

London Capital Group



London Capital's concentration on offering some of the tightest spreads in the market has been rewarded by significantly higher growth than the already heady growth seen in its underlying spread-betting and foreign exchange markets.

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Initiation Report

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I certify that this report represents my own opinions.

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Key Points

17 May, 2007
Price: 235.5p

In 2006, the London Capital Group (LCG) increased turnover by 78% to £8.65m, EBITDA by 144% to £4.03m and adjusted EPS by 122% to 7.3p. It also signalled its confidence in future growth and cash flow by initiating dividends with a maiden payout of 1.7p. The company has a scaleable low-cost business model and the addition of a FX business in 2005 promises further premium growth.

- **Capital Spreads continues to exceed the market's 20%-25% p.a growth**

London Capital's spread-betting arm continues to grow faster than its competitors, increasing turnover by 68% in 2006. We believe that this growth will continue in 2007, with the number of client accounts, the average number of trades per day and amounts on deposit all continuing to grow.

- **Scaleable business model**

The spread-betting business is highly scaleable as the platform can handle far more volume: a paperless system combines with a low-cost business model to ensure that Capital Spread's existing headcount is ample to handle predicted growth. This is a business with high operational gearing: profit continues to expand faster than turnover.

- **Unique forex platform enables strong growth**

London Capital's forex business, Capital Forex was launched in November 2005, with revenues in 2006 of £1.38m on minimal marketing. Volumes and ticket sizes are increasing every quarter. The business operates at low-risk: it takes no principal position and attracts institutional clients with low commissions. It does so by using an Electronic currency network (ECN) platform to stream prices and a major bank as clearer and credit provider. Capital Forex should continue to grow at rates well in excess of industry forecasts of 20% p.a. for the global foreign exchange market as a whole.

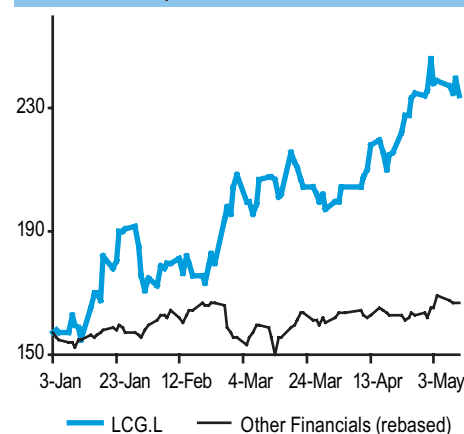
- **Low-risk business model**

London Capital operates a low-risk business model throughout: in spread-betting it offers no credit, taking a deposit and assigning automatic stop-loss limits as well as tight value at risk limits on all markets. In forex, the company takes no principal positions, but acts as a broker, reflecting tight spreads and liquidity to its clients through its platform. Derivatives broking is also an agency only business.

- **Overseas potential**

In addition to the growth offered by forex where London is the biggest market, new EU directives are to open up market spread-betting outside the UK. London Capital plans to address this through white-label partners. In addition, in the longer term, the anticipated decoupling of China's currency from the US dollar, provided it is accompanied by the relaxing of exchange controls by China, could add a new dimension to the forex market.

Price chart (p)



Value of equity

Expected Value	£94.3m
Value per share	246p
Pessimistic Scenario	£66.7m
Optimistic Scenario	£160.1m
Value per share	174p - 418p

Company details

Quote

Shares	
-London AIM	LCG.L
-Berlin	LNU.BE

Hi-Lo last 12-mos. (p) 248.5 - 109.5

Shares issued (m) 38.3

Fully diluted (m) 40.9

Market Cap'n (£m) 90.2

Nominated Adviser & Broker: Cenkos Securities
www.cenkos.com

Financial PR: Smithfield Group
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Overview

London Capital Group was established in the mid-90s as a proprietary trading business. Today, its core activity is the provision of financial spread-betting products to retail clients under the name of Capital Spreads, which started trading in October 2003. Betting has rapidly overtaken the legacy business of derivatives and currently accounts for 60% - 70% of revenues.

Spread-betting is expected to continue to grow for the foreseeable future: industry participants and consultants expect growth of between 20% and 26% p.a. until 2011. Although spread-betting began in the mid 1970s with the founding of IG Index, the recent strong growth owes much to the internet and online betting and to the abolition in 2001 of the 9% betting tax levied on winnings.

Financial spread-betting is a fast growing and cash generative business and London Capital has started to diversify its portfolio of activities using its cash flow to develop related businesses. Foreign Exchange remains the largest market for spread-betting and armed with this knowledge and with the institutional contacts provided by the legacy business, a dedicated institutional forex business was a logical development. Capital Forex started trading in November 2005 and has built up a revenue of £1.38m in 2006. Capital Forex is an agency only commission based business which uses an ECN platform from Currenex. It does not take principal positions.

The legacy derivatives business, currently mainly short-term interest rates (STIRs), is similarly an agency only broking business, dealing with a small number of large hedge funds and prop desks. It takes no principal positions and does not run a proprietary trading book.

London Capital has been considering the addition of cash equities to this business, again on an agency only broking basis. If this were to go ahead, it would be on a limited basis for Capital Derivatives large institutional clients. London Capital has received indications from some clients that they would be interested in such an offering.

The final earnings component is the treasury function. In addition to the group's own cash of £3.35m at year-end, clients have funds on deposit, to provide margin and to ensure losses on bets can be paid, on which London Capital earns interest. Cash at bank has increased sharply from £5.6m on 1 January 2006 to £16.2m at year end. Client funds continue to grow rapidly and provide an increasingly important source of income. The new CFO has a treasury background, as London Capital recognises that this income source is becoming more material.

London Capital's business is the provision of a range of financial products to both the retail and the institutional markets. The emphasis is on products which are low risk for the company, high growth, profitable and cash generative. Demand for these products is being driven by investors and traders—often at the retail end of the business, who seek products which allow them to take advantage of the present favourable worldwide economic conditions. They also seek freedom of choice, in particular the flexibility to take advantage of falling as well as rising markets, not always offered by traditional brokers. The generally poor performance of traditional pensions providers has also contributed to the appetite for more flexibility and a wider range of products.

London Capital's competitive strengths lie in a team which has built the business from a greenfield site to offer tier-one services to a carefully identified client base. The team is incentivised to deliver strong performance by virtue of profit sharing and significant equity stakes for senior divisional managers. As a result the business remains focussed on delivering growth and profits.

London Capital operates a relatively low-risk business model with strict limits on value at risk at both divisional and market level. The company also operates a business model that calls for a low level of fixed assets and that is easily scaleable. Moreover, that scalability is not accompanied by a proportionate increase in costs, so the business has strong operational gearing. Finally London Capital doesn't offer its clients credit, leading to low bad debt risk and virtually no receivables. These characteristics lead to a cash-generative, profitable and high-growth business.

In view of this we have valued London Capital on the basis of the cash flow generated by its operations, namely spread-betting, forex and derivatives, using a discounted cash flow model.

We have assumed that that the business profile retains its current shape with three divisions offering spread-betting, forex and derivatives/cash equity. We have also assumed that the business continues to operate a low-risk business model and not to offer credit. We have also assumed that the Chancellor leaves unchanged the tax-free status of spread-betting.

Both the spread-betting and foreign exchange trading markets are experiencing rapid growth and are expected to continue to do so for some time. We also recognise that the London Capital businesses are currently delivering growth rates above those of their markets; with this in mind we have prepared three valuations:

- **a central case** based on above market growth in spread betting and foreign exchange declining to trend by 2010;
- **an optimistic case** based on above market growth being maintained until 2012;
- **a pessimistic case** based on growth in spread betting and foreign exchange markets falling short of expectations from 2009 onwards.

Results

Applying our free cash flow forecasts results in a central case valuation of the group of £99.7m. After allowing for the value of options outstanding, the value attributable to common stockholders of £94.3m, which equates to a fully diluted share price of £2.46. Our high scenario with a more optimistic outlook for growth across the divisions results in a valuation of £170.0m or £160.1m after adjusting for the value of the options which gives a fully diluted share price of £4.18.

Our lower case which assumes slower rates of growth in more challenging markets, values the business at £70.2m or £66.7m after adjusting for the options. This gives a share price of £1.74.

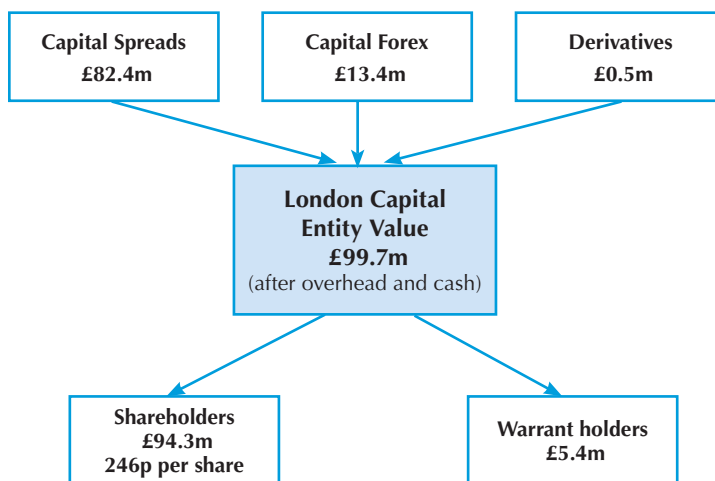
Benchmarks

The most obvious benchmark or comparative for London Capital is IG Group, which although much larger and a more mature company has a broadly similar range of activities, with the exception of CFDs. IG Group trades on forward PE multiples of 21.9x on May 2007 earnings and 18.8x on 2008 earnings. Our central case share price £2.46 would put London Capital on 18x calendar 2007 earnings and 13.9x 2008. In that London Capital is currently delivering faster earnings growth than IG Group, the market is putting it at a discount.

Valuation summary (£m)

Scenario	Core	Optimistic	Pessimistic
Capital Spreads	82.4	148.3	56.8
Capital Forex	13.4	17.1	9.8
Capital Derivatives	0.5	1.3	0.3
Value of firm	96.3	166.6	66.9
Add: starting cash + new funds	3.4	3.4	3.4
Total current value for firm	99.7	170.0	70.2
Less: starting & new debt	0.0	0.0	0.0
Total value to equity claims	99.7	170.0	70.2
Less: options	5.4	9.9	3.5
Ordinary Equity Holders	94.3	160.1	66.7
Value per share (p ps)	2.46	4.18	1.74

Components of London Capital's entity value



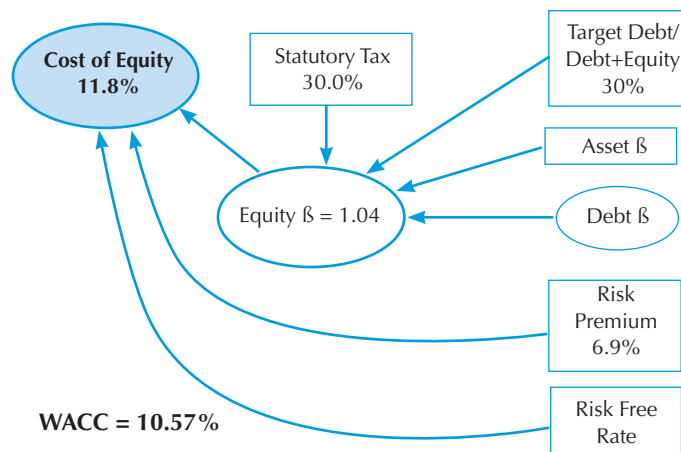
Scenario assumptions

Scenarios	Pessimistic					Core					Optimistic				
	2006A	2007A	2008F	2009F	2010F	2006A	2007A	2008F	2009F	2010F	2006A	2007A	2008F	2009F	2010F
Spread Betting (£000)															
Average cost per trade (£)	1.07	1.07	1.07	1.07	1.07	1.07	1.07	1.07	1.07	1.07	1.07	1.07	1.07	1.07	1.07
Average price per trade (£)	5.74	5.74	5.74	5.74	5.74	5.74	5.74	5.74	5.74	5.74	5.74	5.74	5.74	5.74	5.74
Average value per trade (£)	4.67	4.67	4.67	4.67	4.67	4.67	4.67	4.67	4.67	4.67	4.67	4.67	4.67	4.67	4.67
Average number of trades	1,109	1,553	1,941	2,329	2,678	1,109	1,664	2,329	3,028	3,633	1,109	1,664	2,495	3,493	4,541
Revenues	6,366	8,912	11,141	13,369	15,374	6,366	9,549	13,369	17,379	20,855	6,366	9,549	14,324	20,053	26,069
COGS	(1,182)	(1,654)		(2,481)	(2,853)	(1,182)	(1,772)	(2,481)	(3,226)	(3,871)	(1,182)	(1,772)	(2,658)	(3,722)	(4,838)
Gross profits	5,184	7,258	9,073	10,887	12,520	5,184	7,777	10,887	14,154	16,984	5,184	7,777	11,665	16,331	21,230
Selling costs	(1,966)	(2,753)	(3,441)	(4,130)	(4,749)	(1,966)	(2,950)	(4,130)	(5,368)	(6,442)	(1,966)	(2,950)	(4,425)	(2,005)	(2,607)
EBITDTA	3,218	4,505	5,631	6,758	7,771	3,218	4,827	6,758	8,785	10,542	3,218	4,827	7,240	14,326	18,623
Pro forma depreciation & amortisation	(139)	(179)	(182)	(185)	(265)	(139)	(179)	(173)	(169)	(251)	(139)	(179)	(175)	(169)	(251)
Equity-settled share-based payments	(398)					(398)					(398)				
EBIT	2,681	4,326	5,449	6,573	7,506	2,681	4,648	6,585	8,616	10,291	2,681	4,648	7,065	14,157	18,372
Capital Forex (£000)															
Revenues	1,380	1,863	2,236	2,683	2,951	1,380	2,070	2,484	2,981	3,577	1,380	2,070	2,898	3,767	4,521
COGS	(308)	(416)	(499)	(599)	(659)	(308)	(401)	(461)	(530)	(609)	(308)	(401)	(647)	(841)	(1,010)
Gross profits	1,072	1,447	1,736	2,084	2,292	1,072	1,669	2,023	2,451	2,968	1,072	1,669	2,251	2,926	3,511
Selling costs	(427)	(575)	(691)	(829)	(912)	(427)	(639)	(767)	(921)	(1,105)	(427)	(639)	(895)	(1,164)	(1,396)
EBITDTA	645	871	1,046	1,255	1,380	645	1,030	1,256	1,530	1,863	645	1,030	1,356	1,762	2,115
Pro forma depreciation & amortisation	(16)	(30)	(29)	(28)	(28)	(16)	(30)	(29)	(28)	(44)	(16)	(30)	(29)	(29)	(45)
Equity-settled share-based payments	(86)					(86)					(86)				
EBIT	543	841	1,017	1,227	1,352	543	1,000	1,227	1,502	1,819	543	1,000	1,327	1,733	2,070
Derivatives (£000)															
Revenues	905	937	927	876	812	905	989	1,109	1,201	1,242	905	1,032	1,176	1,294	1,423
COGS	(308)	(337)	(352)	(351)	(343)	(308)	(337)	(408)	(448)	(471)	(308)	(370)	(444)	(488)	(537)
Gross profits	597	600	575	525	469	597	652	701	753	772	597	662	732	806	886
Selling costs	(426)	(441)	(436)	(413)	(383)	(426)	(466)	(536)	(589)	(619)	(426)	(486)	(554)	(609)	(670)
EBITDTA	171	159	139	113	86	171	186	165	164	153	171	176	178	196	216
Pro forma depreciation & amortisation	(8)	(30)	(29)	(28)	(31)	(8)	(30)	(30)	(31)	(33)	(8)	(30)	(30)	(31)	(33)
Equity-settled share-based payments	(57)					(57)					(57)				
EBIT	106	129	110	84	55	106	156	135	133	120	106	146	148	165	182

Sensitivity to cost of capital assumptions

Interest rate (%)	4.5%	4.75%	5.00%	5.25%	5.50%
Value (£/share)	2.50	2.42	2.34	2.27	2.20
% change	+1.5%	-1.8%	-5.0%	-8.0%	-10.8%
Equity beta	0.98	1.04	1.11	1.17	1.24
Value (£/share)	2.57	2.46	2.36	2.27	2.18
% change	+4.4%	+0.0%	-4.1%	-7.9%	-11.4%
Target gearing (Debt/Equity) (%)	20%	25%	30%	35%	40%
Value (£/share)	2.43	2.45	2.46	2.48	2.50
% change	-1.2%	-0.6%	+0.0%	+0.6%	+1.3%

Weighted Cost of Capital



Dependence on key individuals

Capital Spreads is the brainchild of Simon Denham, the COO. He designed, commissioned and runs it. He also contributes regular columns to financial publications and websites, effectively marketing the business.

The second principal driver of London Capital's business is Forex, headed by Gavin Foster. London Capital has taken a conscious decision effectively to be self-insured on key personnel rather than to take out key-person insurance.

Loss of exemption from Capital Gains Tax (CGT)

Whether or not the loss of exemption is a real risk, it is certainly seen as such. Many of the spread-betting companies use the lack of CGT liability in their advertising and promotion and there is no doubt that the tax-free aspect plays a psychological part in attracting clients. If the government were to change the tax-free status of spread-betting, revenues would fall. However, we do not believe there is much likelihood of government taking this course, as the Treasury is unlikely to relish making losses on wagers a deductible for CGT.

Loss of exemption from stamp duty

One of the advantages of spread-betting is exemption from stamp duty. However, this advantage extends only to trading in shares, in that trading activities in Forex, index futures and CFDs are already exempt from stamp duty. The Treasury would run into political squalls in removing the stamp-duty exemption from wagers in shares. In effect the Chancellor has to balance one anomaly—the exemption of bets in shares, against a greater one—the exemption of the far greater sums devoted to substantive trading in forex and indices. Removing exemption in the former draws attention to the latter, removal of which could have adverse effects on London's status as a financial centre. This would threaten the economy and the Government's receivables so much as to make it a minor risk.

Severe market shocks

LCG acknowledges the risk of a rapid market collapse. In spread betting as in forex, the risk would primarily lie in markets gapping overnight before stop losses could be triggered and when liquidity might be expected to be lower, leaving clients with losses which could potentially be greater than the amount on deposit or their margin. This type of risk is both difficult to quantify and to wholly overcome. The company sets limits to manage and safeguard the business under normal market conditions, which include high volatility but it is not practicable to set limits that cover every eventuality. We believe there are a number of factors that mitigate this risk. The T&Cs cover gapping and explain the clients' position in such an event and there are automatic computer generated stop losses on all client positions, which leaves a reasonable safety margin. In addition, a large proportion of clients' bets are intra-day bets and finally spread betting covers a range of markets and not merely equities, which offers some diversification of risk.

Moral hazard

Allied to the above is the risk that clients will refuse to cover losses, in conditions where London Capital is unwilling to pursue them for fear of loss of reputation and/or political pressure. We believe this is a relatively small risk assuming good compliance disciplines (in particular the FSA requirement to “know your client”), in that traders in financial instruments are seen as more sophisticated than internet poker players or those having a flutter on the horses. In the past, moreover, institutions seeking to recoup the losses of options traders have not faced opprobrium. As spread-betting becomes more widely used, the risk of taking on clients for whom it is inappropriate will only increase.

Operating risks

There are a number of potential risks in London Capital’s operations. These include system failure, either of London Capital’s own systems or those of a third party, settlement risk and counterparty risk. None can be eliminated but all can be addressed and minimised. We believe the risks connected with system failure to be low: all major banks and financial institutions have elaborate back-up systems and disaster recovery plans. Platform providers such as Currenex have back-up systems in all major locations, including multiple server hosts. Settlement risk only really applies to the forex and derivatives businesses and as an agency business taking commission only we see this risk as minimal.

Erosion of interest earnings by competition

At present London Capital earns interest on client funds held on deposit and pays interest to some of its clients only. This is in line with most other gaming businesses. However there is a risk that this will not always be the case. At present the majority of firms do not pay interest on funds on deposit, among those that do to some extent, are IG, Man spread trading, CMC markets and iDealing. However, erosion of Capital Spreads competitive position by other firms paying interest is not apparent at the moment and the company believes its other advantages of low cost outweigh this.

US regulatory liabilities by reason of intended or unintended dealings with US clients

This should not pose a risk as Capital Spreads does not accept business from US residents or citizens and requires an affirmation that prospective clients are not US citizens or /residents before opening an account.

Capital adequacy

Overall capital adequacy limits are addressed by compliance with FSA regulations. The FSA requires firms to maintain sufficient liquidity to cover 3 months overhead expense. This is more than covered by the £3.35m of own cash funds at year end.

London Capital Group is a provider of financial services to retail and institutional clients. It operates three businesses. Its core activity is the provision of financial spread-betting products to retail clients under the name of Capital Spreads and accounts for 60% - 70% of revenues. London Capital has used its resources and infrastructure to launch a forex business, Capital Forex, which operates on an agency only broker basis. The third business is again agency-only, offering derivative product services to institutional clients.

Business model

Capital Spreads has taken a different path to the majority of its competitors, concentrating on a low-risk and low-cost business model. The company's spread-betting business is 99.5% online, making it highly automated. No credit is given, so there is no need for a credit control function. These differences give London Capital a lower cost-base than many of its competitors and allow Capital Spreads consistently to offer the tightest spreads in the business. Tighter spreads mean better value and more customers.

Customer focus is central to Capital Spreads' business model. One aspect of this is the management of risk. Capital Spreads' policy of no credit means that clients have to deposit funds before they are allowed to trade. Each trade is automatically allocated a stop-loss, usually based on 80% of funds available in the client's account. This has several benefits: it provides comfort for the client in knowing in advance what his maximum loss could be. It also virtually eliminates the risk of bad debts for London Capital. Capital Spreads' other competitive differentiators are tight spreads, a smaller minimum stake than the norm from larger competitors at £1 per point; and generally favourable reviews in the press and specialist web-sites. It is seen as offering good value to its generally retail clients: not killing the goose that lays the golden egg.

London Capital must be doing something right: the underlying market has been growing at around 20%; the growth of market-leader IG Group's exceeds this at around 25%; but Capital Spreads is growing faster still. All metrics for the spread-betting business rose sharply in 2006, with turnover up 67%. In short, London Capital is taking market share and growing faster than the market with its low-cost, low-risk approach.

Capital Forex started trading on the Currenex ECN platform in November 2005 and has built up revenues of £1.38m in 2006. While the underlying market is growing at around 20%, London Capital believes it can obtain premium growth with a unique offering. The Currenex system is the most popular ECN platform, which London Capital believes to be the best and has built its website around. Prices are streamed from the major FX trading banks through the Currenex white label offering to around 65 active, mostly institutional clients. The prices are not altered in any way by London Capital and are exactly those quoted by the banks, which thus offers clients a combination of comparison, tight spreads and deep liquidity.

Capital Forex generates its revenue from commission and takes no principal position whatever. It uses a major bank for clearing and credit lines, taking no credit risk itself. It does however earn interest on client deposits.

As Capital Derivatives acts solely as an agency broker it is not taking on any position risk but there is a degree of settlement risk. This notwithstanding, Capital Derivatives business is still a relatively low risk business. This is a low-margin operation, but the institutional contacts are proving useful to the forex business and clients are asking for a wider range of products including cash equities. Management has made it clear that while it will consider extending the range of agency offerings to its institutional clients to include shares, this activity will be carried out in accordance with the existing business model and will have to pay its way.

Management structure

The management team is made up of the executive directors, plus the heads of the forex and derivatives business. At present senior management holds just over 52% of the company's shares, as founders of the current business.

In addition there is a share option scheme and all staff are eligible to participate in the scheme. The option scheme covers about 6.8% of the company's share capital.

LCG announced the appointment of Richard Davey as Non Executive Chairman in May 2007.

In 2004, London Capital ceased its legacy business in proprietary trading. In November 2005, the company launched its forex business in November 2005, and some months later it launched financial spread-betting. These two business streams are now the company's principal source of revenues."

Spread-betting is growing fast. In a report published last year, Professor Chris Brady and Dr Richard Raymar of Cass Business School predict that the number of people in the UK with a spread-betting account is to increase from around 400,000 to 1,000,000 in five years. This is a compound growth rate of 20% in the UK alone. Some estimates predict faster growth still.

Five years ago, there were five main spread-betting companies: IG Index, Deal4Free (CMC), Cantor Index, Finspreads and City Index. Today, there are some ten financial spread-betting companies in the UK. Initially, investors were slow to recognise the potential in this business. In 2004 IG Index de-listed by way of a £144m management buy out. Eighteen months later, it returned to the market valued around £450m. Today, its market cap is £1bn. In part this can be attributed to the initial failure of investors to understand the difference between traditional city institutions and betting businesses and in mistaking the spread-betting businesses for the former.

Financial spread-betting offers retail clients a product similar to the futures and CFD markets. HM Revenue and Customs as the name suggests, classify spread betting as a wager and thus free from either stamp duty or capital gains tax. This should not be seen as negative in any way. Betting in all its forms is a big and flourishing business and highly lucrative for the betting businesses, if not for the majority of clients. To get an idea of the significance of this business, the total sum wagered in the UK has increased sevenfold since betting tax was abolished in 2001. Some £59bn was wagered in 2005 – that is almost £1,000 per capita.

We believe the quality of earnings of the spread-betting businesses is likely to prove higher than that of more traditional financial service providers such as stock-brokers or asset managers. The stock broking model is difficult: institutional brokers generally need to offer research or advice, which is costly to maintain, while commission levels have been driven inexorably downwards. Asset management is more stable than broking, but is a labour intensive business, at least as much linked to market direction as spread-betting or forex. Asset management is also subject to intense competition for mandates and the loss of key personnel.

If further proof of the soundness of the betting business model is needed, one need only look at the result trends of Ladbrokes, William Hill and Paddy Power. Ladbrokes shows every sign of reading the runes, as it has divested virtually all of its non-gambling interests so as to concentrate on its most profitable business.

What is spread-betting? A layman might be bemused by the way spread-betting combines elements of betting with the mechanics and terminology of conventional trading in financial instruments. This is because the activity arose out of betting on the gold-fix. In 1975, a group of bankers would meet weekly to “fix” the price for gold bullion. This was then announced to the market and became the price at which the metal traded. The founder of IG Index, Stewart Wheeler, dreamt up the idea of making a market in the price to his friends, that is he offered a buy and sell price either side of where he thought the fix would be. This caught on and led to the formation of IG Index, which offered an ever widening range of instruments on which clients could bet.

How does a bet work? Spread-betting should pose no mystery to those familiar with equity or currency markets. When you buy shares from a broker you get two prices: the lower one, the “bid” at which you can sell shares; and a higher one, the “offer” at which you can buy. The difference between the two prices is called the “spread”. The principle behind spread-betting is much the same. The spread-betting firm quotes two prices, bid and offer. If you believe the price is going to go up you buy at the offer or higher price; if you believe the price will go down you sell at the bid or lower price. The amount of the wager is determined in pounds per point in the case of an index or pounds per penny in the case of a UK share. Thus, if you wager £1 in Company X, for every penny the share price moves you stand to win or lose £1. The diagram below shows a hypothetical example of a quote and the possible outcomes of a £1 bet.

Payoffs in an example spread bet



Source: Capital Spreads

In the case of a bet on the price rising, the client makes a profit of £1 for every point the index or share close above the higher end of the spread, in this case 754p. For a £1 per point bet, a price of 840p yields a profit of 840p less-754p or £86. For a £10 bet, the profit would be £860.

If the client believes the price will fall, he sells at the lower end of the spread, i.e. 750. In this example, a fall to 725p would yield a profit at £1 per point of 750p less 725p or £25.

Below we examine some of the basic attributes and attractions of spread-betting compared with other financial services products. This intended to explore the popularity of spread-betting, the reasons for its strong growth and whether it will fulfil predictions of stellar growth in the coming years. We also need to understand who does it, i.e. who the typical customer is and how the customer-base might be extended.

The characteristic of spread-betting most often mentioned is its tax-free status. Although monitored and regulated by the FSA as a financial service product it is treated as betting by HM Revenue and Customs which makes winnings free from capital gains tax (CGT). In reality this factor is probably more psychological than real, but no less important for that. (We do not know how many spread-bettors make net gains over the CGT threshold.) For frequent traders, a more important factor is likely to be freedom from stamp duty at 0.5%, payable on purchases of shares.

Although the tax free status and lack of stamp duty grab most of the headlines, we believe that the popularity of spread-betting may also be explained by the increment in choice it offers to the customer. Until recently, retail investors of an active disposition had few avenues open to them: shares may be straightforward but before the advent of online flat-fee dealing, broker charges were high, especially for small lots. Advice and research for retail investors remains less than first class and execution is deplorable. Just as important equity was a one way street, strictly for bull market, with no way to hedge or go short against a downturn.

For all but very high net worth individuals, financial instruments other than shares and gilts were difficult to access other than through managed funds. These take away the investors input, add additional charges, offer appalling execution and provide often indifferent performance. In sum, the retail investor was profoundly disadvantaged by comparison with the banks and institutions. These conditions have created an opportunity for innovative firms such as the spread-betting firms.

Spread-betting offers the private investor easy access to almost everything available to financial institutions, including shares, indices, currencies and commodities. In short, if it is traded on an exchange or a futures market, there will be an opportunity to make a spread bet and—most important — to go short as well as long.

The other factor is convenience. It is no more difficult to open a spread-betting account than a share dealing account and far easier than an account to deal in CFDs, forex or commodities. Almost all arrangements can be made online. Perhaps the biggest convenience is freedom from the paperwork of recording dividends and capital gains for annual tax returns.

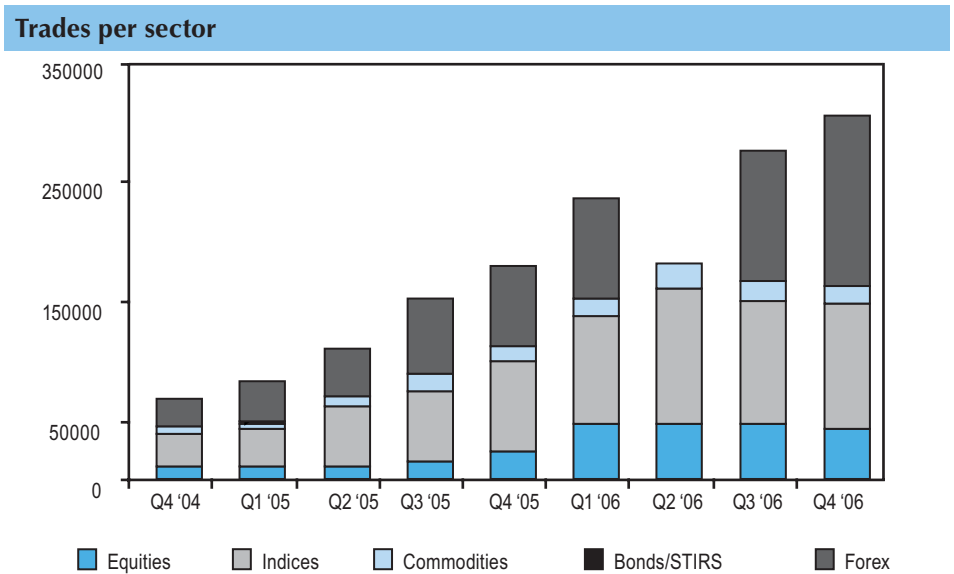
Who is the typical client? Early clients were invariably city professionals, usually traders. Today the profile of the 400,000-odd account-holders is of a typical early adopter: white, male, affluent, professional, Internet user, and under 45. This profile has provided the growth until now, but the key to future growth lies in extending the company's reach to older, female and overseas clients.

Why is the company growing so fast and why is it so profitable? The growth can in part be explained by the variety of instruments and flexibility not historically offered by traditional service providers (eg, private client stockbrokers) that spread-betting products bring to private clients. The profitability has much to do with the disciplined approach of the spread-betting businesses. While they don't as a rule like to be described as betting or gaming businesses they do employ some of the same controls, are usually better managed and run less risk than virtually any City prop desk and most Hedge Funds.

While clients may bet, the spread-betting businesses are very careful when putting their own money at risk. If they are well run, such businesses rely on mathematics, with strictly controlled risk limits. The golden rule is that the House always has an edge. It's a matter of statistics: over time the edge will generate revenue from the majority of clients. In spread-betting the spread-betting firm is the House. Although the house has an edge, big winners are important to attract other clients, with the National Lottery a prime example. The chances of winning the Lottery jackpot are just under 1 in 14m, pretty unattractive by any standards, yet the fact that a winner is announced almost every week keeps the money rolling in.

What does this mean in practice when the spread-betting firm is the house? Well apart from the obvious, the edge by way of the bid-offer spread, there are a number of ways in which this can be reinforced. The house makes the rules, the client can choose whether or not to bet but he/she can't change or get around the rules. The firms choose which bets to make available and they have the ability to analyse the performance of everything they make a spread on. If a particular bet consistently loses the firm money it will be made unavailable, subject to a wider spread or an altered minimum size. Capital Spreads does not offer small caps for very good reasons: first, they are illiquid, so difficult and expensive to hedge quickly; second, they are poorly covered by research. This makes for an inefficient market where a diligent investor could gain a significant edge.

The most popular bets seem to be the headline instruments, commodities and FX cross-rates: Dow Jones, S&P, FTSE 100, DAX, Nikkei, £/\$, Yen/\$, oil and gold. All less likely for the private client to gain an edge through research than might be the case with individual shares. The chart below confirms this in the case of Capital Spreads, with forex and indices consistently the most actively traded sectors with 41% and 37% respectively and equities trailing at 16%.



Source: London Capital

Foreign Exchange

In terms of cash value traded, the foreign exchange (forex or FX) is the largest market in the world by some margin. London is the largest trading centre, again by some margin, with an estimated share in excess of 30%. Apart from sheer size there are other characteristics that set the forex market apart from others, namely massive liquidity, 24 hour trading, and a variety of participants, ranging from private investors to central banks. Governments sometimes intervene or participate directly in the market, usually through the central banks, making it unlike most other markets, except perhaps bullion. More than other markets forex reflects and reacts constantly to whatever is going on in the world.

As the name implies, foreign exchange trading is the exchange of one currency for another. Therefore, every trade involves the simultaneous buying and selling of a pair of currencies and all quotes are for pairs. Each pair has a base currency which is the first listed currency, e.g. USD/JPY and the base rate is normally set to 1 e.g. US\$1. The majority of trade centres around the four "major pairs", these are; EUR/USD, USD/JPY, USD/CHF and GBP/USD, (also known as Cable). The market also has certain conventions for naming the pairs. The USD is normally the base currency in any pair. Since its introduction the Euro has always been the base currency in any pair in which it is traded, hence EUR/USD and sterling GBP is the normal base currency in GBP/USD as are the former commonwealth countries Australia and New Zealand, e.g. AUD/USD. The four major pairs are the most actively traded currency pairs in the market and although estimates vary considerably, probably account for over 60% of all trades, with by far the most actively traded and most liquid pair being EUR/USD, followed by USD/JPY.

In a similar fashion to spread-betting, the internet has brought forex trading to a wider range of investors. Whereas participation used to be limited to banks and other major institutions, the internet has extended the range of forex traders all the way down to private investors. The market is growing at around 20% p.a. This trend is likely to continue in much the same way. Foreign exchange trading has combined with the internet to bring both opportunity and education to a wider variety of investors, thereby encouraging wider participation. The forex trading that individual investors get involved in is a subset of the broader forex market and is known as retail forex.

The mechanics are the same as for any other trading: a spread price is quoted for each pair with a spread between the buy and sell of around 1 pip in the major currencies. (A “pip” is 1/100th of a percent, also referred to as “basis points”). It is assumed that there is no physical delivery and that all positions will eventually be closed. Also, while the forex market is in constant flux, the movements on any given pair (i.e., exchange rate) in a day are usually quite small, 1% is quite a large move, so traders use high degrees of leverage and a ratio of 50:1 is common. A trader can therefore buy or sell \$100,000 by putting up only \$2000, although he will be required to keep a margin (effectively a cash deposit) in his account. Note; Capital Forex operates stricter limits and normally only allows leverage of 33:1

Competition

There are 10 spread-betting companies operating in the UK at present. And a plethora of white label partners. Most are more or less clones of the original IG Index.

IG Index, owned by IG Group, is the original spread-betting business, founded in the late seventies by Stewart Wheeler. With revenue for the year ended May 2007 expected to be £115m, an operating margin of around 50%, and with a market Cap of £1bn, IG is a far larger business than London Capital. Business activities are broadly similar to London Capital, with the addition of CFDs and the financial areas appear to be the fastest growing parts of the IG business. It has started marketing its services in Germany and Italy. Although a much more mature business, IG still appears to be growing at more than 25% p.a. Perhaps more interested in the bigger clients and in volume, IG has nevertheless lowered its minimum bet size to £2 a point in the FTSE spread and £1 in the Dow spread.

City Index is privately-owned, the majority by Michael Spencer through Intercapital Private Group Limited (IPGL) which is also the majority owner of ICAP. Last year City Index acquired the IFX Group which trades as Finspreads in spread-betting, to create a group with combined revenues in excess of £60m. Although City Index had a large spread-betting business, IFX brings a large and well established FX trading business. Like IG, the group is substantially larger than London Capital and offers CFDs. Interestingly City Index concentrated on the bigger bets, with among the highest minimum bet while Finspreads has the lowest minimum bet at 50p per point. Easy2spreadbet also falls under this group, as the first white-label spread-betting company to be launched using Finspreads platform.

CMC Markets is a strong competitor to London Capital Group. It was one of the first companies in the world to launch a real-time Foreign Exchange Internet trading service and it has become one of the largest Internet-derived trading companies in the world. It is a genuinely international business with clients in over 55 countries.

All of the above competition offers spread-betting and forex trading. Where they differ from London Capital is in offering CFDs. The other major spread betting companies are; Cantor Index, Man Financial, Tradindex, Spreadex and Worldspreads.

Capital Spreads is currently the largest business within London Capital, accounting for about 65% of the revenues and just under half of the client deposits held by the firm.

Capital Spreads started trading in October 2003 and although it has been trading for just over three years, none of the other firms has moved to copy its business model. When it launched, Capital Spreads was looking to offer something different and not simply to replicate existing offerings. The idea was to target smaller and medium-sized clients with a comparatively low-risk product for clients who might not be so confident in their own discipline and who wanted simplicity and ease of trading. With this target in mind the Capital Spreads offering has the following characteristics:

- deposit only with no credit;
- automatic stop-loss;
- no margin calls;
- tight spreads.

The combination of deposit-only and automatic stop-losses all but eliminates bad debts, because the stop-loss is set to ensure that there are always enough funds in a customer account to settle the bet. It is not totally fool-proof: an overnight event causing a large drop (“gap down”) could cause an opening below the stop-loss, but that is a rare occurrence.

The lack of any credit facility keeps costs down in a number of ways: there is no need for the costs of a credit control department; bad-debt exposure is limited; and since credit doesn’t come free, no associated costs need be passed on to clients.

The tight spreads attract customers, because as any trader knows the tighter the spread the greater the profit potential.

The business model seems to be working: Capital Spreads has about 9,000 client accounts, has shown turnover growth of 52% in 2005 and 67% in 2006, much higher than the already impressive industry average. Furthermore, where independent endorsements can be found they have always been good for Capital Spreads. Financial-spread-betting.com, which seems to be the most comprehensive independent website devoted to spread-betting, endorses Capital Spreads as “our favourite spread-betting company”. In the website’s comparison of the different firms’ offerings, Capital Spreads consistently ranks at or near the top. In advice to those new to spread-betting, the site’s editor says “I do favour opening an account at Capital Spreads due to the very competitive spreads and good level of customer support offered but it pays to have multiple spread-betting accounts to look for the best spreads and margins.”

Comparison of bid offer spreads and margin by firm

Spread bet firm	FTSE Daily Spread		Wall St. Daily Spread		Wall St. Futures Spread		Min Stake (in £)		FTSE Daily Margin		FTSE Futures Margin		Wall St. Daily Margin		Wall St. Futures Margin		Demo Platform Available?		Interest on Balances?		Offer Credit		Accept Overseas Clients?		
	2/6	2	4/8	8	8/10	8	£3	£2	125	125	125	200	200	250	500	400	YES	NO	MAYBE	YES	?	YES	?	YES	?
City Index	2/6	2	4/8	8	8/10	8	£3	£2	125	125	125	200	200	250	500	400	YES	NO	MAYBE	YES	?	YES	?	YES	?
Cantor Index	2/6	2	4/6	4/6	4/6	4/6	£2/£1	£2/£1	80	80	200	200	160	160	400	400	NO	NO	YES	YES	YES	YES	YES	YES	?
IG Index	3	2/6	5	4/6	10	4/6	£1	£1	28	28	100	100	45	45	175	YES	NO	NO	NO	NO	NO	NO	NO	NO	NO
Tradindex	2/6	2/6	4/6	4/6	4/6	4/6	£0.50	£0.50	150	150	150	150	250	250	400	NO	MAYBE	MAYBE	MAYBE	MAYBE	MAYBE	YES	YES	YES	YES
Finspreads	2/4	3/5	4/5	4/5	8/8	8/8	£1	£1	50	50	50	50	100	100	100	YES	YES	YES	YES	YES	NO	NO	NO	NO	NO
CMC Markets	4/6	5	6	6	7	7	£1	£1	100	100	30	30	50	50	70	YES	NO	NO	NO	NO	NO	NO	NO	NO	?
Etrade	2/6	1/6	4/6	4/6	4	4	£1	£1	100	100	150	150	200	200	200	YES	YES	MAYBE	MAYBE	MAYBE	YES	YES	YES	YES	YES
WorldSpreads	2/8	2	4/4	4/4	4	4	£1	£1	~125	~125	?	?	~240	~240	?	NO	NO	YES	YES	YES	YES	NO	NO	NO	NO
ManSpreadTrading	4	6	4	4	10	10	£1	£1	?	?	?	?	?	?	?	YES	YES	NO	NO	NO	NO	NO	NO	NO	NO
Pan Index	4	6	6	6	8	8	£1	£1	125	125	225	225	200	200	450	YES	YES	NO	NO	NO	NO	NO	NO	NO	NO
Delta Index	4	6	6	6	8	8	£1	£1	125	125	225	225	200	200	450	YES	YES	NO	NO	NO	NO	NO	NO	NO	NO
iDealing	2.5	N/A	N/A	N/A	N/A	N/A	—	—	50	50	50	50	250	250	250	NO	NO	YES	YES	YES	NO	NO	NO	NO	NO
Easy2SpreadBet	2	2	4	4	4	4	£0.01	£0.01	50	50	50	50	250	250	250	NO	NO	NO	NO	NO	NO	YES	YES	YES	YES
GFT Markets UK	2/6	4/6	4/6	4/6	8/10	8/10	£1	£1	30	30	50	50	80	80	100	YES	NO	NO	NO	NO	NO	NO	NO	NO	NO
Spreadex	4	4	6	6	6	6	£4/£2	£4/£2	30	30	50	50	80	80	100	NO	NO	NO	NO	NO	NO	YES	YES	YES	YES
Global Trader	2	4	N/A	N/A	7	7	£1	£1	15	15	20	20	N/A	N/A	20										
Capital Spreads	2/6	1/4	4	4	6	6	£1	£1	30	30	30	30	50	50	50	YES	YES	NO	NO	NO	NO	NO	NO	NO	NO

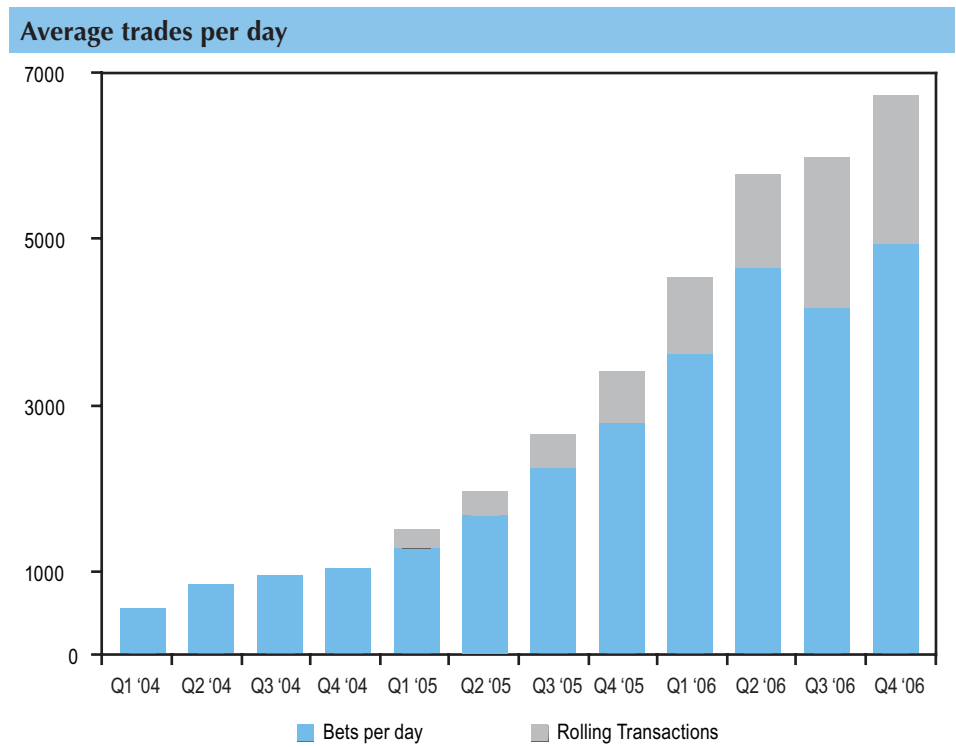
Top of the class and teachers pet
 Runner up and nearly top dog
 Average and needs to do better
 Needs to do a lot better

Source: Financial-spread-betting.com

All trades and virtually all other business elements are conducted online. There is a telephone back up service which we understand is largely unused. Capital Spreads leases its technology platform which keeps the in-house IT team small. The platform handles virtually all aspects of the betting process meaning it is a paperless system with no back office, again keeping costs down.

Risk management is straightforward: the deposit and stop-loss generated by the platform ensure that losing bets can almost always be settled without needing to call the customer. Managing the risks of the individual bets is where the maths comes in again. Virtually all the spread-betting firms are clear on this point, they do not hedge every bet when it is made, to do so would be too expensive and destroy margins. Capital Spreads is no exception.

For the remaining 80% the company runs a book in which risk is taken up to a certain level. London Capital uses a Value at Risk (VAR) approach. For individual stocks for instance the VAR is set at £50,000. The company procedures require that these risk levels be adhered to at all times; once the risk in any stock gets to this level it is automatically hedged. The company has individual market risk levels and group risk levels all of which may trigger hedging.



Source: London Capital

The firm derives its profits from unhedged bets that its customers lose and from the interest earned on customer deposits, running at just under £7,900,000 at year end. It is the responsibility of the CFO to ensure that the best rates are secured for funds on deposit.

At the end of December 2006, Capital Spreads had about 9,000 clients, 70% of whom have money on deposit in their accounts. New accounts are being added at a rate of some 400 a month while about 33 drop out each month. Around 4000 accounts are active in any one quarter and the company takes about 5,000 - 6,000 trades a day, which would suggest an active client is making about 40 bets a month.

Capital Spreads gets its clients from a mixture of word of mouth referrals, website links and advertisements. The other source is "white label" partners, which currently contribute about 28%. White label arrangements are partnerships where Capital Spreads manages the whole process from sign-up to running the bets. The customer sees a platform that is identical to Capital Spreads but bears the white-label partner's corporate identity. The partner handles marketing and promotion and attracts the clients.

We believe that these arrangements will become an important source of growth in the future as Capital Spreads seeks to grow overseas. Currently just over 93% of customers are UK based but this is expected to change.

From November 2007, the EU's Markets in Financial Instruments Directive (MiFID) will extend regulation of the European financial services to include "contracts for difference" (CFD), commodity derivatives and credit derivatives for the first time. For the spread-betting firms this means that they or their white-label partners will be able to market for the first time in countries such as Germany, with FSA regulation being accepted as an appropriate level of compliance in those countries. There should therefore be no additional compliance costs. Aside from being a larger economy with traditionally high savings rates, Germany apparently has a far higher number of day traders than the UK, currently without access to spread-betting. Capital Spreads already has partners in South Africa and Sweden and we would expect the number of overseas partnerships to increase steadily.

Capital Forex

Capital Spreads operates in a mainly UK market with about a dozen serious players, has around 9,000 clients on its system the vast majority of whom, are private individuals. It is a principal business taking customers' bets and deciding what to lay-off or not. By contrast Capital Forex has a somewhat different business model. It operates in the largest trading market in the world. The foreign exchange market is truly global, open 24 hours a day and trades up to \$3trn daily. This is a commission-based broking business and is not a gambling business in the way Capital Spreads is. Capital Forex acts as a broker and takes no principal positions and as such it has a relatively low risk profile.

This business is expected to grow in a totally different way to Capital Spreads. There are literally hundreds of firms offering to trade currencies and the spread of internet connectivity has opened this huge market still further and brought it within the reach of virtually anyone with a computer and a bank account. In the UK at least forex trading for smaller private investors may still be best served by spread-betting and Capital Forex is not really after this segment of the market.

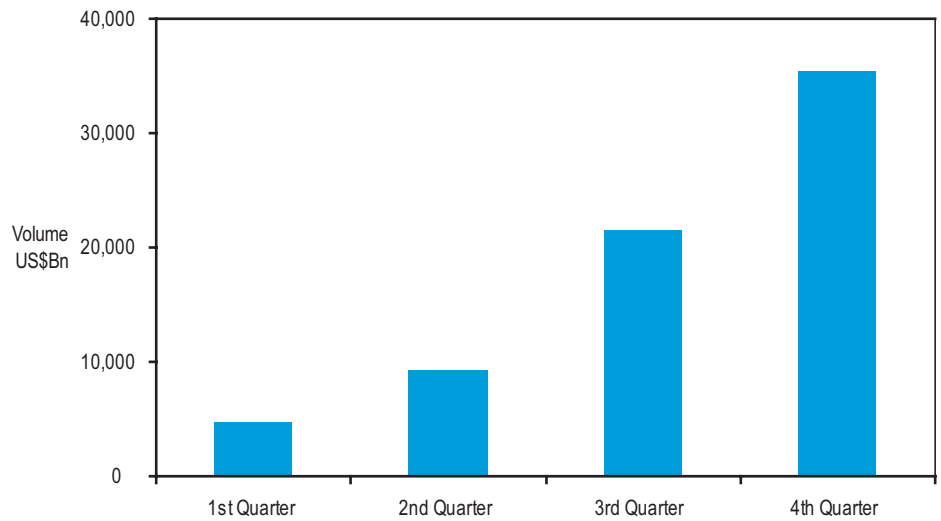
The firm operates a simple business model, using a good ECN platform, primarily Currenex in this case. Capital Forex has about 65 active clients at the moment comprised of Hedge Funds and high net-worth individuals. Because the firm uses electronic trading, a third-party hub or platform and the prime broker deals with settlement, the business model is essentially low cost with low staffing requirements.

With no principal trading, and effectively being a white-label partner taking a small commission on clients' trades, the business relies on volume and so depends on active traders. Minimum trade size is \$250k and the average ticket size in 2006 has climbed steadily to around \$1.8m; margin is 3%, so leverage is 33 times.

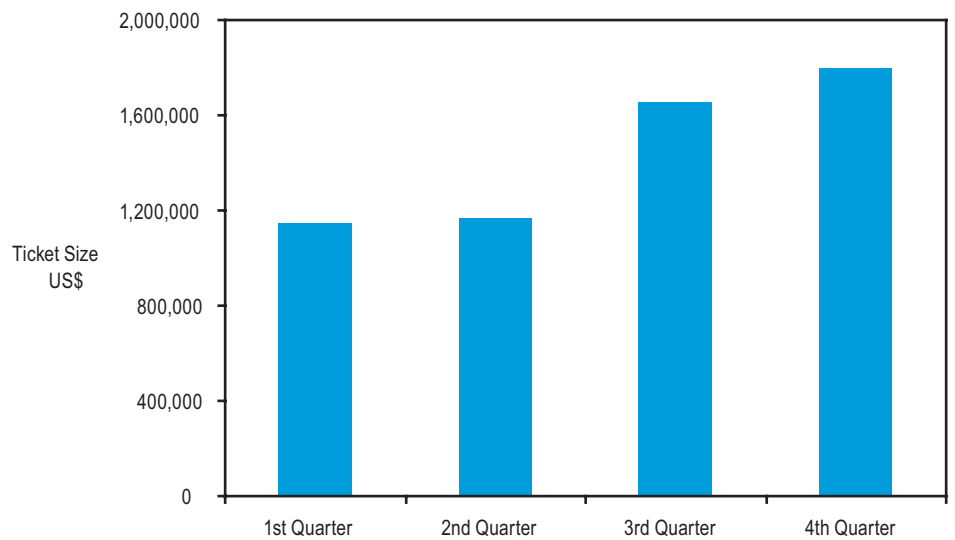
As in spread-betting, electronic trading has spurred rapid growth. The tier-1 banks need to see flows and many are happy to stream prices through Capital Forex's platform. The business is being built on the good brand name that London Capital brings and its personal contacts. Because the prices are streamed from large tier-1 banks with high liquidity, Capital Forex is able to offer attractive spreads and good size to its clients.

Capital Forex has been growing fast in its first year with quarterly volumes rising from US\$4,600bn in Q1 to over US\$38bn in Q4 and is likely to be still climbing in 2007. This compares with a market that is generally reckoned to be growing at around 20% p.a.

Quarterly volume 2006



Quarterly average ticket size 2006



Source: London Capital

Derivatives

Derivatives broking was established in September 2002 as a futures and options broking business specialising in the fixed interest market. Once again this is a different style of business. Like Capital Forex it is agency only, taking a commission on each trade executed and holding no principal positions. It is not an online model with most business conducted by salesmen on the telephone.

The aim of Capital Derivatives is to attract large ticket, \$50m, trades from top-tier hedge funds and prop-desks (proprietary trading desks). Currently it has about 35 active institutional clients.

Income from derivatives broking reached £1.066m in 2005 but futures and options volume has been static for much of 2006 and commission levels have continued to fall. The figure for 2006 was £905m. This is much more of a traditional contact-based broking business than the group's other businesses but management believes it is useful for gaining access to forex business from the larger institutions.

Management believes that commission levels have probably sunk to as low a level as they can for the time being and should stabilise; it is looking for a significant pick-up in volumes in 2007.

Capital Derivatives is also looking to introduce equities in 2007 both cash and derivatives to drive volumes. The aim would be to keep the same client profile and concentrate on large ticket size. The equity business would require a cash deposit of £1m to be lodged with the clearer. Management believes it can make equities a viable add on business by sticking to its business model and acting as a broker to only facilitate trades for select large institutions. This business will be execution only and agency only. LCG will not take positions. Management's belief in the viability of this activity stems from the fact that it has been asked to consider providing this service by existing clients.

Assumptions

LCG has recently completed an extensive programme of capital expenditure which we believe will give it the capacity to accommodate the increase in volume we are modelling within our forecasting period. We have therefore modelled maintenance capital expenditure for the remainder of the forecasting horizon and built in a further round of expansion capital expenditure from 2011.

For spread betting, in our central case we have assumed market growth of 20% until 2011, in line with a recent academic study and recent trends. Capital Spreads is growing faster than the market and we have assumed that this trend continues until 2011, tapering our growth rates until then and thereafter assuming growth of 3% pa. We have assumed a gradual improvement in gross profit or value per trade as we believe the company has sufficient capacity to handle increased volume without a corresponding increase in overheads. We have maintained marketing costs at just over 30% of sales. Our optimistic case assumes higher growth rates are maintained for longer. Our pessimistic case assumes a generally more challenging environment with lower volume growth and no margin expansion.

For Capital Forex we have assumed momentum continues in 2007 with market growth rates of 20% p.a. thereafter until 2010. Marketing costs are just over 30% of revenues. Again we have allowed revenues to expand faster than overheads because LCG has sufficient capacity to handle a higher volume of trades. Our optimistic case assumes LCG's momentum is carried longer while the pessimistic scenario assumes the opposite.

We believe equity derivatives to be a far more challenging market. Commission levels will continue to be eroded and both our central and pessimistic cases reflect this, albeit to different degrees. Only in our optimistic case have we allowed a scenario in which volumes are more favourable and margins can expand.

Profit and loss					
Year ending December (£000s)	2006	2007	2008	2009	2010
Revenues	8,651	12,608	16,961	21,561	25,674
COGS	(1,798)	(2,510)	(3,350)	(4,204)	(4,951)
Gross profits	6,853	10,098	13,612	17,357	20,723
Selling costs	(2,819)	(4,055)	(5,432)	(6,878)	(8,166)
EBITDTA	4,034	6,043	8,179	10,479	12,558
Depreciation & amortisation	(164)	(239)	(232)	(228)	(329)
Equity-settled share-based payments	(541)				
EBIT	3,329	5,804	7,947	10,251	12,229
Interest	43	934	1,157	1,430	1,748
EBT	3,372	6,738	9,104	11,681	13,977
Prof forma tax	(968)	(1,934)	(2,613)	(3,352)	(4,012)
Earnings	2,404	4,804	6,491	8,328	9,966
Dividends		(651)	(1,301)	(1,757)	(2,255)
Retained earnings	2,404	4,154	5,190	6,571	7,711

Cash flow statement					
Year ending December (£000s)	2006	2007	2008	2009	2010
EBIT	3,329	5,804	7,947	10,251	12,229
Capital expenditure	541				
Depreciation	164	239	232	228	329
(Increase) decrease in debtors	(1,138)	(1,188)	(1,307)	(1,381)	(1,235)
(Increase) decrease in inventory	—	—	—	—	—
Increase (decrease) in creditors	10,329	142	168	171	149
Net cash from Ops	13,225	4,998	7,040	9,269	11,473
Tax paid	(695)	(968)	(1,934)	(2,613)	(3,352)
Dividends	—	(651)	(1,301)	(1,757)	(2,255)
Interest recieved (paid)	43	934	1,157	1,430	1,748
New equity	—	—	—	—	—
New deposits (borrowings)	—	—	—	—	—
Capital expenditure	(1,543)	(179)	(185)	(202)	(1,000)
Net cash from financing	(2,195)	(864)	(2,262)	(3,142)	(4,859)
Net increase (decrease) in cash	11,030	4,134	4,778	6,127	6,614

Balance sheet					
Year ending December (£000s)	2006	2007	2008	2009	2010
Net fixed assets	10,958	10,898	10,851	10,824	11,495
Cash	16,622	20,757	25,535	31,663	38,277
Debtors	2,225	3,412	4,719	6,100	7,334
Current Assets	18,847	24,169	30,254	37,762	45,611
Total Assets	29,805	35,067	41,105	48,586	57,106
Trade creditors	(16,464)	(17,572)	(18,419)	(19,330)	(20,138)
Net Current Assets	2,383	6,597	11,835	18,432	25,472
Net Assets	13,341	17,495	22,686	29,257	36,968
Capital and reserves	10,633	10,633	10,633	10,633	10,633
Retained earnings	2,708	6,862	12,052	18,623	26,335
Capital Employed	13,341	17,495	22,686	29,257	36,968

Source: Objective Capital

Executive Directors

Francis (Frank) Chapman

Chief Executive Officer (Age 56)

Frank was appointed Managing Director of LCG in April 2004, having been on the board of LCG since October 2003. Before joining the Group, Frank was a director at Cal Futures, London Investment Trust and Baring Securities. He has also been a managing director at Deutsche Morgan Grenfell and subsequently managing director of Amerex Petroleum. Throughout Frank's career, he has been principally involved in the derivatives and FX markets in both sales and trading.

Simon Denham

Chief Operating Officer (Age 45)

Simon designed, commissioned and runs the spread betting division of LCG. He joined LCG in March 2003 and joined the board of LCG in October 2003. Prior to this, Simon ran the options and derivatives desk at Cantor Index specialising in spread betting for the general public. Before Cantor Index, Simon worked for Christiania Bank, where he launched the bank's interest rate derivatives and options desk, trading in swaptions, swaps, caps/floors, futures, FRAs and government and corporate bonds. Before Christiania Bank, Simon worked for Bank of Nova Scotia, where he was responsible for the inter-bank and corporate swap market-making in Italian Lira and Spanish Peseta.

Raj Gandhi

Finance Director (Age 45)

Raj was appointed to the board in November 2006. Previously he spent five years at Royal Dutch Shell plc as a Business Analyst in Group Reporting and also as an Internal Audit Manager responsible for trading and treasury activities. Prior to that, Raj worked at Man Group plc for three years as a Treasury Risk Consultant. His career also includes five years spent as Group Treasurer and Tax Manager at Empire Stores Group plc, a mail order retailer. Raj is a fellow of the Association of Chartered Certified Accountants and is also a member of the Association of Corporate Treasurers.

Rachel Woodford

Sales and Marketing Director (Age 37)

Rachel is a founding member of Capital Spreads and heads up the Group's sales and marketing, having launched the brand in October 2003. Before co-founding Capital Spreads, Rachel spent four years as marketing manager for Cantor Index where she was instrumental to the launch of Cantor Index, Cantor CFDs and Cantor Sport. Rachel holds a Masters degree in Marketing from Guildhall University, London.

Non Executive Director

Richard Davey

Non Executive Chairman. (Age 58)

Richard was appointed Chairman on 14th May 2007. He has over 35 years experience in the City. The majority of his executive career was spent in investment banking at N M Rothschild & Sons Limited, where he served in various roles, including Head of Investment Banking and Chairman of its Executive Committee, until his retirement in 1999. Prior to that, he worked at various organisations including Merrill Lynch International Limited as Head of European M&A and Exco International Plc as Group Finance Director and President of its North American business.

He is currently non-executive Vice Chairman of the Yorkshire Building Society, senior independent non- executive director of Severn Trent Plc and a non-executive director of Amlin Plc. He also served as a non-executive director of Freeserve Plc from 1999 to 2001 and of Scottish Widows Fund and Life Assurance Society from 1996 to 2000.

Jack Inglis

Non-Executive Directors (Age 45)

Jack Inglis spent the last 15 years of his career at Morgan Stanley & Co International in London, most recently as Managing Director and Co-Head of European Prime Brokerage. Previously he was Head of European Equity-Linked Origination and Head of International Convertibles. He left Morgan Stanley in January 2007. Prior to joining Morgan Stanley, Jack worked in the fixed income and convertible bond market teams for HSBC/James Capel in London and Paris.

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Gabriel Didham, CFA
Objective Capital

Simon Miller has over 25 years in finance. He was previous head of research for Bryan Garnier and managed funds for both Sagitta and Elysian. He is a former rated analyst

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