

■ SHARE SLEUTH

Data part's top marks

Shares in educational computing pioneer RM have hardly inspired in recent years. **Richard Beddard** explains why he's added it to the Thrifty 30 portfolio



As a secondary school teacher 20 years ago, I thought computers would take over the classroom, with every child having their own computer providing both the information they needed as well as the tests to check what had been learned. In fact, computers have permeated just about every aspect of the nation's education system except children's learning, a trend reflected in the development of RM, a pioneer of educational computing.

RM developed computers for schools in the 1970s. Its first, the RM-3807, predated the Sinclair ZX80, the computer that launched the home-computing revolution. RM has since diversified into networks, learning software, examination services and ordinary classroom resources.

Its biggest division remains Learning Technologies, which supplies IT to schools and colleges; not just computer networks and interactive whiteboards, but administrative solutions that handle

budgeting, timetabling, cashless catering systems, and help pupils, parents and teachers communicate.

RM made more profit supplying IT than it did from its other two divisions combined, but that doesn't make Learning Technologies the most profitable.

Assessment and Data, which provides on-screen testing and marking services for examination boards, earns the highest return on assets. The fastest growing division is Educational Resources, augmented in 2009 by the acquisition of a school furniture manufacturer and a supplier of art and craft materials. Curriculum software is the one resource that's lagging in sales.

The software revolution is mainly confined to the back office, an experience echoed by 2008 selection EDI. It discarded its ambition to provide computer-assisted learning and turned its technology into a platform for managing examinations. RM is a bigger company and trying to expand on all fronts. Last year, it bought Computrac, an IT supplier in the US. But the impression RM gives by looking to new products and abroad for growth – apparently confirmed by the profitability ratios – is that its biggest business has limited prospects, particularly now government funding for education could come under pressure after the general election.

That may explain the sideways movement of the share price over the past

➔ KEY STATS PROFIT OR PROFITABILITY?

THE PROFIT a company makes is the money left over from its income, or sales, after deducting costs. Although a table comparing the profit made by the divisions of RM would show which had made the biggest profit, it wouldn't tell which one was most profitable.

To find this out, we compare the profit for each division to the amount the company invested in them. RM's Learning Technologies

division made over £10 million profit in 2009, but employed more than £100 million of assets. Assessment and Data made only £2 million of profit on about £6 million of assets. We can work out the return on assets by dividing the profit figure by the assets and multiplying by 100. Learning Technologies earned a 10 per cent return, but Assessment and Data earned a 34 per cent return.

five years, even though RM has steadily increased profits and its dividend. Now the shares look reasonably cheap, though, and it hasn't compromised its financial strength by borrowing heavily.

My predictive powers haven't improved since I gave up being an educational technology guru. Therefore, I select shares based on what I know about a company, rather than what I think might happen. This means I can be more sanguine about the future than a typical investor and invest when expectations and prices are low.

I included RM in the Thrifty 30 portfolio at a price of 161p, or 12 times average earnings over the past 10 years.

■ THRIFTY 30 UPDATE

RM WAS THE ONLY addition to the Thrifty 30 portfolio in January, but I also re-evaluated Haynes Publishing, the first company profiled in Share Sleuth, and Dewhurst, the fifth. Both survived the recession in good condition so remain in the portfolio.

I nearly added Treatt, which extracts essential oils for ingredients, but its shares were too expensive. Marston's, the brewer and pub chain, and Glisten, the confectionary manufacturer, had too much debt. **More information:** Thrifty 30: <http://blog.iii.co.uk/about-the-thrifty-30/>

<http://blog.iii.co.uk/about-the-thrifty-30/>
RM: <http://blog.iii.co.uk/tag/rm/z>

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RM'S PERFORMANCE AGAINST THE ALL-SHARE

