



Lombard Risk Management\* - Interims

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Lombard Risk management (LRM) has today announced its results for the six months to 30th September. Revenues grew by 9% to £4.01 million while the loss before tax was 22% down at £830,000. The Colline collateral management business traded profitably and ahead of budget and its order book looks very promising indeed. The Regulatory Compliance business also has a strong order book but there were cost over-runs on some projects (ie they were pitched for at too low a price). Action has been taken in terms of internatl systems to ensure that this does not happen again. The balance sheet showed net cash of £129,000 at the period end but there are also outstanding directors loans of £1.33 million. Given that CEO John Wisbey owns more than half the company, he won;t be pulling the plug any tiome soon.

During the half year a significant amount of cost was taken out. Lombard now operates from just 1 office in London, has halved its number on Non Execs to 2 and has shifted most of its employment to low cost Shanghai.

### So what is the outlook?

Lombard is pitching for a number of large contracts. I am assuming it gets none of them in my forecasts although my private belief is that this is overly cautious. For the current year to March 31st I expect full year sales of £8.7 million which implies a full year pre-tax loss of £1 million. Given the nature of the business that suggests that year end net cash is still c £100,000. Next year the effects of this year's cost cutting will come through in full and so the cost base should fall to £9.25 million and on the assumption that sales hit £10 million the group will record a pre and post tax profit of £750,000. The year after I'd be hoping for £11-12 million in sales and a pre-tax

and post tax profit of at least £1.5 million. Clearly the cash position will improve steadily from around now.

## **So what is Lombard worth?**

At 4.5p the market cap is £6 million. Within two years the director loans could be cleared and Lombard be sitting on a healthy cash pile. CEO John Wisbey talks - as you would expect of a technology man - of valuation multiples based on sales. I prefer to use profits multiples and would argue that as we return to normal times this stock will be on a forward multiple of around 10 ( it is a growth play and a recovery play). That implies 25% upside on a one year view and that within 18 months the shares could be trading at 12p. The stance is "buy"

*\*Lombard Risk is a corporate client of RSH the owner of t1ps.com*

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