

7 December 2006

## Maxima Holdings

Year End	Revenue (£m)	*PBT (£m)	*EPS (p)	DPS (p)	PE (x)	Yield (%)
05/05 **	14.1	2.2	12.0	1.5	18.2	0.7
05/06	19.1	3.3	17.8	4.0	12.3	1.8
05/07e	31.5	5.8	23.3	5.0	9.4	2.3
05/08e	36.6	6.7	25.8	5.5	8.5	2.5

Note: \*PBT and EPS (fully diluted) are normalised, excluding goodwill amortisation & exceptionals \*\* pro-forma results for Azur only

### Investment summary: The pace quickens

Two further acquisitions towards the end of the first half and a material long-term contract highlight the success that management are having in building the business. With a healthy pipeline of potential acquisitions and a stable market environment, we expect Maxima to continue to benefit from its consolidation strategy both in its Solutions and Managed Services divisions. It's valuation is not demanding.

### Two more acquisitions to enhance earnings

The acquisitions of Cognition and Intertech in the autumn build critical mass in both divisions with new customer bases and software platforms. The opportunities for cross-selling services are now becoming more obvious. We estimate that these deals should enhance 2008 EPS by 9%.

### Trading outlook is stable

Maxima's trading statement at the end of the first half confirms that the market is stable. Against this background, Maxima can still generate most of its growth from its consolidation strategy. We are expecting Maxima to adopt IFRS this year, but we believe it should not have a material affect on our forecasts.

### Strategy is delivering results

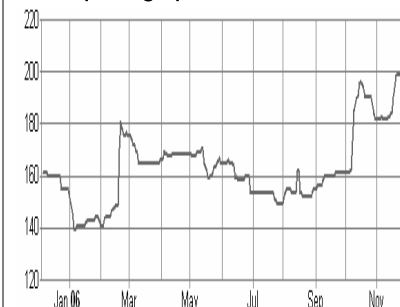
With its twin strategy of attack in the IT sector, Maxima is building both its Solutions and Managed Services divisions. Solutions is a traditional systems integrator, specialising on delivering both others and its own proprietary software; Managed Services adopts the new model of providing high levels of support and service to customers who may or may not have bought systems from Maxima. Maxima report that Solutions has won 8 new clients and Managed Services 9 new clients in H1.

### Valuation only just starting to reflect progress made

Recent share price performance confirms that the acquisitive strategy is beginning to get Maxima noticed. We think that as Maxima shows it can deliver good growth and increase its size through acquisitions, its valuation will begin to match the larger companies in the sector. On a calendar 2007 P/E of 8.4x, it is trading at a 20% discount to its immediate peers.

Price 218.5p  
Market Cap £40m

#### Share price graph



#### Share details

Code MXM  
Listing AIM  
Sector Software & Computer Services  
Shares in issue 18.1m

#### Price

52 week High 216.5p Low 138p

#### Balance Sheet as at May 06

Debt/Equity (%) 15  
NAV per share (p) 127  
Net borrowings (£m) 3.1

#### Business

Maxima is a holding company aiming to consolidate businesses in the Software & IT services sector.

#### Valuation

	2006	2007e	2008e
P/E relative	79%	66%	66%
P/CF	14.4	7.2	6.3
EV/Sales	1.8	1.3	1.2
ROE	13%	16%	18%

#### Geography based on revenues

	UK	Europe	US	Other
	92%	3%	5%	0%

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## Recent acquisitions

### Cognition – another recurring revenue stream

In October, Maxima announced the purchase of Cognition Solutions for £4.1m (net of cash balances). It supplies ERP software to the construction and facilities management sector. Like some of the other Maxima operations, Cognition sells and supports proprietary software. It will hence fit in with the likes of Minerva, Ringwood and many of the Azur businesses as part of the Maxima Solutions division.

It is the strength of the installed customer base and its recurring revenues that are the major attractions. Almost 300 organisations have bought Cognition's software and of these 270 take a support package. Customer attrition has been low and in fact 19 new customers were won in the last year. The accounts and management information systems software typically supports construction companies of all sizes. While Maxima's strong reputation for managing its installed customer base may mean it can improve Cognition's performance, there will also be benefits from cross-selling other Maxima products into this new customer base. Maxima has previously played down these opportunities, but its own customer road show during the summer has already highlighted a lot of interest in document management for cross selling.

### Intertech Solutions – another tool in the kitbag

In November, Maxima announced the acquisition of Intertech Solutions Ireland for £3.7m (net of cash balances), which will become part of the Managed Services division. Intertech provides IT infrastructure and services based on Citrix technologies. Citrix is one of the largest providers of secure remote access, and Maxima can now add this offering to its portfolio.

The business concept is similar to that at Hanston (see Exhibit 1), although it is also a reseller of Citrix product (about 25% of sales). Like Hanston, the business has high gross margins, and it has a customer base of 100 organisations on managed service support agreements, which are in its existing public sector, financial services and manufacturing markets. The geographic overlap is also good, as it will help it serve many of its existing 60 Irish customers from the Seabrook and Ringwood acquisition.

#### Exhibit 1: Acquisition history

Note: \* net of acquired cash balances, \*\* estimated

Acquisitions	Date	Division	*Price		EBIT (£m)	**P/E (x)	P/EBIT (x)
			(£m)	Sales (£m)			
Ringwood	Aug-05	Solutions	2.9	3.3	0.0	142.9	100.0
Hanston	Sep-05	Managed Services	8.3	3.5	0.7	16.9	11.9
Seabrook	Jan-06	Solutions	0.5	0.6	0.1	7.6	5.3
QED	May-06	Managed Services	4.4	3.2	1.1	5.7	4.0
Cognition	Oct-06	Solutions	4.1	4.7	1.0	5.9	4.1
Intertech	Nov-06	Managed Services	3.7	3.0	0.3	16.5	11.5
<b>Total</b>				<b>18.3</b>			

Source: Maxima, Edison Investment Research

Most of the acquisitions have been paid for with a mixture of cash and shares, so Maxima's balance sheet is not overly stretched (we estimate it is currently 25-30% geared).

The announcement of a £2.9m four-year contract to provide and operate a Citrix-based IT platform won by Intertech following its acquisition underlines the benefit customers see in being serviced by a larger and more credible supplier. This contract should also make the purchase price look that much more attractive.

## First-half forecast changes

We have made virtually no change to our underlying estimates since the release of the full-year figures though, as Exhibit 2 below shows, the acquisitions should have an enhancing effect on earnings. With a net cash outflow on acquisitions in H1 of c. £4.3m, we expect net debt to be £7-8m at H1 end. In the absence of any acquisitions, we expect this to fall back to c. £5m at FY07.

### Exhibit 2: 2008 Forecast changes due to acquisitions made in H107

	As at August	Cognition	Intertech	Other	As at December
Sales	29.00	3.60	4.00	0.00	36.55
Ebit	5.60	1.25	0.35	(0.10)	7.10
PTP	5.40	N/A	N/A	N/A	6.68
EPS	23.70	N/A	N/A	N/A	25.80

Source: Edison Investment Research

## Peer group valuation update

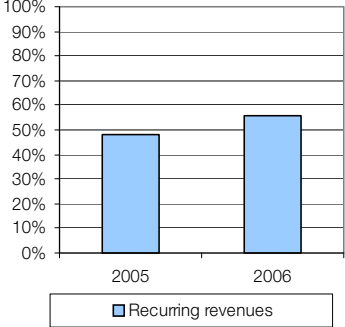
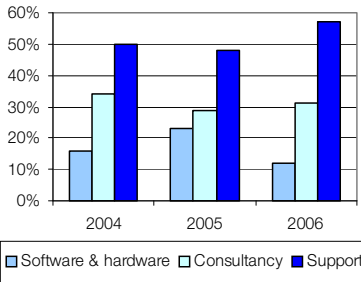
### Exhibit 3: Peer group comparison

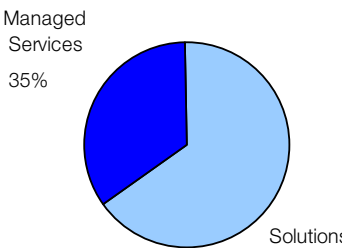
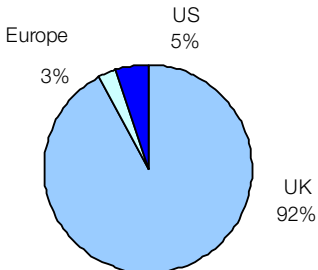
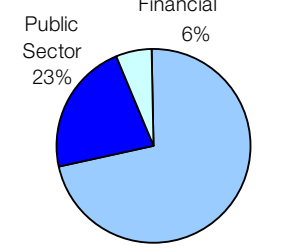
Note: Prices at 6 December 2006

Enterprise software services	Year end	Price (p)	Mkt Cap. (£m)	Sales growth (%)	Fiscal 2006			Calendar 2007		
					Sales (£m)	PTP (£m)	EPS (p)	P/E (x)	EV/Sales	Yield (%)
Maxima	May	216.5	39.2	65%	31.5	5.8	23.3	8.7	1.34	2.4%
<b>Smaller companies</b>										
Chelford	Dec	201	15.3	9%	20.9	2.4	23.7	8.5	0.69	0.0%
Sanderson	Sept	52.5	21.9	14%	21.3	3.3	5.0	10.4	1.16	5.3%
Touchstone	Mar	180	21.0	15%	27.0	3.1	18.6	8.7	0.61	2.3%
K3	Dec	111.5	21.5	5%	26.0	3.2	11.8	9.4	0.73	0.0%
Computer Software Group	Feb	116.5	70.2	4%	38.8	8.3	9.7	10.6	1.91	0.0%
Microgen	Dec	55	56.4	3%	38.6	5.8	3.7	14.7	1.19	2.3%
<b>Peer Average</b>				<b>12%</b>				<b>10.2</b>	<b>1.09</b>	<b>1.8%</b>
<b>Medium size companies</b>										
Axon Group	Dec	540	322.4	14%	150.0	21.2	23.5	23.0	2.10	0.8%
Morse	June	106.5	162.9	-15%	311.0	10.1	4.4	20.1	0.40	3.7%
<b>Average</b>								<b>21.5</b>	<b>1.25</b>	<b>2.3%</b>
<b>IT Services sector average</b>								<b>13.0</b>	<b>1.30</b>	

Source: Edison Investment Research, Reuters, Hemscott

**Exhibit 4: Company fact sheet: New subsidiary breakdown**

Operations	Performance
<p><b>Maxima Solutions</b></p> <p>Maxima Solutions delivers and supports enterprise and document management software solutions based upon its own IPR and leading products from other vendors. It is increasingly operating as one business, though we list the original acquisitions below:</p> <p><b>ABS</b> provides Azur 'own brand' enterprise software solutions, I-CON360 and IBS, mainly for mid-sized industrial clients. It relies heavily on repeat business from its installed customer base and has a mainly industrial customer base. <i>Main competitors: K3, Touchstone</i></p> <p><b>Ringwood</b> offers its own document management software and brings financial services and public sector customers. <i>Main competitors: INVU</i></p> <p><b>Azur</b> specializes in the implementation and support of SAP Business One products for the SME market. Azur became an accredited SAP partner in 2003 and has grown the business strongly since then picking up over 40 clients. SAP has 31 certified resellers in the UK, and Azur is the third most successful. <i>Main competitors: Sapphire and Codestone, Axon. (Other competing software: Sage, Microsoft)</i></p> <p><b>Minerva &amp; Seabrook</b> are sole UK and Irish distribution partners for the QAD enterprise software solution MFG/PRO. The current agreement runs for three years from Jan 2004, however, the group has a long-term relationship going back to the 1980s. QAD is a leading ERP vendor specialising in the manufacturing sector. Minerva relies heavily on repeat revenues from existing customers with a small growth in new customers.</p> <p><b>Cognition</b> provides ERP software and services to the construction and facilities industries.</p> <p>The businesses all generate strong cash flow.</p>	<p><b>Recurring Revenues</b></p>  <p><b>Business Mix</b></p> 
<p><b>Maxima Managed Services</b></p> <p>This division provides services to customers with pre-installed business software.</p> <p><b>Hanston</b> is an Oracle-based application management business. It supports their databases, middleware and applications software. It has over 100 clients including 40 support contracts across a broad base of industries. Hanston does not provide implementation but concentrates entirely on support.</p> <p><b>QED</b> operates in a similar fashion to Hanston and supports Computer Associated mainframe and has 10 major customers. Intertech has a customer base of about a 100, which are supported on Citrix based platforms.</p> <p><i>Main Competitors: Compel, Edenbrook, PDG, Mi Services (oracle installer)</i></p>	<p>Businesses are all now re-branded under the Maxima name after this reorganisation and will not be referred to by their original names in future.</p> <p>Divisional performance figures will not be available until the interims, which will be reported under IFRS.</p>

Divisional breakdown	Geographic breakdown	Customer breakdown
 <p>Managed Services 35%</p> <p>Solutions 65%</p> <p><i>Based on fiscal 2007e</i></p>	 <p>Europe 3%</p> <p>US 5%</p> <p>UK 92%</p> <p><i>Based on fiscal 2006 sales</i></p>	 <p>Public Sector 23%</p> <p>Financial 6%</p> <p>Manufacturing &amp; Services 71%</p> <p><i>Based on fiscal 2006 sales</i></p>

## Exhibit 5: Financials

	£'000s	2005	2006	2007e	2008e
Year-end May 31st					
<b>PROFIT &amp; LOSS</b>					
<b>Revenue</b>		<b>14,118</b>	<b>19,132</b>	<b>31,500</b>	<b>36,550</b>
Cost of Sales		(3,929)	(4,142)	(6,930)	(8,041)
Gross Profit		10,189	14,990	24,570	28,509
<b>EBITDA</b>		<b>2,321</b>	<b>3,546</b>	<b>6,310</b>	<b>7,310</b>
<b>Operating Profit (before GW and except.)</b>		<b>2,191</b>	<b>3,366</b>	<b>6,100</b>	<b>7,100</b>
Goodwill Amortisation		(373)	(1,533)	(2,500)	(2,700)
Exceptionals		0	(236)	0	0
Other		0	0	0	0
<b>Operating Profit</b>		<b>1,818</b>	<b>1,597</b>	<b>3,600</b>	<b>4,400</b>
Net Interest		25	(73)	(340)	(420)
<b>Profit Before Tax (norm)</b>		<b>2,216</b>	<b>3,293</b>	<b>5,760</b>	<b>6,680</b>
<b>Profit Before Tax (FRS 3)</b>		<b>1,843</b>	<b>1,524</b>	<b>3,260</b>	<b>3,980</b>
Tax		(665)	(655)	(1,670)	(1,937)
<b>Profit After Tax (norm)</b>		<b>1,551</b>	<b>2,638</b>	<b>4,090</b>	<b>4,743</b>
<b>Profit After Tax (FRS3)</b>		<b>1,178</b>	<b>869</b>	<b>1,590</b>	<b>2,043</b>
Average Number of Shares Outstanding (m)		11.9	14.6	17.2	18.1
EPS - normalised and fully diluted(p)		12.0	17.8	23.3	25.8
EPS - FRS 3 (p)		9.9	6.0	9.2	11.3
Gross Margin (%)		72.2%	78.4%	78.0%	78.0%
EBITDA Margin (%)		16.4%	18.5%	20.0%	20.0%
Operating Margin (before GW and except.) (%)		15.5%	17.6%	19.4%	19.4%
<b>BALANCE SHEET</b>					
<b>Fixed Assets</b>		<b>15,023</b>	<b>29,460</b>	<b>33,015</b>	<b>30,520</b>
Intangible Assets		14,704	28,904	31,904	29,204
Tangible Assets		319	556	1,111	1,316
Investment in associates		0	0	0	0
<b>Current Assets</b>		<b>7,011</b>	<b>9,493</b>	<b>8,181</b>	<b>8,779</b>
Stocks		14	27	0	0
Debtors		2,467	4,437	4,981	5,359
Cash		2,925	3,029	1,000	1,000
<b>Current Liabilities</b>		<b>(8,519)</b>	<b>(12,111)</b>	<b>(10,296)</b>	<b>(9,449)</b>
Creditors		(8,519)	(12,111)	(10,296)	(9,449)
Short term borrowings		0	0	0	0
<b>Long Term Liabilities</b>		<b>0</b>	<b>(6,173)</b>	<b>(6,000)</b>	<b>(3,900)</b>
Long term borrowings		0	(6,173)	(6,000)	(3,900)
Other long term liabilities		0	0	0	0
<b>Net Assets</b>		<b>13,515</b>	<b>20,669</b>	<b>24,900</b>	<b>25,950</b>
<b>CASH FLOW</b>					
<b>Operating Cash Flow</b>		<b>4,111</b>	<b>2,187</b>	<b>5,201</b>	<b>6,225</b>
Net Interest		(20)	17	(340)	(420)
Tax		(665)	(193)	(1,670)	(1,937)
Capex		(30)	(170)	(186)	(200)
Acquisitions/disposals		0	(14,410)	(11,500)	(662)
Financing		0	6,969	7,280	0
Dividends		0	(469)	(640)	(906)
Net Cash Flow		3,396	(6,069)	(1,856)	2,100
<b>Opening net debt/(cash)</b>		<b>471</b>	<b>(2,925)</b>	<b>3,144</b>	<b>5,000</b>
HP finance leases initiated		0	0	0	0
Other		0	0	0	0
<b>Closing net debt/(cash)</b>		<b>(2,925)</b>	<b>3,144</b>	<b>5,000</b>	<b>2,900</b>

Source: Company accounts, Edison Investment Research

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