

System House

The monthly review of the financial performance of the UK computing services industry
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European software and computing services growth slows in 1993

Our latest 1000+ page tome on the software and computing services (SCS) industry in Europe has been published this month. As last year, the report has been produced by Richard Holway Ltd as part of a "partnership" of independent market researchers in each of the European countries - such as Pierre Audoin Conseil in France/Germany and Nomos Ricerca in Italy.

Clearly it is difficult to summarise such extensive research in a few sentences. Some of the main findings are:

- Europe spends around £155 per inhabitant on SCS. The UK spends rather less than the average at £140.

- The total European SCSI has grown by 5.4% (or a minimal 1.8% in real terms) to around £58 billion in 1993. This is significantly lower than the 8% growth experienced in 1991/92 and, of course, far less than the 15%+ growth rates experienced in the 1980s.

- In 1992/93, the strongest growth was experienced in Portugal (+20%) and Norway (+12%).

- The four largest SCSI markets in 1993 were:

Country	Value	Growth
Germany	£13.7 b	+6.2%
France	£10.9 b	+3.2%
UK	£8.6 b	+5.4%
Italy	£7.1 b	+7.4%

The UK therefore experienced growth exactly equal to the European average of 5.4%; interestingly ahead of France.

- A fairly modest revival in the European SCS market is predicted between 1993 and 1997, although this is unlikely to start in 1994. Growth of 8.4% p.a. (or 5% in real terms) is expected to 1997 when the market will be worth £80 b. As can be seen from the chart, the UK is predicted to have one of the highest growth rates of any of the larger

markets; 8.6% p.a. to be worth £12 b in 1997.

- The processing/FM market in Europe is expected to witness the fastest growth rate - up 12.9% p.a. between 1993 and 1997 to a market worth £12 b in 1997. In this area the UK is forecast to have the highest growth rate - 18% p.a. (or 25% p.a. for FM alone).

- commoditisation will mean that software products growth will decrease to around 12.4% p.a.. However, it will still represent the largest sector of the market - £21 b in 1997.

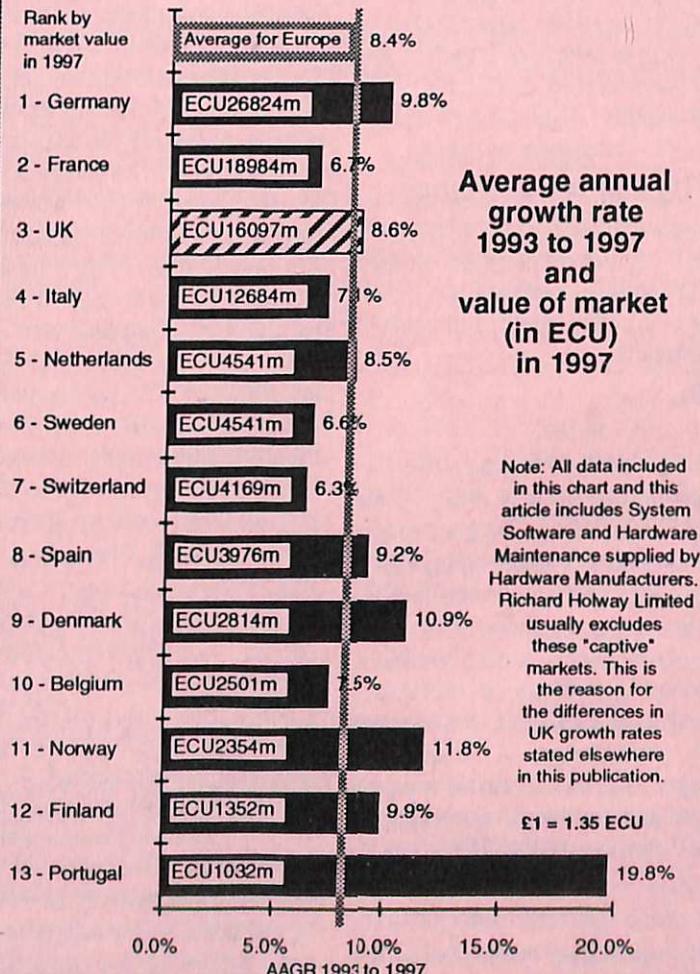
- Conversely, professional services will have one of the lowest growth rates - 8.4%. This will be particularly bad news for such companies as CGS. Application management (AM) is seen by most of our European partners as the fastest growth area within professional services.

- the hardware manufacturers are in for a tough time in their conventional markets. Not only is expenditure on hardware forecast to fall but spend on system software will rise by just 2.6% and hardware maintenance is forecast to experience zero growth. (i.e. both in decline when inflation is taken into account)

- the banking/finance sector will be the fastest growing (+10.5%) in Europe but will have only average growth in the mature UK market. Government market testing will ensure that the UK experiences one of the fastest growth rates in this sector in Europe. Manufacturing, the largest single market (31%) of the European SCS market, will grow at a very modest 4.8%.

Software and Computing Services Industry in Europe Report published Jan. 94 by Richard Holway Ltd. See p12 for ordering details.

European Software and Computing Services Industry 1993 - 1997



Rightsizing at Logica

Dr. Martin Read, after four months in the CEO post at Logica, has announced 100 job losses - mainly in admin. and support. This represents less than 3% of the 3,400 workforce. The "cost of these redundancies is expected to be approx. £2.3m and should be recovered by the resulting savings over the current financial year". These streamlining costs will lead to a £7m cash outflow in H1 but, again, this should be made up in the second half.

Read told analysts that the company will see "a worthwhile improvement in underlying margins on modest revenue growth" in six months to 31st Dec. 93.

Read intends to put more emphasis on marketing and sales in order to exploit further Logica's "wonderful technical strengths". He says that "what we have accomplished in the past few months lays the foundations for building a company with the potential for a higher growth rate and further improved margins".

Apple specialist results

Last month we reported that Apple specialists Rothwell Group plc (where Richard Holway is non-executive Chairman) had reported PBT of £500K on revenues of £16.7m in the year to 30th June 93. This contrasted with a loss of £273K on revenues of £11.1m at Callhaven in the year to 31st Mar 93. This month the largest Apple dealer - KRCS - reported PBT of £500K on revenues of £27m in the year to 30th Sept. 93 and "was aiming for PBT of £1.2m on revenues of £30m" in their current year. KRCS MD Ken Woods said "anyone with an existing AppleCentre model is heading for extinction". Source - MicroScope 1st Dec. 93.

Oracle continues strong US performance

Oracle Corporation has announced Q2 (to 30th Nov. 93) revenues up 28% at \$452m, profits up 86% at \$62m and EPS up 91%. However, a 41% revenue growth in the US was offset by a 25% growth in Europe which reduced to just 13% after currency translation.

Profits warnings from..

Micro Focus

Just a year ago Micro Focus had a capitalisation of £369m - the highest in the sector - and a share price approaching £30. This month they have slumped to just £142m, or £10 per share, after a profits warning that EPS would not exceed that reported last year. CEO Paul O'Grady blamed the situation on customers who were confused with the vast variety of new technologies available, hardware manufacturers (which constitute a significant portion of Micro Focus' sales) with problems of their own and the launch of PL/1.

Analysts have downgraded profit expectations for the year to 31st Jan. 94 from £30m to £22m. Could we really be witnessing the long expected demise of COBOL?

Radius

After forecasting a profits recovery last year, Radius shocked the market with a loss of £466K in the six months to 31st May 93. However, they confidently predicted "an improvement in the second half".

This month Radius issued a profits warning forecasting that "losses in the second half would be broadly similar to those in the first half" as "the rate of transition to open systems has been slower than expected".

The directors are expecting a return to profits in 1994 but that statement has been used too many times before.

IBM confusion and/or good news?

One of Lou Gerstner's first decisions was to announce that John Aker's plan to split IBM into autonomous units with the possible intention of "selling off a stake or the entire unit". System House Jan. 92. Although much heralded, it still seemed ironic that Gerstner's most (only?) significant action since his appointment was, this month, to sell its **Federal Systems Company** to Loral for \$1.58b in much needed cash. FSC provides systems and services mainly to the US Government and had revenues of \$2.2b in 1992. The deal was considered as a triumph for IBM as observers commented on the poor prospects for FSC due to a reduction in US Federal spend - particularly on defence - and a \$1.2b over run on an air traffic monitoring system. But it still leaves one observer (i.e. us) rather confused. We thought that, in IBM's view, its future would lie in services, where FSC was one of its larger players.

Congratulations, this month, to IBM UK's highly regarded CEO **Nick Temple** on his promotion to VP. Temple said last month that IBM UK was making "the biggest turnaround in UK corporate history" and was regarded as "a role model" within the rest of IBM. So which part of their services organisation is IBM (UK) about to sell?

Enterprise in profit

Exactly a year ago we wrote of the "annus horribilis" at **Enterprise Computers**. A loss of £8.3m to 31st Mar 92 seemed bad enough and Robert Evans sold his shares to the Hanna Group at 35p each. But it got worse in 1993. The shares slumped to 14p as a £3.4m interim loss was announced and several subsidiaries were handed over to the receivers. It then suffered the ultimate ignominy of having its accounts qualified by KPMG.

But perhaps we should now draw a line below all this. In the six months to 30th Sept. 93 (about the first time on record the company has got its accounts out at the expected time) Enterprise made PBT of £25K (loss £3.4m last time). However, this included £677K profit on disposal of several "investments" - without which Enterprise would clearly still be making losses. The sale of the stake in **Systems International** to Charterhouse Group (See *System House* Nov. 93) realised £29K plus the settlement of trading debts of £474K. The sale of SRH's comms division to TSB International of Canada will result in a £3.5m loan being repaid early in 1994. Accrued interest of £850K will also be repaid. "We expect that the remaining investment in SRH will be fully realised". Property sales could also net around £3.3m. Revenues of £9.9m (last time £35.3m) were recorded "reflecting reduced demand from second-user mainframe computers". A loss of 0.02p per share (4.3p loss last time) was reported. Profits of £376K were recorded on the continuing mainframe sales and service business. Mainframe activities now "represent less than 30% of current sales activity and is primarily concerned with the application of strategic software to allow mainframe based information to be accessed by users on a corporate network".

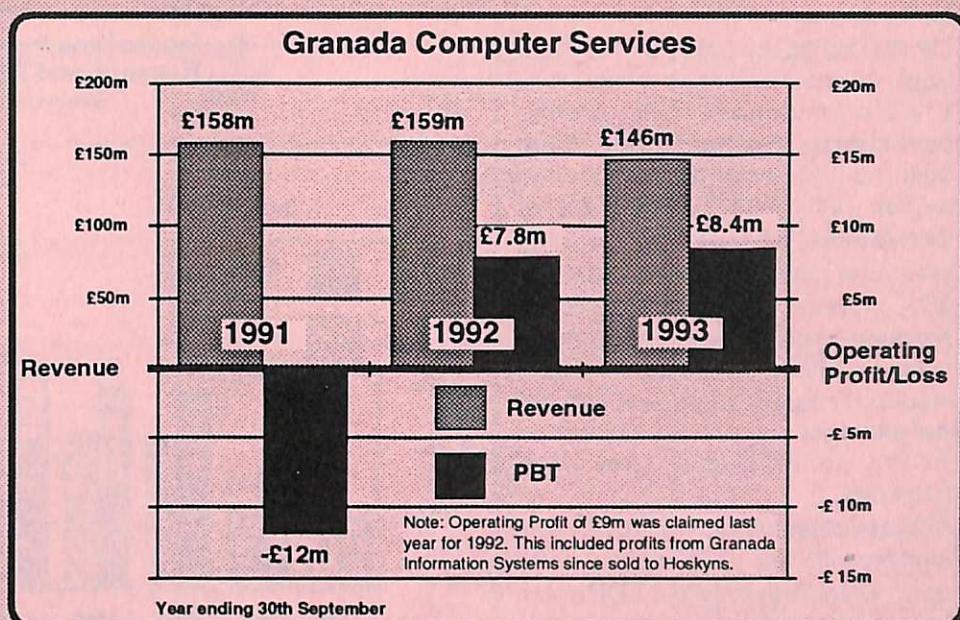
The future?

New Chairman John Small is now forecasting revenues of £40-50m by Mar. 95 as Enterprise transforms itself into a "systems integrator-cum-network company". Source - Computergram 10th Dec. 93. We have a sneaking suspicion that Enterprise may well be one of the main recovery companies in 1994, assuming it is not acquired.

"Miracle" at Granada Computer Services

Granada Computer Services, still the largest TPM in the UK, has continued its recovery from the mega loss of £12m incurred in 1991. The turnaround can be traced to the appointment of CEO John Curran in early 1992 who quickly reversed the mistakes made during the acquisition spree under Derek Lewis (who now heads the Prison Service). Given the state of the TPM market, whose slow demise we have predicted since our first ever issue in 1989, to have boosted operating profit by 8% to £8.4m when revenues declined by 8% to £146m could well be described as an "absolute miracle". Most of Granada's revenue still comes from conventional TPM where it admits to facing "stiff competition from manufacturers". Indeed, recent reports of IBM giving major price reductions when faced with competitive TPM bids, bears testimony to the cut throat nature of the market. Granada added, however, that 40% of the contracts it had lost in the year were as a result of bankruptcies or equipment being ripped out and not replaced.

But Granada has also diversified into disaster recovery and undoubtedly "PC FM" will figure large in future plans. Granada are usually very cooperative in providing more detailed figures. These, we are told, will follow once the sensitive Granada/LWT bid is out of the way.



"Technology wonder stock" Daily Mail

Phonelink was one of six new SCSI floats in 1993 and has certainly had the most *incredible* reception. Launched on 1st June 93 at 155p, the shares have since risen 135% to 364p with an associated capitalisation of £129m.

What makes this even more incredible is Phonelink's first interim results to 30th Sept. 93 showing an increased loss of £301K (£2K last time) on revenue up 79% at £586K (yes - revenues of £586,000 and a capitalisation of £129,000,000!). They do, however, still have £19.4m cash in the bank.

Due to "savings of almost £2m" op. losses of £484K were "lower than expected" (op. profits £7K last time).

Phonelink started in 1989 with their Datacare product which allows business customers access to information sources via the telephone. Indeed, Datacare is totally responsible for all current revenue as the real excitement is still to come. They are developing a system called Tel-Me which will allow ordinary PC users to access many commercial databases - from city news to traffic information. The project is now entering "its most expensive stage".

CommentWe can't comment on Phonelink's long term share performance but personally we dream of being able to access any available commercial database from just one interface. Phonelink has a minimum 6 year contract with BT for directory enquiries and the share price went into orbit when IBM agreed to bundle Tel-Me with every IBM PC from 1994. Initial preview reactions to Tel-Me have "been favourable and fully endorse its confidence in the service".

In the season of goodwill, perhaps Phonelink and Santa Claus do have some things in common. At least both *just might* shower you with presents in the years to come.

"Boring" Vega

Subscribers will understand that a *System House "boring"* award is the zenith. Contrast Vega's latest results for the six months to 31st Oct. 93 with those of Phonelink opposite and you will get the picture.

Vega specialise in space and aerospace software. They were established in 1978 but their real resurgence started in 1989 when John Rigg bought in. Vega was one of the two floats in 1992 at 122p. Interim results show revenues up 25% at £4.5m. Although PBT grew by 87% to £757K, if the float costs incurred last year are stripped out, the growth would reduce to a still very healthy 20%. Indeed EPS grew by a massive 164% and cash balances of £782K were recorded at the end of Oct. 93.

We have bemoaned the City's reaction to Vega in many articles. Even though Vega has reported increased EPS on every occasion, until a few months ago the share price had not moved from the 122p launch price. To be fair we did then report in desperation "*Vega is the kind of company investors should flock to*". Source - *System House* July 93. We are therefore pleased to report that since then Vega's share price has risen over 80% to 219p.

We were interested to read that Vega has expanded its offerings into areas outside of its space and aerospace roots, with new contracts from the likes of the MoD. They are also moving into the local government and health arenas.

"Vega is making good progress. Growth has continued in all our major markets. I believe that Vega is in a strong position and I look forward to the second half with confidence" says John Rigg. Indeed Vega has always generated a lower proportion of its business in the first half. We feel no need to disagree with Rigg's optimism.

"EDP gravy train grinds to a halt"

Old System House Headline - January 1993

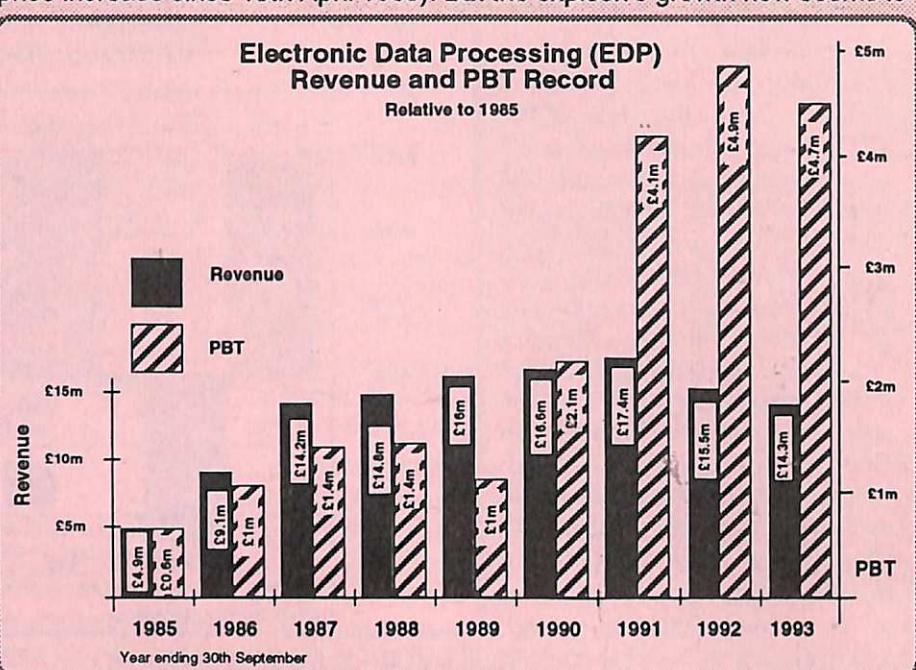
The table on page 9 still shows that Electronic Data Processing (EDP) has the highest CSI Index (i.e. reflecting a near seven times increase in its share price increase since 15th April 1989). But the explosive growth now seems to be firmly over.

Latest results for the year to 30th Sept. 93 show revenues down 7% at £14.3m, revenues from existing operations (rather than from acquisitions) were down an even higher 14%, PBT reduced 4% to £4.67m and EPS fell 8.5%. Recurring revenues now account for £8m or 56% of revenues. Operating profits, however, were largely static. There were a number of reasons for this:

- reduced interest rates meant a £220K reduction in net interest earned on EDP's considerable £9m cash balances.
- the revenue reduction is of "little significance" as EDP moves away from hardware to software. EDP's core business is its Merchant retail system which it sells on NCR hardware.

- R&D costs increased by £540K to £1.4m (Note to QSP "all written off to the P&L account"). EDP has spent three years developing the open systems database management system, UniVision, which was released in 1993 to a "very positive" reaction and volume shipments will start early in 1994.
- US Via Systems and Open, acquired for \$1.2m in 1992, lost £106K in 1993 but are expected to breakeven in 1994. EDP repeats that it is on the look out for suitable acquisitions to utilise its cash but reports that "the financial requirements of vendors are much higher than we are prepared to pay".

In the circumstances, the EDP results are quite acceptable and EDP considers the outlook to be bright. So bright that a two-for-one bonus issue is proposed to make the current share price less unwieldy. The market, however, helped this process all on its own as EDP shares fell 13% to 593p this month.



Rolfe & Nolan

After so many years of consistent, rather than exciting, profit performance, Rolfe & Nolan (R&N) (providers of futures and options systems and bureau services to the financial services community) has reported PBT down 13.9% at £609K and EPS down 31.5% for the six months ending 31st Aug. 93 (largely as a result of an increased tax charge). Revenues, however, increased by 14% to £6m. Liquidity remained strong with bank deposits of £2.5m.

On Feb. 92 R&N bought a 19.2% stake in Brokerage Systems Inc. (BSI) for \$500K. In Mar. 93 they bought out the remaining 80.1% for \$1.7m. R&N were then firmly in control and able to do something about the situation - which indeed they have done. But not before the US had a major effect on 1993 trading performance. "In Europe R&N PBT increased by 49% to a record £1.2m while in North America R&N recorded a loss of £600K".

R&N's CEO, Mike Warburg, has been consistent in telling us that the BSI acquisition was vital for the long term success of the group. However, BSI "will incur further losses in the second half". Many changes have had to be made. For example "the previous emphasis on bespoke development has been reversed...in the short term this virtually eliminates what was previously a major revenue stream". R&N's presence in the US has been vital to its winning key orders for its Lighthouse product with the likes of Credit Suisse. The success of Lighthouse, where "market prospects in Europe and more recently in North America are substantial", is all important to the future of R&N. Indeed "the board expects BSI will produce a major improvement in its results during 1994/95 and that Lighthouse will show a significant and increasing contribution from 1994/95".

Software a commodity item?

Anyone who had any lingering doubts that software product pricing had gone the same way as hardware should study the latest results from the Software Publishers Association. The SPA represents almost all the US software leaders such as Microsoft, Lotus and WordPerfect. These showed that unit software product sales in Europe surged in Q3 93 but that total revenues managed only a modest 9% increase to \$413m. The average unit price has fallen by 37%.

There were wide, and interesting, geographic differences. Germany (by far the largest market - \$149m in Q3) grew by an impressive 29% and the UK was up a respectable 8% at \$101m. The French market declined by 11% to \$56m. The Italian market "continues to show the effects of the Italian Government crack-down on piracy" as sales grew by a massive 130%. They are still just \$26m or a quarter of UK sales; indicating how far there still is to go. Windows applications grew by 38% and now represent 73% of total sales. However, Apple Mac software sales were up just 5%.

Bernard Friend dies

Bernard Friend died on 23rd Dec. 93 at the age of 69. He had been a non-exec of SD-Scicon for many years and was recently appointed as Chairman of Philip Swinstead's Comac. CEO Swinstead will assume the role "pending the appointment of a successor".

Richard Holway Results Service

ACT Group plc	Results Revenue PBT EPS	Interim - Sep 92 £ 72,120,000 £ 9,543,000 5.01	Final - Mar 93 £ 152,926,000 £ 20,478,000 10.63p	Interim - Sep 93 £ 107,595,000 £ 11,531,000 5.24p	Interim Comparison +49.2% +20.8% +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	Interim - Jun 92 £ 29,895,000 (£ 135,000) (0.73p)	Final - Dec 92 £ 62,735,000 £ 145,000 (0.97p)	Interim - Jun 93 £ 33,542,000 £ 364,000 1.45p	Interim Comparison +12.2% Loss to profit Loss to profit
Cray Electronics Holding plc	Results Revenue PBT EPS	Final - Apr 92 (restated) £ 84,786,000 £ 2,352,000 1.9p		Final - Apr 93 £ 200,785,000 £ 29,014,000 13.8p	Final Comparison +136.8% +1133% +626%
Division Group plc	Results Revenue PBT EPS	Interim - Apr 92 £ 498,564 £ 73,100 0.7p	Final - Oct 92 £ 1,081,913 (£ 107,783) (1.0p)	Interim - Apr 93 £ 913,508 (£ 10,212) (0.1p)	Interim Comparison +83.0% Profit to Loss Profit to Loss
Electronic Data Processing plc	Results Revenue PBT EPS	Final - Sep 92 £ 15,455,000 £ 4,877,000 38.4p		Final - Sep 93 £ 14,341,000 £ 4,672,000 35.14p	Final Comparison -7.2% -4.2% -8.5%
Enterprise Computer Holdings plc	Results Revenue PBT EPS	Interim - Sep 92 £ 35,524,000 (£ 3,392,000) (4.3p)	Final - Mar 93 (restated) £ 58,231,000 (£ 6,143,000) (7.7p)	Interim - Sep 93 £ 9,895,000 £ 25,000 (0.02p)	Interim Comparison -72.1% Loss to Profit Loss both
Gresham Telecomputing plc	Results Revenue PBT EPS	Interim - Apr 92 £ 3,954,000 £ 284,000 0.57p	Final - Oct 92 £ 7,250,000 £ 767,000 1.94p	Interim - Apr 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	Interim - Sep 92 (Restated) £ 27,576,000 (£ 936,000) Nil	Final - Mar 93 (Restated) £ 56,508,000 £ 940,000 Nil	Interim - Sep 93 £ 29,562,000 £ 2,533,000 4.2p	Interim Comparison +7.2% Loss to Profit Loss to Profit
Kewill Systems plc	Results Revenue PBT EPS	Interim - Sep 92 (Restated) £ 15,418,000 (£ 172,000) (3.58p)	Final - Mar 93 (Restated) £ 33,341,00 (£ 5,192,000) (0.60p)	Interim - Sep 93 £ 15,999,000 £ 1,757,000 10.15p	Interim Comparison +3.8% Loss to Profit Loss to Profit
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	Interim - Oct 92 £ 10,713,000 £ 753,000 3.1p	Final - Apr 93 £ 23,645,000 £ 1,610,000 7.0p	Interim - Oct 93 £ 13,114,000 £ 201,000 1.0p	Interim Comparison +22.4% -73.3% -67.7%
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	Final - Jun 92 £ 33,711,000 £ 8,227,000 10.6p		Final - Jun 93 £ 40,790,000 £ 8,760,000 10.6p	Final Comparison +21.0% +6.4% +0%
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	Interim - Jun 92 £ 9,552,000 £ 325,000 0.21p	Final - Dec 92 (Restated) £ 24,171,000 £ 453,000 0.13p	Interim - Jun 93 £ 12,004,000 (£ 18,944,000) (4.3p)	Interim Comparison +23.4% Profit to Loss Profit to Loss
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 - Apr 92 £ 24,974,000 £ 4,368,000 7.1p	Final - Oct 92 £ 49,316,000 £ 8,243,000 13.8p	Interim - Apr 93 £ 26,137,000 £ 3,758,000 6.1p	Interim Comparison +4.7% -14.0% -14.1%
Microvitec 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	Final - Aug 92 £ 6,215,475 £ 1,504,040 7.9p		Final - Aug 93 £ 7,057,716 £ 1,725,549 9.0p	Final Comparison +13.5% +14.7% +13.9%
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%
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	Interim - Sep 92 £ 327,000 (£ 2,000) n/a	Final - Mar 93 £ 922,557 £ 30,905 0.1p	Interim - Sep 93 £ 586,000 (£ 301,000) (0.8p)	Interim Comparison +79.2% Loss both Loss both
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 plc	Results Revenue PBT EPS	Interim - Aug 92 £ 5,307,000 £ 707,000 8.9p	Final - Feb 93 £ 11,232,000 £ 1,216,000 17.7p	Interim - Aug 93 £ 6,055,000 £ 609,000 6.1p	Interim Comparison +14.1% -13.9% -31.5%
Sage Group plc	Results Revenue PBT EPS	Final - Sep 92 £ 27,274,000 £ 8,853,000 30.9p		Final - Sep 93 £ 41,289,000 £ 9,656,000 32.5p	Final Comparison +51.4% +9.1% +5.2%
Sanderson Electronics plc	Results Revenue PBT EPS	Final - Sep 92 £ 21,398,000 £ 2,805,000 24.0p		Final - Sep 93 £ 23,581,000 £ 3,327,000 25.4p	Final Comparison +10.2% +18.6% +5.8%
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	Interim - Sep 92 £ 1,361,536 £ 424,536 2.85p	Final - Mar 93 £ 2,869,359 £ 832,906 6.08p	Interim - Sep 93 £ 1,079,044 £ 12,330 0.078p	Interim Comparison -20.7% -97.1% -97.3%
Trace Computers plc	Results Revenue PBT EPS	Final - May 92 £ 19,311,869 £ 502,212 2.87p		Final - May 93 £ 18,042,438 £ 211,504 1.12p	Final Comparison -6.6% -58.0% -61.0%
Vega Group plc	Results Revenue PBT EPS	Interim - Oct 92 £ 3,623,000 £ 404,000 1.34p	Final - Apr 93 £ 8,089,000 £ 1,705,000 7.99p	Interim - Oct 93 £ 4,517,000 £ 757,000 3.54p	Interim Comparison +24.7% +87.4% +164.2%
Vistec Group plc	Results Revenue PBT EPS	Interim - Oct 92 £ 18,703,000 £ 1,305,000 0.73p	Final - Apr 93 (Restated) £ 38,665,000 £ 3,282,000 1.88p	Interim - Oct 93 £ 17,630,000 £ 1,126,000 0.62p	Interim Comparison -5.7% -13.7% -15.1%

Acquisitions, disposals and liquidations

Pearson buys Extel for £73.5m

Pearson, the publishing and media group which owns the FT, has emerged as the successful buyer of **Extel Financial** from United Newspapers for an "above expectation" £73.5m. VNU and Thomson were said to have been the other bidders. The deal "which has delighted United" (surprise, surprise) includes the repayment of an £11.8m intercompany loan. Pearson was the only bidder willing to buy all five divisions including Financial Systems; which had lost £2.8m in FY92. Overall Extel had made PBT of £5.6m on revenues of £34.5m in 92.

The deal is one of a host of mega acquisitions completed in 1993 and demonstrates the significant corporate activity sweeping the sector. It also demonstrates the ever increasing value of information service providers.

ICL to raise £100m

Financial performance at ICL means that the hoped for Stock Exchange float is now at least three years away. But CEO Peter Bonfield does not want to wait "to strengthen the balance sheet as a precaution against continuing structural upheaval in the industry". He is raising £100m (half in Dec. 93 - the rest in 1994) via a rights issue. Northern Telecomm, which holds 20% of ICL, is not taking up its rights which means that Fujitsu's holding will rise from 80% to 84%. The deal equates to valuing ICL at £2.5b - about equal to its annual revenues. Interestingly, IBM currently has a valuation of about half its annual revenues. Bonfield predicts that "IT companies are going to find themselves seriously short of cash and access to money will become as big a problem as access to technology".

Source - FT 3rd Dec. 93.

Hays buys Modus

Hays has acquired IT recruitment agency, **Modus Holdings**, for £2.7m (£2m in loan notes, £540K in cash and the rest in shares) and has assumed debts of £2.4m. Modus made operating profits of £950K on revenues of £13.9m in the 11 months to 10th Dec. 93. Hays was "particularly impressed with the Modus management team who will continue to run the business".

Wakebourne (nee Maddox) shareholders back rights

Over 90% of **Maddox** shareholders voted in favour of the 1p rights issue required to raise £3.6m to rescue the group. We fully described the disasters, which included an £18.9m interim loss, in Dec. 93's *System House*. Maddox will now be known as **Wakebourne** - its TPM operation, which apparently made PBT of £1.2m in the first half.

Plans for a compensation package for outgoing chairman Hugo Biermann were sensibly waived prior to the shareholders meeting.

A Dickens of a Christmas Story

"It was Christmas eve, just after the markets had closed, in a listed UK software products company. In walks the CEO and gives 200,000 shares, worth £330,000, to the MD as a Christmas present".

Impossible, unprecedented, you may say. But it happened at **Centregold**. However, let's get it into perspective. Geoff Brown the CEO has shares worth £23m so the gift was a Scrooge like 1.4% to the MD, Martyn Savage, who was the driving force behind the floatation and whose holding was worth a miserly £500K.

The others... It was rumoured that **General Logistics plc**, which has developed the **Trafficmaster** in-car information system, is planning a Stock Exchange float. Source - Sunday Telegraph. **CRT Group** has acquired the IT staffing business of **Couva Computer Services** for £200K. IT consultancy **Druid Systems** has undertaken an MBO of the 75% equity it did not own for £2.8m with the help of **Candover Investments** and **Phoenix Development Capital**. **IBM UK** and **Tibbett & Britten** have each taken a 38% stake in a new warehousing/distribution company - **Hi-Tech Logistics** - which will handle distribution for IBM and third party product. **Logica** has acquired Dutch **Fray Data International**, which specialises in water-related technical automation, for £97K. PC dealership and mail order operation, **RSC**, has called in the receivers. **US Export Assistance** has bought specialist distributor **Solutions** "for a six figure sum". Source - MicroScope 15th Dec. 93.

Busy month for Reuters

Reuters, which many consider should be classed as a UK SCSI company, has acquired US **Teknekron Software Systems** for \$125m (£83m) in cash. Teknekron, which specialises in digital trading systems, had PBT of \$8.2m on revenues of just \$38.7m in 1992. However, Reuters pointed out that the net cost will be "significantly lower" as most of the consideration is for goodwill etc. which will attract considerable tax benefits in the US over the next 15 years. Reuters has also acquired US **Capital Market Decisions** (CMD). Consideration was "not material".

In the UK, Reuters has bought 20% of AS/400 and RS6000 disaster recovery specialist **Safetynet** from directors Paul Barry-Walsh and Paul Hearson for "just under £5m".

In the year to 31st Mar 93, Safetynet increased revenues by 35% to £6.45m and reported PBT up an impressive 68% to £1.1m. Safetynet had net assets of £3.9m including cash of £1.2m at 31st Mar. 93. Revenues of £10m are predicted for the current FY.

CompuAdd MBO

CompuAdd UK has completed an MBO with the help of £1.5m from Lloyds Bank. Its PC manufacturer US parent, which had entered Chapter 11, will retain a 20% stake. CompuAdd UK, which now intends to put increased emphasis on networking consultancy, currently has revenues of £15m and "is hoping for profits of £500K" in 1994.

France Telecomm and CGS

The almost unthinkable possibility of majority control at **Cap Gemini Sogeti** moving to non-French shareholders moved a step closer with the announcement that **France Telecomm** does not intend to take a stake. FT already owns a 19.6% stake in the increasingly successful Sema Group. "We cannot take a stake in every French software and systems house" commented Michel Huet MD of FTLIS, thus overturning what we believed was official French Government policy.

CGS is forecast to lose up to \$70m this year. Daimler Benz has an option to acquire majority control.

BULL and FM

BULL has set up a Europe-wide FM company to be known as **Athesa International** which is expected to have revenues of c£350m within the next two years. This move is yet further evidence of BULL's move to services under the influence of George McNeil.

A year of major change on the Stock Exchange

Forty seven CSI companies have been listed on the London Stock Exchange at some time or other during 1993. There have been an unprecedented seven new entrants.

Only two companies, **Hoskyns (CGS)** and **P-E International (Cray)** were acquired in the more normal sense. EIT lost its listing due to its chronic financial difficulties but is still struggling on as a private company. **Star Computers** managed the most bizarre delisting by firstly doing a reverse takeover of Pizza Express and then Star's

management buying the company and returning it to a quieter, more private life. That makes a net gain of three listed SCSI companies for the year. We suspect that 1994 will see an even higher net gain.

75% of all the quoted CSI shares showed a gain in 1993. Indeed if you had bought every CSI share on 1st Jan. 93 and every new issue in the year, you would be showing an impressive 54% gain compared with a rather more modest 20% increase in the FTSE 100 index. Continued p9.

Rank		% chg in 1993	Notes	Rank		% chg in 1993	Notes
1	Comac	511.11%	The "Swinstead" factor	25	Centregold	29.60%	1993 new issue
2	Kewill	303.64%	Disposes of Weigang	26	MMT	28.83%	Upbeat Chairman's statement
3	Gresham Tele.	282.76%	Heady expectations	27	Admiral	25.97%	Consistent results
4	Kalamazoo	277.36%	Strong recovery	28	EDP	23.54%	High expectations recede
5	Phonelink	134.84%	1993 new issue	29	Rolle & Nolan	22.92%	Future prospects
6	Star	131.91%	Pizza Express reversal and MBO	30	Azlan	15.22%	1993 new issue
7	P&P	120.69%	Strong recovery	31	LBMS	14.17%	Price dives on profits slump
8	Division	102.50%	1993 new issue	32	Quality Software	6.58%	1993 new issue
9	Vega Group	95.54%	Consistent results	33	Trace	5.56%	Profits slump/R&A qualified
10	Virtuality	94.71%	1993 new issue	34	Sage Group	4.51%	US problems
11	Pegasus	86.09%	Recovery under Hubbard-Ford	35	Hoskyns	3.99%	Delisted after CGS completion
12	Capita	68.79%	Excellent prospects	36	Proteus	1.45%	Waiting for trial results
13	Logica	65.45%	Recovery as Read takes helm	37	Vistec	-2.04%	First profits reversal
14	Kode International	60.00%	Excellent results	38	Sema Group	-3.13%	European recession worries
15	P-E International	59.18%	Acquired by Cray Electronics	39	ACT	-3.38%	Acquisitions indigestion?
16	INSTEM	58.82%	Recovery hopes	40	Real Time Control	-15.12%	Profits slump
17	Enterprise	53.66%	Recovery from disaster	41	Microgen	-21.28%	First profits reversal
18	Cray Electronics	47.71%	Excellent acquisitions	42	Radius	-34.88%	Profits warning
19	Computer People	45.95%	Enjoying the Comac effect	43	Sherwood	-56.86%	Profits warning
20	On Demand Info.	44.87%	1993 new issue	44	Micro Focus	-62.83%	Future prospects questioned
21	Misys	41.06%	Strong recovery	45	Total	-68.42%	Awful results
22	Sanderson	40.97%	GA share disposal	46	Wakebourne	-79.31%	Disastrous management
23	Microvitec	35.42%	Broker hype?	47	EIT Group	-100.00%	Administrators appointed
24	Macro 4	29.64%	Consistent results				

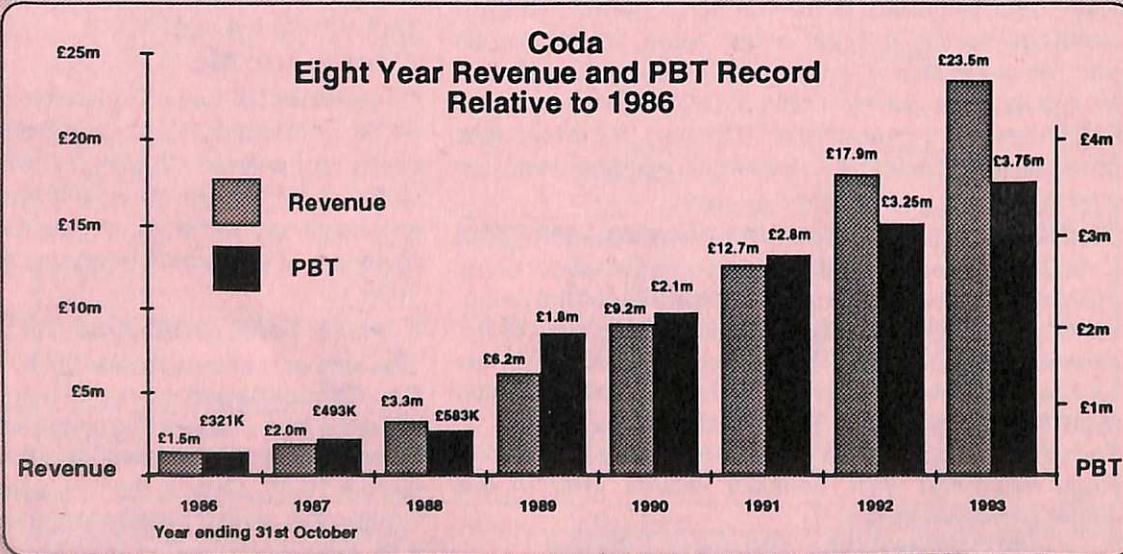
Note: Start price at 1/1/93 or launch price. End price at 31/12/93 or exit price.

Coda to market

System House has raved about Coda almost since its first issue. Last year we suspected that it was about to be acquired. We are therefore quite pleased that Coda will now be one of the first of many SCSI companies to be floated in 1994, via a placing by SG Warburg. Latest results for the year to 31st Oct. 93 are good - but not quite as good as we have

been lulled into expecting from Coda. Revenues increased 31% to £23.5m but PBT increased by a more modest 16% to £3.75m.

Chairman Rodney Potts who founded Coda in 1979 intends to establish an ESOP to benefit many of Coda's 300 staff. Potts is the largest shareholder. Indeed, all but 7%



of Coda's shares are owned by present or past "employees" with Natwest Markets owning the remaining 7%. Coda's accounting software systems on DEC, IBM and HP proprietary systems are well respected, but it is the open systems versions of the product which are causing the excitement. We should point out at this point to any followers of competitor, Quality Software Products that Coda does not follow their example of capitalising R&D but writes it all off as incurred.

Coda has conventionally been a mid-range systems provider but increasingly their products are being made available on PCs and LANs. This market is, to say the least, cut-throat.

As part of the float process Coda has appointed Colin Gaskell (CEO of 600 Group) and David Eggleton (ex IT head at BP) as non-exec. directors.

But Coda is a company run by accountants - rather like Capita. We suspect they will do as well - if not better.

Stock Exchange Review of 1993 - continued

The winners?

Comac started 1993 as a quiet little contract staff agency until ex-SD-Scicon founder, Philip Swinstead, moved in as CEO and a 19.4% share holder. The shares rocketed by 94% overnight. Comac has since acquired CSS - a five times larger competitor - and Comac ends 1993 up a massive 511%. If acquisitions cause indigestion then dieting leads to health. Kewill managed to divest themselves of Weigang and since then their share price has rocketed - ending the year up 303%. At one stage Gresham Telecomputing was head and shoulders in the lead. Many, however, thought the share price unsustainable. The retirement of founder Sid Green triggered (although we are not suggesting caused) a "collapse" from a high of 186p to 111p; still representing a 283% rise on the year.

The losers?

We have assumed that EIT Group shareholders have lost all. Technically it is still possible that they could get something back. We reviewed the rather crazy Maddox story in our last issue. Now known as Wakebourne, the operation it acquired just 16 months ago in Aug. 92, the shares are down 79% in 1993. Without the rescue it could so easily have been much, much worse. Total (see page 10) has also slumped 68% on disastrous results.

The UK's most valuable SCSI company?

In money terms Micro Focus is the biggest loser. Its share price has slumped 63%, which has wiped a massive £226m

off its capitalisation. Micro Focus started the year as the most highly valued UK SCSI company at £368m. In contrast, Cray Electronics has gained £134m to end the year at £355m making it the most valuable UK SCSI company as we start 1994. We suspect its position will be further enhanced in 1994.

Share tips for 1994?

You know we can't give them, but the end of year Sunday papers can. The Sunday Telegraph backed both Wakebourne and Enterprise for recovery and the Mail on Sunday tipped Phonelink - incidentally December's largest riser - up 31%.

Computing Services Index 31st December 1993

April 15th 1989 = 1000

1669.58

Changes in Indices	CSI Index	FTSE 100	FTSE Small Cap
Month (29/11/93 - 31/12/93)	-0.18%	+9.01%	+7.55%
From 15th Apr 89	+66.96%	+66.46%	
From 1st Jan 90	+81.46%	+44.72%	
From 1st Jan 91	+135.86%	+58.23%	
From 1st Jan 92	+59.79%	+37.11%	
From 1st Jan 93	+4.77%	+20.09%	+34.69%

System House CSI Share Prices and Capitalisation

	Share Price 31/12/1993 (£p)	Capitalisation 31/12/1993 (£m)	Historic P/E	CSI Index 31/12/93	Share price % move since 29/11/93	Share price % move in 1993	Capitalisation move (£m) since 29/11/93	Capitalisation move (£m) in 1993
ACT	£1.43	£263.70m	14	2269.84	-9.49%	-3.38%	-£ 27.70m	£55.00m
Admiral	£4.85	£52.40m	21	3514.49	3.19%	25.97%	£1.60m	£11.00m
Capita	£2.38	£112.80m	37	7147.15	28.65%	68.79%	£25.10m	£48.90m
Comac Group	£1.10	£40.20m	29	2558.14	-2.65%	511.11%	£3.90m	£39.04m
Computer People	£1.08	£15.00m	Loss	444.44	0.00%	45.95%	£0.00m	£4.70m
Cray Electronics	£1.61	£354.80m	17	941.52	9.90%	47.71%	£31.90m	£134.30m
Division Group	£0.81	£27.40m	Loss	2025.00	9.46%	102.50%	£2.40m	£13.90m
Electronic Data Processing	£5.93	£51.60m	n/a	6051.02	-13.18%	23.54%	-£ 7.80m	£9.80m
Enterprise	£0.32	£25.70m	Loss	252.00	-4.55%	53.66%	-£ 1.20m	£10.50m
Gresham Telecomputing	£1.11	£35.50m	57	1193.55	-26.00%	282.76%	-£ 12.40m	£26.26m
INSTEIM	£1.35	£6.46m	10	1350.00	0.00%	58.82%	£0.00m	£2.64m
Kalamazoo	£1.00	£38.10m	23	2857.14	1.01%	277.36%	£0.40m	£33.22m
Kewill	£2.22	£26.50m	Loss	877.47	-11.90%	303.64%	-£ 3.60m	£19.93m
Kode International	£1.60	£14.90m	19	744.19	-3.03%	60.00%	-£ 0.40m	£5.61m
Learmonth & Burchett	£1.45	£26.00m	20	1208.33	-13.69%	14.17%	-£ 4.10m	£4.80m
Logica	£2.73	£167.90m	32	747.95	3.80%	65.45%	£6.20m	£66.60m
Macro 4	£6.78	£154.00m	21	2733.87	1.19%	29.64%	£1.80m	£36.30m
Micro Focus	£10.00	£142.00m	9	4830.92	-24.98%	-62.83%	-£ 47.30m	-£ 226.50m
Microgen	£1.48	£58.30m	10	632.48	-3.90%	-21.28%	-£ 2.40m	-£ 15.00m
Microvitec	£0.33	£21.20m	Loss	792.68	4.84%	35.42%	£0.90m	£5.50m
Misys	£5.05	£195.90m	18	1256.22	-3.07%	41.06%	-£ 6.20m	£58.10m
MMT	£1.43	£15.30m	20	851.19	-3.38%	28.83%	£2.20m	£3.50m
MR Data Management	£2.05	£113.60m	19	813.49	-1.44%	5.67%	-£ 1.70m	£7.30m
P&P	£0.64	£35.50m	34	287.00	3.23%	120.69%	£1.10m	£19.40m
P-E International	£0.78	£17.10m	Loss	320.99	6.85%	59.18%	£1.10m	£6.40m
Pegasus	£2.14	£14.10m	55	583.11	0.00%	86.09%	£0.30m	£6.79m
Phonelink	£3.64	£129.20m	n/a	2348.39	30.94%	134.84%	£30.60m	£74.20m
Proteus	£4.21	£115.40m	Loss	5011.90	-0.71%	1.45%	-£ 0.80m	£3.90m
Quality Software	£4.05	£31.50m	20	1065.79	3.85%	6.58%	£1.20m	£1.90m
Radius	£0.28	£7.64m	10	202.90	-15.15%	-34.88%	-£ 1.36m	-£ 4.06m
Real Time Control	£0.73	£5.11m	15	1489.80	1.39%	-15.12%	£0.07m	-£ 0.91m
Rolfe & Nolan	£2.95	£16.70m	20	1755.95	4.61%	22.92%	£0.80m	£3.10m
Sage Group	£5.10	£105.10m	16	3923.08	19.16%	4.51%	£17.40m	£5.10m
Sanderson	£3.20	£28.50m	13	1361.70	6.67%	40.97%	£1.80m	£8.50m
Sema Group	£3.10	£282.10m	25	974.84	-2.82%	-3.13%	-£ 8.20m	-£ 9.10m
Sherwood	£1.10	£6.71m	3	916.67	15.79%	-56.86%	£0.91m	-£ 9.09m
Total	£0.24	£2.40m	8	452.83	-44.19%	-68.42%	-£ 1.90m	-£ 5.20m
Trace	£0.38	£5.39m	40	304.00	-9.52%	5.56%	-£ 0.11m	£0.39m
Vega Group	£2.19	£30.90m	21	1795.08	15.87%	95.54%	£4.20m	£15.10m
Vistec	£0.24	£29.30m	14	1043.48	0.00%	-2.04%	-£ 5.40m	£1.50m
Wakebourne	£0.02	£12.50m	8	333.33	-14.29%	-79.31%	£4.70m	-£ 19.80m

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.

Trouble, trouble...

95% of all *System House* readers renew their subscriptions. We therefore get very upset when our customers decide to abandon us. As we reported in the Aug. 93 edition, Paul Thompson from **Sanderson Electronics** cancelled his subscription because of our reporting of **Total Systems** in the previous edition which he described as "*the last straw*" and our comments about Sanderson's stake in **General Automation**. Indeed, we upset Terry Boume (MD of Total) as well. He wrote to say (letter dated 7th July 1993) that he viewed our comments as "*unnecessary expressions of opinion*" (Ed: - what does this really mean?) and was "*very happy to allow history to make that point*".

Total Systems

Now, at this point, we hope that you will re-read in full our article on **Total Systems** (*System House* July 93). Basically it said that PBT of £833K in the year to 31st Mar. 93 and a share price of 80p was as near as makes no odds equal to that made in the year to Mar. 88 when Total was floated. And, in the meanwhile, Total had slumped to a loss of £7K in 1990. We made the usual *System House* observation that Terry Boume had expressed "*confidence for the future*" in every Chairman's statement since 1989. We also commented that Boume had repeated for the third time that he "*continued to seek acquisitions*" - which we then described as "*corporate suicide*" for a company of Total's "*size and record*".

Now we rather suspect that the reason why you pay £295 p.a. to us is exactly for these kind of incisive comments (whether you agree or not), and we are therefore rather relieved that very few decided to cancel because we write what we believe.

So in the now established spirit of allowing "*history to make the point*", Total's latest results for the six months to 30th Sept. 93 show revenues down 20% at £1.1m, PBT down 97% at a meagre £12K and EPS down 97%. Total has decided not to pay a dividend.

As per usual, Boume blames the economic situation. It really is now wearing a bit thin and we are reminded, yet again, of Sir Peter Thompson, ex Chairman of the NFC, in his book *Sharing the Success*. "*How often, when a company is doing well, does the top management team claim the credit for it? ... However, when profits fall, economic recession and depressed demand are to blame. It is nothing to do with a lack of management skill. Yet good managers somehow seem to be able to push their business ahead regardless of external factors*". According to our researches of the Top 1000 UK SCSI companies, 57% improved their profit performance in 1992.

Boume says that "*an increasing number of companies in the major markets that (Total) serves have reduced the scale of, or postponed investment in, new systems and technology*". We have no evidence to support this in the last six months or Bourne's view that there has yet been no sign of any improvement in the market. Anyway Total's sales force "*has been totally re-organised to provide a more effective and focused team*" and admin. headcount has been reduced. There are a few bright spots in the announcement though. "*Cash balances remained strong*" and there is no further repeat of the "*seeking acquisitions*" statement. Ominously there is also no expression of "*confidence*" this time either. Total Systems seems to us to be the prime example of the type of company which should never have floated on the Stock Exchange in the first place. By the way, to all you Rip Van Winkles (the subject of so much comment only six months ago) who have just awoken, Total's share price is now just 24p - a fraction of the 80p we quoted above. History will indeed "*make the point*".

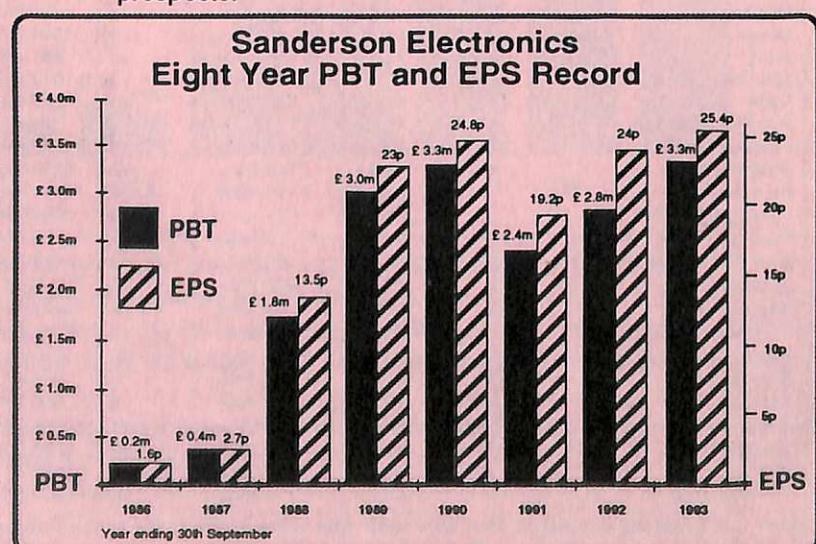
Sanderson Electronics

We are really a major fan of Paul Thompson - Chairman of **Sanderson Electronics**. We only ever had one criticism ...we couldn't understand why he wanted to acquire a hardware manufacturer. Sanderson started to build its stake in US General Automation in 1989 and GA contributed a very respectable £750K out of Sanderson's £3.3m PBT in 1990. But since then its been a long slide into losses exceeding £110K in 1992. Sanderson has since reduced its stake in General Automation to less than 20% so their losses do not have to be consolidated anymore. As a result revenues were up 10.2% at £23.6m, PBT up 18.6% at £3.3m but EPS up just 5.8% at 25.4p in the year to 30th Sept. 93. EPS was affected by an abnormally low tax charge last year.

The UK which has really been the consistent performer. UK acquisitions, which have cost Sanderson a mere £5m in total, contributed £1.9m out of the total UK profits of £3.45m in 1993. Paul Thompson strongly believes therefore that "*Sanderson's acquisitions have proved very beneficial for shareholders*". But overall PBT and EPS are now only back to the levels last recorded in 1990 when the shares were 298p. Three years later the shares ended 1993...at 320p.

But our strong positive view of Sanderson is unchanged. "*During the year, 73% of overheads were covered by annually recurring revenues from software licence fees and service and support contracts which currently provide increased turnover of around £10m per year*". That's a major strength (although we would remind Thompson that this is a lower % than he claimed last time). New application software products have been developed for the NHS and Local Authorities (the Parking Enforcement System). Thompson is "*particularly pleased that Sanderson NI and Sanderson Cotswold (insurance and food processing systems) achieved record profits in the year*".

As to the future Thompson says "*the quality of our software products in the open systems arena...should ensure that our business makes further progress as the economy continues to recover*". We share...indeed exceed...Thompson's confidence. Without GA, Sanderson is...and could well continue to be...one of the brightest companies around with considerable recovery prospects.



Continued faith in Sage

Whoever's market research figures you trust, no one would dispute that Sage is the UK's leading supplier of accounting systems by units sold. Sage has also been one of the best financial performers in perhaps one of the most highly competitive markets around for most of the last decade. In May 91 they made their biggest acquisition - of US DacEasy for \$18m. Contrary to our usual attitude, we backed this mega acquisition to the hilt and sincerely believed that Sage would be one exception to the sorry aftermath of so many acquisition binges.

But on 21st July 93, Sage issued a warning that PBT and EPS in the year to 30th Sept. 93 "would be lower than general market expectations...but ahead of those reported for last year". Trading difficulties at both DacEasy and Remote Control (another, albeit smaller, US acquisition) were cited. The City was deeply miffed and the shares fell like a stone from a high of 627p to 367p. They have since recovered well to end 1993 at 510p.

Latest results were exactly in line with Sage's statement in July. Revenues increased by 51%. Of course, acquisitions were the main reason for this but continuing operations were up a quite acceptable 13% too. PBT increased by 9% to £9.7m and EPS was up 5.2%. Sage UK increased software sales "by a healthy 23% with increased market share". The UK, however, now represents only just over a half of group revenues. The US problems are illustrated at the operating profit level. In the UK these rose by 30% to £8.74m whereas in the US they fell 88% to just £215K. Indeed, DacEasy lost £400K in H2 and Remote Control (telemarketing software via their Telemagic product) made

a £1m operating loss in the year.

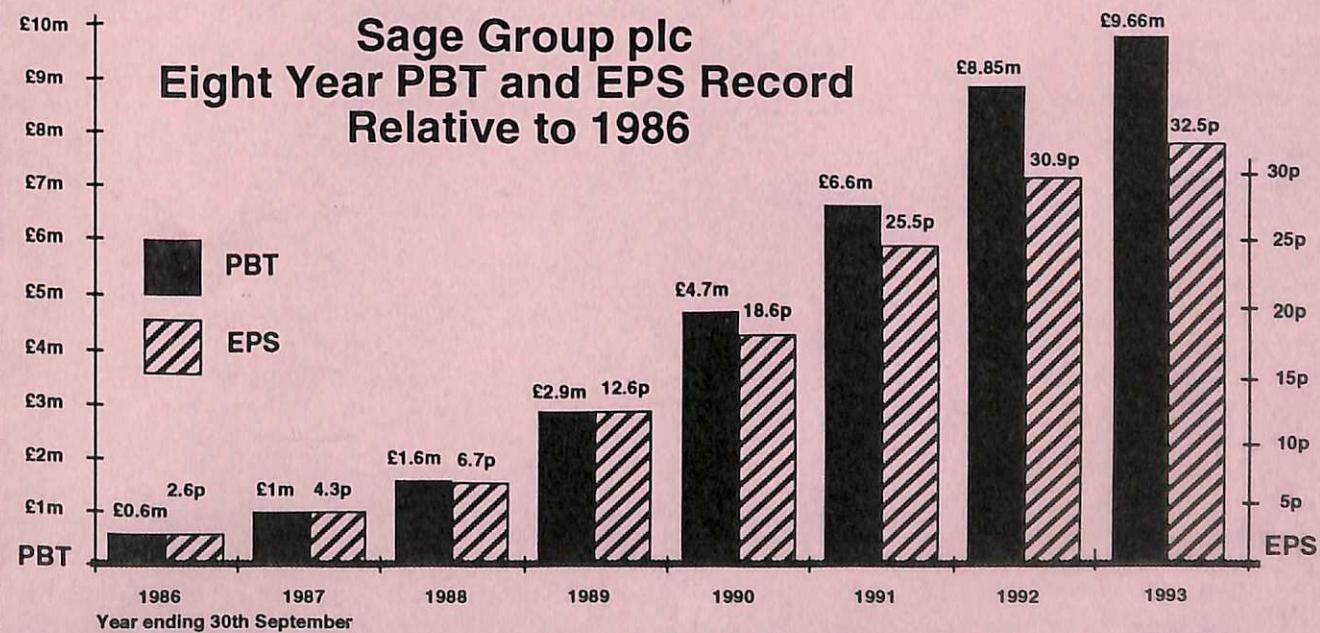
Sage's French operation, CIEL (acquired in Oct. 92 for £3.9m) made an operating profit of £600K on revenues of £4.8m. Sage is looking at "worthwhile opportunities for high volume sales of small business accounting software, particularly in Spain and Germany". Sage's printed products business (enhanced by Yorkshire Business Forms acquired in Dec. 92 for a performance related max. of £4m) produced £500K profit on revenues of £3.6m.

Acquisitions cost a further £5.8m cash in 1993 and therefore balances reduced from £7.2m to a still very healthy £4.2m at year end. Recurring maintenance revenues increased by 41% to £7.8m "with one in five users opting to buy ongoing support" and sales to existing clients increased by 35% to £7.8m. This, as we have said so many times before, is the trick that so many of Sage's competitors have missed.

Comment

In the current trading environment, Sage's results would be a cause for celebration by most. But the market had such high expectations that any increase less than 20% was bound to disappoint. Clearly Sage has had problems in the US, but it has taken the required remedial action a darned sight faster than many others. "Current trading trends indicate that Sage should see continuing growth and an improvement in profitability this year". Indeed analysts are looking to PBT up 30% at £12.5m in the current year.

We have always been, and intend to remain, an ardent Sage supporter on the basis of backing management. And Sage, in David Goldman, has about best around.



Boyd leaves Admiral

In July 93 Admiral's Operations Director, Stuart Wild, resigned in what appeared to be an unusual "political" situation. Now finance director, Christina Boyd (who we always rated highly at analysts' meetings) has also resigned "for personal reasons". Ceri James will take over finance matters at board level until a replacement is found. This must be a blow to Clay Brendish as he now spends around 60 days a year as an adviser to HM Government.

Number of computing services operations up 19%

Perhaps one of the most often asked, if not the most useful, question we get asked is "How many computing services operations are there in the UK?"

The answer, according to the latest (sic) Statistical Bulletin from the VAT people, is 41,126 at the end of 1991. This was an increase of 19.4% in the year - one of the largest increases of any category - showing how "downsizing" has spawned many new, largely one-man, businesses.

"We contend that 1992 will be seen by industry historians as a significant watershed year". System House - Review of 1992.

We hold that view even more strongly now. 1992 was the year when the UK recovery really started. 1993 is likely to show revenue growth of c8% ; up from the low point of just 5% in 1992. More importantly, the "rightsizing" undertaken in 1992 will mean that the major profits recovery continued into 1993. This has fuelled confidence so that an unprecedented seven SCSI companies were floated onto the Stock Exchange in 1993. We know of an even higher number planning floats in 1994. There were far fewer Stock Exchange failures and, to be fair, the ones that did occur were due to bad management rather than market conditions.

The UK now has one of the brightest industry outlooks of any of the major markets in Europe (see p1). We do accept that this is mainly due to the major move

towards outsourcing, characterised by the c£1 billion mega contracts awarded in Nov. 93 by the Inland Revenue and BAe. But the UK's leading experience in FM should put our companies and our managers in a powerful position to exploit this market in Continental Europe.

Indeed, 1993 was a good year to be British. Year after year we have had to report UK companies being acquired by, and then run by, foreigners. This year, McDonnell Douglas Information Systems undertook a UK MBO from its US

parent and will float in 1994 - the biggest float since Hoskyns in Dec. 1986. ACT bought BIS Group from US Nynex to create one of the biggest financial services software providers in the world. Cray Electronics, under the guidance of a respected team headed by Roger Holland, built on its Dowty IT acquisition of 1992 (which many now agree was the most astute SCSI buy of all time) by purchasing P-E International for a bargain price. Cray is now the most highly valued UK SCSI company (see p 8/9) and we expect even more exciting acquisition news in 1994.

Even if the UK cannot own all the major companies, its managers have had a cracking year. Geoff Unwin has taken the helm at CGS, George McNeil heads BULL Europe, Peter Bonfield continues to run ICL, and Nick Temple has become a VP at IBM.

Of course, we recognise the pain too. Many unemployed IT staff will never work in the industry again. As the rate of technological and market change continues to accelerate, many companies will not manage that change and will fail. But the UK now has great experience of the pain caused by change. We now have a great opportunity to use that experience and its associated skills throughout the world. **We look forward to 1994 and beyond with increasing confidence.**



and finally...

In 1992 we all said goodbye to SD-Scicon after image consultants had advised that **EDS-Scicon** was a more appropriate name. And now, in what the company describes as an "evolutionary development", Scicon is to be dropped to enable the company to operate "under the global **EDS** brand throughout Europe".

As 1993 ends, so does one of the oldest computing services names on the UK scene. With Hoskyns under the CGS banner, Software Sciences now Data Sciences, CAP now Sema, only Logica is left flying their 1960s name in the 1990s. *But for how long?*



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