System House

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

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When will the bubble burst?

We really ought to be celebrating. After five years during which the London stock market has been decidedly frosty towards software and computing services companies and there were more leavers than joiners, we will have witnessed an **unprecedented 13 new issues** in the 12 months to the end of March 1994. With only one leaver in the period - P-E International acquired by Cray Electronics - that's a net gain of 12 making 52 in total. Pages 2 and 3 of this edition of *System House* review the new issues.

The reception they have received has been nothing short of euphoric. **The average share price increase of those floated so far has been a massive 66%. No company has failed to trade at a premium and there are three companies - Division, Phonelink and Virtuality - that are trading at or over twice their issue price.**

New issues Apr. 93 to end Feb. 94	Launch Price	Price end Feb 94	Percent Gain	Capitalisation on issue
Azlan	230p	265p	+15.2%	£50.2m
CFS	90p	125p	+38.9%	£4.2m
Centregold	125p	138p	+10.4%	£50.3m
Clinical Computing	124p	153p	+23.4%	£20.1m
CODA	235p	257p	+9.4%	£61.7m
Division	40p	112p	+180.0%	£13.5m
On-Demand Info.	78p	112p	+43.6%	£38.8m
Phonelink	155p	420p	+171.0%	£40.0m
Virtuality	170p	338p	+98.8%	£44.4m

With the further four floats due in March, the combined capitalisation at launch time will be c£700m. New issues have ranged from CFS at £4.2m to the MDIS float in March at £250m. **MDIS will be the largest UK SCSI float of all time and the first public offering for nearly a decade.**

So we should be delighted.... Since 1986 for every one new company choosing a Stock Exchange listing there have been at least 50 choosing a trade sale. For most companies this was a wise decision, not just because prices were higher than those which could be raised in a float but the companies being acquired fared better as part of a larger group and the shareholding directors were often able to *"take the money and run"*.

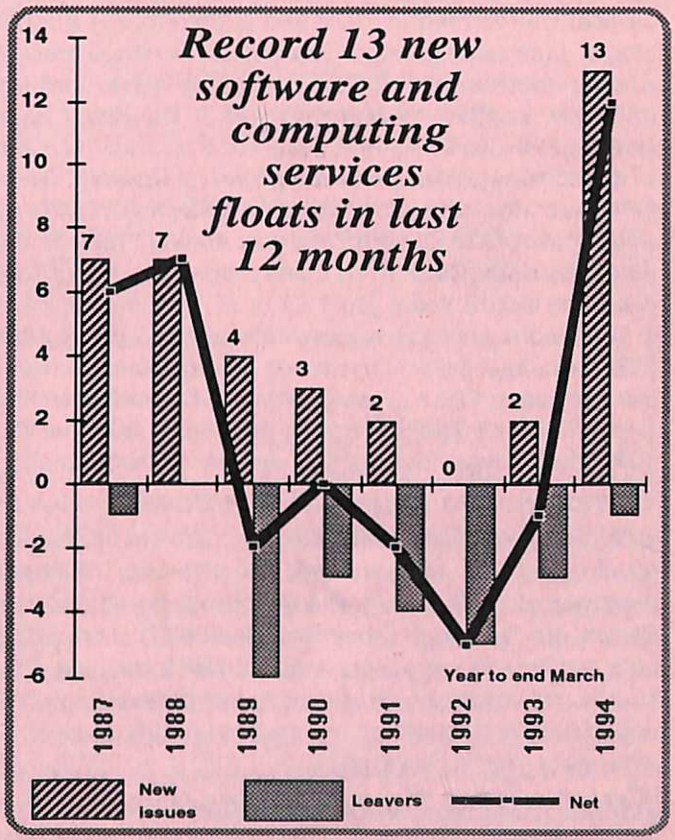
An analysis of the 13 companies floated in the last year reveals the following:

• only one company, MDIS, had revenues exceeding £50m. All the rest were small. The smallest - Clinical Computing had revenues of only £2.6m.

• only four companies - Azlan, CODA, Cedardata and MDIS - had any kind of consistent profit record. Almost all the rest had either made losses or had made a spectacular increase in profits in the year just before the launch.

• indeed, many of the other companies had no real financial track record at all. Companies like Division, MAID, On-Demand Info., Phonelink and Virtuality were floated on the *possibility* of major future growth *if* products about to be launched took off.

But what worries us most are the accounting principles of several of the new floats. We have long campaigned against the capitalisation of R&D. It is so open to abuse and it makes any comparison between companies almost impossible. Respectable companies - like CODA and MDIS - do not capitalise R&D, but quite a few of the other companies floated recently do. Only detailed investigation



of the small type of the prospectus shows that often intangible assets exceed total net assets and the companies have never ever made a real profit in the conventional sense.

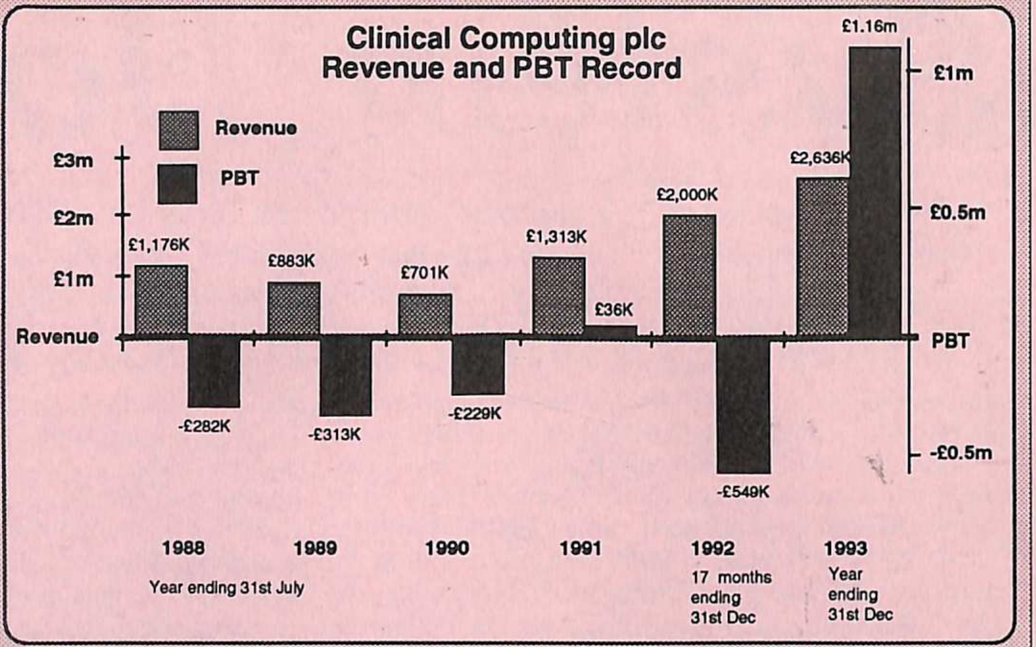
Then we come to other questionable practices like the share purchases at nominal amounts within weeks of the flotation, enormous bonuses, the scramble to get personal assets off the books before they come under Stock Exchange scrutiny and the acquisition of directors' "side interest" businesses at inflated prices. Are these directors suitable people to run plcs?

Good companies need a healthy and receptive stock market. The failure of some of the recent issues could wreck the chances of sounder companies coming to the market in the future.

Three new floats in February

Clinical Computing

Clinical Computing is involved in what it describes as *"an overlooked market"*. It sells, under the brand name PROTON, *"a suite of software products for the storage and management of detailed records aimed at the needs of particular clinical departments ...aimed at helping doctors look after patients"*. Their DEC VAX VMS-based medical database software *"covers 20 clinical disciplines and is installed at over 600 sites in the UK, USA and eight other countries"*. US sales represent 51% of total revenue. We are delighted to see that R&D spend is written off as incurred.



Clinical was formed in 1979 and is therefore is an "old stager" compared to other new issues. Revenue grew at a fairly pedestrian pace to £1.3m in 1986 and then declined to £700K in 1990 *"during a period of significant early development work on PROTON and the diversion of some of the company's resources to a project in Holland"*. Since then revenues have grown sharply *"reflecting increasing sales in the US"* to £2.64m in the year ending 31st Dec. 93. As can be seen, Clinical has made a significant loss in four out of the last six years. But PBT of £1.16m was reported in 1993 representing a massive 44% profit margin. But this still means that Clinical has made a cumulative loss over the six years! CEO Jeremy Woan (who had been the deputy CEO of Tadpole during their float) said that the 1992 deficit was *"due almost entirely to non-recurring directors emoluments of £737,816. Since then the directors involved, Gordon and Venn, had agreed to contracts with annual salaries of £85K and £75K respectively"*. Source - FT 15th Feb. 94. How the board of directors of a 31 person company can justify being paid over £1m including *"exceptional bonuses"* which then drive their company to a £549K loss is totally beyond us. Even with their reduced emoluments they are unlikely to starve.... Gordon is selling shares worth £1.2m in the float leaving him with a holding worth a mere £6.5m.

The placing of 25% of the equity at 124p per share on 17th Feb. valued Clinical at £20.1m and raised £3.1m new money for the development of a client-server version of the product and expansion in the US. The shares closed the month up 23%. (Keith, Bayley Rogers & Co. Tel: 071 827 9988)

Computerised Financial Solutions

CFS, which we reviewed last month, came to the market on 3rd Feb. at 90p, valuing the provider of credit management software for the motor industry at £4.23m. Clearly our "warning" about capitalised R&D outstripping both profits and net assets was not well broadcast. The shares rocketed to a high of 158p before profit taking. CFS ended their first month on the market up 39% at 125p. (Wise Speke - Tel: 061 953 9700).

CODA (S J Warburg - Tel. 071 606 1066).

If CFS is the house built on sand, then **CODA** is a veritable castle with deep foundations. Dealing began on 9th Feb. at the placing price of 235p. This valued CODA at £61.7m equivalent to a hefty 24.5 P/E. As we reported last month, General Atlantic, which rarely buys into quoted companies, has taken 10% and a further 250,000 shares have been reserved for US investors. CODA does nearly 50% of its trade in the US. CODA ended Feb. up 9% at 257p.

Four more floats in March

Cedardata

Cedardata is the developer of the Oracle based *cfacs* (commercial and financial accounts system). cfacs is installed in 160 sites roughly split 50% to private companies and 50% in the public sector. Unlike some other recent floats *"no major expensive redevelopment will be needed in the medium term"*. Cedardata has a most impressive financial record. In the year to 31st Mar. 93 they made PBT of £2.4m on revenues of £5.3m. In the current year to 31st Mar. 94, PBT of between £2.75m and £3m is expected on revenues of £6.05m - in other words an almost unheard of 50% margin. Capitalisation of c£30m is expected.

Listing particulars were due on 18th Feb. but were pulled due to *"deteriorating market conditions"*. Now due in early March. (Greig Middleton Tel: 071 247 0007)

Unipalm

Unipalm originally concentrated on distributing networking software. Recently it has moved into the provision of connections to Internet with its Pipex gateway services. Pipex currently has around 200 customers generating revenues of £1.5m but expanding at around 10% per month. Latest results to Apr. 93 were revenues of £8m and PBT of £897K. The placing is expected to value Unipalm at £6m. (Henry Cooke Corporate Finance Tel: 061 834 2332)

Radstone Technology

Although not a SCSI company, readers might be interested that **Radstone Technology**, a £4.1m MBO from Plessey in 1988, will float in March at 125p valuing the company at £19.2m. Radstone develops such things as the firing systems for Patriot missiles. PBT was £1.75m on revenues of £25.9m in the year to 31st Mar. 93.

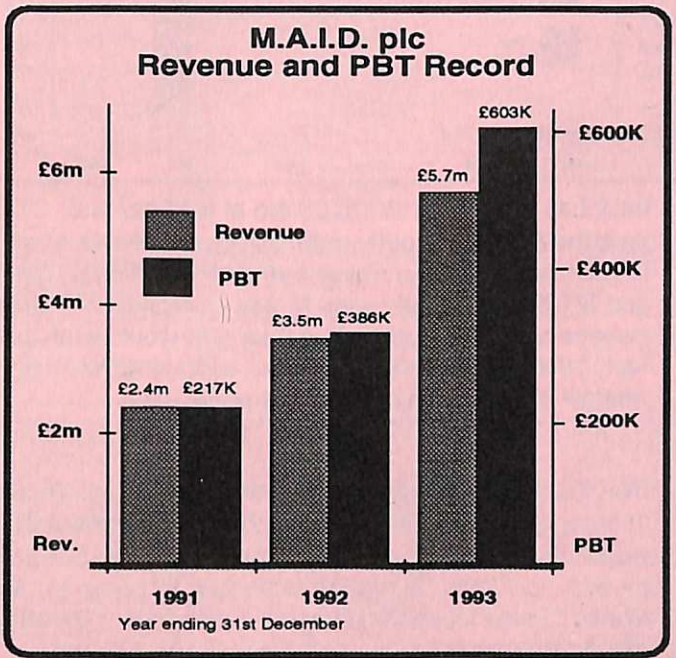
(Beeson Gregory Tel: 071 488 4040).

March new issues - continued

M.A.I.D. plc

MAID seems to be sticking by its valuation of a minimum of £100m despite our disbelief expressed last month. The prospectus issued this month shows shares were issued to directors at 300p per share as late as 5th Jan. 94. This, based on the 1m shares at that time authorised, valued MAID at just £3m. On 4th Feb. 94, a further 9m shares were created. On 10th Feb. 94 every shareholder received 9 fully paid new shares for every one they held. In other words, if MAID really is placed at £100m, the value of the company will have increased thirtyfold in 3 months!

In the year to 31st Dec. 93, MAID managed PBT of £603K on revenues of £5.7m. MAID is yet another company adopting the questionable practice of capitalising product



development - a net £166K was added to intangible assets, which now total £486K on the balance sheet, for software development. MAID believes it has identified a gap in the market for the supply of on-line business information. It provides research and information from a variety of third parties via such services as *Researchline*, *Newsline*, *Companyline* and *Brokerline*. The latter will *"become the world's largest commercially available on-line service which allows seamless searching of over 30,000 stockbroking analysts' research reports"*. Maybe one day they will launch a *System Houseline* too! MAID's prospectus states that the market for on-line services will grow at a compounded annual rate of 8.5% to $15.2 billion by 1997 - a growth rate that we found surprisingly modest. In this market, MAID will face intense competition from established players like Reuters.

Octagon Investment Management is an institutional shareholder in MAID. Their MD, Ian Barton, is a MAID non-exec. Readers will recall that Octagon management expertise was applied to Headland, in the shape of Geoff Bristow and Rob Wilmott, before Headland appointed the receivers in July 1990. The placing is planned for 15th Mar. and dealings begin on the 25th. (Hill Samuel - Tel: 071 600 6000).

A little warning and a little help

We were surprised at the number of calls last month asking for details of how to apply for the new issues featured. We must stress on readers that we never give, and indeed are not licensed to give, financial advice. However, bowing to requests, we have added the sponsor's name and tel. no to the details for new issues in case you wish to take further action.

McDonnell Information Systems (MDIS)

The float of **MDIS** at an expected capitalisation of £250m is the biggest ever in the sector and the first public offer for many years. MDIS develops and supplies computer solutions to a broad base of niche markets, in particular health, police, local and central government as well as various commercial, industrial and financial customers.

We have reviewed MDIS on many occasions, particularly since the MBO from their US parent in Mar. 93. Readers will be aware of the high regard we have for the company. The prospectus confirms the £121m MBO price. This was financed by £4.6m 'A' shares and £34.4m prefs from institutions led by Baring Capital Investors, £25m of mezzanine finance and £60.4m of term and revolving debt. The management team led by Jeremy Causley invested £963m for a 15.5% equity stake. The £107.4m net raised by the placing will be used to repay all borrowings, redeem the prefs and add to MDIS' current £13m cash balances. The P/E is expected to be a "modest" 16.

MDIS' financial performance has been excellent. Revenue reductions are due entirely to the quite correct switch from hardware into software and services. Without the MBO debt, MDIS would have been about the most profitable UK SCSI company in 1993.

McDonnell Information Systems

Year ending 31st December	1991	1992	1993
REVENUE	**£171.9m**	**£158.6m**	**£148.5m**
• Public sector	£90.3m	£91.4m	£86.3m
• Commercial/Industrial	£52.8m	£46.9m	£40.5m
• Financial	£22.8m	£14.9m	£15.9m
• Development tools	£5.9m	£5.4m	£5.7m
UK Revenue	£129.8m	£117.5m	£112.1m
OPERATING PROFIT	**£17.9m**	**£19.1m**	**£22.3m**
Interest received	£1.7m	£2.5m	£0.7m
Interest paid	-£4.9m	-£3.0m	-£10.7m
PBT	**£28.3m**	**£18.6m**	**£12.9m**
Tax	-£6.7m	-£5.8m	-£4.2m
PAT	**£21.6m**	**£12.8m**	**£8.6m**
Dividends			-£2.7m
RETAINED PROFIT	**£21.6m**	**£12.8m**	**£6.0m**

The MBO team will see a rich reward for their investment but Causley says he is not selling any shares. Every other MDIS staff member will be given £200 shares and special terms in the float. Application forms appear in the press on 9th Mar and dealings commence on 24th Mar. (Baring Bros. Tel: 071 280 1000 or prospectus registration line Tel: 0345 888 555)

To come in April...Oxford Molecular

Oxford Molecular specialises in software for drugs design. Founded in 1989, it had revenues of just £1.5m in the year to 31st Dec. 93. In 1992 they made a loss of £990K. It plans to use the proceeds of the float for European and US expansion. A float in March would capitalise the company at £30m. (Henry Cooke Lumsden Tel: 061 834 2332).

Not to come just yet...Kapiti

There were several reports this month that banking software specialist **Kapiti** was to float soon. MD Dick Willott told us that, of course, they were evaluating such a move in the future but other than that the only correct fact in the articles was the company name! Certainly the stated £30m price tag for a company like Kapiti, which we suspect will report PBT of around £3.5m on revenues of £30m in 1993, looked far too cheap.

Kapiti is a sound company which would make an excellent float at the right time - assuming it is not acquired first.

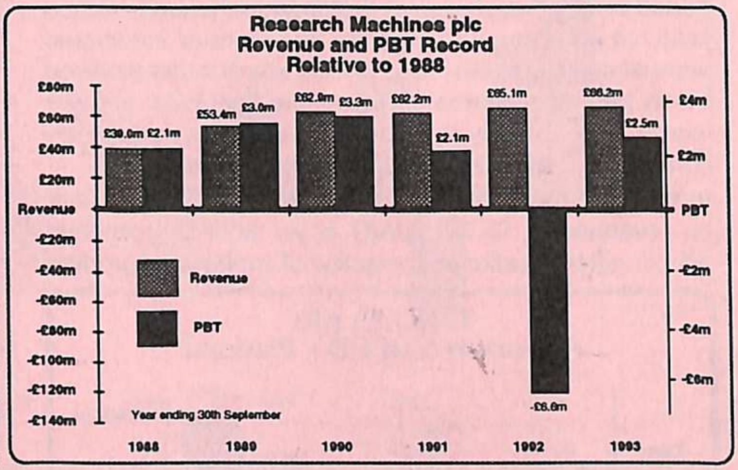
Major recovery at Research Machines

*"We think that the educational market will prove to be increasingly tough for **Research Machines** but their move to networking and service oriented activities could compensate for lower hardware margins".* Source - System House Feb. 92. We wrote this two years ago when reviewing RM's £2.1m PBT in 1992. RM then slumped to one of 1993's biggest recorded losses - £6.6m.

Although we get no satisfaction for being proved right, we are delighted that RM's move to software and services has seen major recovery to PBT of £2.53m on largely static revenues of £66.2m in the year ending 30th Sept. 93.

RM reduced operating costs by £3.8m last year by cutting over 120 jobs. When we met Chairman Mike Fischer two years ago he was coming to terms with the fact that his beloved hardware was just another commodity component in the system. That was particularly difficult for a company founded on hardware which at the time had grown to be the largest UK-owned PC manufacturer. Now RM's hardware is bought in as component parts and assembled to meet requirements. The value of RM is in its software and services offerings, where it is the market leader in the educational market. Their RM NET LM network (based on Microsoft OS/2 LAN Manager) *"is proving extremely successful and has been installed in over 15% of UK secondary schools in its first year".* In addition significant growth has been achieved in their education specific software offerings. RM will not disclose the exact breakdown of revenues or profits but we suspect that about half the revenues and practically all the profits now come from software and services. In two years time, hardware will be insignificant.

RM has also been successful in generating cash with



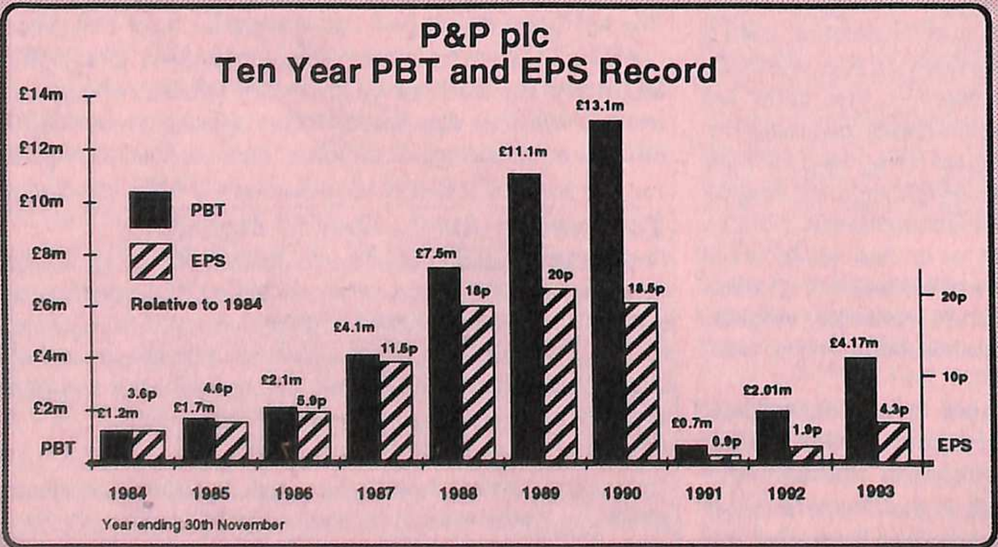
balances up from £1.2m to £6.6m at the year end.

As to the future, RM had to pull their planned flotation back in 1991. Investors like Abingworth (15%), Citicorp (15%) and 3i (6%) will clearly want to see a realisation of their investment sooner rather than later. We would think that early 1995 would be the right target, assuming the current window of opportunity stays wide open.

Recovery continues at P&P

In the year to 30th Nov. 93, **P&P** doubled PBT to £4.1m on revenues down 2.4% at £217.3m. EPS increased from 1.9p (or minus 14.0p based on FRS3 rules) to 4.3p. Net cash increased from £3m to £7.5m. The results were exactly in line with expectations.

In the year, P&P has disposed of its UK *"high volume, low margin product distribution business"* to Merisel (UK) for an estimated £540K cash and its similar Belgium operation to Ingram Micro. These *"discontinued operations"* contributed revenues of £32.6m and operating profit of £174K in 1993. The £4.6m exceptional costs associated with closing this activity had been fully provided for last year. The *"continuing operations"* made operating profits of £4.36m on revenues up an impressive 16% at £184.6m. P&P has made great strides in its move to value added products & services and its concentration on the higher margin specialist distribution businesses of Principal (Apple third party product distribution) and Power Systems (UNIX workstations). These two businesses increased revenues by 37% to £35m. European activities, in particular the Nordic Datadistribution operation, increased revenues by 27% to £29.5m.



Services have, however, proved to be a *"difficult area".* But readers will know of our support for P&P's foray into "PC FM" where the deal with ICI is a good example. John Smitham has recently been appointed from Granada to take charge of P&P's FM and networking activities. Group MD, David Southworth, talks of the *"many, many opportunities"* in this market but raises concern that competition is pushing prices down to a *"ridiculous"* level. Partnerships are seen as one route forward and further significant PC FM deals are in the pipeline.

Southworth was *"very pleased"* with the results which *"reflect the substantial progress we have made during the year against the background of a difficult market and the refocusing of our activities".* Analysts are forecasting PBT of £5.2m in the current year.

P&P is still a long way from the £12.1m PBT made in 1990 before recession and cut throat competition hit hardware distribution. P&P shares hit a high of 220p in that year before slumping to 26p in 1992. Since then P&P has been amongst the best recovery stocks - closing Feb. on 77p.

ACT Group plc	Results	Interim - Sep 92	Final - Mar 93	Interim - Sep 93	Interim Comparison
	Revenue	£ 72,120,000	£ 152,926,000	£ 107,595,000	+49.2%
	PBT	£ 9,543,000	£ 20,478,000	£ 11,531,000	+20.8%
	EPS	5.01	10.63p	5.24p	+4.6%
Admiral plc	Results	Interim - Jun 92	Final - Dec 92	Interim - Jun 93	Interim Comparison
	Revenue	£ 13,656,000	£ 30,870,000	£ 17,710,000	+29.7%
	PBT	£ 1,960,000	£ 3,986,000	£ 2,185,000	+11.5%
	EPS	11.6p	24.2p	13.3p	+14.7%
Azlan plc	Results	Final - Mar 92		Final - Mar 93	Final Comparison
	Revenue	£ 29,283,000		£ 41,196,000	+40.6%
	PBT	£ 2,062,000		£ 2,954,000	+43.2%
	EPS	5.4p		8.4p	+55.6%
Capita Group plc	Results	Interim - Jun 92	Final - Dec 92	Interim - Jun 93	Interim Comparison
	Revenue	£ 13,732,000	£ 33,098,452	£ 22,102,000	+61.0%
	PBT	£ 1,769,000	£ 4,406,012	£ 2,038,000	+15.2%
	EPS	2.53p	6.43p(Restated)	2.86p	+13.0%
Centregold plc	Results	Final - Jul 92		Final - Jul 93	Final Comparison
	Revenue	£ 55,100,000		£ 68,000,000	+23%
	PBT	£ 1,700,000		£ 2,720,000	+60%
	EPS	n/a		5.53p	n/a
Clinical Computing plc	Results	Final - Dec 92 (17 mos)		Final - Dec 93	Final Comparison
	Revenue	£ 2,014,137		£ 2,635,853	Not comparable
	PBT	(£ 549,038)		£ 1,163,951	Loss to profit
	EPS	(£8.81)		£26.07	Loss to profit
Coda Group plc	Results	Final - Oct 92		Final - Oct 93	Final Comparison
	Revenue	£ 17,934,000		£ 23,450,000	+30.8%
	PBT	£ 3,248,000		£ 3,752,000	+15.5%
	EPS	n/a		9.6p	n/a
Comac Group plc	Results	Interim - Jun 92	Final - Dec 92	Interim - Jun 93	Interim Comparison
	Revenue	£ 4,900,000	£ 11,118,158	£ 5,300,000	+8.2%
	PBT	£ 43,727	£ 394,723	£ 59,950	+37.1%
	EPS	0.44p	3.94p	0.65p	+47.7%
Computerised Financial Solutions plc	Results	Interim - Jun 92	Final - Dec 92	Interim - Jun 93	Interim Comparison
	Revenue	n/a	£ 3,225,000	£ 1,638,000	n/a
	PBT	n/a	£ 37,000	£ 77,000	n/a
	EPS	n/a	n/a	n/a	n/a
Computer People Group plc	Results	Interim - Jun 92	Final - Dec 92	Interim -Jun 93	Interim Comparison
	Revenue	£ 29,895,000	£ 62,735,000	£ 33,542,000	+12.2%
	PBT	(£ 135,000)	£ 145,000	£ 364,000	Loss to profit
	EPS	(0.73p)	(0.97p)	1.45p	Loss to profit
Cray Electronics Holding plc	Results	Interim - Oct 92	Final - Apl 93	Interim - Oct 93	Interim Comparison
	Revenue	£ 81,862,000	£ 200,785,000	£ 114,308,000	+39.6%
	PBT	£ 17,833,000	£ 29,014,000	£ 7,804,000	-56.2%
	EPS	10.33p	13.8p	2.399	-131.4%
Division Group plc	Results	Final - Oct 92		Final - Oct 93	Interim Comparison
	Revenue	£ 1,081,913		£ 2,078,000	+92.1%
	PBT	(£ 107,783)		(£ 503,000)	Loss both
	EPS	(1.0p)		(2.1p)	Loss both
Electronic Data Processing plc	Results	Final - Sep 92		Final - Sep 93	Final Comparison
	Revenue	£ 15,455,000		£ 14,341,000	-7.2%
	PBT	£ 4,877,000		£ 4,672,000	-4.2%
	EPS	38.4p		35.14p	-8.5%
Enterprise Computer Holdings plc	Results	Interim - Sep 92	Final - Mar 93 (restated)	Interim - Sep 93	Interim Comparison
	Revenue	£ 35,524,000	£ 58,231,000	£ 9,895,000	-72.1%
	PBT	(£ 3,392,000)	(£ 6,143,000)	£ 25,000	Loss to Profit
	EPS	(4.3p)	(7.7p)	(0.02p)	Loss both
Gresham Telecomputing plc	Results	Final - Oct 92		Final - Oct 93	Final Comparison
	Revenue	£ 7,250,000		£ 5,823,000	-19.7%
	PBT	£ 767,000		£ 551,000	-28.2%
	EPS	1.94p		1.04p	-46.4%
INSTEM plc	Results	Interim - Jun 92	Final - Dec 92	Interim - Jun 93	Interim Comparison
	Revenue	£ 7,062,000	£ 14,272,000	£ 9,505,000	+34.6%
	PBT	£ 551,000	£ 575,000	£ 410,000	-25.6%
	EPS	7.96p	8.5p	6.01p	-24.5%
Kalamazoo Computer Group plc	Results	Interim - Sep 92 (Restated)	Final - Mar 93 (Restated)	Interim - Sep 93	Interim Comparison
	Revenue	£ 27,576,000	£ 56,508,000	£ 29,562,000	+7.2%
	PBT	(£ 936,000)	£ 940,000	£ 2,533,000	Loss to Profit
	EPS	Nil	Nil	4.2p	Loss to Profit
Kewill Systems plc	Results	Interim - Sep 92 (Restated)	Final - Mar 93 (Restated)	Interim - Sep 93	Interim Comparison
	Revenue	£ 15,418,000	£ 33,341,00	£ 15,999,000	+3.8%
	PBT	(£ 172,000)	(£5,192,000)	£ 1,757,000	Loss to Profit
	EPS	(3.58p)	(0.60p)	10.15p	Loss to Profit
Kode International plc	Results	Interim - Jun 92	Final - Dec 92	Interim - Jun 93	Interim Comparison
	Revenue	£ 9,637,000	£ 20,915,000	£ 12,277,000	+27.4%
	PBT	£ 330,000	£ 1,031,000	£ 710,000	+115.2%
	EPS	2.5p	8.6p	4.3p	+72.0%
Learmonth & Burchett Management Systems plc	Results	Interim - Oct 92	Final - Apl 93	Interim - Oct 93	Interim Comparison
	Revenue	£ 10,713,000	£ 23,645,000	£ 13,114,000	+22.4%
	PBT	£ 753,000	£ 1,610,000	£ 201,000	-73.3%
	EPS	3.1p	7.0p	1.0p	-67.7%
Logica plc	Results	Final - Jun 92		Final - Jun 93	Final Comparison
	Revenue	£ 200,383,000		£ 217,434,000	+8.5%
	PBT	£ 7,062,000		£ 9,026,000	+27.8%
	EPS	7.0p		8.7p	+24.3%
MR-Data Management Group plc	Results	Final - Jun 92		Final - Jun 93	Final Comparision
	Revenue	£ 33,711,000		£ 40,768,000	+21.0%
	PBT	£ 8,227,000		£ 8,759,000	+6.4%
	EPS	10.6p		10.6p	+0%
Macro 4 plc	Results	Interim - Dec 92	Final - Jun 93	Interim - Dec 93	Interim Comparison
	Revenue	£ 11,213,000	£ 23,256,000	£ 12,104,000	+7.9%
	PBT	£ 4,935,000	£ 10,497,000	£ 5,400,000	+9.4%
	EPS	14.8p	31.5p	16.0p	+9.8%
Micro Focus plc	Results	Interim - Jul 92 (restated)	Final - Jan 93 (restated)	Interim - Jul 93	Interim Comparision
	Revenue	£ 30,644,000	£ 68,882,000	£ 40,800,000	+33.1%
	PBT	£ 9,628,000	£ 22,777,000	£ 11,554,000	+20.0%
	EPS	44.5p	106.6p	53.5p	+20.2%

Microgen Holdings plc	Results	Final - Oct 92		Final - Oct 93	Final Comparison
	Revenue	£ 49,316,000		£ 53,351,000	+8.2%
	PBT	£ 8,243,000		£ 6,700,000	-18.7%
	EPS	13.8p		10.5p	-23.9%
Microvitec plc	Results	Interim - Jun 92	Final - Dec 92	Interim - Jun 93	Interim Comparison
	Revenue	£ 25,533,000	£ 49,888,000	£ 17,959,000	-30.0%
	PBT	£ 62,000	(£ 2,137,000)	£ 570,000	+819%
	EPS	0.1p	(3.4p)	0.8p	+700%
Misys plc	Results	Interim - Nov 92	Final - May 93	Interim - Nov 93	Interim Comparison
	Revenue	£ 41,147,000	£ 88,761,000	£ 42,086,000	+2.3%
	PBT	£ 6,757,000	£ 15,125,000	£ 8,012,000	+18.6%
	EPS	11.9p	27.4p	14.3p	+20.2%
MMT Computing plc	Results	Final - Aug 92		Final - Aug 93	Final Comparision
	Revenue	£ 6,215,475		£ 7,057,716	+13.5%
	PBT	£ 1,504,040		£ 1,725,549	+14.7%
	EPS	7.9p		9.0p	+13.9%
On Demand Information plc	Results	Final - Jul 92		Final - Jul 93	Final Comparision
	Revenue	£ 21,949,000		£ 18,989,000	-13.5%
	PBT	(£ 726,000)		(£ 1,450,000)	Loss both
	EPS	n/a		n/a	Loss both
P & P plc	Results	Final - Nov 92		Final - Nov 93	Final Comparision
	Revenue	£ 222,752,000		£ 217,259,000	-2.47%
	PBT	(£ 7,872,000)		£ 4,107,000	Loss to profit
	EPS	(14.0p)		4.3p	Loss to profit
Pegasus Group plc	Results	Interim - Jul 92	Final - Dec 92	Interim - Jun 93	Interim Comparison (Note yr end)
	Revenue	£ 4,193,000	£ 10,269,000	£ 5,300,000	+26.4%
	PBT	£ 335,000	£ 620,000	£ 1,017,000	+203.6%
	EPS	3.7p	7.3p	9.1p	+145.9%
Phonelink plc	Results	Interim - Sep 92	Final - Mar 93	Interim - Sep 93	Interim Comparison
	Revenue	£ 327,000	£ 922,557	£ 586,000	+79.2%
	PBT	(£ 2,000)	£ 30,905	(£ 301,000)	Loss both
	EPS	n/a	0.1p	(0.8p)	Loss both
Proteus International plc	Results	Interim - Sep 92	Final - Mar 93	Interim - Sep 93	Interim Comparison
	Revenue	Nil	£ 21,000	Nil	Both nil
	PBT	(£ 1,516,000)	(£ 3,547,000)	(£ 2,733,000)	Loss both
	EPS	(4.73p)	(13.52p)	(10.08p)	Loss both
Quality Software Prod. Holdings plc	Results	Interim - Jun 92	Final - Dec 92	Interim - Jun 93	Interim Comparison
	Revenue	£ 6,000,000	£ 13,118,000	£ 6,600,000	+10.0%
	PBT	£ 227,000	£ 1,201,000	£ 143,000	-37.0%
	EPS	3.9p	16.2p	2.1p	-46.2%
Radius plc	Results	Interim - May 92	Final - Nov 92	Interim - May 93	Interim Comparison
	Revenue	£ 11,988,000	£ 24,012,000	£ 10,723,000	-10.6%
	PBT	£ 525,000	£ 1,231,000	(£ 466,000)	Profit to Loss
	EPS	1.0p	2.9p	(1.3p)	Profit to Loss
Real Time Control plc	Results	Interim - Sep 92	Final - Mar 93	Interim - Sep 93	Interim Comparison
	Revenue	£ 3,134,000	£ 6,114,000	£ 3,579,000	+14.2%
	PBT	£ 258,000	£ 492,000	£ 424,000	+64.3%
	EPS	2.5p	4.9p	4.1p	+64%
Rolfe & Nolan plc	Results	Interim - Aug 92	Final - Feb 93	Interim - Aug 93	Interim Comparison
	Revenue	£ 5,307,000	£ 11,232,000	£ 6,055,000	+14.1%
	PBT	£ 707,000	£ 1,216,000	£ 609,000	-13.9%
	EPS	8.9p	17.7p	6.1p	-31.5%
Sage Group plc	Results	Final - Sep 92		Final - Sep 93	Final Comparison
	Revenue	£ 27,274,000		£ 41,289,000	+51.4%
	PBT	£ 8,853,000		£ 9,656,000	+9.1%
	EPS	30.9p		32.5p	+5.2%
Sanderson Electronics plc	Results	Final - Sep 92		Final - Sep 93	Final Comparison
	Revenue	£ 21,398,000		£ 23,581,000	+10.2%
	PBT	£ 2,805,000		£ 3,327,000	+18.6%
	EPS	24.0p		25.4p	+5.8%
Sema Group plc	Results	Interim - Jun 92	Final - Dec 92	Interim - Jun 93	Interim Comparison
	Revenue	£ 195,393,000	£ 416,675,000	£ 232,948,000	+19.2%
	PBT	£ 28,534,000	£ 19,458,000	£ 15,213,000	-46.7%
	EPS	5.3p (Adjusted)	13.22p	7.05p (Adjusted)	+33.0%
Sherwood Computer Services plc	Results	Interim - Jun 92	Final - Dec 92	Interim - Jun 93	Interim Comparison
	Revenue	£ 10,710,000	£ 21,103,000	£ 11,837,000	+10.5%
	PBT	£ 1,748,000	£ 3,004,000	£ 541,000	-69.1%
	EPS	16.7p	27.5p	3.4p	-79.6%
Standard Platforms plc	Results	Final - Mar 92		Final - Mar 93	Final Comparison
	Revenue	£ 1,606,610		£ 2,700,000	+66.8%
	PBT	(£ 847,471)		(£ 405,368)	Loss Both
	EPS	n/a		n/a	n/a
Total Systems plc	Results	Interim - Sep 92	Final - Mar 93	Interim - Sep 93	Interim Comparision
	Revenue	£ 1,361,536	£ 2,869,359	£ 1,079,044	-20.7%
	PBT	£ 424,536	£ 832,906	£ 12,330	-97.1%
	EPS	2.85p	6.08p	0.078p	-97.3%
Trace Computers plc	Results	Final - May 92		Final - May 93	Final Comparison
	Revenue	£ 19,311,869		£ 18,042,438	-6.6%
	PBT	£ 502,212		£ 211,504	-58.0%
	EPS	2.87p		1.12p	-61.0%
Vega Group plc	Results	Interim - Oct 92	Final - Apl 93	Interim - Oct 93	Interim Comparison
	Revenue	£ 3,623,000	£ 8,089,000	£ 4,517,000	+24.7%
	PBT	£ 404,000	£ 1,705,000	£ 757,000	+87.4%
	EPS	1.34p	7.99p	3.54p	+164.2%
Virtuality Group plc	Results	Final - Dec 91	Interim - Jun 93	Final - Dec 92	Final Comparison
	Revenue	£ 1,753,000	£ 2,444,000	£ 5,245,000	+199.2%
	PBT	(£ 597,000)	£ 65,000	£ 217,000	Loss to profit
	EPS	(2.9p)	0.3p	1.1p	Loss to profit
Vistec Group plc	Results	Interim - Oct 92	Final - Apl 93 (Restated)	Interim - Oct 93	Interim Comparison
	Revenue	£ 18,703,000	£ 38,665,000	£ 17,630,000	-5.7%
	PBT	£ 1,305,000	£ 3,282,000	£ 1,126,000	-13.7%
	EPS	0.73p	1.88p	0.62p	-15.1%
Wakebourne plc	Results	Interim - Jun 92	Final - Dec 92 (Restated)	Interim - Jun 93	Interim Comparison
	Revenue	£ 9,552,000	£ 24,171,000	£ 12,004,000	+23.4%
	PBT	£ 325,000	£ 453,000	(£ 18,944,000)	Profit to Loss
	EPS	0.21p	0.13p	(4.3p)	Profit to Loss

Acquisitions, disposals and liquidations

Sage moves "cautiously" into Spain

Accounting software supplier, **Sage Group**, had acquired a 20% stake in Madrid-based **Extra Software** for £188K in cash, with the option to acquire a further 70% for a maximum of £3.8m. Extra, like Sage, concentrates on accounting software products for small to medium sized businesses. Extra is quite small with revenues to 31st Dec. 93 of just £500K and profits of £50K. **Regent Associates** acted for Sage.

Centre-file buys Percom

Centre-file has acquired **Percom Ltd.**, which specialises in human resource systems. Percom had revenues of £2.23m and PBT of £63K in the year to 31st Dec. 92 - losses had been made in the previous three years. Capitalised R&D exceeded net assets.

Percom claims *"over 650 clients, over 1,000 systems installed and employs 29 staff"*. The deal *"makes Centre-file the UK's leading supplier of HR systems"* which fits rather well with their payroll activities.

Winter Partners sells IBS

Banking software operation, **Winter Partners**, has sold its **International Banking Systems** division to US **Management Technologies**. MTI is said to have paid *"between £10 - £20m in cash and shares"*. Winter Partners is Swiss owned but headquartered in the UK.

Admiral strengthens training activities

By the time you read this article **Admiral**'s results for 1993, due on the day after we go to press on 1st March, will have been announced. We are confident that they will be as "boringly" good as in every previous year.

To date practically all of Admiral's growth has been organic supplemented by a number of small purchases like Intra Systems, Mentor Interactive, CBC - all in the training arena. In Nov. 93, Admiral announced that it had won a training "FM" deal with Barclay's worth around £2m pa. This month Admiral has bought **The Training Centre Ltd.**, for £1.25m. TCL had revenues of £1.1m and PBT of £311K in the year to 30th April 93. Revenues of just £535K and PBT of just £38K had been reported in 1992. Although it is their largest acquisition ever, it is still less than 2.5% of their £53m capitalisation and therefore fits well within our guidelines for successful acquisitions in the sector. Clay Brendish will not be able to rid Admiral of our coveted "boring" description by undertaking acquisitions this safe! Something far more risky will be required.

With Barclays and The Training Centre, **Admiral Training Centres** now has over 50 full time staff with facilities for delivering courses at ten sites throughout the UK.

Flotation problems for Westcoast

HP distributor **Westcoast (Holdings) plc** is said to be trying to join the increasing band of companies seeking a flotation. With revenues of £46.2m and PBT of £1.3m to 31st Dec 92, they would fit the bill well. However, there is a fly in the ointment. Westcoast shares several directors with Actionbyte which went into liquidation in 1992. Thames Valley Fraud Squad is investigating their collapse and the liquidator, Touche Ross, has instigated proceedings against Westcoast *"in respect of claims for preference"*. Source - Microscope 2nd Feb. 94. Sponsors prefer companies to be squeaky clean.

The others.... **MR Data Management** has bought **PCL**'s Maidenhead-based laser printing bureau, known as **The Lasershop**, for an initial £672K with a deferred payment of up to £904K due after a year. CAD reseller **KGB Micros** has been purchased by US **Network Imaging Corp (NIC)** for 45,000 NIC shares worth about £500K. This provides NIC with a UK distribution base for its Image Xchange EDM software. **Micro Focus** has acquired the expert consulting division of **The Systems Group Inc.** of the US, thus adding 15 staff. **MAID** has bought **OMT Network Ltd**. Consideration was "0.40%" of the issued share capital on MAID's float in March (see p3). **Metrologie UK** plans to spin off its £9m dealer operation in preparation for a sell off before the end of 1994. **Hogg Robinson Systems** has sold its Pegasus service activities to **Microsystems** for *"a five figure sum"*. **Quality Software (QSP)** has taken a 5% stake in US **Global Software** who will distribute their OLAS accounting product in the US. **Enterprise Computer** has put its *"£120K a month loss-making"* German subsidiary into liquidation. **Vistec** has acquired network design and support company, **Data Logic Communications**, for £2.5m. DLCS lost £1.1m on revenues of £6.8m in 1993. **Wakebourne** (nee **Maddox**) has paid *"a nominal sum"* to the receivers for **Source Two Ltd**. Source Two is a SUN VAR and supplier of AutoCAD systems with revenues of c£3m in 93.

Sherwood Computer Services has sold its investment management and service unit for £110K to **DST Clarke & Tilley.** In June 1993, Sherwood was rumoured as the bidder for C&T before DST announced that it had secured the deal. At the time $270m revenue US DST declared its aim of gaining a strategic position in the UK financial asset management software market. Sherwood said that, after two profit warnings and a difficult end to 1993, it would now focus on its traditional markets.

ICL - new shops, new names

ICL is to open a chain of least 20 computer superstores under the **Icon** name through its **Technology plc** subsidiary in conjunction with **Norweb**. ICL said it expects sales of around £1.5m per store.

On the other hand, **Pentos**, via its **Ryman** subsidiary, has not fared well with PC retailing. This month it sold its 53 computer stores to **Cellular Communications Corp plc** for the stately sum of £100K resulting in an exceptional loss of £3.9m.

ICL has set up an "autonomous" local government software house to be called **Logicl**. ICL's software and professional services division is now to be called **Power of 4**. It has 360 consultants and earned revenues of £25m in 1993 said to be *"up 80% on 1992"*.

Tales of death exaggerated

Accounting software supplier **Multisoft** has announced PBT of £196K on revenues of £2.1m for the six months to 31st Dec. 93. Net assets of £1m included £252K cash. Last year they lost £86K on revenues of £4.48m. Rumours of everything from the receivers to a trade sale have abounded recently. Clearly this unexpected announcement of interim results for a private company is aimed at laying the rumours to rest.

PS. We were surprised to read of Multisofft's *(sic)* Stock Exchange flotation this month - only to learn after applying for the prospectus that this Multisofft manufactures loo rolls under the Cotton Tail brand name. Further comment would not befit us.

Looking for a new partner?

Cisi is currently owned 64% by **CEA-Industrie** and 34% by **CGS**. Latest results for 1993 show a breakeven on revenues of about £170m. Apparently Cisi is looking for a new partner to reduce CEA's shareholding to 30% (Source - Computergram quoting from La Tribune-Defosses). However, few companies would be interested in a minority stake so a complete sale still looks a possibility.

In turn...Cisi owns a 50% stake in FM supplier **Athesa** with **BULL**. Athesa International, which will spearhead BULL's move into FM in the UK is, however, wholly owned by BULL. The Athesa operation expects FM revenues of over $350m within two years.

In turn...this month **BULL** has announced an horrendous operating loss of FFr3.4 billion. The EC is also making noises about the FFr2.5 billion further cash injection from the French Government. But as BULL is French, such complaints will probably be ignored. BULL is looking at inviting further outside equity of around 20%. **NEC** already has a 4.4% stake and we would tip them as the most likely to increase their stake - or perhaps even to bid outright.

In turn...**Daimler Benz** has to decide soon whether to exercise its option to buy a controlling stake in CGS - they already own 34%. But with CGS and Daimler Benz both facing serious problems, the spectre of takeover looms. The candidate? **BT, AT&T, EDS** or even **IBM** might be worth considering.

What interesting times we live in, to be sure! To suggest that the two mainstays of the French and European IT industry might move out of French control would have resulted in a short walk to the guillotine just a few years ago. Now? The situation has reached the point where such foreign suitors might well be welcomed as white knights.

Cygnus Computer Group breaking up?

We have just obtained a copy of the first Report and Accounts for **Cygnus Computer Group**. They do not make happy reading.

Cygnus was a new group which started trading in Dec. 91 when it acquired Simon Gurney's **Vega Group** (no connection with John Rigg's Vega) which consisted of **BEC Group** (manufacturing software products based on RS6000), **MFT** (ICL UNIX VAR) and **Computercare** (UNIX support services). Troubled BEC had reported a loss of £841K on revenues of £4.9m in their last year of independence to 31st Mar 91. In April 1993, Cygnus acquired **Seachange** (4GL development tools).

Cygnus accounts for the 16 months to 31st Mar 93 and lodged at Companies House in Jan. 94, show revenues of £12.4m but a loss before tax of £2.9m and negative net current assets of £2.3m. The accounts were qualified and Cygnus was only passed as an *"on-going concern"* because *"the group's major shareholder"* (Cygnus Ventures in various guises) stated that it *"had no intention of withdrawing support within 15 months from Sept. 93"*.

However, several of Cygnus' wholly owned subsidiaries seem to have recovered well. BEC made PBT of £260K on revenues of £5.1m and MFT PBT of £89K on revenues of £2.4m. in the year to 31st Mar 93.

It now seems that MFT Computer Systems is in the last stages of effecting an MBO although the deal had not been finalised as we went to press. Seachange is also understood to be in the course of being sold. Judging from Cygnus results, they clearly need the funds.

Brook Street fiasco for IMI

Back in Nov. 90, IMI bought **Brook Street Computers**, which had developed a UNIX-based accounting suite called UNITY. It was unique in selling the source code to dealers, for a high initial price, allowing them to sell on to their customers. Although no consideration was disclosed we wrote at the time of *"an initial substantial cash element with an earnout which could net the shareholders over £5m"*. Source - System House Dec. 90. That was high but not totally out of court for a company which had reported PBT of £590K on revenues of just £2.3m in the year to 31st Mar 90 with *"revenues exceeding £3m"* forecast for 1991.

But the deal, like so many in the sector, turned into a disaster for IMI caused by increasing customer problems. It looks as if revenues had been recognised before prudent to do so. Losses in the 9 months to 31st Dec. 92 amounted to £892K. But this pales into insignificance compared to the money IMI has had to pour in over the years to sort out the problems and compensate customers.

This month, IMI has rid itself of the bad dream by selling 75% of Brook Street to **Sanderson Electronics** for shares worth £544K, giving IMI around 2% of Sanderson. The remaining 25% was sold to the newly installed IMI managers, who had the hard task of sorting out the problems, for £75K (with two months to pay). I.e. a total of just £619K.

If the problems with the product really are substantially over, the deal looks excellent. If they are not... several other companies looked at Brook Street and almost all of them were very concerned about the status of the product. But the "new" Brook Street managers deserve to get some future reward for their efforts.

Regent Associates acted for IMI in the disposal.

SNI UK moves further into services

Further to our report last month, **Siemens Nixdorf Information Systems** has now announced UK revenues up 14% to £143.7m and net profits of £209K in the year to 30th Sept. 93. Although a fair proportion of this must be hardware oriented, SNI is *"currently discussing external partnerships in the area of facilities management and other services seeing its strength of appeal to partners being in the mid range systems, PCs and networking"*. Source - Computergram 10th Feb. 94.

"Best of the Privates" bounces back

You may remember that **Information Processing Ltd. (IPL)** made it to our Top Five best performing private SCSI companies for its performance in both 1990 and 1991. Unfortunately, PBT dropped a massive 74% from £1.95m to £499K in 1992 due to competitive pressures caused by an *"increasing number of available staff competing for a decreasing number of contracts"*.

However, latest results show IPL is back to its normal exemplary performance. PBT recovered to £1.87m on revenues up 8.4% at £8.86m. This 21% profit margin is about the highest for a company earning revenue solely from fees. Net assets increased from £3.9m to £5.2m.

IPL is now one of the very few companies to win one of *System House's* "Best of the Privates" awards that has not succumbed to a takeover bid...*so far anyway!*

IPL was a Logica "spin out" formed in the late 1970s. This month it was announced that MD and latterly Deputy Chairman, **David Mann**, is leaving **Logica** on 31st Mar. 94 after 25 years. David has no specific plans for the future, but at only 49 he is hardly likely to retire.

New issues support CSI Index

The FTSE100 suffered one of its worst monthly falls for two years - down nearly 5%. Our CSI Index, however, fell just 0.5%. It would have been worse but for the sparkling performances of three new issues. Indeed, **CFS** led the ranks with a 39% rise. At one point the shares had hit 173p, before falling back dramatically in the last few days to end on 125p. **Wakebourne** rose a further 33% - that makes a massive 167% gain in the first two months of 1994 since the rights issue rescue and the new management.

At the other end of the scale **Enterprise** fell 29%. Investors have obvious suspicion of companies that put their subsidiaries into liquidation (see p7). **Proteus** fell 24%, knocking £28m from their capitalisation, after their brokers, UBS, resigned accusing Proteus of being *"too optimistic about the time required to complete clinical trials and obtain regulatory approval"*. **Sherwood** has already issued two profits warnings in the last few months - their shares fell 21% this month. **Total** fell 19% and is now capitalised at under £2m - well under half the value last June when we wrote our highly critical review which so upset Chairman Terry Bourne. You may remember his riposte then that *"History will make the point"*...indeed it has. **Gresham Telecomputing** fell another 13% to 84p - well under half their 186p 1993 high - as the new management gets to grips with reality.

Rumours have grown throughout this month that **Cray Electronics** is to *"launch a £700m bid for Racal"*. The coupling has been described as *"a perfect fit"*. Perhaps as a sign of *"City approval"*, Cray's share price was unaltered this month.

25-Feb-94	**CSI Index**	**1751.34**
	FTSE 100	3281.20
CSI Index = 1000 on 15th April 1989	FTSE SmallCap	2018.85

Changes in Indices	**CSI Index**	**FTSE 100**	**FTSE Small Cap**
Month (31/1/94 - 25/2/94)	-0.46%	-4.82%	+1.05%
From 15th Apr 89	+75.13%	+59.78%	
From 1st Jan 90	+90.34%	+38.92%	
From 1st Jan 91	+147.41%	+51.88%	
From 1st Jan 92	+67.61%	+31.61%	
From 1st Jan 93	+9.90%	+15.27%	+45.52%
From 1st Jan 94	+4.90%	-4.01%	+8.04%

System House CSI Share Prices and Capitalisation

	Share Price 25/2/1994 (£p)	Capitalisation 25/2/1994 (£m)	Historic P/E	Ratio Cap./Rev.	CSI Index 25/2/94	Share price % move since 31/1/94	Share price % move in 1994	Capitalisation move (£m) since 31/1/94	Capitalisation move (£m) in 1994
ACT	£1.80	£333.70m	18.1	2.18	2857.14	3.45%	25.87%	£11.10m	£70.00m
Admiral	£4.93	£53.20m	20.9	1.72	3572.46	1.02%	1.65%	£0.50m	£0.80m
Azlan	£2.65	£57.90m	31.5	1.41	1152.17	-1.49%	0.00%	-£ 0.90m	£0.00m
Capita	£2.15	£101.90m	33.6	3.08	6456.46	2.87%	-9.66%	£2.80m	-£ 10.90m
Centregold	£1.38	£55.50m	24.4	0.82	1104.00	-3.50%	-14.81%	-£ 2.00m	-£ 9.70m
Clinical Computing	£1.53	£24.80m	24.4	9.43	1233.87	23.39%	23.39%	£4.70m	£4.70m
CODA	£2.57	£67.40m	26.8	2.87	1093.62	9.36%	9.36%	£5.70m	£5.70m
Comac Group	£1.05	£38.40m	27.4	3.45	5833.31	-7.08%	-4.55%	-£ 2.90m	-£ 1.80m
Computerised Financial	£1.25	£5.88m	19.5	1.83	1388.89	38.89%	38.89%	£1.65m	£1.65m
Computer People	£1.40	£19.40m	Loss	0.31	576.13	2.94%	29.63%	£0.50m	£4.40m
Cray Electronics	£1.90	£417.60m	18.4	2.08	1108.19	0.26%	17.70%	£1.10m	£62.80m
Division Group	£1.12	£37.80m	Loss	18.17	2800.00	23.08%	38.27%	£7.10m	£10.40m
Electronic Data Processing	£5.85	£50.90m	16.5	3.55	5969.39	0.34%	-1.35%	£0.20m	-£ 0.70m
Enterprise	£0.23	£17.70m	Loss	0.30	184.00	-29.23%	-26.98%	-£ 8.80m	-£ 8.00m
Gresham Telecomputing	£0.84	£27.40m	n/a	4.71	903.23	-13.40%	-24.32%	-£ 4.10m	-£ 8.10m
INSTEM	£1.40	£6.35m	10.1	0.44	1400.00	3.70%	3.70%	-£ 0.11m	-£ 0.11m
Kalamazoo	£1.27	£48.30m	29.5	0.85	3628.57	6.72%	27.00%	£3.00m	£10.20m
Kewill	£2.70	£32.70m	Loss	0.98	1067.19	6.30%	21.62%	£2.40m	£6.20m
Kode International	£1.43	£13.30m	17.0	0.64	665.12	0.00%	-10.63%	£0.00m	-£ 1.60m
Learmonth & Burchett	£1.41	£25.30m	19.9	1.07	1175.00	-2.08%	-2.76%	-£ 0.50m	-£ 0.70m
Logica	£3.05	£187.60m	35.2	0.86	835.62	2.69%	11.72%	£4.90m	£19.70m
Macro 4	£6.65	£151.20m	19.7	6.50	2681.45	-7.38%	-1.92%	-£ 11.90m	-£ 2.80m
Micro Focus	£9.83	£139.60m	9.1	2.03	4748.79	-4.10%	-1.70%	-£ 6.00m	-£ 2.40m
Microgen	£1.63	£64.20m	n/a	1.20	696.58	-6.32%	10.14%	-£ 4.40m	£5.90m
Microvitec	£0.35	£22.30m	Loss	0.45	853.66	-4.11%	7.69%	-£ 1.60m	£1.10m
Misys	£5.48	£212.60m	20.0	2.40	1363.18	2.05%	8.51%	£4.20m	£16.70m
MMT	£1.61	£18.10m	21.9	2.56	958.33	-5.85%	12.59%	-£ 0.20m	£2.80m
MR Data Management	£1.98	£109.90m	18.6	2.69	785.71	-2.46%	-3.41%	-£ 2.80m	-£ 3.70m
On-Demand	£1.12	£57.10m	n/a	3.01	1435.90	-3.45%	-0.88%	-£ 2.10m	-£ 0.50m
P&P	£0.77	£42.90m	19.1	0.20	345.29	-6.10%	20.31%	-£ 2.60m	£7.40m
Pegasus	£2.30	£14.40m	59.0	1.40	626.70	0.44%	7.48%	-£ 0.70m	£0.30m
Phonelink	£4.20	£149.00m	n/a	160.22	2709.68	3.70%	15.38%	£5.20m	£19.80m
Proteus	£3.20	£87.70m	Loss	4385.00	3809.52	-24.35%	-23.99%	-£ 28.29m	-£ 27.70m
Quality Software	£4.11	£32.00m	20.0	2.43	1081.58	-3.97%	1.48%	-£ 1.30m	£0.50m
Radius	£0.34	£9.28m	11.7	0.39	246.38	-10.53%	21.43%	-£ 1.12m	£1.64m
Real Time Control	£1.04	£7.28m	21.3	1.19	2122.45	0.97%	42.47%	£0.07m	£2.17m
Rolfe & Nolan	£3.53	£21.40m	24.2	1.91	2101.19	-2.75%	19.66%	£0.90m	£4.70m
Sage Group	£5.42	£111.70m	16.6	2.71	4169.23	4.43%	6.27%	£4.80m	£6.60m
Sanderson	£3.43	£31.20m	14.6	1.32	1459.57	-1.44%	7.19%	£0.20m	£2.70m
Sema Group	£3.64	£331.20m	29.5	0.79	1144.65	11.66%	17.42%	£34.50m	£49.10m
Sherwood	£0.85	£5.18m	2.5	0.25	708.33	-21.30%	-22.73%	-£ 1.41m	-£ 1.53m
Standard Platforms	£0.40	£1.59m	Loss	0.59	177.77	25.00%	25.00%	£0.29m	£0.29m
Total	£0.35	£1.95m	6.2	0.68	660.38	-18.60%	45.83%	-£ 0.45m	-£ 0.45m
Trace	£0.35	£37.10m	37.1	2.06	280.00	0.00%	-7.89%	£32.14m	£31.71m
Vega Group	£2.53	£35.70m	24.1	4.01	2073.77	5.42%	15.53%	£1.80m	£4.80m
Virtuality	£3.38	£88.30m	n/a	16.82	1988.235	-5.32%	2.11%	-£ 5.00m	£1.80m
Vistec	£0.29	£34.80m	16.8	0.90	1239.13	5.56%	18.75%	£1.80m	£5.50m
Wakebourne	£0.04	£33.40m	21.8	1.38	888.888	33.33%	166.67%	£8.30m	£20.90m

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.

DATA SCIENCES

When we come to compile our profit league tables for 1993, **Data Sciences** will almost certainly come bottom with a mind numbing loss before tax of £18.8m in the year to 30th Sept. 93. Readers might therefore initially question our sanity in saying that these current announcements are the most positive we have encountered at the company for many a year.

History

Back in 1985, THORN EMI Software was the largest supplier of SCSI services to the UK market. Since then their position has slumped each year. In 1989, Mike Smith from CAP/Sema joined as CEO with ambitious expansion plans. They failed to materialise. In July 1991, THORN EMI sold the company in an MBO which left the renamed Data Sciences owned 68% by CINVen, 12% by Mike Smith and his managers and 20% was retained by THORN-EMI. The deal valued Data Sciences at a high £100m and left the new company with debts of around £60m.

But Data Sciences was no more successful in its new guise as it had been with THORN-EMI. Its first 14 months (to 30th Sept. 92) showed operating profit reduced to £5m and accounting for the debt resulted in a loss before tax of £2m. Data Sciences had fallen to #15 in our 1992 UK SCSI supplier league table.

For a number of reasons shareholders had lost confidence and Mike Smith left in Jan. 93 to be followed by several of his original management team.

We headlined the appointment, in April 1994, of the new young (well, 40 year old) CEO - Andy Roberts - as ***"a new lease of life for Data Sciences"***. Ten months on, we are even more convinced of this.

The achievements

Data Sciences badly needed change and Andy Roberts was not afraid to provide it. Most of the fundamental changes were initiated within the first three months (see *System House* - Nov. 93). Roberts restructured into industry units and skill centres (you may remember the *"Velcros and Bungy Jumping"* headline), stripped out 2 layers of management creating 18 direct reports in the process, laid off 150, mainly senior, staff and vacated their new, luxurious Pinehurst House HQ.

But it was not all cost cutting. He also brought in new top level management (like Tony Cronin - the founder of CFM), new technology skills (like the highly respected database expert, Ian Hardacre), instigated the external spend of £1m on a management, sales and technology training programme and rolled out a company wide E-Mail system involving installing over 600 PCs in Q1 alone.

Financial restructuring

Initially the sale of Datasolve to a certain French IT group had formed part of the financial restructuring plan but this failed at the eleventh hour. Ever increasing investor confidence in Roberts has now resulted in CINVen subscribing for £28m of new prefs enabling the deep discount loan of £32m to be repaid to THORN-EMI for an early redemption price of £28m. In addition, both CINVen and THORN-EMI have put in a further £5m in A shares resulting in the MBO team's share (most of whom have left anyway) being reduced from 12% to 9%. As well as making the balance sheet look both healthier and simpler, about £3.5m interest will be "saved" this year.

The 1992/93 results

Our respect for Roberts would have fallen if he hadn't used the opportunity to throw every bit of bad news into his first set of R&As. In fact our respect has risen still further at his ability to get away with quite so much.

Basically revenues from continuing operations were flat at £96m in the year to 30th Sept. 93. Discontinued operations (like Champs, sold to Misys, and Datashield, sold to Sogerif SA) amounted to a further £6.1m. Operating profit from continuing operations was also static at £4.9m.

Then the exceptional losses were added:

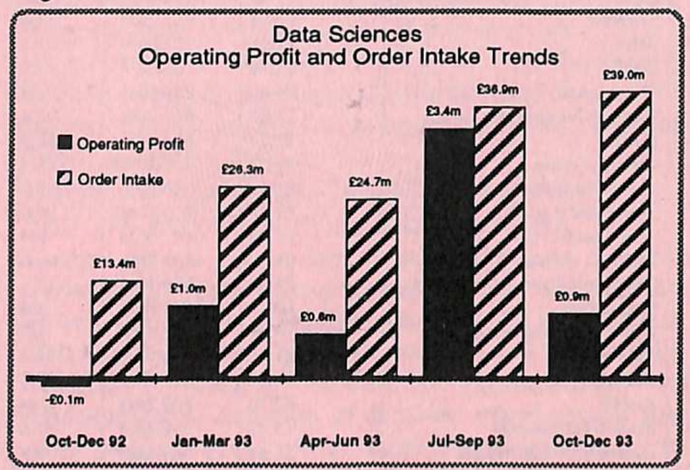
- a net £300K loss from the discontinued operations
- £2.9m put aside for project overruns on *"2 or 3 large contracts"..."with contract values totalling £45.8m"*.
- £3.6m for job losses which will save around £6m p.a.
- £440K to put the refinancing package together
- a staggering £8.1m property provision relating to vacating Pinehurst House which cost £1.2m p.a. in rent.

That resulted in a loss before interest of £10.4m (compared with a an operating profit of £5m last time).

To that £3.6m net bank interest, £2.8m interest on the deep discount loan and £2m early redemption penalty pushed the final loss before tax to £18.8m.

Q1 FY 1993/94

Data Sciences entered their current FY with an order back log valued at £98.4m. Order intake has continued its



impressive improvement. With the restructuring and refinancing behind them, Q1 revenues produced an operating profit of £900K and, for the first time since the MBO, a PBT of £100K.

The future

Charles Nicholson from CINVen recently told us that Data Sciences was *"now the company in which we originally invested"*. Certainly Data Sciences now has a sense of purpose and a new confidence. Roberts will focus the company on what is described as *"transformational outsourcing"* - long term relationship contracts helping customers in the move to take advantage of the latest client server technology.

We would not be surprised to see some further disposals. We would also not be surprised to add Data Sciences to the list of new issues at the end of 1994. A profitable 1993/94, with much future promise, would guarantee a fine reception for Data Sciences if the market remains in its current receptive mood.

New confidence, new management, a healthy financial performance and a Stock Exchange quote could well mean Data Sciences then going on the acquisition trail itself. We can think of a number of interesting targets!

EDS

Slow growth at EDS in 1993 but watch out in 1995

EDS reported revenues up 4.2% at $8.36 billion for the year to 31st Dec. 93. Non GM revenues, however, rose by 7.8% to $5.2 billion or 61%. European non-GM revenues, excluding the negative effect of foreign exchange, grew an impressive 23%. Worldwide net revenues increased by 14% to $734m.

EDS signed $7 billion of new contracts in the year. Clearly the UK was a star performer here with the £1 billion + Inland Revenue, £25m p.a. DVOIT contract and London Parking coming in for particular mention.

But these contracts made little impact, other than perhaps negatively in terms of bid costs, on **EDS UK**'s performance in 1993. UK revenues were down a bit at around £250m but the main impact has been on profitability where we understand that cost cutting and hard work has produced *"a successful outcome"*.

Even if only half of the revenue from the new contracts comes through this year, that means revenues of £360m in 1994 and £460m in 1995. EDS has other significant contracts in the pipeline as well. Clearly ICL's position as the lead supplier of software and services to the UK market is under serious threat.

But we would sound a note of caution. That kind of growth can put tremendous strains on the management even of a company the size of EDS. Remember that it was project problems at SD-Scicon, as a result of management overload, which pushed that company into the hands of EDS in the first place. Of course, the EDS management hotly refute such critical comment but....

Wish we could have bought FI Group shares

FI Group has announced excellent results for the six months to 31st Oct. 93. Revenues increased 40% to £18.6m, PBT was up 23% to £725K and EPS advanced 20%. Their AM services continued to be the star.

The share price on the internal market increased 42% in the last year to £5.20 - valuing FI at around £12m. Shares were initially sold to the staff in 1991 at 270p. We said at the time we only wished we could buy some! Even the current price looks like under half that which FI could command on the Stock Exchange.

DEC UK cuts consulting

After launching its IT consultancy activities with such a fanfare, DEC UK has announced that of the 800 staff (nearly 20% of the workforce) to face the axe, 475 are to come from **Digital Consulting**.

Praxis In Nov. 92 **Touche Ross** acquired **Praxis**, where current CSA President David Bean is MD, for £6.5m.

Praxis accounts for the 10 months to 15th Apr. 93 show a £565K loss (£434K restated profit in year to 30th Jun. 92) on revenues of £6.6m. This represented a decline of 11% on an annualised basis. *"Trading was adversely affected by this reduction in turnover and the impact of rationalisation"*.

However, a rather interesting £1.1m revenue deduction was made for *"changes in work in progress"*. No doubt this will resurface to the benefit of TR this year. Chairman Martyn Thomas was therefore confident that *"revenue will increase in the coming year and the group will return to profitability"*. Clearly most of us are pure amateurs when it comes to acquisition accounting compared to TR.

HOSKYNS

CAP GEMINI SOGETI

Cap Gemini Sogeti, the largest SCSI group in Europe, announced its expected depressing set of results for 1993. Revenues fell by 7.4% to FFr11 billion ($1900m). For comparative purposes, Gemini Consulting sales of $516m should be added making a total of $2416m. Losses deepen from FFr333m to FFr434m ($72.9m).

CGS also announced that it was to raise FFr1.5 billion in new capital. Sogeti, which holds 61.5% of the complicated equity structure of CGS, said it would participate fully in this rights issue. Daimler-Benz holds 34% of the equity and the rights to acquire majority control in 1995. It seems unlikely that they will choose to do so and a new CGS non French "partner" cannot be ruled out (see page 8).

It was however announced that CGS was to merge Cap Debis with debis Systemhaus. It looks as though Germany was, and continues to be, the most problematic part of the CGS empire. *"We can't have another fiscal year with the same losses in Germany as we had last year"* said CGS VP Paul Hermelin.

Although Germany was the worst performer, bad trading seemed to affect most of the operations in continental Europe and even Cap Gemini America *"did not contribute much profit"* despite increased revenues.

The only real bright spot was good old **Hoskyns** in the UK. After several years of declining profitability, 1993 saw a significant profits recovery. We would guess profits had increased by over 50% to about £14m - still not back to the peak reached in 1990. UK revenues probably increased by about 9% to around £180m. Hoskyns is seen as a role model for the rest of the organisation - having experienced the market changes in 1989/90, taken the medicine in 1991/92 and reaped the benefits with a profits recovery in 1993. Hermelin said that Hoskyns was *"well adapted to the market's methods"* - the results seem testimony to that.

Quote of the month

"True to form for a consultancy which advises others on how to go about their business, CGS's efficiency programme is expected to take twice as long as budgeted".

Source - Investors Chronicle 25th Feb. 94.

Macro 4 - lost opportunities

"Unless Macro 4 can get a handle on the open systems software market, we expect shareholders are unlikely to be excited by Macro 4". *System House* Oct. 93. Indeed, the current 665p share price is the same as then.

Latest results for the six months to 31st Dec. 93 show revenues up 7.9% at £12.1m (only 18% from the UK), PBT up 9.4% at £5.4m and EPS up 8.1%. The cash mountain effectively increased by £1m to £19.2m but interest received fell by 23% to £549K.

Terry Kelly said he was not actively looking at acquisitions. Macro 4 get top marks for consistent financial performance - they also get top marks for missed opportunities.

ACT to focus on financial services

ACT Group has brought together all its financial software companies - Kindle, BIS and ACT - under one central board. It now seems more likely that ACT will soon dispose of its non financial services operations like Network Si, ACT Computer Support, Medisys and Logsys.

The Adventurers

This month the venture capital organisations involved in our industry have been making their own news. **Grosvenor Ventures**, backers of Sage, Vega, Triad et al, have been purchased by **MAM** (part of SG Warburg) for £5m after the failure of their latest fund and the departure of their Chairman Robert Drummond. Jon Moulton has *"unexpectedly departed"* from **Schroder Ventures** (backers of Technology plc, Protek, Performance Software et al). Peter Smitham is elevated to Managing Partner.

Intangible assets = racehorses?

It's funny how one thing leads to another. Our campaign against intangible assets - i.e. capitalised software development costs - took a new turn this month. Whilst examining the accounts for Cleveland based **Systemcare Ltd.** we noticed under "Current Assets" the entry *"Racehorses...£26,651"*.

As we can think of at least two avid *System House* readers who would like to follow this little wheeze with their current employers, we investigated further. We found that in April 93 Ian McNeill, who readers might know of from his days at **Kernel**, did an MBI/MBO with the Systemcare managers and £750K help from **Lloyds Development Capital**. The former Systemcare Chairman took the money and retired to Ireland...together with his racehorses. Systemcare has developed the *Merchandising* UNIX based product which has over 200 installations. The distribution product is described by McNeill as for those users *"moving upmarket from Tetra"*. Systemcare has a significant amount of recurring revenue.

Systemcare had reported that PBT had halved to £175K on static revenues of £2m in the year to 30th Nov. 92 - prior to the MBI. The year end has now been changed to 28th Feb., so we will have to wait to see the McNeill effect. He expects revenues of £10m within a few years.

No odds are offered on the likelihood of Systemcare being a winner, but on past form....

Should we now class Reuters as a SCSI company?

The argument against the inclusion of **Reuters** as a UK software and computing services gets more difficult by the year. The problem is that their revenues of £1.87 billion represent about 20% of the total worldwide revenues of UK based (rather than owned) SCSI companies. Clearly Reuters would immediately become the largest UK owned SCSI company and would rank #5 in our world tables - about equal to CGS.

Our front page last month featured Reuters having undertaken 10 SCSI acquisitions in 1993, including UK *System House* subscribers like VAMP and Safetynet, and have started 1994 with another two - including US Quotron Systems. Readers can therefore understand our quandary.

Reuters have produced a superb performance in the year to 31st Dec. 93. Revenues were up 20%, or 8% if currency fluctuations are stripped out, at £1.87 billion, PBT increased 15% to £440m and EPS was up from 56p to 72p. The US now outweighs London as Reuters single biggest market. Instinet has been the best performer - tripling profits to £38m in 1993.

Reuters shares have been one of the best performers in the FTSE 100 - up over 60% since the start of 1993. They are now on a "racy" P/E of 28. Reviews of the results were highly positive and further major acquisitions are clearly expected. We would certainly be pleased to include just one UK-owned mega stock in our analyses. *We wonder what our readers think?*

Value of information sources

Reuters is not the only company willing to pay well for information suppliers. This month **Reed Business Publishing** bought **ICIS-LOR Group**, which supplies pricing information on the petrochemical industry. We estimate the price paid was approaching £9m - not bad for a £5m revenue company! **Regent Associates** acted for ICIS-LOR. *Perhaps there is still hope for a capital gain some day at Richard Holway Limited afterall!*

"There are only three factors to consider when assessing a company...... management, management and management." Source - Much repeated old Holway Proverb.

A report from the **Society of Practitioners of Insolvency**, published this month, has found that around 50% of business failures are *"caused by a lack of management skills"*. Only 29% were caused in any way by the recession and, perhaps in defence of the VCs, a mere 3% by a loss of long-term finance.

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