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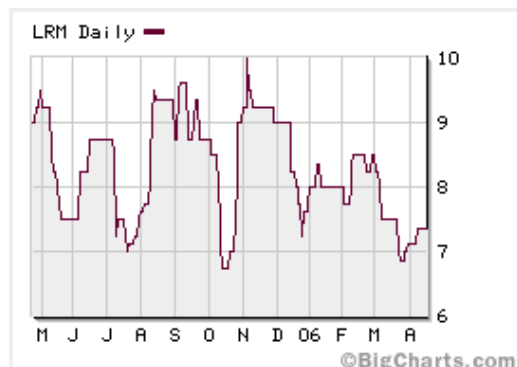
Tel: 020 7929 3399
Fax: 020 7929 3377

www.hardmanandco.com
email: research@hardmanandco.com

4 -5 Castle Court
London EC3V 9DL

Lombard Risk Management Good Start to New Financial Year

7.375p 24 April 2006



A sudden rush of orders in the last two months puts Lombard Risk well on track for the new financial year. Lombard Risk's collateral product Colline is gaining traction; it has already received an excellent rating in Risk magazine's review of collateral software. STB Systems, acquired last year, has also received two large orders for its bank regulatory reporting software.

- Last year was disappointing on an operating basis as orders were delayed until close to the year end or shortly after, so most of the revenue could not be recognized. The company has invested in R&D on Colline, Firmament, on setting up a development centre in Shanghai, and on building up its independent valuation business, each of which moves have led to an increased operating loss largely because all R&D is expensed.
- However the company will report a pretax profit for the year having made a £6m gain on the sale of its ValuSpread business.
- The deals that have come through in the last month should contribute over £1.6m to this year's turnover. Together with about £4m in revenue of a recurring nature, that gives LRM a strong base to achieve a significantly better result. We are conservatively forecasting breakeven for this year with a £1.6m profit and 1.2p of earnings in FY2008.

Share Price: 7.375p

12m High: 9.5p

12m Low: 6.875p

Market Cap: £10m

Shares in Issue: 130.5m

NAV/Share: 2.9p

Gearing: Nil (net cash)

Interest Cover: n.a.

EPIC Code: LRM

Sector: Software & Computer Services

Market: London AIM

Nominated Advisor and Broker:

Noble Group

Website: www.lombardrisk.com

Analyst: Andrea Kirkby

Y/E	Sales £m	Declared Profit £m	Adjusted Profit £m	EPS p	P/e ratio	Dividend p	Yield %
2004A	4.5	-1.2	-1.2	-1.0	-	0	0
2005A	4.6	-1.1	-1.2	-1.1	-	0	0
2006E	4.8	3.3	-2.4	-1.9	-	0	0
2007E	7.6	0.1	0.1	0.1	74.0	0	0
2008E	9.6	1.6	1.6	1.2	6.2	0.1	1.4

2006 results

Results for the year to March 2006 have been disappointing as LRM effectively had to live off its recurring revenue base, with few new large software orders coming in. The pipeline was strong and increased over the year, but converting pipeline into firm orders was slow until March. The company has now seen seven major new orders in the last two months; almost all the revenue from these orders will be accounted for in the March 2007 financial year.

However LRM will report a pretax profit for the year as it has cleared a £6m profit on the sale of ValuSpread. Some of the cash has been reinvested into STB, the regulatory reporting software provider, and the balance sheet now looks much healthier than was the case last year.

New orders

LRM has received seven new orders of over £100k each since the beginning of March, amounting to over £1.8m of revenue. It has almost as many again at an advanced stage of negotiation. We understand that four of these orders were for Colline (of which one also in conjunction with Firmament and Oberon), two for STB-Reporter and one for Oberon.

Colline

Colline seems to be gaining traction and Basel II, together with a tighter regulatory environment and increased concern about credit risk reduction following events at Refco, is also creating more interest in collateral management. At the same time a corporate market for collateral management is now opening up, particularly within the energy sector. While STB-Reporter and Oberon remain the largest products in revenue terms, we expect to see the most significant incremental revenue growth coming from Colline.

We believe the new orders reflect a number of changes in the market. First, Lombard Risk has gained traction for its Colline product, which has received an excellent rating from Risk magazine. Colline appears in the top five systems despite the fact that there were no Colline installations among the institutions who voted in the survey. (All the last four deals were won against the top three products in this category, which suggests that when it comes to a real bid situation LRM outperforms its rating. The good thing about the rating is

that Lombard Risk makes the short list in an increasing number of tenders.)

Secondly, a tightening of control of counterparty risk has seen more focus on collateral management - previously seen as purely a cost base by many banks and their trading counterparties. Regulation may help as the capital treatment of collateral will change in Basel II. The corporate market is opening up too, as companies in the energy sector and elsewhere realise that they need collateral management not only to control their significant exposures but to maintain their trading lines with major banks.

LRM has also now developed an ASP implementation which is fully web capable. Management believes that this is unique in the sector - SunGard offers an ASP system but it is based on proprietary standards and is not web capable. Besides, SunGard's ASP solution is relatively costly. We could see an increasing amount of Lombard Risk's revenue coming from ASP deals with a usage-based charging system. While this will not produce the high up front licence fees that might come from a software sale, it is a much more stable source of revenue and as we have seen with the success of StatPro in the asset management market, it's a model which has strong appeal to customers.

STB Systems

The STB acquisition made last year looks to have been a success for Lombard Risk so far. It has made a positive profit contribution in the 7 months since acquisition, although it has not quite achieved its full earn-out. The STB regulatory reporting software has made a very strong start to the new financial year with two large orders for bank regulatory reporting software received in the first half of April. With 40% of UK banks using LRM's STB-Reporter software, LRM should be a beneficiary of Basel II as a result of additional requirements by customers

The next year to 18 months should be a time of growth opportunity for STB with the Basel II regulations coming in. Every single one of its 140 UK customers will need to make changes to its reporting and is likely to need some enhancements or consulting for those changes from LRM. In addition LRM has now received some large orders for STB-Reporter for European and for South African reporting which will increase its revenue opportunities outside the UK.

In our next write-up on Lombard Risk we will devote more space to STB after visiting the operation.

Independent valuations

LRM launched this activity two years ago in response to clients who preferred the firm to value trades independently rather than to do so themselves with purchased software and data. LRM's Firmament and Oberon software have been at the core of this offering, using data from ValuSpread (to which LRM has retained usage following the sale of the business to Fitch) and other data sources. The Independent Valuation business is now developing its capabilities quickly working closely with a large bank client. LRM management believes that the next move is for the independent valuation business to take a step up in volume and to develop from a niche business into a volume utility focused on operational excellence. If LRM were to fund such a utility

itself it would shift the focus of the firm away from software. Management believe it would be more appropriate to develop this business with strong partners who can also help assure its commercial success with more than a financial investment alone. Management is therefore now looking for partners to enter into the venture and add funding. We would guess the business needs £5-6m to achieve the scale needed. This funding would go into the venture, not into LRM, so is not dilutive to LRM shareholders.

Currently we have forecast low revenues for this business and a loss initially. If the right partners are secured, LRM could be left with a stake in a much larger and valuable business. If a deal is not secured within the next 6-9 months it is likely that management will decide to retain independent valuation as a niche business, but to control its costs tightly thus allowing profitability to be secured.

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