Stock Market Review

Crimsonwing's improved outlook and performance

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Last Thursday, Crimsonwing plc published its interim results covering the six months ended September 30, 2013. The interim financial statements revealed a record performance for the group with revenues up 13.7 per cent to €9.86 million, earnings before interest, tax, depreciation and amortisation (EBITDA) climbing by 34.1 per cent to €1.16 million and pre-tax profits rising by 40 per cent to €0.77 million.

The market may have well anticipated such a performance given the announcement on July 25 when Crimsonwing had indicated that Q1 revenues and EBITDA surged. This update was published concurrently with the March 2013 full-year financial statements. Crimsonwing reported that during the three-month period from April 1 to June 30, 2013 (the first quarter of their 2013/14 financial year), group revenue amounted to €5 million and EBITDA climbed to €0.57 million.

Moreover, Crimsonwing stated that the trend for the second quarter of their financial year (July to September) was similar to that of the previous three months.

In the detailed half-year report published last week, Crimsonwing explained that the improved revenue reflected the consistent organic growth across all the business units highlighting the Group's growing international dimension and its ability to bid for larger projects.

In November 2012, Crimsonwing had officialised the eCommerce project for the Mothercare franchises around the world. This contract probably contributed to the improved performance over the past six months. Last month, the Mothercare Ukraine online shop was the first to go live as part of the global roll-out of Mothercare International's eCommerce strategy to its franchisees across the world.

The annual report for the past financial year distributed to shareholders ahead of the annual general meeting held on October 16, 2013 lists a number of other prestigious international contracts with both new as well as existing clients. In fact, in last week's announcement, the directors stated "we are not overly dependent on client additions as we can also generate new projects with our existing and growing client base".

This strong statement reflects their positive outlook for the second half of the financial year which comes to an end on March 31, 2014. The directors also made reference to an "improving profit performance" and a "long order book" which supports their view that the group expects "to maintain this momentum in the second half of the year".

Some years ago when Crimsonwing had launched its business plan for the three financial years running from April 2011 to March 2014, the overall aim was to achieve revenue of €20 million and higher profit margins. This top-line target of €20 million was mentioned both in the 2013 Annual Report and also by the CEO David Walsh in an interview which was published in the local press on October 20.

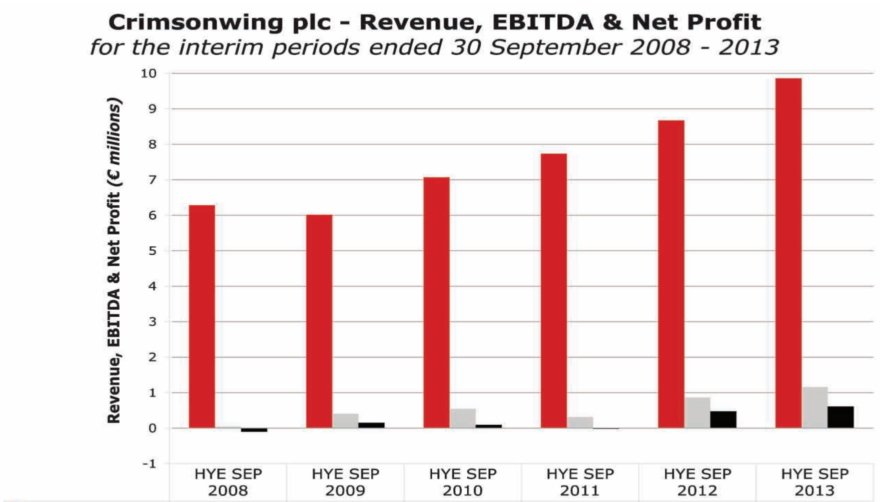
Given the first half revenue achievement of €9.86 million, this objective should be achieved during the current financial year as Crimsonwing ought to continue generating additional revenue from the various contracts announced in recent months as well as the three new projects announced in a separate company announcement last week – the day before the publication of the interim financial statements.

The EBITDA margin during the first half of the year improved to 11.7 per cent with pre-tax profits of €0.77 million giving a margin of 7.8 per cent. These margins, which are very important indicators for market participants and the investing public, should be further enhanced during the second half of the year for two main reasons.

On the one hand, the additional contracts coming on stream will support the second half performance. Additionally, the extra investment in additional human resources in Malta during the first six months will start showing a positive impact in the second half.

The three new international contracts mentioned in last week's specific company announcement were an important message to the market on various fronts. Crimsonwing reported that all the contracts were awarded following competitive bids requiring significant technical expertise with appropriate vendor certifications (namely Microsoft, Magento and Intershop), global reach and a proven track record. This highlights the progress achieved by Crimsonwing in securing new work which should enable it to continue achieving good progress in the months and years ahead.

> "This new significant project for an un-named multinational company will be rolled out across 54 markets in 20 languages"



	HYE SEP 2008	HYE SEP 2009	HYE SEP 2010	HYE SEP 2011	HYE SEP 2012	HYE SEP 2013
Turnover	6,282,171	6,016,979	7,068,451	7,736,401	8,675,311	9,860,961
EBITDA	44,897	402,942	542,617	314,289	862,607	1,156,584
Net Profit / (Loss)	-102,365	151,224	93,659	-19,346	475,161	608,644

One of the contracts mentioned in the announcement was with a leading supplier in the Netherlands for the 'YourTeam' service offering with a value of circa €2 million. The interesting aspect is that this contract was awarded a very brief period after this service was launched by Crimsonwing. The 'YourTeam' offering is an outsourcing concept which provides clients with the possibility of having Crimsonwing hire the right IT individuals and resources to service their clients' requirements from the Malta solutions centre. This contract will provide regular retainer income to Crimsonwing over the coming years.

Another contract for a value of €2.5 million running until 2015 was awarded to Crimsonwing by a leading international company in the printing industry.

However, possibly the most important aspect of last week's announcement was that Crimsonwing won a global contract for an eCommerce project with a multinational nutrition and health company. This was the project indicated by the CEO in the interview of October 20 which was awarded as a result of the Mothercare contract.

This new significant project for an unnamed multinational company will be rolled out across 54 markets in 20 languages. This is an important achievement for Crimsonwing as it could enable them to secure similar business in the future with other global organisations.

The value of this contract has not yet been disclosed. Hopefully, the name – and more importantly the economic benefits accruing to Crimsonwing – will be announced in due course.

The share price of Crimsonwing has been among the strongest performers with a substantial rally over the past 18 months. The equity surpassed the level of the December 2007 Initial Public Offering during the first trading session of 2013 and has since consistently traded up to new record levels. More importantly, this upswing materialised on growing volumes. Crimsonwing's equity has become particularly active with 3.5 million shares exchanged in the past 11 months, representing 12.1 per cent of the issued share capital.

The improving financial performance and the significant contracts announced last week should help maintain the positive sentiment towards the company.

In the meeting with the financial community held last July, CEO David Walsh announced that a new strategic review is being undertaken with the help of external advisors. This will detail a new strategy for Crimsonwing over the coming three years as it aims to expand into different regions. Mr Walsh indicated that this could also include merging or acquiring companies which bring in new technologies or which are operational in new geographical areas where Crimsonwing is not yet present.

The strategic review should also include financial forecasts which are being prepared by the executive management.

Growth companies such as Crimsonwing should consider adopting a different communication strategy with the market.

While mature companies such as the large retail banks as well as those with a simple business model such as the property companies (i.e. Plaza Centres plc, Tigne Mall plc and Malita Investments plc) may not need to provide forward guidance to the market, the IT companies and others which have an evolving business model ought to convene an annual meeting with the stockbroking community to update the market on their strategy and also present them with their financial forecasts. This will assist the market to understand the company's potential in greater detail.

It is not easy for financial analysts to perform such forecasts for companies entering into new significant contracts and those altering their business strategy.

The provision of financial forecasts is the norm across the more developed financial markets even with multi-national companies. It should also become the norm in Malta in the near future. It will help to deepen investor education and also assist improved trading activity across the market.