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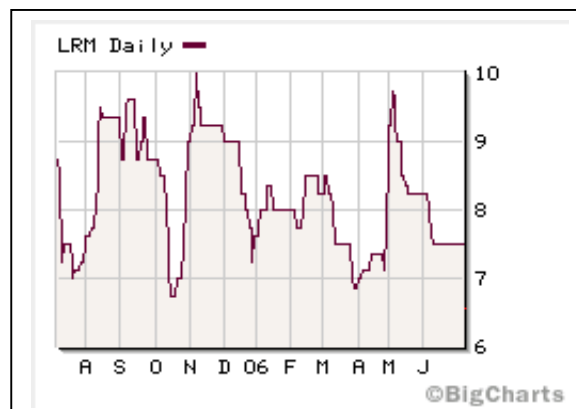
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Lombard Risk 7.75p A year of change

5 July 2006



Lombard's results put the seal on a year of strategic change. There are no surprises in the numbers, given the earlier trading statement, but the company has made very great changes to its structure with the sale of ValuSpread, and purchase of STB (regulatory reporting). Key points are:

- The first quarter of the year has kicked off well with strong sales from Colline as well as STB-Reporter. Almost £2m of revenues in the quarter puts the company well on target for our £7.6m revenue forecast for 2007 – this is by no means the strongest quarter. However, as always with software businesses, the timing of deals involving a high percentage of initial licence fees can affect the outcome.
- The company has invested in creating a R&D capability in Shanghai. This is likely to increase costs in the short term, as some costs will be duplicated across the UK and Shanghai offices, but will deliver benefits from later this financial year.
- Colline has been doing well, beginning to justify LRM's investment in the system. It has earned a good rating from Risk Magazine, arbiter of financial software, and has seen the pipeline ramp up considerably. Customers now include energy companies as well as banks, hedge funds and other asset managers.
- If LRM hits our forecasts its 2008 PER suggests it is undervalued compared to the sector, which has a PER of 27 falling to 16.

Share Price: 7.75p

12m High: 10.0p

12m Low: 6.25p

Market Cap: £10.1m

Shares in Issue: 130.5m

NAV/Share: 2.7p

Gearing: net cash

Interest Cover: -

EPIC Code: LRM

Sector: Software and computer services

Market: AIM

Nominated Advisor and Broker: Noble Group

Website: www.lombardrisk.com

Previous Research Note: "Good Start to the New Financial year" published on 24.4.06

Analyst: Andrea Kirkby

Y/E	Sales £m	Declared Profit £m	Adjusted Profit £m	Adjusted Eps p.	P/e ratio	Divi p.	Yield %
2005A	4.6	-1.1	1.2	-1.1	Neg	0	0
2006A	4.7	3.2	-2.7	-2.2	Neg	0	0
2007E	7.6	0.0	0.1	0.1	77.5	0	0
2008E	9.6	1.4	1.6	1.1	7	0.1	1.3

*Difference is mainly amortisation of goodwill on the STB acquisition

LRM has seen a year of dramatic change, with the sale of the ValuSpread business and the acquisition of STB Systems, and creation of an offshore R&D facility in Shanghai.

These results contained no surprises and the numbers came in close to our forecasts. The main number of importance as we move on is the cash and marketable securities figure of over £2m. This gives the company a much stronger cash position than in previous years and should give it credibility with potential customers as well as a war chest if further strategic acquisitions are found.

Revenue was just ahead of last year. Oberon continued to contribute well in its 17th year of profitability, with new customers still signing up and some interesting development of this legacy software to suit an open standards environment. Meanwhile Colline continued to build its credibility, with an excellent ranking from Risk Magazine, and this has begun to bear fruit in an increased pipeline of orders coming through.

STB has seen good trading since it joined the group, though because of the timing of deals it is unlikely to achieve its second tranche of earn-out. Its market share is high, with 40% of UK banks using its STB Reporter product for regulatory reporting.

Management states in its outlook statement that Q1 has been the strongest on record with just under £2m

of revenues. Colline and STB Reporter have both traded well and the pipeline is strong.

The independent valuation business has continued to win customers. However, we believe this business could be transformed by a partnership with a major content or financial services partner. According to management, negotiations with a number of parties are already under way.

Costs rose in the second half of the year as the investment in Shanghai continued. Staff costs increased by 43% YOY in H2. We expect to see costs rise again in the first half of this financial year as the investment in Shanghai continues, and some duplication of capacity occurs. However in the longer term the Shanghai investment should enable LRM to sustain a higher amount of product development for a similar amount of cost, and should lead to efficiencies.

For the moment, we are retaining our forecasts without change despite the upbeat trading statement. However we expect to revisit this as the year progresses.

While LRM is not yet profitable, and is likely to be only marginally so in the current financial year, a comparison of 2008 forecasts suggests it is valued at a large discount to its sector. With cash in the bank and more than half our forecast revenue accounted for by recurring revenues, we believe the company is well positioned for the coming year.

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