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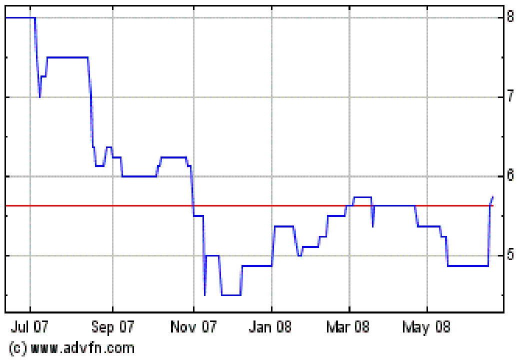
Lombard Risk Management

In Profit, Underlying 30% Growth

5.5p *23 June 2008*



LRM's trading statement shows the company has started to deliver on its promise. With a record second half in revenue terms, and the ongoing business trading profitably in the period, we believe the scene is set for a profitable 2009.

- Rather than looking at the year on year comparison, we think looking at the six monthly periods gives a better feel for the company's prospects. In the second half of the year the company had turnover of just over £5m, a decisive tick upwards from the £3.5m-ish level seen in the last three six-month periods. The company is also trading profitably.
- While current conditions in the financial markets aren't good for the financial services software sector generally, we expect LRM to be relatively robust. Its regulatory software is a must-have, not a nice-to-have, and the credit crunch is making collateral management (as a way of reducing counterparty risk) a more critical discipline than it has ever been.
- Revenue may look low compared with previous forecasts, but that is affected by IFRS' requirement to split out the disposed IVRS business. On a UK GAAP basis, as previously reported, the company made £9.1m revenues – growth of nearly 30%.

Share Price: 5.5p

12m High: 8p

12m Low: 4.5p

Market Cap: GBP7.4m

Shares in Issue: 136m

NAV/Share: 1.3p

Gearing: cash

Interest Cover: n.a.

EPIC Code: LRM

Sector: Software and computer services

Market: AIM

Nominated Advisor and Broker: Noble Group

Website: www.lombardisk.com

Previous Research Note: ‘Timing Issues Impact Growth’, 11.6.2007, 8.38p

Analyst: Andrea Kirkby

Y/E March	Sales £m	Declared Profit £m	Adjusted Profit £m	Adjusted Eps p.	P/e ratio	Divi p.	Yield %
2006	4.7	3.2	-2.8	-2.22	-	0	0
2007	6.9	-2.3	-0.5	-0.4	-	0	0
2008e	8.7	-0.8	-0.8	-0.5	-	0	0
2009e	10.3	0.5	0.5	0.4	15.6	0	0
2010e	11.3	1.5	1.5	1.1	5.2	0	0

The results Analysed

While the annual figures for the company may not look immediately impressive, they mask a substantial turnaround in the second half of the year. The table below shows the figures for each half of the year. As can be seen, a major loss in the first half of the year was eradicated in the second half, with continuing operations trading profitably.

£m	**H1**	**H2**
Revenue	3.7	5.0
EBIT	-1.1	0.3

Sources: company information and Hardman estimates: IFRS

The company has had an eventful year with the disposal of IVRS. This business made a loss of £353k during the year, but a £647k profit on disposal. The result is a £293k positive item which is accounted for under IFRS as an adjustment to net profit.

All these figures are of course subject to any audit adjustments, as the audit process is ongoing.

Current Trading

The company is currently trading well. In collateral management, it has a good and growing pipeline. One significant deal is close to signing, and there are several larger deals in the process of negotiation.

Collateral management is becoming ever more important as the credit crunch bites, and banks need to ensure they fully understand their counterparty risk.

Regulatory reporting systems are seeing strong demand. Delivery issues have now been addressed with the recruitment of appropriate permanent personnel. Because these have replaced expensive contractors, margins have improved. STB has also expanded its international sales and is now doing well in Asia. Regulatory reporting systems are still a very fragmented market and we believe the company can start to consolidate the market geographically now that it is able to write new software versions for particular regulatory domains cost-effectively in the Shanghai office.

We expect to see revenues increasing over the next couple of years, but the biggest impact on profitability will come from cost restraint. Costs will be held back by the further development of the company's Shanghai activities, as well as by the elimination of property costs for the second London office, which is to be disposed of. Cost benefits are likely to accrue in the second half of the 2009 financial year, so that though revenues will show good growth for H1, profitability is likely to be second half weighted.

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