Stock Market Review

Crimsonwing aims for profitability growth after a strong turnaround

Edward Rizzo

Edward Rizzo is a director at Rizzo, Farrugia & Co. (Stockbrokers) Ltd.

The March 31, 2013 annual financial statements published by Crimsonwing plc last week show the strong turnaround in the Group's financial performance. At a meeting held with the financial community on the day after the results announcement, CEO David Walsh explained that the last financial year was a positive one from various perspectives.

Overall revenue grew by 17.3 per cent to a record level of €17.8 million and, more importantly, the operational performance improved significantly. Earnings before interest, tax, depreciation and amortisation (EBITDA) also rose to a record level of €1.6 million compared to €0.3 million in the previous financial year.

Administrative expenses dropped by 8.9 per cent to €4.8 million, mainly due to the cost savings achieved from the restructuring in two of the business units in the Netherlands which had been negatively impacting the overall Group financial situation in recent years.

The strong turnaround in pre-tax profits (rising to €1 million in the last financial year from an overall loss-making situation the year before) was widely expected by those investors and financial analysts who had been following the company announcements and interventions by the CEO in the past several months. Mr Walsh had promised a return to profits once the problems within the Dutch-based business units were resolved.

Despite the significant recovery in the financial performance of the Group, Philip Crawford, the previous chairman and currently a non-executive director as well as a significant shareholder with a holding of 21.6 per cent in the company, commented in the same meeting that "the profits achieved to date have not been optimal and there is further room for growth".

It was a surprise to get to know that a number of the large international contracts that had been the subject of some company announcements and press interventions since last October have not been reflected in the financial performance for the last financial year to March 31, 2013. More specifically, Mr Walsh indicated that the initial revenue streams from the contracts with Mothercare plc and the Carlson Rezidor Hotel Group will start showing up in the current financial year and also beyond. In fact, the Mothercare contract stipulates that 33 e-commerce installations must be concluded by December 2014.

This is possibly the main reason underpinning the comment by Mr Crawford as well as the confirmation given again last week that the Group is aiming to achieve an increase in revenue of over 12 per cent to a level exceeding €20 million during the current financial year ending March 31, 2014. However, Mr Walsh admitted that market conditions remain very tough, with significant competition in the industry.

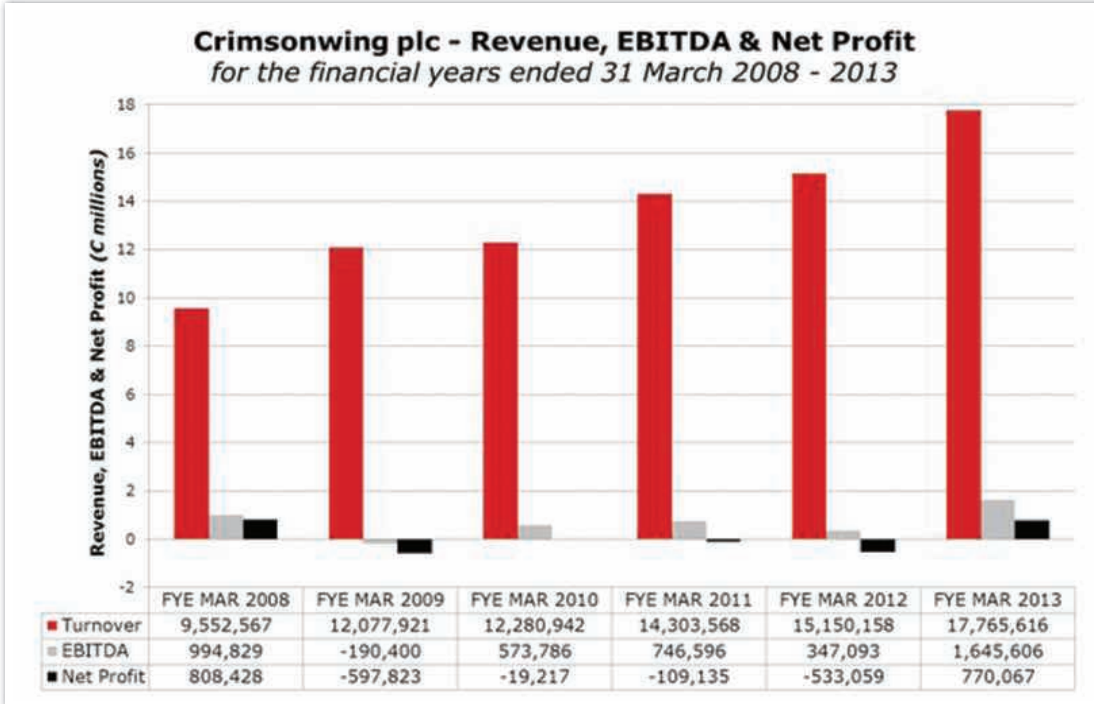
The CEO also spoke about the importance of achieving the objective of a €20 million revenue figure and he referred to this as a "critical milestone to enable the Group to take on more complex and larger projects".

This is already evident when comparing the recent contracts won with those awarded some years ago. While the earlier contracts rarely exceeded a value of €500,000, the more recent ones are in excess of €1.5 million.

Mr Walsh also confirmed that other prestigious contracts were awarded to various business units across the Group in recent months, and another three-year contract is currently being negotiated with a large operator in the fashion industry.

In order to cater for the growing business pipeline (especially with respect to the various Microsoft Dynamics projects in hand), the staff complement at the Malta solutions centre based in Marsa was enhanced over the past three months with some new recruits also coming from various countries around the world. Crimsonwing now employs over 200 persons in Malta.

> **"Market conditions remain very tough, with significant competition in the industry"**



CEO David Walsh

The figures achieved during the first quarter of the current financial year are supporting the expected growth uplift. In fact, last week Crimsonwing also reported that between April and June 2013, like-for-like revenues grew by 16 per cent to €5.02 million and like-for-like EBITDA jumped by 44 per cent to €570,000.

It is also encouraging to note that the stock market has become more responsive to developments at Crimsonwing, with a strong increase in the share price and a significant rise in trading activity in recent months. Following the announcement and media interview last October, when the CEO mentioned the new international contracts and discussed the Group financial projections, the share price almost doubled from €0.25 to €0.49 by the end of the year.

At the start of 2013 the equity quickly surpassed the December 2007 IPO level of €0.50, reaching a high of €0.57 within two weeks. A significant amount of shares then traded at the €0.55 level between February and March, but activity decreased thereafter on lack of further news and also possibly due to the fact that the March financial year-end results announcement was four months away. Although the trading update published on May 23 instigated some activity for a very limited period of time, the equity was only back in the spotlight following the publication of the 2013 Annual Report last Thursday, with the price rallying to a new record level of €0.69.

While the strong financial turnaround played a big part in the renewed positive sentiment towards the company, the reinstatement of a dividend (albeit minimal) was also a positive signal to investors. Crimsonwing announced that shareholders will be given the option of receiving the dividend either in cash or through the issuance of new shares at a price to be determined in the future. During last week's meeting, the two largest shareholders of Crimsoning (David Walsh and Philip Crawford, who own 66.5 per cent of the entire company) both declared that although no final decision has been taken as yet, they would both be inclined to accept new shares. While this should surely be taken as a further vote of confidence in the immediate outlook for the company, both shareholders also indicated that this decision may also be due to their intention to retain a healthy level of cash in the company to enable it to accelerate its growth potential.

The CEO concluded the meeting with the new strategic review that will shortly start being discussed with the assistance of external advisors to outline the best future for Crimsonwing. Mr Walsh indicated that the Group is very well placed to expand into further territories from the Malta base and all options will be considered at the opportune time, including merging with or acquiring companies which bring new technologies or which operate in new geographical areas. On his part, Mr Crawford claimed that "Crimsonwing is a very attractive company and the aim is to accelerate growth in shareholder value".

Crimsonwing is reportedly among the largest Microsoft Dynamics practices in Europe and a potential merger or outright acquisition by new strategic investors may place the Group in a better position for future success for the benefit of all stakeholders.