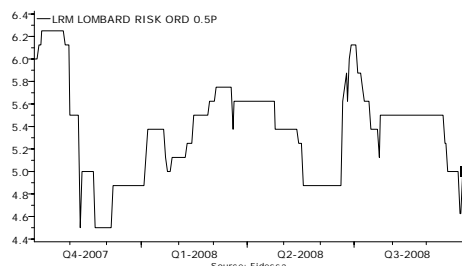


# Lombard Risk Management 5p

## Second Half Profit and Strong Revenue Performance

3 October 2008

### Share Price: 5p



Source – Fidessa

**12m High:** 6.75p

**12m Low:** 3.60p

**Market Cap:** £6.8m

**Shares in Issue:** 136.2m

**NAV/Share:** 1p

**Gearing:** Nil. **Cash** £495,000

**Interest Cover:** -

**EPIC Code:** LRM

**Sector:** Software & Computer Services

**Market:** London AIM

**NOMAD:** Noble Group

**PR:** -

**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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Lombard's results came in a little lower than our expectations for two reasons, neither of which are related to underlying trading; a provision on the company's second London office building lease, and the decision to account for a £120k contract in the next rather than this financial year.

However, the year demonstrates solid progress with revenues well up on the previous year, and the company reaching operational breakeven (on continuing businesses) in the second half. The Shanghai operation is now up to strength, which should reduce the company's development costs, and the sale of IVRS allows LRM to focus on its key products.

The outlook is positive; a number of contract wins give the company a solid pipeline of work for the 2008-9 financial year. So far the banking crisis has not led to a decline in enquiries. Collateral management has become more important than ever as credit tightness, and regulatory reporting is a 'must have', not a 'nice to have'.

However, LRM's customer base is in trouble and it is possible that some of its customers might fail. Accordingly, we have trimmed our 2009 forecast. We now see the company at breakeven rather than making a profit for FY2009, on a lower level of revenues, before making a profit in 2010.

The current year will be second half weighted, with a loss likely in the first half.

Y/E	Group Sales	Declared Profit	Adjusted Profit	Adjusted EPS	P/E ratio	Divi	Yield
March	£m	£m	£m	p.		p.	%
2007A	6.9	-1.3	-1.3	-1.0	-	-	-
2008A	8.5	-1.1	-1.1	-0.7	-	-	-
2009E	9.7	0	0	0	-	-	-
2010E	10.7	0.9	0.9	0.7	7.6	-	-

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## Lombard Risk Management

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### Results

This set of results came in slightly below our expectations largely due to two one-off impacts. First, a significant contract which had originally been included in this financial year's numbers has shifted to 2009. We should stress that this is not a delayed sale – it was a licence renewal that was contracted three months before the year end and invoiced on contract. Secondly, with the London office market weak and current conditions not promising, a provision has been made against the lease costs of the company's second London office building. This may still be let out, in which case part of the provision could be reversed.

Despite this, revenues were significantly increased with total revenue rising by 26.7%. The detailed split of business shows regulatory reporting software increasing sales from £3.1m to £5.3m, some 71%, making it now the largest revenue contributor in the company. Risk management and trading software on the other hand saw sales slip a little, though going forward, the pipeline is encouraging.

Recurrent revenues are now over £4m a year, or well over 40% of the total. We consider this gives the company a firm base for future development even should new contracts become harder to get in future.

Perhaps the most important message of these results is that the company turned round from loss to profit in the second half of the year, with the second half seeing a profit of £0.47m on revenues of £4.8m. Continuing activities were running at breakeven. Duplication between London and Shanghai was still a drag on these results; as we move forward, Shanghai (where there are now 60 staff) will start to make more of an impact on the cost base.

The detailed breakdown in the results suggests that UK costs increased while Shanghai costs fell. However, this is not an accurate reflection of where the costs are located, since the costs of the development operation are now apportioned according to turnover while in 2007 they were treated as purely an Asian expense. LRM is currently overhauling its internal financial reporting, hence the new policy on apportionment of costs. This may change further in future, to give a better feel for operational performance. We are, in any case, glad to see such a high level of detail in the reporting.

During the year the company sold IVRS, is independent valuation service, which was making a loss. This complicates the task of evaluating these results. The business was sold for £0.7m, and LRM also sold off its last tranche of shares in IDOX, the public sector software company, for £0.4m. This enabled the company to end the year with £0.49m cash at the year end.

However, the company currently has loans outstanding from directors which are in excess of the amount of cash at £1.33m. It is hoping to repay these either through an equity funding, or through operational cash flow; we consider the latter to be more likely.

### Industry positioning

Recent reports on both the regulatory and collateral management markets show LRM as a strong competitor both in terms of market share and of software capability. Tower Group puts the company's Colline product second to Algorithmics in the collateral management sector and commends its robust workflow capabilities. This report is also interesting as it suggests that the sector is likely to consolidate further, driven by a move from regional to global competition. (Banks are now looking for a single global product rather than buying one product in each major region.)

A report from IBS on the anti-money laundering (AML) market shows STB-Detector fourth in terms of the number of new clients last year, behind Fiserv-owned NetEconomy's Erase, Tonbeller's SironAML product, and Norkom's Anti-Money Laundering. With 200 new contracts across the market, STB appears to have garnered nearly 10% market share, with its largest competitor still at only 20%, so there is still a lot to play for, and consolidation of the sector seems likely.

## Forecasts

We believe that LRM's software should outperform other types of financial sector software, such as CRM. It is not 'nice to have' software – regulatory reporting software such as STB's is a 'must have' for banks. STB has a significant market share, with 150 of the UK's 350 banks using its software, and it has recently been winning business over competitors.

However, in the light of the continuing (and indeed worsening) economic environment, and particularly the travails of the banking sector, we have prudently trimmed our forecast. It is possible that the company may see recurring income from maintenance and subscriptions cut as customers are merged or cease operations. We have therefore cut our revenue forecast from £10.3m to £9.7m, which (on unchanged cost estimates) would leave the company at breakeven rather than making a £500k pretax profit.

This financial year will be second half weighted, and it is likely that the company will make a loss in the first half. However we would expect to see a profitable second half unless conditions deteriorate very markedly.

Allustra, one of LRM's competitors in collateral management (with fewer clients than LRM), has been acquired by Omgeo. Terms of the deal were not reported, but the consideration is rumoured to have been £10m, which leaves LRM looking pretty cheap considering that it includes the STB business too.

Management	Major Shareholders
<b>Chairman and CEO:</b> - John Wisbey	John Wisbey 59.70%
<b>Managing Director Asia Pacific:</b> - Michael Thomas	AMF (NBF) Holdings Ltd 9.00%
<b>Non-executive Deputy Chairman:</b> - Ian Peacock	Merifin Capital NV 5.54%
<b>NEDs:</b> - Christopher Wright, Brian Crowe, Dan Kochav	Royal Bank Ventures Investments Ltd 4.08%
<b>CFO and Company Secretary:</b> - Jane Fineman	Michael Thomas 3.65%
	Anthony Brown 3.54%
Key Dates	Key Milestones
<b>AGM</b> 31 October 2008	<b>1989</b> Company founded by John Wisbey and Oberon software installed at first customer site.
	<b>2000</b> IDOX, originally part of LRM, floats on AIM.
	<b>2004</b> LRM, floats on AIM
	<b>2005</b> Release of Colline collateral management solution;
	<b>2006</b> Shanghai office established
	<b>2008</b> Sale of IVRS

## Lombard Risk Management

3 October 2008

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