

## Goodbye SYSTEMHOUSE, Goodbye Hotnews

It is with a fair amount of sadness that I learn that Ovum, under its new owners Datamonitor and now Informa, has just published the last edition of SYSTEMHOUSE and that Hotnews will also cease from early May 08. They will be replaced by a monthly Straight Talk which will contain broader coverage of global players and markets.

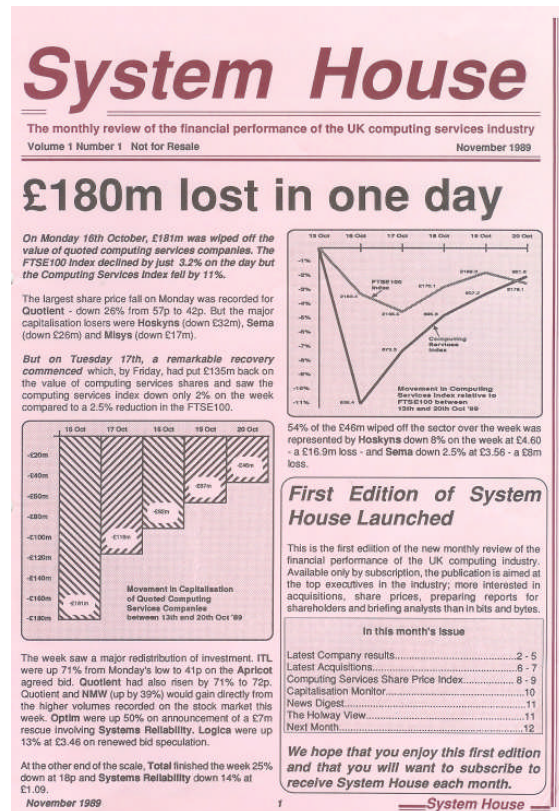
After starting my analysis company in 1986, I published the first Holway Report in 1988. But readers quickly told me that they needed something more often than once a year. So the first Systemhouse appeared on 1<sup>st</sup> Nov 1989. It hit a chord. Every other tech publication at the time was “journalistic” and/or “technical”. Systemhouse was highly opinionated right from the start and covered technology from a corporate viewpoint. Both were “firsts”! For the first 10 years I wrote every word in every Systemhouse and I made a 222 Systemhouse editions.

Hotnews is a bit younger. It started in Aug 1996 and I still reckon it was the first UK tech blog – although the word hadn’t been invented back then.

### UK For Sale

The very first edition of Systemhouse majored on the **“Bumper period for Acquisitions”** in 1989. M&A involving UK S/ITS companies had totalled £700m. Put into context, that figure is about 20x higher today and keeps reaching new highs. But what was so interesting back in 1989 was that it was UK companies doing all the buying. Plessey buying Hoskyns, Granada buying DPCE, Systems Designers buying SCICON. Even CAP and Sema was more of a merger than a French takeover back then. But there were early signs of what was to come when that first issue of Systemhouse reported the purchase of UK Istel by AT&T for £180m; the first ever overseas purchase of a major Top Ten UK S/ITS player.

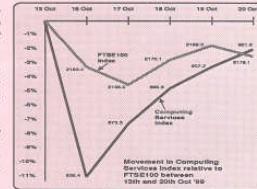
It was the start of a trend. The April 1990 front page had a Big **FOR SALE** sign over the UK computing services industry. The Sept 1990 front page was **“SD-Scicon “into the claws of eagles”**” - a cunning reference to the title of Ken Follett’s book on EDS’ Ross Perot exciting rescue of EDS employees from Iran in 1979.



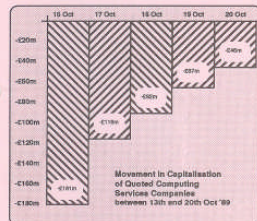
The week saw a major redistribution of investment. ITL were up 71% from Monday's low to 41p on the Apricot agreed bid. Quotient had also risen by 71% to 72p. Cuotient and NIMW (up by 39%) would gain directly from the higher volumes recorded on the stock market this week. Optim were up 50% on announcement of a £7m rescue involving Systems Reliability. Logica were up 13% at £3.46 on renewed bid speculation.

At the other end of the scale, Total finished the week 25% down at 18p and Systems Reliability down 14% at £1.09.

November 1989



Movement in Computing Services Index relative to FTSE 100 between 15th and 20th Oct '89



Movement in Capitalisation of Quoted Computing Services Companies between 15th and 20th Oct '89

System House

In 1988 nine out of the Top Ten S/ITS suppliers to the UK were UK owned companies. The 2006 Top Ten is likely to have just two UK-owned entrants - BT and Capita.

**“Acquisition Indigestion”** was the theme of the Dec 89 front page - a subject we have referred to ever since. We suspect that companies will continue to suffer from – indeed die from – the dreaded after-effects of taking over companies that are too big and of the wrong type. *When will they ever learn!*

### **Themes**

Systemhouse has had so many themes and campaigns over the years that it would be impossible to cover them all here. Personally I am proudest of the following:

**Boring Companies** – We started this accolade in 1992 and it persists to this day. I hope that one day the OED will include a new definition of the word to mean companies that produce consistently good earnings growth over decades. I’m equally proud that, right from the very first edition when we featured their IPOs, Systemhouse has championed Sage and Capita as the best UK S/ITS companies ever. Not only are they the only Boring Award holders but they are the two best performing shares in the Holway Index which started in 1989. I guess that Index will now be disbanded. If that is the case it started on 1000 and ended on 5245 – a 4xtime increase. It had hit a high of over 16000 in early 2000. Capita closes out with the highest gain – up 183xtime; followed by Sage up a more modest 72xtime.

### **Campaign to reduce CGT on the sale of businesses**

We started this campaign in 1996 when CGT was 40%. The then Conservative Chancellor, Kenneth Clarke, wrote to us saying that he had no intention of changing the rate which we thought was both punitive on those who had worked for decades to build their businesses but was also damaging to the country because it just meant that many UK business entrepreneurs moved overseas to avoid it on selling their business. We were amazed when a guy called Gordon Brown called before the 1997 election asking for details of our campaign. Within a couple of years of Labour coming to power the rate was reduced to just 10% on business assets held for two years or more.

It gives me no pleasure at all to record that Alistair Darling reversed all that good work in his last budget by increasing CGT to 18%. *Shame on him. Shame on Labour!*

### **“Y2K Microclimate” and the “Y2K hangover will not end with the Alka Selters”**

The fuss about the Millennium Bug seems such a long time ago now. But back in 1997/8 it fuelled 25%+ growth in our sector. In 1998 we were the first to warn that 1999 would see slower growth as systems that had been made ready for 2000 were “locked down”. The 1999 “Y2K microclimate” was tough for companies expecting growth to continue at 1998 levels – none more so than the ITSAs who had a torrid time. By mid 1999 the mood was all around major growth returning in 2000. We used **“There may be troubles ahead”** as

the first musical theme to our 1999 CSSA (now Intellect) “State of the IT Nation” presentation when we were cast as the Party Poopers by warning that the “Y2K hangover will not end with the Alka Selters”.

**“The Emperor’s New Clothes”, “Dot.Con”, “You don’t know whose swimming naked until the tide goes out” and “Freejellybeenz.com”**

These were all classic Systemhouse front page headlines in 1999/early 2000 as we wrote about the dot.com phenomenon. Although Systemhouse is justly proud of its warnings of the impending crash which came on 6<sup>th</sup> March 2000, it was also the most electric time to be commentating on our sector. We suspect to this day that our spoof article on how to turn an idea into a company worth £500m on IPO in six months was taken seriously by many. Indeed, **freejellybeenz.com** - the concept of creating a social networking site for Jellybean lovers - was years ahead of its time! Infact the name was made up of three of the main bubble companies – Freecom, Jellyworks (an internet incubator) and Beenz which was to be a “Greenshield stamps” for internet users.

**“Lies, damn lies and audited accounts”**

Systemhouse has run campaigns for clarity in company R&As since the very start. Bluntly, even with IFRS I think we are no further forward than we were back in 1989. It is still possible to treat software development costs in any way you choose – you can put it on the balance sheet and report profits where none existed (like QSP did for years before they went broke) or you can expense it as you go along. One Systemhouse front page at the time of the Andersen/Enron scandal carried a cartoon with an auditor (called Arthur) being asked “What is 1+1?” with Arthur answering “What do you want it to be?”.

*“Plus c’est la meme chose, plus ça change”*

**“IT’s all over now?”**

When, in 2002, we introduced the world to the concept that IT’s glory growth days were over and that IT would be lucky to keep up with GDP, we were bombarded with comment which at times resembled hate mail. I have an A4 ring binder full of international press coverage on this one subject. I should remind readers that this appeared in Systemhouse nearly a year before Nicholas Carr wrote his “IT doesn’t matter” article for the Harvard Business Review in May 2003!

As it turned out, I was far too optimistic. ICT is slowly *declining* in its share of GDP and will continue to do so...for ever. Just like every other mature industry ever known to man.

**Martini Moment**

My desire to listen to The Archers “Anytime, Anywhere and from Any Device” gave birth to my Martini Moment ambition in 2003 at a time when the BBC were yet to launch their “Listen Again” service. In 2006 I wrote of achieving that Martini Moment on an airplane, in a hotel and on a ship in the South China Seas on a holiday to Vietnam. I have now moved on to Martini Moment#2 – being able to watch Coronation Street via iPlayer *Anytime*,

*Anywhere and from Any Device*” I think I might get that before the end of this decade as mobile internet speeds increase.

I consider everything that goes around achieving this Martini Moment, and what it now enables us to do, as THE most exciting development shaping our sector for the years to come.

**“I used to drive a Microsoft, now I fly a Google”**

In 2005 I upset our friends at Microsoft with this headline. It was nothing personal! I just believe that it's the “Webtop” not the “Desktop” that now matters. Just as it's Web 2.0 not Web 1.0. Just as it's SaaS not shrink-wrapped software products.

Actually, just like what happened with Netscape and the Internet, Microsoft will eventually “get it” and then you will all have to “watch out”...again. Just as I have NEVER forecast the demise of IBM, I'm not forecasting Microsoft's passing either!