

12 September 2006

Financial Objects

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
12/03	10.4	(1.6)	(6.0)	1.0	N/A	2.2
12/04	9.5	0.3	1.1	0.0	42.3	N/A
12/05	13.9	1.0	2.9	0.0	16.0	N/A
12/06e	21.0	1.9	4.6	1.0	10.1	2.2

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

Investment summary: Post acquisition focus

Financial Objects has evolved intriguingly post acquisitions. It now offers software solutions in Banking, Wealth Management and Energy, all based upon applications within its core area of expertise. Interim revenues grew by 87% (20% organic) and strong cost control, assisted by the continued shift of development to Bangalore, supports the prospects. We have maintained our profit forecast for the full year. H1 benefited from some large banking license sales, but new contracts signed late in H1 provide good visibility for H2.

New divisions to contribute from H2

The core banking business should deliver steady growth, supplemented by stronger prospects from the new areas. There are a further two non-core divisions, both profitable in H1. An overall operating margin of 9% (c.13% without the acquisitions) should climb steadily now the WMS/Raft integrations are complete.

Outlook: Strong order book and pipeline

The contracted order book stood at £13.5m at the interim stage, and a strong sales pipeline underpins a confident outlook for H2 and 2007.

Financial outlook

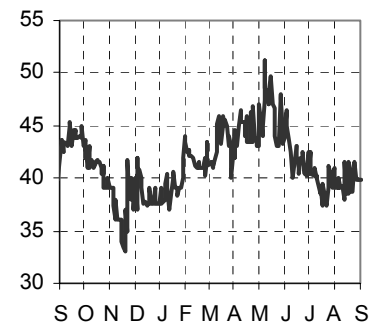
The wealth management and energy divisions should begin to reveal their potential in H2, but the group is already cash generative. The balance sheet has been restructured to allow a return to the dividend list and assuming no further acquisitions, we forecast a 1p per share dividend for the current year.

Valuation: Benefits of turnaround not priced in

With two of the three core divisions emerging post integration and good revenue visibility for banking, the current year earnings forecast looks conservative. We will review this in a detailed note this autumn, but expect the positive outlook to push up the rating over the next few months.

Price 46.5p
Market Cap £21m

Share price graph



Share details

Code FIO
Listing AIM
Sector Software & Computer Services
Shares in issue 44.4m

Price

52 week High 52p Low 33p

Balance Sheet

Debt/Equity (%) 2.2
NAV per share (p) 20.2
Net debt (£m) 0.2

Business

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

Valuation

	2004	2005	2006e
P/E relative	204%	110%	122%
P/CF	(4.8)	(27.6)	(27.6)
EV/Sales	0.8	0.9	0.9
ROE	21%	15%	15%

Geography based on revenues*

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

*12 months to end June 2006

Analyst

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Exhibit 1: Financials

Year-ending 31 December	2002	2003	2004	2005	2006e
Accounting basis	UK GAAP	UK GAAP	UK GAAP	UK GAAP	UK GAAP
Accounting basis	£'000s				
PROFIT & LOSS					
Revenue	12,841	10,427	9,509	13,916	21,000
EBITDA	(1,109)	(1,541)	380	1,233	2,261
Operating Profit (before GW and except.)	(1,599)	(1,833)	130	952	1,911
Goodwill Amortisation	(1,089)	(1,140)	0	(361)	(1,011)
Exceptionals	(760)	(9,354)	(362)	(840)	100
Other	0	0	0	0	0
Operating Profit	(3,448)	(12,327)	(232)	(249)	1,000
Net Interest	609	272	187	66	0
Profit Before Tax (norm)	(990)	(1,561)	317	1,018	1,911
Profit Before Tax (FRS 3)	(2,839)	(12,055)	(45)	(183)	1,000
Tax	284	(91)	0	0	0
Profit After Tax (norm)	(706)	(1,652)	317	1,018	1,911
Profit After Tax (FRS3)	(2,555)	(12,146)	(45)	(183)	1,000
Average Number of Shares Outstanding (m)	38	28	28	36	44
EPS - normalised (p)	(1.9)	(6.0)	1.1	2.9	4.4
EPS - FRS 3 (p)	(6.7)	(44.0)	(0.2)	(0.5)	2.3
EBITDA Margin (%)	-9%	-15%	4%	9%	11%
Operating Margin (before GW and except.) (%)	-12%	-18%	1%	7%	9%

BALANCE SHEET

Fixed Assets	7,797	309	247	6,181	9,800
Intangible Assets	7,395	0	0	5,838	9,500
Tangible Assets	402	309	247	343	300
Investment in associates	0	0	0	0	0
Current Assets	12,478	8,876	7,360	8,214	10,500
Stocks	0	0	0	0	0
Debtors	4,471	2,207	3,156	4,822	7,500
Cash	8,007	6,669	4,204	3,392	3,000
Current Liabilities	(6,130)	(7,109)	(5,562)	(6,766)	(10,125)
Creditors	(6,130)	(7,109)	(5,562)	(6,491)	(9,025)
Short term borrowings	0	0	0	(275)	(1,100)
Long Term Liabilities	(319)	(651)	(559)	(1,002)	(275)
Long term borrowings	0	0	0	(481)	(275)
Other long term liabilities	(319)	(651)	(559)	(521)	0
Net Assets	13,826	1,425	1,486	6,627	9,900

CASH FLOW

Operating Cash Flow	(352)	(988)	(2,565)	(570)	1,725
Net Interest	619	272	187	50	0
Tax	(450)	276	(5)	(1)	0
Capex	(107)	(229)	(188)	(275)	(136)
Acquisitions/disposals	0	0	0	441	(1,800)
Financing	(6,264)	21	106	(1,157)	500
Dividends	(988)	(690)	0	0	0
Net Cash Flow	(7,542)	(1,338)	(2,465)	(1,512)	289
Opening net debt/(cash)	(15,549)	(8,007)	(6,669)	(4,204)	(2,636)
HP finance leases initiated	0	0	0	0	0
Loans acquired with acquisitions	0	0	0	(1,263)	0
Other	0	0	0	1,207	(1,300)
Closing net debt/(cash)	(8,007)	(6,669)	(4,204)	(2,636)	(1,625)

Source: Company accounts / Edison Investment Research

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