

## Stock Market Review

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# Crimsonwing registers loss for year ended March 31, 2009

IT company returns to profit in Q1 of new financial year as costs slashed

**C**rimsonwing published its March 31, 2009 full-year results on July 29. The IT services company based in Malta but which services clients mainly in the UK and the Netherlands saw its revenue grow by 26 per cent during the last financial year to €12.1 million. This was mainly attributed to the €1.5 million turnover generated from VDA which was acquired on 1 July 2008 and gave a nine-month contribution to the Crimsonwing Group results.

However organic revenue growth (excluding the purchase of VDA) was around 11 per cent and with stable exchange rates (Crimsonwing is highly impacted by sterling/euro exchange rate movements) organic growth would have been 17 per cent.

Apart from the weakness of the pound sterling during their financial year as the value of the currency slumped by over 17 per cent between March 2008 and March 2009, the two other factors which mainly impacted the latest full-year results were a number of write-offs and provisions as a result of the global economic environment as well as increased administrative costs following the integration of VDA at the start of the second quarter of their financial year.

These have since been trimmed and the two previously independent businesses in the Netherlands (Promentum and VDA) have since been relocated into a single building leading to significant cost savings. Apart from the office relocation, various other expenses have been slashed leading to a leaner operation at VDA which has since become a profitable business unit after incurring a loss of €0.27 million between July 2008 and March 2009.

Moreover, the bankruptcy of one of Crimsonwing's clients, Fraser Eagle, during the latter part of their last financial year led to a bad debt write-off of €140,000. The lack of credit and cash flow problems in the light of the very challenging economic environment in the UK and other parts of Europe led to cancellations of projects and payment delays from existing clients despite work having been undertaken by Crimsonwing staff. These provisions also severely impacted the March 2009 financial performance.



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Despite the sharp increase in revenue, the Crimsonwing Group registered a loss of just under €0.6 million during the latest financial year. On July 29 Crimsonwing also issued its Interim Statement covering the first quarter of their current financial year between April and June 2009. Crimsonwing explained that it achieved an EBITDA of €150,000 during the three-month period to June 30 2009.

During the stockbrokers' meeting held on the same day of the company's announcements, CEO David Walsh explained that the operating profit generated during the first quarter of the year exceeded the company's expectations and excludes any exchange rate gains made from the recovery of sterling during the period. This edged eight per cent higher leading to a potential write-back of circa €80,000.

The challenging conditions experienced by the company in the last financial year together with the added burden of integrating the VDA business at the same time led to a thorough review of certain business practices. A significant cost reduction programme was attained leading to annual cost savings in the region of €1.75 million.

Crimsonwing sought to ensure that the Group returns to a profitable position even in a scenario

of unchanged revenue figures from the March 2009 level. The sharp reduction in overheads will help boost future financial performances as further employment will only be sought once new contracts are secured.

Moreover, in order to mitigate any further exchange rate losses in the current financial year to March 31, 2010, the board has taken a decision that it will enter into appropriate hedging contracts should the level of sterling drop below current levels and the rate used in the company's budget.

Although no such forward contracts have been entered into as yet since sterling has held on to its recent gains, the widespread predictions by various international advisors of a sustained recovery of sterling over the next six to 12 months should positively impact the Crimsonwing financials in the coming months.

Total revenue during the first quarter increased by 10 per cent to €2.7 million and more importantly the CEO explained that all business units were profitable including VDA. When discussing last year's €1.9 million acquisition of VDA, Mr Walsh re-iterated his conviction of the strong potential of this company given its excellent client base.

In the earlier Interim Statement published in February 2009, after warning on the challenging condi-

tions at the time, Crimsonwing had indicated that it expected to initiate a number of important projects in the UK, Italy and the Netherlands. During the recent meeting, the CEO confirmed that the company secured its third client in Italy while in the Netherlands a large client returned to VDA. Meanwhile, in the UK, although some pre-sales work was carried out for a property management company, the final contract has yet to be finalised due to ongoing negotiations.

This could be an important client for Crimsonwing since it would be their first assignment within the property management sector and should lead to increased know-how and potential for further similar projects in the future. Crimsonwing's CEO also indicated that the company is currently in talks with existing clients seeking to enter into revised long-term agreements. Discussions are also ongoing with potential new clients including a large multinational company seeking to out-source some of its internal software development.

After declaring a maiden dividend to shareholders last year, no further dividend is being proposed for the last financial year to March 31, 2009. During the meeting Crimsonwing's chairman Philip Crawford as well as Mr Walsh indicated that cash retention is the most prudent approach at present. However, they wished to reassure investors that dividends will be reinstated once the economic outlook becomes clearer and the benefits from the intense restructuring begin to show up consistently.

During the meeting held on July 29, Mr Walsh also replied to questions regarding the possibility of any further acquisitions. While he indicated that several proposals were received, the CEO claimed that the company's top priority in recent months was merely on reorganising the internal issues before considering further opportunities for expansion.

Shareholders will look ahead to the September 2009 interim results (published by end November) to verify if any further recovery in profits has been achieved during the second quarter of the year. Moreover investors who hold Crimsonwing shares will also closely monitor the movements of sterling against euro as any further upswing could significantly boost Crimsonwing's bottom-line figure.

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