Edison investment research

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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	40	N/A
12/05	13.9	1.0	2.9	0.0	16	N/A
12/06e	23.0	1.9	4.23	0.0	11	N/A

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

Investment summary: Underlying progress

Acquisitions flatter the figures, but underlying revenues, i.e. without WMS acquired in May 2005, were up 9%. The key component was a 42% organic rise in activebank sales to £4.7m (£5.9m incl. WMS). Two acquisitions in the last 10 months have transformed the business and Financial Objects is now positioned to capitalise upon increasing IT investment by financial services companies. With integration still underway, particularly Raft (acquired March), we have maintained our 2006 forecast. We will assess the enlarged business and prospects in a detailed report in April.

Prospects: Enhanced by new structure

The core business made excellent progress, while acquisitions improved access to a complementary client base and higher growth markets. Financial Objects now has a broader product portfolio with a shorter sales cycle than its core banking systems.

activebank: Integration of WMS adds to appeal

The core business won new service contracts from within the existing customer base and one major client win in the H2. activebank is becoming a leader in its field, with a strong pipeline for 2006 and competitive advantages derived from use of the overseas development centre. The integration of WMS's suite, e.g. portfolio management, back office tax and pension processing software, adds value and improves prospects for new client wins.

Financial outlook

The balance sheet reflects the cost of acquiring WMS, with £0.8m of exceptionals and a further £1.3m net consumed by the Raft acquisition. This was offset by the disposal of WMS's property division, which generated £0.6m. Net cash is now approximately £1.1m.

Valuation: Upside potential

The core business and acquisitions have all transitioned to new products during 2005 and will now seek to leverage the benefits of combining their brands. The rating discounts the risks, but not the potential of a recovering market.

Price	45.5p
Market Cap	£20m

Share price graph

Share details

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

Price

52 week	High	Low
	65p	30p

Balance Sheet

Debt/Equity (%)	N/A
NAV per share (p)	15
Net cash (£m)	1.1

Business

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

Valuation

	2004	2005	2006e
P/E relative	235%	107%	N/A
P/CF	N/A	N/A	N/A
EV/Sales	0.8	1.3	N/A
ROE	21%	15%	N/A

Geography based on revenues

UK	Europe	US	Other
61%	31%	3%	5%

Analyst

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