Growth Equities & Company Research

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Forbidden Technologies* - Interim Results: Forecasts Unchanged, reiterate buy stance with 85.8p target price.

Key	Data
EPIC	FBT
Share Price	25.5p
Spread	23p – 28p
NMS	3,000
Total Number of Issued Shares	81,162,500
Market Cap	£20.7 million
12 month Range	13.5p – 27p
Market	AIM
Website	www.forbidden.co.uk
Sector	Software & Computer Services
Contact	Stephen Streater Chief Executive 020 8879 7245

Forbidden Technologies, the AIM quoted developer of the market leading Cloud video editing platform FORscene, has today released encouraging results for the six months ended 30th June 2010. The figures show a strong underlying performance and we are leaving full year forecasts unchanged and, at 25.5p, reiterate our stance of buy with a target price of 85.8p.

Revenues increased during the first half by 21% to £167,858 while cost of sales increased by a more modest 5.3% to £9,483 resulting in gross profit increasing by 22.1% to £158,375. Operating expenses increased by 37% to £214,730 principally due to the company investing more in marketing and promotion, which resulted in Forbidden's operating losses increasing by 100% to £53,853. Net financing costs amounted to £3,905 compared with a net financing income of £1,234. The pre-tax loss therefore increased by 124.8% from £25,697 to £57,758 and, on a zero tax charge for both periods, this resulted in the loss per share rising from 0.03p to 0.07p.

As noted above, the company significantly stepped up (and has subsequently, at least, maintained) its marketing and promotion activity and this is now starting to see a real return. The company continues to sign up production houses with Envy Post being the most recent. More importantly, Forbidden has now also signed up a systems integrator (Siemens IT Solution & Services) and we would anticipate others soon due to the high level of interest generated by the company successfully demonstrating FORscene on Nokia's flagship smartphone N900 at the major global technology IBC 2010 in Amsterdam. It is worth noting that the revenue potential of a system integrator is 20 – 50 times that for a post production house, however, the timing of those lumpy sales is difficult to predict.

We remain comfortable that our current year sales expectation of £0.6 million is deliverable because of the strong underlying revenue supported by the escalating numbers of production houses adopting FORscene and the flood gate to a massive ramp up in sales, potentially, opening with the first systems integrator now on board. We anticipate a further substantial step up in sales during 2011 due to increased production house usage from existing as well as newer users. Additionally, we anticipate more systems integrators marketing FORscene within their client propositions. Operating costs, with the exception of promotion and marketing expenses, will not increase materially, leaving Forbidden likely to benefit from a high degree of operational gearing. Consequently, we are relaxed about Forbidden delivering against our existing profit and earnings per share expectations for this full year and next.

We continue to value Forbidden on an Enterprise Value/Sales basis to derive an indicative target price. Therefore, applying the 2009 financial year multiple of 58.5 times to our 2011 sales of £1.2 million indicates upside potential to 85.8p. With the shares trading at 25.5p, we continue to recommend Forbidden Technologies as a **buy**.

Forecast Table

Year to 31 December	Sales (£000)	Pre-tax Profit (£000)	Earnings per share (p)	Price Earning Ratio	Dividend (p)	Yield (%)
2008A	121.2	(110.7)	(0.10)	NA	0.0	0.0
2009A	280.8	(92.9)	(0.07)	NA	0.0	0.0
2010E	600.0	27.0	0.03	850.0	0.0	0.0
2011E	1,200.0	310.0	0.39	65.4	0.0	0.0

Source: Company and Growth Equities & Company Research

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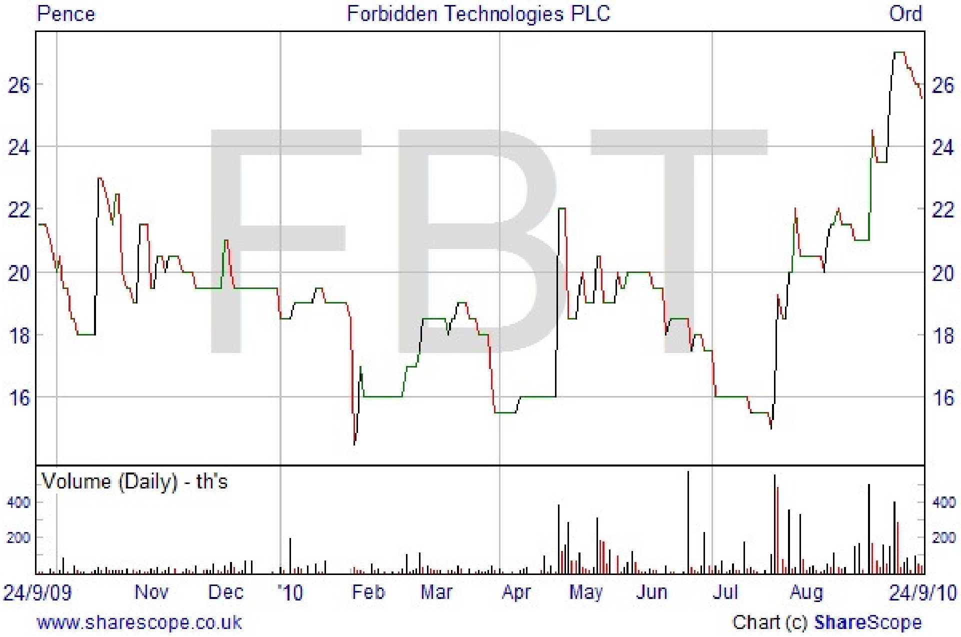

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