

In Focus

Earnings Release

June 14, 2007



First Turnover Recorded

Alpha Strategic announced full year results today with income from Alpha Winton Ltd being in line with expectations. Income from this relationship alone should cover operational costs over the medium term and leave headroom to source further transactions.

Year End	Turnover £000	EBITDA Margin (%)	PBT adj. £000	Tax (%)	Net Profit £000	EPS adj.	P/E	FUM \$000	Rev / FUM (£) bp	DPS	Div Yield (%)
Mar-31											
2006	na	na	(209)	na	(209)	(11.6)	(9.9)	na	na	na	na
2007	191	72	(144)	0	(173)	(4.4)	(26.1)	40,000	0.91	na	na
2008E	1,557	84	1,224	15	1,006	29.6	3.9	170,000	5.38	13.86	12
2009E	2,827	87	2,471	30	1,706	44.4	2.6	310,000	6.32	43.74	38
2010E	3,702	88	3,323	30	2,302	55.4	2.1	401,000	6.39	54.81	48

Source: Teather & Greenwood

- **By allowing hedge fund managers to swap a portion of their own income for shares, Alpha Strategic potentially offers a diversified income stream and a multiple on earnings. With income from Alpha Winton Ltd now being received, we feel Alpha has built a platform from which it can now make further acquisitions.**

Key Points

- **First Income Recorded**
An income of £191k was received during the year from Alpha Winton Ltd, marking its first contribution. This was in line with our expectations (£190k) as was FUM at US\$41.1m. The global futures fund is still waiting for regulatory clearance to actively market in Switzerland, which is its main area of operation.

We estimate the fund to hit its capacity level of US\$100m in two years time and generate fees of over £1m by 2008. We believe this income alone should cover operational costs over the medium term.
- **Cost Control Maintained**
While costs have grown 43% y-o-y to £422k, this merely reflects a full 12 months of operational expenses compared with eight months in 2006 during which Alpha was still starting up. Going forward, we expect cost growth to be around 5% per annum as the business is in more of a steady state.
- **Further Acquisitions Are Critical**
A key target for the business is to acquire income streams from multiple sources. To that end, we estimate Alpha making two acquisitions this year and we see this as critical to establishing diversification benefits.
- **The Numbers**
Loss for the FY 2007 was £173k, with LPS being 5.3p, some 46% better than the loss of 11.6p in 2006. Cash at year end was a healthy £2.3m



Investment Conclusion

The main attraction to investors is that dividends should increase as more income generating FUM is acquired. Although acquisitions will be dilutive, the dividend payout ratio is targeted to be 100% and we estimate that all shareholders will see an absolute increase in dividends over time.

Our price to book valuation indicates a target price of 172p, which indicates a 50% upside. This is 7p lower than our previous target, reflecting the step up in costs and the increased need for Alpha to make another acquisition.

The Business

Alpha Strategic was established in 2005. Its main objective is to acquire stakes in hedge fund management firms, using its shares as consideration. In return, the hedge fund pledges a certain percentage of its revenue to Alpha Strategic. Target firms are sought out with complementary investment strategies such that the portfolio of the company performs consistently in a variety of market conditions. The intention is to build a diversified portfolio of holdings to provide a steady income stream with strong growth and low volatility.

All acquisitions are financed with the issuance of new shares. The resulting income is distributed between all the shareholders in proportion to their shareholding. For example, a hedge fund manager agrees to forego a certain percentage of both management and the performance fees that his fund generates in exchange for a number of shares in Alpha Strategic. The core benefit of this is to exchange a single stream of income for one (via Alpha Strategic dividends) that is both diversified and uncorrelated, thus aiming to reduce overall volatility of income.

While there is no optimum number of partners, management has indicated a target of six firms over the next three years.

Alpha Strategic has set up some basic criteria for reviewing suitable managers:

1. Investment style must be uncorrelated with existing funds in the Alpha Strategic portfolio; and
2. Established and solid track record; they must also have 'spare' cash flow such that the Alpha revenue share will not impinge on the manager's ability to cover overheads. In practice, this means a manager needs to have on average US\$750m plus under management.



Financials

Table 1: Income Statement

Year end March (£000)	2006	2007	2008E	2009E	2010E
Total income	0	191	1,557	2,827	3,702
Operating costs	(282)	(422)	(443)	(465)	(489)
Other costs		(23)			
EBITDA	(282)	(254)	1,114	2,361	3,213
Depreciation					
Operating profit	(282)	(254)	1,114	2,361	3,213
(%)	0	0	0	0	0
Interest receivable	73	110	110	110	110
Interest payable					
Loss before tax (T&G)	(209)	(144)	1,224	2,471	3,323
Goodwill amortisation	0	(29)	(35)	(35)	(35)
Exceptional items	0	0	0	0	0
Loss before tax	(209)	(173)	1,189	2,437	3,288
Tax	0		(183)	(731)	(987)
Tax rate (%)	0.0	0	15	30	30
Attributable loss	(209)	(173)	1,006	1,706	2,302
Dividends	0		(485)	(1,706)	(2,302)
Retained profit/(loss)	(209)	(173)	521	0	0
EPS basic	(11.6)	(5.3)	28.7	43.7	54.8
EPS basic, FD	(11.6)	(5.3)	28.7	43.7	54.8
EPS (T&G)	(11.6)	(4.4)	29.6	44.4	55.4
EPS (T&G) - basic	(11.6)	(4.4)	29.6	44.4	55.4

Source: Teather & Greenwood, Company data

Table 2: Balance Sheet

Year end March (£000)	2006	2007	2008E	2009E	2010E
Non current assets	0	415	380	346	311
Trade debtors	8	38	51	57	60
Investments	2,476	2,134	2,740	3,137	3,367
Cash and equivalents	73	63	85	95	100
Current assets	2,557	2,235	2,876	3,288	3,527
Total assets	2,557	2,650	3,256	3,634	3,838
Trade creditors	37	116	156	174	184
Current liabilities	37	116	156	174	184
Long term debt	0	0	0	0	0
Non current liabilities	0	0	0	0	0
Total liabilities	37	116	156	174	184
Net assets	2,520	2,534	3,413	3,809	4,022
Equity	0	0	0	0	0
Share capital	80	83	83	83	83
Share premium A/ct	2,649	2,649	3,006	3,402	3,616
Retained profit	(209)	(521)	0	0	0
Attributable equity	2,520	2,534	3,413	3,809	4,022

Source: Teather & Greenwood



Disclosure Checklist - Potential Conflict of Interests

Stock	ISIN	Disclosure (See Below)	Currency	Price
Alpha Strategic	GB00B0CZZR45	4, 5, 7, 9	GBP	115.00

Source: Factset closing prices of 13/06/2007

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Source: Landsbanki Kepler

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Total	100.0%	0.0%

Source: Merrion Stockbrokers Limited

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Total	100.0%	100.0%

Source: Teather & Greenwood Limited

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