



The small company specialists

COMPANY INFORMATION

Patsystems plc (LSE:PTS)

Info sheet compiled March 2007

Company Eye Ranking

30/50

EDITOR'S NOTE

Patsystem plc develops and supplies trading technology to the derivatives community. They have numerous different services that range from trading systems to risk management programs.

Patsystems continues to gained clients and produce new software, leading to maintained profit and in our opinion is a good mid to long term investment.

1 YEARS CHART



FUNDAMENTALS

Company Name	Patsystems plc
Current Price	27
Status	AIM
Market Cap	44.83 m.
Shares in Issue	165.03
Price-to-Book Ratio	3.3
Activities	Supplier of trading technology to the derivatives community
Sector	Computer Services
Corporate advisor	Seymour Pierce
Registrar	Computershare Services PLC

HISTORY

Patsystems was founded in 1994 by a team of derivatives traders and IT experts. Their aim was to create a hand-held product that would allow traders to deal from the floors of open-outcry exchanges. Since then, Patsystems has developed a range of

scalable and versatile technologies, and is now providing a new generation of trading tools. The company floated on the London Stock Exchange in March 2000 and re-listed on the Alternative Investment Market in February 2003.

THE BUSINESS

Patsystems supplies high performance trading technology to the derivatives community.

Products and services cover two main areas:

Trading systems

Fast, powerful, electronic trading tools that provide global connectivity from a single screen

Pre-trade risk management, superior customer support, order routing to electronic and open outcry exchanges

Exchange systems

A Patsystems Matching Engine offering matching and settlement for derivatives and commodity exchanges

End-to-end solutions for exchanges

Futures and options brokers, exchanges and other intermediaries deploy our technology to thousands of end users who range from independent traders up to global financial institutions.

ACTIVITIES

The Group's principal activity is developing, distributing and supporting software enabling the electronic trading of financial products on global trading exchanges. The Group also has operations relating to real time trade capture, valuation and risk management for the Structured Finance market. The Group's operation focuses on two systems relating to trading and exchange. Trading focuses on electronic trading tools that provide global connectivity from a single screen and provides pre-trade risk

management, customer support, order routing to electronic and open outcry exchanges. Exchange system operates a matching engine that offers matching and settlement for derivatives and commodity exchanges. In addition, it also offers end-to-end solutions for exchanges. The Group operates in the United Kingdom, the United States of America, Singapore, Australia, the Netherlands and Japan. During 2005, the Group acquired the entire share capital of Tamesis Ltd.



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COMPANY INFORMATION

SERVICES

Electronic Markets

1. Pro-Mark

Pro-Mark is a premium front-end, the most advanced application available for the professional sector.

It has been developed after comprehensive market research into the needs of serious traders - those whose business is high volume, high value, cross-market, complex and intensive.

The target market is traders in proprietary houses, investment banks and other financial institutions. Pro-Mark is also the ideal tool for committed independents who want the highest levels of speed and power.

Pro-Mark makes a virtue of speed at all levels. For example, speed of navigation and order entry, and speed of cancellation, amendment, fill receipt, throughput and handling.

Pro-Mark allows one to trade intelligently as well as swiftly because of a wealth of on screen information. Pro-Mark supports a wide range of order types and strategies, including unique and innovative tools that provide detailed market knowledge.

2. IQ-Trader

IQ-Trader is a front-end that provides exceptional vision and strategy control.

It's an application that interprets markets; analyses and assesses trading opportunities and positions; defines strategies and parameters; and helps you plot the best course for successful trades.

One can perform sophisticated operations without needing programming skills. Intelligence is in-built, intuitive and automatic.

IQ-Trader provides a versatile framework with powerful analytical tools to explore different trading options and scenarios. One can research, configure and then build trades step by step.

3. J-Trader

J-Trader is more widely used by traders, than any other front-end.

A widely distributed and market-leading application, J-Trader is simple to deploy, easy to use. It is the ideal all-purpose trading tool.

Credit Derivatives

Credit derivatives are one of the fastest growing areas of structured trading. With Credit Trader and Risk Informer, Patsystems offers you 'out of the box' applications with the fit and flexibility of a tailored solution.

The rapidly changing market for credit derivatives and other structured products has created a strong demand for effective trading and real-time risk management solutions.

In the past, banks were able to handle transactions and manage risk with simple tools built around Excel

spreadsheets. However, because transactions are increasing in volume and complexity, more sophisticated trading solutions are required.

Tamesis has led the way with a new trading infrastructure that delivers the scalable technology, real-time pricing and flexibility to successfully trade and risk manage credit derivatives.

Acquired by Patsystems in August 2005, Tamesis has fully integrated its technology with Patsystems' product suite.

Exchange Solutions

In addition to trading systems, we provide end-to-end exchange technology built around the Patsystems Matching Engine. Customers include the Agricultural Futures Exchange of Thailand (AFET) and the National Commodity Exchange Ltd (NCEL) of Pakistan.

Risk Management

Risk management of exchange-traded futures and options is based on the need to apply controls against both trading activity, via pre-defined limits implemented on a pre-trade basis, and by restricting access to specific securities through permissioning. These are all managed via Patsystems' System And Risk Administration (SARA) module.

Patsystems API

Standard applications do not cater for all trading needs and aspirations. That's why APIs (application program interfaces) are so valuable. Through the Patsystems API, developers can create their own graphical user interfaces and customised features and functions.

Matching Engine

The Patsystems Matching Engine (PME) is an integral part of Patsystems' trading platform.

A matching, clearing and settlement system, the PME was acquired from Exchange Network Systems in 2000 and is currently used by four exchanges: Tokyo Grain Exchange, Central Commodity Exchange, Kansai Exchange, and Fukuoka Commodity Exchange.

These markets transacted 60 million contracts in 2001, making Patsystems the seventh largest derivatives exchange in the world.

The engine allows Patsystems' clients to provide their own clients with proprietary marketplaces in products such as commodities and foreign exchange. This enables brokers and clearers to combine proprietary markets with regulated markets, creating products that are client-specific. This is particularly valuable in eastern Europe and the Asia-Pacific region, where there is great demand for foreign exchange instruments.

LIST OF CLIENTS

The Group has more than 30 customers (brokers and other intermediaries) and over 40 installations. Patsystems also serves the world's leading exchanges as well as

smaller exchanges and start-up exchanges. The Group have some 10,000 active end users and over 700 API users.



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DEVELOPMENT HIGHLIGHTS

November 8th 2005 - Patsystems launches Prism

August 2nd 2005 - Patsystems acquires Tamesis

November 26th 2004 - Patsystems launches 'Reflector'

CEO's OUTLOOK

During 2007, Patsystems plan to extend its sales functions in each of its operational regions and the company looking to extend the quality and level of support services Patsystems provide, particularly in North America.

Currently, the company has sales and support operations in Chicago, London, New York, Singapore, Sydney and Tokyo. During 2007, Patsystems plan to extend its representation in Shanghai, Hong Kong and within North America and consider representation in other geographies. The company expect to re-introduce trading systems support in Chicago, in addition to support functions in

London and Singapore, to enable the company to provide a more seamless support service 24 hours a day.

Patsystems has established performance benchmarks for its key operational areas and these will be monitored through out the year. The company is instigating a major change in its release policy to enable to better serve its customers and to enable them to plan the software upgrades more effectively. From the first quarter 2007 onwards, Patsystems will switch to quarterly software releases for both its core systems and the front end trading screens.

DIRECTORS

David Webber, chief executive officer

David was appointed chief executive of Patsystems in January 2006. He was formerly chief executive of AttentiV Systems Group, where his business leadership saw the company through significant expansion by both organic growth and acquisition. He led the management buyout, subsequent AIM flotation of the business and was retained as chief executive when AttentiV Systems Group plc was acquired by TietoEnator in May 2005. David, a member of the Institute of Chartered Accountants since 1989, holds a BSc (Economics) from the London School of Economics.

Steve Sparke, non-executive director

Steve's experience of the markets in which Patsystems operates, gained in an 18 year career at UBS initially in a trading role, and most recently as Global Head of UBS Futures and Options business. Steve is also a non-executive director at Euronext LIFFE.

Martin Thorneycroft, group finance director

Martin joined Patsystems as finance director in July 2004. He was previously finance director of Profile Media Group plc. From 1997 to 2000, he was finance director of McMullens & Sons Ltd, a regional brewer. Martin, a member of the Institute of Chartered Accountants having first qualified with Ernst and Young in 1986, holds a BCom from Birmingham University.

Stewart Douglas-Mann, non-executive director

Stewart was a partner of a City law firm before moving into investment banking in 1972. Prior to his retirement in 2002

he was a senior director of Corporate Finance at Investec Bank. Stewart has held senior positions at Charterhouse Bank and Hoare Govett, was a managing director of the London Stock Exchange and has been a non-executive director of a number of listed companies. Stewart holds a BA (Oxon).

Richard Last, non-executive director

Richard is chief executive of Lynx plc, an IT, systems and services group. He is chairman and non-executive director of Xpertise Group plc, an IT training company listed on AIM and a director of two venture capital trusts. Richard, a Fellow of the Institute of Chartered Accountants, holds a BA (Hons) from Sheffield University.

John Priestley, non-executive director

John is currently Chief Executive of Fitzmaine Limited and concluded a 12 year career with British Telecommunications plc in 2003 having been Director of business development for Syntegra.

Steve Sparke, non-executive director

Steve's experience of the markets in which Patsystems operates, gained in an 18 year career at UBS initially in a trading role, and most recently as Global Head of UBS Futures and Options business will be a considerable benefit to the Patsystems business. Steve is also a non-executive director at Euronext LIFFE.



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SHAREHOLDINGS

	Number	%
ION Trading UK Limited	13,701,191	8.25
Stewart Millman	1,192,282	0.73
Stewart Douglas-Mann	848,597	0.52

	Number	%
Richard Last	786,886	0.48
Arun Aggarwal	225,073	0.14
Steve Sparke	7,937	0.05

FINANCIAL HISTORY

Profit and loss account for the year ended 31st Dec 2006

£000	Year ended 31 st Dec 2006	Year ended 31 st Dec 2005
Revenue	15,255	15,457
Cost of sales	(387)	(2,160)
Gross profit	14,868	13,297
Operating expenses	(13,292)	(12,955)
Operating profit	1,576	342
Finance income	54	35
Finance costs	(4)	(17)
Finance costs - net	50	18
Profit on ordinary activities before taxation	1,626	360
Taxation	6,280	43
Profit for the year attributable to equity holders of the company	7,906	403
Earnings per share - basic	4.9p	0.3p
Earnings per share - diluted	4.1p	0.2p
Adjusted Earnings per ordinary share - basic	0.9p	0.3p
Adjusted Earnings per ordinary share - diluted	0.8p	0.2p

Balance Sheet as at 31st December 2006

£000	As at 31st December 2006	As at 31st December 2005
Goodwill	1,745	1,552
Intangible assets	2,536	1,479
Property, plant and equipment	754	902
Deferred tax assets	6,979	-
Non-current assets	12,014	3,933
Inventories	188	294
Trade and other receivables	4,021	3,213
Financial assets - derivative financial instruments	127	-
Cash and cash equivalents	3,251	2,604
Current assets	7,587	6,111
Trade and other payables	(3,594)	(2,798)
Current income tax liabilities	(101)	-
Financial liabilities - derivative financial instruments	-	(43)
Provisions	-	(170)
Contingent consideration	(2,140)	-
Current liabilities	(5,835)	(3,011)
Net current assets	1,752	3,100
Contingent consideration	-	(1,500)
Provisions	(34)	(10)
Net assets	13,732	5,523
Capital and reserves	-	-
Share capital	1,641	1,605
Share premium account	3,691	3,510
Other reserves	17,348	17,348
Retained earnings	(8,948)	(16,940)
Total equity	13,732	5,523

ROLLING EPS



MOMENTUM





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RISK FACTORS

In addition to the other relevant information, the following specific factors should be considered carefully when evaluating whether to make an investment in the Company. The investment offered in this document may not be suitable for all of its recipients. Before making an investment decision, prospective Investors should consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities. A prospective Investor should consider carefully whether an investment in the Company is suitable for him/her in the light of his/her personal circumstances and the financial resources available to him/her. There are various risk and other factors associated with an investment of the type described in this document. In particular:

The value of an investment in the Company is largely dependent upon the expertise of the Directors and their ability to identify and acquire or invest in suitable companies or businesses. There can be no certainty that the Company will be able to identify suitable acquisition targets or complete the purchase of any identified targets at a price the Directors consider acceptable. In the event of an aborted acquisition it is likely that resources may have been expended on investigative work and due diligence, which cannot be recovered.

The acquisition of other businesses can involve significant commercial and financial risks and there can be no certainty that any acquired business will not have a material adverse effect on the operations, results or financial position of the Company.

CONTACT

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Hays Lane
London
SE1 2QP

RANKING

	Ranking out of 50 (50 being highest)
Business model - competitive advantage	
Competition	35
Customers	35
Low cost	40
Management	30
- corporate governance	
- quality	
- shareholding	
Product	34
Sector	34
Financial evaluation	
Early and profitable exit potential	
Financial strength	20
- cash flow	
- conservative accounting	
- need for funding	
Growth at a reasonable price	30
Risk	
Overall average rating	30



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FURTHER INFORMATION ABOUT THE RANKING

Competitive advantage

Companies are assessed according to their business model and how this translates into strong and sustainable competitive advantage. This can only be achieved with low cost activities and doing something different from the competition. This 'differentiation' must add value to the customer who is then prepared to pay a premium price. The differentiation is most obvious in the product but it can exist anywhere in the company's value chain of activities, such as

easy payment terms, convenient locations, superior management, and quality of suppliers. Companies that do not achieve competitive advantage because they have the same costs and/or do the same as the competition are marooned in a profitless zone. They helplessly try to compete with the one weapon left open to them, which is the disaster of cutting prices and typically leads to similar retaliation by competitors, with disastrous results.

THE FOLLOWING ELABORATES ON THE RANKING CRITERIA

Competition

How intense is the competition and are there barriers to entry?

Customers

Is the company controlling its customers and therefore its revenue streams? Are customers glued to the company and providing valuable and reliable recurring revenue or are they one-off, or 'transactional', providing shaky revenue? The company should ideally have weak and numerous customers.

Low costs

Has the company achieved low cost activities thus allowing more of the top line revenue to trickle down to the profit line?

Management

Is there good corporate governance? What is the quality of management, as this is crucial to any business? Are the directors' shareholdings significant but not so large that they control the company?

Product

Is the product different from the competition and adds value to the customer? Are there threatening substitutes? Does it have a powerful brand?

Sector

Is the company in an attractive sector that is profitable and adds value?

Services tend to be more protected than products from international competition. Does the sector ride the tailwind of multi-year mega trends? Is the business well positioned in the current stage of the economic cycle? What is its resistance to a recession?

Profitable exit potential

What is the potential for selling the share profitably? This is more applicable to pre-flotation investments.

Financial strength

Does the company have strong cash flow, the lifeblood of any business? Is the accounting conservative or is there 'accounting for growth'? Does it need more funding? Is the profit margin healthy and at least equal to its sector? What has been the track record in the growth rate of profits?

Growth at a reasonable price

Does the share offer growth at a reasonable price? This is commonly measured using the PEG. This is the price earnings ratio (PE) divided by the forecast growth rate in earnings per share (EPS). The lower the PEG the better and under 1.0 is considered good for a blue chip company and under 0.6 for a small growth company.

Risk

What is the risk rating of the share due to factors such as new markets, its business model and strategies?

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