

1 July 2008

Maxima Holdings

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
05/06	19.1	3.0	15.6	4.0	8.3	3.1
05/07	31.8	5.7	24.8	5.2	5.2	4.0
05/08e	48.6	8.9	25.6	5.6	5.1	4.3
05/09e	64.0	9.8	27.5	6.1	4.7	4.8

Note: *PBT and EPS (fully diluted) are normalised, excluding intangible amortisation, share-based payments and exceptionals.

Investment summary: DXI makes up lost growth

Maxima again has the answer to slowing markets with another well timed acquisition. It is not only a good fit, but should compensate for some of the effects of a slowing UK economy. Final results in August should give more detail of what is described as a robust trading performance. The current valuation certainly gives no credit to management actions to build a stable long-term business.

Acquisition of DXI fits well

The acquisition of DXI for a net cost of £8.5m builds breadth and scale in the network infrastructure business. DXI is very similar to last year's Centric acquisition and integration should hence yield cost savings. With sales of £14.1m and operating profit of £1.25m last year, the acquisition should also be earnings enhancing. On an EBIT multiple of under 7x, it is below Maxima's average acquisition multiple.

Reassuring trading update

In its year end update, Maxima reported that trading across the group is robust and that 2008 results should meet market expectations. The strongest business areas look to be the infrastructure end of Managed Services, Information Management (business intelligence and CRM) and the new Dynamics AX product offering, while Oracle is rebuilding following the loss of the contracts in 2008. Net cash at £8.5m was, however, a little disappointing and reflects higher working capital usage.

Changes to forecasts

We treat these statements with relief, although in the current economic environment, we continue to take a more cautious view on growth rates for 2009. We are cutting underlying 2009 profits by about 10%; however with the earnings enhancement of the acquisition, this only amounts to only a 4% net reduction in earnings to 27.8p from 28.8p. After the acquisition, we estimate proforma net debt will be c £17m (50% gearing) and proforma interest cover will be 10x.

Valuation appears to focus on the economic risk

The management story is the same as two years ago, but with a proven acquisitive track record there should actually be less stock specific risk. The valuation, however, continues to focus on UK economic risk. Any signs of stability here could bring a significant re-rating.

Price 129.5p
Market Cap £32m

Share price graph



Share details

Code MXM
Listing AIM
Sector Software & Computer Services
Shares in issue 24.9m

Price

52 week High 329.5p Low 125.0p

Balance sheet as at 30 November 2007

Debt/Equity (%) 28
NAV per share (p) 134
Net borrowings (£m) 9.3

Business

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

Valuation

	2007	2008e	2009e
P/E relative	39%	40%	47%
P/CF	3.7	3.0	3.0
EV/Sales	0.8	0.7	0.6
ROE	19%	19%	19%

Geography based on revenues

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

Analyst

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Trading update

Plenty of positive trading news...

Maxima reported that trading across the group is robust. In total, 76 new customers have been won across the group and we believe few have been lost other than the big contracts (but not the customer) announced in January this year. The group's investment in selling Microsoft software seems to be paying off, with 40 sales of the Dynamics AX package. This builds a strong new platform besides SAP and QAD, its other big resale packages with a new exposure to customer relationship management software, a growth area. Maxima also announces that it has won a three year extension on one of its other major contracts, which is now worth £2m pa.

The two most recent acquisitions – Centric Networks (July 07) and Eclectic group (January 08) – have now been fully integrated and are performing well and yielding cross-selling opportunities.

...against a weakening economic environment

The only stock specific negative appears to be another disappointing year end cash position. We assume this relates to working capital movements in a busy year end period, although we await clarification at the results. Year end net debt of £8.5m will be about £3m worse than we had hoped.

This is the only change we have made to 2008 forecasts, however we have trimmed underlying growth right back in 2009. It was low anyway due to the lost contract from earlier in the year, but we now assume a lower underlying performance with any growth coming from acquisitions.

Management has during the second half of 2008 focused on management, staff and ensuring internal processes meet the needs of the enlarged group.

Acquisition of DXI networks

DXI provides converged information and communications technology services, which means it designs and installs and supports (24/7) complex networks like the Centric business. It has a London office/data centre, which means Maxima can relinquish its rented one, and a support team in India as well, with some large blue chip customers like Transport for London and FA Premier League.

The business is an excellent fit with Centric and should yield some material cost savings, making up for the lower than average margins. DXI reported sales to March 2008 of £14.1m and operating profit of £1.25m. The majority of the business (two-thirds) is in infrastructure networks, although it also owns a small telecoms service business.

With a net purchase price of £8.5m, the operating profit multiple is 6.8x, which compares to the average of c 8x on the 11 acquisitions over the last three years, so this looks to be a good financial as well as strategic deal.

Exhibit 1: Changes to forecasts

	2009e Old	2009e New
Sales	51.4	64.0
PBT	10.2	9.8
EPS	28.8	27.5
DPS	6.2	6.1

Source: Edison Investment Research

Exhibit 2: Company fact sheet

Operations		Performance															
<p>Maxima has 12 UK and one overseas office with c 450 staff servicing over 1,000 clients. In the last two years, it has bought eight businesses to broaden its product and service offering and has integrated these businesses under the Maxima brand.</p>																	
Maxima Solutions																	
<p>Maxima Solutions delivers and supports a growing range of IT products. Its core expertise is in Enterprise Resource Planning (ERP) systems, where it specialises in the implementation and support of Microsoft Dynamics AX, SAP's Business One, QAD's MFG/PRO and its own proprietary systems. Its 'own brand' solutions – I-CON360, IBS and Intellect – are mainly for mid-sized industrial clients, while the SAP offering encompasses the whole SME market. Maxima became an accredited SAP partner in 2003 and it has grown the business strongly since then, and is now one of the largest of SAP's 31 certified resellers in the UK. It is the sole UK and Irish distribution partner for the QAD enterprise software solution MFG/PRO, a supply chain management system. QAD is a leading ERP vendor specialising in the manufacturing sector.</p> <p>The division also has a range of product and sector expertises: Microsoft CRM (customer relationship management) applications and its own proprietary Document Management systems are two of the larger product areas. Portals and information and ticketing systems for kiosks are also strong niches. As well as its strength in the manufacturing sector, document handling brings exposure to financial services and public sector customers. Maxima has also recently announced its first major Microsoft Dynamics AX project.</p> <p>With a balance of older legacy systems as well as newer platforms, the division relies heavily on repeat business from its installed customer base. Hence, operations are all strongly cash generative.</p> <p><i>Original constituent businesses: Weir Systems, Minerva, Seabrook, Ringwood, SevenThree, Cognition and Eclectic. Main competitors across different areas: Sapphire, Codestone, INVU and Chelford.</i></p>		<table border="1"> <caption>Maxima Solutions Performance Data</caption> <thead> <tr> <th>Year</th> <th>Sales</th> <th>Operating Margin</th> </tr> </thead> <tbody> <tr> <td>2006</td> <td>15,000</td> <td>12.0%</td> </tr> <tr> <td>2007</td> <td>18,000</td> <td>18.0%</td> </tr> <tr> <td>2008e</td> <td>22,000</td> <td>22.0%</td> </tr> <tr> <td>2009e</td> <td>25,000</td> <td>20.0%</td> </tr> </tbody> </table>	Year	Sales	Operating Margin	2006	15,000	12.0%	2007	18,000	18.0%	2008e	22,000	22.0%	2009e	25,000	20.0%
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Maxima Managed Services																	
<p>This division provides services to customers with pre-installed business software. It provides a range of fully managed or on-demand support and consultancy services. Support for operating systems (Windows, Linux and Unix) and databases (Oracle, Microsoft, IBM and Computer Associates) make up the core of the business and networking and security infrastructure (Nortel and Cisco). The acquisitions of Centric and now DXI provide communication technology and 24/7 helpdesk offerings. The Oracle-based application management business supports over 100 clients' databases, middleware and applications software and has 40 support contracts across a broad base of industries. It has 10 major Computer Associates mainframe clients, and about 100 Citrix based platform clients.</p> <p><i>Original constituent businesses: Hanston, QED, Intertech, 3net, Centric and DXI. Main competitors: Compel, Edenbrook and PDG.</i></p>		<table border="1"> <caption>Maxima Managed Services Performance Data</caption> <thead> <tr> <th>Year</th> <th>Sales</th> <th>Operating Margin</th> </tr> </thead> <tbody> <tr> <td>2006</td> <td>5,000</td> <td>25.0%</td> </tr> <tr> <td>2007</td> <td>12,000</td> <td>18.0%</td> </tr> <tr> <td>2008e</td> <td>25,000</td> <td>18.0%</td> </tr> <tr> <td>2009e</td> <td>35,000</td> <td>15.0%</td> </tr> </tbody> </table>	Year	Sales	Operating Margin	2006	5,000	25.0%	2007	12,000	18.0%	2008e	25,000	18.0%	2009e	35,000	15.0%
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Divisional breakdown	Geographic breakdown	Customer breakdown															
<p>Based on fiscal 2008e</p>	<p>Based on fiscal 2007 sales</p>	<p>Based on fiscal 2006 sales</p>															

Exhibit 3: Financials

	£'000s	2006	2007	2008e	2009e
Year-end May 31st		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		19,132	31,767	48,600	64,000
Cost of Sales		(4,142)	(7,838)	(13,122)	(17,920)
Gross Profit		14,990	23,929	35,478	46,080
EBITDA		3,299	6,498	10,300	11,500
Operating Profit (before GW and except)		3,119	6,165	9,800	10,900
Intangible amortisation		(414)	(1,560)	(3,320)	(3,300)
Exceptionals		0	0	0	0
Other		0	0	0	0
Operating Profit		2,705	4,605	6,480	7,600
Net Interest		(73)	(423)	(870)	(1,100)
Profit Before Tax (norm)		3,046	5,742	8,930	9,800
Profit Before Tax (FRS 3)		2,632	4,182	5,610	6,500
Tax		(536)	(822)	(1,450)	(1,800)
Profit After Tax (norm)		2,320	4,445	6,480	7,000
Profit After Tax (FRS 3)		2,096	3,360	4,160	4,700
Average Number of Shares Outstanding (m)		14.6	17.5	24.9	25.1
EPS - normalised fully diluted (p)		15.6	24.8	25.6	27.5
EPS - FRS 3 (p)		14.4	19.2	16.7	18.7
Dividend per share		4.0	5.2	5.6	6.1
Gross Margin (%)		78.4%	75.3%	73.0%	72.0%
EBITDA Margin (%)		17.2%	20.5%	21.2%	18.0%
Operating Margin (before GW and except.) (%)		16.3%	19.4%	20.2%	17.0%
BALANCE SHEET					
Fixed Assets		19,141	46,167	51,100	57,800
Intangible Assets		18,585	45,224	50,000	55,800
Tangible Assets		556	943	1,100	2,000
Investment in associates		0	0	0	0
Current Assets		9,415	14,120	14,800	16,200
Stocks		54	106	200	100
Debtors		4,499	8,900	9,600	10,800
Cash		3,029	2,861	2,000	2,000
Current Liabilities		(15,578)	(16,800)	(18,651)	(20,475)
Creditors		(11,878)	(16,100)	(17,875)	(19,675)
Short term borrowings		(3,700)	(700)	(776)	(800)
Long Term Liabilities		(3,564)	(12,085)	(13,049)	(16,125)
Long term borrowings		(2,450)	(8,766)	(9,724)	(12,700)
Other long term liabilities		(1,114)	(3,319)	(3,325)	(3,425)
Net Assets		9,414	31,402	34,200	37,400
CASH FLOW					
Operating Cash Flow		2,187	4,510	8,500	10,500
Net Interest		17	(423)	(870)	(1,100)
Tax		(193)	(2,203)	(1,700)	(1,800)
Capex		(170)	(278)	(250)	(500)
Acquisitions/disposals		(12,232)	(15,209)	(6,000)	(8,500)
Financing		4,814	10,853	(175)	0
Dividends		(469)	(734)	(1,400)	(1,600)
Net Cash Flow		(6,046)	(3,484)	(1,895)	(3,000)
Opening net debt/(cash)		(2,925)	3,121	6,605	8,500
HP finance leases initiated		0	0	0	0
Other		0	0	0	0
Closing net debt/(cash)		3,121	6,605	8,500	11,500

Source: Company accounts, Edison Investment Research

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