

# System House

The monthly review of the financial performance of the UK computing services industry  
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## The British are back!

There are two news items in this month's *System House*, the like of which we have never published before. Our annual review of acquisitions (p10/11) reports on the acquisition successes of many UK companies. And our front page reports the very welcome news that McDonnell Douglas Information Systems International (MDISI) is to become a major **UK owned** CSI company after the MBO from its US parent.

### McDonnell Douglas Information Systems International

MDISI is fast becoming the classic "hardware independent" systems integrator, specialising in the health, police and local government markets. They had been considered as "non-core" by their US parent for some years. Indeed, CEO Jeremy Causley had been put in to sell the operation.

First, Tymnet was sold to BT and then the CAD/CAM operations went to EDS. After talking to many companies about purchasing the remaining parts, he and 16 other managers decided that an MBO was a better route for all parties.

In the year to 31st Dec. 91, MDISI reported revenues of £140m and PBT of £14.25m. However, the figure would have been £17.5m if the CAD/CAM losses of £3.25m had been excluded. Revenues of £180m are estimated for 1992 with profits of around £20m. MDISI are keeping mum about the consideration until McD's own results are published. However, we have been told that the upfront consideration was \$180m (*not* £ as widely reported) with a further \$20m deferred element - i.e. around £125m. If the figures are correct, that is a P/E of just 10. The company should therefore start with a sporting chance of success without too heavy an interest burden. Baring Capital Investors was the lead investor. The management will have a "minority stake". A Stock Exchange floatation could occur as early as 1994.

As readers know we have bemoaned the fact that so many of our top CSI companies have fallen to foreign predators in recent years. But the signs for the future are now, frankly, rather encouraging:

- there were no new foreign acquisitions of major UK owned CSI companies in 1992 - as we had feared. Although we still believe that **Logica** and **Data Sciences** are vulnerable, we believe there is now a good chance that their purchasers could also be UK owned.

- there are now several major CSI companies with the track record, financial resources and management to make it into the top echelons of the international listings:

- **Cray Electronics** (see p2) with estimated revenues of £250m+ and PBT of £24m+ for 1994.

- **ACT** (est. revenues of £170m and PBT of £27m for 1994)

- **Misys** (est. profits of £16m+ for 1993)

The three companies above are more than likely to conclude further *major acquisitions* in the next year which will clearly strengthen their position even further. The acquisition targets will not only be UK based but also include major US and European CSI operations.

Other major players include:

- **Granada** (estimated revenues of £200m for 1994)

- **MicroFocus** (estimated PBT of £30m+ for 1994)

And we should not forget:

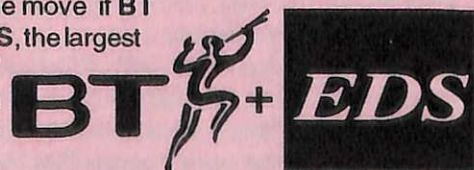
- **BT Customer Systems** - currently the largest UK-owned CSI supplier.

- **ICL** - currently the largest CSI supplier to the UK market, which could well be a UK listed company by 1994. In any event, ICL is clearly "UK-controlled"

- **CGS** and **Oracle** where the top management positions are both held by Britons.

To the list can now be added **MDISI**. At their current run rate, they could achieve revenues of £250m+ in 1994 by organic means alone.

If more of these companies can add *international* success, inevitably by acquisition, to their undoubted UK success then the UK might have another chance to sit at the CSI *top table* where we rightfully belong. This objective could be met in just one move if **BT** does acquire **EDS**, the largest "independent" CSI supplier in the world. See page 12





# Cray

## Electronics

Whichever way you look at the latest interim results from **Cray Electronics** for the six months to 31st Oct. 92, they are both exemplary and exciting. Revenues were doubled from £40m to £81.9m, PBT was up from £500K to £17.8m and EPS was up from 0.47p to 10.33p.

£30.2m of the increase in revenues was due to the acquisitions of Autofile (Mar. 92 - £16.8m) and, most significantly, Dowty IT (Jul. 92 - £50m) but the existing Cray operations also grew by 10%. The major part of the profits were attributed to a £13m gain on the disposal of various parts of the business; in particular Malvern Instruments for £20m. But operating profit increased by 106% to £5.7m and profits from continuing activities also more than doubled. Net interest payable reduced from £1.5m to £900K. The further sale of bits of the Dowty operation in Nov. 92 means that indebtedness has now been eliminated.

The Dowty IT acquisition really seems to have been a gem. Cray had done the ground work and had the funds available to act quickly when TI put the operation up for sale. Cray reckons they paid a "cheap in anyone's books" P/E of around 4. Dowty made PBT of £1.1m on revenues of £30m in its first two months as part of Cray.

### **Cray now operates in three divisions:**

**Cray Communications** (58% of revenues). This is where the Dowty acquisition resides. Cray reckons the market for its datacoms network products is set to grow by between 15 - 25% p.a. Cray now has the expertise, products and critical mass to compete effectively.

**Cray Systems** (24% of revenues). Basically the existing Marcol and new Autofile operations which "has continued to exceed our expectations".

**Cray Technology** (18% of revenues). This is what is left of the original Cray defence businesses plus three small Dowty operations. Although they "performed satisfactorily", they do not really form part of the new "core" business and we would not be surprised to see them sold when the right buyer is found.

Sir Peter Michael, who was very much a "hands off" Chairman, is stepping down to be replaced by Roger Holland. Sir Peter's parting statement read "As the company moves towards a more international bias and the results of our recent reorganisation take effect we are well positioned to take advantage of the predicted growth in our industry. Trading continues satisfactorily and, with the operating companies generating cash, we expect the balance sheet to strengthen further".

Back on 21st Dec. 92, SG Warburg put out a buy on Cray when the shares stood at 105p. They reckoned a "share target price of 138-144p is justifiable". The share price reached this range even before the interim announcement. Analysts reckon that Cray will make between £15-£17m PBT in the full year (excluding exceptional profits) and £24m in 1994. Cray, with annual run rate IT revenues of £250m (c70% from the UK), is already well set to be largest UK CSI company both by revenue and profits.

**We expect further major acquisitions, particularly in the software and services sector, this year.**

## **Problems continue at Real Time Control**

**Real Time Control (RTC)** specialises in EPOS systems for the retail sector. Although they made a £77K loss in the year ending 31st Mar. 90, they had reported £1m+ profits in both 1991 and 92. Even Chairman R Carrell had been "encouraged by the current volume of sales activity" as recently as July 92. But the latest interim results to 30th Sept. 92 show a 49% drop in PBT to £258K on revenues up 4.4% at £3.1m. EPS was also down 49%. Given the strong cash position of RTC, the drop in interest rates took its toll - reducing interest received from £213K to £177K.

The revenue increase is encouraging, given the climate in the retail sector, but "the costs of obtaining business... have been high". Reorganisation of RTC's US operations, which has now abandoned direct marketing, have "eliminated losses from this operation".

The move to services, away from straight hardware provision, was the reason for us including RTC in our analyses. This is now one of the brightspots. UK sales, largely because of these value added services, rose by 12% in the period. Clearly RTC's future prospects are closely linked to a recovery in consumer confidence. Most commentators believe that will happen later this year and the pent up demand, from the many retailers who do not at present have EPOS systems, will clearly assist RTC.

Finance director Tony Wheeler said "If there are no major banana skins, there should be an improvement in business over the coming year, although it will be slow". Source - Computergram 19th Jan. 93.

## **Data Sciences**

Mike Smith, CEO at **Data Sciences**, has not had the best start to the year. He has been off sick at the very time when news that Data Sciences (in whole or in part) was "up for sale" hit the streets. The rumours were strenuously denied ... of course. We don't criticise them in any way for that - a public "for sale" notice hardly helps affairs. In fact we compliment them for keeping it off the news stands for so long. For several months quite a few of our readers have been telling us that Data Sciences has been trying to sell their Datasolve operation. We didn't consider it in anyone's interest to publish the fact. We understand that a bid was rejected some months ago - a decision which is probably now being regretted.

All that Data Sciences would say "on the record" was that their remaining 29% stake in Pilot was for sale. We understand that trading profit (before interest) was £5.1m - down from £6.25m - in the year to 30th Sept. 92. However, interest payments would have been at least £6m resulting in a loss before tax. Revenues were up slightly from £117m to £119m. At the financial year end Data Sciences had "positive cash" of £4.2m and "all interest payments due had been made". As at 31st Jan. 93, "positive cash" had reduced to £2.4m. However, "80% of budgeted revenues for the year are already committed".

We wish Data Sciences well. They are one of the finest CSI companies still in UK ownership. We hope that whatever happens their ownership will stay in UK hands.

**Dun & Bradstreet Software (UK)** reported revenues up 17% at £32.4m. PBT was up 25% but we have never been able to determine the base profit figure. Its "mainframe products are still selling well and the new UNIX and Client/server offerings are making inroads into the market".



## Thirty acquisitions later...

There is something decidedly nostalgic about **Microgen**. Do you remember microfilm? Microgen started as a microfilm bureau in 1968 but discontinued this activity in 1972 when they started their COM (Computer Output on Microfilm) activities. In 1978 they became a subsidiary of the Barbour Index but "demerged" in 1982. Since then they have undertaken 30 (yes, thirty), mainly small, acquisitions. For example, Eurocom from Nat. West in 1984, Scanlaser and Data Pro in 1986, which took Microgen into the electronic printing business. In the last year they acquired the Dataprint operations of Data Sciences and, for a consideration of £1.1m, the COM activities of NCR in Denmark.

If you are still with us at this point, you are likely to be amongst the large majority of our readers who realise that much of the real money in our industry is still to be made in servicing yesterday's systems and providing services which might be considered as decidedly "unsexy". Microgen now has 5,800 customers, employs 750 people in 33

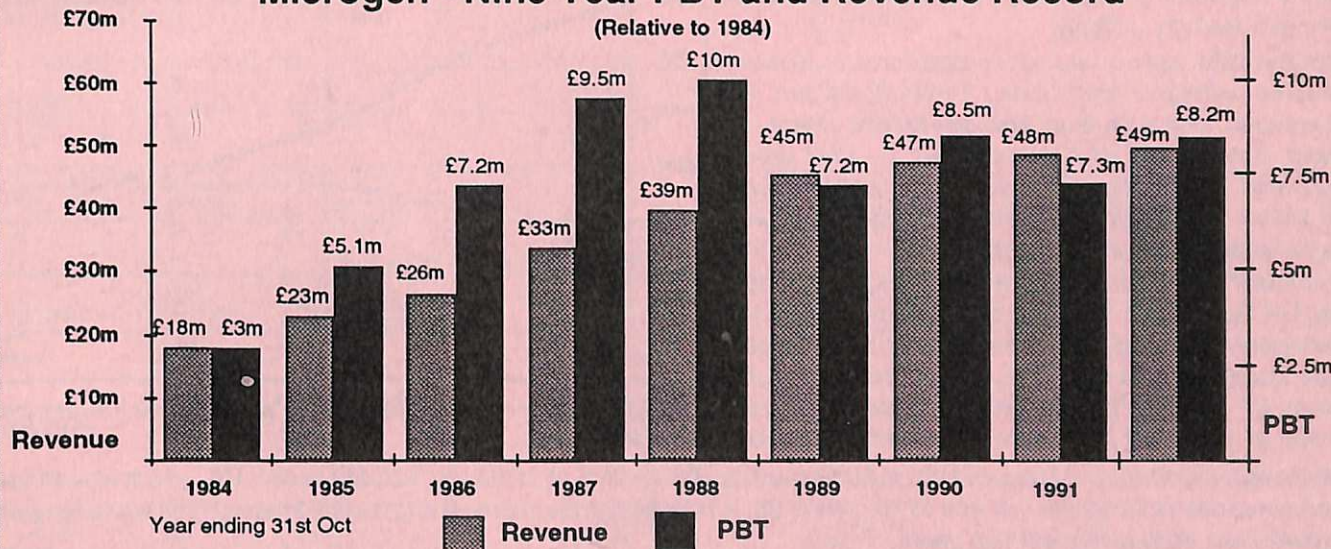
bureaux and basically focuses on the production, storage and retrieval of all manner of commercial information. "Over 95% of customers renew their contracts and 80% of work is on a regular basis".

Given the trading environment of the last year, latest results for the year to 31st Oct. 92 are really very good. Although revenues increased by just 3% to £49.3m, PBT increased by 13% to £8.24m and EPS was also up 13%. Cash improved from net borrowings of £1m to £3m net cash at the end of Oct. 92.

However, as the chart below shows, profits are still lower than the £10m reported in 1988. Acquisition problems and a "deliberate and systematic fraud" by a senior executive contributed towards the turndown. Even so their performance has been very good compared to many other medium sized CSI companies.

With increasing European revenues, particularly from Germany, Microgen believes it has established "a solid platform for future progress".

### Microgen - Nine Year PBT and Revenue Record



### Job losses Credit card processor, First Data Resources

"an arms length subsidiary of American Express" intends to make 460 staff redundant due to the introduction of debit cards replacing more labour intensive credit card transactions. FDR acquired **Signet**, one of Europe's largest credit card processors, for £146m from the UK clearing banks in one of the largest acquisitions in the CSI sector in 1991. FDR cut 320 jobs in 1992 and 166 in 1991.

ICL is cutting 120 from its customer services division. **AT&T Istel** announced that "375 jobs were at risk" (out of a workforce of 2200 in the UK) and salaries have been frozen for the rest of the year. Management positions are the main target. **Ungermann-Bass** has closed its Camberley HQ with the loss of 20 jobs.

..and some good news **Quality Software Products** have taken on 50 new staff in the last two months and anticipate revenues up 20% to £13.3m for 1992.

**Proteus International**, which we believe could be the role model for the computer products company of the 2000s, maintained their no revenue, continued loss record in the year to 30th Sept. 92. Their shares have risen from a launch price of 84p in May 90 to a high of 505p in 1992. For the secret, see next month's *System House*.

### SHL Systemhouse

**SHL Systemhouse** "one of the largest systems integration and outsourcing organisations in the world" has announced Q1 revenues up 10% at \$201m and a profit of \$300K, compared with a loss of \$1.3m last time.

In Europe, Chairman Iain Macdonald has appointed Michael McGoun as Group MD. Euro revenues have grown by 8% and "services, training and consultancy by around 30%".

### Further CSI gains for DEC UK....

**DEC UK** has outperformed DEC worldwide making profits in Q2 (to 31st Dec 92) on revenues of £195m. UK revenues from software and services exceeded product revenues for the first time. DEC UK's FD Paul Biddle says the company is "putting weight behind services rather than shedding staff". Source - Computing 21st Jan. 93.

### Sorry...Jonathan

Several of Jonathan's fans contacted us saying that our comments on him having "a history of management style differences" *System House* Dec. 92 was unfair. As the current **Pegasus** story seems to indicate, the management style problems seem to belong to others...not Jonathan.



## IBM's black Tuesday

Although some *System House* subscribers say ours is the only journal they bother to read, we cannot believe that anyone has missed the news of IBM's record breaking \$5 billion loss on revenues of \$64.5b for 1992 and John Akers relinquishing the CEO spot. The hunt is now on for a replacement with some very unlikely names being suggested (E.g. Robb Wilmott!). We believe they need to appoint someone from outside the computer industry.

You might have missed, however, that IBM's software revenues increased by 5.8% to \$11.1b (17.2% of revenues). However, software revenues declined by 2% in Q4. Services revenues, which include consulting and systems integration, rose by a massive 31.7% in the year to £7.35b (11.4% of revenues). That now means that IBM has worldwide SCSI revenues of \$18.5b. "IBM sees this sector as a significant growth opportunity and is rapidly expanding its service operations worldwide". Source - Louise Kehoe FT 20th Jan. 93.

IBM UK was IBM's "blackest spot", recording losses of £616m (16% of revenues of £3.75b) compared with IBM's worldwide losses of 7.7% of revenue. IBM UK's CEO Nick Temple said the company was "being transformed from a general computing company to a consultancy and service led business".

### Comment

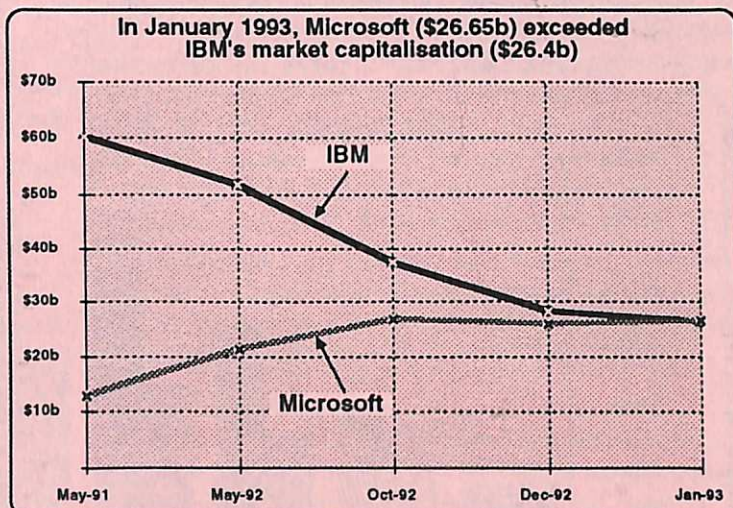
The FT ran a rare leader on the computer industry on 20th Jan. The editorial basically said that the IT world had now moved on to the point where what happened to IBM in the future was of very little significance. We agree.

We also believe that IBM will not become a major threat to the established software and services suppliers. You cannot make a hardware salesman into an IT consultant merely by changing his or her name badge. We have suggested for many years that IBM should make a bold move by acquiring a major CSI player to provide the ethos required. IBM's current financial status makes this increasingly unlikely.

But the IBM lesson has wider significance. Norman Macrae writing in the *Sunday Times* (24th Jan. 93) compared IBM with **Sun Microsystems** where, he says, "Investment was demand led, to meet orders received. Each component was costed; was it cheaper to make it in Mexico or Taiwan. Unnecessary jobs were weeded out, including those of three of the four founders". He argued that the current policies of both the UK Government and the opposition were like the "arrogant IBM economics". He suggested that countries and companies should "try lots of things that fail cheaply", get rid of "planning regulations which say what garages should not be used for" and "always seek the cheapest place to make any product or component". Readers might well agree.

**Microsoft** reported revenues up 38% at \$938m and profits up 35% at \$236m for Q2. **Microsoft UK**, which we estimate had revenues of £100m in the year to 30th June 92, is now said to be the most successful international subsidiary with growth over 80% in the last two years.

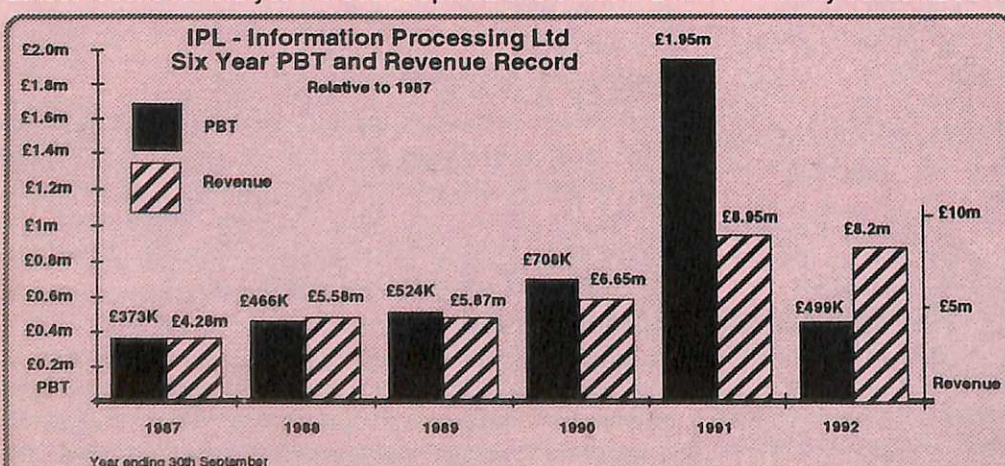
And as a result of these two diametrically opposed results, the event we have long predicted happened. In Jan. 93, Microsoft's market capitalisation on Wall Street exceeded that of IBM for the first time.



## IPL - "Best of the Privates" no more

For two years in a row, **Information Processing Ltd (IPL)** had made it to our "best of the privates" Top Five. This Logica "spin-out" seemed to defy the recessionary problems affecting almost all other players in the people based "high tech/complex real time systems" consultancy market. When the company topped our rankings last year, with a 175% increase in PBT to £1.95m, IPL put out a press release to advertise the achievement.

Latest results for the year to 30th Sept. 92 show that IPL has eventually succumbed to market pressures. Revenues are



down 8.6% to £8.2m (98% from the UK) but PBT dropped 74% from £1.95m to £499K. Cash of £538K at the end of the previous year had been wiped out and a new bank loan and overdraft of £1.2m has been substituted.

"The directors are satisfied with IPL's performance...in a fiercely competitive marketplace. The recession has created a situation in the software industry where companies with an increasing number of available staff are competing for a decreasing number of contracts".



# Richard Holway Results Service

<b>ACT Group plc</b>	Results Revenue PBT EPS	Interim - Sep 91 £ 52,588,000 £ 7,648,000 5.13p	Final - Mar 92 £ 119,447,000 £ 17,020,000 10.83p	Interim - Sep 92 £ 72,120,000 £ 9,543,000 5.34p	Interim Comparison +37.1% +24.8% +4.1%
<b>Admiral plc</b>	Results Revenue PBT EPS	Interim - June 91 £ 11,686,000 £ 1,667,000 10.3p	Final - Dec 91 £ 26,104,000 £ 3,472,000 21.9p	Interim - Jun 92 £ 13,656,000 £ 1,960,000 11.6p	Interim Comparison +16.9% +17.6% +12.6%
<b>Capita Group plc</b>	Results Revenue PBT EPS	Interim - Jun 91 £ 11,104,000 £ 1,382,000 7.1p	Final - December 91 £ 24,711,830 £ 3,448,487 15.71p	Interim - Jun 92 £ 13,732,000 £ 1,769,000 7.6p	Interim Comparison +23.7% +28.0% +7.0%
<b>Computer People Group plc</b>	Results Revenue PBT EPS	Interim - Jun 91 £ 34,834,000 £ 669,000 3.53p	Final - Dec 91 £ 67,660,000 £ 1,006,000 5.48p	Interim - Jun 92 £ 29,895,000 (£ 135,000) (0.73p)	Interim Comparison -14.2% Profit to Loss Profit to Loss
<b>Cray Electronics Holding plc</b>	Results Revenue PBT EPS	Interim - Oct 91 £ 40,044,000 £ 536,000 0.47p	Final - Apr 92 £ 84,786,000 £ 4,787,000 3.2p	Interim - Oct 92 £ 81,862,000 £ 17,833,000 10.33p	Interim Comparison not comparable not comparable not comparable
<b>EIT Group plc</b>	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
<b>Electronic Data Processing plc</b>	Results Revenue PBT EPS	Final - Sep 91 £ 17,420,000 £ 4,083,000 32.83p		Final - Sep 92 £ 15,455,000 £ 4,877,000 38.4p	Final Comparison -11.3% +19.4% +17%
<b>Enterprise Computer Holdings plc</b>	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
<b>Gresham Telecomputing plc</b>	Results Revenue PBT EPS	Final - Oct 91 £ 6,296,000 £ 355,000 1.0p		Final - Oct 92 £ 7,250,000 £ 767,000 1.94p	Final Comparison +15.2% +116.1% +94.0%
<b>Hoskyns Group plc</b>	Results Revenue PBT EPS	Final - Oct 91 £ 200,663,000 £ 14,299,000 10.5p		Final - Oct 92 £ 197,661,000 £ 9,513,000 5.8p	Final Comparison -1.5% -33.5% -44.8%
<b>INSTEM plc</b>	Results Revenue PBT EPS	Interim - Jun 91 £ 7,870,000 £ 507,000 7.21p	Final - Dec 91 £ 15,810,000 £ 1,010,000 15.2p	Interim - Jun 92 £ 7,062,000 £ 551,000 7.96p	Interim Comparison -10.3% +8.7% +10.4%
<b>Kalamazoo Computer Group plc</b>	Results Revenue PBT EPS	Interim - Sep 91 £ 26,500,000 £ 1,500,000 2.7p	Final - 8 mos- Mar 92 £ 38,300,000 £ 600,000 Nil	Interim - Sep 92 £ 27,600,000 (£ 86,000) Loss	Interim Comparison +4.1% Profit to Loss Profit to Loss
<b>Kewill Systems plc</b>	Results Revenue PBT EPS	Interim - Sep 91 £ 21,459,000 £ 1,685,000 13.56p	Final - Mar 92 £ 41,824,000 £ 2,421,000 19.91p	Interim - Sep 92 £ 15,418,000 (£ 172,000) (3.58p)	Interim Comparison -28.2% Profit to Loss Profit to Loss
<b>Learmonth &amp; Burchett Management Systems plc</b>	Results Revenue PBT EPS	Interim - Oct 91 £ 10,051,000 (£ 281,000) (1.7p)	Final - Apr 92 £ 21,404,000 £ 303,000 0.7p	Interim - Oct 92 £ 10,713,000 £ 753,000 3.1p	Interim Comparison +6.6% Loss to Profit Loss to Profit
<b>Logica plc</b>	Results Revenue PBT EPS	Final - Jun 91 £ 197,758,000 £ 3,676,000 (1.6p)		Final - Jun 92 £ 200,383,000 £ 7,062,000 7.0p	Final Comparison +1.3% +92.1% Loss to Profit
<b>Macro 4 plc</b>	Results Revenue PBT EPS	Final - Jun 91 £ 18,028,000 £ 7,647,000 23.0p		Final - Jun 92 £ 19,016,000 £ 8,750,000 26.5p	Final Comparison +5.5% +14.4% +15.2%
<b>Micro Focus plc</b>	Results Revenue PBT EPS	Interim - Jul 91 £ 25,387,000 £ 8,961,000 43.1p	Final - Jan 92 £ 55,869,000 £ 18,146,000 83.1p	Interim - Jul 92 £ 30,053,000 £ 9,420,000 45.9p	Interim Comparison +18.4% +5.1% +6.5%
<b>Microgen Holdings plc</b>	Results Revenue PBT EPS	Final - Oct 91 £ 47,735,000 £ 7,283,000 12.2p		Final - Oct 92 £ 49,316,000 £ 8,243,000 13.8p	Final Comparison +3.3% +13.2% +13.1%
<b>Microvitec plc</b>	Results Revenue PBT EPS	Interim - Jun 91 £ 12,484,000 (£ 2,212,000) (4.8p)	Final - Dec 91 £ 36,873,000 (£ 3,847,000) (5.3p)	Interim - Jun 92 £ 25,533,000 £ 62,000 0.1p	Interim Comparison +104.5% Loss to Profit Loss to Profit



<b>Misys plc</b>	Results Revenue PBT EPS	Interim - Nov 91 £ 32,304,000 £ 3,585,000 7.0p	Final - May 92 £ 68,023,000 £ 9,118,000 17.8p	Interim - Nov 92 £ 41,147,000 £ 6,757,000 11.9p	Interim Comparison +27.4% +88.5% +70.0%
<b>MMT Computing plc</b>	Results Revenue PBT EPS	Final - Aug 91 £ 5,920,484 £ 1,256,967 6.8p		Final - Aug 92 £ 6,220,000 £ 1,500,000 7.9p	Final Comparison +5.1% +19.0% +16.2%
<b>P &amp; P plc</b>	Results Revenue PBT EPS	Interim - May 91 £ 120,700,000 £ 3,300,000 3.9p	Final - Nov 91 £ 228,324,000 £ 711,000 0.9p	Interim - May 92 £ 119,300,000 £ 1,000,000 1.0p	Interim Comparison -1.2% -69.7% -74.4%
<b>P-E International plc</b>	Results Revenue PBT EPS	Interim - Jun 91 £ 33,565,000 £ 1,833,000 6.7p	Final - Dec 91 £ 68,750,000 £ 1,622,000 4.9p	Interim - Jun 92 £ 35,508,000 £ 514,000 1.5p	Interim Comparison +5.8% -72.0% -77.6%
<b>Pegasus Group plc</b>	Results Revenue PBT EPS	Final - Jul 91 £ 8,493,000 £ 1,669,000 19.9p	Interim - Jan 92 £ 3,367,000 £ 320,000 3.8p	2nd Interim - Jul 92 £ 7,560,000 £ 655,000 7.6p	12 month Comparison -11.0% -60.7% -61.8%
<b>Proteus International plc</b>	Results Revenue PBT EPS	Interim - Sep 91 £ 2,000 (£ 1,119,000) (5.12p)	Final - Mar 92 £ 3,000 (£ 2,410,000) (11.05p)	Interim - Sep 92 £ 0 (£ 1,205,000) (4.73p)	Interim Comparison Not comparable Loss both Loss both
<b>Radius plc</b>	Results Revenue PBT EPS	Interim - May 91 £ 14,708,000 £ 801,000 1.7p	Final - Nov 91 £ 28,115,000 £ 366,000 0.8p	Interim - May 92 £ 11,988,000 £ 525,000 1.0p	Interim Comparison -18.5% -34.5% -41.2%
<b>Real Time Control plc</b>	Results Revenue PBT EPS	Interim - Sep 91 £ 3,002,000 £ 507,000 4.9p	Final - Mar 92 £ 6,835,000 £ 1,192,000 11.1p	Interim - Sep 92 £ 3,134,000 £ 258,000 2.5p	Interim Comparison +4.4% -49.1% -49.0%
<b>Rolfe &amp; Nolan Computer Services plc</b>	Results Revenue PBT EPS	Interim - Aug 91 £ 3,277,000 £ 704,000 8.5p	Final - Feb 92 £ 6,737,000 £ 1,390,000 15.9p	Interim - Aug 92 £ 5,307,000 £ 707,000 8.9p	Interim Comparison +61.9% +0.4% +4.7%
<b>Sage Group plc</b>	Results Revenue PBT EPS	Final - Sep 91 £ 20,002,000 £ 6,638,000 25.5p		Final - Sep 92 £ 27,274,000 £ 8,853,000 30.9p	Final Comparison +36.4% +33.4% +21.2%
<b>Sanderson Electronics plc</b>	Results Revenue PBT EPS	Final - Sep 91 £ 20,503,000 £ 2,403,000 19.2p		Final - Sep 92 £ 21,398,000 £ 2,805,000 24.0p	Final Comparison +4.4% +16.7% +25%
<b>Sema Group plc</b>	Results Revenue PBT EPS	Interim - Jun 91 £ 200,869,000 £ 6,566,000 4.7p	Final - Dec 91 £ 412,501,000 £ 14,015,000 11.02p	Interim - Jun 92 £ 195,393,000 £ 7,729,000 5.3p	Interim Comparison -2.7% +17.7% +12.8%
<b>Sherwood Computer Services plc</b>	Results Revenue PBT EPS	Interim - Jun 91 £ 12,139,000 £ 575,000 6.6p	Final - Dec 91 £ 22,321,000 £ 2,446,000 19.6p	Interim - Jun 92 £ 10,710,000 £ 1,748,000 16.7p	Interim Comparison -11.8% +204.0% +153.0%
<b>Star Computer Group plc</b>	Results Revenue PBT EPS	Interim - Dec 91 £ 3,470,000 (£ 240,000) (3.6p)	Final - Jun 92 £ 7,333,000 £ 1,199,000 1.9p	Interim - Dec 92 £ 3,790,000 £ 55,000 0.8p	Interim Comparison +9.2% Loss to Profit Loss to Profit
<b>Total Systems plc</b>	Results Revenue PBT EPS	Interim - Sep 91 £ 1,285,264 £ 351,002 2.38p	Final - Mar 92 £ 2,796,777 £ 756,880 5.11p	Interim - Sep 92 £ 1,361,536 £ 424,536 2.85p	Interim Comparison +5.9% +20.9% +19.7%
<b>Trace Computers plc</b>	Results Revenue PBT EPS	Final - May 91 £ 19,698,904 (£ 471,377) (1.98p)		Final - May 92 £ 19,312,000 £ 502,000 2.94p	Final Comparison -2.1% Loss to Profit Loss to Profit
<b>Vega Group plc</b>	Results Revenue PBT EPS	Interim - Oct 91 £ 2,756,000 £ 517,000 2.5p	Final - Apr 92 £ 6,269,000 £ 1,433,000 7.23p	Interim - Oct 92 £ 3,623,000 £ 631,000 2.9p	Interim Comparison +31.5% +22.1% +16%
<b>Vistec Group plc</b>	Results Revenue PBT EPS	Interim - Oct 91 £ 14,271,000 £ 1,010,000 0.56p	Final - Apr 92 £ 32,287,000 £ 2,714,000 1.52p	Interim - Oct 92 £ 18,703,000 £ 1,305,000 0.73p	Interim Comparison +31.1% +29.2% +30.4%



## Acquisitions, disposals and liquidations

### Excellent takeover for LBMS rights

The LBMS right issue at 100p per share, raising £3.8m, was accepted by 96% of shareholders. Not overly surprising. Last month LBMS reported a return to profits of £753K after losses of £271K last year. The take up could also well have been influenced by LBMS shares being priced at 129p on the closing date and ended Jan. at 149p. The issue will be used "to repay preference shares and eliminate group borrowings".

### Market researchers expand...

**Romtec** is the leading UK market researcher on the PC market - as well as expanding into other CSI market research areas recently. This month Romtec has purchased the business of **Systems Dynamics** - a communications and network services market researcher. Systems Dynamics' founders will continue in a consultancy role for the time being. This will add about £500K to Romtec revenues. Recently Romtec signed a deal to handle US **Prognostic's** market products which will add an additional £250K revenue. Chairman Russ Nathan says Romtec is heading for a £3m turnover this year - thus making Nathan's ambitions of a Stock Exchange float or other exit that much more viable.

Leading IT market researcher **Frost & Sullivan** has been acquired by **Market Research Corp** (MRC) - very much the case of David acquiring Goliath. F&S, who already claimed to be the largest producer of market research in the world, had revenues of \$24m in 1991 - c\$9m from Europe. F&S' London office employs over 40 researchers. On the other hand, MRC had revenues of just \$5.5m. As MRC was a major competitor of F&S, there is bound to be overlap and clearly cutting out such duplication will be key to making the deal work.

### When will they ever learn?

We fully realise that **3i** has the largest investment portfolio of any VC in the CSI sector but they also must by now have the highest proportional failure rate as well.

The latest story should by now sound familiar to **System House** readers. You may remember we ran a feature last year on the many UK agents which were dependent for their survival on retaining distribution rights to software products they did not own. We highlighted the fate of **MSP** after US Fourth Shift withdrew distribution rights and set up their own UK operation. **3i** was an investor in **MSP** too. This month the exact same fate has befallen **Software Generation International Ltd** after US **Viasoft** withdrew exclusive distribution rights to their IBM mainframe COBOL maintenance systems and setup their own UK operation. **3i** then called in a secured loan and the company had little choice but to appoint the receivers. The training business is probably worth saving and receivers, KPMG, say that a number of people have already expressed an interest. Each month we are sent business plans for evaluation. We always reject companies which are dependent on the distribution of just one product for which the IPR resides elsewhere. But still VCs continue to invest. As they say, you can lead a horse to water but...

The **CSA** quarterly survey shows 77% of CEO believe their business will improve in 1993. We agree but we've all been wrong before.

**The others...PC** dealer, **Orchard Computers**, has appointed the receivers. Debts of £228K were reported on revenues of £1.4m. In another example of the Phoenix scenario, Richard Green and other ex-Orchard directors have now established **Sterling IT**. Most of the bits of Apricot dealer, **Computerworld**, have been sold after being put up for sale when an administrator was appointed by its bankers in early Jan. **Fraser Associates** has bought the Bristol, Coventry and Cardiff operations for "a high five figure sum". Debts of £1m will remain. Source - **MicroScope** 13th Jan. 93. **Azlan** has bought the staff and assets of Netware distributor, **Nett**, from **Connectica**. **Maddox Group**, which acquired maintenance operation **Wakebourne** and systems house, **Express**, last Aug. is now said to be about to acquire the maintenance arm of **Stratagem** (which used to be **Touchstone**, which used to be **MBS...**). **Aran** has acquired ICL software house **Transaction Point** from the receivers. The acquisition will add £1.5m to Aran's revenues which are now expected to top £5m in the year to 31st Mar 94. **EDS (Germany)** has made its first ever acquisition - of the loss-making software and services arm of **Hoesch AG**. IBM leasing company, **Dataserv UK**, has been bought by its managers from **Bellsouth Enterprises Inc.** for an undisclosed consideration. Tottenham Court Road dealer, **Olympic Technology** has gone bust owing at least £3m. Scottish PC dealer, **Computer Shop**, has bought the assets of **Ti'Ko** for £75K. IBM has bought 2.5% of "high flying" **Tadpole** stock and warrants to subscribe for shares to take their stake to 10%. The shares were issued at 65p compared with the current trading price of 250p giving IBM a much needed instant profit of over £900K. **Nova Group** has acquired **Data Reserve** from **Track Data Corp** for an initial £113K and a profit-related element of £48K.

### Callhaven raises funds

As we indicated last month, **Callhaven** has raised £1m from both private and institutional investors. The extent of Callhaven's suffering is demonstrated by the recent profit record - £472K on revenues of £14.3m in the year to 31st Mar 91 reducing to £62K on revenues of £11m to Mar 92. However, unaudited management accounts indicate a deficit of £433K in the first seven months of the current financial year.

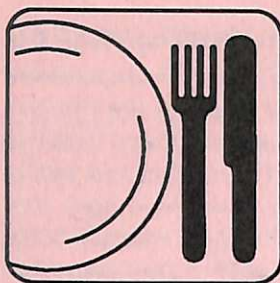
Callhaven's main claim to fame was as an Apple supplier but they have recently diversified into other hardware and value added services. The funds will be used to reduce indebtedness but acquisitions are also being considered, e.g. a multimedia publisher.

Callhaven shares will be available under the Stock Exchange's 535 (ii) facility.

### BCS makes third acquisition

**BCS Computing**, named after its founders Mike Brooke, Paul Clifford and Gordon Skinner, has announced its third acquisition. They have taken an 80% stake in **Tudor Business Systems** - a £2m revenue company specialising in systems for accountancy practices. BCS, now just a year old, also has "sizeable equity stakes" in both **Prologic** (fashion industry) and **Context** (housing associations). The funds come both from Skinner and Brooke's personal coffers, resulting from previous involvements with **MBS** and **TIS**, and from venture capital companies, **Abingworth** and **Quester**. BCS still plans a stock market float when the time is right.





## Extra anchovies on the sales ledger, please

Defining what is and what is not a computing services company has always been a problem. The problem has now taken an unexpected turn with **Star Computers'** reverse takeover of **Pizza Express**.

We seem to have crossed swords with Star every time we put pen to paper. We would dearly love to ignore them - but they keep doing the unexpected. Three years of losses were seriously hard for us to ignore. Then they sold their maintenance operation to **Misys** for £2.7m. Our comments on the sale caused outrage at Star. When we reported Gordon Skinner's stake building we were accused of being Skinner's mouthpiece. Then in Aug. 92, Luke Johnson and Hugh Osmond bought a 22% stake from the Star directors and, soon after, the first profit (albeit just £119K) was reported for the year to 30th June 92. Statements of confidence were based on *"Star's future as a unified systems group"*.

Now Star has issued 35m shares at 40p each, raising £14.6m, to buy Pizza Express. Star had a capitalisation of £3.2m when their shares were suspended at 47p pending the announcement. Peter Boizot, the founder of Pizza Express (the UK's most successful pizza chain which made PBT of £2.4m on revenues of £29m last year) will become chairman. The share issue was ten times oversubscribed - quite a record nowadays.

Star also announced its interim figures for the six months to 31st Dec. 92 (also a record for Star - they are usually the last, not the first, to report). These show a return to profits of £55K (£240K loss last time) on revenues up 9% at £3.79m. Cash reserves now stand at about £800K and EPS is 0.8p. This was achieved despite a £750K R&D investment. Coopers & Lybrand awarded a major £200K contract for new accountancy products and, apparently, their Pinnacle maintenance management systems have enjoyed success, particularly in export markets.

Star is adamant that the CSI activities will remain as a self-contained subsidiary of the new group. Founder and previous Chairman, David Blechner, said *"We don't know much about pizzas and the pizza people don't know much about computers, so we won't interfere with each other"*.

Source - Computing 14th Jan. 93. Even though Blechner says Star is *"too big to run down but not big enough to sell"* - Source - Computergram 22nd Jan. 93 - we suspect they will be sold off as soon as all the fuss dies down.

How on earth we handle Star (or Pizza Express as it will now be known) in future in our CSI Index, God only knows.

## Misys soars again

Three years ago, in Jan 90, **Misys** announced *"soaring profits"* - up 183% to £5.14m in the six months to Nov. 89. The shares had also performed well hitting a high of over 450p in 1989. Analysts were forecasting full year profits of £15m. It didn't quite work out that way. Indeed, profits in the full year to Nov. 91 had fallen to £5.6m and the share price sunk to an all time low of 68p.

Three years on, Misys is once again *"soaring"*. PBT is up 88% at £6.8m on revenues up 28% at £41.1m and EPS has increased by 70% for the six months to Nov. 92. Likewise, the share price has also soared reaching 452p the day after the announcement - up 44% since 1st Dec. 92 alone.

The success seemed to be across the board. After the purchase of the **Countrywide Group** in 1992 (which some describe as the deal of the decade) the financial services division (retail distribution and insurance services) was the best performer with revenues up 50% and contributing £4m of PBT. This month, Misys issued a statement confirming its interest in acquiring its main competitor in the insurance sector - **Burns-Anderson International Network (BAIN)**. BAIN, made minimal profits of just £15K in 1991. Computer Solutions (incl. CP - the IBM AS/400 operation) defied the market with revenues up 130% to £9.1m and PBT of £854K. Computer maintenance also made good progress. Open Systems (based around the old TIS) did less well with PBT down 22% to £218K. **Mentor** and **Team** *"remain particularly depressed"* but it was reported that *"all companies in the group were profitable in the period"*.

So why should sceptics view Misys differently now than three years ago? The majority of the growth this time was organic. There has been no major acquisition activity at Misys for over two years. Misys was one of the first to suffer from the recession and took the remedial medicines sooner than most. They are now reaping the rewards. In addition, Misys still has one of the strongest top management teams, headed by ex-Hanson Kevin Lomax, that you will find anywhere. They are cash rich. Even after spending £3.5m on acquisitions cash increased from £9.9m to £12.4m in the period. Misys is *not* looking for major acquisitions this year. Then, their expansion target will be the US.

These results have been achieved by increasing market share. Even if the economy does not recover this year, that trend should continue as many of its competitors get weaker and weaker. But just imagine what could happen if the *"green shoots"* do appear! Analysts say Misys is on target to make £16m PBT this year.

*This time we think they will do it.*

## Losses at CGS and another wet year on the way

Results at **CGS** for the year to 31st Dec. 92 had rather more in common with IBM than they did with Misys (above). A net loss of FF80m was reported (profit of FF560m in 1991). Although revenues increased by 19% to FF12b (c\$2,260m) without the acquisitions of Volmac and Programmator, CGS would have registered its first ever revenue decrease, of about 5%. Revenues exclude Gemini Consulting which grew by a massive 37% to \$370m.

Vincent Grimond, CGS Finance Director, was quoted as saying *"...everyone discovered the nasty economic surprise in the second half"*. Source - Computergram - 29th Jan 93. We wonder where he's been for the last few years if it came as that much of a surprise. We also note that the French unions which mounted a one day a week strike have won a reduction in the number of job losses. We wonder what would have happened if Hoskyns staff in the UK had taken the same action? Anyway, Geoff Unwin said that FM order books in the UK had doubled. Indeed, FM now accounts for 20% of CGS revenues. CGS expects little improvement in 1993. However, new operating structures and the encouragement of trans national synergistic working *"should enable CGS to cross the ford by Jan 94"*. Is 93 really sink or swim year for CGS?



# CSI Share Index - another month of gains

Our CSI Share Index rose by another 6% this month, compared with a decline of over 1% in the FTSE100. This year we have added comparisons with the new **FTSE Small Cap Index**, which more accurately covers the majority of CSI stocks. Against a gain of 7.4% in the Small Cap. Index, CSI stocks did not do quite as well. All pundits seem to be agreed that small companies will be the best performers in 1993 - but this advice may be a little late for CSI investors who have already seen their index increase by 139% in the last two years.

**Gresham Telecomputing** was by far the best performer; doubling its share price this month on top of a gain of 222% in 1992. See p12. **P&P** put on +48% to 43p; still a long way from the 1990 rights issue price of 185p. **Radius** (+42%) and **Kewill** (+31%) also did well on recovery hopes. Amongst the largest companies, **Cray** rose 31% to 143p on a Warburg buy recommendation, when the shares stood at 105p, and excellent results (see p2). With a current capitalisation of £288m, Cray has now overtaken **Sema** (£255m - down 12% this month) in the rankings. **Misys** (+26%) also spurred ahead on better than expected results reported this month. At 452p, Misys is now back to the high hit in mid 1989 - but remember they then plunged to 68p! We do not expect a similar dive this time (see p8).

At the other end of the scale, **EIT** plunged to 10.5p - down another 32% on the month. Rumours about EIT's financial position increased this month with reports that a winding-up order for a debt of £125K owed to Dataproducts, with supporting creditors pushing the figure up to £600K, was adjourned to Feb. Source - MicroScope 27th Jan. 93..

**Real Time Control** also lost 23% on the 49% decline in PBT reported this month (see p 2).

## Computing Services Index

31st January 1993

April 15th 1989 = 1000

1689.91

Changes in Indices	CSI Index	FTSE 100	FTSE Small Cap
Month - 31/12/92-31/1/93	+6.04%	-1.38%	+7.36%
From 15th Apr 89	+68.99%	+36.70%	
From 1st Jan 90	+83.67%	+18.85%	
From 1st Jan 91	+138.73%	+29.94%	
From 1st Jan 92	+61.74%	+12.60%	
From 1st Jan 93	+6.04%	-1.38%	+7.36%

## System House CSI Share Prices and Capitalisation

	Share Price 31/1/1993 (£p)	Capitalisation 31/1/1993 (£m)	Historic P/E	CSI Index 31/1/93	Share price % move since 31/12/92	Share price % move in 1993	Capitalisation move (£m) since 31/1/92	Capitalisation move (£m) in 1993
ACT	£1.68	£236.90m	15.51	2689.07	13.51%	13.51%	£28.20m	£28.20m
Admiral	£4.10	£44.30m	18.72	2971.01	6.49%	6.49%	£3.00m	£3.00m
Capita	£4.34	£66.00m	27.63	4340.00	2.36%	2.36%	£2.10m	£2.10m
Computer People	£0.85	£11.80m	15.51	349.79	14.86%	14.86%	£1.50m	£1.50m
Cray Electronics	£1.43	£288.30m	44.53	833.33	30.73%	30.73%	£67.80m	£67.80m
EIT Group	£0.11	£5.25m	Loss	420.00	-32.26%	-32.26%	£2.50m	£2.50m
Electronic Data Processing	£4.75	£41.30m	12.37	4846.91	-1.04%	-1.04%	£0.50m	£0.50m
Enterprise	£0.22	£17.70m	Loss	174.00	6.10%	6.10%	£2.50m	£2.50m
Gresham Telecomputing	£0.58	£18.50m	29.90	623.65	100.00%	100.00%	£9.26m	£9.26m
Hoskyns	£4.53	£423.60m	78.10	2209.75	0.44%	0.44%	£1.90m	£1.90m
INSTEM	£0.85	£3.82m	5.59	850.00	0.00%	0.00%	£0.00m	£0.00m
Kalamazoo	£0.30	£5.44m	Loss	295.00	11.32%	11.32%	£0.56m	£0.56m
Kewill	£0.72	£8.60m	3.62	284.59	30.91%	30.91%	£2.03m	£2.03m
Learmonth & Burchett	£1.49	£25.90m	212.86	1241.67	17.32%	17.32%	£4.70m	£4.70m
Logica	£1.87	£115.00m	26.71	512.33	13.33%	13.33%	£13.70m	£13.70m
Macro 4	£5.81	£130.70m	21.92	2342.75	11.09%	11.09%	£13.00m	£13.00m
Micro Focus	£28.55	£394.00m	34.36	13792.26	6.13%	6.13%	£25.50m	£25.50m
Microgen	£2.20	£85.80m	15.94	940.17	17.02%	17.02%	£12.50m	£12.50m
Microvitec	£0.28	£18.30m	Loss	682.93	16.67%	16.67%	£2.60m	£2.60m
Misys	£4.52	£174.00m	25.39	1124.38	26.26%	26.26%	£36.20m	£36.20m
MMT	£1.25	£13.30m	15.82	744.05	12.61%	12.61%	£1.50m	£1.50m
P&P	£0.43	£23.80m	47.78	192.83	48.28%	48.28%	£7.70m	£7.70m
P-E international	£0.49	£10.70m	10.00	201.65	0.00%	0.00%	£0.00m	£0.00m
Pegasus	£1.24	£7.88m	16.32	337.88	7.83%	7.83%	£0.57m	£0.57m
Proteus	£4.48	£121.00m	Loss	5333.31	7.95%	7.95%	£9.50m	£9.50m
Radius	£0.63	£17.20m	78.75	456.52	46.51%	46.51%	£5.50m	£5.50m
Real Time Control	£0.66	£4.62m	5.95	1346.94	-23.26%	-23.26%	£1.40m	£1.40m
Rolfe & Nolan	£2.40	£13.60m	15.09	2835.09	0.00%	0.00%	£0.00m	£0.00m
Sage Group	£5.34	£109.50m	17.28	4107.68	9.43%	9.43%	£9.50m	£9.50m
Sanderson	£2.51	£22.10m	10.46	1068.09	10.57%	10.57%	£2.10m	£2.10m
Sema Group	£2.80	£254.80m	25.41	880.50	-12.50%	-12.50%	£36.40m	£36.40m
Sherwood	£2.55	£15.60m	13.01	2124.99	0.00%	0.00%	£0.20m	£0.20m
Star	£0.47	£3.20m	24.74	391.67	0.00%	0.00%	£0.00m	£0.00m
Total	£0.83	£8.30m	16.24	1566.05	9.21%	9.21%	£0.70m	£0.70m
Trace	£0.36	£5.03m	12.24	288.00	0.00%	0.00%	£0.03m	£0.03m
Vega Group	£1.30	£18.30m	17.98	1065.57	16.07%	16.07%	£2.50m	£2.50m
Vistec	£0.26	£31.60m	17.11	1136.30	6.12%	6.12%	£3.80m	£3.80m

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.



# Acquisition survey shows "green shoots" of recovery

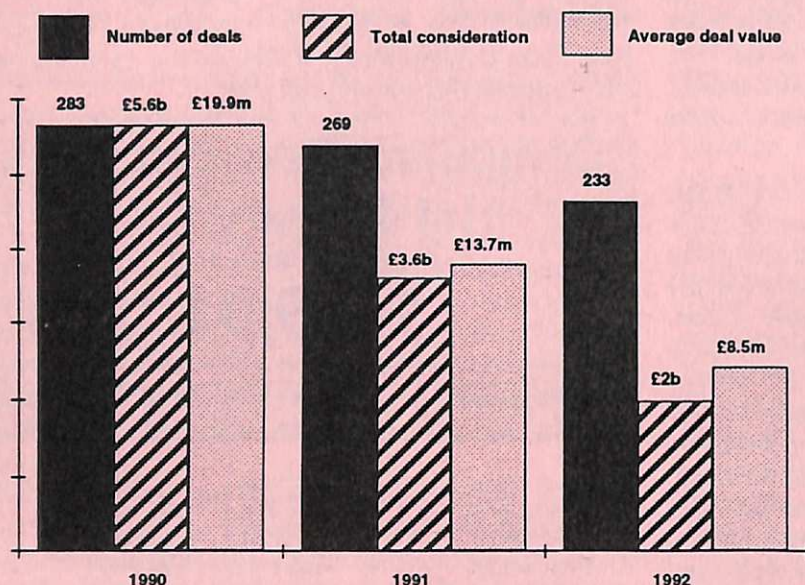
As *System House* readers know, each year we produce a review of all the acquisitions involving UK computing services companies - either as the buyer or the seller. This

has fallen slightly from 15 (1991) to 13 (1992), the multiple of revenue has increased from 0.75 (1991) to 0.89 (1992). Effectively buyers are acquiring more profit but less turnover

for each pound of investment made in acquisitions - the classic situation found just before financial recovery.

There has been a substantial reduction in the disposal of unwanted divisions and subsidiaries - down by 36% in 1992. Many of the traditional hardware and communications companies have refocused into the software and services sector. Indeed this sector was the only one to show a real increase (+4%) in acquisition activity. US companies re-emerged in 1992 as major buyers of UK and European IT businesses. Indeed US companies bought 28% more UK companies in the year. The number of quoted IT companies acquired also declined; from 11 in 1991 to seven in 1992. The reduction was even more marked in the CSI sector; falling from five in 1991 to just one - the ACT acquisition of NMW - in 1992.

Acquisitions in the IT industry involving UK Companies



year we have joined forces with acquisitions specialists

**Regent Associates** to produce the review; which has been extended to include the whole IT sector. The 100 page review, which lists all the reported acquisitions undertaken in 1992, together with full and incisive comment on all the important deals, will be available from Richard Holway Ltd. in March and will cost £495.

The number of transactions, which includes only those deals with considerations exceeding £500K, declined by 13% to 233

in 1992. The total consideration fell even more dramatically; from £3.6b to £2b. The most significant reason for this reduction was the absence

of any major deals. The largest deal was the consortium acquisition of the Covia and Galileo airline reservation systems for an estimated consideration of £175m. This was the only deal valued in excess of £100m - the first time this has been the case since we started compiling our records.

In fact all the top five acquisitions in 1992 involved computing services companies, rather than hardware oriented IT companies. In general prices paid have hardened. Although the average price multiple of Profits after Tax

International acquisition activity might also give hope to

the UK. There has been little activity by French or German companies, as those countries moved into recession. The only real exception is France Telecom which concluded three transactions in the UK in 1992. The US regarded the situation very differently. Sensing that the recession had ended both in the UK and the US, many US companies acquired their European agents in 1992.

Peter Rowell, Managing Director of Regent Associates, commented "1992 was the year in which the industry

positioned itself for the anticipated growth in 1993 and beyond. The frenetic acquisition activity of the late 1980's, when followed by the recession,

was bound to create a period of consolidation. For two years we have seen the traditional buyers focus on their core business and protecting their liquidity.

This has resulted in the shedding of unwanted subsidiaries and the avoidance of risky expansion plans".

The software and services sector accounted for 47% of all IT acquisitions in 1992. The largest increase - up 24% - was amongst value added resellers (VARs), especially those with specific skills and software focused on vertical market sectors. Consultancies and other

Status of Buying Company

Software and Services Companies only

Status	1991	1992	%	1991/92
Quoted - Full	24	35	31	+46%
Quoted - USM	5	5	4	0%
Private	71	48	42	-32%
Europe (non UK)	6	1	1	-83%
North America	12	20	18	+67%
Other (non UK)	0	4	4	
Total	118	113	100	-11%

Top Five IT Deals in 1992

Date	Buyer	Type	Seller	Type	Price
Mar-92	Consortium	Private	Covia and Galileo	Division	£175m(Est)
Aug-92	Primark Corp.	US	D&B/Datastream	Division	£99.0m
Jul-92	Cray Electronics	SE	TI Group/Dowty IT	Division	£50.0m
Nov-92	AT&T Istel	Private	Dataid	French	£48.0m
Jul-92	ICL	Private	Technology	Private	£43.5m

Multiple Acquisitions in 1992

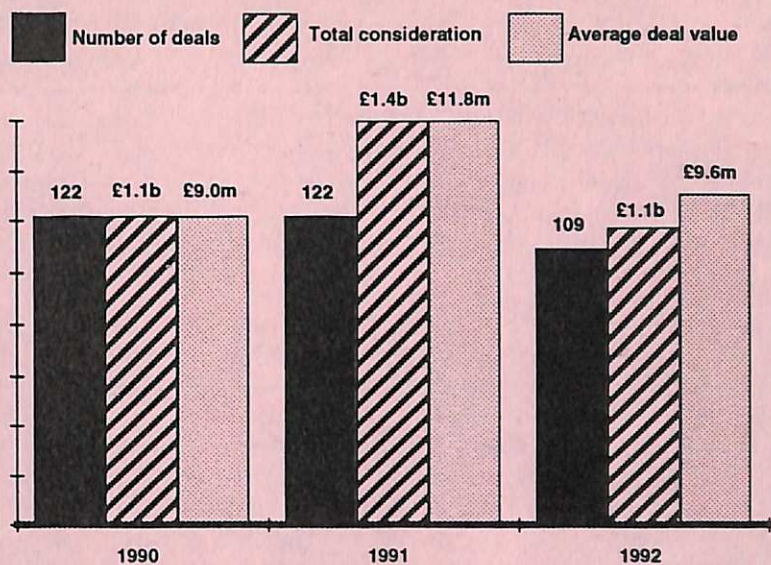
Misys	7
ICL	6
ACT	5
Micro Reprographics	5
Pittencrieff	5
Capita	4
Seven companies	3
MBOs	41



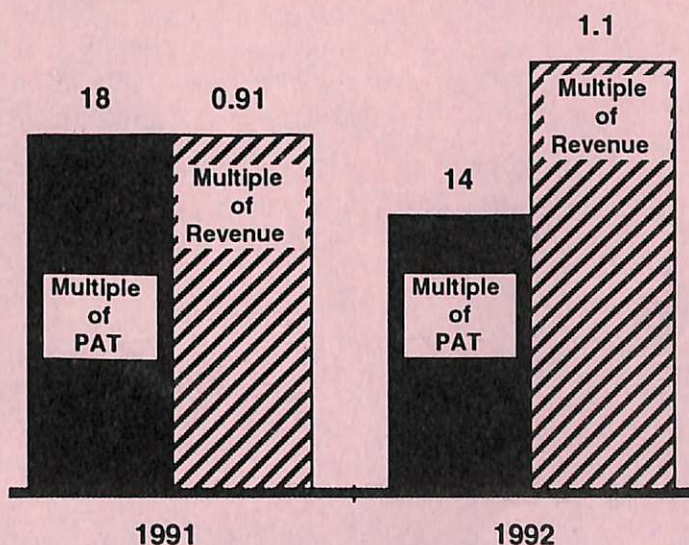
"people based" businesses saw a major decline. Our views about the after effects of acquisitions are so well known that the mere mention of "acquisition indigestion" can cause yawns nowadays. However, it does appear from these current findings that many more companies have now learnt the lessons and the outcome is more positive than for a long while. **In particular:**

- there is evidence that the results of earlier acquisitions are now proving highly beneficial for many companies. The best examples of major acquisition success would be **Cray Electronics** (now the largest UK CSI company after its highly effective purchase of Dowty IT - latest interim results show PBT up from £500K to £17.8m), **ACT** (where a combination of the disposal of the Apricot hardware operation and many CSI purchases has created a CSI group with a current capitalisation of £236m), **Misys** (perhaps the most acquisitive UK CSI company, has recently really started to perform lately), **Sage** (after the major acquisition of US DacEasy) and **ICL** (where CSI acquisitions have made the company the envy of many, often larger, competitors).

#### Acquisitions in the IT Industry Involving UK Companies Software and Computing Services Companies only



#### Acquisitions involving UK Companies Software and Computing Services Only



- there is absolutely no shortage of funding for the right deal. Firstly, our Share Index of quoted CSI companies increased by 53% in 1992 (compared with a rather more modest 14% increase in the FTSE 100). The better run quoted CSI companies have no problems in raising funds, as recent rights issue from Cray, LBMS etc. demonstrate. But well run private companies also should have no problems raising the money. Schroder Ventures, for example, recently announced that it had ear-marked £250m

**Notes:**

- Only deals with a consideration in excess of £500K are included.
- Consideration = "fixed, upfront" element + 50% of maximum performance related element.
- "UK" companies are deemed to be those where control, rather than ownership, resides in the UK.

for investment in expanding IT companies.

But perhaps the most important spur to acquisition activity is the need to create critical mass. Few would now doubt that the IT industry is polarising

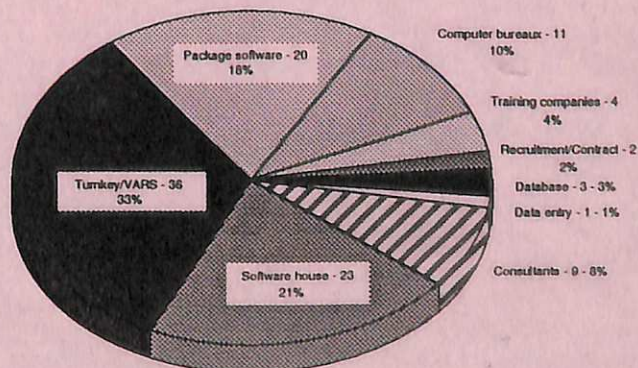
into a small number of large international players and a very large number of much smaller "niche players". The few remaining mid sized companies are vulnerable to predators and the prices paid will reflect their rarity value. The buyers will include the obvious (CGS), the telecom operators (BT, AT&T, France Telecom) and, we believe, the hardware manufacturers. If ICL really is the "role model" (a remark attributed to Nick Temple, CEO at IBM UK) then we can expect the major hardware manufacturers to cement their desire to move into the software and computing services sector with major acquisitions. But smaller companies, which have proved their market position, should also be able to command high prices; if and when they decide to sell out.

The future does indeed seem brighter by the day. As the gloom of recession gradually lifts and the UK is considered to be one of the safer havens in an increasingly troubled European economic scene, UK CSI companies will command higher and higher prices. We previously believed that UK companies would be acquired by overseas predators. However, the current evidence indicates that UK companies will themselves be the most powerful buyers. The targets will be predominately other UK companies,

but increasingly sights will be turned to Europe.

**We have not felt so positive for years.**

#### Acquisitions involving UK Companies in 1992 Software and Computing Services Companies Only Industry Sector of Acquired Company





## BT and EDS?

Two months ago *System House* ran a story about EDS being "up for sale" as a result of the financial problems at GM and that BT was rumoured to be the lead contender. We ran the story past EDS at the time and were told our views were "fair comment". This month the rumours surfaced again in the Dallas Morning News. BT were said to be in negotiation with EDS since Nov. A 25% stake was mentioned. Neither party will confirm or deny the story. We believe logic for the acquisition is "impeccable" and we look forward with unbounded pleasure to the largest CSI company in the world being UK owned.

## Oracle outpaces the opposition

Oracle Corp. reported profits up 147% to \$33m in Q2 (to 30th Nov. 92) on revenues up 24% to \$354m. That compares with a loss of Can\$6.9m at Cognos for Q3 on revenues up 7% at Can\$37.6m. Oracle is also outperforming its other rivals. Informix reported revenues up 41% at \$68m and Sybase up 63% at \$67.4m for Q3. Ingres full year results (to 30th Jun. 92) showed growth of around 40% at \$245m. All just a fraction of the revenues reported by Oracle.

But the figures are interesting (if not amazing) for another reason. They show that companies in the 4GL/RDMS marketplace are currently growing by in excess of 25% p.a. - at least three times the optimistic growth rate for the SCSI market as a whole.

## Dataquest confirms demise of the mainframe

The latest Dataquest study indicates that revenues from hardware sales fell by 2.3% to \$104.5b in 1992. Mainframe sales were the hardest hit, falling by 16% to \$22.5b. As first indicated in 1991, PCs and workstations are now clearly the largest sector with 55% of worldwide revenues - but PCs on their own (\$46.5b) are within a whisker of overtaking the combined sales of mainframes and mid range (\$47b). Although IBM (\$5.8b) still leads the PC stakes, Apple is catching up fast (\$5.5b).

## "The patience of our shareholders will be well rewarded"

So said Sid Green Chairman of Gresham Telecomputing at the interim stage. So it came to pass as their shares were the best performers in the sector in 1992 (up 222%) and are up another massive 100% this month. Given the problems he inherited from the Telecomputing "merger" in Apr. 91, coupled with the "very tough" trading conditions, we think Green should be very satisfied with the latest results for the year to 31st Oct. 92. On a "proforma" basis, although revenues reduced from £10.75m to £7.25m, PBT increased marginally to £767K. EPS nearly doubled.

R&D expenditure increased to £800K but the benefits of the new product lines and sales strategy have yet to be reflected in the financials. Dataserve product revenues have now just started and *tp+*, which has been selected by Dun & Bradstreet for all their UNIX based systems, is about to come on stream.

Green is "optimistic and confident" about the future.

## Jolly japes

Romtec's newsletter *Review* featured a satirical look at the trade press with a widely improbable spoof of an article actually "welcoming channel T&C changes." *Microscope*, at which the spoof was clearly aimed, fought back in its Microsoap column but failed to comment that its main headline in the same issue was... "Pegasus dealers hit out at stricter T&Cs". Source - *MicroScope* 20th Jan. 93.

On a more serious note, we have often said that one of the main reasons for Pegasus' current problems was that, in the words of reinstated CEO Jonathan Hubbard-Ford, they had "failed to maximise opportunities to work with the client base". Sage is successful because they earn over 40% of their revenues from upgrades and associated services to their customer base. Pegasus has a golden opportunity if they can tap into their installed base of 60,000 sites. Dealers may well complain but if we were in Hubbard-Ford's place, we would make the maximum use of this golden asset too.

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