

9 February 2006

## Financial Objects

| Year End | Revenue (£m) | PBT* (£m) | EPS* (p) | DPS (p) | PE (x) | Yield (%) |
|----------|--------------|-----------|----------|---------|--------|-----------|
| 12/03    | 10.4         | (1.6)     | (6.00)   | 1.0     | N/A    | 2.4       |
| 12/04    | 9.5          | 0.3       | 1.14     | 0.0     | 37.3   | N/A       |
| 12/05e   | 14.0         | 1.0       | 2.64     | 0.0     | 16.1   | N/A       |
| 12/06e   | 24.0         | 1.8       | 4.20     | 0.0     | 10.1   | N/A       |

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

## Investment summary: Scale & extended portfolio

Financial Objects expects the acquisition of Raft International to add scale to the group and credibility to negotiations with potential clients. It also extends its software portfolio into new, risk management product areas that will in due course enable it to showcase existing banking and wealth management software products to a broader client base. The deal has a neutral impact on normalised earnings in the current year; but is expected to enhance them from 2007 onwards.

### Raft International: Risk management software & services

Raft sells risk management software and services into a complementary blue chip banking and financial services client base. The operational and credit risk software extends Financial Objects' product portfolio into new areas, driven by an increasing emphasis on compliance by industry regulators.

### Rationale: Enhanced competitive advantages

The deal follows the acquisition of WMS in April 2005, now fully integrated into the group management structure and benefiting from the contribution of the offshore development centre in Bangalore. In common with WMS's wealth management suite, Raft has a higher growth profile relative to the group's core banking software.

### Financial outlook

The group has paid £4m (£1.6m cash/4m shares/£0.8m loan notes). Raft's revenues were £8m in the year to end October 2005, with a £1.4m pre-tax loss, but gross margins are improving and recent wins in Europe and US and pre-acquisition cost cuts are expected to bring it to breakeven. Raft is debt free, with £1.1m of net cash.

### Valuation: Added traction in key markets

This acquisition completes the first phase of group strategy i.e. to create a market leader in advance technology products aimed at banking and financial services clients. Phase two is to leverage its competitive advantage and drive sales in 2006.

Price 42.5p  
Market Cap £17m

#### Share price graph



#### Share details

Code FIO  
Listing AIM  
Sector Software & Computer Services  
Shares in issue 44.4m\*  
\*Incl. acquisition  
Price  
52 week High 64p Low 31p

#### Balance Sheet

Debt/Equity (%) N/A  
NAV per share (p) 16.5  
Net borrowings (£m) N/A

#### Business

The group provides software and related services to financial services organisations, particularly core banking systems for international banks.

#### Valuation

|              | 2004 | 2005e | 2006e |
|--------------|------|-------|-------|
| P/E relative | 197% | N/A   | N/A   |
| P/CF         | N/A  | N/A   | N/A   |
| EV/Sales     | 0.8  | N/A   | N/A   |
| ROE          | 21%  | N/A   | N/A   |

#### Geography based on revenues

| UK  | Europe | US | Other |
|-----|--------|----|-------|
| 61% | 29%    | 5% | 6%    |

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## Raft International

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Raft International sells software and services to the financial services and energy trading sectors. The core product is risk management, i.e. credit risk and operational risk management solutions. During the last full year the group has implemented its solutions for new clients including ABN Amro, Barclays Capital, Lloyds TSB in financial services, and RWE Trading, Constellation Energy, Mirant and Hydro in the energy sector.

### Products

**Raft Radar** is an operational risk and operations management product for financial institutions. It minimises operational risks, promotes operational performance and assists compliance with Basel II and Sarbanes-Oxley regulatory requirements.

**Professional Services.** Raft advises organisations on appropriate methods of handling market, credit and operational risk. This is driven by a need to respond to regulation derived from Sarbanes-Oxley, Basel II and Solvency II.

**Raft Credit** is a credit risk management application is used by some of the largest players in the energy sector to meet new reporting requirements required by regulators, rating agencies and the Committee of Chief Risk Officers (CCRO).

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