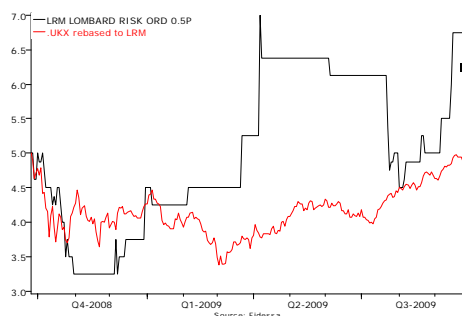


# Lombard Risk Management 6p

## Fund Raising. Results. Now A Much More Secure Platform

30 September 2009

### Share Price: 6p



**12m High:** 7p

**12m Low:** 3.25p

**Market Cap:** £8m before issue, £12.4m after issue

**Shares In Issue:** 136m before issue, 206.9m after issue

**NAV/Share:** nil ex intangibles.

**Gearing:** No debt after issue.

**Interest Cover:** -

**EPIC Code:** LRM

**Sector:** Software & Computer Services

**Market:** London AIM

**Broker:** Noble Group +44 (0)20 7763 2200

**PR:** Broker Profile +44 (0)20 7448 3244

**Website:** www.lombardrisk.com

**Description:** LRM provides financial software systems targeted at the banking and fund management sector, focused on collateral management and regulatory reporting.

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A £1.8m equity fundraising from a blue chip institutional list and capitalisation of the bulk of directors loans will leave Lombard Risk Management debt free and with a healthy cash balance. This will enable Lombard to raise its game and produce some decent growth in y/e 3/2011. Some of the other issues that have deterred institutions in the past – such as the combination of chairman and chief executive roles and the appointment of a full time finance director – have been or are being resolved. Also the results for the year to 3/2009, held up while the fundraising was completed, have been released.

Key points are:

- The placing price is 4p. The discount of 41% to the closing mid-market price the previous day is very much in line with discounts for other similar equity fundraisings, and as Lombard shares have spent much of the past year at 5p or below is in our view good value for the company.
- Over £1m of directors' loans have been capitalised into new shares at the placing price.
- The new placing shares get 22% of the newly enlarged share capital.
- There are no pre-emption rights.
- A shareholder vote takes place on 19 October. As the board holds over half the 'old' equity the result should not be too much in doubt.
- The 3/2009 results show sales in line with our expectations, a loss slightly worse than our forecast. As Lombard sells software to the world banking industry, we found these numbers satisfactory.
- The statement on current year trading is encouraging but carefully controlled. The following year, to 3/2011, however, should be better. Lombard has a strong 'Number Two' position in both its core markets, and both markets will be growing, so that could be an interesting year.

*Post issue, Lombard Risk Management will be trading on an Enterprise Value of ~1.2X likely 3/2010 sales, a valuation that certainly gives room on the upside. The shares have beaten the market over the last twelve months, so they also have momentum in their favour.*

Y/E	Group Sales	Declared Profit	Adjusted Profit	Adjusted EPS	P/E ratio	Divi	Yield
March	£m	£m	£m	p.		p.	%
2008A	8.5	-1.11	-1.11	-0.7	-	-	-
2009A	8.7	-1.25	-1.25	-0.8	-	-	-
2010E		No	Forecast		-	-	-
2011E		No	Forecast		-	-	-

## Shareholdings and Board Changes

John Wisbey's shareholding drops from 60.1% to 49.1% as a result of the placing and loan capitalisation. Wisbey has taken only £400,000 of his loan repayment in cash rather than shares. £1m of directors' loans, largely from Wisbey, have been converted into equity. Another director, Brian Crowe, will own 2.7% of the equity after the issue. The new Finance Director Keith Butcher has invested £50,000 in the company, which we find encouraging.

In terms of board positions, Wisbey has until now held both Chairman and Chief Executive positions. A non-executive chairman is to be recruited, and Wisbey will remain Chief Executive. We view this as the price Wisbey had to pay for obtaining strong institutional backing for the fundraising, and believe it is a thoroughly positive step forward.

**£1m of directors' loans have been converted into equity**

## Balance Sheet After Capital Raising

Following receipt of the placing funds in late October, Lombard will have no debt whatsoever, either to directors or to banks. Of the £1.8m fresh capital being raised, £600,000 goes to repaying part of the directors' loans in cash. Part of the remaining £1.2m will be soaked up issue costs (£0.2m) and by bringing Trade and Other Payables back into line – these rose by 60% last year compared to a rise of only 21% in Trade and Other Receivables.

Shareholders' Funds fell heavily last year because of the loss made during the year. Shareholders' equity was reduced from £1.35m to £0.31m. This fundraising will push it up to ~£2.9m. There will be 206.92m shares in issue once the issue has taken place, suggesting nav of 1.5p/share.

Lombard has a relatively clean balance sheet for a tech company. Research and Development spending has always been expensed as incurred. There are £3.6m of intangible assets in the balance sheet, a figure that has been unchanged for the last three years, this relates entirely to past acquisitions.

Our only issue with the Balance Sheet is on the lateness of Trade Receivables, where £160,000 of debts are more than six months overdue, compared to £32,000 at the end of the previous year. In the context of a company with annual sales of £8.7m, almost all to the world's banks, this is not out of proportion however – just 2% of annual sales.

**Research and Development spending has always been expensed as incurred**

## The Results

These results cover the year to March 2009. Lombard Risk Management has delayed reporting them until its fund raising was completed. The information they provide is therefore somewhat historical. With that proviso, we see the key points as being:

- Growth last year stalled. Revenue was up only 2.8%, compared to a 23% rise in the previous year. We put this down to a combination of Lombard's key customer group (the major banks) having other priorities during the period.
- Once again the performance has been second half weighted. We don't view the 17% growth in sales H2 over H1 as significant, because it merely replicates what was seen in the previous year.
- This remains a software and consultancy company and is in no way whatsoever a box shifter. Cost of Sales amounted to only 0.5% of revenue, even less than the previous year.
- Admin Expenses grew slightly faster than sales – up 3.2% in spite of the absence of some notable one-off costs that bloated the 2007/8 Admin Expenses figure and in spite of the savings made by the continued switch of software development and other costs to Shanghai. Also, the depreciation charge, which is included in Admin Expenses, was down. So some costs were clearly rising pretty fast and in our view it would be wrong to expect all the revenue gains we foresee in the current year to drop down to the bottom line.

**A continued switch of software development to Shanghai**

## Lombard Risk Management

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- The Loss from Operations was 6% higher than the previous year at £1.12m. The H2 Operating Loss was less than half that in H1, however, and if Lombard can build on this H2 performance (i.e. shake off the seasonality in its business) then breakeven shouldn't be too far away.
- H2 interest charges were more than double those in H1. We view these as of academic interest only, however, because the capital raising means that on an ongoing basis there will be no more interest charges.

## The Business Split

- Risk Management and Trading Software sales grew by 22% and this part of the business returned a healthy profit. This part of the business accounted for 45% of sales, so Lombard has effectively achieved its goal of having two equal sized legs to its business. This is where the group's flagship product COLLINE® sits. Oberon®, Lombard's older and most profitable product, also falls in this division.
- Sales of Regulatory and Compliance Software were down, and all the losses were incurred here. This business 'underestimated the work effort around the Basel 2 roll-out programme' and some contracts have been 'significantly loss-making'. These problems have also delayed revenue recognition in some cases, which may account for the apparent sales decline in the division and the apparent lack of growth in the overall group sales revenue figure.

**Risk Management and Trading Software returned a healthy profit**

## Unusual Financial Items

There have been no 'Exceptional Items', either for last year or the previous one. However, we draw attention to the following items:

- In y/e 3/08, a £40,000 loss was put through the p & I account on the sale of shares in a quoted investment (fellow quoted company IDOX that was at one time closely associated with Lombard).
- In 3/08 a provision of £138,000 was made for an 'onerous lease', as Lombard moved out of its large and expensive Earls Court premises for a smaller, cheaper base in Bermondsey. The y/e 3/09 benefited to a small extent (£9,000) as part of this provisioning was clawed back. The old premises were not sub-let; the lease expires in September 2009.
- £59,000 of revenue included in the 3/09 accounts was a one-off, the contingent consideration from the sale of a subsidiary in February 2008.

**There are no exceptional items**

## Pay – Directors and Staff

Directors' pay levels, which have deterred some institutions from buying Lombard shares in the past, are back under control. They amounted to £440,000 in this latest year, a 19% reduction on the previous year and equivalent to 5% of sales revenue. We think directors' pay will probably fall again in the current year.

Total payroll costs were up by 4%, and at £6.7m account for 69% of all Administrative Expenses. Labour costs are the key 'cash out' item at Lombard Risk Management, which is why the migration of as many man-hours as possible to the Shanghai office has been and will continue to be critically important.

## The Current Year

We have strictly limited expectations for the current year. There is little that is specific about prospects in either the funding document or the profit statement, although the company does say there are 'good commercial prospects' and that the business should be cash generative. COLLINE® is stated to be ahead of budget, but no comments of this nature have been made on either Oberon® or the Regulatory and Compliance activities. Lombard has been operating throughout its first half year (April-September 2009) severely cash constrained. We believe that this inhibited the sales process.

For its Regulatory and Compliance products, Lombard has a core base of 130 UK customers who are already running their businesses on Lombard systems. Over half of these will probably want or need some form of system upgrade, at a cost comfortably into five figures, in order to comply with the FSA's new regulatory requirements on liquidity reporting. This should also lead to higher recurring maintenance and licence income. So the sales environment for this part of the business, too, can be viewed as encouraging.

As far as costs are concerned, there has been a further significant shift operationally towards Shanghai since mid-2008, with new larger offices there being obtained and the London operation being further slimmed down. For the current financial year over 20% of the total cost base will be in Shanghai.

We view a current year H1 loss as inevitable, at least partly because H1 will bear ~£100,000 of interest costs. The H2 outcome will be dependent upon the start times for new contracts. We think the real sales growth and the breakthrough into profit is more likely to come in y/e 3/2011, as Lombard regains momentum and as the FSA's regulatory changes for banks are brought into effect, boosting Regulatory and Compliance product sales.

Also, the new Finance Director, Keith Butcher, is conducting a review of the business, and we will not issue forecasts until this process is completed.

**Over half of  
Regulatory  
and  
Compliance  
customers  
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Lombard Risk Management

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Management	Major Shareholders
<p><b>Chairman:</b> John Wisbey, but non-exec chairman being sought.</p> <p><b>CEO:</b> John Wisbey</p> <p><b>Finance Director:</b> Keith Butcher</p> <p><b>Non-executive Deputy Chairman:</b> - Ian Peacock</p> <p><b>NED:</b> Brian Crowe</p> <p><b>Company Secretary:</b> - Jane Fineman (not a director)</p>	<p>John Wisbey 60.1 % <i>(falling to 49.1% after placing)</i></p> <p>New Placing Shares: 21.75%</p>
Key Dates	Key Milestones
<p><b>Extraordinary General Meeting to approve Fundraising:</b> 10 am October 19</p> <p><b>First Trading of New Shares:</b> October 23</p> <p><b>Annual General Meeting:</b> October 23</p> <p><b>Interim Results:</b> end-December 2009</p>	<p><b>1989</b> Company founded by John Wisbey and Oberon software installed at first customer site.</p> <p><b>2000</b> IDOX, originally part of LRM, floats on AIM.</p> <p><b>2004</b> LRM, floats on AIM</p> <p><b>2005</b> Purchase of STB Systems (now Lombard Risk Compliance)</p> <p><b>2005</b> Release of Colline® collateral management solution</p> <p><b>2006</b> New Shanghai office acquired</p> <p><b>2008</b> Sale of IVRS</p> <p><b>2009</b> First £1m+ contract signed for Colline</p> <p><b>2009</b> Fundraising.</p>

**Lombard Risk  
Management**

30 September 2009

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