

6 September 2007

Financial Objects

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
12/05	13.9	1.0	2.9	0.0	21.7	N/A
12/06	19.9	2.3	5.4	1.0	11.7	1.6
12/07e	21.9	2.9	6.4	1.1	9.8	1.8
12/08e	24.0	3.5	7.5	1.2	8.4	1.9

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items

Investment summary: Credit to Energy

First half results demonstrated the strategic benefit of the group's recent acquisitions. The first half performance in the banking division was slightly disappointing but a very strong contribution from the Energy Credit business underpinned H1 revenue and profit growth at a group level. Our forecasts remain broadly unchanged and we continue to believe further evidence of success in the wealth management and energy sectors will support a higher valuation.

Interim results: Energy Credit the driver

Revenues in the traditional banking sector declined 21% reflecting a difficult comparison but also lower H1 customer orders than expected. Margins held up reasonably well at 19% (24% H106). The key surprise was the very strong contribution from the Energy Credit business where sales were £2.1m and margins were over 20%. The Wealth Management (stronger than expected revenues but lower margins) and the other divisions performed broadly in line. At a group level sales grew 14% and EPS 33% (margins reaching 13% vs. 10% H106). Operating cash generation was strong with H1 net cash at £3.7m.

Outlook and forecasts: c.20% earnings growth

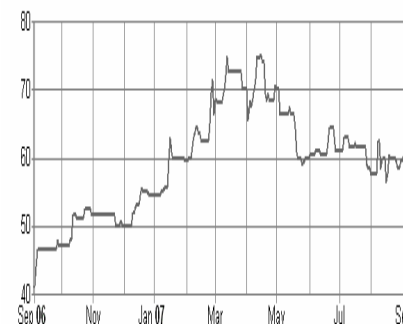
The orderbook remains strong and management remains confident about the full-year outlook. Customer demand in the wealth management and energy credit markets are buoyant and recent management additions should underpin a rebound in revenues and margins in the banking sector in FY08. We have adjusted the FY07 divisional mix, now forecasting a £1m profit contribution from Energy Credit (previously £0.4m), but a lower £1.8m (previously £2.7m) profit in the banking sector. Overall, our forecasts remain broadly unchanged. We look for revenue growth of 10% in FY07 and 10% in FY08 and an increase in margins to 13% in FY07 and 14% in FY08 (management target 15%). We forecast year-end net cash of £4.9m.

Valuation: Attractive balance between banking and growth

We continue to believe that stable growth in banking together with high growth in the newer wealth management and energy sectors will support a more typical software multiple of 12-14x.

Price 63p
Market Cap £28m

Share price graph



Share details

Code FIO
Listing AIM
Sector Software & Computer Services
Shares in issue 45m

Price

52 week High 78.5p Low 42p

Balance Sheet as at 31 Dec 2006

Debt/Equity (%) N/A
NAV per share (p) 23
Net cash (£m) 2.8

Business

The group provides software solutions for the banking, wealth management and energy sectors.

Valuation

	2006	2007e	2008e
P/E Relative	84%	81%	72%
P/CF	12.8	11.4	8.1
EV/Sales	1.2	1.1	0.9
ROE	21%	21%	22%

Geography based on revenues

	UK	Europe	US	Other
	70%	23%	4%	3%

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Forecasts: Energy Credit revenues and profit upgrade

Our group forecast remain largely unchanged. However, we have changed the mix fairly significantly to reflect the slightly disappointing H1 performance in banking but the robust outlook in Energy Credit.

- Banking.** We have reduced our revenue forecasts in the banking division fairly significantly from £12.2m to £9.7m. The division's competitive positioning seems stable (helped by the group's low cost development centre in Bangalore) and there does not appear to be any shift in banks IT budgets. However, building new leads and executing upon the pipeline has taken longer than expected. A new divisional manager has been recruited (from CSC) and there are plans to reinvigorate the sales pipeline. Importantly the cost structure is well controlled, reflected by our forecast modest drop in margins to 19% in the full year (22% FY06).
- Energy Credit.** The market for credit risk systems in the energy trading sector is buoyant. The substantial contract signed with Shell has progressed well, and the division has signed new deals with E.ON and Florida Power and Light. The group will need to win new orders to build the pipeline for FY08. However, the target customers are "under-invested" in IT, the product has rapid economic payback for these customers and competition is relatively low compared with the banking sector. Following the strong H1 performance we have raised our profit forecasts to £1.0m for FY07 (previously £0.4m) and £1.3m in FY08 (previously £0.6m).

Exhibit1: Divisional forecasts

Year end December	2006			2007			2008		
	H1	H2	Yr	H1	H2	Yr	Change	Yr	Change
Revenue									
Banking	5,920	5,449	11,369	4,706	4,958	9,664	-15%	10,147	5%
Wealth Management	996	1,382	2,378	1,790	1,896	3,686	55%	4,239	15%
Energy	399	1,543	1,942	2,079	2,193	4,272	120%	5,341	25%
Other	2,063	2,106	4,169	2,070	2,182	4,252	2%	4,295	1%
Total	9,379	10,479	19,858	10,645	11,229	21,874	10%	24,021	10%
EBITA									
Banking	1,406	1,094	2,500	916	884	1,800	-28%	2,000	11%
Wealth Management	(124)	162	38	111	189	300	n/a	450	50%
Energy	(182)	253	71	448	552	1,000	n/a	1,250	25%
Other Software Products	367	400	767	367	333	700	n/a	700	0%
Total	1,467	1,909	3,376	1,842	1,958	3,800	13%	4,400	16%
EBITA Contribution Margin									
Banking	24%	20%	22%	19%	18%	19%		20%	
Wealth Management	-12%	12%	2%	6%	10%	8%		11%	
Energy	-46%	16%	4%	22%	25%	23%		23%	
Other Software Products	18%	19%	18%	18%	15%	16%		16%	
Total	16%	18%	17%	17%	17%	17%		18%	
Unallocated Costs	(503)	(537)	(1,040)	(424)	(561)	(985)		(1,010)	
EBITA	964	1,372	2,336	1,418	1,397	2,815	21%	3,390	20%
Exceptional Items	0	0	0	0	0	0		0	
Goodwill	(112)	(167)	(279)	(168)	(152)	(320)		(320)	
Net Interest	20	(32)	(12)	23	27	50		80	
PBT	872	1,173	2,045	1,273	1,272	2,545		3,150	

Source: Edison Investment Research

Exhibit 2: Financials

Year-ending 31 December	2005	2006	2007 ^e	2008 ^e
Accounting basis	UK GAAP	IAS	IAS	IAS
£'000s				
PROFIT & LOSS				
Revenue	13,916	19,858	21,874	24,021
EBITDA	1,233	2,653	3,115	3,680
Operating Profit (before GW and except.)	952	2,336	2,815	3,390
Goodwill Amortisation	(361)	(279)	(320)	(320)
Exceptionals	(840)	0	0	0
Other	0	0	0	0
Operating Profit	(249)	2,057	2,495	3,070
Net Interest	66	(12)	50	80
Profit Before Tax (norm)	1,018	2,324	2,865	3,470
Profit Before Tax (FRS 3)	(183)	2,045	2,545	3,150
Tax	0	607	0	0
Profit After Tax (norm)	1,018	2,324	2,865	3,470
Profit After Tax (FRS3)	(183)	2,652	2,545	3,150
Average Number of Shares Outstanding (m)	36	43	45	46
EPS - normalised (p)	2.9	5.4	6.4	7.5
EPS - FRS 3 (p)	(0.5)	6.2	5.7	6.8
Dividend per share (p)	0.0	1.0	1.1	1.2
EBITDA Margin (%)	9%	13%	14%	15%
Operating Margin (before GW and except.) (%)	7%	12%	13%	14%
BALANCE SHEET				
Fixed Assets	6,181	11,867	11,200	10,700
Intangible Assets	5,838	3,073	2,800	2,300
Tangible Assets	343	407	400	400
Goodwill/Other	0	8,387	8,000	8,000
Current Assets	8,214	9,705	11,864	14,811
Stocks	0	0	0	0
Debtors	4,822	5,564	6,729	7,539
Cash	3,392	4,121	5,135	7,272
Current Liabilities	(6,766)	(9,210)	(9,537)	(9,992)
Creditors	(6,491)	(8,136)	(9,262)	(9,992)
Short term borrowings	(275)	(1,074)	(275)	0
Long Term Liabilities	(1,002)	(1,345)	0	0
Long term borrowings	(481)	(275)	0	0
Other long term liabilities	(521)	(1,070)	0	0
Net Assets	6,627	11,017	13,526	15,519
CASH FLOW				
Operating Cash Flow	(570)	2,111	2,476	3,570
Net Interest	50	(12)	50	80
Tax	(1)	(8)	0	0
Capex	(275)	(162)	(500)	(700)
Acquisitions/disposals	441	(1,006)	0	0
Financing	(1,157)	0	550	0
Dividends	0	0	(489)	(537)
Net Cash Flow	(1,512)	923	2,088	2,412
Opening net debt/(cash)	(4,204)	(2,636)	(2,772)	(4,860)
HP finance leases initiated	0	0	0	0
Loans acquired with acquisitions	(1,263)	(799)	0	0
Other	1,207	12	0	0
Closing net debt/(cash)	(3,899)	(2,772)	(4,860)	(7,272)

Source: Company accounts/Edison Investment Research

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