System House

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

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Few "*fat cats*" in our industry

Coinciding with the announcement that full year profits had been almost annihilated at **Cray Electronics**, compared to forecasts of over £30m just a few months ago (see p 11), Chairman Roger Holland volunteered to take a pay cut from £250,000 to £100,000. This is in stark contrast to the "fat cat" tales of directors in other industries - notably the privatised utilities.

Our annual analysis of the highest paid in our industry is an object lesson in restraint. Although the average highest paid director (HPD) was paid 14.3% more in 1994 than in 1993, this compares with a 30%+ increase in profits. A list of the largest % increases in HPD remuneration matches fairly closely with increases in profits. But, even more importantly, where profits fell - or losses were reported - HPD remuneration usually fell too.

The HPD remuneration *fell*, for example, at:

CentreGold	£235,000	-16%
Clinical	£80,347	-33%
Coda	£80,000	-13%
DRS	£94,000	-90%
MDIS	£179,355	-35%
Sherwood	£102,000	-28%

all of which have produced pretty depressing results in the last year.

The average HPD earned a relatively modest £98.5K in 1994. **Sedgwick Noble Lowndes** and the **Monks Partnership** have both undertaken reviews of director's pay in other industries. Their analyses show a similar average of £98K in companies with revenues up to £50m - which would cover almost all the companies in our database. This rises to £139K in companies with revenues between £50m to £300m.

We found only one director earning in excess of £500,000 in 1994. He worked at Hoskyns. This was a bit unfair as the major part of the payment related to this director's share of a total of £1.5m paid in the year to Hoskyns' people as part of the *"senior employees trust #2"* setup when CGS acquired Hoskyns in 1990.

The next best paid directors were at:

ACT	£345,000
Kalamazoo	£344,077
Computer Associates	£340,398

It is interesting to note that all these directors have since moved on - or out - even though their remuneration was paid as a result of a year of "record" performance.

W G Smallbone, Chairman at **Tangent International**, was the single exception to our rule. Smallbone increased his pay by 145% to £334,435 even though Tangent reported a £4K loss. It might be excused as Smallbone does own 90% of the equity!

Indeed, being a major shareholder can add considerably to your take home pay. Brown at **CentreGold** added £333K in dividends to his £235K remuneration. Alan Vickery at **JBA** added £177K in dividends to his £246K remuneration and Kevin Lomax at Misys received £174K dividends on top of his £245K remuneration. Barbour at Microgen received no remuneration at all - but took £446K in dividends.

Whatever you may think of such UK remuneration packages, they pale compared with those paid in the US. C B Wang at **Computer Associates** headed the list with a massive $6.7m compensation package. Larry Ellison at **Oracle** had a compensation package worth $2.4m in 1994. Even his #2, Ray Lane, got $1.2m.

But at some point, annual remuneration also becomes unimportant. Peter Rigby, who pays himself a *"modest"* £215,000 as Chairman and CEO of **Specialist Computer Holdings**, also owns almost all the equity. According to the *Sunday Times* this stake is now worth around £175m.

Trevor and Helen Burke - founders and owners of **Phonelink** - are the richest executive shareholders of any quoted SCSI stock. On current valuations, they are worth £38m. If that sounds good, remember that their Phonelink stake was worth £90m at one point in 1994. Seeing your personal wealth decline by over £50m in a year must be quite character building.

A closer look at our wealth list shows other major wealth declines. Messrs. Gilmore and Poole at **Proteus** have also seen £20m+ declines in their fortunes in the last year - and might see it fall further if some current pessimistic forecasts come true. G Brown at **CentreGold** has seen the value of his shareholding dive from £22m to under £7m in the last year. Graham Poulter at **On-Demand Information** has also seen the value of his shares in the company fall from £22m to £16m.

On the other hand, Wylie and Goldman have seen the value of their shares in **Sage** soar from £15m and £12m to £28m and £21m respectively in the last year. Finding a more justly deserved subject for such a reward would be difficult.

Although our lists show at least 100 SCSI millionaires - twice that a year ago - that is fraction of the wealth generated by entrepreneurs in our industry.

Perhaps, for once, we should congratulate ourselves for our fairness and restraint. On the other hand we could lament the fact that our industry has not created *more* wealth. *But there is always tomorrow!*

The *"Capitalising R&D"* debate

We have had more correspondence over our continued campaign on the lack of a standard for capitalising R&D than on any other subject. *"A really excellent article, it should cause a few companies to worry and even a few analysts to rewrite their reviews"* wrote one reader concerning our front page article last month.

Another, Paul Heaven - MD at **Kalamazoo**, wrote to bring our attention to an even more worrying threat. Currently there is no consistent standard for the treatment of goodwill. Basically if you acquire a company you can either write off the difference between the price paid and net assets (i.e. goodwill) to reserves or capitalise it and write it off over an agreed period.

The Accounting Standards Board (ASB) is now suggesting that if the goodwill of an acquired company is associated with an asset (i.e. an in-house developed software product) it ***must*** be capitalised and written off over a period of time.

Heaven was so concerned that he tackled the ASB. They seemed to infer that the problem could be overcome *if all companies capitalised R&D in the first place!*

Kalamazoo - an acquisitive company which has always expensed R&D (as all good companies do) - is a little concerned at this new move. *"At best this would render the balance sheet meaningless with bought out software products shown as assets but in-house developed products missing. At worst, the profit and loss account could be distorted when, say, a competitor's product launch forces a rethink of the estimated life of a product. Furthermore I fear that the concept of consistency would be used by many companies to jump on the capitalising internal R&D bandwagon, rendering yet more SCSI company accounts impossible to interpret".*

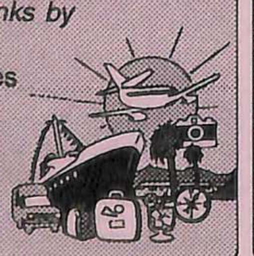
Accounting standards are meant to help "ordinary" people assess the health of companies. Currently, the ASB seems to be hell bent on introducing further confusion and fudge. Although readers have asked us to *"use your not inconsiderable influence"*, each of you pay tens of thousands of pounds to your auditors each year. If you also feel strongly, you ought to be able to apply far more pressure than us.

Phoenix continues rise

Readers might remember that we have featured **Phoenix** (which trades as **Travellog Systems**) in each of the last three years. In our first article in 1992 we suggested that a write up in *System House* for an independent company was usually followed by a takeover bid.

Chairman David Stern has now sent us the latest results for the year to 28th Feb. 95. These show revenues up 15% at £2.55m and PBT up 22% at £247K. That's a very respectable 10% margin. Travellog are *"market leaders in the provision of on-line reservations systems to motoring holiday, ferry and cross channel operators".*

Stern is clearly upset that the *System House* magic has not worked in his case *"We are still independent. Surely, you must owe me at least three drinks by now".*



Being deprived of so many free lunches this month (see p4) is bad enough, but having to buy our readers drinks is too much.

Please will someone contact Stern on 0181 905 1636.

Tel-Me about Phonelink

Phonelink was launched in June 93 at 155p and rocketed to a high of 440p. They have since fallen back to 187p. But that's at least still a 21% premium on the launch price.

It is interesting to note that Phonelink's current £66m capitalisation is about the same as Microgen. Microgen made PBT of £6.2m on revenues of £59m.....Phonelink has this month reported revenues of £2.1m and a more than doubled loss of £3.7m.

But we must be consistent. The reason why bright young UK-owned companies either get acquired by US companies or decide on a NASDAQ float is that the UK market does not value high flying IT companies. We should therefore be celebrating the fact that Phonelink:

- has a state-of-the-art product - Tel-Me - which enables PC users to access a wide range of database services.
- has signed a £2.25m contract with BT, an agreement with Cellnet, new deals with WH Smiths (on line ordering for office supplies) and Worldspan (airline bookings)
- is on the brink of offering its services in the USA, Australia and elsewhere.
- ***and is British***

But there is still a long way to go. Tel-Me still only has 86 corporate users and 1,350 individual users. So Phonelink is all about the future. That's the scenario which UK investors usually reject and US investors go bananas over. To test UK investor confidence, Phonelink has announced a 1-for-8 rights issue at 170p to raise £7m to coincide with their move from the USM to the full market. The rights are fully underwritten by Allied Provincial and SBC Warburg.

Trevor and Helen Burke - founders and owners of Phonelink - are the richest executive shareholders of any quoted SCSI stock. On current valuations, they are worth £38m. (See page 1) However, even the Burke's have baulked at further investment in Phonelink and have signed up for just 100K out of the 2.3m shares they could have acquired in the rights issue. But that is at least more than the other directors - all of whom have declined further investment.

"The Lighthouse is shining"

Interestingly both **Rolfe & Nolan** and several other readers contacted us immediately they read our review of R&N last month. It appears that their results press release had been a bit cautious. We understand that their all important Lighthouse system has been live at Credit Suisse in New York for three months and is now live in Zurich.

The future at R&N is very much tied to the success of Lighthouse. Clearly the news that the Lighthouse is now shining buoyed the market. R&N shares were up 15% at 190p this month.

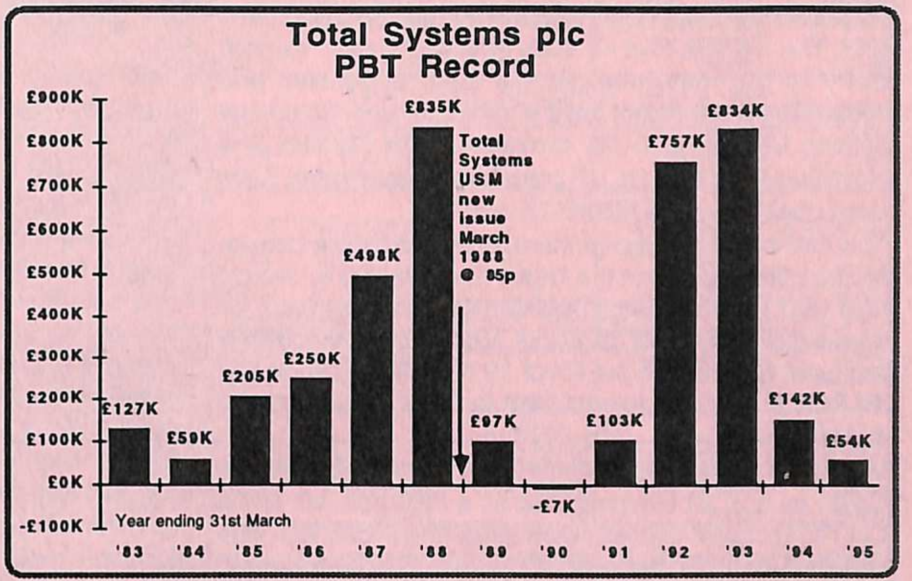
WS Atkins shows how specialist consultancies can prosper

A year ago we reported that **WS Atkins** had appointed **Schroders** to advise them on a float within two years. No announcement yet, but latest results to 31st Mar. 95 show revenues up 27% at £196m and PBT up a massive 67% at £19.1m. EPS also rose 60%.

Although concerned with planning, engineering and management consultancy, much of this involves IT.

Total despair

Total Systems provides products and services to the financial services sector; in particular insurance. It is difficult now for us to choose new words to describe their performance. Every year since we launched *System House* in 1989, we have despaired; not only at Total's abysmal results but at the sheer arrogance of Chairman Terry Bourne's statements. The gist each year is that Total's customers are to blame for its poor performance, by not recognising the benefits of its products, and that investors are short sighted.



Latest results for the year to 31st Mar. 95 show PBT down 62% at £54K, EPS down 64% and revenues up 9% at £2.3m. If it wasn't for the £61K interest received on their £966K cash, Total would have reported a £6.6K operating loss. *"A reluctance to introduce the level of change required"* amongst potential clients is now blamed. Apparently introducing Total's Ultima and Optima could result in 90% job savings. *"Total will just have to wait until new boards are in place that are willing to make such bold moves"*. Source - Computergram 4th July 95. So now you know...it's all the customer's fault and has absolutely nothing to do with Total. Getting rid of the managers at these customers is going to take some time, so don't expect any improvement in the short term. But (reassuringly?) Bourne says that Total does have *"a very long term strategic view"*.

We have said repeatedly that Total should not be a publicly quoted company. They even reject the Cadbury Committee's recommendations because of *"the cost burden on small companies"* and therefore have no non-executive directors and Bourne is both the chairman and CEO. *He'll probably reject Greenbury too.*

Perhaps if they had adopted some of the recommendations Total would not still be such a *"small company"*.

P & P plc

Readers know of our respect for **P&P** and its CEO, David Southworth. P&P built its undoubted success in the 1980s on the back of high volume sales of PC hardware and software. Many competitors saw the writing on the wall but did nothing. P&P had the guts to make the changes required. The five years it has taken have been tough on P&P. We doubt if they are quite there yet. But the results - and the share price - are now starting to demonstrate the rewards for all that pain.

Latest results for the six months to 31st May 95 show revenues up 44% at £171.7m, PBT up 129% at £6.2m and EPS up 89%. Although P&P shares are already up 56% since July 94, the current broker's forecast of PBT of £12.5m for the full year infers a prospective P/E of a fairly modest 12.

It looks as though training - via the purchase of **QA Training** (initial £15m - Aug. 94) - has been a star. QA's profits grew from £1.7m to £2.5m in the *"earnout year"* to 30th April 95 - considerably exceeding the £2m at which the further £3m profit related payment was triggered. To consolidate this success, P&P bought **The Technology Training Centre** for £2m last month. Their other major purchase - **Computers for Business (Scotland)** (max. £5.3m - May 94) - also performed well. We were a bit concerned at the time that they would just perpetuate the kind of PC dealer business from which we thought P&P wished to escape.

Although P&P's margins are much improved, they are still a lowly 3.6%. That's about half the SCSI average and shows both the potential and challenge which still lies ahead for P&P.

"Confident" Microgen

We have had a jolly good ride for years on the back of our little *"confidence"* jibe. Douglas Lee, Chairman at **Microgen**, has done as much as anyone to devalue the *"confidence"* word. But he has now proved that, on the basis that if you use it in every Chairman's statement, it just must come true one day. After several years of *confident* statements followed by profits declines, a year ago he had *"good grounds for being confident"*. He accompanied the inevitable 8% *reduction* in profits in Jan. 95 with the much over-used phrase *"views the future with confidence"*. Just like predictions of you winning the lottery, it now seems to have come true. Revenues in the six months to 30th Apr. 95 increased by 20% to £35m, PBT was up 30% at £4.5m and EPS advanced by 33%. And *"eat your heart out all you people who equate services with low margins"* that's a 13% profit margin.

Microgen is predominately a COM bureau which has had to *"embrace newer technologies"*. *"Electronic printing is showing very good growth in a growing market"*. Their archiving services in their *"Memory"* division have *"improved following the completion of the rationalisation programme"*. CD-ROM and on-line data access services are likely to replace COM.

Finally, we cannot end this report by not quoting that Lee is *"**confident** of a good result for the year as a whole"*. Let's hope it continues to be correct.

Computer People buys Cathy Tracey

Computer People *(please call us **Delphi** from now on)* has acquired **Cathy Tracey & Associates** for a total consideration of up to £2m - £1.6m in cash, £200K in shares and a further £200K profit related. CTA had revenues of £1.9m in 1994. Ms. Tracey was the sole shareholder and will join the Delphi UK board.

The importance of AIM

We believe the success of the AIM market is crucial to the success of the UK-owned SCSI sector. US IT companies seem to find it much easier to raise funds. There are quite a few US VCs which specialise in investing in a large number of IT stocks on the basis that some will be successful and they could realise their gain on a NASDAQ IPO. The UK has had no such effective "junior" market. Entry to the main market has been expensive and impossible if you do not have a trading record. So up and coming UK-owned SCSI companies, like Parallax and NextBase have fallen to US predators or, like Firefox, have even decided on US floats.

The AIM market replaces the 4.2 market (which ceases on the 29th Sept.) and the USM, which comes to an end next year. But the launch of AIM in the last month was far from auspicious for SCSI stocks. **Erros**, the only software products company in the list of 10 AIM floats, had to pull its float at the last minute due to *"lack of institutional support"*.

We would have liked to have included the **Multimedia Corp.** as a SCSI company, but as a BBC spin-off, it is a CD-ROM education and entertainment provider with little software input. So the only SCSI stock on AIM is Lorien.

Lorien - first SCSI AIM issue

Lorien was placed at 100p valuing the group at £5.5m. Lorien provides IT contract staff and recruitment. In other words it's a mini Parity/Computer People etc.

Lorien had revenues of £17.9m, *"gross profit"* of £2.2m but PBT of just £170K in the year to 27th Nov. 94. Interim results for the six months to 28th May 95 showed revenues up nearly 50% at £11.5m, PBT nearly tripled at £414K and EPS up 158%. This was considerably in excess of the £350K forecast made in the AIM placing document.

Showing due deference to the acquisitive policies of these competitors, Lorien announced the purchase of **Telfast**, also an IT contract staff agency, for an initial £1.5m plus a further £600K deferred. Telfast had revenues of £8m, gross profit of £1.4m but PBT of just £112K in the year to 30th Sept. 94.

So another £30m revenue IT staff group is created, illustrating yet again the current consolidation in the sector.

Note: Lorien has been added to our results service and CSI Index this month. It has also been about the best *"new issue"* performer of all time - rising from its issue price of 100p to 145p this month.

No such thing as a free lunch

This month we were due to have lunch with **BULL UK**'s Philip Crawford, but it was cancelled because of his move to head up **Oracle UK**. No fear, Brian Gunn MD of BULL's **Integris** would buy us lunch instead. It was also cancelled within a hour of the appointed meet time. But, no fear, Holway would not go hungry as Oracle had now arranged a new lunch date with Crawford. Unfortunately, it too was cancelled at short notice. We now how a lunch with Richard Snook - BULL UK's new MD - *pencilled* in our diary for next month.

So we would have liked to have provided you with more meat to Oracle's near 50% revenue growth to \$2.97 billion and 56% growth in profits to \$442m in the year to 31st May 95. We would have liked to have explained why, when consulting and services grew by 60% in the year and application software products grew by 115% in the last quarter alone, International VP Ray Lane *seems* to be so against such operations. Indeed, **Oracle confirmed to us on 28th July that the MBO at its local authority software operation has now been completed.**

If we had held the BULL meeting, we could have given more detail on BULL UK's excellent 26% growth in revenues to £153m in the first half of 1995. SCSI revenues were around a quarter of the total in 1994. We do know that BULL's systems integration and services activities, grew by an impressive 52% and that Integris achieved revenues of £7m compared with zero in H1 94.

Footnote Crawford's first decision at Oracle was to say goodbye to Don Taylor. A simple first act which provided him with more good goodwill in media, and other circles, than any thing else we can think of.

MCA *"collapse in confidence"*

Latest quarterly survey from the **Management Consultancies Association (MCA)** shows a decline in UK fee income and confidence in the future at its lowest level for two years. 41% of members were operating below full capacity. A separate survey shows that average fee rates were £750 per day - the same as two years ago.

We suspect that the switch to the use of "contract" IT staff - from the likes of Parity and Lorien (above) - is one of the reasons behind the poor showing . The MCA, showing its usual good grace, advises that *"body shopping cannot be regarded as best practice"*.

Eidos shares suspended

Eidos announced on 14th July that they were considering acquiring computer games companies **Domark Group, Simis** and **The Big Red Software Company**. Domark is just about to launch a multi player on-line aerial combat game on the Internet which will cost punters \$2 an hour to play. Because of the size of the acquisitions, Eidos' shares were suspended at 400p until mid August.

Eidos was a new USM issue back in Dec. 90 - a year when the company made losses of £385K on zero revenues. Since then their performance has been quite remarkable. After five long years, Eidos is *still* reporting a loss of £108K on revenues of just £254K in the year to 31st Dec. 94. *You may therefore understand why we have never really bothered to feature them before!*

But shareholders have valued the company highly. Launched at 100p, they raised a further £582K at 240p in May 94. Since then the share price has risen to a high of 420p and a market value of nearly £11m.

Eidos specialises in video compression software to enable, for example, games publishers like Domark, to include high quality video on CD-ROMs or better video conferencing and the distribution of video on the net. Earlier in July Eidos said they *"fully expect to be completely inundated"* with orders for their (video compression) software. It is not difficult therefore to understand the effect this kind of hype can have on the share price.

BUT, as we have said above, the UK needs a stock market willing and able to back such innovative British firms. If it doesn't, the US and others will. ***Note***: Eidos has been added to our results service and CSI Index this month.

Quoted Companies - Results Service

Note: Shaded = Results announced this month.

Admiral plc

	Interim - Jun 94	Final - Dec 94	Interim - Jun 95	Comparision
REV	£ 24,560,000	£ 49,473,000	£ 30,204,000	+23.0%
PBT	£ 3,198,000	£ 7,719,000	£ 5,589,000	+74.8%
EPS	18.50p	45.20p	31.80p	+71.9%

Azlan Group plc

	Final - Mar 94		Final - Mar 95	Comparision
REV	£ 61,506,000		£ 90,488,000	+47.1%
PBT	£ 3,871,000		£ 3,906,000	+0.9%
EPS	12.40p		12.50p	+0.8%

Capita Group plc

	Interim - Jun 94	Final - Dec 94	Intetrim - Jun 95	Comparision
REV	£ 30,470,000	£ 73,800,000	£ 43,420,000	+42.5%
PBT	£ 2,710,000	£ 7,903,000	£ 4,010,000	+48.0%
EPS	3.80p	10.50p	5.00p	+31.6%

Cedardata plc

	Final - Mar 94		Final - Mar 95	Comparision
REV	£ 6,120,000		£ 8,932,000	+45.9%
PBT	£ 2,715,000		£ 3,572,000	+31.6%
EPS	6.30p		7.90p	+25.4%

CentreGold plc

	Interim - Jan 94	Final - Jul 94	Interim - Jan 95	Comparision
REV	£ 52,554,000	£ 91,314,000	£ 41,037,000	-21.9%
PBT	£ 2,600,000	£ 4,033,000	-£ 3,883,000	Profit to Loss
EPS	4.70p	7.30p	-6.44p	Profit to Loss

Clinical Computing plc

	Final - Dec 93		Final - Dec 94	Comparision
REV	£ 2,635,853		£ 1,471,684	-44.2%
PBT	£ 1,129,000		-£ 688,596	Profit to loss
EPS	9.10p		-4.30p	Profit to loss

Coda Group plc

	Interim - Apr 94	Final - Oct 94	Interim - Apr 95	Comparision
REV	£ 13,327,000	£ 23,388,000	£ 15,229,000	+14.3%
PBT	-£ 2,546,000	-£ 7,992,000	£ 993,000	Loss to Profit
EPS	-8.00p	-27.70p	2.70p	Loss to Profit

Compel Group plc

	Interim - Dec 93	Final - Jun 94	Interim - Dec 94	Comparision
REV	£ 24,305,000	£ 54,542,000	£ 28,272,000	+16.3%
PBT	£ 993,000	£ 2,062,000	£ 1,194,000	+20.2%
EPS	5.02p	10.35p	5.56p	+10.8%

Computerised Financial Solutions plc

	PF Final Dec - 93		Final - Dec 94	Comparision
REV	£ 3,338,636		£ 3,120,711	-6.5%
PBT	£ 330,233		£ 350,617	+6.2%
EPS	8.39p		3.97p	-52.7%

Computer People Group plc

	Final - Dec 93		Final - Dec 94	Comparision
REV	£ 68,748,000		£ 97,685,000	+42.1%
PBT	£ 1,102,000		-£ 391,000	Profit to loss
EPS	4.37p		-7.76p	Profit to loss

Cray Electronic Holdings plc

	Final - Apr 94		Final - Apr 95	Comparision
REV	£ 271,718,000		£ 264,838,000	-2.5%
PBT	£ 26,168,000		£ 835,000	-96.8%
EPS	8.60p		-0.30p	Profit to loss

CRT Group plc

	Interim - Oct 93	Final - Apr 94	Interim - Oct 94	Comparision
REV	£ 22,427,000	£ 47,348,000	£ 29,187,000	+30.1%
PBT	£ 472,000	£ 532,000	£ 1,285,000	+172.2%
EPS	0.56p	-0.13p	1.42p	+153.6%

DCS Group plc

	Interim - Dec 93	Final - Jun 94	Interim - Dec 94	Comparision
REV	£ 2,604,000	£ 6,375,180	£ 4,007,000	+53.9%
PBT	£ 41,000	£ 426,144	£ 105,000	+156.1%
EPS	0.56p	4.32p	0.88p	+57.1%

DRS Data & Research Services plc

	Final - Dec 93		Final - Dec 94	Comparision
REV	£ 11,133,000		£ 8,798,000	-21.0%
PBT	£ 1,950,000		£ 1,487,000	-23.7%
EPS	4.02p		3.00p	-25.4%

Division Group plc

	Final - Oct 93		Final - Oct 94	Comparision
REV	£ 2,078,000		£ 5,270,000	+153.6%
PBT	-£ 503,000		-£ 1,440,000	Loss both
EPS	-2.10p		-4.30p	Loss both

Eidos plc

	Final - Dec 93		Final - Dec 94	Comparision
REV	£ 130,872		£ 254,225	+94.3%
PBT	-£ 76,928		-£ 107,623	Loss both
EPS	-2.98p		-4.16p	Loss both

Electronic Data Processing plc

	Interim - Mar 94	Final - Sep 94	Interim - Mar 95	Comparision
REV	£ 7,179,000	£ 14,013,000	£ 6,326,000	-11.9%
PBT	£ 2,061,000	£ 4,123,000	£ 1,807,000	-12.3%
EPS	5.12p	10.21p	4.55p	-11.1%

Gresham Computing plc

	Interim - Apr 94	Final - Oct 94	Interim - Apr 95	Comparision
REV	£ 3,068,000	£ 6,507,000	£ 3,803,000	+24.0%
PBT	£ 244,000	£ 708,000	£ 521,000	+113.5%
EPS	0.43p	1.32p	0.98p	+127.9%

INSTEM plc

	Final - Dec 93		Final - Dec 94	Comparision
REV	£ 19,294,000		£ 16,812,000	-12.9%
PBT	£ 1,021,000		£ 1,153,000	+12.9%
EPS	14.80p		16.80p	+13.5%

JBA Holdings plc

	Final - Dec 93		Final - Dec 94	Comparision
REV	£ 74,467,000		£ 90,687,000	+21.8%
PBT	£ 4,610,000		£ 6,131,000	+33.0%
EPS	10.19p		12.13p	+19.0%

Kalamazoo Computer Group plc

	Final - Mar 94		Final - Mar 95	Comparision
REV	£ 60,911,000		£ 60,719,000	-0.3%
PBT	£ 6,355,000		£ 6,815,000	+7.2%
EPS	10.20p		11.80p	+15.7%

Kewill Systems plc

	Final - Mar 94		Final - Mar 95	Comparision
REV	£ 31,780,000		£ 33,667,000	+5.9%
PBT	£ 4,043,000		£ 5,067,000	+25.3%
EPS	23.00p		28.39p	+23.4%

Learmonth & Burchett Management Systems plc

	Final - Apr 94		Final - Apr 95	Comparision
REV	£ 26,406,000		£ 23,761,000	-10.0%
PBT	-£ 746,000		-£ 5,251,000	Loss both
EPS	-3.10p		-24.70p	Loss both

Logica plc

	Interim - Dec 93	Final - Jun 94	Interim - Dec 94	Comparision
REV	£ 106,522,000	£ 228,848,000	£ 121,972,000	+14.5%
PBT	£ 3,211,000	£ 13,543,000	£ 7,220,000	+124.9%
EPS	3.30p	14.00p	7.80p	+136.4%

Lorien Group plc

	Interim - May 94	Final - Nov 94	Interim - May 95	Comparision
REV	£ 7,800,000	£ 17,904,000	£ 11,500,000	+47.4%
PBT	£ 142,403	£ 169,000	£ 414,315	+190.9%
EPS	2.39p	2.65p	6.17p	+158.2%

Lynx Holdings plc

	Interim - Mar 94	Final - Sep 94	Interim - Mar 95	Comparision
REV	£ 7,257,000	£ 21,523,000	£ 12,605,000	+73.7%
PBT	£ 460,000	£ 2,009,000	£ 741,000	+61.1%
EPS	1.15p	4.50p	1.27p	+10.4%

M.A.I.D plc

	Final - Dec 93		Final - Dec 94	Comparision
REV	£ 5,723,000		£ 8,887,000	+55.3%
PBT	£ 603,176		£ 1,285,000	+113.0%
EPS	0.69p		1.14p	+65.2%

MMT Computing plc

	Interim - Feb 94	Final - Aug 94	Interim - Feb 95	Comparision
REV	£ 4,815,000	£ 10,861,498	£ 6,442,000	+33.8%
PBT	£ 1,215,000	£ 2,505,106	£ 1,387,000	+14.2%
EPS	6.40p	13.10p	7.40p	+15.6%

MR-Data Management Group plc

	Interim -Dec 93	Final - Jun 94	Interim - Dec 94	Comparision
REV	£ 19,602,000	£ 40,521,000	£ 21,305,000	+8.7%
PBT	£ 2,660,000	£ 6,348,000	£ 3,136,000	+17.9%
EPS	3.20p	8.00p	4.00p	+25.0%

McDonnell Information Systems plc

	PF Final - Dec 93		PF Final - Dec 94	Comparision
REV	£ 148,480,000		£ 148,911,000	+0.3%
PBT	£ 21,248,000		£ 9,064,000	-57.3%
EPS	13.89p		4.57p	-67.1%

Macro 4 plc

	Interim - Dec 93	Final - Jun 94	Interim - Dec 94	Comparision
REV	£ 12,104,000	£ 24,367,000	£ 12,285,000	+1.5%
PBT	£ 5,400,000	£ 11,211,000	£ 5,685,000	+5.3%
EPS	16.00p	34.20p	16.70p	+4.4%

Micro Focus plc

	Final - Jan 94		Final - Jan 95	Comparision
REV	£ 83,842,000		£ 89,885,000	+7.2%
PBT	£ 21,761,000		£ 8,723,000	-59.9%
EPS	104.30p		32.00p	-69.3%

Microgen Holdings plc

	Interim - Apr 94	Final - Oct 94	Interim - Apr 95	Comparision
REV	£ 29,056,000	£ 58,774,000	£ 34,868,000	+20.0%
PBT	£ 3,441,000	£ 6,173,000	£ 4,470,000	+29.9%
EPS	5.50p	10.00p	7.30p	+32.7%

Microvitec plc

	Final - Dec 93		Final - Dec 94	Comparision
REV	£ 35,170,000		£ 44,146,000	+25.5%
PBT	£ 1,611,000		£ 2,560,000	+58.9%
EPS	2.10p		3.00p	+42.9%

Misys plc

	Final - May 94		Final - May 95	Comparision
REV	£ 93,358,000		£ 153,395,000	+64.3%
PBT	£ 18,612,000		£ 26,345,000	+41.5%
EPS	31.90p		35.10p	+10.0%

On Demand Information plc

	Interim - Jan 94	Final - Jul 94	Interim - Jan 95	Comparision
REV	£ 11,847,000	£ 14,487,000	£ 5,120,000	-56.8%
PBT	-£ 669,000	-£ 2,617,000	-£ 1,333,000	Loss both
EPS	-1.60p	-5.70p	-2.60p	Loss both

Quoted Companies - Results Service

Note: Shaded = Results announced this month.

Oxford Molecular plc

	Final - Dec 93		Final - Dec 94	Comparision
REV	£ 1,409,000		£ 2,765,000	+96.2%
PBT	-£ 1,265,000		-£ 2,906,000	Loss both
EPS	-8.90p		-8.60p	Loss both

P & P plc

	Interim - May 94	Final - Nov 94	Interim - May 95	Comparision
REV	£ 118,900,000	£ 263,930,000	£ 171,700,000	+44.4%
PBT	£ 2,700,000	£ 8,016,000	£ 6,200,000	+129.6%
EPS	2.80p	8.10p	5.30p	+89.3%

Parity plc

	Final - Dec 93		Final - Dec 94	Comparision
REV	£ 19,768,000		£ 88,791,000	+349.2%
PBT	-£ 228,000		£ 4,176,000	Loss to profit
EPS	-1.88p		7.19p	Loss to profit

Pegasus Group plc

	Final - Dec 93		Final - Dec 94	Comparision
REV	£ 7,502,000		£ 4,808,000	-35.9%
PBT	£ 6,930,000		£ 243,000	-96.5%
EPS	72.00p		12.40p	-82.8%

Persona plc

	Final - Dec 93		Final - Dec 94	Comparision
REV	£ 22,862,000		£ 31,537,000	+37.9%
PBT	£ 1,748,000		£ 2,059,000	+17.8%
EPS	10.26p		11.42p	+11.3%

Phonelink plc

	Final - Mar 94		Final - Mar 95	Comparision
REV	£ 1,241,000		£ 2,085,000	+68.0%
PBT	-£ 1,761,000		-£ 3,702,000	Loss both
EPS	-5.00p		-10.40p	Loss both

Proteus International plc

	Final - Mar 94		Final - Mar 95	Comparision
REV	Nil		Nil	n/a
PBT	-£ 6,618,000		-£ 7,925,000	Loss both
EPS	-24.23p		-25.47p	Loss both

Quality Software Products Holdings plc

	Final - Dec 93		Final - Dec 94	Comparision
REV	£ 13,346,543		£ 16,494,732	+23.6%
PBT	£ 553,244		£ 2,512,400	+354.1%
EPS	6.70p		27.50p	+310.4%

RM plc

	Interim - Mar 94	Final - Sep 94	Interim - Mar 95	Comparision
REV	£ 28,745,000	£ 65,493,000	£ 33,596,000	+16.9%
PBT	£ 155,000	£ 3,769,000	£ 1,041,000	+571.6%
EPS	0.60p	15.50p	4.00p	+566.7%

Radius plc

	Final - Dec 93		Final - Dec 94	Comparision
REV	£ 23,273,000		£ 24,866,000	+6.8%
PBT	-£ 1,171,000		£ 1,451,000	Loss to profit
EPS	-3.20p		2.87p	Loss to profit

Real Time Control plc

	Final - Mar 94		Final - Mar 95	Comparision
REV	£ 8,534,000		£ 13,463,000	+57.8%
PBT	£ 1,387,000		£ 1,782,000	+28.5%
EPS	13.30p		20.00p	+50.4%

Rolfe & Nolan plc

	Final - Feb 94		Final - Feb 95	Comparision
REV	£ 12,720,000		£ 14,288,000	+12.3%
PBT	£ 1,573,000		£ 1,512,000	-3.9%
EPS	6.40p		6.70p	+4.7%

Sage Group plc

	Interim - Mar 94	Final - Sep 94	Interim - Mar 95	Comparision
REV	£ 25,400,000	£ 50,888,000	£ 50,622,000	+99.3%
PBT	£ 6,864,000	£ 14,252,000	£ 11,740,000	+71.0%
EPS	22.20p	45.40p	37.30p	+68.0%

Sanderson Electronics plc

	Interim - Mar 94	Final - Sep 94	Interim - Mar 95	Comparision
REV	£ 14,217,000	£ 33,984,000	£ 27,078,000	+90.5%
PBT	£ 2,169,000	£ 4,228,000	£ 2,805,000	+29.3%
EPS	4.00p	7.30p	4.60p	+15.0%

Sema Group plc

	Final - Dec 93		Final - Dec 94	Comparision
REV	£ 501,992,000		£ 596,111,000	+18.7%
PBT	£ 24,855,000		£ 32,034,000	+28.9%
EPS	16.62p		20.98p	+26.2%

Sherwood Computer Services plc

	Final - Dec 93		Final - Dec 94	Comparision
REV	£ 23,561,000		£ 25,069,000	+6.4%
PBT	-£ 1,998,000		£ 79,000	Loss to profit
EPS	-35.78p		-10.73p	Loss Both

Spargo Consulting plc

	Interim - Jun 94	Final - Dec 94	Interim - Jun 95	Comparision
REV	£ 2,854,000	£ 6,016,000	£ 3,329,000	+16.6%
PBT	£ 606,000	£ 1,211,000	£ 192,000	-68.3%
EPS	3.20p	6.29p	0.90p	-71.9%

Standard Platforms Holdings plc

	Interim - Mar 94	Final - Sep 94	Interim - Mar 95	Comparision
REV	£ 749,995	£ 1,305,476	£ 699,119	-6.8%
PBT	-£ 35,640	-£ 143,280	-£ 314,850	Loss both
EPS	-0.90p	-1.10p	-1.50p	Loss both

Superscape VR plc

	PF Interim - Jan 94	PF Final - Jul 94	PF Interim - Jan 95	Comparision
REV	£ 390,121	£ 859,192	£ 478,371	+22.6%
PBT	-£ 73,280	-£ 238,024	-£ 844,662	Loss both
EPS	-2.20p	-6.10p	-15.90p	Loss both

Total Systems plc

	Final - Mar 94		Final - Mar 95	Comparision
REV	£ 2,092,429		£ 2,289,437	+9.4%
PBT	£ 141,918		£ 53,516	-62.3%
EPS	0.96p		0.34p	-64.6%

Trace Computers plc

	Interim - Nov 93	Final - May 94	Interim - Nov 94	Comparision
REV	£ 9,200,000	£ 18,628,990	£ 9,500,000	+3.3%
PBT	£ 216,000	£ 409,901	£ 223,000	+3.2%
EPS	1.20p	2.33p	1.21p	+0.8%

Unipalm plc

	Final - Apr 94		Final - Apr 95	Comparision
REV	£ 10,753,000		£ 17,767,000	+65.2%
PBT	£ 272,000		£ 442,000	+62.5%
EPS	0.89p		1.48p	+66.3%

Vega Group plc

	Final - Apr 94		Final - Apr 95	Comparision
REV	£ 9,703,000		£ 12,516,000	+29.0%
PBT	£ 2,147,000		£ 2,910,000	+35.5%
EPS	10.01p		13.49p	+34.8%

Virtuality Group plc

	Final - Dec 93		Final - Dec 94	Comparision
REV	£ 5,400,000		£ 9,126,000	+69.0%
PBT	-£ 365,000		-£ 1,397,000	Loss both
EPS	-1.70p		-5.30p	Loss both

Vistec Group plc

	Final - Apr 94		Final - Apr 95	Comparision
REV	£ 45,018,000		£ 50,172,000	+11.4%
PBT	£ 3,409,000		-£ 327,000	Profit to loss
EPS	2.06p		-0.38p	Profit to loss

Wakebourne plc

	Final - Dec 93		Final - Dec 94	Comparision
REV	£ 22,275,000		£ 35,336,000	+58.6%
PBT	-£ 18,649,000		£ 1,865,000	Loss to profit
EPS	-143.80p		4.00p	Loss to profit

Admiral continues to prosper

Results from **Admiral** for the six months to 30th June 95 justly support the 13% rise in their share price so far this year. Revenues were up 23% at £30.2m, PBT was up 75% at £5.6m and EPS increased by 72%. But £2.23m of the profit resulted from the exceptional gain on the disposal of their remaining 49% stake in the joint venture with **Powersoft**. But even if you strip our all the Powersoft related activities, revenues grew by 36% and operating profits by 34%.

We had at one time been concerned that the exceptional profit from the Powersoft deal in 1994 might result in the first ever reduction in EPS for Admiral in 1995.

The *highlight* of the last 6 months was the acquisition of **Delphy** consultants in Belgium for £5.4m - about the biggest Admiral acquisition on record. But the previously announced French purchase has not been consummated *"as the company has accepted a significantly higher offer from another organisation"*. We always admire people with the courage to walk away from a deal.

Clay Brendish never uses the *"confident"* word. Instead he says *" it is certain there will be challenges ahead. However, I am equally certain that we have the capability and resolve to meet whatever comes our way"*.

Capita

On our press day, **Capita** announced *"pleasing"* results for the six months to 30th June 95. PBT increased 48% to £4m on revenues up 42% at £43.4m. EPS was up 32%. *More next month.*

Acquisitions, disposals and liquidations

US third party software reseller **Catalink** has bought UK **Lantec** just two months after Lantec bought **Rapid Recall** from **Metrologie**. Mail order company **Highland Technologies** has appointed the receivers. **Pegasus** has sold its minority holding in **Access Publishing** back to the company for £85K.

CRT has acquired IT contract staff agency, **Caledonian Systems Resourcing**, for £70K cash. CSR has revenues of £311K. TPM **ND ServiceTeam** (which reported profits of £400K on revenues of £16.4m in the year to 31st Dec. 94) has acquired the maintenance activities of **Videcom,** which recently reported a loss of £34K on revenues of £4.5m in 1994. **CSK Ireland Ltd.** (a subsidiary of Japanese CSK Corp.) has acquired Dublin-based **Quay Financial Software Ltd.**

CSC acquires Oxford Consortium

Differentiating an outsourcing deal from an acquisition is getting increasingly difficult. **CSC** paid about £70m for assets as part of the BAe outsourcing deal - which we excluded from our acquisition statistics, Then they "bought" two real Lucas companies as part of their outsourcing deal, although we suspect not for a particularly high consideration.

This month CSC has *"purchased the **Oxford Consortium,** the information services unit of the Anglia and Oxford Regional Health Authority for an undisclosed amount"*. The Consortium services 80 hospitals, has 230 employees, a data centre in Oxford and annual contracted revenues of around £10m.

In a *totally unbiased* statement, CSC CEO Van B Honeycutt said *"we're proud to support the UK government as it seeks to privatize services like IT that can be run more efficiently by the private sector"*.

JBA consummates first purchase

In its first acquisition since its float on the Stock Exchange in June 94, AS/400 software solutions provider, **JBA** ,has acquired German **Ratioplan** for an initial DM3.9m (£1.75m) in shares and a further element related to profits to 1999 up to a maximum of DM22m.

Ratioplan, which employs 170 staff, reported sales of DM31m (c£14m) and profits of DM1m *"before restructuring costs"*.

Safetynet provides safety net for PSL

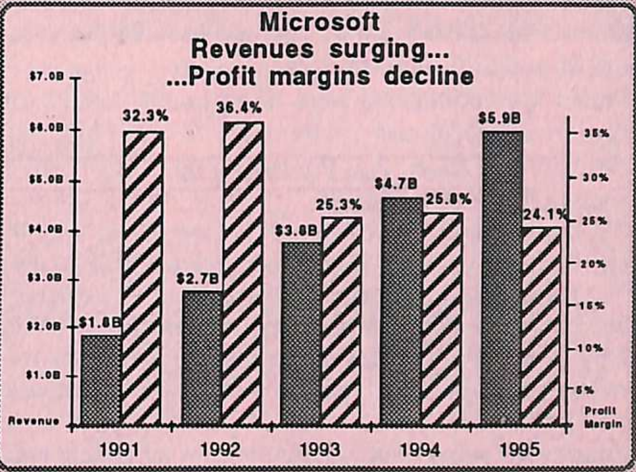
Safetynet is a disaster recovery company specialising in IBM mid-range systems. In Dec. 93, founder directors Paul Barry-Walsh and Paul Hearson, sold a 20% stake to **Reuters** for £5m. Given that Safetynet revenues were just £9.4m and PBT was £1.6m in the year to Mar. 94, a £25m valuation seemed quite exciting!

This month Safetynet has acquired **PSL Ltd.**, which had been in financial difficulties for some time, for an undisclosed amount. PSL was in the same dealing room/ AS/400 disaster recovery activities as Safetynet. PSL was itself an MBO from the **DSL Group** as recently as Mar. 95.

Our latest profit margin survey highlighted the high margins which *could* be achieved at such disaster recovery companies. **Computer Disaster Recovery** (part of **Granada**) reported a 33% margin last year and **Guardian** achieved a 26% margin in the year before its sale by **ICL**.

Declining margins at Microsoft

Microsoft reported revenues up 28% at $5.9b and profits up 26.8% at $1.45b in the year to 30th June 95. It was a superb performance, of course, but we should point out that it provides further evidence of declining profit margins at product companies. Margins were 36% back in 1991 & 92 but had slipped to 24% last year.



MS's Steve Ballmer said that their applications face hyper aggressive price competition from *"desperate competitors"* like Novell and Lotus/IBM.

We expect MS products margins will continue to be eroded. But we expect the growth in information services to compensate for that in the years to come. A theme familiar to anyone who has attended our presentations in the last few years.

One of the key services which MS had expected to offer was on-line banking. This was the key reason for the now aborted takeover of **INTUIT**. INTUIT has, this month, gone ahead on its own by forming an alliance with 19 leading US banks. The US banks are *"hedging their bets"* however by signing a similar deal with MS's Money. Source - Computergram - 17th July 95. As readers know, we still suspect an MS/Sage deal to achieve the same end.

For what it's worth, we think that on-line banking will hit the established banks very hard. Few, it would seem, are currently taking the threat as seriously as they should.

Services leaders report strong growth

As we reported last month:

- **IBM** is the world's largest supplier of software and services.
- **EDS** is #2 and, as they so often point out, the #1 *"hardware independent"* supplier.

It is therefore of more than passing interest that both organisations have this month reported very strong SCSI growth in Q2.

- IBM's Services revenues grew by 32.6% to $3b; now catching up with Software, which had a lower 12.7% growth to $3.1b. Maintenance revenues grew again - but by just 4.5%.
- EDS also recorded a 27% increase in Q2 revenues to almost $3b. Profits grew by a rather lower 15% to $227m. Most of the growth is from "non-GM" accounts which now account for over two thirds of revenues. The UK is one of EDS' star operations with major outsourcing deals at DSS and their first entry into the local government arena with the *"record breaking"* 8-year deal at Brent Council.

Whoever's forecast you take, these results show growth of at least twice the industry average. In other words, the already big are increasing their dominance of the sector.

Tax man clobbers Spargo Consulting

Spargo Consulting was one of the last of the SCSI new issues back in June 94 at 95p. They were of particular interest to us as they are engaged in application management (AM) and had consistently reported profit margins of 20% due to *"tight control of costs"* and long term contracts with blue chip customers.

Results for the six months to 30th June 95 show revenues up 17% at £3.3m but PBT reduced from £606K to just £192K and EPS down by 72%.

Profits from operations were down from £112K due to *"planned increased investment in new business development costs"*. I.e. the setting up of their new IT agency business in Mar. 95.

But the big profits hit related to a *"one-off full and final payment to the Inland Revenue in respect of employees PAYE and NIC on round sum allowances"*. To be fair, this liability was noted in the placing document but, at that time *"the directors were of the opinion that there were reasonable grounds to refute the claim and no provision has been made"*. This issue has been around in the industry for some time. As Spargo now admit that it had applied for dispensation for these round sum allowances in 1989 but had *"been refused"*, we are surprised that it both continued the practice and underestimated the consequences.

There is a rather darker side to this. Chairman Bob Morton and MD Tony Spargo are also the majority shareholders. When they floated they invoked the dubious practice of reducing their remuneration and adjusting the accounts back in previous years as if a lower amount had been taken then too. The adjustment was well worth their while. Rather than the ludicrously high P/E of 37 without the adjustment, they floated on a P/E of 22 (about average at the time!) and were the only recipients of the £3m raised. Providing for the Inland Revenue claim last June could have depressed the valuation quite considerably. Perhaps because of this, Morton and Spargo have *"waived their entitlement to the interim dividend amounting to £163K"*. Trading at the IT staff agency operation *"has started slowly"* and *"current trading in consulting is steady"*. This seems somewhat less positive than the views expressed six months ago. Current estimates are that profits in the second half will be less than the same period in 1994; making around £900K for the full year.

Spargo shares fell 13% to 70p this month.

DCS starts to motor in France

Not content with the **CSI** acquisition last month, **DCS** has taken a 20% stake in French **GBM** in a deal worth £750K. GBM - like DCS - is involved in systems for motor dealers. DCS has options to increase the stake to 100% at a price dependent on future profits. GBM had revenues of £8m and PBT of £309K in the year to 31st Dec. 94.

Angels *"encouraged"* at Standard Platforms

Standard Platforms was on the point of collapse when a group of 30 *"private business angels"* moved in at 5p per share in May 94. In Feb. 94, they organised another rescue - raising £1.5m of new funds at 12p.

Latest results for the six months to 31st Mar. 95 show revenues down 7% at £699K but losses increased from £36K to £315K. The future depends on the success of newly announced Flowfile workflow product and its Navigator standard imaging product. Shares closed at 17p - showing a healthy 240% return for the angels so far.

Do they really know what they are doing?

We have tended not to get involved in any political arguments in *System House*, but the shambles consequent on the Greenbury report relating to share options clearly affects many in the industry. Although we do not like the "one-way" bet attributes of share options - preferring employee investors to risk losing money as well as making it (as in the FI, CMG etc. schemes) - we know that most in the industry have implemented such schemes widely over the last 10 years. Almost every recipient we know of is far from a *"fat cat"* and the new tax rules could have hit them quite severely. We were appalled at the lack of sensible tax advice given to both Greenbury and the Chancellor in this matter.

But, in the same week, we had made an appeal to Kenneth Clarke to tax short term gains severely but allow long term gains, say over 5 years, to be exempt. In our *"evidence"* we quoted the then UK-owned SCSI company whose largest institutional investor had bought and sold its shares some 16 times over the previous decade thus contributing to a *"roller coaster"* share price. This contrasted with the French SCSI company which acquired them, where their main institutional investor had held its shares continually for 15 years.

The UK needs long term investors who would take an announcement that *"we intend to make a major acquisition which will depress short term earnings but will have a major benefit over the longer term"* without the usual knee jerk reaction of *"OK, I'll sell now and rebuy in a year's time when the share price has fallen"*.

We were therefore depressed (rather than really surprised) to receive a letter from Mr. R Evans of the Inland Revenue Capital and Valuation Division saying that they could not see how my suggestions *"would be of benefit"*. *"The fact that an investor sells a share at once, or holds on to it for twenty years **does not affect the company in any way**"*. With quality advice like that, is it any wonder we get such poor policy decisions?

Footnote Assuming the Greenbury recommendations are adopted, all Stock Exchange listed companies (and all private companies which aspire so to be) will have to *"publish an annual report detailing each director's pay, including all its elements (basic pay, bonuses, share option grants, pension contributions etc.)"*. We anticipate a whole new Holway Report analysis in 1996!

Reuters warns of trading slowdown

As we have said on many previous occasions, **Reuters** is probably the largest UK-owned SCSI provider. Latest results for the six months to 30th June 95 show PBT up 17% at £288m on revenues up 19% at £1.3 billion. But Reuters warned that *"a sharp down turn in profits and revenues was likely next year"*. Merger activity amongst its largest financial services clients was blamed. The *"consolidation in banking"* could well hit many others in the sector. All this could well push Reuters more into non-financial SCSI markets - like medical and corporate information. This *"might well entail acquisitions"*. Source - The Times 27th July 1995.

SAP soars

German **SAP** grew its revenues by 67% to DM1.15 billion and profits were up 80% at DM233m. SAP described growth this year as *"tempestuous"* - the first recorded use of the word in company results announcements. SAP now has a market value of DM20 billion.

A month of big SCSI Stock Exchange gains, *at last!*

Our CSI Index was up nearly 8% this month compared with a 4.7% gain in the FTSE 100.

Superscape shares soared by 75% as Dutch group **Voladram Investingen** took a 5% stake at 251p per share raising £655K new funds. Interestingly, Voladram is an investment fund sponsored by Robert Madge of **Madge Networks** fame. **Oxford Molecular** were up *another* 53% on the Glaxo deal announced in June. **Lorien**, the first SCSI AIM new issue (see p 4), was up 45%. **Sherwood** continued its rebound - up 26% this month; that's a *mere* 119% increase so far in 1995! **Cray** put on 25% from its low. Results (p11) seems to indicate that the *"worst is over"*.

An unprecedented 11 stocks were up >20% and 23 up >10%. Please remember our *"there has never been a better time to invest in the industry"* message.

Standard Platforms (p8) - down 23%, **Phonelink** (p2) - down 18% , **Total** (p3) - down 16%, **Spargo** (p8) - down 12%, were the only companies to record major declines.

28th July 95	CSI Index	1685.28
	FTSE 100	3468.90
CSI Index = 1000 on 15th April 1989	FTSE SmallCap	1917.08

Changes in Indices	CSI Index	FTSE 100	FTSE Small Cap
Month (30/6/95 - 28/7/95)	+7.87%	+4.66%	+4.40%
From 15th Apr 89	+68.53%	+68.92%	
From 1st Jan 90	+83.16%	+46.86%	
From 1st Jan 91	+138.08%	+60.57%	
From 1st Jan 92	+61.29%	+39.14%	
From 1st Jan 93	+5.75%	+21.87%	+38.18%
From 1st Jan 94	+0.94%	+1.48%	+2.59%
From 1st Jan 95	+12.41%	+13.16%	+9.77%

System House CSI Share Prices and Capitalisation

	Share Price 28/7/95 (£p)	Capitalisation 28/7/95(£m)	Historic P/E	Ratio Cap./Rev.	CSI Index 28/7/95	Share price % move since 30/6/95	Share price % move in 1995	Capitalisation move (£m) since 30/6/95	Capitalisation move (£m) in 1995
Admiral	£7.21	£88.70m	18.8	1.79	5224.64	6.81%	13.54%	£5.70m	£16.30m
Azlan	£2.20	£48.00m	17.6	0.53	956.52	15.18%	64.18%	£6.40m	£18.70m
Capita	£2.18	£119.20m	22.4	1.62	6531.53	20.83%	32.62%	£20.60m	£29.70m
Cedardata	£1.20	£36.70m	15.2	4.11	1142.86	4.35%	18.81%	£1.50m	£5.80m
Centregold	£0.52	£22.40m	7.1	0.25	416.00	4.00%	-55.17%	£0.90m	-£24.30m
Clinical Computing	£0.36	£5.83m	5.7	3.97	290.32	12.50%	-46.27%	£0.65m	-£5.07m
Coda	£1.29	£33.80m	13.4	1.45	548.94	2.38%	67.53%	£0.80m	£13.60m
Compel	£1.28	£19.50m	12.4	0.36	1024.00	12.28%	17.43%	£2.10m	£2.90m
Computer People	£2.89	£70.80m	35.8	0.72	1189.30	-0.34%	19.42%	-£0.20m	£11.50m
Computerised Financial	£0.76	£3.57m	21.4	1.14	844.44	-2.56%	-26.21%	-£0.10m	-£1.27m
Cray Electronics	£0.70	£166.00m	Loss	0.63	409.36	25.00%	-56.66%	£33.40m	-£217.40m
CRT	£0.89	£59.90m	21.9	1.27	988.89	-5.32%	12.66%	-£3.40m	£6.70m
DCS Group	£0.77	£14.60m	21.6	2.29	1283.33	-1.28%	5.48%	£7.19m	£7.69m
Division Group	£0.82	£36.00m	Loss	6.83	2050.00	10.81%	-29.91%	£3.50m	-£3.50m
DRS Data & Research	£0.26	£9.33m	6.8	1.06	236.36	13.04%	-18.75%	£1.07m	-£2.07m
Eidos	£4.00	£10.80m	Loss	43.20	4000.00	17.65%	31.15%	£1.62m	£1.98m
Electronic Data Processing	£1.40	£36.70m	14.5	2.62	4286.59	7.69%	-2.10%	£2.60m	-£0.80m
Gresham Computing	£0.38	£12.40m	20.4	1.90	408.60	22.58%	2.70%	£2.30m	£0.30m
INSTEM	£1.25	£5.62m	7.4	0.33	1250.00	0.81%	-16.67%	£0.04m	-£1.18m
JBA Holdings	£1.91	£63.40m	16.3	0.70	1193.75	23.23%	25.66%	£11.90m	£13.20m
Kalamazoo	£1.00	£19.40m	8.5	0.32	2857.14	7.53%	-8.26%	£1.40m	-£22.10m
Kewill	£2.80	£34.40m	10.0	1.02	1106.72	-0.71%	17.15%	-£0.30m	£5.40m
Learmonth & Burchett	£2.50	£54.80m	Loss	2.31	2083.33	-8.42%	212.50%	-£5.00m	£37.40m
Logica	£4.23	£262.70m	22.7	1.15	1158.90	12.80%	30.15%	£29.80m	£61.90m
Lorien	£1.45	£8.27m	54.7	1.04	1450.00	45.00%	45.00%	£2.97m	£2.97m
Lynx Holdings	£0.44	£22.20m	10.2	1.03	1100.00	2.33%	-6.38%	£0.40m	£2.40m
Macro 4	£4.73	£102.60m	13.3	4.21	1907.26	6.77%	7.99%	£6.50m	£7.60m
MAID	£0.83	£67.50m	72.4	7.59	754.55	-2.35%	20.29%	-£1.60m	£11.40m
McDonnell IS (MDIS)	£0.85	£84.50m	18.5	0.58	325.00	-9.63%	-16.34%	-£9.00m	-£16.50m
Micro Focus	£7.45	£112.50m	23.3	1.25	3599.03	-3.25%	-9.15%	-£3.80m	-£5.60m
Microgen	£1.60	£63.00m	13.7	1.07	683.76	24.03%	56.86%	£12.20m	£22.80m
Microvitec	£0.41	£29.80m	13.8	0.67	987.80	9.46%	10.96%	£2.60m	£6.50m
Misys	£4.82	£402.50m	13.7	2.62	1199.00	20.80%	17.85%	£69.30m	£207.80m
MMT	£1.93	£22.20m	13.6	2.04	1148.81	2.12%	-5.85%	£0.80m	-£0.90m
MR Data Management	£0.67	£37.40m	8.3	0.92	265.87	-2.90%	-39.09%	-£1.10m	-£24.00m
On Demand	£0.73	£37.20m	Loss	2.57	935.90	7.35%	8.96%	£2.50m	£3.00m
Oxford Molecular	£1.19	£61.60m	Loss	22.24	1487.50	52.56%	98.33%	£27.70m	£39.50m
P&P	£1.14	£90.40m	11.5	0.34	511.21	1.33%	54.05%	£1.20m	£32.50m
Parity	£1.36	£57.00m	18.9	0.64	7555.53	0.74%	7.94%	£0.40m	£10.80m
Pegasus	£1.89	£11.90m	14.1	2.47	514.99	0.00%	26.00%	£0.00m	£2.51m
Persona	£2.17	£26.30m	19.0	0.83	1356.25	8.50%	35.63%	£2.10m	£7.00m
Phonelink	£1.87	£66.40m	Loss	31.77	1206.45	-17.62%	-12.21%	-£14.20m	-£9.20m
Proteus	£0.81	£26.50m	Loss	n/a	964.29	17.39%	-53.71%	£3.90m	-£27.90m
Quality Software	£5.48	£47.70m	18.8	2.89	1442.11	11.38%	43.08%	£4.90m	£14.40m
Radius	£0.45	£12.50m	15.6	0.50	326.09	15.38%	18.42%	£1.70m	£1.90m
Real Time Control	£1.80	£12.60m	9.0	0.94	3673.47	-1.10%	5.26%	-£0.10m	£0.60m
RM	£2.39	£40.20m	13.1	0.61	1365.71	11.16%	16.02%	£4.00m	£5.50m
Rolfe & Nolan	£1.90	£23.20m	28.3	1.62	2261.90	15.15%	2.70%	£3.10m	£0.80m
Sage Group	£10.23	£218.90m	16.9	4.30	7869.23	6.90%	51.78%	£14.10m	£78.00m
Sanderson Electronics	£1.01	£41.40m	13.8	1.22	1719.15	6.32%	27.85%	£2.40m	£11.00m
Sema Group	£3.97	£370.00m	18.9	0.62	1248.43	3.66%	-2.70%	£13.00m	-£8.60m
Sherwood	£1.75	£12.40m	Loss	0.49	1458.33	25.90%	118.75%	£2.53m	£7.52m
Spargo Consulting	£0.70	£8.75m	16.8	1.45	736.84	-12.50%	-23.08%	-£1.25m	-£2.65m
Standard Platforms	£0.17	£5.32m	Loss	4.06	75.55	-22.73%	21.43%	-£1.57m	£2.80m
Superscape	£3.17	£16.80m	Loss	19.53	1601.01	75.14%	55.39%	£7.21m	£6.00m
Total	£0.21	£2.10m	21.8	0.92	396.23	-16.00%	-40.00%	-£0.40m	-£1.40m
Trace	£0.36	£5.04m	16.7	0.27	288.00	2.86%	-12.20%	£0.14m	-£0.69m
Unipalm	£2.94	£60.30m	198.6	3.39	2940.00	24.58%	149.15%	£11.90m	£36.40m
Vega Group	£2.85	£40.50m	21.1	3.24	2336.07	-1.72%	8.37%	-£0.40m	£3.30m
Virtuality	£1.96	£54.30m	Loss	5.95	1152.94	-3.45%	-11.31%	-£1.90m	-£3.50m
Vistec	£0.15	£17.90m	57.6	0.36	630.43	0.00%	11.54%	£0.00m	£1.90m
Wakebourne	£0.39	£8.58m	6.9	0.24	216.67	-3.70%	-50.63%	-£0.33m	-£7.92m

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.

"Confidence" justified at Real Time Control

Real Time Control (RTC) develops software and systems for retail EPOS applications. The recession hit them badly in 1993. But two years ago, in the Aug. 93 edition, we wrote a rave review forecasting *"an end in sight for the difficult times at RTC"*.

As all readers know, we are not (indeed must not be) a share tipster. But you could have bought RTC shares upon reading that article for 75p - now they will cost you 180p or a pretty healthy 140% gain.

Chairman Byron Carrell has an excellent record of realistic/ cautious statements. Unlike others mentioned in this edition, he only uses the *"confidence"* word when he is about to deliver the goods. Six months ago he was *"confident that the full results will show good progress"*. It did, indeed, come to pass. Results for the year to 31st Mar. 95 showed revenues up 58% at £13.5m, PBT up 28% at £1.8m and EPS up 50%. Interest received increased 28% to £308K.

In the year, RTC brought a new range of Windows-based retail software products to market and installed their systems in a *"complex large department store environment for the first time"*.

The retail market may involve *"uneven timings of revenues"* but it also offers *"long term growth prospects"*.

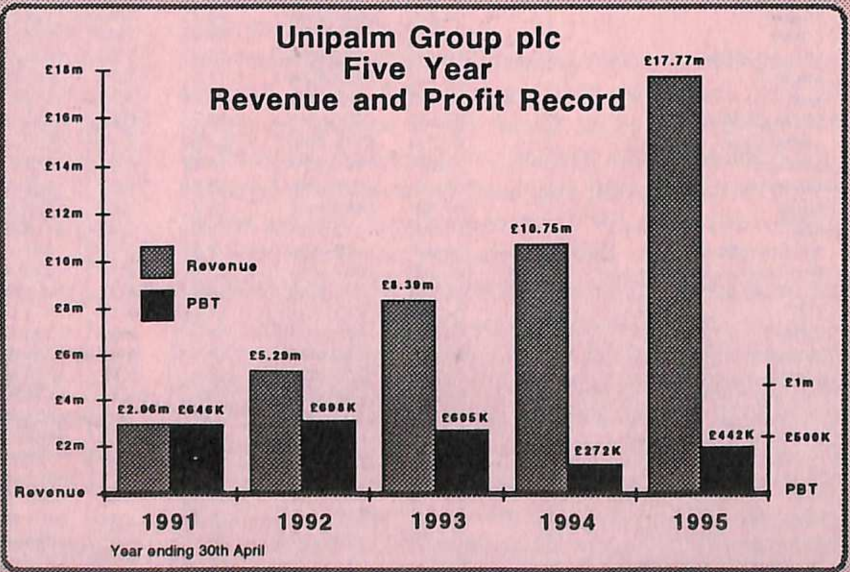
Carrell uses the *"confidence"* word again to describe the current year, so we feel justified in joining with him in *"looking forward to reporting further significant progress"*.

Unipalm rockets into Cyberspace

Only two of the 21 companies which floated in the *"Great New Issue Era"* of 1993/94 have turned out, so far, to be stars. One of the two is **Unipalm**. Launched at 100p in Mar. 94, Unipalm closed July on 294p, valuing them at £60m. Results to 30th Apr. 95 showed revenues up 65% at £17.8m, PBT up 63% at £442K and EPS up 66%. We were also delighted to see that Unipalm (see July's *System House*) has now stopped capitalising R&D, so all the profit is *"real"*.

Unipalm's two main business areas are:

- **TCP/IP networking software business** which increased revenues by 50% to £14m and doubled PBT to £1.5m. The first half was *"somewhat disappointing"* but a new sales director contributed towards a better second half.
- **Internet services**, where revenues increased by 263% to £3.8m but losses *"due to continuing heavy investment in, and rapid growth of, Pipex"* increased from £444K to £1.8m.



Although the LAN and WAN networking activities are clearly performing well in their own right, it is Pipex which is causing all the excitement. Pipex customers are growing at about 10% per month and now number 654. (*"The lack of an Internet address may soon become the commercial equivalent of being ex-directory"*). It is therefore an indication of the current small size of the market that Unipalm claims 70%-80% of the corporate Internet access market in the UK. But Unipalm reckons that it will be adding 1000 customers a month in a few years time. Chairman David Thorp said that Unipalm's aim *"is not to maximise our short term profits but to maximise our customer base and hence our future profits"*. Indeed, Pipex is unlikely to be profitable before 2000.

Comment Unipalm is not only the first Internet access provider to be quoted anywhere in the world, but is also British and chose the London market. It has achieved the kind of 150+ P/E previously reserved for NASDAQ companies. Unipalm is exactly the kind of company we need. It carries a torch that could lighten the way for many others. But it is also high risk and the light could so easily flicker. That could have a negative effect far outside the confines of Unipalm. *For all of our sakes, we wish them well.*

"Reshaping" at Kalamazoo

We reported the headline results from **Kalamazoo** last month. In the year to 31st Mar. 95 revenues were static at £61m, PBT was up 7% at £6.8m and EPS advanced 16%. This conceals major differences in performance at the different divisions:

Motor Trade *"had an excellent year"* and increased revenues by 9% to £29.9m. The acquisition of **MAI** means that Kalamazoo is now market leader in Holland as well as the UK.

Computer Solutions, however, has seen its profits depressed by losses in their training division. Revenues fell 21% to £13.9m.

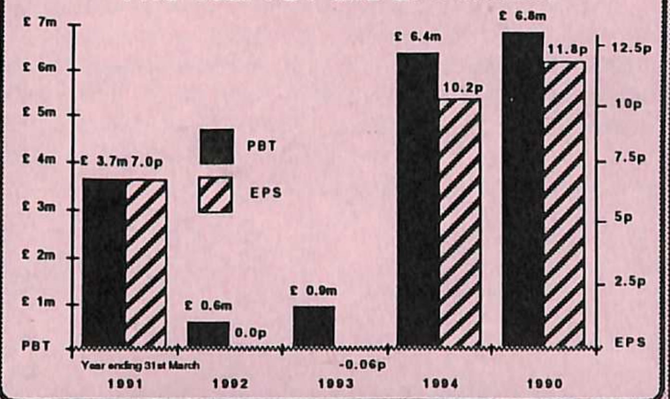
Printed Systems (the historic core of Kalamazoo) increased profits by 7% to £2.5m despite a £1m reduction in revenues to £17m.

Kalamazoo has consummated the following acquisitions in the last year:

- **WIS** (Oracle-based manufacturing and distribution systems) for £1.8m + a further £4m *revenue* related. *"This extremely exciting acquisition has performed better than expected"*.
- **GMT Tickets** (security printing) for £700K max.
- **MAI Systems** (Dutch motor dealer systems).
- **ET Hi-Tec Ltd.** (attendance software) for £250K.
- **Wembrook** (manufacturing systems).

The boardroom has made its own news in the year. CEO Mike Langmore departed in Feb. 95. At least the Chairman's statement acknowledges the *"valuable contribution he made during 8 years of service"*. His time in the last couple of years as CEO saw record performance as the chart shows. No replacement has so far been announced.

Kalamazoo Computer Group plc
Five Year PBT and EPS Record



Further investment in motor trade products will *"have an impact on the results in the first half"*. Despite the *"challenges to be faced in the coming year"*, Chairman Peter Harrop remains...*"confident"*.

Computacenter finds *"it's good to talk"*

We don't usually cover sales contracts, but this month **BT** awarded **Computacenter** a three year contract to supply desktop computing worth around £60m a year. It is the largest such contract ever awarded in the UK.

ZDS was the current BT supplier and must be smarting a little by losing its largest UK customer. **Hoskyns** had decided to pull out of contention as the contract had too small a services element.

Free software... Just as we predicted, **Microsoft** has decided to give the Windows 95 version of Money programme away for free until 31st Oct.

Cray

Electronics

Chairman Roger Holland described Cray's performance in the last year as *"very disappointing"*. Given that our review just a year ago ended with a £33m PBT forecast, but the actual result was just £835K, you can imagine how inadequate his words seem to be. What makes it even more difficult to forgive is that we, like as far as we can see every other analyst, had written eulogies and were taken totally by surprise. The problems were confined to **Cray Communications** where, to put it bluntly, the management control was lamentable.

Year ending 30th April	1995	1994
Revenue	£265.0m	£272.0m
Operating profit	£10.3m	£26.3m
Restructuring costs	-£9.0m	
PBT	**£0.8m**	**£26.2m**
EPS	-0.3p	8.6p

Now ex-Cray employees are starting to air their criticisms openly. We had thought of likening the effect on the reputations of Holland and Richards with the recent episode involving Hugh Grant. *But we now suspect Grant's reputation may recover rather sooner!*

The awful news at Cray Communications hides an *"excellent"* performance at Mike Shone's **Cray Systems**. Here revenues increased from £58m to £73m (although some of this was due to the inclusion of parts of P-E) and profits were up 36% at £6.1m. Indeed, if you add **P-E International** (revenues £36.6m, profits £1.8m) Cray's SCSI revenues now amount to £110m. *"The fastest growing sector at Cray Systems last year was FM...recurring revenues from FM contracts and other services now represent more than 15% of Cray Systems revenues"*. P-E International *"concentrated on improving profit margins to 5%"*. I.e. £1.8m profits on rev. of £36.6m.

On a brighter note, there seems to be widespread relief that the worst seems to be over and Cray is trading profitably again. Analyst expect £16m PBT this year.

Cray's share price jumped 25% this month on the results. But that's still a third of the high of over 200p and half the price the day before the profits warning bombshell in April. At a prospective P/E of 15, *"only bid speculation justifies the 12% premium to the market, for the management still has a lot to prove"*. Source - FT 13th July 1995.

Comment This *"organ"* is really only interested in Cray's SCSI activities. With revenues of £110m, they now start to rank in the UK and in Europe.

The recovery plan for Cray Communications in some respects takes them away from hardware manufacture (much of this will now be outsourced) and into services - i.e. installing communications networks. So perhaps our long held *"services, not products, is the place to be"* message is eventually getting through to the other part of Cray too.

Cray's shareholders are to be asked to endorse a share buy back *"to boost Cray's EPS"*. As readers know, we have criticised such schemes when announced by the likes of Macro 4 and ACT. If Cray wants to use its spare cash to boost EPS it should acquire further SCSI activities. But - even before the current disasters - Cray *seemed* to find the right candidates at the right price difficult to locate. It is interesting to surmise that ,with a current capitalisation of £166m, Cray's SCSI activities now probably represent a majority of their value. The return on past acquisition investment in this side of the business has been excellent.

Spot the difference...

Misys Newsflash July 1989

In July this year, **Misys** share price has hit 450p. Since the start of the preceding calendar year, Misys has made acquisitions for considerations of over 150% of their own market capitalisation at the start of the period. Latest results show an impressive 150%+ increase in PBT but EPS grew by around a third of that rate. Analysts are forecasting that profits will nearly triple in the coming year. This would infer a prospective P/E of just 12 - a significant discount to the market.

"I am delighted to report a most successful year which has...positioned the group in the forefront of the computer services industry in the UK...your board remains confident that the group will make further good progress in the current year". Kevin Lomax - July 1989.

Misys Newsflash July 1995

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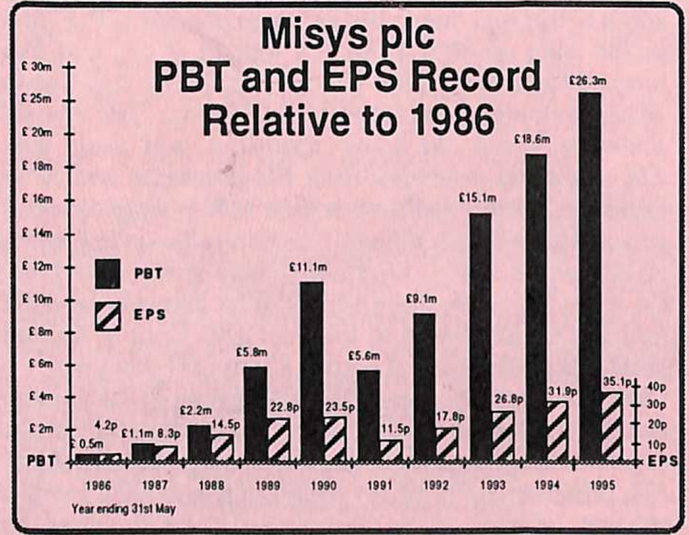
"I am delighted to report significant further progress...the Group is now strongly positioned as one of the largest application software products companies in the world...we look forward to good further progress in the current financial year". Kevin Lomax - July 1995.

What happened next?

Rather than the £15m expected, Misys made PBT of £11.1m in 1990 and sank to PBT of £5.6m in 1991. Likewise the share price plummeted from 450p+ to a low of 68p at the end of 1990. For a while Misys was forced to give up its acquisition ambitions and concentrated on organic growth. Since 1989, Misys PBT has grown from £5.8m to £26.3m - an impressive 28.7% CAGR. EPS has, however, grown from 22.8p to 35.1p - a rather unimpressive 7.45% CAGR.



Misys results for year to 31st May 1995 show revenues up 64% at £153.4m, PBT up 42% at £26.3m - marginally lower than the £27m expected - and EPS up 10%. ACT, acquired for £193m in April 95, contributed £19.6m revenues and PBT of £1.8m. Excluding ACT, Misys grew PBT by 36% and EPS by 16.7%. From net cash of £33m in May 94, Misys ended May 95 with net borrowings £12.4m. Borrowings had been as high as £30.3m at the peak, reflecting the cash element of the ACT purchase.

Misys has *"prudently"* changed the income recognition policies of ACT to *"match revenue with expense".* That means that £30m of revenue has been passed over for recognition into Misys' period of ownership. A further £21m property revaluation adjustment and redundancy & reorganisation provisions of £18m have been made.

What will happen next? The consensus view of the analysts is a 80%+ increase in PBT to £50m but a more modest 20% increase in EPS in 1995/96. Misys has put away as many provisions as it could to help achieve this. The new profile of the business means that profits will come in the 2nd half. All our input confirms that the ACT deal is indeed going *"according to plan"* and that Lomax has not found any *"black holes".*

So perhaps the abrupt reversal in fortunes experienced in 1990 will be avoided this time. *But that still leaves the following year.* The problem is that everytime Misys has a rising share price it makes even more acquisitions. Another mega deal in a foreign land could just be the Achilles heel.

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