

# System House

The monthly review of the financial performance of the UK computing services industry  
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## Industry growth in 1993 higher than expected

Companies engaged in the UK software and computing services market grew faster in 1993 than originally predicted.

As readers will know, we keep financial records on well in excess of 1,000 SCSi companies operating in the UK. These companies have combined revenues in excess of

£11 billion. There is no doubt that this is by far the biggest industry database in existence. Questionnaire based market research almost always produces figures that prove to be too optimistic. But it is still difficult to get away with inaccurate revenue figures in accounts which must be approved by auditors and be filed at Companies House. Our industry researches are therefore now considered by many to be the most accurate currently available.

We have practically all the 1993 results relating to the 53 companies

quoted on the Stock Exchange. These show that:

- revenue growth is back in double figures again - up 12.3%. These companies represent revenues of £2,600m.
- even if the effects of acquisitions and disposals are excluded, revenue growth was around 10%.
- after actual PBT declines in 1990 and 1991, for the second consecutive year PBT increased dramatically - up 33% - in 1993. Total profits, at £212m, are now back above those recorded in 1989 for the first time.

Private company results representing a further £3 billion of 1993 revenues have been obtained to date. They show a similar higher than expected growth.

Based on interim results, in mid 1993 we forecast an 8% growth. But the market clearly picked up significantly in the second half with an excellent Q4 for many companies. This led to our forecast 8% growth proving to be pessimistic. Now a 10% growth is likely for the UK SCSi market in 1992/93. If any readers still doubt these figures, a scan through the company results in this issue and the tables on p5/6, will quickly prove the point.

### So what are the reasons for this high growth?

• the most significant reason for the revenue growth in 1993 was **outsourcing**. As we have said before, this is not an increase in the total IT spend - merely a switch from in-house to outsourcing. FM companies, like **ITnet**, **CFM** and **Capita**, have recorded high organic revenue

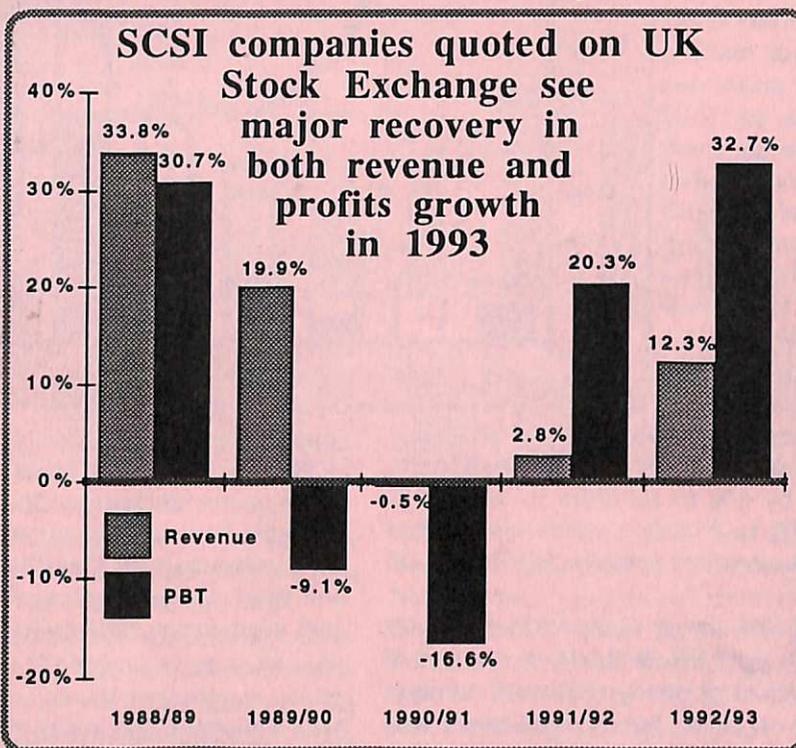
growth. FM was the fastest growth market for major SCSi companies, like **Andersen Consulting**, **Sema** and **CSC(UK)**, resulting in higher than average growth rates. The move away from in-house activities also helped companies like **Admiral** (with its training outsourcing) and **FI Group** (applications management) to achieve growth higher than the industry average. It would be wrong to assume that only the public sector was moving to outsourcing. Around

75% by value of the outsourcing contracts awarded in the last year were from the private sector.

• profits grew three times faster than revenue growth. This, yet again, was due to cost cutting - in particular reduced management layers, staff numbers and premises costs. **Hoskyns**, **Misys** and **Sema** would be good examples of companies which cut 100s of jobs in 1991/92 followed by significant profits recovery in 1993. Others, like **Logica** and **Data Sciences** left it until 1993.

Finally, can we once and for all end "recession" being quoted as the reason for poor performance. Good management anticipated change in the market, adapted their organisations and have prospered. It was largely only companies with current or past poor management which suffered in 1993.

We would like to welcome the many new *System House* readers resulting from our recent promotional campaign which was more successful than even we had hoped. This issue of *System House* is dedicated to the latest 1993 company results. Next month, we will analyse the financial trends and rankings for 1993 in more detail.



# ANDERSEN CONSULTING

In 1985 Andersen Consulting (AC-UK) had UK revenues of just £15.8m whereas Hoskyns had a UK turnover of £52m and was second in the UK SCSl rankings.

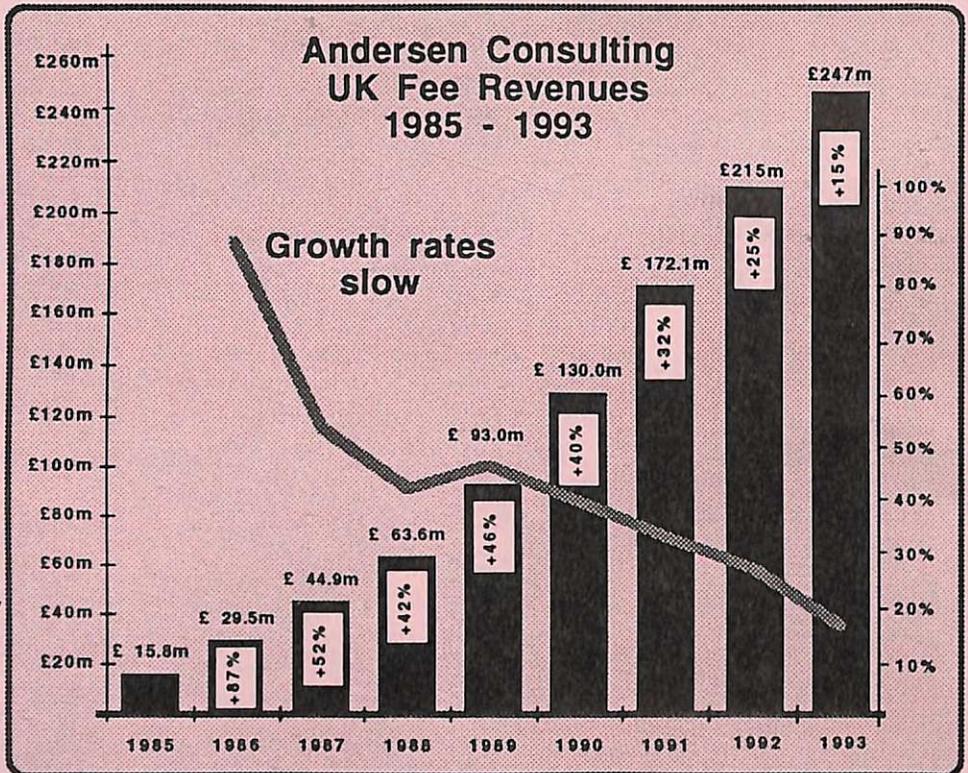
There then followed eight years of phenomenal growth for AC-UK - overtaking Hoskyns in 1991. In 1993 UK revenues rose by 15% to £247m putting AC-UK into joint second place behind ICL. 15% growth may be less than in previous years, but it's still higher than the industry average. Growth is also all organic. You may remember that Vernon Ellis - i/c AC Europe - said that not making acquisitions was "an enormous benefit". (*System House* Dec. 92). They have done it by recognising, some years ago, the importance of what many are now calling the "transformational outsourcing" market. I.e. helping large corporates to change to the new client server systems whilst in the meanwhile operating their legacy systems. It sounds obvious now,

but a few years back companies either did FM on legacy systems or developed new systems - they rarely did both. AC worldwide grew by 6% to \$2880m in 1993. US revenues were up 13% to \$1410m, which means that Andersen Consulting's revenues actually declined in non UK and US markets.

AC-UK is one of the few large companies to report increased staff levels - up 4.6% to 2,544 at the end of 1993. So the achievement of nearly £100,000 revenue per employee (also up on 1992), for an organisation that

earns around 80% of its revenues from fees, is worthy of note. This is a third higher than the industry as a whole. Keith Burgess (i/c AC-UK) says he expects the firm "to double in size by the end of the century".

AC is an organisation with more than the normal number of critics. AC can hardly have been pleased with their press in the last year, covering such sorry tales as Taurus, operational problems at the Stock Exchange and the Wessex debacle. But one often feels that Keith Burgess



almost relishes the criticism. Burgess took the opportunity of the results announcement to take a swipe at the hardware manufacturers who have entered the IT services market but sometimes "do not know what to sell, how to sell it or how to price it" and have been "dumping services and time". Source - *Computer Weekly* 3rd Mar. 94. But, as he said, what do you expect when "product sales people use product sales techniques to sell services - its ridiculous". Source - *Computing* 3rd Mar. 94.

Well somebody had to say it!

## Welcome DCS Group plc

In Feb. 94, **Nesco Investments**, which has a quote on the Stock Exchange, sold its Nigerian electricity supply business to its management. Its name was changed to **DCS Group** - reflecting the remaining business which develops software for motor dealers where it claims a 25% market share and is #2 to Kalamazoo's 33% share. So another quoted UK SCSl company is born.

Interim results to 31st Dec. 93 show PBT down from £121K to £41K on revenues down 10% at £2.6m. EPS reduced 55%. Clearly, these results are not of major relevance due to the changes made in the period.

DCS has just completed its UNIX-based Global Dealer Management System (GDMS) - and, to their credit, has avoided capitalising the £2m R&D involved.

In March, DCS announced two new acquisitions; **Motis** (consideration £300K) and the **DMS** division of **GSI UK** (max. £400K). To fund this a 1-for-3 rights issue at 55p to raise £1.05m was announced. They also took a 39% stake in their French agent - **Aagic SA** - for £43K with an option on another 10%. DCS shares have risen 27% in 1994 so far.

## MR Data Management disappoints

**MR Data Management** is the UK's second largest COM bureau, as well as being involved in laser printing and software, with a market capitalisation of £110m.

Last Oct., MR said it was "in excellent shape" and was witnessing "an upturn in orders". The latest results for the six months to 31st Dec. 93 were therefore very disappointing. Although revenues increased 5% to £19.6m, both PBT at £2.66m, and EPS dropped 34%. Cash increased by £2.7m to £9.6m.

Among the reasons given for the poor results were "one-off reorganisation costs" of £382K, "decline in interest receivable" down from £365K to £212K and "on-going development costs at MEMEX", their text retrieval system for the police market.

MR "remains optimistic about the remainder of the year" and their brokers, Matheson Securities, are forecasting PBT of £10m.

MR shares actually rose by 4% this month - against the trend. Investors clearly share that optimism

## What a difference two years can make

It has been an "interesting" two years for accounting software provider Pegasus. The appointment of Jonathan Hubbard-Ford as CEO in Apr. 92 was followed by the high profile boardroom battle with Derek Moon. Institutional shareholder power, for once, won the day and Hubbard-Ford was empowered to continue his long overdue reforms.

Latest results are for the year to 31st Dec. 93 and are therefore not strictly comparable with the previous 17 month period. On the surface they show a major surge in PBT from £620K to £6.93m. However, £6.1m of this was

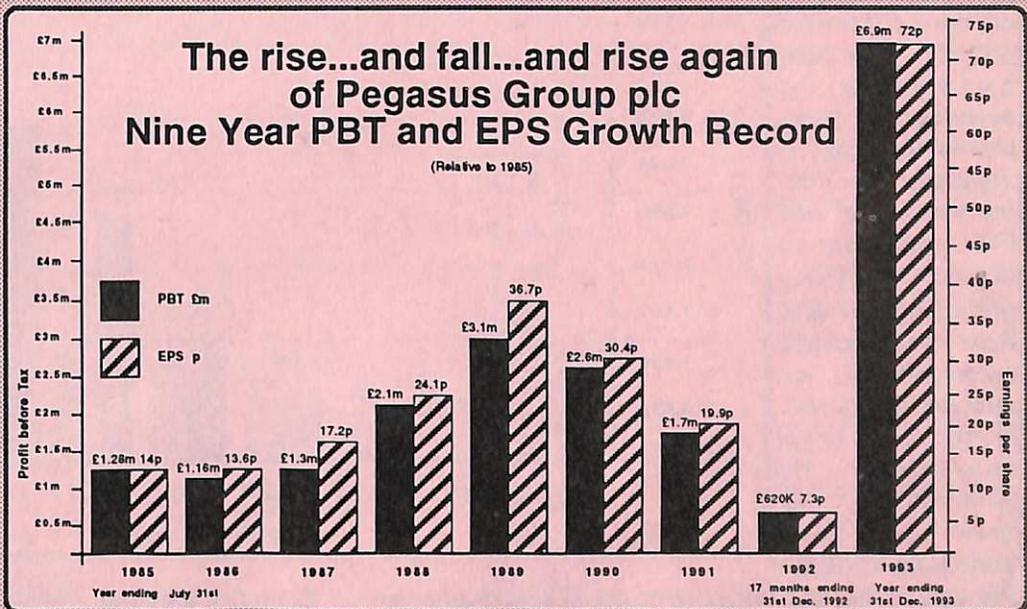
profit on the disposal of the Stockforms (computer stationery) business to US Deluxe which contributed £873K operating profit. The accounting software business traded at a £319K operating loss - albeit lower than the £1m loss last time. For the record, revenues were £7.5m; £4.9m from continuing operations which were up around 5% on a pro rata basis. The Stockforms sale meant cash increased from £2.6m to £8.3m - the equivalent of 131p per share (current share price 203p). Ominously, given that many of Pegasus' past problems

were caused by misguided acquisitions, Pegasus now says that "a number of acquisition opportunities are currently being investigated".

The future depends on two factors:

- will the reforms, like the introduction of maintenance and support charges and the launch of Opera, work? It is a highly competitive market and Pegasus has a long record of neglect to overcome. SG Warburg's are predicting a mere breakeven for 1994.

- will Pegasus be acquired? Extract the cash and the Pegasus business is valued at around £5m. Recurring revenue from annual licences is projected to represent a third of revenues by 1997. The Stockforms sale is likely to generate a further £1.25m in commission. Then there



is the customer base and the support potential. It makes Pegasus look like a bargain.

*But we said that a year ago and nothing happened.*

## Logica - more action required?

Logica's results for the six months to 31st Dec. 93 show PBT down 22% at £3.21m, revenues declined by 2% at £106.5m and EPS down 11%. That's the bad news.

The good news is that if you strip out restructuring costs - basically the 100 staff laid off in the six months - profits would have grown by 28% to £5.3m. Profits (and margins) from the £25m Logica earned from Continental Europe improved significantly from £1.2m to £2m. The US has proved a bit of a *bête noire* for Logica - so the 34% increase in revenues (15% in \$) to £13.4m and a halving of losses to £700K is particularly pleasing. The US is expected to breakeven for the year as a whole.

By sector, Finance, "where there is a buoyancy not seen for a number of years", grew from 29% to 33% of total revenues whereas Government declined from 15% to 12%. "Overall the outlook is encouraging although we expect revenue growth over the next six months to be modest". Analysts are forecasting PBT of £12m for the year, up from £9m last time, representing a P/E of 26.

## Quality "meets market hopes" ?

Quality Software Products (QSP) announced results for its first year as a quoted company. Revenues were static at £13.3m, PBT halved to £553K and EPS was down 65% to 31st Dec. 93. A further net £3m capitalised R&D was added to the balance sheet in 1993 so readers can work out what the results would have been if they had used the same accounting policies as Coda, MDIS, et al.

## Comac

It was an eventful 1993 for Comac. In June, Philip Swinstead bought a 19.4% stake and became CEO. In Nov., Comac bought CSS Trident for £18.5m creating the largest contract staff agency in the UK with combined revenues of around £64m. The Swinstead effect meant that, from a 1993 low of 18p, Comac shares rocketed to an all time high (so far) of 132p.

Comac's results for the year to 31st Dec. 93 are therefore of only academic interest, as we would expect any company to use the opportunity to clear the decks. For the record, revenues of £19.8m included £9.9m from the "old" Comac - down 11% on 1992 - and a further £9.9m from two months trading from CSS Trident. CSS contributed £498K gross operating profit. Loss before tax of £228K was declared. An exceptional charge of £773K was made for the integration of CSS. The 1993 rights issue meant that Comac ended 1993 with £13.3m net cash.

Results elsewhere in this issue indicate that the IT contract staff market witnessed a considerable recovery in 1993 which is gathering pace in 1994. Comac reports that in Dec. 93 it had 1,261 IT contractors placed which had risen to 1,350 in Feb. 94. Comac intends "to make its first moves into the consultancy and systems integration fields in 1994". Acquisitions in these areas are likely. Turning Comac into a more well rounded system house will allay some of our concerns. Comac shares were up 17% to 123p this month on the announcement.

## Consistent optimism justified at Capita

Capita and System House have a certain affinity. Capita was one of the few new issues in 1989; the year we launched System House and Capita has been a subscriber from the off.

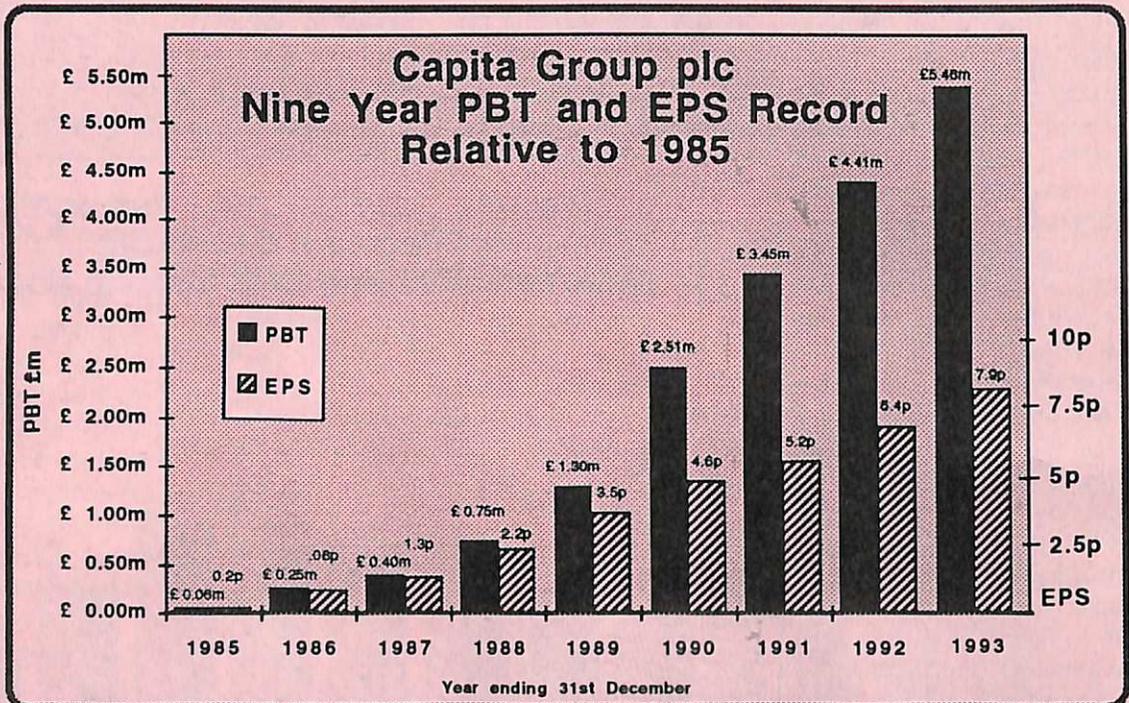
We have consistently given rave reviews of Capita and...Capita has responded by always producing consistent results. A 33p launch price has since grown nearly seven times to 226p.

We like much of the Capita setup. In particular their focus on local authority/public sector outsourcing activities, their pioneering work in managed services, the extension of their FM activities to cover property management and their astute management, as one would expect from a team dominated by accountants. We have never been very keen on their PR, advertising and engineering consulting diversions.

Latest results for the year to 31st Dec. 93 were excellent. Revenues increased 52% to £50.2m, PBT was up 24% at £5.46m and EPS was up 23%. Cash reduced from £9.6m to £8.4m but £4.4m was paid on acquisitions (West Wiltshire Software in July 93 for £4m cash and property FM company, Goldcrest, in Apr. 93 for £450K cash) and a further £3.5m on capital items.

Outsourcing was once again the star performer with profits up 32% at £2.55m on revenues of £30.6m. This represented an 8% margin - lower than the 11% margin achieved last year. However, the System House subscribers who 'phoned us last year complaining of Capita's cut throat bid pricing would be well pleased with such margins themselves! "The division's forward projected revenues up to Dec. 98 stood at £118m at 31st

Dec. 93; a 55% increase over the corresponding period". "Significant" FM contracts with the London Boroughs of Westminster and Bexley, worth £14.5m, start in Apr. 94. Indeed, the outsourcing division started with £31m firm revenue for 1994 - more than the total for 1993 as a whole! We were also excited in 1993 about the Corporate Finance business, established with £100m funds from VCs



Schroder Ventures, Electra and ECI, to assist in public sector MBOs. We were disappointed, therefore, that no deals have been announced so far. Clearly Capita shared the disappointment and this month Ian Smith from Mercury Asset Management (SG Warburg) has been appointed to head up this division and "make things happen".

As to the future, Rod Aldridge (Chairman and CEO) says "Capita is in good shape and I am optimistic that we will make further progress in 1994". Almost the same words as last year, and the year before... and remember that accountants are not usually known for declaring their optimism.

Analysts reckon on PBT of £6.7m in 1994 inferring a prospective P/E of 24. "High but justified" was the universal press comment. How could we disagree? System House has said that consistently since 1989.

## INSTEM - Chairman's statement consistently correct

INSTEM specialises in computerised control systems for power stations, water boards and other customers like BNFL. After last year's 43% reduction in PBT, Chairman David Gare predicted that INSTEM "would regain its position on the growth curve in 1993". We expressed extreme doubts over this claim but we are now quite prepared to eat humble pie. The results for the year to 31st Dec. 1993 showed a 35% increase in revenues to £19.3m, a 77.6% increase in PBT to £1m and a 74% increase in EPS - back to that achieved in 1991. Cash increased by £300,000. INSTEM shares rose 23p to 171p within minutes of the results announcement and have now more than doubled from their 1993 low of 83p.

INSTEM, by the nature of its market, is involved with large projects. "The uneven nature of these projects meant that several large contracts were delivered in the year" which "to some extent" explains the significant revenue increase. The biggest of these was the £7m system for BNFL. But INSTEM has worked hard in the year to put in a new organisational structure more capable of providing the flexibility to cope with "fluctuating market demands". As reported earlier in 1993, the Datatex FI pharmaceutical analysis programme had been delayed until 1994. "Nevertheless this product still has the support of our customer base and deliveries are planned this year".

INSTEM is 25 years old in 1994. It has been profitable for every one of those years. There are few (if any) companies in the sector that can make such a claim. Gare looks forward to continuing that success in 1994. This time we will not cast doubt on his predictions.

# 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 £ 11,531,000 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	Final - Dec 92 £ 30,870,000 £ 3,966,000 24.2p		Final - Dec 93 £ 36,640,000 £ 4,608,000 27.6p	Final Comparison +18.7% +15.6% +14.0%
Azian plc	Results Revenue PBT EPS	Final - Mar 92 £ 29,283,000 £ 2,062,000 5.4p	Interim - Sep 93 £ 26,140,000 £ 1,882,000 6.3p	Final - Mar 93 £ 41,196,000 £ 2,954,000 8.4p	Final Comparison +40.6% +43.2% +55.6%
Capita Group plc	Results Revenue PBT EPS	Final - Dec 92 £ 33,098,452 £ 4,406,012 6.43p		Final - Dec 93 £ 50,168,000 £ 5,463,000 7.9p	Final Comparison +51.6% +24.0% +23.4%
Cedardata plc	Results Revenue PBT EPS	Final - Mar 92 £ 4,062,000 £ 1,476,000 3.4p	Interim - Sep 93 £ 2,608,000 £ 998,000 2.3p	Final - Mar 93 £ 5,259,000 £ 1,778,000 4.2p	Final Comparison +29.5% +20.5% +23.5%
Centregold plc	Results Revenue PBT EPS	Final - Jul 92 £ 55,100,000 £ 1,700,000 n/a		Final - Jul 93 £ 68,000,000 £ 2,720,000 5.53p	Final Comparison +23% +60% n/a
Clinical Computing plc	Results Revenue PBT EPS	Final - Dec 92 (17 mos) £ 2,014,137 (£ 549,038) (£8.81)		Final - Dec 93 £ 2,635,853 £ 1,163,951 £26.07	Final Comparison Not comparable Loss to profit Loss to profit
Coda Group plc	Results Revenue PBT EPS	Final - Oct 92 £ 17,934,000 £ 3,248,000 n/a		Final - Oct 93 £ 23,450,000 £ 3,752,000 9.6p	Final Comparison +30.8% +15.5% n/a
Comae Group plc	Results Revenue PBT EPS	Final - Dec 92 £ 11,118,158 £ 394,723 3.7p		Final - Dec 93 £ 19,768,000 (£ 228,000) (1.9p)	Final Comparison +77.8% Profit to loss Profit to loss
Computerised Financial Solutions plc	Results Revenue PBT EPS	Interim - Jun 92 n/a n/a n/a	Final - Dec 92 £ 3,225,000 £ 37,000 n/a	Interim - Jun 93 £ 1,638,000 £ 77,000 n/a	Interim Comparison n/a n/a n/a
Computer People Group plc	Results Revenue PBT EPS	Final - Dec 92 £ 82,735,000 £ 145,000 (0.97p)		Final - Dec 93 £ 68,748,000 £ 1,102,000 4.37p	Final Comparison +9.6% +660.0% Loss to profit
Cray Electronics Holding plc	Results Revenue PBT EPS	Interim - Oct 92 £ 81,862,000 £ 17,833,000 10.33p	Final - Apr 93 £ 200,785,000 £ 29,014,000 13.8p	Interim - Oct 93 £ 114,308,000 £ 7,804,000 2.99p	Interim Comparison +39.6% -56.2% -131.4%
CRT Group plc	Results Revenue PBT EPS	Final - Apr 92 £ 43,469,000 £ 5,158,000 8.26p		Final - Apr 93 £ 47,035,000 £ 3,297,000 4.22p	Final Comparison +8.2% -46.5% -48.9%
DCS Group plc	Results Revenue PBT EPS	Interim - Dec 92 £ 2,903,000 £ 121,000 1.36p	Final - Jun 93 £ 5,545,366 £ 231,406 2.92p	Interim - Dec 93 £ 2,804,000 £ 41,000 0.61p	Interim Comparison -10.3% -66.1% -55.1%
Division Group plc	Results Revenue PBT EPS	Final - Oct 92 £ 1,081,913 (£ 107,783) (1.0p)		Final - Oct 93 £ 2,078,000 (£ 503,000) (2.1p)	Interim Comparison +92.1% Loss both Loss both
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	Final - Oct 92 £ 7,250,000 £ 757,000 1.94p		Final - Oct 93 £ 5,803,000 £ 551,000 1.04p	Final Comparison -19.7% -28.2% -46.4%
INSTEM plc	Results Revenue PBT EPS	Final - Dec 92 £ 14,272,000 £ 575,000 8.5p		Final - Dec 93 £ 19,294,000 £ 1,021,000 14.8p	Final Comparison +35.2% +77.6% +74.1%
Kalamazoo Computer Group plc	Results Revenue PBT EPS	Interim - Sep 92 (Restated) £ 27,576,000 (£ 836,000) Nil	Final - Mar 93 (Restated) £ 56,508,000 £ 940,000 Nil	Interim - Sep 93 £ 29,562,000 £ 2,593,000 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) £ 33,341,000 (£ 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	Final - Dec 92 £ 20,915,000 £ 1,031,000 8.6p		Final - Dec 93 £ 24,916,000 £ 1,143,000 7.0p	Final Comparison +19.1% +10.9% -18.6%
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	Interim - Dec 92 £ 104,208,000 £ 4,136,000 3.7p	Final - Jun 93 £ 217,434,000 £ 9,026,000 8.7p	Interim - Dec 93 £ 106,522,000 £ 3,211,000 3.3p	Interim Comparison +2.2% -22.4% -10.8%
Lynx Holdings plc	Results Revenue PBT EPS	Final - Sep 92 £ 7,447,000 £ 115,000 1.34p		Final - Sep 93 £ 10,807,000 £ 619,000 4.27p	Final Comparison +45.1% +438.3% +218.7%
McDannell Information Systems plc	Results Revenue PBT EPS	Final - Dec 92 £ 158,634,000 £ 18,558,000 n/a		Final - Dec 93 (Pro Forma) £ 148,480,000 £ 12,857,000 14.3p	Final Comparison -6.4% -30.7% n/a
MR-Data Management Group plc	Results Revenue PBT EPS	Interim - Dec 92 £ 18,639,000 £ 4,020,000 4.80p	Final - Jun 93 £ 40,788,000 £ 8,759,000 10.6p	Interim - Dec 93 £ 19,602,000 £ 2,660,000 3.21p	Interim Comparison +5.2% -33.8% -34.4%

# Richard Holway Results Service

Macro 4 plc	Results Revenue PBT EPS	Interim - Dec 92 £ 11,213,000 £ 4,935,000 14.8p	Final - Jun 93 £ 23,256,000 £ 10,497,000 31.5p	Interim - Dec 93 £ 12,104,000 £ 5,400,000 16.0p	Interim Comparison +7.9% +9.4% +9.8%
Micro Focus plc	Results Revenue PBT EPS	Final - Jan 93 £ 68,982,000 £ 22,777,000 106.5p		Final - Jan 94 £ 83,842,000 £ 21,761,000 101.2p	Final Comparison +21.7% -4.5% -6.0%
Microgen Holdings plc	Results Revenue PBT EPS	Final - Oct 92 £ 49,316,000 £ 8,243,000 13.8p		Final - Oct 93 £ 53,351,000 £ 6,700,000 10.5p	Final Comparison +8.2% -18.7% -23.9%
Microvitec plc	Results Revenue PBT EPS	Final - Dec 92 £ 49,888,000 (£ 2,137,000) (3.4p)		Final - Dec 93 £ 35,170,000 £ 1,611,000 2.1p	Final Comparison -29.5% Loss to profit Loss to profit
Misys plc	Results Revenue PBT EPS	Interim - Nov 92 £ 41,147,000 £ 6,757,000 11.9p	Final - May 93 £ 88,761,000 £ 15,125,000 27.4p	Interim - Nov 93 £ 42,086,000 £ 8,012,000 14.3p	Interim Comparison +2.3% +18.6% +20.2%
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%
On Demand Information plc	Results Revenue PBT EPS	Final - Jul 92 £ 21,949,000 (£ 726,000) n/a		Final - Jul 93 £ 18,989,000 (£ 1,450,000) n/a	Final Comparison -13.5% Loss both Loss both
P & P plc	Results Revenue PBT EPS	Final - Nov 92 £ 222,752,000 (£ 7,872,000) (14.0p)		Final - Nov 93 £ 217,259,000 £ 4,107,000 4.3p	Final Comparison -2.47% Loss to profit Loss to profit
Pegasus Group plc	Results Revenue PBT EPS	Final - Dec 92 £ 10,269,000 £ 620,000 7.3p		Final - Dec 93 £ 7,502,000 £ 6,930,000 72.0p	Final Comparison -26.9% +1017.7% +886.3%
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	Interim - Sep 92 Nil (£ 1,516,000) (4.73p)	Final - Mar 93 £ 21,000 (£ 3,547,000) (13.52p)	Interim - Sep 93 Nil (£ 2,733,000) (10.08p)	Interim Comparison Both nil Loss both Loss both
Quality Software Prod. Holdings plc	Results Revenue PBT EPS	Final - Dec 92 £ 13,118,000 £ 1,201,000 20.6p		Final - Dec 93 £ 13,346,000 £ 553,000 7.3p	Final Comparison +1.7% -54% -64.6%
Radius plc	Results Revenue PBT EPS	Final - Nov 92 £ 24,012,000 £ 1,231,000 2.9p		Final - Dec 93 £ 23,273,000 (£ 1,171,000) (3.0p)	Final Comparison (13 mos) -3.1% Profit to loss Profit to loss
Real Time Control plc	Results Revenue PBT EPS	Interim - Sep 92 £ 3,134,000 £ 258,000 2.5p	Final - Mar 93 £ 6,114,000 £ 492,000 4.9p	Interim - Sep 93 £ 3,579,000 £ 424,000 4.1p	Interim Comparison +14.2% +64.3% +64%
Rolle & 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 £ 9,853,000 30.9p		Final - Sep 93 £ 41,299,000 £ 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	Final - Dec 92 £ 416,675,000 £ 19,458,000 13.22p		Final - Dec 93 £ 501,962,000 £ 24,855,000 16.62p	Final Comparison +20.5% +27.7% +25.7%
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	Interim - Nov 92 £ 8,800,000 £ 105,000 0.59p	Final - May 93 £ 18,042,438 £ 211,504 1.12p	Interim - Nov 93 £ 9,200,000 £ 216,000 1.22p	Interim Comparison +4.5% +105.7% +106.8%
Vega Group plc	Results Revenue PBT EPS	Interim - Oct 92 £ 3,623,000 £ 404,000 1.34p	Final - Apl 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%
Virtuality Group plc	Results Revenue PBT EPS	Final - Dec 91 £ 1,753,000 (£ 597,000) (2.9p)	Interim - Jun 93 £ 2,444,000 £ 65,000 0.3p	Final - Dec 92 £ 5,245,000 £ 217,000 1.1p	Final Comparison +199.2% Loss to profit Loss to profit
Visteo Group plc	Results Revenue PBT EPS	Interim - Oct 92 £ 18,703,000 £ 1,305,000 0.73p	Final - Apl 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%
Wakebourne plc	Results Revenue PBT EPS	Interim - Jun 92 £ 9,552,000 £ 225,000 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

# Acquisitions, disposals and liquidations

## New issue news

### MDIS

MDIS was priced at 260p valuing the group at £260m. Although all the shares were taken up by the institutions, only 75% of the shares available in the public offering clawback were taken up. The shares opened at a 10p discount on 24th March, but recovered to 254p.

### MAID

Information group MAID, which we critically analysed last month, was launched at 110p valuing the group at £89.1m - marginally below their expectations, but still many times higher than ours. Dealings started on 25th March, ending the first day down 7% at 102p.

### Cedardata

As trailed last month, dealings in Cedardata (which developed the Oracle based *cfacs* accounting system) commenced on 7th Mar. The placing of 45% of the shares at 105p valued Cedardata at £32.16m but raised just £1.1m new funds. PBT of "not less than" £2.65m and revenues of £5.9m to 31st Mar 94 were forecast equating to a P/E of 17.2.

The fact that Cedardata has an excellent consistent profit record, an unprecedented 47% profit margin, a strong balance sheet and no capitalised R&D clearly acted to its ....*disadvantage!* The shares ended their first month's trading unmoved at 105p.

### Superscape

Dimension International, founded by Ian Andrews and ex Micro Focus directors Martin Hornby and Alan Wood, this month changed its name to **Superscape** and announced its Stock Exchange float in April. The issue will capitalise the company at c£10m and raise between £3-£4m. It joins Virtuality and Division in a growing group of UK listed virtual reality software specialists. Superscape 'phoned specially to inform us that it did not capitalise its R&D. Our campaign is clearly having an effect! (Henderson Crosthwaite - Tel 071 623 9992)

### Persona

Network distributor, **Persona**, has announced that it plans to float in April with a likely capitalisation of around £20m. Persona had revenues of £23m and PBT of £1.75m in the year to 31st Dec. 93. Persona is ranked second to Azlan, which itself came to the Stock Exchange in 1993, in the UK network distribution market. (Beeson Gregory - Tel: 071 488 4040).

### Oxford Molecular and Unipalm

As trailed last month, **Oxford Molecular** (software for drugs design) will float in April with a capitalisation of £30m. Network software supplier **Unipalm** will also float with a cap. of c£18m. (Both Henry Cooke Lumsden - Tel. 061 834 2332)

### AAH acquires Peak Systems

AAH Meditel (part of the £1.4b AAH Holdings) has acquired **Peak Systems** for £1.1m cash plus £1.4m which is profit related. AAH Meditel is one of leading suppliers of clinical management systems for GPs and had revenues of £11.6m and PBT of £1.9m in the year to 31st Mar. 93. Peak Systems provides community care systems. Peak made PBT of £195K in the year to 30th Jun. 93.

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**The others...European Network Engineering (ENE)** has appointed the receivers after TCP/IP supplier **Woolongong** "pulled the plug" on its UK distributor. A consortium including **Anglia Telecoms** and **MHG Systems** has secured an 88% stake in **Servo-Trisoft**. The company expects revenues to have grown from £13m to £20m to end June 94. **Enterprise Computer Holdings** has bought **US Database Server Systems Inc.** for 1.8m shares worth £400K. DBSS is involved in business re-engineering and made a PBT of \$61K in 1992. Jeff Trendell's **Arrival Systems** has continued its new found buying spree by acquiring **Systemsdata** (service management software) of Alton for £250K, mostly in cash. **Skillbase** (setup to find jobs for redundant IBMers and 40% owned by IBM) has been sold to **Hogg Robinson** for £5.5m. UK TPM ND **Serviceteam Ltd** has acquired **Solix Systems**. Solix had revenues of £900K and ND £17.9m in 1993. **Cray Electronics** has sold its US **Nexus Custom Electronics** subsidiary, which was part of **Dowty IT**, to **Jaco Electronics** for \$1.6m cash. The sale will have "a negligible effect on ongoing profitability". Then on 24th Mar. Cray sold its defence businesses (**Cray Technology**, **Cray Marine** and **Cray Computer Graphics**) in an MBO for £10.33m. These companies contributed PBT of £1.5m last year. **Weir Systems** has bought **BIS Applied Systems** (manufacturing systems) from **ACT Group** for an undisclosed sum.

### Sanderson and ICL

**Sanderson Electronics** seems to be experiencing an acquisitions explosion. Last month they acquired a 75% stake in **Brook Street Computers**. This month they first announced the purchase of ICL reseller **Nord Group** from the receivers for £525K. Nord had revenues of £6.1m and PBT of £91K in the year to 31st July 93. Then they acquired an 80% stake in **ICL Commercial Systems Ltd** for £970K in shares - £570K of which represents repayment of loans. Sanderson also raised a further £350K as working capital. "ICL has indicated its present intention to retain this 4.2% investment in Sanderson". An additional £1.95m may be paid to ICL depending on profits to Sept. 96 when the remaining 20% can be bought. Commercial Systems employs 58 people, supplies ICL hardware and software products, provides project management services and acts as a prime contractor. It was formed in Feb. 94 to "encompass those business sectors outside the specialised industry segments being targeted by ICL UK".

Last year Sanderson got out of its ill fated hardware venture with General Automation. We agree that "it seems strange that it is increasing its exposure in this sector" again. Source - Investors Chronicle 4th Mar. 94.

### Lynx holdings buys CSS

**Lynx Holdings**, another new addition to our CSI Index this month, has acquired TPM **Computer Service Technology (CST)** for £2m (£1.5m cash plus £500K in shares). CST made PBT of £322K on revenues of £6.1m (£2.5m from TPM, the rest from product distribution) in the year to Sept. 93. Lynx, itself also involved in TPM, made PBT of £619K on revenues of £10.8m in the year to Sept. 93 and are currently capitalised at £20m. Lynx this month raised £980K through a placing at 53p. In July 93 Lynx bought **Signal Ltd** (£1m - motor trader systems) and in Nov. 93 **Financial Systems Ltd** (£2.9m) and **Chess Valley Computers** (£2.4m).

## Computer People Barometer

IT recruitment and contract staff were the first sectors to be hit by the downturn in the IT industry in 1989/90. After hitting a peak PBT of £4.1m in 1989, **Computer People** sank to just £145K in 1992. However, Computer People's own graphs of the demand for contract staff started to point upwards in Sept. 92 (see *System House* - Nov. 92). It now looks as if the nadir was reached in mid 1992 and the slow recovery can be dated from then.

So Computer People's results for the year to 31st Dec. 93 are of wider interest. They do indeed show a major recovery. Revenues were up 10% at £68.7m (they had fallen 7% in 1992). PBT increased nearly sevenfold - from £145K to £1.1m and EPS recovered from a loss in 1992 to 4.37p. However, even though net borrowings decreased from £4.8m to £4.1m, interest charges increased by £140K to £490K. The recovery gathered pace during 1993 - operating profits were 63% higher in H2 than in H1. The UK, representing about two thirds of total revenue, was the star performer with revenues up 13% and operating profits up 50%. In \$ terms, US revenues fell by 12% but cost control meant profits up 12%. The joint venture in Germany has been terminated after 1993 losses of £140K. Ex BIS Roger Graham has joined as a non-exec. and the future strategy will include "selective, strategic acquisitions". Consulting, or contract staff, forms the majority of Computer People's revenues. Recruitment placement revenues increased 17% in 1993 to £1.75m - "the first year-on-year increase since 1989". But it was recruitment advertising which showed the highest growth - up 100% on 1992. This does indeed bode well for the company - and the whole industry - in 1994. Chairman Rupert Bayfield says this "should give added impetus to continued recovery in profits". The market agreed, pushing the share price up 29% this month.

## Microvitec - coming right at last?

Let's recap the **Microvitec** saga... Loss making Microvitec makes hostile bid for, previously consistently successful but now in trouble, **Logitek**. Logitek raises cash by selling its **Azlan** network subsidiary in an MBO for £6.5m. Microvitec continues with bid and pays £3.5m for the rump of Logitek's distribution business.

Henry Cooke Lumsden, Microvitec's broker, "confidently forecast" £2.5m PBT in 1992 and £5m in 1993. But in the event Microvitec's results went from bad to... a loss of £2.1m was reported in 1992. On the other hand Azlan made a profit of £2.95m in the year to 31st Mar 93 and a £50m price tag when it floated in late 1993.

In Jan. 93, Microvitec sold "loss-making" Logitek for £2.5m in an MBO, losing £620K on the transaction.

Results for the year ended 31st Dec. 1993 showed a considerable improvement. PBT of £1.6m, compared with the £2.1m loss in 1992, on revenues of £35.2m (£49.89m). Indeed, profit on continuing operations increased by 83% to £2.2m on revenues up 10% at £33.3m. The disposal of the Logitek distribution business not only stemmed the losses but also reduced borrowings. Chairman, James Bailey says the company "has made a promising start to 1994... and expects to build on the advances which have been made in 1993".

It is about time. That HCL "Strong Buy" recommendation on 31st March 1992 was issued when Microvitec shares could be bought for 35p. Two years later Microvitec ended March 1994 close to their two year high of... 32p!

## Echos of IBM at Radius plc

Radius has announced a loss of £1.17 m for the 13 months to 31st Dec. 93 compared with PBT of £1.23m for the previous 12 months. Revenues were down at £23.27m compared with £24.01m. Cash decreased by over £1m to £1.8m. Chairman Mike Roberts describes these results as "extremely disappointing", which just so happens to be the same words used by John Akers to describe IBM's \$2.8 billion loss in 1991.

Last year, after announcing a profits recovery, Roberts said "We are well positioned to benefit from this exciting opportunity". Then, after the interims to 31st May 93 showed an unexpected loss of £466K, he predicted "an improvement in the second half". Having set the market expectation, he had to issue a profits warning in Dec. 93 stating that "losses in the second half would be broadly similar to those in the first half". He rather interestingly said the reason for this was that "the rate of transition to open systems has been slower than expected". As almost everyone else in the market had been blaming their poor results on the fact that users were moving to open systems faster than expected, this came as rather a surprise. In the event the full year results were even worse than expected.

So the comparison with IBM is not so silly. Both companies seem quite adept at giving bad news coupled with repeated false expectations for the future. Indeed Roberts even blames his problems at Radius on "difficult trading conditions associated with the sale of hardware and the supply of services to the mainframe market" too.

Software products (now mostly UNIX) is the core business - feeding the other associated services. Main vertical markets include systems for retail (which "performed well above expectations" in 1993) accountancy practices ("below expectations"), local & central government ("below expectations") and printing software ("excellent"). "The hardware maintenance business has traded satisfactorily and continued to overcome the effects of reducing maintenance rates by increased efficiencies". We are pleased to learn that 43% of revenues - £10.1m - now come from recurring annual support services. Hardware sales have dropped from 36% of revenues in 1989 to just 9% in 1993.

Of course, Roberts is "confident" about the future... just like he and the previous Chairman, Edward Sharp, said in 1990, 1991, 1992, 1993.... Radius shares fell 15%.

## Serco, the high tech FM company

**Serco Group plc** has announced PBT up 31% at £9.4m on revenues up 25% at £187m for the year to 31st Dec. 93. Readers may think this is of no real industry interest, but they would be wrong.

Serco's Systems Engineering business is all SCSI related - it had revenues of £23.3m in 1993. Serco says that a further £100m+ revenues are "IT related" - such as the FM contract with the RAF's Fylingdales missile early warning station, high tech air traffic control systems and work for the European Space Agency.

Of course, Serco is perhaps better known for its property management and cleaning services. But it is interesting how many of the "conventional FM" suppliers are now moving into these areas under the "managed services" banner. A coupling of Serco with such a conventional FM player would be very interesting....

## Has the new issue bubble burst?

March might well be regarded as the month when the bubble finally burst. The FTSE 100 fell nearly 5% but fortunately our CSI Index declined by a more modest 2.3%. This meant that every one of the new issues failed to end the month higher than their launch price (see p7). This does not bode well for the many other new issues in the pipeline unless expectations are adjusted downwards. The largest fall was LBMS (p12) which fell by a third due to their profit warning. Investors did not take to Enterprise's liquidations followed by US purchases - writing their shares down by 20% as a result. Sixteen companies experienced double digit % falls - a list which included many of the last year's new entrants like Clinical, Centregold, Phonelink, On-Demand and Division.

At the other end of the scale, Computer People rose 29% due to excellent results (p8). Investor reaction to the latest results from Comac (+17% - p3) and INSTEM (+14% - p4) was also favourable.

25-Mar-94	CSI Index 1710.74		
	FTSE 100	3129.00	
	FTSE SmallCap	1919.78	
CSI Index = 1000 on 15th April 1989			
Changes in Indices	CSI Index	FTSE 100	FTSE Small Cap
Month (25/2/94 - 25/3/94)	-2.32%	-4.64%	-4.91%
From 15th Apr 89	+71.07%	+52.37%	
From 1st Jan 90	+85.93%	+32.47%	
From 1st Jan 91	+141.67%	+44.83%	
From 1st Jan 92	+63.73%	+25.51%	
From 1st Jan 93	+7.35%	+9.92%	+38.38%
From 1st Jan 94	+2.47%	-8.47%	+2.73%

## System House CSI Share Prices and Capitalisation

	Share Price 25/3/1994 (£p)	Capitalisation 25/3/1994 (£m)	Historic P/E	Ratio Cap./Rev.	CSI Index 25/3/94	Share price % move since 25/2/94	Share price % move in 1994	Capitalisation move (£m) since 25/2/94	Capitalisation move (£m) in 1994
ACT	£1.73	£320.70m	17.4	2.10	2746.03	-3.89%	20.98%	-£ 13.00m	£57.00m
Admiral	£5.40	£58.30m	19.6	1.59	3913.04	9.53%	11.34%	£5.10m	£5.90m
Azlan	£2.44	£53.30m	29.0	1.29	1060.87	-7.92%	-7.92%	-£ 4.60m	-£ 4.60m
Capita	£2.26	£107.10m	28.6	2.13	6786.79	5.12%	-5.04%	£5.20m	-£ 5.70m
Cedardata	£1.05	£32.16m	25.0	6.11	1000.00	0.00%	0.00%	£0.00m	£0.00m
Centregold	£1.20	£48.30m	21.2	0.71	960.00	-13.04%	-25.93%	-£ 7.20m	-£ 16.90m
Clinical Computing	£1.33	£21.60m	21.2	8.21	1072.58	-13.07%	7.26%	-£ 3.20m	£1.50m
Coda	£2.34	£61.40m	24.4	2.62	995.74	-8.95%	-0.43%	-£ 6.00m	-£ 2.50m
Comac Group	£1.23	£45.00m	Loss	2.28	6833.31	17.14%	11.82%	£6.60m	£4.80m
Computerised Financial	£1.33	£6.25m	20.7	1.94	1477.78	6.40%	47.78%	£0.37m	£2.02m
Computer People	£1.81	£25.10m	41.4	0.37	744.86	29.29%	67.59%	£5.70m	£10.10m
Cray Electronics	£1.71	£375.80m	16.6	1.87	997.08	-10.03%	5.90%	-£ 41.80m	£21.00m
CRT	£1.11	£59.10m	19.9	1.26	1227.78	-3.91%	12.76%	-£ 2.00m	£7.00m
DCS Group	£0.76	£5.32m	26.0	0.96	1266.67	8.57%	26.67%	£0.42m	£1.12m
Division Group	£1.00	£33.80m	Loss	16.25	2500.00	-10.71%	23.46%	-£ 4.00m	£6.40m
Electronic Data Processing	£1.88	£49.10m	16.1	3.42	5755.10	-3.59%	-5.05%	-£ 1.80m	-£ 2.50m
Enterprise	£0.19	£14.30m	Loss	0.25	148.00	-19.57%	-41.27%	-£ 3.40m	-£ 11.40m
Gresham Telecomputing	£0.72	£23.50m	n/a	4.04	774.19	-14.29%	-35.14%	-£ 3.90m	-£ 12.00m
INSTEM	£1.60	£7.25m	10.8	0.38	1600.00	14.29%	18.52%	£0.90m	£0.79m
Kalamazoo	£1.28	£48.70m	29.7	0.86	3657.14	0.79%	28.00%	£0.40m	£10.60m
Kewill	£2.53	£30.60m	Loss	0.92	1000.00	-6.30%	13.96%	-£ 2.10m	£4.10m
Kode International	£1.28	£11.90m	18.3	0.48	595.35	-10.49%	-20.00%	-£ 1.40m	-£ 3.00m
Learmonth & Burchett	£0.95	£17.00m	13.4	0.72	791.67	-32.62%	-34.48%	-£ 8.30m	-£ 9.00m
Logica	£2.91	£179.30m	33.4	0.82	797.26	-4.59%	6.59%	-£ 8.30m	£11.40m
Lynx Holdings	£0.54	£21.80m	13.5	2.02	1350.00	3.85%	22.73%	£2.00m	£5.00m
MAID	£1.02	£82.60m	n/a	14.49	927.27	-7.27%	-7.27%	-£ 6.50m	-£ 6.50m
MDIS	£2.54	£254.00m	17.8	1.71	976.92	-2.31%	-2.31%	-£ 6.00m	-£ 6.00m
MR Data Management	£2.06	£114.30m	22.9	2.80	817.46	4.04%	0.49%	£4.40m	£0.70m
Macro 4	£6.55	£148.90m	19.7	6.40	2641.13	-1.50%	-3.39%	-£ 2.30m	-£ 5.10m
Micro Focus	£9.28	£131.80m	8.9	1.57	4483.09	-5.60%	-7.20%	-£ 7.80m	-£ 10.20m
Microgen	£1.48	£58.30m	14.9	1.09	632.48	-9.20%	0.00%	-£ 5.90m	£0.00m
Microvitec	£0.32	£20.40m	15.2	0.58	780.49	-8.57%	-1.54%	-£ 1.90m	-£ 0.80m
Misys	£5.11	£198.30m	18.7	2.23	1271.14	-6.75%	1.19%	-£ 14.30m	£2.40m
MMT	£1.78	£20.00m	24.2	2.83	1059.52	10.56%	24.48%	£1.90m	£4.70m
On-Demand	£0.99	£50.50m	n/a	2.66	1269.23	-11.61%	-12.39%	-£ 6.60m	-£ 7.10m
P&P	£0.71	£39.60m	16.8	0.18	318.39	-7.79%	10.94%	-£ 3.30m	£4.10m
Pegasus	£2.03	£12.70m	n/a	1.69	553.13	-11.74%	-5.14%	-£ 1.70m	-£ 1.40m
Phonelink	£3.71	£131.60m	n/a	141.51	2393.55	-11.67%	1.92%	-£ 17.40m	£2.40m
Proteus	£2.92	£80.00m	Loss	n/a	3476.19	-8.75%	-30.64%	-£ 7.70m	-£ 35.40m
Quality Software	£4.24	£33.00m	58.1	2.47	1115.79	3.16%	4.69%	£1.00m	£1.50m
Radius	£0.29	£7.92m	Loss	0.34	210.14	-14.71%	3.57%	-£ 1.36m	£0.28m
Real Time Control	£1.04	£7.28m	21.3	1.19	2122.45	0.00%	42.47%	£0.00m	£2.17m
Rolle & Nolan	£3.08	£18.70m	21.1	1.67	1833.33	-12.75%	4.41%	-£ 2.70m	£2.00m
Sage Group	£5.24	£109.00m	16.1	2.64	4030.77	-3.32%	2.75%	-£ 2.70m	£3.90m
Sanderson	£3.20	£30.40m	13.6	1.29	1361.70	-6.71%	0.00%	-£ 0.80m	£1.90m
Sema Group	£3.93	£360.00m	23.6	0.72	1235.85	7.97%	26.77%	£28.80m	£77.90m
Sherwood	£0.81	£4.94m	2.4	0.23	675.00	-4.71%	-26.36%	-£ 0.24m	-£ 1.77m
Standard Platforms	£0.36	£1.43m	Loss	0.53	159.99	-10.00%	12.50%	-£ 0.16m	£0.13m
Total	£0.35	£1.95m	6.2	0.68	660.38	0.00%	45.83%	£0.00m	-£ 0.45m
Trace	£0.39	£5.41m	40.7	0.30	312.00	11.43%	2.63%	-£ 31.69m	£0.02m
Vega Group	£2.08	£29.40m	19.8	3.30	1704.92	-17.79%	-5.02%	-£ 6.30m	-£ 1.50m
Virtuality	£3.25	£84.90m	n/a	16.17	1911.76	-3.85%	-1.81%	-£ 3.40m	-£ 1.60m
Vistec	£0.29	£34.90m	16.8	0.90	1239.13	0.00%	18.75%	£0.10m	£5.60m
Wakebourne	£0.03	£27.20m	17.7	1.13	722.22	-18.75%	116.67%	-£ 6.20m	£14.70m

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.

### **"Another year of consistent growth for Admiral"**

We have used the word "consistent" so many times in our reviews of **Admiral** over the years that readers will remember we started to refer to that consistency as "boring". *System House's* claim to fame is that many other companies now label their own results "as boring as Admiral's".

Latest results for the year to 31st Dec. 93 continue to be boringly excellent. Revenues increased 18.7% to £36.6m, PBT was up 15.6% at £4.6m and EPS rose 14%. It would have been higher but interest rate reductions resulted in interest received decreasing by £200K to £260K even though cash increased from £4.4m to £5.3m.

The rather less boring event of the last year was the winning of the Barclays Bank training outsourcing contract and the acquisition of **The Training Centre** for £1.25m in Jan. 94. This makes Admiral "one of the largest providers of face-to-face IT training in the UK". Staff increased, against the trend, by 20% to 662 and, as a result of the training additions, had risen to 790 by Feb. 94.

The move, some years back, into the client/server market, now representing around 18% of revenues, has really scored for Admiral and puts them into an excellent (Admiral says "dominant") position in this all important high growth market. The past reliance on the defence sector has been consistently lessened and now represents just 26% of revenues. Commercial and industrial activities, having increased from 21% to 28% of revenues, are now larger. The only negatives on the trading front were activities overseas. The Singapore operation made a loss, Australia has suffered and European expansion has failed to materialise.

Chairman Clay Brendish says "1994 promises to be another successful year for the company. The future looks good". Analysts are expecting PBT of £5.7m for 1994 representing a fairly modest 15 P/E.

It seems an easy target - provided Brendish does not decide to do anything exciting...

But was there "excitement" in the Admiral boardroom in 1993? Firstly Ops Director Stuart Wild left then, just before Christmas, it was announced that Finance Director Christina Boyd was leaving for "personal reasons". The usual tributes failed to appear in the Chairman's statement. *Not unusual at all says Brendish - he just doesn't like tributes.* However successful Admiral may be, to lose two directors in a year must raise some eyebrows.

### **IMI's "non core" computing activities**

Last month we reported that **Sanderson Electronics** had bought 75% of **Brook Street Computers** from IMI for £544K. IMI's own results for to 31st Dec. 93, announced this month, testify to the "fiasco" we referred to in last month's headline. *The loss on disposal cost IMI £5.9m.* IMI's SCSI activities "had a very poor year moving from a profit of £2.5m to a loss of £4.5m". IMI Computing was profitable but **Redwood (Uniplex)** recorded a loss due to delays in getting their new product to market. However a "return to profits" was forecast in the second half of 1994. Interestingly, computing was described as a "non core" activity. Readers know what tends to happen to divisions similarly described.

**Trace Computers** reported revenues up 5% at £4.5m, PBT more than doubled at £216K and EPS up 107% in the six months to 30th Nov. 93. But there is still a long way to go to match the £1.8m PBT made in 1990.

### **Micro Focus goes ex-growth?**

Since 1986, we have looked in awe at development tools supplier, **Micro Focus**. They have topped almost every ranking table we have produced. The peak was reached in 1992 with PBT of £22.3m, a share price of £30 and a capitalisation of over £300m.

On the surface the latest results for the year to 31st Jan. 94 are still very good. Revenues increased 21.6% (10% at constant exchange rates) to £83.8m, PBT was down by a marginal 4.5% to a still respectable £21.8m. EPS dipped 5.4%. Cash increased by another £4m to a massive £57.5m, producing £1.8m net interest in the process.

As Chairman Paul O'Grady explains "revenues overall were below plan while costs were in line with plan...this shortfall was caused by less than planned sales of MVS based development products on IBM mainframes. This business has fuelled growth over the last few years but is now impacted by uncertainty over whether mainframes are the most appropriate platform". That neatly summarises all the worries about the long term future health of Micro Focus. That uncertainty has led to the share price "crashing" to under £10 resulting in over £160m being wiped off the company's value. This was compounded by US investors who had at one time held over 40% of the stock and were largely responsible for the meteoric share price growth. US share disposals accelerated the crash.

Now co founder Brian Reynolds, who "retired" in early 1992, is rejoining the executive team alongside Paul O'Grady who regained the CEO position last year in order to exercise "more decisive leadership". The future depends both on how slowly COBOL based development on mainframes declines and how quickly Micro Focus can replace such sales with new products like their PC networking tools. Either way, returning Micro Focus to a high growth stock will not be an easy task.

**Footnote.** We have long pointed out that Micro Focus is one of the few major companies to capitalise product development. In the last year R&D increased by 35% to £18.6m of which £8.6m was capitalised. With amortisation of previous capitalised R&D, a further net £3.3m was added this year. This is the highest figure on record. However, the £17.2m intangible asset total is still just 22% of net assets.

### **CRT Group - IT training, recruitment and multimedia**

We have added **CRT Group** to our CSI Index this month, not as a new issue, but because of the growing importance of their SCSI activities. This was brought to our attention this month when Mark Edwards (ex of Microsoft) was appointed to head their new multimedia publishing division. About half of CRT's £45.8m revenues in the year to 30th Apr. 93 came from their LINK and Pitman training activities - much of which is IT related. In addition £16m was earned from IT contract staff and recruitment (a la Computer People). A further £6.5m came from the Doctus management consultancy activity which CRT decided to close in Dec. 93 after suffering losses of £700K in the first half. Interims to 31st Oct. 93 showed revenues up 24% to £20.8m, EPS up 21% but PBT unchanged at £470K. CRT's future clearly now lies in its IT training and recruitment activities.

**CMG** has reported revenues up 19% at £129m and PBT up 28% to £11.1m in the year to 31st Dec. 93. Float now planned for spring 1995. Full review next month.

## Excellent performance from Sema

Sema Group encapsulates the history and performance of the UK computing services industry. You could substitute Hoskyns, SD-Scicon and many others and the story would still ring true.

CAP was launched onto the Stock Exchange in the last great issue period of the mid 1980s, then snapped up by French Sema Metra in 1988. UK performance drags group

in 1988", show revenues up 20.5% to £502m. SKD-Foretagen of Sweden contributed revenues of £23.4m and PBT of £1.3m in the three months since 75% of their equity was acquired by Sema for £20.5m in Oct. 93. Because of the new accounting rules, technically Sema's PBT was £36.1m but £11.3m was profit on disposals (the disposal of their 25% stake in Axone to IBM and the sale

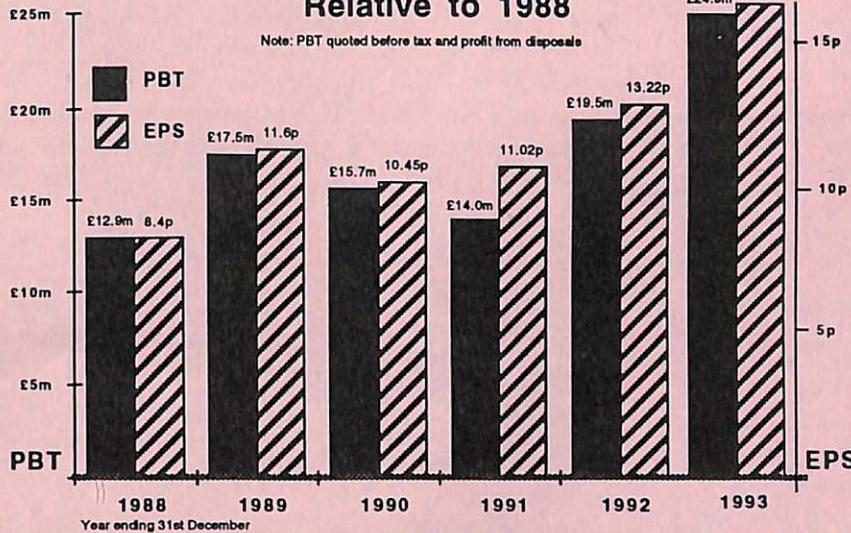
of a 24.5% stake in the UK FM operations to France Telecom for £8.8m). Rightly Sema have concentrated on PBT excl. disposals of £24.9m - up 27.8% - and EPS up 25.7%. Cash increased from £5.5m to £18.2m.

The UK grew by 23% and is now by far Sema's largest market (£212m or 42%). This moves Sema up to 5th place in the UK SCSI rankings. Sema in Germany grew by a higher 26% to revenues of £41.3m but France grew more modestly (although by a still very respectable 11%) to £170m.

FM operations grew by a massive 65% to £98m or 20% of revenues. Systems integration which grew by 15.5% to £388m, or 73%, is by far the largest activity. But Sema's product activities had declined by 7% to £36m even before this

month's sale of I-Linie, their German manufacturing products company, to CGI (IBM) for around £1.5m in cash. All this is in direct contrast to the tales of woe at "rival" CGS. Perhaps CGS will now sell their 28% stake raising £93m on today's prices? "A prospect Sema views with positive glee". Source - Computergram 1st March 1994.

### Sema Group plc Six Year PBT and EPS Record Relative to 1988



down in early 1990s, former UK management "disposed of", over 500 staff "let go" in rightsizing exercise, continental Europe follows UK into recession, UK outsourcing and "change management" experience becomes invaluable asset and UK becomes star in group. Latest results to 31st Dec. 93, "the best since the merger

## 50%+ external growth for sparkling ITnet

ITnet is the wholly owned subsidiary of, and was created from the internal IT operations of, the giant Cadbury Schweppes. ITnet claims to be "one of the UK's foremost providers of facilities management, applications management and managed services". It is a very fair claim. Latest financials for the year to 31st Dec. 93 show total revenues up 28% at £43.88m. However Cadbury Schweppes group sales were largely unchanged at £16.7m and now represent under 40% of revenues, whereas "sales to third parties" increased significantly by 51% from £18m to £27.2m. Our rankings based on their £18m 1992 revenues put ITnet in #8= slot (System House Oct. 93) - they look set to improve their ranking for 1993. PBT increased by 20% to £3.1m representing a 7.1% margin. ITnet is particularly active in providing FM to the public sector where their competitor, Capita, achieved a broadly similar 8% margin on their outsourcing activities in 1993. ITnet has also extended its FM operations in the commercial sector and into "desktop FM" with a contract with LawNet. ITnet says it starts 1994 with an order book double that at the start of 1993.

Will ITnet will be content to stay in the Cadbury Schweppes camp? An Istel-type MBO might look very appealing but there are quite a few competitors who would regard ITnet as a jewel commanding a rather higher value than that which an MBO could muster. It is interesting to note that Capita, ITnet's closest competitor, is currently on a P/E of around 26. That would value ITnet at £36m.

## TPM causes problems at Kode

In July 92, Kode International acquired TPM supplier DCM from Hillsdown for £3.2m. In Jan. 94 Kode issued a profits warning citing difficult market conditions at DCM. DCM's MD Joel Jervis resigned soon after.

Results for the year to 31st December 1993 showed an 11% increase in PBT to £1143K - in line with the lowered expectations of the profits warning. Revenues increased by 19% to £24.9m but revenues from continuing activities increased by 36%. EPS fell 18.6% due to the rights issue in July 1992.

Kode's PCB business performed as expected but DCM Services "in the second half encountered fierce competition from all those engaged in this difficult market. Prices for computer maintenance were significantly reduced by many companies and DCM Services had to respond in order to retain a number of important customers".

We cannot say any of this comes as a surprise - indeed it should not come a surprise to Kode as we have pointed out the perils of TPM in every article we have written about them over the last few years. But Kode clearly do listen as "in order to offset, to some extent, the pressures of the maintenance market, DCM, with some success, expanded its activities in the FM business". As DCM currently supports around 50,000 PCs and associated peripherals, there should be an opportunity to offer Network FM.

Kode is "very cautious about the outlook for maintenance for the immediate future". So are we.

## UK SCSI revenues excel for ICL

ICL's results for the year to 31st Dec. 94 were the envy of many competitors. ICL was still profitable, although PBT declined 40% to £23.4m. Revenues increased 6% to £2.62 billion in the year. UK SCSI revenues (based on Holway definitions) increased by an impressive 30% to £415m and maintains ICL's #1 UK ranking. FM (via CFM) increased by 67% to £75m and TPM (mainly Sorbus) increased revenues by 14% to £40m. Although UK hardware revenues advanced by 4%, both operating software and own hardware maintenance suffered double figure revenue declines.

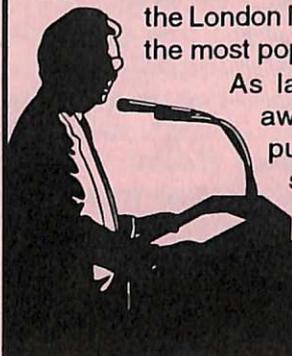
ICL still needs to boost its European SCSI activities. Indeed, this month it bought ABB Datasystems of Finland. A full review of ICL's SCSI activities will be presented next month.

ICL - UK Revenue breakdown	1993 £m	Growth 1992/93 %
<b>TOTAL REVENUE</b>	<b>£1,275m</b>	<b>6%</b>
<b>HARDWARE</b>	<b>£595m</b>	<b>4%</b>
Operating Software	£100m	-17%
Hardware Maintenance (Own)	£165m	-15%
Software (excl. op. software)	£95m	0%
Professional services	£155m	41%
Systems Integration	£50m	43%
Facilities Management	£75m	67%
Third Party Maintenance (incl. Sorbus)	£40m	14%
<b>Total SCSI (excl own hardware maintenance &amp; op. software)</b>	<b>£415m</b>	<b>30%</b>

## 20th July - a date for your diary

On Wednesday 20th July 1994, Richard Holway is repeating his evening soiree, presenting the findings of our latest analysis of the financial performance of the UK software and computing services industry, on behalf of the CSA. The event, which includes drinks and dinner at the London Metropole Hotel, has been one of the most popular CSA events in the past.

As last year, a **free place** will be awarded to all 1994 Holway Report purchasers. Order forms will be sent next month, but please put the date in your diary now.



**Computing  
Services  
Association**

## Good Omens from MCA?...not on your life!

Anyone reading the reports of the Management Consultancies Association (MCA) for 1993 might get the impression that their prestigious members fee based revenue recovered in 1993. *Have none of it.* On the surface UK fees earned were up 7% at £747m and those from IT increased by 10% to £328m. But if you exclude revenues from the MCA's four new members - the largest being CMG and CSC - in our view, revenues would have *declined* for the second year in a row. Indeed, even the MCA admit that fees from IT consultancy have declined by at least 15%. The MCA does report that Q4 revenues recovered to "pre recession income levels".

Could it be that what is really happening is that customers are using sub contract consultants from Comac and Computer People rather than MCA members?



## Yet more disappointment from LBMS

You really have to have nerves of steel to be a Learmonth & Burchett (LBMS) shareholder. Our files contain more profit warnings and Chairman's expectations "which don't quite come about" than almost any other company. In Nov. 93, they announced an unexpected 73% interim profits dive and the shares plummeted by 60p to 163p. This month a profits warning that full year results will be "well short of current expectations" caused a further 44p fall to 96p. Poor trading in the UK was blamed.

## Big, bigger, biggest

Winning the Inland Revenue outsourcing contract, the UK's largest ever, was only the start. This month EDS has been awarded what looks like the world's largest FM deal with Xerox, worth c \$3 billion over 10 years. As the deal covers Rank Xerox, whose Euro HQ is in the UK, it will have "a significant positive effect on EDS UK".

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