

14 June 2007

## Alpha Strategic

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
03/06	0.0	(0.2)	N/A	0.0	N/A	N/A
03/07	0.2	(0.2)	(5.2)	0.0	N/A	N/A
03/08e	0.5	0.1	1.5	0.0	76.7	N/A
03/09e	0.7	0.3	6.1	0.0	18.9	N/A

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

### Investment summary: Strategically poised

The Alpha Strategic platform allows hedge funds to normalise returns across a variety of market conditions whilst simultaneously giving them exposure to the underlying benefits of a stock-market listing without the associated pitfalls. Its business model is pioneering within the UK hedge fund sector and we believe that this first mover advantage along with its high quality management and processes the company is positioned to do well.

### New fund acquisition

To date a combination of managements' own strict set selection criteria and market volatility has hampered the sign up of new funds. Management remain confident that there are sufficient opportunities (perhaps as many as 150) in the UK alone with a further 500 or so potential targets further a field such as USA. They maintain a target of at least one new fund acquisition within 12 months and a sign up rate of one further fund a year for the medium term.

### Changing market sentiment?

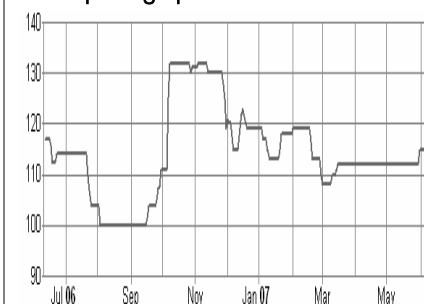
We believe that there may be changing sentiment towards single strategy hedge funds coming to market on their own. There have not been as many hedge fund IPO's recently as some have expected, despite the strong performance of the markets, perhaps because of the practical problems a float brings with it. The willingness of big investment banks to buy large stakes in hedge funds also seems to have diminished, with no overall strategy for these investments still apparent. In conjunction with the recent change in sentiment, Alpha's management is busy educating the market about the advantages of the Alpha platform. We believe that with these combined factors, dividends will soon be reaped.

### Valuation: Stable but new fund additions needed

Today's results with a higher than estimated revenue from Winton Alpha along with its strong cash balance provides the company with adequate time to find and source new funds. Assuming that the Winton Fund achieves its \$100m target, we value the total share price at 167p (97p for the fund and 70p for the value of the existing cash on the balance sheet).

Price 115p  
Market Cap £4m

#### Share price graph



#### Share details

Code APS  
Listing AIM  
Sector General Financials  
Shares in issue 3.31m

#### Price

52 week High 132p Low 100p

#### Balance Sheet as at 31 Mar 2007

Debt/Equity (%) N/A  
NAV per share (p) 132.3  
Net Cash (£m) 2.3

#### Business

APS presents a unique way for investors to gain exposure to a platform for the pooling of Hedge funds.

#### Valuation

	2007	2008e	2009e
P/E relative	N/A	635%	170%
P/CF	N/A	N/A	127.0
EV/Sales	N/A	8.8	3.3
ROE	N/A	N/A	0%

#### Revenues on geography

	UK	Europe	US	Other
	100%	0%	0%	0%

#### Analyst

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**Exhibit 1: Financials**

£'000s	2006	2007	2008E	2009E
Year end March				
<b>PROFIT &amp; LOSS</b>				
<b>Revenue</b>	<b>0</b>	<b>191</b>	<b>503</b>	<b>730</b>
Cost of Sales	(282)	(474)	(488)	(503)
Gross Profit	(282)	(283)	15	227
<b>EBITDA</b>	<b>(282)</b>	<b>(283)</b>	<b>15</b>	<b>227</b>
<b>Operating Profit (before GW and except.)</b>	<b>(282)</b>	<b>(283)</b>	<b>15</b>	<b>227</b>
Goodwill Amortisation	0	0	0	0
Exceptionals	0	0	0	0
Other	0	0	0	0
<b>Operating Profit</b>	<b>(282)</b>	<b>(283)</b>	<b>15</b>	<b>227</b>
Net Interest	73	110	54	63
<b>Profit Before Tax (norm)</b>	<b>(209)</b>	<b>(173)</b>	<b>69</b>	<b>290</b>
<b>Profit Before Tax (FRS 3)</b>	<b>(209)</b>	<b>(173)</b>	<b>69</b>	<b>290</b>
Tax	0	0	(21)	(87)
<b>Profit After Tax (norm)</b>	<b>(209)</b>	<b>(173)</b>	<b>48</b>	<b>203</b>
<b>Profit After Tax (FRS3)</b>	<b>(209)</b>	<b>(173)</b>	<b>48</b>	<b>203</b>
Average Number of Shares Outstanding (m)	3.3	3.3	3.3	3.3
EPS - normalised (p)	(6.3)	(5.2)	1.5	6.1
EPS - FRS 3 (p)	(6.3)	(5.2)	1.5	6.1
Gross Margin (%)	N/A	(148.4%)	3.0%	31.1%
EBITDA Margin (%)	N/A	(148.4%)	3.0%	31.1%
Operating Margin (before GW and except.) (%)	N/A	(148.4%)	3.0%	31.1%
<b>BALANCE SHEET</b>				
<b>Fixed Assets</b>	<b>0</b>	<b>2,092</b>	<b>5,010</b>	<b>5,334</b>
Intangible Assets		386	386	386
Tangible Assets	0	1,706	4,624	4,948
Investment in associates	0	0	0	0
Unquoted investments	0	0	0	0
<b>Current Assets</b>	<b>2,557</b>	<b>2,340</b>	<b>6,633</b>	<b>6,855</b>
Stocks	0	0	0	0
Debtors	8	39	59	70
Cash	2,549	2,301	2,334	2,374
Other	0	0	4,240	4,410
<b>Current Liabilities</b>	<b>(37)</b>	<b>(53)</b>	<b>(56)</b>	<b>(58)</b>
Creditors	(37)	(53)	(56)	(58)
Other creditors	0	0	0	0
Short term borrowings	0	0	0	0
Minority interests	0	0	0	0
<b>Long Term Liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Long term borrowings	0	0	0	0
Other long term liabilities	0	0	0	0
<b>Total Assets</b>	<b>2,520</b>	<b>4,379</b>	<b>11,588</b>	<b>12,130</b>
<b>CASH FLOW</b>				
<b>Operating Cash Flow</b>	<b>(180)</b>	<b>(188)</b>	<b>31</b>	<b>194</b>
Net Interest	73	110	54	63
Tax	0	0	(21)	(87)
Capex	0	0	0	0
Acquisitions/disposals	(2,476)	(88)	0	0
Financing	2,729	327	0	0
Dividends	0	0	(14)	(81)
Other	(73)	(110)	(33)	24
Net Cash Flow	73	51	17	113
<b>Opening net debt/(cash)</b>	<b>(2,476)</b>	<b>(2,549)</b>	<b>(2,301)</b>	<b>(2,334)</b>
HP finance leases initiated	0	0	0	0
Other	0	(299)	16	(73)
<b>Closing net debt/(cash)</b>	<b>(2,549)</b>	<b>(2,301)</b>	<b>(2,334)</b>	<b>(2,374)</b>

Source: Company accounts / Edison Investment Research

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