were up 11% at £16.1m. PBT was up from £62K to £570K but operating profits from continuing activities actually reduced by 3% to £803K. EPS rose sevenfold to 0.8p. The **Logitek** disposal meant that gearing was reduced from 82% to 47%.

Microvitec now consists of four divisions:

- Display Division manufactures computer monitors
- Services Division supplies and maintains networks
- Software Systems Division supplies systems to accountants
- Silcom (Canada) designs token ring products.

"Strong growth" has been experienced at **Silcom** which is expected to double revenues to c£5m next year.

Two years ago Chairman **James Bailey** looked "forward to an exciting and rewarding 1992 for both our employees and shareholders". In Mar 92 HCL issued a "strong buy" at 35p. The shares ended 1992 at 24p and ended this month on 30.5p.

The twist in the tale

Every soap opera must end each episode with a cliff hanger.

Microvitec has announced that they are dumping HCL as their brokers and moving to....**Albert E Sharp**. **James Warhurst**'s latest research document will make extremely interesting reading.

Downturn at IMI **IMI Computing** made PBT of £1.4m on revenues of £14.4m to Dec. 91. In Nov. 90, parent company **IMI plc** bought UNIX accounting software supplier **Brook Street Computers** for a cash and earnout deal worth c£5m. **Brook Street** had just declared PBT of £549K on revenues of £2.32m to Mar 90. In Dec. 91, **IMI** bought **Redwood** (the **Uniplex** company) for an initial £15m plus over £8m profit related. **Redwood** made PBT of £2.1m on revenues of £23.2m in the year to 31st Mar 91.

Contrast this with **IMI**'s latest interims to 30th June 93 when **IMI Computing Limited** "broke even", **Brook Street** and **Redwood** "slid into the red". The recession and increased investment were blamed. But companies like **Tetra** (see p11), in the same space as **Brook Street**, have prospered. To be fair **IMI Computing** has made a radical change of direction away from its IBM dominated world into become a true multi platform software vendor.

We understand prospects are currently "looking good".

Companies are not always what you think they are

EDS - the PC dealer?

Some readers might be surprised to learn that in the US **EDS** is ranked as the eighth largest PC reseller with revenues of \$1b. As well as reselling **AST**, **HP**, **IBM** and **Compaq** kit, **EDS** has also launched its own label **Intel PC**. This month, **EDS** has announced that it has setup its **Technical Products Division** in Europe where it expects to grow a similar \$1b business. *Computacenter be warned...* Smaller PC dealers should not worry too much though. **EDS** is targeting customers "who have an IT requirement of more than 500 PCs" and will initially concentrate on supplying **EDS** and its customers.

Microsoft - the CSA company?

We are delighted to learn that **Microsoft (UK)** has become a member of the **CSA**. Can **Lotus** and **Novel** be far behind?

Computacenter - the computing services company?

Computacenter is the largest PC reseller in the UK. Given the state of the PC market - and the performance of most of their competitors recently - results for the year to 31st Dec. 92 are pretty good. Revenues increased 14% to £255m and PBT was up 6.3% at £8.6m. But their record does show the continued margin pressure on this kind of business. At the operating level, profits fell by 2%. Indeed operating profits are now lower than they were in 1989 although revenues are over £100m higher. In 1989 operating profit margins were a healthy 6.1% - in 1992 they were just 3.4%.

Reading **Computacenter**'s latest Annual Review you could get the impression that they did not supply hardware at all. We could find not one mention of **IBM** or **Compaq** even though they are the largest UK reseller of both. The review concentrates entirely on their service offerings - from systems integration to education and support. If you count **Computacenter** as a **CSI** company (and we increasingly ask *why not?*) then on 1992 revenues in the 1993 **Holway Report** they were the largest UK owned **CSI** company and the third largest supplier to the UK market.

Computacenter is privately owned with Messrs. **Ogden** and **Hulme** being the largest shareholders. They had planned a float in 1990 via **Warburg's** (which incidentally has signed a PC FM deal with them this year). Moving to become a service company, with lower dependence on hardware sales, will clearly make them more attractive if the float is resurrected. But such moves take time and money. To give **Computacenter** its due, they do seem to be making a better job of this difficult transition than most.

Computeraid - the FM company?

Given that we have long considered that **TPM** is a dying business, it is interesting to see that **THORN EMI Computeraid** has launched a campaign to recruit in 50+ new staff - many for "project and FM management".

Richard Holway Results Service

ACT Group plc	Results Revenue PBT EPS	Final - Mar 92 £ 119,447,000 £ 17,020,000 10.83p	Final - Mar 93 £ 152,925,000 £ 20,478,000 11.33p	Final Comparison +28.0 +20.3% +4.6%	
Admiral plc	Results Revenue PBT EPS	Interim - Jun 92 £ 13,656,000 £ 1,960,000 11.6p	Final - Dec 92 £ 30,870,000 £ 3,986,000 24.2p	Interim - Jun 93 £ 17,710,000 £ 2,185,000 13.3p	Interim Comparison +29.7% +11.5% +14.7%
Capita Group plc	Results Revenue PBT EPS	Interim - Jun 92 £ 13,732,000 £ 1,769,000 2.53p	Final - Dec 92 £ 33,098,452 £ 4,406,012 6.43p(Restated)	Interim - Jun 93 £ 22,102,000 £ 2,038,000 2.86p	Interim Comparison +61.0% +15.2% +13.0%
Comac Group plc	Results Revenue PBT EPS	Interim - Jun 92 £ 4,900,000 £ 43,727 0.44p	Final - Dec 92 £ 11,118,158 £ 394,723 3.94p	Interim - Jun 93 £ 5,300,000 £ 59,950 0.65p	Interim Comparison +8.2% +37.1% +47.7%
Computer People Group plc	Results Revenue PBT EPS	Final - Dec 91 £ 67,660,000 £ 1,006,000 5.48p	Final - Dec 92 £ 62,735,000 £ 145,000 (0.97p)	Final Comparison -7.3% -85.6% Profit to Loss	
Cray Electronics Holding plc	Results Revenue PBT EPS	Final - Apl 92 (restated) £ 84,786,000 £ 2,352,000 1.9p	Final - Apl 93 £ 200,785,000 £ 29,014,000 13.8p	Final Comparison +136.8% +1133% +626%	
Division Group plc	Results Revenue PBT EPS	Interim - Apl 92 £ 498,564 £ 73,100 0.7p	Final - Oct 92 £ 1,081,913 (£ 107,783) (1.0p)	Interim - Apl 93 £ 913,508 (£ 10,212) (0.1p)	Interim Comparison +83.0% Profit to Loss Profit to Loss
EIT Group plc	Results Revenue PBT EPS	Final - Mar 91 £ 485,052 (£ 246,437) (4.15p)	Final - Mar 92 £ 7,028,738 (£ 190,510) (1.3p)	Final Comparison +1349% Loss both Loss both	
Electronic Data Processing plc	Results Revenue PBT EPS	Interim - Mar 92 £ 7,468,000 £ 2,407,000 18.83p	Final - Sep 92 £ 15,455,000 £ 4,877,000 38.4p	Interim - Mar 93 £ 7,350,000 £ 2,341,000 18.07p	Interim Comparison -1.6% -2.7% -4.0%
Enterprise Computer Holdings plc	Results Revenue PBT EPS	Interim - Sep 92 £ 57,604,000 (£ 3,398,000) (4.6p)	Final -15 mos to Mar 92 £ 157,857,000 (£ 8,330,000) (9.8p)	Interim - Sep 92 £ 35,524,000 (£ 3,392,000) (4.3p)	Interim Comparison -38.3% Loss both Loss both
Gresham Telecomputing plc	Results Revenue PBT EPS	Interim - Apl 92 £ 3,954,000 £ 284,000 0.57p	Final - Oct 92 £ 7,250,000 £ 767,000 1.94p	Interim - Apl 93 £ 3,060,000 £ 419,000 0.86p	Interim Comparison -22.6% +47.5% +50.9%
INSTEM plc	Results Revenue PBT EPS	Interim - Jun 92 £ 7,062,000 £ 551,000 7.96p	Final - Dec 92 £ 14,272,000 £ 575,000 8.5p	Interim - Jun 93 £ 9,505,000 £ 410,000 6.01p	Interim Comparison +34.6% -25.6% -24.5%
Kalamazoo Computer Group plc	Results Revenue PBT EPS	Final - 8 mos - Mar 92 £ 38,300,000 £ 611,000 Nil	Final - Mar 93 £ 56,700,000 £ 1,800,000 1.6p	Final Comparison Not comparable Not comparable Not comparable	
Kewill Systems plc	Results Revenue PBT EPS	Final - Mar 92 £ 41,824,000 £ 2,421,000 19.91p	Final - Mar 93 £ 33,341,000 £ 435,000 (0.60p)	Final Comparison -20.3% -82.0% Profit to Loss	
Kode International plc	Results Revenue PBT EPS	Interim - Jun 92 £ 9,637,000 £ 330,000 2.5p	Final - Dec 92 £ 20,915,000 £ 1,031,000 8.6p	Interim - Jun 93 £ 12,277,000 £ 710,000 4.3p	Interim Comparison +27.4% +115.2% +72.0%
Learmonth & Burchett Management Systems plc	Results Revenue PBT EPS	Final - Apl 92 £ 21,404,000 £ 303,000 0.7p	Final - Apl 93 £ 23,645,000 £ 1,610,000 7.0p	Final Comparison +10.5% +431.4% +900.0%	
Logica plc	Results Revenue PBT EPS	Final - Jun 92 £ 200,383,000 £ 7,062,000 7.0p	Final - Jun 93 £ 217,434,000 £ 9,026,000 8.7p	Final Comparison +8.5% +27.8% +24.3%	
MR Data Management plc	Results Revenue PBT EPS	Interim - Dec 91 £ 16,338,000 £ 3,809,000 4.58p	Final - Jun 92 £ 33,711,000 £ 8,227,000 10.6p	Interim - Dec 92 £ 18,629,000 £ 4,020,000 4.89p	Interim Comparison +14.0% +5.5% +6.8%
Macro 4 plc	Results Revenue PBT EPS	Final - Jun 92 £ 19,016,000 £ 8,750,000 26.5p	Final - Jun 93 £ 23,256,000 £ 10,497,000 31.5p	Final Comparison +22.3% +20.0% +18.9%	
Maddox Group plc	Results Revenue PBT EPS	Final - Dec 91 £ 222,809 (£ 311,542) (1.43p)	Final - Dec 92 £ 24,171,000 £ 1,134,000 0.39p	Final Comparison Not comparable Loss to Profit Loss to Profit	
Micro Focus plc	Results Revenue PBT EPS	Interim - Jul 92 (restated) £ 30,644,000 £ 9,628,000 44.5p	Final - Jan 93 (restated) £ 68,882,000 £ 22,777,000 106.6p	Interim - Jul 93 £ 40,800,000 £ 11,554,000 53.5p	Interim Comparison +33.1% +20.0% +20.2%

Richard Holway Results Service

Microgen Holdings plc	Results Revenue PBT EPS	Interim - Apl 92 £ 24,974,000 £ 4,368,000 7.1p	Final - Oct 92 £ 49,316,000 £ 8,243,000 13.8p	Interim - Apl 93 £ 26,137,000 £ 3,758,000 6.1p	Interim Comparison +4.7% -14.0% -14.1%
Microvitac plc	Results Revenue PBT EPS	Interim - Jun 92 £ 25,533,000 £ 62,000 0.1p	Final - Dec 92 £ 49,888,000 £ 2,137,000 (3.4p)	Interim - Jun 93 £ 17,959,000 £ 570,000 0.8p	Interim Comparison -30.0% +819% +700%
Misys plc	Results Revenue PBT EPS	Final - May 92 £ 68,023,000 £ 9,118,000 17.8p		Final - May 93 £ 88,761,000 £ 15,125,000 27.4p	Final Comparison +30.5% +65.9% +53.9%
MMT Computing plc	Results Revenue PBT EPS	Interim - Feb 92 £ 3,009,000 £ 712,000 3.9p	Final - Aug 92 £ 6,220,000 £ 1,500,000 7.9p	Interim - Feb 93 £ 3,165,000 £ 865,000 4.8p	Interim Comparison +5.2% +21.5% +23.1%
P & P plc	Results Revenue PBT EPS	Interim - May 92 £ 119,300,000 £ 1,000,000 1.0p	Final - Nov 92 £ 222,752,000 £ 2,012,000 1.9p	Interim - May 93 £ 121,800,000 £ 2,000,000 2.1p	Interim Comparison +2.1% +100% +110%
P-E International plc	Results Revenue PBT EPS	Interim - June 92 £ 35,308,000 £ 515,000 1.5p	Final - Dec 92 £ 71,108,000 £ 180,000 (0.22p)	Interim - June 93 £ 34,198,000 (£896,000) (4.1p)	Interim Comparison -3.1% Profit to Loss Profit to Loss
Pegasus Group plc	Results Revenue PBT EPS	Interim - Jul 92 £ 4,193,000 £ 335,000 3.7p	Final - Dec 92 £ 10,269,000 £ 620,000 7.3p	Interim - Jun 93 £ 5,300,000 £ 1,017,000 9.1p	Interim Comparison (Note yr end) +26.4% +203.6% +145.9%
Phonelink plc	Results Revenue PBT EPS	Final - Mar 92 £ 819,709 £ 140,420 0.5p		Final - Mar 93 £ 922,557 £ 30,905 0.1p	Final Comparison +12.5% -78.0% -80.0%
Proteus International plc	Results Revenue PBT EPS	Final - Mar 92 £ 3,000 (£ 2,408,000) (10.86p)		Final - Mar 93 £ 21,000 (£ 3,547,000) (13.52p)	Final Comparison +600% Loss both Loss both
Quality Software Prod. Holdings plc	Results Revenue PBT EPS	Interim - Jun 92 £ 6,000,000 £ 227,000 3.9p	Final - Dec 92 £ 13,118,000 £ 1,201,000 16.2p	Interim - Jun 93 £ 6,600,000 £ 143,000 2.1p	Interim Comparison +10.0% -37.0% -46.2%
Radius plc	Results Revenue PBT EPS	Interim - May 92 £ 11,988,000 £ 525,000 1.0p	Final - Nov 92 £ 24,012,000 £ 1,231,000 2.9p	Interim - May 93 £ 10,723,000 (£ 466,000) (1.3p)	Interim Comparison -10.6% Profit to Loss Profit to Loss
Real Time Control plc	Results Revenue PBT EPS	Final - Mar 92 £ 6,835,000 £ 1,192,000 11.1p		Final - Mar 93 £ 6,114,000 £ 492,000 4.9p	Final Comparison -10.5% -58.7% -55.9%
Rolfe & Nolan Computer Services plc	Results Revenue PBT EPS	Final - Feb 92 £ 6,737,000 £ 1,390,000 15.9p		Final - Feb 93 £ 11,232,000 £ 1,216,000 17.7p	Final Comparison +66.7% -12.5% +11.3%
Sage Group plc	Results Revenue PBT EPS	Interim - Mar 92 £ 14,489,000 £ 4,340,000 14.53p	Final - Sep 92 £ 27,274,000 £ 8,853,000 30.9p	Interim - Mar 93 £ 20,983,000 £ 5,380,000 17.68p	Interim Comparison +44.8% +24.0% +21.7%
Sanderson Electronics plc	Results Revenue PBT EPS	Interim - Mar 92 £ 10,610,000 £ 1,801,000 16.0p	Final - Sep 92 £ 21,398,000 £ 2,805,000 24.0p	Interim - Mar 93 £ 12,057,000 £ 1,803,000 14.2p	Interim Comparison +13.6% +0.1% -11.3%
Sema Group plc	Results Revenue PBT EPS	Interim - Jun 92 £ 195,393,000 £ 28,534,000 5.3p (Adjusted)	Final - Dec 92 £ 416,675,000 £ 19,458,000 13.22p	Interim - Jun 93 £ 232,948,000 £ 15,213,000 7.05p (Adjusted)	Interim Comparison +19.2% -46.7% +33.0%
Sherwood Computer Services plc	Results Revenue PBT EPS	Interim - Jun 92 £ 10,710,000 £ 1,748,000 16.7p	Final - Dec 92 £ 21,103,000 £ 3,004,000 27.5p	Interim - Jun 93 £ 11,837,000 £ 541,000 3.4p	Interim Comparison +10.5% -69.1% -79.6%
Standard Platforms plc	Results Revenue PBT EPS	Final - Mar 92 £ 1,606,610 (£ 847,471) n/a		Final - Mar 93 £ 2,700,000 (£ 405,368) n/a	Final Comparison +66.8% Loss Both n/a
Total Systems plc	Results Revenue PBT EPS	Final - Mar 92 £ 2,796,777 £ 756,880 5.11p		Final - Mar 93 £ 2,869,359 £ 832,906 6.08p	Final Comparison +2.6% +10.0% +19.0%
Trace Computers plc	Results Revenue PBT EPS	Interim - Nov 91 £ 9,715,000 £ 221,000 1.52p	Final - May 92 £ 19,491,000 £ 502,000 2.89p	Interim - Nov 92 £ 8,835,000 £ 105,000 0.78p	Interim Comparison -9.1% -52.5% -48.7%
Vega Group plc	Results Revenue PBT EPS	Final - Apl 92 (amended) £ 6,269,000 £ 1,387,000 6.69p		Final - Apl 93 £ 8,089,000 £ 1,705,000 7.99p	Final Comparison +29.0% +27.0% +19.4%
Vistec Group plc	Results Revenue PBT EPS	Final - Apl 92 £ 32,287,000 £ 2,714,000 1.52p		Final - Apl 93 £ 38,665,000 £ 3,503,000 2.07p	Final Comparison +19.8% +29.1% +36.2%

Acquisitions, disposals and liquidations

Serious troubles at Maddox

Readers will be well aware of our serious concerns, from the start, about Maddox since entrepreneur Hugo Biermann reversed into Pathfinders, changed its name to Maddox and began building a computing services group by multiple acquisition. The last eighteen months has seen several purchases; the largest of which was TPM company Wakebourne, acquired in Aug. 92 for £13m. Indeed **only this month** Wakebourne itself acquired **Switch Computing** for just under £1m. Switch specialises in on-site maintenance in the financial services sector. Wakebourne's revenues were said to have grown from £13.2m to £20m in the year to 31st May 93.

In an interesting comment, Wakebourne's MD Frank Emerson said that there were rich pickings in the TPM sector at present "There are a lot of companies around that want to get out of maintenance". Source - MicroScope 15th Sept. 93. Should he not ask "Why?"

Readers will also remember that in May 93, Maddox sold its cabling subsidiaries for £19.9m but retained intercompany debts owed by these subsidiaries of £15.1m. Then in July, Maddox suffered the ignominy of having to restate its accounts on the insistence of auditors Ernst & Young who expressed "fundamental uncertainties" that these debts could be recovered. On 24th Sept. Maddox announced that **Cables and Flexibles (C&F)**, one of the subsidiaries referred to above, had been put into administrative receivership. Maddox had guaranteed C&F's overdraft up to £3m - the overdraft was £1.7m at the time the receivers were appointed.

They also announced that Maddox "had received approaches that may or may not lead to an offer for all or part of the company". Talks were "at an early stage".

A year ago brokers Williams de Broe issued a "buy" at 8p. Maddox shares were 3.25p when the market closed on Friday 24th Sept. before the after hours bombshell.

Sherwood enters share dealing market

Sherwood Computer Services and consultancy, **City People**, have formed a joint venture to offer a share dealing service called **City Deal**. Sherwood is providing its IT systems free of charge and users will pay just £9 per bargain plus £1 for each £1000 traded. City Deal expects revenues of £3m in its first year.

This seems like another excellent (brave) example of the risk/reward sharing business venture that we have expounded as a likely blueprint for future CSI business.

Softwright and IBM

Softwright Systems and **IBM** have formed a joint company - **Integrated Object Systems** - initially to develop and market NeWI and specialise in object oriented development systems. This is "a very significant event" for Softwright and shows UK leadership in this fast growing market.

More virtual reality

Lucky shareholders in **Division plc** (floated May 93 @ 40p - now up 95% at 78p) will be interested to know that **Virtuality Group plc** (formerly W Industries) plans a float by the end of 1993 via Beesom Gregory. Revenues to 31st Dec. 92 were £5.3m when the first ever PBT of £214K was achieved. The reason for the float is that it has licensed its operating system to Sega.

The others... AST and NeXT VAR **Penny & Evans** has entered into a creditor's voluntary liquidation. Compaq dealer **Wilson Hughes** has appointed the receivers with debts exceeding £1m. UK **Climate Changer Computer & Concessionaires Ltd** (whose Chairman John Warren is currently featured in a "So good I bought the company" Victor Kiam-type advertising campaign) has paid c\$100,000 for the assets of defunct US PC manufacturer, **Olympic Computer Technology**. Reseller **Olico International** is said to be in financial difficulties and looking for a buyer. Strange, as they themselves acquired cabling operator **CIC** as recently as Aug. 93. **Dixons** has sold its loss making US subsidiary, which also sold PCs, to Fretter for \$50m. **British American Consulting Group (BACG)**, which develops retail systems, has received an equity injection of £3m from **3i**. **Hoskyns** has sold the US operations of open systems training operation, **Instruction Set**, in an MBO. The companies will continue to work together. No consideration was disclosed.

Touche Ross acquires CSL

The Chartered Institute of Public Finance and Administration, **Cipha**, helped to create two independent companies in the 1980s - **Capita** and **CSL**. CSL was setup in 1989 via an MBO backed by CINVen. This month Touche Ross, which acquired **Praxis** for £6.5m in Aug. 92, has acquired CSL for £5.8m. CSL has 450 employees and revenues of over £16m.

Cray and P-E International

News of **Cray Electronics** £16.24m bid for **P-E International** reached us on 1st Sept - our press day last month. News of the success of the offer was announced on 27th Sept - our press day this month. *How inconsiderate.* Jon Richards was delighted that, at the close, 74.4% of shareholders had voted to accept. "Now we can get on with the job of bringing P-E into the Cray group". Even taking into account P-E's £7m debts, a c£24m price tag for a £70m+ revenue, high quality CSI company seems like a bargain. Cray are getting quite a reputation for astute acquisitions. Indeed Richards said the more he looked into P-E, the more potential he found.

The Cray trick, applied in both the Dowty IT and P-E bids, was to do painstaking research. Cray had been investigating and talking to P-E since 1991. When the right time arrived, they could move fast and safely. It sounds obvious, but you would be amazed at the number of purchases that are agreed in a few days based on minimal research. It is no wonder they subsequently fail.

But we should not forget that P-E lost £896K in the six months to 30th June 1993 and there are clearly a lot of reorganisation expenses yet to come. We would not be surprised to see Cray disposing of some of the myriad of P-E business activities. The P-E name is being retained for the management consultancy part, which will continue to be run by MD Peter Smith. George Cox, who joined P-E as Chairman in 1992 after selling his consultancy - **Butler Cox** - to **CSC**, is to stay on as Chairman of the management consultancy operation. The other 50% of P-E - the computing services side - will come under Mike Shone (ex MD of Software Sciences) who heads up Cray Systems. *Other companies take note.* We were told that **this was not the large CSI acquisition that Cray planned and the market expects.** Cray now has annualised revenues in excess of £320m - already putting it at the top of the rankings of UK owned CSI companies.

Take care with the statistics

The two most active companies on the UK software and services acquisition scene are **Broadview Associates** and **Regent Associates**. They have both recently put out their analysis of acquisitions in the first half of 1993....and they are both *System House* subscribers. Anything we do with one seems to offend the other. We sincerely hope that this article will not offend both.

Firstly, there is no agreement on the basic statistics. Regent says the value of UK IT acquisitions was up 42%, Broadview says it was down 5%. Regent say the number of acquisitions was down 8%, Broadview that it was about the same. The problem in compiling any statistics is deciding what to include or not to include. The following two ranking tables illustrate the problem.

Broadview's table is headed *Information Services*, Regent's is for *Software and Services*. Only two acquisitions are listed in both - ACT/BIS and SCO/IXI. (As Broadview acted for IXI we would tend to believe their price. The deal was all share prior to the SCO float and the float was at a lower price than originally expected). Australian Paxus was majority owned by UK insurance company General Accident so Regent might just be technically justified in including this deal but the Star acquisition of Pizza Express must bend the rules (and the statistics) just a little too far. Broadview's inclusion of CGS/Hoskyns - a deal done two years ago which now equates to an exit P/E of 81 - must affect their statistics in a major way.

Now you may say at this point "does it really matter?". The answer is a resounding

Broadview			
	Buyer	Target	Price
1	CGS	Hoskyns (remaining 30.5%)	£ 137.0m
2	MBO	McDonnell Douglas MDIS	£ 130.0m
3	ACT	BIS	£ 94.0m
4	Sony Corp	Psygnosis	£ 14.0m
5	Santa Cruz	IXI	£ 14.0m

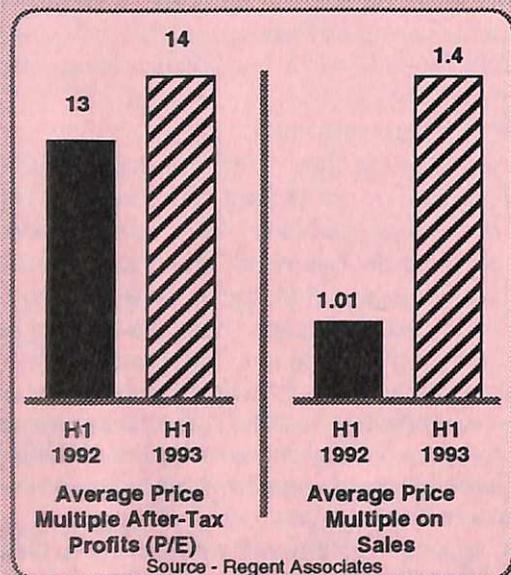
Regent			
	Buyer	Target	Price
1	ACT	BIS	£ 94.0m
2	Consortium	Paxus	£ 54.0m
3	Santa Cruz	IXI	£ 20.0m
4	Knowledgeware	Ernst&Young CASE bus.	£ 16.1m
5	Star	Pizza Express	£ 14.6m

Yes". About a third of all medium/large CSI companies are involved in acquisitions and almost every *System House* subscriber has been involved in acquisitions in the last two years. Objective data on the prices paid for SCSi companies forms at least a part of the negotiating process. The charts of average P/E and average ratio of price to revenue are used as bargaining weapons in negotiations. But they are affected in a most radical way by the inclusion, or exclusion, of the top five deals listed above.

What are the conclusions?

- the Regent P/E & sales multiple table checks. *System House* readers will know that for our Top 1000 companies, profits have recovered by 44% but revenues are up by just 5%. So, if your profits are recovering, you would expect a table exactly like this. In the main, therefore, it is profits that are increasing, not the price paid for companies

- US buyers are very keen on UK product companies, Continental Europe has its own problems and has gone to sleep as far as acquisitions are concerned. UK buyers are out buying back our services companies from previous US owners.



• "VARs with expertise in selected horizontal or vertical market applications were in demand". Source - Regent Associates Press Release. There seems to be every evidence to support this claim.

Pizza to go

Mr Blechner of **Star Computer**, you may remember, complained a year ago that *System House* "accords our small company far more significance than we deserve". So we will be brief. In Jan. 93, Star "bought" **Pizza Express** for £14.6m after Star shares were suspended when capitalised at £3.2m (they were <£1m in 1991). In fact, of course, the purchase was the other way around. At the time Blechner said "Star is too big to run down but not big enough to sell". This month Blechner has bought Star back for £2.23m including the repayment of £1.73m inter company debt. Pizza Express retains 20% (valued at £400K) of the equity so just £100K cash changes hands.

Of course, they probably still hold most of their Pizza Express shares - now worth over two and half times the 40p issue price at 103p. So they have got Star back for damn all plus a c£6m stake in Pizza Express. Mr Blechner - you richly deserve all the significance we could ever accord you. We now regard you in a whole new light.

Pickup picks up Xenon

Jim Pickup was the CEO of **Logitek** before it hit problems and was acquired by **Microvitec** in 1991. Now, together with two other ex-directors, he has bought into **Xenon Computer Systems Ltd**. Xenon specialises in network consultancy and maintenance and has revenues of c£6m. Barclays Development Capital has assisted in the purchase. The problem is that the TPM market is both in decline and highly cut throat.

"Strong recovery" at Kalamazoo

Chairman Peter Harrop told **Kalamazoo** shareholders at the AGM this month that increases in revenues continued and profits were benefiting from "significant" productivity gains. It looks as if both the printed forms and the motor dealer computer systems operations were benefiting. He was "optimistic in our short term view of this financial year". Kalamazoo has been very acquisitive and we expect more purchases in the short term. Dutch CBS, acquired in Mar 93 for c£1m, is said to be "performing satisfactorily".

Another mediocre month

All the Stock Exchange indicators dropped in Sept. Our CSI Index was down by 1.4% which means a mediocre 8% gain in the first 9 months of 1993. As we have said on many occasions, the real killings in CSI stocks were made by those who invested in 1991.

But, of course, if investors had chosen the right stocks at the beginning of 1993, there were still massive gains to be made. At the three quarter way point, the top three gainers are **Gresham Telecomputing** (up 476%), **Comac** (up 422% on the Swinstead effect - see p12) and **Kewill** (up 325%). Kewill was also the top performer in Sept. - up 17.6%. We are not quite sure what the opposite of *acquisition indigestion* is, but Kewill is currently enjoying a major high after they got rid of the problems which had beset them since they acquired Weigang. Investors clearly remember that Kewill was a well managed, focused system house with an impeccable trading record until 1991 - when they hit the acquisition trail. Clearly investors believe that such performance will be resumed.

Sage, which we rate highly, also recovered - up 16% in Sept. - after July's profit warning. "*Brokers were understandably rattled*" (Source - The Times 22nd July 93) as the warning had not been leaked to them first and applied their "*usual knee jerk reaction*". **Rolfe & Nolan** put on 12% on news of order successes and **Enterprise** was up 10% ahead of news of their strategic alliance with **Granada Computer Services** to provide what we term PC FM.

At the other end of the scale **Maddox** lost another 19% as the extent of their balance sheet problems were made public (see p7). Maddox now have a capitalisation of just £14.5m - about what they paid for Wakebourne alone only last year. **Quality Software** also lost 12%. We were mentioned as being at least partly to blame for the fall a few months ago - but clearly investors haven't read our review on p11 yet! And **Micro Focus**, where for four whole years we had to plumb our thesaurus for new adjectives to describe their one way share price rise, fell another 11% - that's an unprecedented 34% fall in 1993 to date.

Computing Services Index 27th September 1993

April 15th 1989 = 1000

1723.91

Changes in Indices	CSI Index	FTSE 100	FTSE Small Cap
Month (31/8/93 - 27/9/93)	-1.42%	-3.06%	-1.22%
From 15th Apr 89	+72.39%	+46.34%	
From 1st Jan 90	+87.36%	+27.23%	
From 1st Jan 91	+143.53%	+39.10%	
From 1st Jan 92	+64.99%	+20.54%	
From 1st Jan 93	+8.18%	+5.58%	+26.99%

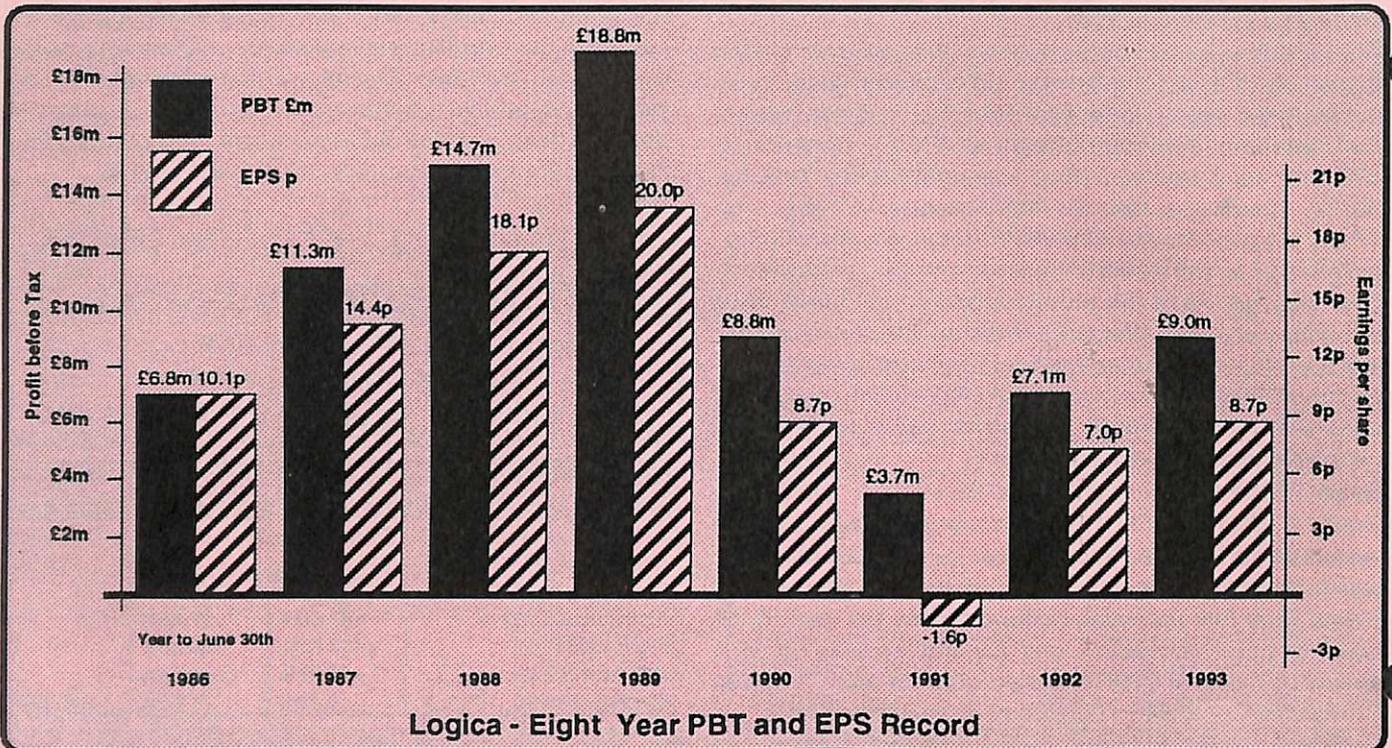
System House CSI Share Prices and Capitalisation

	Share Price 27/9/1993 (£p)	Capitalisation 27/9/1993 (£m)	Historic P/E	CSI Index 31/8/93	Share price % move since 31/8/93	Share price % move in 1993	Capitalisation move (£m) since 31/8/93	Capitalisation move (£m) in 1993
ACT	£1.77	£326.40m	18	2809.52	1.72%	19.59%	£5.50m	£117.70m
Admiral	£4.55	£49.10m	19	3297.10	-3.19%	18.18%	-£ 1.70m	£7.80m
Capita	£1.87	£88.60m	29	5615.62	-3.11%	32.62%	-£ 2.90m	£24.70m
Comac Group	£0.94	£6.03m	24	2186.05	0.00%	422.22%	£0.00m	£4.87m
Computer People	£1.01	£14.00m	Loss	415.64	4.12%	36.49%	£0.50m	£3.70m
Cray Electronics	£1.42	£304.20m	15	830.41	-4.70%	30.28%	-£ 15.00m	£83.70m
Division Group	£0.78	£26.30m	Loss	1950.00	0.00%	95.00%	£0.00m	£12.80m
Electronic Data Processing	£5.58	£48.50m	15	5693.88	0.90%	16.25%	£0.40m	£6.70m
Enterprise	£0.38	£30.60m	Loss	300.00	10.29%	82.93%	£2.90m	£15.40m
Gresham Telecomputing	£1.67	£53.40m	89	1795.70	-2.91%	475.86%	-£ 1.60m	£44.16m
INSTEM	£1.48	£7.08m	11	1480.00	-8.07%	74.12%	-£ 0.62m	£3.26m
Kalamazoo	£0.75	£13.80m	17	2142.86	-3.23%	183.02%	-£ 0.50m	£8.92m
Kewill	£2.34	£27.90m	Loss	924.90	17.59%	325.45%	£4.10m	£21.33m
Kode International	£1.80	£16.70m	21	837.21	-5.26%	80.00%	-£ 1.00m	£7.41m
Learmonth & Burchett	£2.62	£47.00m	37	2183.33	6.07%	106.30%	£2.70m	£25.80m
Logica	£2.52	£155.00m	30	690.41	-0.79%	52.73%	-£ 1.20m	£53.70m
Macro 4	£6.53	£147.70m	20	2633.06	2.03%	24.86%	£2.90m	£30.00m
Maddox Group	£0.03	£14.50m	18	722.22	-18.75%	-55.17%	-£ 3.30m	-£ 17.80m
Micro Focus	£17.70	£249.60m	16	8550.72	-11.19%	-34.20%	-£ 31.40m	-£ 118.90m
Microgen	£1.64	£64.60m	11	700.85	-4.65%	-12.77%	-£ 3.20m	-£ 8.70m
Microvitac	£0.31	£19.90m	Loss	743.90	3.39%	27.08%	£0.60m	£4.20m
Mllys	£4.99	£193.60m	18	1241.29	-1.96%	39.39%	-£ 4.30m	£55.80m
MMT	£1.28	£13.60m	16	761.90	0.00%	15.32%	£0.00m	£1.80m
MR Data Management	£2.17	£120.00m	21	861.11	3.83%	11.86%	£4.50m	£13.70m
P&P	£0.71	£39.40m	38	318.39	7.58%	144.83%	£2.80m	£23.30m
P-E International	£0.70	£15.30m	Loss	288.07	7.69%	42.86%	£1.10m	£4.60m
Pegasus	£2.09	£13.50m	54	569.48	8.85%	81.74%	£1.10m	£6.19m
Phonelink	£2.55	£90.50m	n/a	1645.16	2.82%	64.52%	£2.50m	£35.50m
Proteus	£4.35	£119.20m	Loss	5178.57	5.58%	4.82%	£6.30m	£7.70m
Quality Software	£4.79	£37.30m	23	1260.53	-11.95%	26.05%	-£ 5.00m	£7.70m
Radius	£0.35	£9.55m	12	253.62	-2.78%	-18.60%	-£ 0.27m	-£ 2.15m
Real Time Control	£0.67	£4.69m	14	1367.35	-12.99%	-22.09%	-£ 0.70m	-£ 1.33m
Rolfe & Nolan	£2.50	£14.10m	14	1488.10	12.11%	4.17%	£1.50m	£0.50m
Sage Group	£4.52	£92.70m	15	3476.92	15.90%	-7.38%	£12.70m	-£ 7.30m
Sanderson	£3.47	£30.90m	15	1476.60	4.83%	52.86%	£1.40m	£10.90m
Sema Group	£3.32	£302.10m	27	1044.03	-9.04%	3.75%	-£ 30.00m	£10.90m
Sherwood	£1.48	£9.03m	4	1233.33	-4.52%	-41.96%	-£ 0.42m	-£ 6.77m
Total	£0.58	£5.80m	11	1094.34	-9.38%	-23.68%	-£ 0.60m	-£ 1.80m
Trace	£0.45	£6.38m	16	360.00	4.65%	25.00%	£0.28m	£1.38m
Vega Group	£1.60	£22.60m	19	1311.48	-0.62%	42.86%	-£ 0.10m	£6.80m
Vistec	£0.30	£35.90m	17	1282.61	0.00%	20.41%	£0.10m	£8.10m

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.

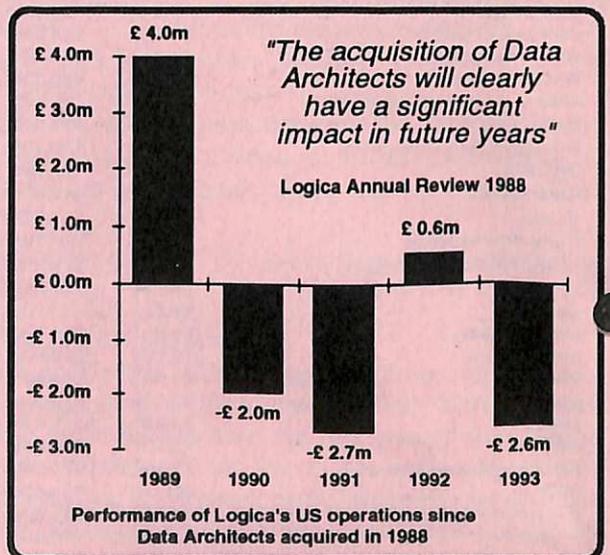
Logica - at last, getting its act together?

Logica plc's results for the year to 30th June showed PBT up 28% at £9.03m. This was a little less than the £9.5m that analysts were predicting. Revenues were up 8.5% at £217.4m and EPS advanced 24%. Cash rose from £13.7m to £17m. On the surface, readers may consider this a good performance but these profits are still half that achieved in 1989.



The main problem - yet again - was the US operation. Data Architects was acquired for £26m in Mar. 88. The prediction in the 1988 Logica Review (the comic edition) that this acquisition would have an "impact in future years" was depressingly correct with a further operating loss of £2.6m last year. We first suggested that Logica should dispose of this in 1990. Logica was none too pleased at the suggestion. It had become "so much a part of the Logica ethos and strategy that any thoughts of disposal have not arisen". Source - System House Nov. 1990. The problem is that every year we are told that remedial action has been taken. This time Bill Fello - the US CEO - has "resigned" to be replaced by Bill Engel. Business with the US telecomms sector and computer vendors "fell sharply". Dr. Martin Read, the new Logica CEO, was quoted as saying "We cannot go on as we have in the past three or four years. North America has got to be sorted out". Source - FT 17th Sept. 93. We cannot agree more.

But it would be wrong to put all the blame on the US. Logica seems to be like a car that is never able to get more than two of its cylinders to fire - and it always appears to be a different two. This year the UK showed strong profits growth - but readers should note that operating profits are now only back to the levels achieved in 1991 and a far cry from 1989. Continental Europe recovered from a £1.7m loss in 1992 to a £2.6m profit - but they made profits of £2m in 1991. The Dutch and Swiss companies were particularly successful but Germany was "still not able to achieve profitability".



Logica	1992/93 Revenue	1992/93 Operating Profit
UK	£131m +7%	£9.2m Profit (Up 30% from £7.1m)
Continental Europe	£51m +28%	£2.6m Profit (from £1.7m Loss)
North America	£22m -8%	£2.8m loss (from £500K Profit)
Asia Pacific	£14m -4%	£300K loss (from £400K Profit)

Withdrawing "from all non-profitable activities" has cost £500K. The £300K loss in Asia Pacific was because of overspending on a fixed price contract for the Hong Kong Stock Exchange.

We were told that fixed price contracts are "a way of life" at Logica - the percentage has reduced marginally from 54% to 52% in the year. But overruns have bedevilled the company for years. £50m was wiped off Logica's capitalisation in May 1990 at least in part due to a further £2m being required to complete two major fixed price contracts. At least Logica used to be in the "high risk - high margin" business - we somehow suspect that this should now read "high risk, low margin".

Continued

Logica - continued

Staff numbers have increased marginally from 3374 to 3425 in the year. It should be remembered, however, that Logica has made over 600 staff redundant over the last three years.

Revenue analysis by sector shows little real change in the year except that Finance has increased from 27% to 29% of revenues. It is over the long term that the major changes become apparent. Government represented just 6% of revenues in FY89 compared with 16% now - a 250% increase in revenue. Whereas revenues from the Computer/electronics sector have fallen from 14% to 5% in the same four years.

As to the future, Logica "sees a continuing upturn in the UK but are concerned about the continuing weakness in economic activity in Continental Europe...we expect the year ahead will be one of further overall growth". Consensus analyst opinion is for c£12.3m PBT next year.

Backing Logica

Ever since we started *System House*, we have backed Logica as one of the finest hi-tech. operators in the sector. Their strengths are many. High technical competence, a blue chip and loyal customer base and some very good, young employees. But they have been technology led - not market led. That has meant that they have not been as good at selling their capabilities as they should have been. Logica often appears as too nice, too soft. Almost every major company in the sector has faced severe problems in the last four years. Many, to their regret, delayed taking remedial action but then cut hard. It may have been difficult to do, but the companies and their shareholders have started to reap the rewards in the last year.

Now at last the action is taken

Just a month ago, Logica announced the appointment of Dr. Martin Read as CEO. Read had been running a highly successful set of IT related businesses at GEC - several times larger than Logica. In our meeting with Read we were left in no doubt that he intends to take the actions required - indeed there seems to be a groundswell of opinion amongst Logica staff (just like there was in Data Sciences before the appointment of Andy Roberts) that change is long overdue.

We believe Read will increase market focus, exploit current strengths and broaden the services offered to existing customers. The opportunities, for example, to offer FM and AM services to Logica's customers are enormous. When we suggested this in the past the reaction from Logica was that this type of work was rather beneath them. Read's reaction to this was "Anyone in Logica who says that profitable work is beneath them will not stay for long". We also believe that Read will run a tighter ship - squeezing suppliers, delayering management, attention to costs and ensuring that customers pay for changes to specification. He also intends to be more vigorous in judging individual and business unit profit performance.

In our view, Read should be aiming for an operating margin of not less than 7.5% next year - about twice what is currently achieved. Everything we heard from Read was music to our and, one hopes all, shareholder's ears. **It really is about time.** Clearly Logica's main institutional shareholders will give Read the time and backing he needs to make the required changes. If he fails, then they should tell the board not to spurn the suitors and accept a friendly bid.

Tetra shows them how to do it...

This month we have received results from Brook Street (Unify) and Quality (OLAS) blaming their poor results on the market and how recession has affected accounting system sales. *Have none of it.* You only have to look at the recent results from the likes of Coda, JBA and Sage to realise that well managed companies grow even in tough conditions...in the UK anyway.

The latest results from Tetra for the year to 31st May 93 prove the point. Revenues were up a modest 7% to £13m but PBT advanced 41% to £2.3m. Cash balances now stand at £3m.

Under the strong management of Sean Dowling, Tetra has refocused on its core software product strengths after the £1.6m loss incurred in 1989. Tetra is now looking like a Stock Exchange float candidate where a £30m+ price tag could currently be commanded.

That is if the market is not put off by other accounting software companies like...

...Quality "disappoints"...

Quality Software (QSP) was floated at 380p in Mar 93 since when the shares rocketed to a high of 592p. Readers will know that we were concerned about:

- lack of new product sales.
- capitalisation of R&D which was £3m greater than the total profits in the previous 4 years.
- QSP (and its new shareholders) putting all their faith in the success of the open systems version of OLAS where they were entering a crowded and fiercely price competitive market.

We were then personally blamed when their share price dropped after our views were published.

First results since the float for the six months to 30th June 93 showed revenues up 10% at £6.6m, PBT down 37% at £143K and EPS down 46%. PBT would have been even lower had not interest payable reduced by £100K.

The OLAS product launch seems to be going according to plan but "customers planning to migrate...have decided to delay service spend until migration takes place" and "this will have an impact on our budgeted results in 1993 of about £1.5m". This time, QSP shares have fallen 80p before this review was published.

In the six month period, QSP capitalised a further £1.6m development costs whereas amortisation was £600K. In other words profits would have been £1m lower resulting in a loss. The UK accounting rules are suitably vague and QSP are doing nothing wrong in their treatment of R&D. The problem is that this makes comparisons between software product developers difficult. If sales in future go according to plan then it will all come out in the wash in time. But if they don't, then the current £7.2m net book value of intangible assets will be a major millstone. Universal OLAS will be entering a highly competitive market and their competitive edge is far from guaranteed.

...and Pegasus quietly builds cash mountain

The Pegasus announcement this month that it had sold the remaining 75% stake in Stockforms to Deluxe for "up to £6m" received almost zero press coverage. Pegasus already had over £2.5m cash in the bank, which will now rise to nearly £9m. In addition they get 12.5% on Deluxe sales to Pegasus customers for five years; which could net another £2m. Pegasus has a market capitalisation of £13.5m - is the Pegasus accounting software business really only worth £4.5m?



CAP GEMINI SOGETI

Back in the 1970s, **Hoskyns** unveiled a new corporate identity. It was strict and covered every imaginable printed item from brochures and reports to press releases. Through many changes of ownership, and MDs, that identity was one of the things that remained consistent.

For an identity to last, unaltered, for nearly 20 years is a remarkable feat. We are not aware of too many other companies in the sector that could make the same claim. But all good things come to an end. This month Hoskyns revealed its new identity - placing it firmly (and correctly) within the CGS "unified global image" now that the share transfer has been finally completed.

Having played a part in the first Hoskyns identity, it is an event tinged with a certain amount of sadness - although it must have represented the best return on any marketing expenditure ever made. *Will the new identity last 20 years?*

If the UK can't own the industry we can manage it

The announcement of the new Hoskyns identity coincided with the happy news that **Geoff Unwin** had been promoted to Chief Operating Officer of CGS - reporting directly to Serge Kampf. Unwin retains his Chairman position at Hoskyns. Unwin now has probably the most important and largest operational CSI role in the world.

At the same time it was announced that **George McNeil**, currently MD of Bull UK, had been promoted President and CEO of **Bull Europe** - although the appointment excludes France. At least one of the reasons for this appointment is Bull's success in the UK in building its CSI revenues to over £40m. Clearly Bull will want to see this emulated throughout Europe.

Together with Peter Bonfield (**ICL**), Geoff Squire (**Oracle**) and David Svendsen (**Microsoft**) the UK is showing that if we can't own the industry - at least we can manage it.

MDIS plans biggest CSI float since Hoskyns

McDonnell Douglas Information Systems (MDIS) was the subject of an MBO in Jan. 93. In the full year to 31st Dec. 92 the proforma accounts for the MDIS MBO unit showed operating profits of £19.4m on revenues of £160m. We estimated the consideration to be £140m - a figure now widely quoted as fact. This month MDIS has announced interim PBT of £5.2m on revenues of £66.5m to 30th June 93. Operating profits were £8.1m. *Is the £2.9m difference with PBT the new interest burden?*

Regardless, the results look excellent. MDIS usually makes more profit in H2 and "provided that there is no significant downturn in world markets, MDIS is on course to meet its financial targets for 1993" says CEO Jerry Causley. Indeed record orders worth over £20m were awarded in August and a further major £8.3m order for an HIS system from East Anglian Regional Health Authority in September. Although no date has been set for the floatation, MDIS would be unwise to delay and miss the current "window of opportunity". A launch in early 1994 would be our advice. *We can't wait...* MDIS will be the biggest CSI float since Hoskyns back in Dec. 1986. MDIS can then get rid of the debt and the associated interest charges and could well become the most profitable UK CSI company. But then, of course, they might start on the acquisitions route.....

Swinstead keeps it quiet

Q "Could you please fax us the press release on your interim results".

A "Sorry, we haven't one, we are too busy - try again next week".

And so passed quietly into history Phillip Swinstead's first results announcement as CEO of **Comac**. In fact PBT was up 37% at £60K, revenues were up 8% at £5.3m and EPS increased 48%. Comac shares started 1993 on 18p, rose from 44p to 69p when Swinstead's appointment was announced and have risen to 94p since. Swinstead plans acquisitions to coincide with the move of Comac from the USM to a full listing. In the future, he says, companies will increasingly use IT contractors on a freelance basis. We doubt that Swinstead will wish to keep his next announcements so quiet.

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