



Lombard Risk Management\* - Interims

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Results for the six months ended 30th September from Lombard Risk Management\* (LRM) out today showed a loss of £1.06 million on turnover up 6.4% to £3.88 million. Cash at the period end stood at £178,025, down from £560,907 at the same stage last year though undrawn banking facilities of £250,000 provide room for manoeuvre and improving operational performance means that the company is now trading profitably and expected to improve its cash position even before an intended sale of its independent valuation business – for which “*an advanced stage of discussions*” have been reached with one of a number of the interested parties.

Admittedly, these financials don't look too good at first glance but it should be considered that the numbers reflect some significant costs which were taken on in advance of the company being able, due to regulatory requirements, to recognise the revenue from the associated deals in its income statement. In particular, the recent changes in banking laws and regulations as a result of a second Basel accord has led to a surge in both new and upgrade demand for the company's STB-Reporter regulatory reporting product and the need to deliver dozens of projects in parallel meant the company had to invest in a project infrastructure geared to lower levels of business.

Additionally, the company's Oberon trading and risk management system traded well – with two significant contracts being won in the period and although demand for its Colline software for collateral management was slower than last year, momentum has been regained from September onwards, with the tough credit climate forecast to be especially beneficial for this product. Furthermore, a new regulatory product and an enhanced ability to offer global solutions through regulatory offerings which are now available or under production for several EMEA and Asian countries as well as the US offer further growth possibilities.

The company reports current trading is buoyant with STB systems recording the strongest revenue quarter in its history and the credit crisis helping Colline, with a number of banks strengthening their credit risk management. This together with some billings from the first half set to be recognised in the year-end figures, means the company looks well placed for continuing revenue growth and a move to profitability in the second half of the year – indeed the company has confirmed September was profitable. Although there is the risk of a downturn in bank technology spending, the company's positioning in the regulatory compliance and credit risk/collateral sectors should offer significant protection and it is reassuring that so far the company has not been adversely impacted.

With recurrent annual revenues now running at over £4 million and the company now trading profitably, a share price of 4.875p, capitalising the company at £6.62 million, strongly fails to recognise the improving underlying dynamics of this business. This is a business which could well be achieving a post tax profit of £1 million for next year. You can do the multiples yourself. The stance remains **"speculative buy"**.

*\*Lombard is a corporate client of RSH, the ultimate owner of this website.*

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