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Brady PLC Presses To Be Largest European CTRM Vendor

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Brady PLC (BRY.L), a global provider of trading & risk management and settlement solutions to the metals and commodities industry, recently announced its half-yearly results and they make interesting reading. Brady PLC is almost unique among vendors of Commodity Trading & Risk Management (CTRM) software in that it is a public company and its results are therefore relatively transparent. The company had sales revenues of 4.63 million GBP (about \$8.85 million) in the first half of 2010, an increase of 25 percent over the same period 12 months ago, and had an operating profit (before exceptional items) of over half a million GBP. Among other highlights, the company has 3.3 million GBP of net cash reserves and no debt. I spoke to Mr. Lavelle, Chief Executive Office of Brady PLC, to find out a little more about the results and the company's experiences in the market.

Brady's Growth Strategy

Brady now has about 100 employees, 110 clients and about 1,200 users worldwide, Mr. Lavelle told me. The company's focus is on commodity markets from a physical perspective through to derivatives, risk management and logistics and it has historically been focused on metals. Brady has made several acquisitions over the last few years, and the most recent acquisition was of Viveo Switzerland SA (FinTrade), completed earlier this year. Viveo, now Brady Switzerland, also has a strong focus on physical commodity markets and has global clients in softs, energy and metals.

Brady intends to grow its business organically. While it has a number of platforms including Trinity, FinTrade, Opval and Aquarius, it utilizes a number of SOA components that work across the solutions to provide a level of integration. "One size does not fit all," said Mr. Lavelle, and we agree with that assessment, especially when it comes to the physical side of the business.

What is intriguing to us about Brady's model, however, is its use of public funds. Almost every competitor in the CTRM software space is funded using private money via venture capital, private equity, etc. But Brady, by virtue of being a public company, has ready access to institutional investors such as Fidelity and Gartmore, for example. While there was a cost

associated with becoming a public company, and there is a small ongoing reporting overhead, Mr. Lavelle believes that access to funding is paramount to Brady's success and a key differentiator. It also means that Brady's financial affairs are easy to access.

“Our model provides more room for growth,” said Mr. Lavelle. “Three quarters of turnover has changed hands (or will change hands) in the CTRM software vendor arena over the last few years. Having Venture Capital involved can also have its own set of issues. Access to funding is key and some CTRM vendors are now focused on replacing revenues from one or two major clients at a time when finding private equity money is slow. Via our AIM listing, we can talk to hundreds of investors and get access to capital as a result.”

Asian Commodity Markets Attractive

In terms of revenue, Brady sees 43 percent of its revenues come from trading companies, 29 percent from banks/brokers, 25 percent from producers, and 3 percent from fabricators. Around 57 percent of revenues originate in Europe, 24 percent in North America and 19 percent in Asia. Asian market activity is on the rise and, given the increasing burden of regulations in North America and Europe, Asia may become significantly more important in the future as a hub of trading activity. As a result, Brady opened its first office in Singapore at the beginning of last year and is already seeing the benefit of that presence.

Business Drivers

Mr. Lavelle sees two primary business drivers helping to strengthen the market for CTRM software. First, risk management is key and while markets may have generally bounced back, “skirts have been lifted” driving the need for better understanding of risk and consolidated risk particularly with respect to physical positions and assets. Another driver has been the move to electronic commodity markets such as LME Gold, for example. This is driving a need to upgrade software to handle messages and trade processing. A third aspect to demand for CTRM software right now is the diversification across commodities by traders. They require more tools from fewer suppliers and in part, this is driving Brady's growth strategy.

Brady has signed eight new contracts in 2010, so far. These contracts include Paul Reinhart, AG, a leader in cotton trading, and Xstrata Copper, who are upgrading their current Trinity platform. The company is continuing to see good performance and momentum in sales. “Brady is rapidly becoming the largest Europe-based CTRM vendor,” said Mr. Lavelle. “We are targeting 10.5 million GBP (approx. \$16.2m) revenue for 2010 and are well on track to deliver that turnover.”

Summary

While compared to larger CTRM vendors, \$16 million in revenues is still quite small. With its momentum, growth strategy, strong and transparent balance sheet and access to capital, Brady does seem set to become a significant CTRM player—not just in Europe, but globally. Additionally, with its emphasis on physical markets and its move into softs and agricultural commodities—where we believe there is tremendous growth potential—with a set of connected solutions, Brady does seem to have a bright future.

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