

Executive Summary

- A year of transformation:** Worldspreads will rightly look back on 2009 as an eventful year given the changes that have taken place both at a Group level and on the global financial markets. On the global stage, financial markets went through a period of volatility not seen in years – all positive for a spread trading business. From a Group perspective, two significant events took place in the same time period - 1) the sale of the sports spread trading business and 2) the sale of the Irish financial spread trading business.
- Focus on international markets:** It is the disposal of the Irish financial spread trading business which is clearly of the most significance given its sizable contribution to Group performance in the past. The shape of the Group has changed significantly following the disposal with the Group now focusing on its UK and international operations.
- Cash pile supports expansion:** Worldspreads received consideration of circa €11.2m from the sale which will be used to expand the business into new international markets. Worldspreads' strengthened financial position post the deal (net cash of circa €16m) allows the Group to also consider growth by acquisition.
- Moving into the mainstream:** Many of the larger bookmakers have expanded into spread trading, pre-dominantly through white label offerings such as provided by Worldspreads to Victor Chandler. As spread trading grows in popularity we see scope for consolidation of the sector by the bookmakers as they seek to gain greater control of the offerings currently being provided under their brands, but by third parties. Worldspreads' regulatory approval, proprietary IT platform, and extensive customer database would be attractive in such a scenario, in our view.
- Interim results showed "extremely positive" trading:** Worldspreads UK and International operations performed strongly in the six months to 30 September 2009 with revenues increasing 30% to €6.04m while operating profit rose 21% to €1.57m. Trading in the months of October and November was "extremely positive" for both the UK and International divisions with November representing the single most profitable month since Worldspreads entered these markets.
- Undemanding valuation:** The most material bearing on progress at Worldspreads will be the pace and extent of international expansion. Based on our FY11 forecasts, which assume that revenues return to above pre-deal levels in this timeframe, the current valuation is undemanding. The FY11 PER of 8.1x represents a discount of 11% and 40% when compared to London Capital Group and IG Group which trade on an annualised PER of 9.1x and 13.4x respectively. Based on an FY11 EV/EBITDA of 2.3x the discount expands further. Valuation comparisons with IG Group are difficult given that IG Group is a more diverse business that operates a different business model. Based on our estimates for the year ending 31 March 2011, Worldspreads is trading at a P/NAV of 0.92x, limiting downside in our view. Further comfort is provided by the considerable cash element within this NAV (net cash per share of 49.5 cent forecast for the year ending 31 March 2011).

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	2008 A	2009 A	2010 F	2011 F	2012 F
Revenue (€m)	10.7	14.9	12.7	15.4	19.3
Operating profit (€m)	3.2	4.6	3.1	4.9	5.9
EPS basic (cent)	6.9	10.4	5.9	9.4	11.2
PE	11.1	7.4	12.9	8.1	6.8
EV/EBITDA	3.5	2.5	3.4	2.3	2.0
NAV (cent)	41.1	44.2	71.0	80.6	92.2
Cash per share (cent)	43.9	26.3	37.9	49.5	60.8

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Overview

Worldspreads is a provider of financial spread trading products to retail clients. There have been a number of significant changes to the Group's structure and activities since it was established in Dublin in 2000.

The Group started life as Ireland's first sports spread trading firm before expanding its offering to include financial spread trading products in 2002. By early 2005, Worldspreads had commenced trading in the UK. One year later, the Group launched its first international partnerships in Spain, Hungary and Greece.

In August 2007, Worldspreads began trading on the AIM market in London, raising gross proceeds of €8.5m. A listing on the IEX market in Dublin followed in May 2008. Worldspreads currently trades 31% above its AIM launch price.

Worldspreads exited sports spread trading following the MBO of this division in April 2009. Following this deal the Group was focused exclusively on providing financial spread trading products in Ireland, the UK and international markets.

Further changes to the Group's structure occurred in late 2009 with the sale of the Irish financial spread trading business, again through an MBO process. The result is a significantly different Group structure that will focus on increasing its UK presence and expansion into new international markets.

Strategy

Worldspreads' strategy has been to focus resources on the areas (products and geographies) where it sees the greatest potential for sustainable growth. The Group as it stands today has changed considerably in the nine years since it was first established. Much of this can be attributed to the fact that the spread trading industry itself is still in the early development cycle. This clearly brings both opportunities and risks.

Following the divestment of the sports spread trading business, and more significantly the Irish financial spread trading business, future development will take place through the Group's UK and international activities. The rate of expansion here has been considerable to date with the Group already establishing a presence in 9 markets and launching 16 language websites in the three years since it commenced international expansion.

As part of the sales agreement Worldspreads and the MBO team agreed a non-compete clause for a period of 2 years. This excludes Worldspreads from operating in the Irish market and the MBO team from operating in the UK as well as in Spain, Hungary and Greece (Worldspreads' first three international markets).

Looking beyond Europe, the Group has plans to enter South America in the coming periods. The move into South America is greatly eased by the Group already having Spanish and Portuguese websites operational. Also of interest would be entry into the Asian market, although this would require 24 hour trading to be provided, compared to the 7.00am - 9.15pm currently offered. International expansion has been pursued predominately through partnerships whereby a local partner operates under the Worldspreads brand. In a smaller number of cases the local partner operates under its own brand with Worldspreads in effect providing a white label solution. In the UK, Worldspreads has over 30 such white label partnerships including with high profile companies such as bookmaker Victor Chandler.

Bull Points

Spread trading is attractive to smaller retail clients. Spread trading allows clients access to financial markets with minimum outlay. This is in contrast to buying shares where the size of the transaction must be of a certain magnitude to justify minimum broker charges. A further advantage of spread trading is that it is not subject to stamp duty or capital gains tax in the UK (see also Table 3, page 10).

International markets offer significant opportunities. Worldspreads has been very active in expanding its international footprint over the past three years with the Group now operating in 8 different countries outside of the UK. International markets are not subject to the same level of competition as exists in the UK where the spread trading industry is more mature. Important new markets within Europe include France, Sweden and Denmark; while expansion into South America, as well as Asia, is also under consideration.

Worldspreads business model is scalable. As a predominately online business the Group's future growth is not constrained by the requirement for significant capital expenditure. We estimate that capex spending can be limited to €500k per year which will cover ongoing upgrades and maintenance to the IT platform.

High level of cash on balance sheet. Post the disposal of the Irish operations Worldspreads has circa €16m in net cash (ex client balances) on the balance sheet. This equates to 41 cent per share and 55% of the Group's current market capitalisation.

Worldspreads represents an attractive acquisition target. Worldspreads' progress to date in entering new markets makes it an attractive acquisition target for larger competitors. Equally, Worldspreads' FSA approval, IT platform and client lists would be attractive to traditional book makers looking to enter into or extend their spread trading activities.

Bear Points

New market entrants can change landscape. The spread trading industry is still in the infancy stage with the final shape of the industry yet to be determined. The growth in popularity of spread trading is likely to lead to new entrants launching on the market. The time lag involved in setting up a new operation does provide certain barriers to entry given that a new entrant would have to seek regulatory authorisation, develop an IT platform and build market trust.

Future prospects hinge on international expansion. The success of the international business is critical to the future of Worldspreads. Following the sale of the Irish business the primary focus is on rolling out the Worldspreads offering into new markets in Europe, South & Central America and Asia.

A return to less volatile markets lowers activity. Spread trading firms have benefited from the high market volatility experienced since late 2007. As volatility increases so do activity levels as clients seek to benefit from sharp rises and falls in the financial markets. A more steady state environment leads clients to adapt a longer term view on markets with lower activity as a result.

Retail clients have lower disposable incomes to spread trade. Worldspreads' base of retail clients have seen their personal balance sheets shrunk as equity markets faltered, property valuations dropped and disposable incomes have been impacted by pay cuts/freezes and higher taxation. All this leaves retail clients with fewer funds to allocate to spread trading.

Stock liquidity has been limited. Worldspreads' shares are traded on the IEX market in Dublin and the AIM market in London. Liquidity has been limited on both exchanges since trading commenced.

Disposal of Irish business is transformational move

The sale of the Irish business to local management was a transformation deal for Worldspreads. The most recent full year results (y/e 31 March 2009) showed that the Irish division accounted for 54% of Group revenues (Figure 1a). Replacing the contribution from the Irish business with new international revenue streams will be the key challenge for management post the deal. Our forecasts see the revenue line return to above pre-deal levels in the financial year to 31 March 2011, a demanding but attainable achievement in our view.

Revenue split FY 2009

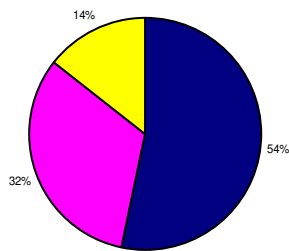


Figure 1a

Revenue split H1 2010

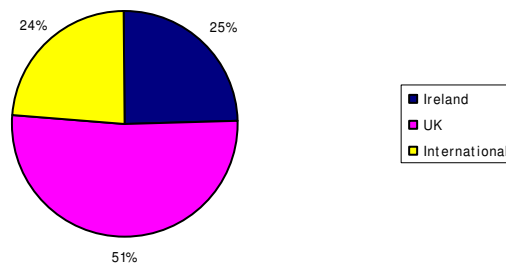


Figure 1b

The decision to exit the Irish market was taken for a number of reasons, central to which was management's view that the strong results registered by the Irish business in previous years was unlikely to be repeated as the domestic economy enters a period of readjustment. In the six months to 30 September 2009, the UK and international businesses grew their number of active clients by 20% and 57% respectively, compared to a flat result in the Irish business.

Figure 2a illustrates the strong growth in active international clients to a level above that of the longer established Irish business. The graph shows that in May 2009 the number of active international clients overtook the number of active Irish clients for the first time and that this trend continued through to the end of the interim period.

Figure 2a

Number of active clients

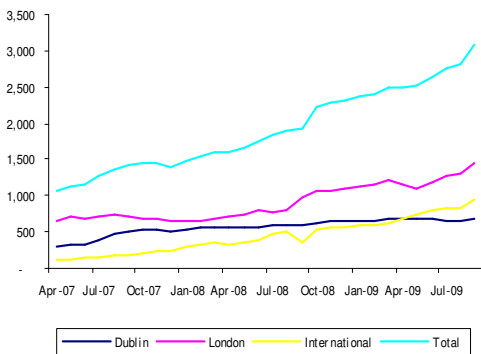


Figure 2b

Number of financial spread trades

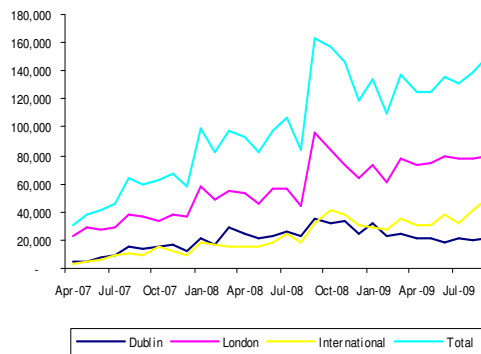


Figure 2b shows the number of financial spread trades by end market over the past two and a half years. The number of trades in the international market exceeded the Irish market for the first time in the weeks after the collapse of Lehman Brothers as volatility soared. Again looking at the six months to 30 September 2009, the UK and international business increased the number of trades by 2% and 41% respectively, while the Irish business showed an 11% fall off in trading volumes.

Other factors considered before taking the decision to exit the Irish market included the requirement to maintain two separately regulated trading desks in London and Dublin and the preference of overseas partners to operate under the more recognisable UK regulatory structure operated by the FSA.

In practice, Worldspreads was operating as two separate entities comprising the Irish business and the UK & international business. The Irish business was serviced by the trading desk in Dublin while both the UK and international businesses were run from the London desk. Given this structure the separation of the two entities will result in no significant operational implications for the continuing business.

Worldspreads received an initial consideration of circa €8m comprising cash of €6.69m and expected proceeds of circa €1.4m from the placing of the MBO team's shareholding in the Group based on the current share price range. A further €3.23m in deferred consideration will be received over the next two years. These deferred consideration payments are not subject to any performance targets.

Worldspreads continues to maintain its headquarters in Ireland post the sale of the Irish business. The Group's expanding international business also continues to be managed from Dublin. This is important as it ensures that the Group's ex-UK businesses continue to benefit from Ireland's more favourable 12.5% corporation tax rate. We estimate that the continuing business' tax rate increases from 10% to 25% following the disposal of the Irish business.

Success of international expansion is key to future prospects

Worldspreads' international division has demonstrated the fastest growth in terms of activity and profit contribution. An acceleration of the Group's existing UK and international expansion strategy will take place now that the disposal of the Irish business has been completed, with the proceeds from the sale being put to work to facilitate the expansion.

Worldspreads' progress to date in expanding its international presence has been impressive with the Group entering a total of 9 markets and launching 16 language websites in the space of three years. In the coming months we expect Worldspreads to continue its roll out across European countries. During 2009, Worldspreads opened offices in France, Sweden and Denmark, from which it is expected the Group will launch in these countries in the coming months. Beyond this the group is in discussions to enter the South America region. Argentina and Brazil will be the initial targets given that these two large target markets share common languages with the Group's existing businesses in Spain and Portugal respectively.

Worldspreads can leverage its local partnerships to enter neighbouring territories. This strategy is being pursued in Slovenia which will act as a hub for expansion into adjoining markets. A further illustration of this strategy is the move by Worldspreads' Hungarian partner to expand into the Czech Republic market.

The UK is among the more mature markets for spread trading which as a result has led to higher levels of competition. Worldspreads' expansion plans seek to take advantage of the lack of competition in less mature international markets. Higher margins, than available in the UK, will be achievable given the lower level of competition.

International markets established to date (ex UK)			
Europe (10)	Austria	Hungary	Slovenia
	Czech Republic	Poland	Spain
	Germany	Portugal	Sweden
	Greece		
Central America (3)	Columbia	Dominican Republic	Panama
Other (3)	Singapore	Russia	South Africa
Total (16)			

A number of non-compete arrangements were included in the agreement to sell the Irish business. The two main points of which were 1) that Worldspreads will not compete with the Irish business for a period of two years and 2) that the Irish business will not compete with Worldspreads in the UK, Spain, Hungary or Greece, again for a period of two years. These three international markets (ex UK) are where Worldspreads has the longest presence with Hungary and Spain representing the first two international partnerships undertaken by the Group back in 2006. Other international markets are not included under the non-compete arrangements.

Interim results showed “extremely positive” trading

Worldspreads reported interim results for the six months ended 30 September 2009 on 22 December 2009. On this date the company also announced the formal completion of the disposal of its Irish financial spread trading business.

Worldspreads’ continuing operations performed strongly in the period with revenues increasing 30% to €6.04m while operating profit rose 21% to €1.57m. Basic EPS of 3.2 cent was up 28% on the same period last year.

Average trades per day for the UK and International divisions grew by 18% to 4,487. Active clients also showed good growth increasing 56% to 2,598. The improvement in both KPIs was achieved despite global markets returning to more historically normal levels of volatility.

Net cash (ex client monies) totalled €9.0m at the end of the period. The formal completion of the disposal of the Irish business has seen this increase to circa €16m or 41 cent per share.

Trading in the months of October and November was “extremely positive” for both the UK and International divisions with November representing the single most profitable month since Worldspreads entered these markets.

Profit & Loss (€'000)	Sep-09	Sep-08	% change
Continuing operations			
Revenue	6038	4656	30%
UK	4124	3405	21%
International	1914	1251	53%
Operating profit	1571	1302	21%
Interest	95	65	46%
Profit before tax	1666	1367	22%
Tax	-388	-360	8%
Profit after tax	1278	1007	27%
Profit from discontinued operations	189	1521	-88%
Attributable Profit	1467	2528	-42%
EPS basic (adjusted) €	3.2	2.5	28%
EPS diluted (adjusted) €	3.2	2.4	33%

Other market players watching developments with interest

Worldspreads' rapid roll out into new international markets has not gone unnoticed by competitors. Larger quoted peer, IG Group has also been active in growing its international presence with the Group now generating 42% of revenue from outside the UK, up from 25% at the start of 2008. Likewise, London Capital Group has stated that its focus in 2010 will be on international growth.

Mainstream bookmakers have thus far opted for 'white label' entry into spread trading as shown in Table 2. As can be seen, two of the larger UK bookmakers - William Hill and Coral - do not currently have a spread trading offering.

Table 2		
Company	Spread trading partner	Trading name
Betfair	London Capital Group	Tradefair
William Hill	n/a	n/a
Ladbrokes	Cantor Index	Ladbrokes
Paddy Power	London Capital Group	Paddy Power Trader
Victor Chandler	Worldspreads	VC Financials
Coral	n/a	n/a

As the spread trading business matures the possibility of these bookmakers wanting greater control over this now small part of their businesses become more likely. They will have two options - 1) develop a spread trading platform in-house or 2) acquire a spread trading business. We view the latter as more likely given that it provides the fastest route to market and spares the bookmakers from having to develop the required expertise in-house. IG Group is an unlikely candidate given its scale (mkt cap £1.4bn) and array of interests beyond spread trading. Worldspreads (mkt cap €29m) and London Capital Group (mkt cap £54m) would be more likely M&A participants, in our view.

Table 3			
Spread trading is attractive to smaller retail clients			
	Spread trading	Shares	CFDs
Costs			
Stamp duty	No	Yes	No
Capital gains tax	No	Yes	Yes
Broker's commission	No	Yes	Yes
Benefits			
Receipt of dividend	Yes	Yes	Yes
Voting rights	No	Yes	No
Trading			
Ability to margin trade	Yes	No	Yes
Ability to go short	Yes	No	Yes
Fixed contract period	No	No	No

Last Price	Shrs ('m)	Mkt Cap	EV(€m)	Sector	Year End	Analyst
0.74	39	29	13	Spread trading	Mar	Paraic Quinn +353 1 611 9232

Profit & Loss (€'000)	2009 A	2010 F	2011 F	2012 F
Revenue	14939	12679	15397	19294
UK	4823	8591	10087	12194
International	2139	4088	5310	7100
Ireland	7977	0	0	0

Operating profit (adjusted)	2009 A	2010 F	2011 F	2012 F
Operating profit (adjusted)	4555	3106	4896	5923
Depreciation	419	220	200	200
Amortisation	242	510	510	510

EBITDA	2009 A	2010 F	2011 F	2012 F
EBITDA	5216	3836	5606	6633
Interest	3	55	20	10

Profit before tax	2009 A	2010 F	2011 F	2012 F
Profit before tax	4558	3161	4916	5933
Tax	-478	-790	-1082	-1305

Profit after tax	2009 A	2010 F	2011 F	2012 F
Profit after tax	4079	2371	3835	4628
Tax Rate	10.5%	25.0%	22.0%	22.0%
Discontinued operations (Loss) / Profit	-2179	7024	0	0

Attributable Profit	2009 A	2010 F	2011 F	2012 F
Attributable Profit	1901	9395	3835	4628

	2009 A	2010 F	2011 F	2012 F
EPS basic (adjusted) €	0.104	0.059	0.094	0.112
EPS diluted (adjusted) €	0.100	0.057	0.091	0.109
DPS	0.0	0.0	0.0	0.0

	2009 A	2010 F	2011 F	2012 F
Net cash	20355	25955	31575	38063
Net cash (ex client funds)	10347	14947	19567	24055
Shareholders funds	17404	28000	31834	36462

	2009 A	2010 F	2011 F	2012 F
NAV (€)	0.44	0.71	0.81	0.92
Cash per share (€)	0.26	0.38	0.50	0.61

Growth %

Revenue growth %	2009 A	2010 F	2011 F	2012 F
Revenue growth %				
UK		78%	17%	21%
International		91%	30%	34%
Group		-15%	21%	25%
EPS growth %		-43%	59%	19%

Valuation Ratios	2009 A	2010 F	2011 F	2012 F
Price Earnings	7.4	12.9	8.1	6.8
Dividend Yield	0%	0%	0%	0%
EV/EBIT	2.9	4.2	2.7	2.2
EV/EBITDA	2.5	3.4	2.3	2.0
Price to Book	1.7	1.0	0.9	0.8

Cashflow (€'000)	2009 A	2010 F	2011 F	2012 F
EBITDA	5216	3836	5606	6633
Working Cap	-111	0	0	0
Movement in derivative financial assets/li	-2497	0	0	0
Other	-2162	0	0	0
Operating Cashflow	447	3836	5606	6633
Less Interest	-148	55	20	10
Tax Paid	-410	-790	-1082	-1305
Capex	-304	-500	-500	-500
Free Cashflow	-416	2601	4045	4838
Acquisitions	-462	7999	1575	1650
Dividends	0	0	0	0
Share Issue	40	0	0	0
Fx/ Other	-2788	0	0	0
Discontinued operations	501	-5000	0	0
Cash Increase/Decrease	-3125	5600	5620	6488
Opening Cash	24939	21814	27414	33034
Closing Cash	21814	27414	33034	39522

Operating Cashflow	2009 A	2010 F	2011 F	2012 F
Operating Cashflow	447	3836	5606	6633
Less Interest	-148	55	20	10
Tax Paid	-410	-790	-1082	-1305
Capex	-304	-500	-500	-500
Free Cashflow	-416	2601	4045	4838
Acquisitions	-462	7999	1575	1650
Dividends	0	0	0	0
Share Issue	40	0	0	0
Fx/ Other	-2788	0	0	0
Discontinued operations	501	-5000	0	0
Cash Increase/Decrease	-3125	5600	5620	6488
Opening Cash	24939	21814	27414	33034
Closing Cash	21814	27414	33034	39522

Balance Sheet (€'000)

	2009 A	2010 F	2011 F	2012 F
Tangible	898	688	678	668
Intangible	764	494	294	94
Financial / Other	410	303	303	303
Fixed assets	2073	1486	1276	1066
Working capital	-1107	3673	2495	1262
Net cash	20355	25955	31575	38063
Other liabilities	-3917	-3114	-3511	-3928
Shareholders funds	17404	28000	31834	36462

Major shareholders

Conor Foley (Co-Founder & CEO)	17.9%
Gartmore Investment Management	6.8%
Nuvolink Resources	6.0%
Artemis Investment Management	5.9%
Bloxham Wealth Management	5.9%
Shannon River Fund Management	5.5%
Other Management	4.5%

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