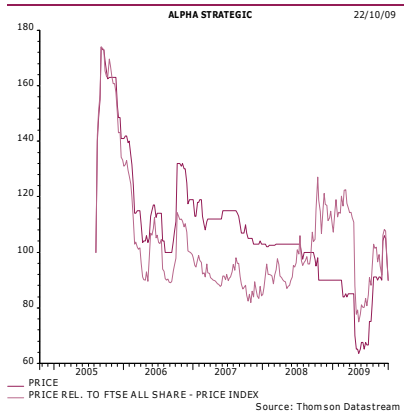


26 October 2009

Price: 92 p

Mkt Cap: £4.2m

Net Cash: £2.2m



Reuters	APS.L
EPS	APS LN
Listing	AIM
No. of shares	4,520,621
Free float	55.9%

Share price	Abs	Rel to FTSEAIM
Performance	(%)	(%)
1 mth	-1.1	-2.0
3 mths	20.0	3.2
12 mths	0.0	-23.5

This document has been produced by the Corporate Finance department at Evolution Securities Limited. Evolution Securities Limited is the Nominated Adviser and Broker to the Company

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Alpha Strategic (APS.L)

The difficult second album

Having secured its second deal in July, Alpha Strategic has now convinced on both its strategy and its ability to do deals. The agreement with IKOS Asset Management Limited ("IMAL") has diversified the Company's revenue stream, will make a significant contribution to the bottom line and places the company in a good position to secure more deals in the future.

Earnings straight to the bottom line

While the final results highlighted Alpha Strategic's previous dependence on its Winton contract, it also showed that even in the most challenging of markets that the Winton contract covers Alpha Strategic's costs. With a stable and visible cost base, the guarantee of at least US\$800,000 from IKOS deal will flow straight through to earnings. Additionally, the improved macro economic environment should result in increased AuM for Alpha Strategic's partners and an increase in management fees.

Well set for future growth

With the second deal done, £2.2m of cash at the year end and multiple negotiations underway, a third deal could be very attractive. Due to the lean cost structure, any additional deal should have a dramatic impact on earnings. The forecasts below assume that no other deals occur and looks at Alpha Strategic on an as its basis. Any deal done on the same basis as the two previous ones would result in a significant upgrade to earnings.

Year End March	2009A	2010E	2011E	2012E
Turnover (£000)	342.0	586.9	859.2	989.2
EBITDA (£000)	(170.0)	64.7	326.6	446.0
EVO PBT (£000)	(136.0)	66.7	328.6	453.0
EPS (p)	(4.8)	1.5	5.2	7.2
Growth PBT (%)		149%	393%	38%
Growth EPS (%)		131%	255%	38%
P/E (x)	n/a	62.4	17.6	12.8
EV/ EBITDA (x)	n/a	31.6	6.3	4.6
EV/ Turnover (x)	6.0	3.5	2.4	2.1

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Overview

Alpha Strategic aims to create partnerships with hedge fund managers, in which managers exchange small parts of their ongoing management and performance fees for a one off cash payment and a shareholding in Alpha Strategic.

Alpha Strategic seeks to enter into agreements with a diverse range of complementary hedge fund managers who;

- a. operate investment strategies and generate returns from asset classes that are uncorrelated; and
- b. are proven performers, with demonstrable long term track records over long periods and who rely on genuine skills and research, as opposed to merely profiting in bull markets.

The objective of Alpha Strategic's structure is to create a blended revenue stream, with strong growth and reduced volatility that will deliver a return to shareholders in all market conditions.

What's in it for funds?

Alpha Strategic's business model provides hedge fund managers with a range of benefits through participation.

While there are a range of attractions that come with Alpha Strategic's structure. We see the key benefits as follows:-

- **Diversification and hedging:** A key attraction of the Alpha Strategic model is providing the opportunity for a fund manager to flip part of its income stream into a diversified and near-zero correlated pool of income. Alpha Strategic can effectively provide a hedge for fund managers against the performance of its niche, asset class or sector, which gives increased security.
- **A liquidity event with control retained:** As well as providing an option to diversify income streams, Alpha Strategic offers fund managers the chance to swap income into a tradeable and transferrable security through becoming shareholders in the Company. This can be appealing as method of extracting value from the business they have built, without being significantly diluted or ceding control of the business.
- **Tax and Capital planning:** Holding transferrable securities allows fund managers to effect capital planning or distribution and inheritance or estate planning, again without ceding control of the business. The IHT and taper tax relief attached to holding AIM stocks can further enhance this position. With the changes to Income Tax due in April 2010, these features will become even more attractive.

What's in it for shareholders?

The attraction for shareholders is an investment in a basket of diverse and uncorrelated income streams, produced by quality fund managers with proven track records and overseen by an experienced Board.

The IKOS Deal

Under Alpha Strategic's deal signed with IKOS in July, it will receive 7.2% of the aggregate fees received by IAML relating to the IKOS G10 Currency Fund (the 'Currency Fund'). Alpha Strategic will receive at least \$800,000 during the first year of this agreement.

The structure of the deal involved Alpha Strategic acquiring Acme Advisors Limited ('Acme'), a wholly owned subsidiary of IAML. Through the incorporation of Acme Alpha Strategic will provide promotion, sales and distribution advisory services to IAML relating to the Currency Fund. Under the agreement, Acme will receive 7.2% of IAML's aggregate management and performance fees from the Currency Fund in return for these services.

IKOS Asset Management

IKOS is one of the first independent hedge funds in Europe. It was founded in 1993 by Dr. Martin Coward and Elena Ambrosiadou. With an asset base of approximately \$1.4bn, IKOS is listed among Europe's 30 largest single manager hedge funds (Financial News September 2009).

IKOS operates from six main locations and/or trade execution and research sites in New York, Tokyo, Vienna, London Cyprus and Monaco. IKOS creates state of the art technology to capture Alpha from trading in global financial markets, including equities, currencies, commodities, interest rates, indices and bonds. IKOS focuses on scalable, repeatable strategies using scientific methods. It benefits from high frequency trading in markets which have become increasingly electronic.

Winton Capital Management

Winton Capital Management Limited is a specialist alternative investment manager. Since starting in 1997, the company has become one of the most successful quantitative managers in the world with approximately USD13 billion under management.

WCM's investment philosophy aims to achieve long term capital appreciation through compound growth. This is achieved through pursuing a diversified trading scheme without reliance on favourable conditions in any particular market, nor does it depend on general appreciation of asset values.

Conclusion and a word on forecasts

There is no doubt that it has taken Alpha Strategic significantly longer to secure its second deal than management anticipated. However, the quality of the counter party was worth waiting for and represents a significant "tick in the box" for Alpha Strategic. Given that Alpha Strategic now has partnerships with Winton and IKOS we believe that it should be easier for future partners to get over issues of proving the concept and being "first mover". This bodes well for future earnings enhancing deals.

Our forecasts assume no further deals. They are based on:

- Revenue of £320,000 from Winton for FY10E, an improvement of £50,000 in FY11E
- Revenue from Winton returning to normal levels of £500,000 in FY12E
- Revenue of £367,000 from 3 quarters of income from the IKOS deal in FY10E
- £489,000 from a full year of IKOS income in FY11E and FY12E. This assumes the same levels of income and spot FX rate.
- A steady cost base of £500,000, marginally increasing by 2% per annum
- Minimal depreciation and interest

The shares are currently on a high P/E which should become significantly lower were another deal to be completed.

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