System House

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

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Cray's superb performance...

Results for the full year to 30th Apr. 93 at **Cray Electronics** were even better than expected. PBT was up 1100% to £29m but this included several one-time gains. An exceptional profit of £12.6m came from the sale of Malvern to Burnfield and £3.4m in foreign exchange gains. Even at the "normal trading" level, PBT was up 550% at £17.6m.

Revenue comparisons are equally difficult. Clearly **Dowty IT**, which was acquired for £50m in Jul. 92, was the major contributor - £98m in a 9 month period. Dowty also contributed £7.2m profits in the period which must make the purchase about the most astute on record. But Cray's other businesses increased revenues by 40%. Even if full year figures from Autofile are excluded, organic growth was an exemplary 16%.

Cray is now organised into three main divisions:

- **Cray Communications** - £127m or 68% of continuing revenues and trading profit of £12.7m

"The strategy for Cray Communications is to pioneer the integration of Local and Wide Area Networking".

- **Cray Systems** - £35.2m or 19% of continuing revenues and trading profit of £3.7m

Cray Systems consists of **Autofile** and what was at one time known as Marcol. Autofile was the "new" Cray management's first acquisition in Mar. 92 for £16.8m. Autofile's performance has exceeded all expectations - *"producing profits 24% ahead of budget"*. Space has also been successful, *"particularly satellite simulation and mission control"*. *"Overall, the overseas sales of Cray Systems now account for more than 50% of revenues"*.

- **Cray Technology** - £25.2m or 13% of continuing revenues and trading profit of £909K.

"The acquisition of the Dowty IT business has transformed Cray Electronics into an international force"

Financial Times - 14th July 1993

"Since 1989, debt of £50m has been eliminated and a cash surplus of £12m produced. A loss of £3.3m has been transformed into a profit of £17m, share price has improved by 200% and the company is now in a strong position for future growth"

Cray Electronics Chairman's Statement July 1993

"At first sight, the £27m bonus shared by executive directors of Cray Electronics for a scant four year's work looks like another example of corporate Britain with its snout in the trough.... Proper judgement of the package cannot, however, ignore the ***tremendous achievements of the Cray team which rescued a directionless and deeply indebted electronics group from almost certain receivership****"*

Tempus - The Times - 14th July 1993

Cray Electronics

Cray Electronics plc

Financial Results Year to 30th April 1993

	Yr to 30/4/93	Increase
Revenue		
• Total	£200.8m	137%
• Continuing ops	£90.4m	40%
• Acquisitions	£98.0m	
• Annualised run rate	£220.0m	
PBT		
• Normal Trading	£17.6m	552%
• Ordinary activities	£21.1m	681%
• Overall, incl. gains on disposals	£29.0m	1108%
EPS		
• Normal Trading	7.1p	223%
• Ordinary activities	9.0p	309%
• Overall, incl. gains on disposals	13.8p	626%
Cash	£15.9m	502%
Shareholders Funds	£54.6m	163%

...produces high rewards

This *"consists principally of the original Cray defence electronics companies"* and has *"performed well"*. We still suspect that this part of Cray could be sold if the right buyer came along.

The UK's richest management team?

All the recent headlines seemed to concentrate on the potential £27m payout to the Cray directors via the Share Subscription Agreement of 14th Nov. 1989. *System House* readers will remember our review of the Sir Peter Michaels/Roger Holland/Jon Richards/ Jeffrey Harrison deal, who each invested £750K back in 1989, linked their rewards to EPS and share price growth. *"We rather like these kinds of schemes as the shareholders tend to benefit as well as the directors"*. Source - *System House* Feb. 92. Even so Holland was quoted in the Evening Standard saying *"We're here for the long haul...it may not pay us to take our shares until 1996 and then we plan to keep them so we have a stake in the business"*. Can we look forward to a standing ovation at the AGM?

The future?

We happen to believe that Cray is already, and is likely to continue to be, one of the brightest stars around. As we have said many times, success is all about management and Cray has a team with one of the most impressive track records you are likely to find anywhere.

Current run rate revenues are in excess of £220m. Organic growth should mean revenues of £250m in 1993/94 with analysts predicting PBT of £25m. This will ensure Cray a place at the top of the rankings of UK- owned CSI companies.

This, however, overlooks any further major acquisitions. Given Cray's appetite we suspect another big meal, more than likely in the computing services arena, will not be too far away.

Another excellent performance from Capita - but are there worries for the future?

Since we started monitoring the sector eight years ago in 1985, only three quoted CSI companies have avoided any performance reversal. They are Admiral, Macro 4 ... and **Capita**. This month, Capita unveiled its interim results to 30th June 93. Revenues were up 61% to £22.1m, PBT was up 15% at £2.04m and EPS was up 13%. Cash balances increased from £7.6m to £12.3m.

The *problem* is that as Capita moves more into managed services, it seems less and less like a conventional IT company. Capita is organised into two divisions with approx. equal revenue

- **Outsourced Services** where revenues increased by a massive 87% to £13.2m but profits declined 6% to £1m This consists of **managed services**, like local authority debt collection and benefits administration, where Capita claims market leadership, **property services** (boosted by the acquisition of Goldcrest for £450K in Apr. 93) where business has been *"difficult"* and **computer services** which *"has enjoyed an exceptionally busy period"*. Five new local authority FM contracts have been signed since Feb. 93. The division now has forward contract revenues totalling £109m to 1998.
- **Advisory Services** where revenues increased 34% to £8.9m and profits increased 47% to £1.04m. **Management consultancy** provides advice to central government on its market testing programme. However, **training activities**, both in the UK and internationally *"encountered reduced demand"*. The **engineering consultancy**, J E Greatorex, faced *"its toughest period"* and profits this year will be lower than last year. The marketing consultancies have *"performed well...yet again"*.

The outlook from the company? Optimistic, in a word. Chairman and CEO, Rod Aldridge, was ***"very confident*** *that this formula will continue to ensure that the Group makes good progress in the second half of 1993 and beyond"*.

The outlook from outsiders? Recently several FM competitors have expressed growing concern to us that Capita is buying FM business volume at *"suicidally"* low margins. Although the latest results show a *decline* in profits from outsourcing, Aldridge says this was as a result of initial costs for the high number (10) of new FM contracts started in the period. He added *"the key to the outsourcing business is creating economies of scale. Efficiency comes with growth"*. Source - FT 27th July 93. *"Initially margins in the local authority FM market are lower than in other sectors. But there is a lot you can do to improve these. For example, at Bromley we have cut the headcount by 50%"*. If competitors' fears are correct, future financial performance will suffer. But be warned. Aldridge says the reason for the 21% hike in the interim dividend is his confidence that current expectations of £5.4m PBT on revenues of £50m for the full year will be made.

"Quote of the month" ***might even make quote of the year!***

From Computing 22nd July 1993 - "Bill Ellis, director of **Data Sciences**, neither confirmed nor denied that the company was seeking to sell its payroll division. "***We have bits of our business up for sale endlessly. If the payroll service is being sold off, then it's being done behind my back"*** he said". *So now we know...*

Misys storms ahead

At a recent intimate industry dinner, the luminaries on our table in turn described Microsoft, Oracle and Andersen Consulting as *"arrogant"*. But these companies were also acknowledged, almost grudgingly, as the best worldwide in their particular markets. The adjective "arrogant" has often been used to describe **Misys** and, in particular, its top management team lead by Kevin Lomax. We happen to believe that the major reason for success and failure in our industry is strong management (not products, markets, recession etc.). Strong managers almost always upset people. Despite this we have shown unfailing backing in System House over the last four years, through good times and bad, for Misys.

It is very difficult to fault latest full year figures from Misys for the year to 31st May 93. Revenues were up 30% at £88.8m. PBT increased 66% at £15.1m despite £1.2m for a proposed reorganisation which will involve vacating some properties. EPS was up 54%. Misys has almost legendary cash management skills - demonstrated by an increase in cash balances from £10m to £21m in the year.

Misys has been one of the most acquisitive companies around. But profits from continuing businesses contributed 72% of total profits and grew by a healthy 19%. Acquisitions in the year - Countrywide and Specialist - contributed profits of £4.1m.

The **financial services division** was the largest revenue earner (£24.2m) and by far the most profitable division (£9.4m) with almost half of this coming from Countrywide. Readers may recall that, at the time, we described the £11m they paid *"as the deal of the decade"*. Few could possibly now disagree. The **computer solutions** division announced a £6m university deal in Australia in July 93. **Open Systems** performed much better in the second half. The **computer services** division suffered like others in the TPM market with flat profits.

Lomax describes the future in his by now usual cautious manner even though order books ended the year at record levels. We do not share such caution. The Misys team was always strong - they are now also very experienced and battle hardened. Many of their businesses will benefit quickly from any continued upturn in the economy. In addition they have a large war chest to pick off the best acquisitions *"both as additions to existing operations and as autonomous related businesses that exhibit attractive characteristics"*.

After hitting a low of 62p in 1991, Misys ended this month over 520p. Full report on Misys next month.

Round and round in circles at Radius

The profits record at **Radius** looks like a roller coaster ride - the company has predicted more recoveries than Norman Lamont. In the year to 30th Nov. 92, a 236% rise in PBT to £1.23m was announced and a recovery forecast. It was not to be as interim results to 31st May 93 now show a loss of £466K (PBT of £525K last time). Revenues reduced by 11% to £10.7m. Reductions in hardware sales and services to the mainframe sector were blamed

On the positive side, however, there was a 23% increase in package software sales and recurring support services revenues now account for 44% of the total.

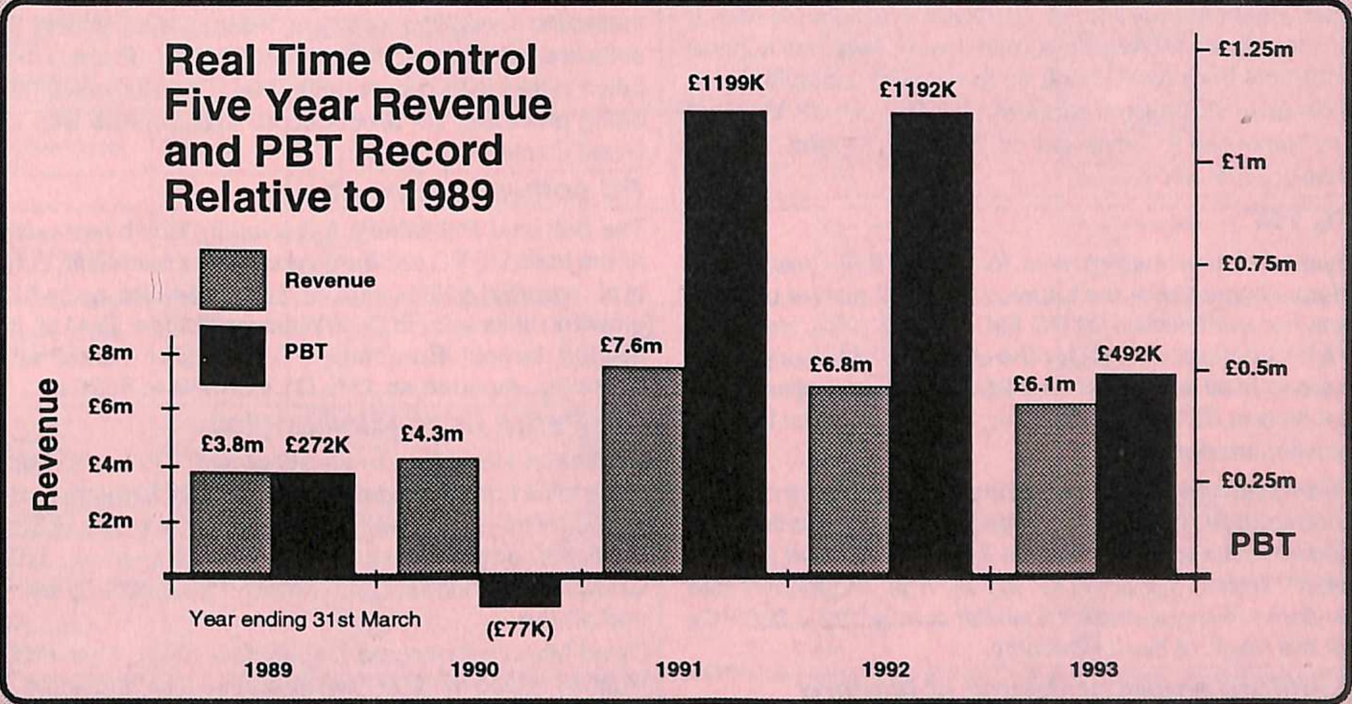
"An improvement in the second half" is forecast. We have heard that from Radius on many other times in the past.

An end in sight to the difficult times at Real Time Control?

Real Time Control (RTC) develops software and supplies systems and services for retail EPOS applications. As we all know, their customers have been hard hit by the recession and RTC has done well to continue to be profitable throughout the period. Latest full year results to 31st Mar. 93 show revenues down 11% at £6.1m, PBT down 59% at £492K and EPS also down 56%. Cash reserves have been maintained at the £4m level. But lower interest rates meant that only £309K of the PBT was derived from interest received, compared with £412K last year on the same cash balances. At the operating level, profits slumped by 77% from £780K to just £183K. Chairman B Carrell says this was caused by *"the high costs of obtaining business, together with the determination of the group to continue to invest in research and development so that it is in the best possible position to take advantage of an upturn in the economy"*.

We believe that RTC really could be one of those firms which will quickly see the effects of the upturn in the economy - an upturn which most observers believe is currently gathering speed. A view borne out by Carrell who said *"I am encouraged by our current level of sales activity. The year has started with a satisfactory order book and our position on sales negotiations is sufficient for me to be optimistic in the short term"*.

The market had been adequately prewarned about the results and the share price moved not a jot as a result, although at 75p they are down 11% since the start of the year.



EDS-Scicon is the largest non hardware manufacturer related supplier of computing services to the UK market and second only to ICL in the overall rankings. As we reported a few months ago, EDS-Scicon grew UK revenues by 10% to c£255m in 1992. This revenue total includes GM revenue and revenues from Unigraphics - the CAD/CAM purchase from McDonnell Douglas in 1991. We now understand that operating profit before tax and exceptional items (i.e. redundancy costs) was £5.5m in 1992. This is a reduction of around 50% as our briefing last year indicated a combined operating profit of £11.5m for SD-Scicon UK and EDS in 1991. At the end of 1992, EDS-Scicon employed 4200 staff but headcount has since been reduced to 3900 at the end of June 93.

Combining the different cultures of EDS, Systems Designers and SCICON, is now complete but has taken most of the last two years. It is unlikely that a company without the resources of EDS could have achieved such a feat without doing itself terminal damage. It also seems unlikely that EDS will buy again in the UK on such a scale - small high margin niche players yes, but not another £200m revenue company. Indeed, this month EDS-Scicon *disposed* of the mapping systems activities which it acquired as part of the McDonnell Douglas deal. EDS is, however, looking for further purchases in Europe - in Spain and Italy in particular.

Growth in the UK is far more likely to come from FM deals; particularly those resulting from HM Govt. market testing. EDS has already been short listed for the largest UK outsourcing deal at the Inland Revenue.

Readers will know of our enthusiasm towards IT companies taking a share of the success, and paying for the failure, that their IT systems provide for business. EDS has taken the concept forward into what it calls **Co-sourcing** *"Commitment...is demonstrated through risk and investment sharing....The contract is based on the value (EDS) generates for (the client), because it is measured by the improvements (EDS) makes to the (client's) business as a whole"*.

Few companies have really implemented this policy although many, like Capita, give lip service to it. Even Tom Butler, EDS-Scicon's MD, admitted that the first time he offered a system to a client in exchange for a % of increased revenue, the client thought there must be a catch and declined the offer.

Tale of woe at Multisoft

When they were bought by **Headland** for £11m in Oct. 89 **Multisoft** was reportedly making profits of around £1.2m on revenues of £5.6m. When Headland failed in July 90, MD Tony Nicholls bought Multisoft and its HQ building in Alton from the receivers for around £2.7m but he had lost out completely on the Headland shares he had taken in the previous sale. He said at the time *"I'm very pleased that the worst year of my life is out of the way. We've got a revitalised company, good backing, our dealers are happy and I'm personally well-chuffed".* Source - Microscope 8th Aug. 1990.

But the misery was far from over. In the year to 30th June 92, Multisoft lost £121K on reduced revenues of £4.3m. Earlier this year, Multisoft increased support charges to its dealers - and they indicated that they were far from happy. Last month Misys, whose TIS/Team subsidiaries had at one time been Multisoft's largest dealer, sold their support contracts back to Multisoft so they could concentrate on their own Strategix product range. This month Multisoft are rumoured to have laid off 20 of its 70 staff. Source - Microscope 7th July 93.

PC FM

System House readers have, for the last three years, read of our concern over the future of the TPM market coupled with our enthusiasm for PC FM. In early 1992, we hailed **P&P**'s contract with ICI for the company wide supply and support of all aspects of their PC operations, estimated at the time to be worth £10m p.a., as a foretaste of the fast growing market.

This month the CAA awarded a similar, but larger, PC FM contract to **ACT** for *"systems design, delivery, maintenance and consultancy potentially to 7,200 PC users at 20 CAA sites".* Source - Computing 8th July 93. It is understood that tenders are requested for a similar contract for 8,000 PCs for the Dept. of Social Security.

Auditors cause problems at Maddox

In our June 93 issue we reviewed the first year at acquisition hungry **Maddox Group**. PBT of £1.1m was announced for the year to 31st Dec. 92 as was the sale of their US cable businesses for c£19.9m. Maddox would now concentrate on IT support after their acquisition of TPM operation **Wakebourne** for £13m in Aug. 92.

However, this month their accountants - Ernst & Young - have expressed *"fundamental uncertainties"* on whether debts of £15.1m owed by the cable businesses can be recovered. In addition, PBT has been revised downwards to £453K by the removal of the exceptional profits of £681K arising from the sale which had previously been included.

In Aug. 92 brokers Williams de Broe issued a buy on Maddox at 8p. By June 93 the share price had slipped to 5p and they ended this month on just 3.25p.

Reprise - *"Remember the obvious similarities between Maddox and Ferrari, Enterprise, EIT....".* Source - System House Mar. 93.

Earlier listing for CMG?

Computer Management Group (CMG) says it is now likely to float in 1994 rather than 1996 as previously stated in order to *"raise capital for major expansion via large acquisitions".*

PhoneLink confirms link with IBM

"Technology wonder stock" (Daily Mail description) **PhoneLink** confirmed the deal outlined in its prospectus when it floated in May 93 whereby **IBM (UK)** would pre-load its Tel-Me software onto all PCs manufactured in the UK. Tel-Me, which allows direct access to all sorts of external databases from Ordinance Survey maps, to telephone directories to company accounts, is set for public launch in Q1 1994. The potential is truly huge. PhoneLink shares rose 21p to 248p on the news - up 60% since their launch at 155p.

Proteus announces AIDS vaccine

Shares in **Proteus International** rose 22p to 410p on confirmation that it intends to have a drug on sale within 18 months which will prevent infection by the HIV AIDS virus. The drug was developed using their Prometheus molecular modelling software. Rather than selling the software, as planned when they floated, Proteus now takes stakes in the drugs under trial. The AIDS vaccine is being promoted via a new 60:40 joint venture with US Blood Center.

PC software sales boom

The Software Publisher's Association, which represents all the main US PC software vendors like Microsoft, Lotus et al., reported a 19% value increase to $484m, and a 61% growth in units sold, in Q1 in Western Europe. The UK, the second largest European PC software market after Germany, reported an 11% Q1 increase to $120m.

Dr. Martin Read joins Logica

Dr. Martin Read has been appointed CEO at **Logica**. Read joins from **GEC** where he was MD of Marconi Radar and Control as well as being Supervisory MD of their systems engineering operations, **Easams**, **GEC Computer Services**, **GEC-Marconi Software Systems** and others.

David Mann will become Deputy Chairman. After Phillip Hughes retired in 1990 Paul Bosonnet was appointed as part time Chairman. This meant Mann has spent an increasing proportion of his time on externally oriented activities and he told us that he greatly looked forward to concentrating further on these activities in his new role.

Easams (where ex-SD-Scicon Paul Davies is operational MD) has similarities with Logica. Keith Jennings from Easams told us last year that they themselves had ambitions to grow their £85m 1992 revenues to rival Logica's current £200m revenues within 3 years.

Now Logica + Easams + GEC's computer operations would make an interesting coupling...

Will PC Superstores make it in the UK?

Specialist Computer Holdings (SCH) has been pretty successful to date. Chairman and owner, Peter Rigby, has achieved riches beyond most humble human being's dreams as a result.

In August, Rigby opens his first PC superstore in Gateshead *(yes - Gateshead).* SCH intends to invest £20m in PC superstores in the next two years. The fact that no one has so far demonstrated that you can make money selling PCs in this manner in the UK, even in London, has not deterred him. But, Romtec predicts that by 1995 around 10% of PCs will be sold by superstores compared with around 1% today. *We remain highly sceptical.*

ACT Group plc	Results Revenue PBT EPS	Final - Mar 92 £ 119,447,000 £ 17,020,000 10.83p		Final - Mar 93 £ 152,926,000 £ 20,478,000 11.33p	Final Comparison +28.0 +20.3% +4.6%
Admiral plc	Results Revenue PBT EPS	Final - Dec 91 £ 26,104,000 £ 3,472,000 21.9p		Final - Dec 92 £ 30,870,000 £ 3,986,000 24.2p	Final Comparison +18.3% +14.8% +10.5%
Capita Group plc	Results Revenue PBT EPS	Interim - Jun 92 £ 13,732,000 £ 1,769,000 2.53p	Final - Dec 92 £ 33,098,452 £ 4,406,012 6.43p(Restated)	Interim - Jun 93 £ 22,102,000 £ 2,038,000 2.86p	Interim Comparison +61.0% +15.2% +13.0%
Comac Group plc	Results Revenue PBT EPS	Final - Dec 91 £ 9,971,456 £ 362,424 4.05p		Final - Dec 92 £ 11,118,158 £ 394,723 3.94p	Final Comparison +11.5% +8.9% -2.7%
Computer People Group plc	Results Revenue PBT EPS	Final - Dec 91 £ 67,660,000 £ 1,006,000 5.48p		Final - Dec 92 £ 62,735,000 £ 145,000 (0.97p)	Final Comparison -7.3% -85.6% Profit to Loss
Cray Electronics Holding plc	Results Revenue PBT EPS	Final - Apl 92 (restated) £ 84,786,000 £ 2,352,000 1.9p		Final - Apl 93 £ 200,785,000 £ 29,014,000 13.8p	Final Comparison +136.8% +1133% +626%
Division Group plc	Results Revenue PBT EPS	Final - Oct 91 £ 444,000 (£ 115,000) (1.1p)		Final - Oct 92 £ 1,082,000 (£ 107,000) (1.0p)	Final Comparison +143.7% Loss both Loss both
EIT Group plc	Results Revenue PBT EPS	Final - Mar 91 £ 485,052 (£ 246,437) (4.15p)		Final - Mar 92 £ 7,028,738 (£ 190,510) (1.3p)	Final Comparison +1349% Loss both Loss both
Electronic Data Processing plc	Results Revenue PBT EPS	Interim - Mar 92 £ 7,468,000 £ 2,407,000 18.83p	Final - Sep 92 £ 15,455,000 £ 4,877,000 38.4p	Interim - Mar 93 £ 7,350,000 £ 2,341,000 18.07p	Interim Comparison -1.6% -2.7% -4.0%
Enterprise Computer Holdings plc	Results Revenue PBT EPS	Interim - Sep 92 £ 57,604,000 (£ 3,398,000) (4.6p)	Final -15 mos to Mar 92 £ 157,857,000 (£ 8,330,000) (9.8p)	Interim - Sep 92 £ 35,524,000 (£ 3,392,000) (4.3p)	Interim Comparison -38.3% Loss both Loss both
Gresham Telecomputing plc	Results Revenue PBT EPS	Interim - Apl 92 £ 3,954,000 £ 284,000 0.57p	Final - Oct 92 £ 7,250,000 £ 767,000 1.94p	Interim - Apl 93 £ 3,060,000 £ 419,000 0.86p	Interim Comparison -22.6% +47.5% +50.9%
INSTEM plc	Results Revenue PBT EPS	Final - Dec 91 £ 15,810,000 £ 1,010,000 15.2p		Final - Dec 92 £ 14,272,000 £ 575,000 8.5p	Final Comparison -9.7% -43.1% -44.1%
Kalamazoo Computer Group plc	Results Revenue PBT EPS	Final - 8 mos- Mar 92 £ 38,300,000 £ 611,000 Nil		Final - Mar 93 £ 56,700,000 £ 1,800,000 1.6p	Final Comparison Not comparable Not comparable Not comparable
Kewill Systems plc	Results Revenue PBT EPS	Final - Mar 92 £ 41,824,000 £ 2,421,000 19.91p		Final - Mar 93 £ 33,341,00 £ 435,000 (0.60p)	Final Comparison -20.3% -82.0% Profit lo Loss
Kode International plc	Results Revenue PBT EPS	Final - Dec 91 £ 15,693,000 £ 486,000 3.9p		Final - Dec 92 £ 18,335,000 £ 1,031,000 8.6p	Final Comparison +16.8% +112.1% +120.5%
Learmonth & Burchett Management Systems plc	Results Revenue PBT EPS	Final - Apl 92 £ 21,404,000 £ 303,000 0.7p		Final - Apl 93 £ 23,645,000 £ 1,610,000 7.0p	Final Comparison +10.5% +431.4% +900.0%
Logica plc	Results Revenue PBT EPS	Interim - Dec 91 £ 98,575,000 £ 2,155,000 2.1p	Final - Jun 92 £ 200,383,000 £ 7,062,000 7.0p	Interim - Dec 92 £ 104,208,000 £ 4,136,000 3.7p	Interim Comparison +5.7% +91.9% +76.2%
MR Data Management plc	Results Revenue PBT EPS	Interim - Dec 91 £ 16,338,000 £ 3,809,000 4.58p	Final - Jun 92 £ 33,711,000 £ 8,227,000 10.6p	Interim - Dec 92 £ 18,629,000 £ 4,020,000 4.89p	Interim Comparision +14.0% +5.5% +6.8%
Macro 4 plc	Results Revenue PBT EPS	Interim - Dec 91 £ 8,829,000 £ 3,828,000 11.5p	Final - Jun 92 £ 19,016,000 £ 8,750,000 26.5p	Interim - Dec 92 £ 11,213,000 £ 4,935,000 14.8p	Interim Comparison +27.0% +28.9% +28.7%
Maddox Group plc	Results Revenue PBT EPS	Final - Dec 91 £ 222,809 (£ 311,542) (1.43p)		Final - Dec 92 £ 24,171,000 £ 1,134,000 0.39p	Final Comparison Not comparable Loss to Profit Loss to Profit
Micro Focus plc	Results Revenue PBT EPS	Final - Jan 92 £ 55,869,000 £ 18,146,000 83.1p		Final - Jan 93 £ 67,700,000 £ 22,300,000 110.1p	Final Comparision +21.1% +23.2% +27.4%

Company					
Microgen Holdings plc	Results	Interim - Apl 92	Final - Oct 92	Interim - Apl 93	Interim Comparison
	Revenue	£ 24,974,000	£ 49,316,000	£ 26,137,000	+4.7%
	PBT	£ 4,368,000	£ 8,243,000	£ 3,758,000	-14.0%
	EPS	7.1p	13.8p	6.1p	-14.1%
Microvitec plc	Results	Final - Dec 91		Final - Dec 92	Final Comparison
	Revenue	£ 36,873,000		£ 49,888,000	+35.3%
	PBT	(£ 3,847,000)		(£ 2,137,000)	Loss both
	EPS	(5.3p)		(3.4p)	Loss both
Misys plc	Results	Final - May 92		Final - May 93	Final Comparison
	Revenue	£ 68,023,000		£ 88,761,000	+30.5%
	PBT	£ 9,118,000		£ 15,125,000	+65.9%
	EPS	17.8p		27.4p	+53.9%
MMT Computing plc	Results	Interim - Feb 92	Final - Aug 92	Interim - Feb 93	Interim Comparision
	Revenue	£ 3,009,000	£ 6,220,000	£ 3,165,000	+5.2%
	PBT	£ 712,000	£ 1,500,000	£ 865,000	+21.5%
	EPS	3.9p	7.9p	4.8p	+23.1%
P & P plc	Results	Interim - May 92	Final - Nov 92	Interim - May 93	Interim Comparision
	Revenue	£ 119,300,000	£ 222,752,000	£ 121,800,000	+2.1%
	PBT	£ 1,000,000	£ 2,012,000	£ 2,000,000	+100%
	EPS	1.0p	1.9p	2.1p	+110%
P-E International plc	Results	Final - Dec 91		Final - Dec 92	Final Comparision
	Revenue	£ 68,750,000		£ 71,108,000	+3.4%
	PBT	£ 1,622,000		£ 160,000	-90.1%
	EPS	4.9p		(0.22p)	Profit to Loss
Pegasus Group plc	Results	Final - Jul 91 (Restated)		Final - Dec 92	Final Comparison (Note yr end)
	Revenue	£ 8,493,000		£ 10,269,000	+20.9%
	PBT	£ 1,512,000		£ 620,000	-59.0%
	EPS	18.1p		7.3p	-59.7%
Phonelink plc	Results	Final - Mar 92		Final - Mar 93	Final Comparison
	Revenue	£ 819,709		£ 922,557	+12.5%
	PBT	£140,420		£ 30,905	-78.0%
	EPS	0.5p		0.1p	-80.0%
Proteus International plc	Results	Final - Mar 92		Final - Mar 93	Final Comparison
	Revenue	£ 3,000		£ 21,000	+600%
	PBT	(£ 2,408,000)		(£ 3,547,000)	Loss both
	EPS	(10.86p)		(13.52p)	Loss both
Quality Software Prod. Holdings plc	Results	Final - Dec 91		Final - Dec 92	Final Comparison
	Revenue	£ 11,105,698		£ 13,118,000	+18.1%
	PBT	£ 1,501,039		£ 1,201,000	-20.0%
	EPS	21.9p		16.2p	-26.0%
Radius plc	Results	Interim - May 92	Final - Nov 92	Interim - May 93	Interim Comparison
	Revenue	£ 11,988,000	£ 24,012,000	£ 10,723,000	-10.6%
	PBT	£ 525,000	£ 1,231,000	(£ 466,000)	Profit to Loss
	EPS	1.0p	2.9p	(1.3p)	Profit to Loss
Real Time Control plc	Results	Final - Mar 92		Final - Mar 93	Final Comparison
	Revenue	£ 6,835,000		£ 6,114,000	-10.5%
	PBT	£ 1,192,000		£ 492,000	-58.7%
	EPS	11.1p		4.9p	-55.9%
Rolfe & Nolan Computer Services plc	Results	Final - Feb 92		Final - Feb 93	Final Comparison
	Revenue	£ 6,737,000		£ 11,232,000	+66.7%
	PBT	£ 1,390,000		£ 1,216,000	-12.5%
	EPS	15.9p		17.7p	+11.3%
Sage Group plc	Results	Interim - Mar 92	Final - Sep 92	Interim - Mar 93	Interim Comparison
	Revenue	£ 14,489,000	£ 27,274,000	£ 20,983,000	+44.8%
	PBT	£ 4,340,000	£ 8,853,000	£ 5,380,000	+24.0%
	EPS	14.53p	30.9p	17.68p	+21.7%
Sanderson Electronics plc	Results	Interim - Mar 92	Final - Sep 92	Interim - Mar 93	Interim Comparison
	Revenue	£ 10,610,000	£ 21,398,000	£ 12,057,000	+13.6%
	PBT	£ 1,801,000	£ 2,805,000	£ 1,803,000	+0.1%
	EPS	16.0p	24.0p	14.2p	-11.3%
Sema Group plc	Results	Final - Dec 91		Final - Dec 92	Final Comparison
	Revenue	£ 412,501,000		£ 416,675,000	+1.0%
	PBT	£ 14,015,000		£ 19,458,000	+38.8%
	EPS	11.02p		13.22p	+20.0%
Sherwood Computer Services plc	Results	Final - Dec 91		Final - Dec 92	Final Comparison
	Revenue	£ 22,321,000		£ 21,103,000	-5.5%
	PBT	£ 2,446,000		£ 3,004,000	+22.8%
	EPS	19.6p		27.5p	+40.3%
Total Systems plc	Results	Final - Mar 92		Final - Mar 93	Final Comparision
	Revenue	£ 2,796,777		£ 2,869,359	+2.6%
	PBT	£ 756,880		£ 832,906	+10.0%
	EPS	5.11p		6.08p	+19.0%
Trace Computers plc	Results	Interim - Nov 91	Final - May 92	Interim - Nov 92	Interim Comparison
	Revenue	£ 9,715,000	£ 19,491,000	£ 8,835,000	-9.1%
	PBT	£ 221,000	£ 502,000	£ 105,000	-52.5%
	EPS	1.52p	2.89p	0.78p	-48.7%
Vega Group plc	Results	Final - Apl 92 (amended)		Final - Apl 93	Final Comparison
	Revenue	£ 6,269,000		£ 8,089,000	+29.0%
	PBT	£ 1,387,000		£ 1,705,000	+27.0%
	EPS	6.69p		7.99p	+19.4%
Vistec Group plc	Results	Final - Apl 92		Final - Apl 93	Final Comparison
	Revenue	£ 32,287,000		£ 38,665,000	+19.8%
	PBT	£ 2,714,000		£ 3,503,000	+29.1%
	EPS	1.52p		2.07p	+36.2%

Acquisitions, disposals and liquidations

Sema sells stake in UK FM business to FTLIS

Sema Group has sold a 24.5% stake in its UK FM business to **FTLIS**, the wholly owned CSI subsidiary of **France Telecom**, for £8.8m. Sema's FM operations made PBT of £3.7m on revenues up 19% to around £60m in 1992. France Telecom and Paribas, via their joint investment vehicle, Financiere Sema SA, already owned 39.4% of Sema's equity. Charles Rozmaryn (France Telecom) and Michel Huet (FTLIS) join the Sema board. Rival **CGS** is the second largest Sema shareholder with 28% of the equity.

Your view of this move will depend on your attitude towards the EC correctness of the French Government taking stakes in the IT industry via its public utilities.

Sema shares gained 10p to 371p on the news.

£7.6m MBO at BISS

Networking and communications companies are in hot demand at the present time. This month **BICC Information Systems & Services (BISS)**, which has annual revenues of around £20m, has been bought by its management from **BICC** for £7.6m.

The deal was financed by 3i, who invested c£2m, and Lloyds Development Capital. Nat West provided £2.75m bank facilities. BICC will retain a "significant interest" in BISS.

BISS has only been going for four years. It designs and installs networking systems as well as undertaking systems integration, communications software and IT consultancy.

Lotus buys in UK

US **Lotus Development** has acquired UK **Database Management Sciences** (DMS). DMS, with 30 staff, specialises in client/server systems development and its associated methodology.

Now if you thought that Lotus was no more than 1-2-3-, note *"The DMS acquisition is another milestone in Lotus's expansion strategy to become a worldwide provider of professional services....".* Indeed, in the last year, Lotus has acquired US Vanguard, Canadian SOMA, German Pavosoft and has done other deals to increase its IT consultancy activities.

Systemhouse buys into training

Earlier in July, **SHL Systemhouse Europe** bought **Clarion Training** for an undisclosed sum. Clarion has 100 training consultants and operates 13 training centres in the UK providing 400 PC oriented courses. Then training partnerships were announced with QA Training and Oracle followed by a second acquisition - The **Micro Solutions Training College** - at the end of the month.

Goodbye...at exact opposite ends of the scale....

Mike Burden has been replaced as CEO at **EIT** (now in administration) by Chairman Bernard Fisher. After just a year, Shaun Dowling has stepped down as Chairman of much troubled **Enterprise Computers**.

But on a rather brighter note, Roger Graham is making a clean break with **BIS** after the **ACT** take over. He tells us he will be staying in the business by helping companies in the high growth desktop and networking markets.

Job losses... Financial software house **Synergo** has laid off 19 staff and blamed the *"Taurus fiasco"*.

The others... **Lex Service** has sold its wholly owned computer services subsidiary **Lex Industrial Systems** in an MBO for £1.7m. **MR-Data Management** has acquired the remaining 30% equity in its **Scanmedia** subsidiary for £400K in shares. **Workstations International**, which produces the sales and management system, Symmetry, has been bought by its managers. **ICL** has taken a 51% stake in Polish banking software company, **Softbank**. **VDU Installations** of Bracknell has called in the receivers. *"One of the UK's oldest PC manufacturers"* **HM Systems plc** has been bought by its management from co-founder Tony Harris (75%) and glove maker Dewhurst Dent (25%). HM lost £80K on revenues of £3m in 1992. Source - Computergram 12th Jul. 93. **British Data Management**, the UK's leading computer data storage specialists, has bought another of its premises for £2.15m cash. They previously paid £190K p.a. rent. Chairman Stephen Crown said *"well over half our storage facilities are now freehold"*. **Micro Focus** has bought is Spanish distributor, **Intelligent Software Solutions**, for £3.1m in shares. Administrators have been appointed at Apple Mac direct seller **Mac Central**. **Sydec UK**'s MD Ian French has purchased the remaining 80% after the liquidation of parent **Sydec Nederland BV**. Sydec is a PC and storage specialist which expects revenues in excess of £13m this year. **Dixons** has sold the mail order and direct sales activities of **PC World**, which it acquired in Feb. 93, to **Action Computer Supplies Ltd. Grosvenor Venture Managers**, together with Tim Hearley (the Chairman of Rolfe & Nolan) has invested £350K in **Adroit Systems Ltd.** which develops and markets financial management systems to local authorities. UK **Clarke & Tilley**, which was acquired last month by US **DST** for £11m, has taken a majority stake in **Belvedere Financial Systems**. **Rolfe & Nolan** (see p8) has launched the **Lighthouse** product (software for trades in Treasury and OTC derivative products). Lighthouse was originated by Charles Rumbold and R&N are paying him £100K plus a % of net licence fees over the next 8 years up to a max. of £4m. **CMG** has acquired **Management Share** - a Dutch consultancy with revenues of c£5m and over 70 staff. **Pentasonic** has purchased **Kaytech**'s two PC outlets. When **DataEase** acquired **Sapphire** in 91 they immediately sold the UK consultancy activity. After grumbles from users, they have now re-acquired the operation.

Extel buyer?

United Newspapers this month issued a statement saying that it had received *"a number of enquiries"* about its **Extel Financial Information** business. **Datastream** (itself acquired by Primark from Dun & Bradstreet in Aug. 92 for £99m) and **Telerate** had been mentioned in the press as possible suitors. Extel was purchased in 1987 for £250m but reports have mentioned a current £60m price tag.

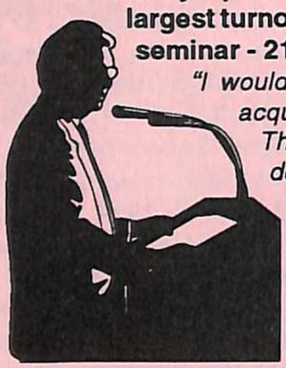
Unusual politics at Admiral

Stuart Wild, Operations Director of **Admiral**, has *"resigned"*. We get used to such announcements from other less well-healed members of our industry...*but not Admiral!* Chairman Clay Brendish assured us there had been *"no bust-up and certainly no problems with our current trading"*. So why?....*"to ensure the continued trading efficiency in the overhead structure of the company"*. This sounds far more credible. Why do you need an Ops. Director in a profit centre oriented company?

Are acquisitions good or bad for small CSI companies?

As usual *System House* readers will make up their own minds, but we offer this article as further food for thought.

Richard Holway's presentation to over 140 CEOs - the largest turnout on record at a CSA evening seminar - 21st July 1993.



"I would like to say a few words about acquisitions in our industry.

This is a topic for which I have developed somewhat of a reputation - indeed I get a lot of hate mail on the subject. Why am I against acquisitions? Don't I realise that small companies cannot grow quickly enough without making acquisitions?

I have come to the conclusion that acquisitions are like having KIDS. Few parents have any training before they embark on the exercise. The conception is always more enjoyable than the aftermath. Kids always cause more upheaval in our lives than we ever, even in our worst moments, imagined pre conception. They are very expensive. Indeed couples that do not have kids are almost always financially better off than those who do. If a couple are already having problems in their marriage, having a kid often make the problems worse because the benefits of having kids are only realised over the long term.

Let me state that, just as I am not against KIDS - I have two myself - I am NOT AGAINST ACQUISITIONS. Some of my best friends do them all the time....and I have indulged in quite few myself. It's just that, since 1988, I have monitored 1500 acquisitions involving UK CSI companies and the vast majority caused problems and reduction in EPS for the acquirer. More than a few brought the acquirer to its knees and some killed the buyer.

But as kids - particularly well brought up kids - are essential to our future well-being, so are successful acquisitions. We must have more successful acquisitions and that means more managers with good track records - either from within or outside the computing services industry".

We did not want to receive this letter...

From: Paul Thompson - Chairman, Sanderson Electronics

"We will not be renewing our subscription to System House. Your reporting of the Total Systems results was the last straw...your view on acquisitions is not shared by several in the industry and it is difficult to see how certain smaller companies can grow quickly enough without making acquisitions". (Letter to us dated 2nd July 1993)

But then we read....(Mail on Sunday 18th July 1993)

"It is always good to see a chairman with the courage to admit his own decisions were wrong.

Sanderson Electronics made the mistake of being too acquisitive. It has always been a good software company but instead of concentrating on doing its job better, it wasted money and management time making acquisitions in the US and Australia....Although nothing has been announced, I expect to hear shortly that these millstones have been sold off."

...to which Paul Thompson responded. (Letter dated 27th July 1993)

"For the record I have not admitted or stated that Sanderson's decision to acquire a stake in General Automation was wrong. I do not know the source of the comments in the Mail on Sunday relating to the admission of mistakes but it was not me.

...Sanderson's acquisitions have proved very beneficial for shareholders and, as a consequence, our share price has increased from a placing price of 130p in 1988 to 313p today".

We did not want to write this article...

*"Our views on the pitfalls associated with acquisitions are well known. **Sage** seem to have avoided them all by following the advice to "stick to the knitting". The DacEasy (US) and CIEL (France) acquisitions were exactly right and early results have certainly exceeded our expectations. We hope that Remote Control and Yorkshire Business Forms, will also go well - although, to be fair, we are not too sure about them at present. But they are both small so should not wreak too much damage even if they do go wrong".* Source - *System House* - Jan. 93.

Sage shares rocketed to a high of 629p soon after.

But on 21st July 1993 Sage issued a statement saying that PBT and EPS to 30th Sept. 93 would *"be lower than general market expectations...but ahead of those reported for last year"*. Last year Sage made PBT of £8.85m and analysts had been expecting up to £11m this year. Additional development expense at Remote Control, on their Telemagic product, and competitive pressure from Window based products at DacEasy, were cited as the reasons. *"Sage's UK and French operations are achieving strong profits growth"*.

The City had its usual knee-jerk reaction. The share price dived by 124p to 380p at one point. The previous day the shares had risen by 8p. Tighter rules on analyst's briefings were "blamed" as Sage wanted to tell all its shareholders at once rather than leaking the information to a select few. *"Brokers were understandably rattled"*. Source - The Times 22nd July 93. Analysts now reckon PBT of £9.2m this year - which would equate to an EPS reduction of 30%.

This kind of reaction, for a basically sound stock, provides no credit for the City. Hardly anyone sold stock anyway. This is one case where we really do believe in David Goldman's acquisition's strategy as it obeyed all our rules - unfortunately including the one that says all acquisitions have a negative effect on EPS for at least two years.

We hope that Sage will not become yet another case history in our "acquisitions indigestion" lecture.

...or this article either

At **Rolfe & Nolan**'s AGM on 23rd July, Mike Warburg had to report that *"the uncertainty of orders coming through from Brokerage Systems Inc. in the US means that the company would show reduced profits in the first half"*. R&N shares fell 43p to 240p on the day.

R&N had one of the best records in the sector...until they bought a 19% stake in BSI for $500K in Feb. 92. The performance related deal meant that they had to wait too long before they wrestled full control in Mar. 93. Buying the remaining 80% of the loss making operation, so they could sort the problem out, cost them a further $1.7m. Warburg told us back in Dec. 92 that he would do everything he could to avoid going down the performance-related route again in the future. Warburg told us that there was "no way' he would have had to issue a profits warning except for the US situation. So BSI is clearly to blame for the first reversal in R&N's performance since the mid 80s.

But a US presence is vital for the future well being of R&N. Indeed, without it the first order(£2m) for the new **Lighthouse** product (see p7) from Credit Suisse would not have been possible.

We don't always like the news we report or the conclusions we have to draw. We assume that our increasing number of subscribers would not wish us to change either.

CSI Stocks Fall

75% of all quoted CSI companies registered share price falls in the last month contributing to a 5.4% fall in the CSI Index compared with a 1% rise in the FTSE 100.

The largest fall was at **Maddox** - down 43% as their auditors expressed "fundamental uncertainties" on the recovery of over £15m of debts currently on the balance sheet (see p4). **Radius** (p2) lost 33% as it surprised the market with an interim loss of £466K after signalling optimism only a few months ago. **Rolfe & Nolan** also slipped 21% on the profits warning connected with trading problems at the US acquisition BSI (p8). **Microgen** were down 21% on their first performance reversal since 1989 (see p10). **Sage** finished the month down 18%. The City's *"knee-jerk"* reaction had marked Sage down over 20% at one point after the profits warning. This again involved trading at recent US acquisitions; DacEasy and Remote Control (p8).

Total Systems was down 17%, largely as a result of profit taking after the major profits recovery reported last month. **Capita** also slipped 13% despite superb results and high confidence for the future announced this month (p2). We have to admit our amazement that **Vistec** has declined 12% after yet another exemplary performance (EPS up 36%) was announced last month.

Even **Micro Focus** fell another 9%; that makes 27% this year so far. US brokers Volpe Welty & Co. have reduced their EPS estimates for Micro Focus by 34c to $1.78 for the year to Jan. 94. due to *"customers choosing alternative application development tools"*.

But it wasn't all bad news. **Sema** increased by 18% on news of the France Telecom £8.8m stake in the UK FM business. Without this sudden gain Sema would have lost its #1 ranking in our capitalisation stakes. The list is now #1 Sema (£328m), #2 ACT (£308m), #3 Cray (£300m), #4 Micro Focus (£275m) and #5 Misys (breaking the £200m barrier for the first time). *How things have changed!*

Computing Services Index
29th July 1993
April 15th 1989 = 1000

1681.89

Changes in Indices	CSI Index	FTSE 100	FTSE Small Cap
Month (28/6/93 - 29/7/93)	-5.35%	+1.04%	-0.22%
From 15th Apr 89	+68.19%	+42.07%	
From 1st Jan 90	+82.79%	+23.52%	
From 1st Jan 91	+137.60%	+35.05%	
From 1st Jan 92	+60.97%	+17.03%	
From 1st Jan 93	+5.54%	+2.50%	+18.47%

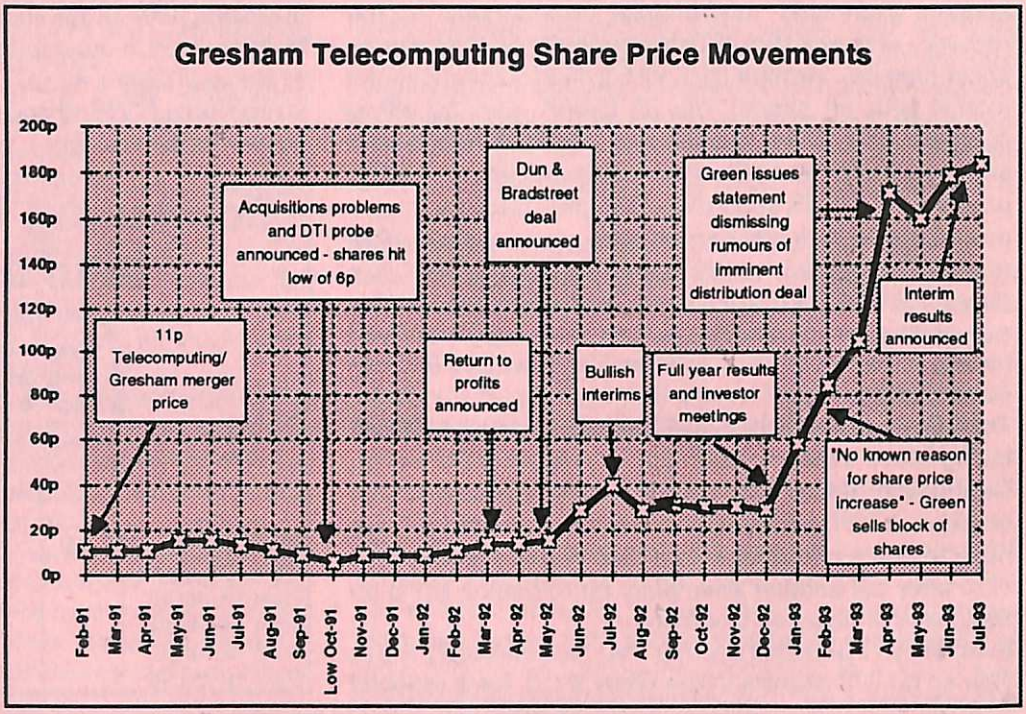
System House CSI Share Prices and Capitalisation

	Share Price 29/7/1993 (£p)	Capitalisation 29/7/1993 (£m)	Historic P/E	CSI Index 29/7/93	Share price % move since 28/6/93	Share price % move in 1993	Capitalisation move (£m) since 28/6/93	Capitalisation move (£m) in 1993
ACT	£1.67	£307.90m	17	2650.79	3.09%	12.84%	£79.50m	£99.20m
Admiral	£4.42	£47.70m	19	3202.90	-0.45%	14.81%	-£ 0.30m	£6.40m
Capita	£1.50	£71.10m	23	4504.50	-13.29%	6.38%	-£ 10.40m	£7.20m
Comac Group	£0.85	£5.46m	21	1976.74	-9.57%	372.22%	-£ 0.57m	£4.30m
Computer People	£1.13	£15.70m	Loss	465.02	-1.74%	52.70%	-£ 0.30m	£5.40m
Cray Electronics	£1.48	£300.40m	15	865.50	-3.90%	35.78%	-£ 12.20m	£79.90m
Division Group	£0.62	£20.90m	Loss	1550.00	-18.42%	55.00%	-£ 4.80m	£7.40m
Electronic Data Processing	£5.50	£47.80m	15	5612.24	-5.17%	14.58%	-£ 2.70m	£6.00m
Enterprise	£0.36	£29.10m	Loss	286.00	3.62%	74.39%	£1.00m	£13.90m
Gresham Telecomputing	£1.77	£56.40m	91	1903.23	-1.12%	510.34%	-£ 0.60m	£47.16m
INSTEM	£1.45	£6.53m	10	1450.00	-2.03%	70.59%	-£ 0.14m	£2.71m
Kalamazoo	£0.73	£13.50m	46	2085.71	14.96%	175.47%	£1.80m	£8.62m
Kewill	£1.96	£23.40m	Loss	774.70	2.08%	256.36%	£0.50m	£16.83m
Kode International	£1.88	£17.50m	22	874.42	-7.84%	88.00%	-£ 1.50m	£8.21m
Learmonth & Burchett	£2.48	£44.50m	35	2066.67	-10.79%	95.28%	-£ 5.40m	£23.30m
Logica	£2.34	£143.90m	28	641.10	-8.24%	41.82%	-£ 12.90m	£42.60m
Macro 4	£6.69	£151.10m	23	2697.58	-0.15%	27.92%	£0.00m	£33.40m
Maddox Group	£0.03	£14.50m	18	722.22	-43.48%	-55.17%	-£ 11.10m	-£ 17.80m
Micro Focus	£19.53	£275.40m	18	9434.78	-9.29%	-27.40%	-£ 23.90m	-£ 93.10m
Microgen	£1.47	£57.90m	10	628.21	-20.54%	-21.81%	-£ 15.00m	-£ 15.40m
Microvitec	£0.26	£17.00m	Loss	634.15	8.33%	8.33%	£1.30m	£1.30m
Misys	£5.18	£200.80m	19	1288.56	4.02%	44.69%	£7.80m	£63.00m
MMT	£1.26	£13.40m	16	750.00	5.88%	13.51%	£0.80m	£1.60m
MR Data Management	£1.80	£99.50m	17	714.29	4.05%	-7.22%	£4.70m	-£ 6.80m
P&P	£0.69	£38.30m	36	309.42	-10.39%	137.93%	-£ 4.40m	£22.20m
P-E International	£0.71	£15.50m	Loss	292.18	-5.33%	44.90%	-£ 0.90m	£4.80m
Pegasus	£1.67	£10.80m	43	455.04	-6.18%	45.22%	-£ 0.70m	£3.49m
Phonelink	£2.48	£88.00m	n/a	1600.00	7.36%	60.00%	£6.03m	£33.00m
Proteus	£3.82	£104.70m	Loss	4547.62	-4.02%	-7.95%	-£ 2.80m	-£ 6.80m
Quality Software	£5.49	£42.70m	27	1444.74	-6.79%	44.47%	-£ 3.10m	£13.10m
Radius	£0.39	£10.60m	13	282.61	-32.76%	-9.30%	-£ 5.20m	-£ 1.10m
Real Time Control	£0.75	£5.25m	15	1530.61	-1.32%	-12.79%	-£ 0.07m	-£ 0.77m
Rolfe & Nolan	£2.20	£12.40m	12	1309.52	-20.58%	-8.33%	-£ 3.20m	-£ 1.20m
Sage Group	£4.24	£86.90m	14	3261.54	-18.46%	-13.11%	-£ 19.70m	-£ 13.10m
Sanderson	£3.13	£27.90m	13	1331.91	6.10%	37.89%	£1.90m	£7.90m
Sema Group	£3.61	£328.50m	29	1135.22	17.59%	12.81%	£49.10m	£37.30m
Sherwood	£2.20	£13.40m	6	1833.33	-6.78%	-13.73%	-£ 1.00m	-£ 2.40m
Total	£0.65	£6.50m	11	1226.42	-16.67%	-14.47%	-£ 1.30m	-£ 1.10m
Trace	£0.43	£6.10m	15	344.00	-8.51%	19.44%	-£ 0.52m	£1.10m
Vega Group	£1.44	£20.30m	18	1180.33	7.46%	28.57%	£1.40m	£4.50m
Vistec	£0.30	£35.80m	17	1282.61	-11.94%	20.41%	-£ 4.90m	£8.00m

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.

Gresham Telecomputing

A year ago in July 92, we reported that **Gresham Telecomputing**'s Sid Green had ended his Chairman's statement with the words *"the patience of our shareholders will be well rewarded"* when the shares stood at under 30p. Only five months ago when we reviewed Gresham's full year results, we were incredulous at the 14 times increase in their share price from a low of 6p in Oct. 91 to 85p at the end of Feb. 93. Since then Green has issued two statements scotching rumours which might have been contributing to the share price rise. He also sold a sizeable block of his own shares at c85p. So we are now not quite sure of the words we should use to describe the continued share price rise to end this month on 177p - a mere 30 times higher in less than two years.



The interim results to 30th Apr. 93 were good...but not *that* good. Revenues from continued activities were static at £3.06m, PBT increased 48% to £419K and EPS was up 51%. Cash, despite spending £630K on R&D, increased 13% to around £1.3m.

Of course the reason for the incredible share price increase is the potential for Gresham's new open systems product lines. These have made no significant contribution to the current results which were based largely on Gresham's traditional mainframe products.

The share price increase started when the Dun & Bradstreet deal was announced early this year, whereby the tp+ product was to be used in all their Millennium UNIX based products. Sales of Millennium have only just started as *"the build up to a full flow of orders has been slower than expected"*.

But as we have previously reported, it is the ISAM-XA product which perhaps provides the greatest potential. *"ISAM-XA has now been demonstrated working successfully in conjunction with all three of the contending XA compliant Transaction Managers, and distributorship discussions are in progress. Although this is a great advance in terms of extending the range of potential sales outlets, the discussions have proved in every case to require patience and willingness to compromise"*.

Even Green admits that *"it is difficult to predict the rate of growth of sales, and thus short-term profitability"*. Any other chairman making such a statement would brace himself for a sharp share price drop. The fact that the share price *rose* even higher was due, perhaps, because he added *"shareholders can have confidence that the market for our products is very much larger than any we have experienced in our history to date"*.

"Sound strategy" at Microgen

Microgen describes itself as *"a broadly based provider of computer output management services"*. In the last decade Microgen has undertaken over 30 acquisitions. In May and June Microgen (via their Scandinavian holding company, Capella) purchased a further two COM companies in Norway - EDP for £1.14m and Teamco for £620K.

Latest interim results, however, show the first reversals since 1989. Although revenues advanced by 5% to £26.1m, PBT declined by 14% to £3.8m. But that's still a very respectable 14% profit margin. EPS also declined by 14%. The "core" COM business was the worst effected where revenues declined slightly and *"intensified pressure on margins...had a significant impact on the results"*. But the smaller electronic print division saw revenues rise by 22% to £8.7m. Bespoke COM management services *"have shown strong growth"* but the *"start up costs for Demand Publishing ...have absorbed much of the higher contribution"*. Demand Publishing enables customers to store such things as training manuals on Microgen's computers. The customer can then update them whenever required and electronically request copies to be printed and despatched directly to clients.

You can look at Microgen in several ways. COM is *unsexy*; which in our books makes it a superb cash cow - generating cash and profits. Indeed cash increased by 44% to £3.56m in the period. Or COM is on the way out to be replaced by such things as optical disc storage. But Microgen would claim to be well up with this particular market development. Either way Microgen is a fixed cost/volume based business. When the economy picks up, so do volumes; the resulting revenues will probably go straight to the bottom line. The bespoke services will help to generate revenues from clients whichever way the customer decides to go.

Chairman Douglas Lee believes his *"strategy is sound...although it may take some time for this to show through in terms of progressive profit growth"*.

P&P mission *"To boldly go into high value-added services"*

If we ever did an MBA, **P&P** would be our chosen thesis subject. You could track the history, or revolution, of the computer industry over the last decade by direct reference to the fortunes of P&P. In particular in the last couple of years P&P came to understand, ahead of many of its competitors, that there really was no future in high volume/ low value distribution. Indeed they decided that P&P's future lay in high value added services. But like a few thousand other, although mainly smaller companies, how do you make the move without going out of business in the process?

P&P has found the move to be extremely painful. They made PBT of £13.1m in 1990 but that evaporated to almost breakeven in 1991 before staging a slight recovery to a PBT of £2m in 1992.

Latest interims to 31st May 93 continue the trend. Total revenues were largely static at £122m but revenues from continuing activities grew by 14% to £105m. PBT doubled to £2m and EPS advanced by 110%.

In Mar. 93, P&P sold its *"high volume, low margin product distribution business"* to Merisel (UK) for an estimated £540K cash. We said at the time that the deal *"looks a real cracker"*. P&P had allowed provisions of £8m for close down costs and the directors are now *"confident that the provisions...will prove adequate"*. In addition the management can now concentrate on the task in hand...building the high margin services business. It would appear that the business which was disposed was making revenues of c£40m but was breakeven at best and could have been losing up to £200K.

The remaining distribution businesses - Principal, Power Systems and P&P Sweden - *"continued to contribute positively"*. There is industry talk that these too are up for sale.

We heralded the ICI PC FM deal announced last year. P&P could really excel in this high growth/high value/high margin sector. P&P could therefore become the classic business school case study. *How, in a single decade, to go from high volume/high margin through high volume/ low margin to low volume/high margin without going broke.*

We still believe that P&P will be one of the very few which might just be able to perform this rather rare trick.

Sorry, we failed too, David...

Last Sept., we wrote up the superb performance of David Stern's **Phoenix Systems & Software plc** trading as **Travellog Systems**. This month Stern wrote to us saying that he thought a write up in *System House* always meant a takeover bid - and he complained that he had yet to receive one!

In the latest year to 28th Feb. 93, Phoenix increased revenues yet again by 34% to £1.8m (hardware sales declined by 43% but software and services were up 119%) and PBT increased 102% to £164.6K. New customers for their on-line reservations system include Eurotunnel and Irish Ferries. *Perhaps next year.*

Software leaders warn of slowdown

Both **Microsoft** and **Novell**, the two highest valued software products companies in the world, have warned that next year's sales are unlikely to reach this year's record levels.

Drawing the wrong conclusions

The **Worshipful Company of Information Technologists** recently commissioned a survey "Meeting the needs of small IT firms" from the **City University Business School.** The resulting findings have been widely reported but we would suggest that readers treat the survey with some caution.

The survey was in part based on the different needs and aspirations of companies with high, compared with low, *sales effectiveness.* It then fell into the trap, like many other learned bodies do, that sales effectiveness = high revenues per employee. For example the report states *"Comparison of industry segment with sales effectiveness shows that all VARS achieved very high results, and that 83% of the software producers were below average"*. Revenue per employee is a useless measure unless you compare similar businesses. Most VARs have revenue per employee >£200K whereas people based software houses average under £80,000. Comparing the two - and making a qualitative judgement as a result - is as erroneous as comparing the same figures for J Sainsbury and Andersen Consulting and deducing that the sales effectiveness of Andersen was about a tenth of that of Sainsbury's!!. (Andersen Consulting are currently generally regarded as the most sales effective "people based" operator in the IT industry). PBT per employee is a much better indicator of effectiveness.

The report then goes on to state *"67% of the firms with a cautious long term strategy currently achieved very high sales per employee, whereas 54% of those planning a strategy of rapid expansion were amongst the **poorest** performers"*. **This is where the report becomes positively dangerous.** VARs who earn a large % of their revenue from reselling other people's hardware/software obviously have the highest revenue per employee (i.e. because they don't have to employ staff to design/build the hardware/software). But they are the sector most adversely effected by the reduction in hardware prices and the move by customers to buy at the lowest price. The outlook for VARs is thus problematic, unless they can increase the % of sales (and profit) from products where they own the IPR - hence their caution. Software producers, which have a lower sales per employee (but almost always a significantly higher PBT per employee) are part of the fastest growing segment of the market and thus plan rapid expansion. **In other words the research has established a correlation and then drawn exactly the wrong conclusion.** The report then goes on to base at least some of its recommendations on this false premise.

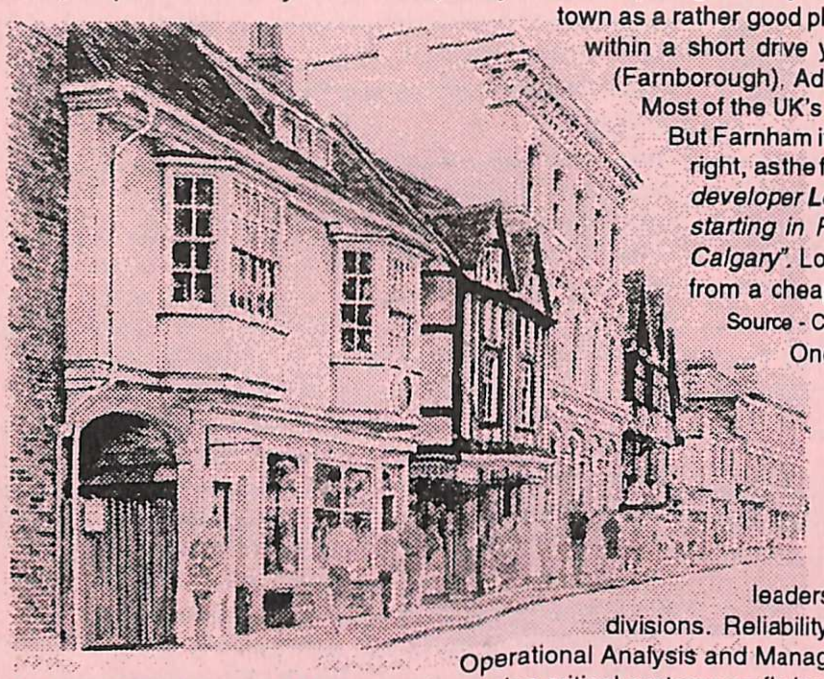
Many *System House* readers are also WCIT "members" and we would ask them to take these points into account in their decision making on the actions to be taken as a result of their survey.

However, the report's list of the five main requirements of small IT companies looks quite sound:

- an improvement in the BS5750 accreditation process
- access to independent advisers in the IT world
- access to "modest" amounts of venture capital
- better lobbying of their interests by groups like CBI and IoD on regulatory issues
- ability to unlock business grants from organisations.

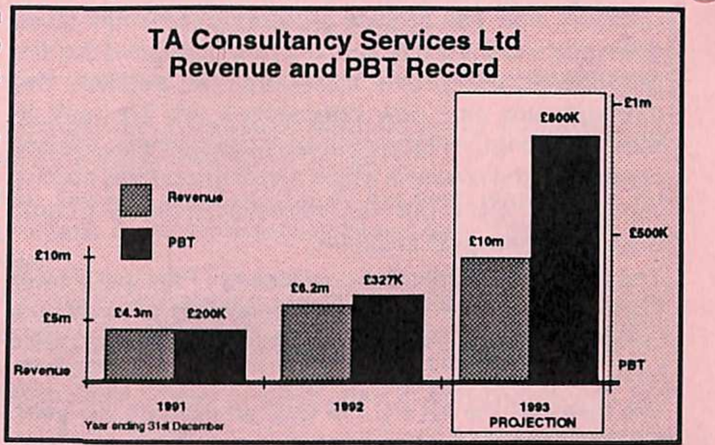
Farnham - IT Centre of the World?

Apart from the obvious fame that Farnham in Surrey must derive from being the international headquarters of Richard Holway Ltd., the publishers of *System House*, many in the computing industry have voted the attractive and well preserved Georgian town as a rather good place to live rather than work. This is not surprising as within a short drive you can reach EDS-Scicon (Fleet), Data Sciences (Farnborough), Admiral (Camberley) and many other sector leaders. Most of the UK's silicon valley - the M4 corridor - is within easy reach.



But Farnham itself is fast becoming an important location in its own right, as the following press extract illustrates. *"Singapore software developer* ***Logiciel Systems Ltd.*** *is setting up four subsidiaries, starting in Farnham, Surrey followed by Frankfurt, Paris and Calgary".* Logiciel offers a contract software development service from a cheap greenfield site in the People's Republic of China. Source - Computergram - 21st Jul. 93.

One of the biggest sector employers in Farnham is **TA Group** with 600 staff and annual revenues of £25m. TA is 60% owned by its directors and staff with 3i holding the remainder. It is their CSI subsidiary **TA Consultancy Services** (TACS), formerly Rex Thompson & Partners until it was the subject of an MBO from British and Commonwealth in Feb. 91, which is of most interest to readers. TACS, under the leadership of MD Andy Mathew, is organised into four main divisions. Reliability & Safety, Software Engineering & Assessment, Operational Analysis and Management Consultancy. Their services are at the high tech end developing and testing such mission critical systems as fly by wire aircraft systems.



Employing around 120 staff, results since the MBO have been pretty good considering the trading environment; although the current profit margin of 5% could be improved. 1993 projections are £10m revenue, operating profit £1.2m and PBT £800K.

Another large computer sector employer is **Lynwood**, who specialise in display solutions, in particular the human computer interface. They employ 130 and have revenues of around £12m. Earlier this year the management sold the company to US **NAI Technology**.

But there are other computing services majors here in Farnham too. Last year **Hoskyns** opened an office in the town offering application software maintenance particularly associated with their ICI contract. Around 60 people are employed. **Amtec** is another significant Farnham IT management and project planning consultancy with revenues of around £2m.

But perhaps the fastest growth area in Farnham is new one man IT consultancies set up by senior executives taking early retirement from IBM, EDS-Scicon, Data Sciences.....

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