

Stock Market Review



Edward Rizzo

Mr Rizzo is director of Rizzo, Farrugia & Co. (Stockbrokers) Ltd.

Crimsonwing reports marginal loss in FY March 10

66% increase in EBITDA for Q1 10/11

Earlier this week, the IT services company Crimsonwing plc published its March 2010 Annual Report and convened a stockbrokers meeting which was addressed by CEO David Walsh. The financial results show a 1.7 per cent increase in revenue to €12.3 million with earnings before interest, tax, depreciation and amortisation (EBITDA) recovering strongly from last year's deficit of €0.65 million to a positive EBITDA of €0.57 million.

This was purely as a result of the various cost saving measures implemented by Crimsonwing during the year including the waiver of salaries by both the Chairman as well as the CEO. Overall direct costs declined by 4.3 per cent to €7.3 million while administrative expenses dropped by 13 per cent to €4.4 million.

The March 2010 full-year results should be analysed in the light of the challenging economic conditions faced by most of Crimsonwing's international clients and the CEO was quick to point out that it was not easy for the Group to maintain the same level of turnover given the economic backdrop. Mr Walsh explained that although the Group managed to reduce staff costs and overall administrative expenses, this was not achieved from a sharp reduction in the number of employees. In fact, the average number of employees only decreased by nine persons over the previous year.

The CEO explained that the retention of adequate staff numbers is helping Crimsonwing to satisfy the increasing client requests being received especially with respect to the huge demand for e-business solutions. The current strong pipeline of activity has also placed Crimsonwing in need of further human resources and the Group is seeking the use of subcontractors and external consultants to satisfy their clients' needs.

During the twelve months to March 31, 2010, the operating businesses in the UK and Malta performed strongly with both units swinging into profit from last year's loss. The Malta operation was boosted by the increased workload from 20 new clients signed up during the year and Crimsonwing Malta achieved an EBITDA exceeding €700,000. Meanwhile the UK business unit



registered an EBITDA of €400,000 compared to a loss of €270,000 in the previous twelve-month period. However, the business in the Netherlands reported a deteriorating performance with the directors attributing this to the prolonged and deeper recession in the region.

It was reported that there was a shortage of work in the media and entertainment industry which was the main component of the VDA business acquired in July 2008 while the other Netherlands-based business (Promentum which is 51 per cent owned by Crimsonwing) also fared badly as a result of the reduced workload with other Microsoft partners. In view of the negative effect of the Netherlands business on the overall financial performance of the Crimsonwing Group, the CEO has committed to take a more active role in the management of the Netherlands outfit in order to reduce the losses being incurred and achieve an improved financial performance. In fact David Walsh is currently acting as the interim managing director in the Netherlands.

Last Monday evening, Crimsonwing also published its interim directors' statement covering the first quarter of the 2010/11 financial year. The directors stated that the company is seeing increased demand for its solutions and service offerings resulting in a 24% increase in revenues to €3.3 mil-

lion for the first quarter of the year to 30 June 2010 compared to the same period last year. Moreover EBITDA improved by 66 per cent to €325,000 (June 2009: €196,000). The directors also indicated that the trading outlook for the second quarter to September 30, 2010 looks strong, underpinning a more optimistic outlook by CEO David Walsh during the meeting.

This improved outlook stems from a return to a profitable position by the Promentum business in the Netherlands as well as the various new contracts which have now come on stream. These include a number of projects for various local businesses, a significant amount of e-business services to international clients mainly in the UK and Netherlands, as well as the important new, three-year contract with one of the group's most established client worth circa €3 million per annum.

Given the material size of this contract and in terms of the listing rules, a specific company announcement was issued by Crimsonwing on June 10, 2010 shortly after the official agreement was signed. During this week's stockbrokers meeting Mr Walsh indicated that this increased business started to show up in June 2010 and the overall incremental benefit of this new contract for the Group is valued in excess of €750,000 over the three-year period.

Crimsonwing had achieved an EBITDA figure of €1.1 million in the financial year to March 31, 2007 and this had decreased to €990,000 during the following financial year at the time of the IPO in December 2007.

Following the negative EBITDA in 2009 and the swift turnaround in the last financial year to March 31, 2010, one would expect the Group to return to more meaningful EBITDA levels in the immediate future given the various contracts being awarded.

The CEO described the past two years as the most challenging period in the history of Crimsonwing and the fact that the group managed to turnaround the business performance in such difficult conditions provides scope for optimism.

The results achieved during the first quarter of the new financial year with EBITDA of €325,000 (56 per cent of the March 2010 full-year EBITDA) are encouraging and underpins the positive outlook for the current financial year.

Given this developing scenario, shareholders will be looking forward to the September 2010 interim results due to be announced by December. A confirmation of this trend and an indication of the possibility of a reinstatement of a dividend to shareholders next year should help to improve investor sentiment towards the company.

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