

1H'10: a matter of timing

1H'10 revenue declined 12%YoY. Focus Solutions reports that this resulted from contract timing; full year outlook is on track.

Focus reported that delays in securing contracts resulted in a shortfall in anticipated revenues (which we estimate at some £400k) against which the fixed costs of maintaining staffing resources (85 persons) resulted in eroded profitability and a caused a sharp year-on-year decline in profitability. Nevertheless we share Focus' confidence in the pipeline of contracts that will contribute in FY'10; our full year EBITDA outlook is £2.5m. Table 1 summarises 1H performance.

The key message remains that Focus 360° development is now complete with strong prospects for major UK and European implementation contracts.

Table 1: 1H'09 Results

Income Statement (£m)	1H08	2H08	1H09	2H09	1H10	YoY
Revenue	4.011	4.589	4.895	4.706	4.295	(12)
Cost of Sales	(1.722)	(2.129)	(2.450)	(2.027)	(2.288)	(7)
Gross profit	2.289	2.460	2.445	2.679	2.007	(18)
	<i>Mrg (%)</i>	57.1	53.6	49.9	56.9	46.7
Distribution costs	(0.578)	(0.592)	(0.472)	(0.603)	(0.618)	31
Admin excl. exceptionals	(1.194)	(0.924)	(1.216)	(1.127)	(1.124)	(8)
EBITDA (DS&C)	0.580	1.007	0.892	1.115	0.552	(38)
	<i>Mrg (%)</i>	14.5	22.0	18.2	23.7	12.9
Dep	(0.063)	(0.063)	(0.135)	(0.166)	(0.287)	
EBIT (DS&C)	0.517	0.944	0.757	0.949	0.265	(65)
	<i>Mrg (%)</i>	12.9	20.6	15.5	20.2	6.2
Exceptionals	(0.212)	(0.058)	(0.107)	0.001	(0.224)	
EBITDA (rptd)	0.368	0.949	0.785	1.116	0.328	(58)
EBIT (rptd)	0.305	0.886	0.650	0.950	0.041	(94)
Net Interest	0.052	0.157	0.091	0.086	0.110	21
PBT (rptd)	0.357	1.043	0.741	1.036	0.151	(80)
PBT (DS&C)	0.569	1.101	0.848	1.035	0.375	(56)
Tax	0.000	0.576	(0.243)	(0.283)	0.235	
Tax rate						
PAT (rptd)	0.357	1.619	0.498	0.753	0.386	(22)
PAT (DS&C)	0.569	1.677	0.605	0.752	0.610	1
Basic Wtd Av Shares	29.416	29.463	29.461	29.549	29.549	0
EPS reported	1.21	5.50	1.69	2.55	1.31	(23)
EPS (DS&C)	1.93	5.69	2.05	2.54	2.06	1
Basic Wtd Av Dil Shares	0.00	32.76	32.76	32.76	32.76	0
EPS reported diluted	0.00	4.94	1.52	2.30	1.18	(22)
EPS DSC diluted (p)	0.00	5.12	1.85	2.30	1.86	1
Cash Flow (£m)	1H07	2H07	1H09	2H09	1H10	
Op CF	(0.640)	(0.632)	1.652	2.734	(0.230)	
Net OpCF	(0.588)	(0.475)	1.743	2.820	(0.120)	
Net OpFCF	(0.905)	(1.011)	1.261	1.607	(1.341)	
Eq FCF	(0.873)	(1.105)	1.261	1.716	(1.496)	
Net Cash - Beginning Balance	3.266	2.393	1.027	2.288	4.004	
Net Cash - Ending Balance	2.393	1.027	2.288	4.004	2.508	

Source: Company Data, Daniel Stewart

1H'10:

- Revenues £4.30m -12%YoY;
- EBITDA (adj.) £0.55m -38%YoY;
- EBIT (adj.) £0.27m -65%YoY;
- PBT (adj) £0.38m -56%YoY.
- Interim cash balance remained healthy at £2.51m

1H'10 exceptional items totalled £244 k. These were:

- Reorganisation costs: £92k;
- Release of onerous contracts: £96k;
- Share-based payments: £36k.

Focus has completed the two-year process of development of its front-, middle- and back-office "360°" product suite. Implementation of resulting contracts means that income streams shift sharply from a reliance on professional services to higher-margin profit from licences. Although regular refresh releases are planned (May'10, Nov'10) the onus has moved towards securing contracts.

Contracts with HSBC (Phases I and II) have moved into a third maintenance phase.

Implementation of a platform for a major UK bank, covering lifecycle financial advisory services, from early 2010. This will add an important new reference for the sale of similar services to banks in the UK and Europe.

Focus' Solutions

Focus' solutions enable retail banks, building societies, product providers, wealth managers and distributors (advised and non-advised) to provide products and services to customers, record transactions and monitor risk.

In our view, the process of introducing clarity and accountability to the provision of financial services (in the UK) has three drivers;

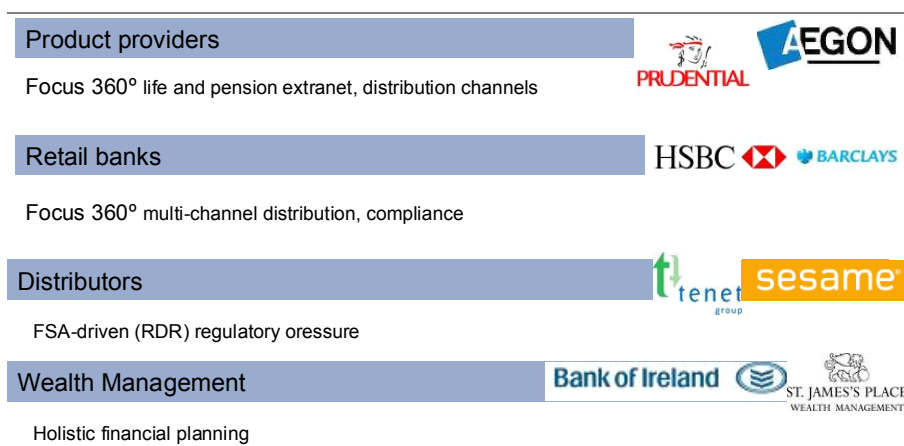
- Efficiency; the appetite amongst banks and other providers of financial advice and services to engage customers in a way that accurately combines the services on offer with the client's needs, and reduces the cost of transaction processing;
- Accountability; the requirement, heightened by the recent financial crisis, to record transactions and track risk, notably real-time; and
- Clarity; the desire of the regulator, as apparent in the major FSA Retail Distribution Review, to provide consumers with accurate, intelligible and undistorted information about the potentially highly-significant financial transactions (e.g. mortgages) they are engaged in.

Focus' platform is independent of the type of service; but generic systems may be customised

Focus' approach is based on a single platform, whilst the 360° approach makes it possible for clients to add systems and services without the need for a complete rebuild.

Figure 1 outlines Focus' product suite with examples of major clients.

Figure 1: Focus' client categories; leading clients



Source: Daniel Stewart

Retail Distribution Review (RDR). This was launched by the FSA in June 2006 to "address the many persistent problems we had observed in what is now, over 21 years of regulation of the retail investment market"

The scope of the review is outlined in the June '09 "09/18" 165-page consultation paper [see http://www.fsa.gov.uk/pubs/cp/cp09_18.pdf]. The emphasis is on (i) providing clarity to consumers in selling services, (ii) avoiding distortion of product pricing by advisor remuneration and (iii) improving professional standards. Following closure of the consultation in Oct'09, the timetable is set for implementation of proposals by Dec'12.

Focus' competitors:

- Distribution Technology, based in Reading [www1.distribution-technology.com];
- Finantix (London) [www.finantix.com];
- N4Solutions (Experion) [www.n4s.co.uk];
- 1st Software/The Exchange [www.1stsoftware.com].

FY'10, FY'11 Outlook

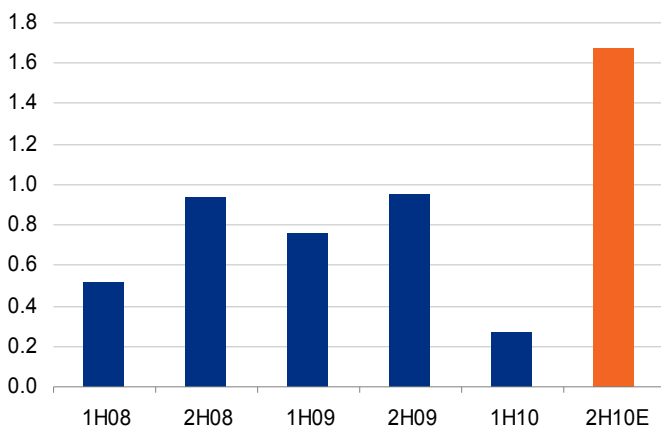
Closure on key contracts in 2H'09 will determine not only FY'10 performance, but also indicate whether Focus has reached an "inflection point" in its profile amongst financial institutions in the UK and Europe

Under CEO Richard Stevenson, Focus has diversified away from an earnings dependence on a major (two-part) contractual relationship with HSBC which in sum was worth £13-14m. Focus reports that development of its 360° platform is now complete. As a result the company has a number of targets, centred on marketing its solution across a range of financial service providers, notably (i) 2H'10 target of closure on at least 2 major contracts with financial services providers of a scale similar to the contract announced in November with Tenet Group; (ii) targeted UK and European banks, where Focus detects an appetite for customer-facing and risk-management platforms similar to those in place at HSBC.

On Nov. 4th Focus announced a contract with Tenet Group [www.tenet.co.uk] estimated to be worth £2.0m over 5 years. Tenet is the largest UK IFA network, with some 5,500 IFAs in the UK. Focus reports that the value of the contract is calculated on the basis of Tenet's revenues at current levels plus a moderate increase in the scale of its network. Income of £0.5m is assumed in 2H'10, with residual at the level of £0.30m annually

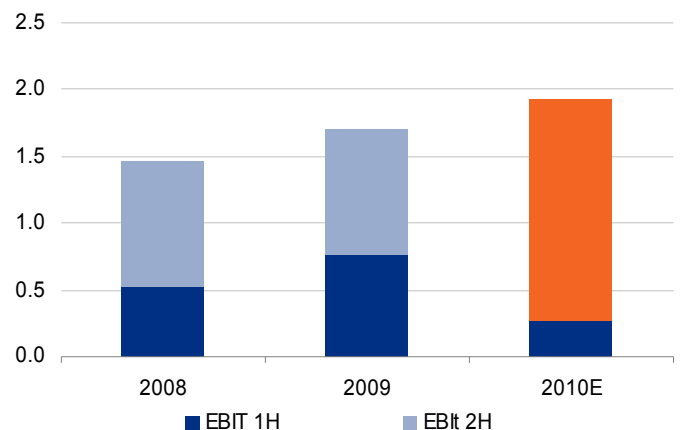
We expect a 2H rebound in profitability. Our FY'10 EBITDA estimate is £2.5m; PBT is adjusted from £2.4m to £2.2m.

Chart 1: Semi-annual EBIT (£m) to 2H'10E



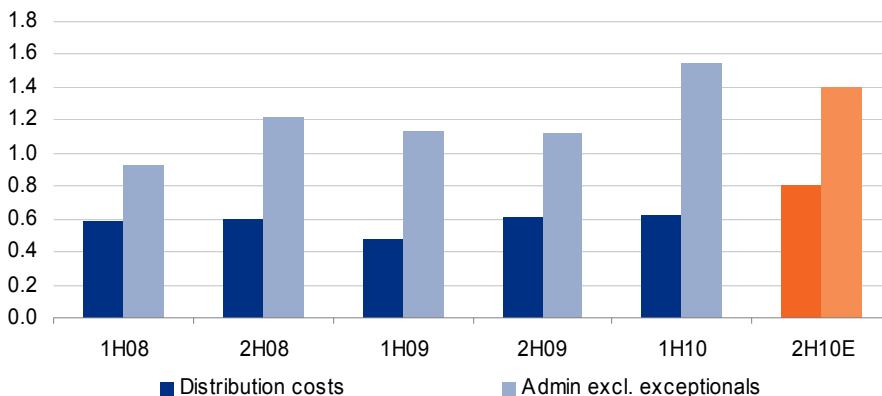
Source: Daniel Stewart

Chart 2: EBIT (£m) to 2H'10E



Source: Daniel Stewart

Chart 3: Admin and Distribution Costs (£m) Semi-annual



Source: Company Data, Daniel Stewart

Summary Financial Data

Table 2: Summary Financial Data (£m)

Income Statement (£m)	1H10	2H10E	2008	2009	2010E	2011E
Total Revenue	4.30	6.47	8.60	9.60	10.77	12.10
Gross profit	2.01	4.02	4.75	5.12	6.03	6.66
<i>Mrg (%)</i>	<i>46.7</i>	<i>62.2</i>	<i>55.2</i>	<i>53.4</i>	<i>56.0</i>	<i>55.0</i>
Distribution costs	(0.62)	(0.80)	(1.17)	(1.08)	(1.42)	(1.59)
Admin costs	(1.12)	(1.55)	(2.12)	(2.34)	(2.67)	(2.80)
EBITDA (DS&C)	0.55	1.96	1.59	2.01	2.51	2.83
<i>Mrg (%)</i>	<i>12.9</i>	<i>30.3</i>	<i>18.5</i>	<i>20.9</i>	<i>23.3</i>	<i>23.4</i>
Depreciation & Amortisation	(0.29)	(0.29)	(0.13)	(0.30)	(0.57)	(0.57)
EBIT (DS&C)	0.27	1.67	1.46	1.71	1.94	2.26
<i>Mrg (%)</i>	<i>6.2</i>	<i>25.8</i>	<i>17.0</i>	<i>17.8</i>	<i>18.0</i>	<i>18.7</i>
Exceptionals	(0.22)	0.00	(0.27)	(0.11)	(0.22)	0.00
EBITDA (rptd)	0.33	1.96	1.32	1.90	2.29	2.83
EBIT (rptd)	0.04	1.67	1.19	1.60	1.71	2.26
Net Interest	0.11	0.09	0.21	0.18	0.20	0.13
PBT (rptd)	0.15	1.76	1.40	1.78	1.91	2.39
PBT (DS&C)	0.38	1.76	1.67	1.88	2.14	2.39
Provision for Income Taxes	0.24	0.00	0.58	(0.53)	0.24	(0.49)
PAT (rptd)	0.39	1.76	1.98	1.25	2.15	1.89
PAT (DS&C)	0.61	1.76	1.67	1.88	2.37	1.89
Balance Sheet (£m)	1H10	2H10E	2008	2009	2010E	2011E
Cash & Equivalents	2.51	3.05	1.03	4.00	3.05	6.08
Accounts Receivable	3.31	3.54	4.35	2.67	3.54	3.32
Total Current Assets	5.82	6.59	5.38	6.67	6.59	9.39
Goodwill net	3.04	2.08	0.75	2.08	2.08	2.08
Net Fixed assets	0.18	(0.03)	0.20	0.20	(0.03)	(0.01)
Deferred tax, other	1.90	1.32	1.64	1.32	1.32	1.32
Fixed assets	5.12	3.37	2.58	3.60	3.37	3.39
Total Assets	10.94	9.95	7.96	10.28	9.95	12.78
Accounts Payable	2.03	1.62	1.30	1.50	1.62	1.99
Tax & Provisions	0.48	0.65	0.51	0.65	0.65	0.65
Total Current Liabilities	2.51	2.27	1.82	2.15	2.27	2.64
Long-term Liabilities	0.00	0.00	0.00	0.16	0.00	0.00
Share Capital	2.96	2.95	2.95	2.95	2.95	2.95
Share Premium	1.45	0.00	9.90	9.90	0.00	0.00
Adjustments, other	8.98	7.94	0.37	0.48	7.94	8.51
Profit/Loss	(4.96)	(3.20)	(7.07)	(5.35)	(3.20)	(1.31)
Total Equity	8.43	7.69	6.14	7.97	7.69	10.15
Sum Liabilities & Shareholders Equity	10.94	9.95	7.96	10.28	9.95	12.78
Cashflow (£m)	1H10	2H10E	2008	2009	2010E	2011E
EBIT	0.27	1.67	1.37	1.60	1.94	2.26
D&A	(0.29)	(0.29)	(0.13)	(0.30)	(0.57)	(0.57)
Working capital	(0.78)	(1.72)	(2.77)	2.49	(2.50)	0.59
Provisions Other	0.00	0.00	0.00	0.00	0.00	0.00
Op CF	(0.23)	0.24	(1.27)	4.39	0.01	3.42
Net interest	0.11	0.09	0.21	0.18	0.20	0.13
Taxation	0.00	0.24	0.00	0.00	0.24	(0.49)
Net OpCF	(0.12)	0.56	(1.06)	4.56	0.44	3.06
Purch. Fixed Invest.	(1.21)	0.00	(0.73)	(1.60)	(1.21)	0.00
Capital Expenditure	(0.01)	(0.01)	(0.12)	(0.09)	(0.03)	(0.03)
Net OpFCF	(1.34)	0.55	(1.92)	2.87	(0.79)	3.03
Exceptional Items	(0.22)	0.00	(0.18)	0.00	(0.22)	0.00
Share Based Payment	0.04	0.00	0.09	0.11	0.04	0.00
Cash before dividends, financing	(1.53)	0.55	(2.01)	2.98	(0.98)	3.03
Issue of Shares (net)	0.03	0.00	0.03	0.00	0.03	0.00
Eq FCF	(1.50)	0.55	(1.98)	2.98	(0.94)	3.03
Net Cash - EoP	2.51	3.05	1.03	4.00	3.05	6.08

Source: Daniel Stewart

Outlook: key features

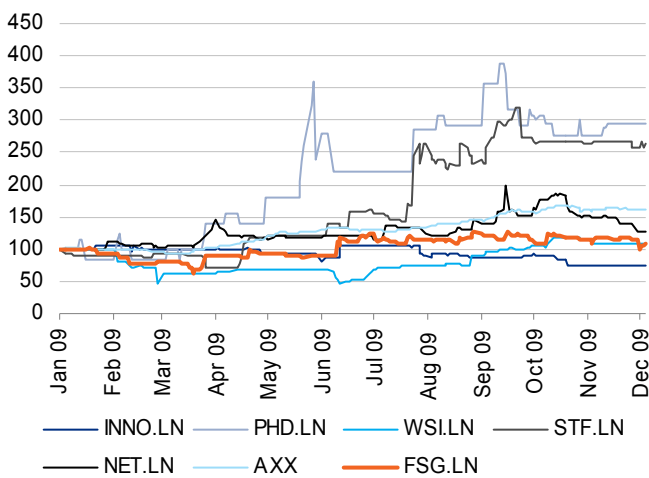
- FY'10 EBITDA is revised from £2.54m to £2.51m due to updated depreciation (£75k) and amortisation (£211k) estimates;
- No tax is expected in 2H'10 or 1H'11 as R&D tax credits on the final phases of the 360° development programme are utilised. We expect Focus to pay tax from 2H'11 onwards;
- FY'11 revenues: we have scaled back from £13.0m to £12.1m;
- FY'11 EBITDA (E) remains £2.8m; PBT is reduced from £2.7m to £2.4m.

Share Price Performance

Share price performance and comparative valuation

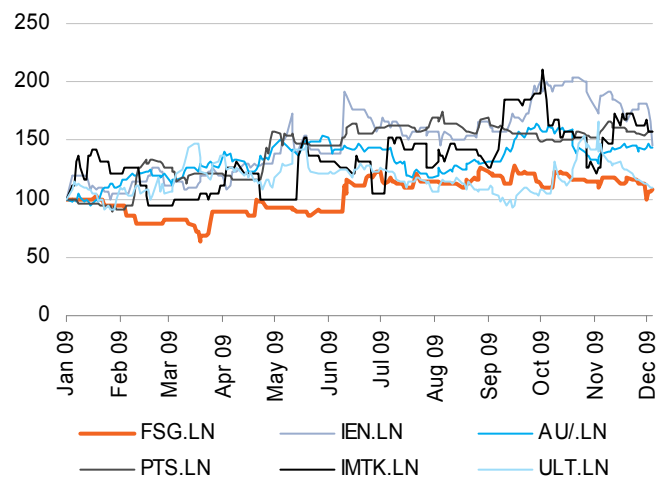
Charts 4 shows Focus Solutions' share price performance (highlighted in red) compared to its peers and FTSE AIM Allshare (rebased).

Chart 4: Focus Share Price, Rebased, From 1 Jan'09



Source: Bloomberg, Daniel Stewart

Chart 5: Focus Share Price, Rebased, From 1 Jan'09

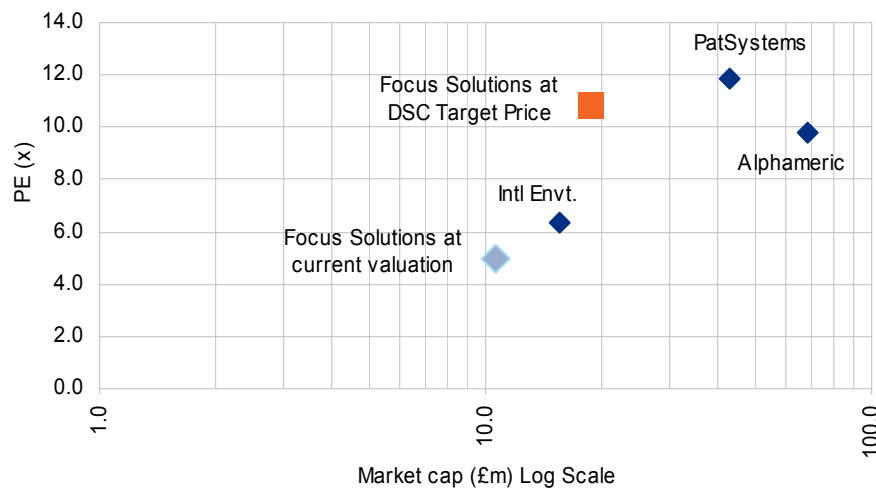


Source: Daniel Stewart

At our target price (63p):

- FY'10 EV/EBITDA is 5.6x (current 2.5x), PE 8.4x;
- FY'11 EV/EBITDA is 5.3x (current 2.4x), PE 10.9x (due to tax impact).

Chart 6: Valuation Peers, Market Cap., PE +1 Year Outlook



Source: Bloomberg, Daniel Stewart

Chart 6 shows Focus Solutions compared to peers PatSystems [PTS], Alphameric [ALM] and Intelligent Environments [IEN] at current valuation (PE; Market Cap.) and at DSC target valuation (per share 63p E).

We regard the valuation progression indicated as undemanding in comparison to its peers.

Disclosure Checklist

Company	Code	Disclosure
Focus Solutions	FSG	2, 3, 6

Source: Daniel Stewart

1. Within the past twelve months Daniel Stewart & Co plc and/or its affiliates has managed or co-managed a public offering for this Company, for which it received fees or the promise of fees
2. Daniel Stewart & Co plc and/or its affiliates act as corporate broker or nominated advisor to this Company
3. Daniel Stewart & Co plc and/or its affiliates regularly hold/may hold in future trading positions (which may include options) in this Company
4. Daniel Stewart & Co plc and/or its affiliates holds more than 5% of the securities of this Company
5. The Company holds more than 5% of the securities of Daniel Stewart & Co plc and/or its affiliates
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8. The author responsible for the production of this report received or purchased shares in the issuer, prior to a public offering of the shares.
9. Daniel Stewart and Company is party to an agreement with this company for the publication of research on it
10. This research note has been disclosed to the Company, with resulting amendments, prior to its dissemination
11. Daniel Stewart & Co and/or its affiliates act as financial advisor to this company

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Distribution of Ratings

	All Companies	Of which are Investment Banking Clients in the last 12 months
Buy	63%	30%
Hold	29%	15%
Sell	8%	0%

data as of Q2'09 30 September 2009

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Key Assumptions

- 2H'10 contracts concluded that are key to FY'10 earnings
- Successful distribution of its 360° product suite

Income (£m)	03/08A	03/09A	03/10E	03/11E
Turnover	8.6	9.6	10.8	12.1
Gross Profit	4.7	5.1	6.0	6.7
EBITDA	1.6	2.0	2.5	2.8
EBIT	1.5	1.7	1.9	2.3
PBT	1.7	1.9	2.1	2.4
EPS (Adj.) (p)	5.1	5.7	7.2	5.8
EPS (p)	5.2	6.0	3.8	6.6
DPS (p)	0.0	0.0	0.0	0.0

Ratios (x)	03/08A	03/09A	03/10E	03/11E
P/E	7.1	6.3	5.0	6.2
EV/EBITDA	4.8	3.8	3.0	2.7
Div. Yield (%)	n/a	n/a	n/a	n/a
P/NAV	1.9	1.5	1.5	1.2
EV/Gross profit	1.6	1.5	1.3	1.1
EV/EBIT	5.2	4.4	3.9	3.3
P/FCF	4.3	n/a	4.1	n/a
FCF Yield (%)	23.3	(16.2)	24.3	(6.7)
NAV (p)	18.6	24.3	23.5	31.0

Cash Flows (£m)	03/08A	03/09A	03/10E	03/11E
Op.CF	2.8	(1.3)	4.4	0.0
FCF	2.8	(1.9)	2.9	(0.8)
FCFPS (p)	8.4	(5.8)	8.8	(2.4)

Balance Sheet (£m)	03/08A	03/09A	03/10E	03/11E
Fixed Assets	2.6	3.6	3.4	3.4
Current Assets	5.4	6.7	6.6	9.4
Current Liabilities	1.8	2.1	2.3	2.6
Capital Employed	6.1	8.0	7.7	10.1
Long-term Liabilities	0.0	0.0	0.0	0.0
Net Assets	6.1	8.0	7.7	10.1
Net Debt/(Cash)	(1.0)	(4.0)	(3.0)	(6.1)

Data is adjusted
DSC EPS is fully diluted

Recent News / Events

- 01/12/09 - 1H'10 results
- 19/11/09 - US patent granted
- 05/11/09 - £2m contract with Tenet
- 21/07/09 - agreement with Mastek
- 24/06/09 - Ron Whatford joins Board

Management Team

- Alastair Taylor - Non-Executive Chairman
- Richard Stevenson - Chief Executive
- Martin Clements - Finance Director
- Frank Murray - Chief Technology Officer

Major Shareholders % Held

Azini Cap.	29.02
Streets JB Esq.	27.01
Liontrust AM	11.06
Bluehone AM	4.86
Octopus	3.27
Jupiter AM	0.97
Techninvest	0.88
Close Inv.	0.43
Nordea Bank	0.42
Hargreaves Lansdown	0.39
Sum	78.31

Source: Argus Vickers Dec'09

Consensus and DSC Estimates

	03/10E
PBT (£m)	
DSCe	2.1
EPS (p)	
DSCe	7.2
DPS (p)	
DSCe	0.0

Source: Fidessa