

Maxima Holdings



Company Description: Maxima Holdings plc (Maxima) is an IT business systems and managed services company, and was floated on AIM in November 2004. Maxima has a proven track record of delivering innovative and flexible IT solutions and services.

Maxima Holdings

MXM

Date:	17.12.09
Share price p	74.5
52 week High/Low p	159/42
Market Cap m	19

TRADING UPDATE

Although the exceptionally harsh economic conditions of the past year have not left Maxima unscathed, the robust underlying foundations of the company provide a good platform for improved strategic positioning and growth. The company issued a downwards revision of forecasts in March 2009 in the light of a worsening market, and the full year to 31 May 2009 results were in line with these forecasts. On 15 December 2009 Maxima issued a trading statement which highlighted an encouraging performance in Q2 and a reduction in net debt of £2m.

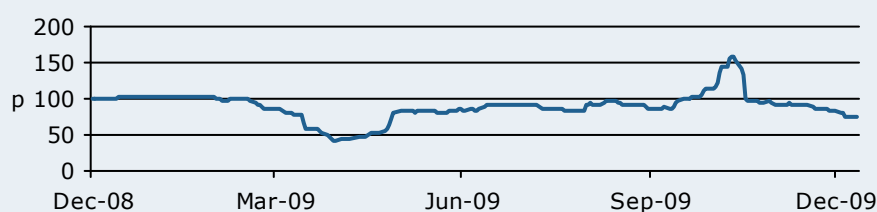
An unexpected termination of a distribution agreement with QAD due for renewal at the end of January 2010 dealt a two-edged blow in October 2009 – pain in the short term, but at the same time bringing the opportunity for Maxima to devote more resource to other, stronger partners. Maxima is receiving significant attention from the larger technology players including Microsoft and IBM.

With a strengthened Board, Maxima is focusing on core value and capability through simplifying the business and enhancing the value of its brand. Thus managed service and infrastructure activities are combined into one business, Support Enablement Services (around 50% of the business in terms of revenue and resource), and the remainder of the UK business has been rationalised to focus on partner aligned practices centred on Microsoft, SAP/Oracle and Specialist Applications.

As Maxima makes the transition to an applications and an infrastructure business, customers should perceive a focused, simplified company that is more clearly understood, and an enhanced Maxima brand.

Consensus estimates put 2010E and 2011E PERs at an undemanding 5.7x and 5.2x respectively. The trading update points to the underlying strengths of Maxima, and while many investors' attention will be drawn to QAD and the increased emphasis on organic growth in the short term, in the longer term the anticipated results of an enhanced brand, new customer engagement strategy and improved strategic positioning should see a positive rerating of the share.

Figure 1: Share Price Chart



ADVFN

Maxima is quoted on the AIM and investors should be aware that shares traded on AIM are subject to lighter due diligence than shares quoted on the main market and are therefore more likely to carry a higher degree of risk than main market companies

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BACKGROUND

Maxima is currently undergoing a transition to becoming more aligned with its customer base and its market, and with a focus on growing organically. Maxima had, through a series of key acquisitions, become established as an important specialist in IT business systems and managed services, with a global customer base in excess of 1,400. In doing this, Maxima has developed a proven capability in combining application solutions with infrastructure and managed services.

Significant Board changes took place in April 2009, with Kelvin Harrison, the former CEO, replacing Mike Brooke as Chairman, and the appointment of two experienced industry experts - Graham Kingsmill, former CEO of AIM-listed Netstore, as CEO and David Memory (also formerly of Netstore) as CFO. With Maxima's strong underlying capability and sound financial position providing a firm foundation, the management team is seeking to rebuild the superstructure of the company to create a simplified entity which is focused on core strengths.

Operational service delivery improvements are targeted to provide improved sales execution and up-selling to extend the share of IT spend with customers. Thus the transition phase is about fully integrating operations within Maxima, and exploiting the cross-selling opportunity, with the aim of delivering a seamless service to customers.

Already the Maxima portfolio has been simplified, with all managed services and infrastructure capability combined into one business practice called Support Enablement Services, and the remaining components of the business focus on four key partner aligned Business Solution Practices:

- Microsoft,
- SAP,
- Oracle, and
- Specialist Applications.

Maxima is strengthening its solutions portfolio with its own suite of added value applications. The company's infrastructure focus is largely centred on virtualisation, although security is set to become a larger part of the infrastructure business in the future.

There is a strong move in the industry away from decentralisation to central control, with an associated increase in the ability to control standard, performance and security. Maxima is developing a virtualisation strategy that embodies the demand for greater resilience and efficiency of the IT environment, and which delivers control of the physical environment and cost reduction through consolidation.

Thus Maxima has full capability in leading edge virtualisation technologies like VMware, Citrix and Microsoft Hyper-V. Microsoft has entered the virtualisation market in force, albeit belatedly, and this is expected to drive the proliferation of virtualisation faster. Maxima has manoeuvred itself to a strong position to exploit this trend.

Business Intelligence, BI, is another area of strength for Maxima, and represents a major part of the relationship between the company and Oracle and SAP. Oracle BI Applications from Maxima are built BI solutions based on best practice, utilising a number of data sources and applications including the Oracle E-Business Suite, SAP (and other third party systems), Siebel and PeopleSoft. Maxima has enjoyed success in the past year providing BI systems to a number of significant companies in the financial services sector, including Lloyds TSB and HBOS.

The process of building on the firm foundations of the business and refurbishing Maxima is expected to take between 18 and 36 months. Strong indications of the progress of the transition are likely to be evident in late calendar 2010.

Latest Update

Maxima issued a trading update on 15 December 2009 for the six months to 30 November 2009, which offered encouragement on its sales performance in tough market conditions, and more on the moves to mitigate the termination of the distribution agreement with QAD. In addition to reporting trading in line with market expectations, Maxima highlighted good cash generation and a £2m reduction in net debt from £15.5m at the end of May 2009 to £13.5m at the end of November.

The second quarter also underscored two important trends for Maxima – the growing importance of Microsoft as a partner, and Maxima’s growing status in the virtualisation space. New customer wins included the SPI Ltd subsidiary of npower, who committed to an implementation of Maxima’s Contract Management Application based on Microsoft Dynamics AX software, and in the virtualisation activity, there were a number of contract wins including a major Citrix project with Towergate, the insurance provider.

In addition, two of Maxima's largest customers have committed to multi-year contract renewals, together valued in excess of £6.5m.

Recent events

The intrinsically defensive characteristic of Maxima’s portfolio were in evidence in the first half of the year to 31 May 2009, and the results for the full year, while robustly underpinned by acquisitions, saw the impact of harsher market conditions on margins and profitability. Typically in this economic environment, the sector suffers reduced, deferred and cancelled projects, longer decision times and prolonged decision times. The final results were in line with the market expectations set in March 2009 when a trading statement was issued downgrading forecasts:

Table 1: Income Statement

Year to 31 May	£ 000s	2008A	2009A	Change
Revenue		46,657	56,609	21%
Gross profit		33,417	39,417	18%
Gross margin, %		72%	70%	-3%
Operating profit / (loss)		5,988	-7,932	
Profit / (loss) before income tax		5,208	-9,632	
Adjusted profit before tax		8,898	7,108	-20%
Basic EPS, p		15.1	-36.8	
Diluted EPS, p		14.8	-36.8	
Adjusted EPS, p		26.3	21.2	-19%

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The increase in revenues was largely accounted for by the acquisition of DXI Networks, finalised in July 2008. DXI contributed £10.6m to revenues and £1.6m to profit (after allocation of group overheads and before tax). Of the total revenues, 56% were recurring (52% in the previous year), and the small decline in gross margin resulted from the generally harder market and to the increase in lower margin managed services business following the DXI acquisition.

A number of non-cash items impacted the reported results. These included a goodwill impairment provision of £8.4m (IFRS), amortisation of intangibles at £4.0m, an exceptional provision of £0.6m for interest rate hedging instruments, and restructuring charges of £0.9m.

Net debt at the end of the year stood at £15.5m, up from £8.6m in the previous year. By 30 November 2009, however, this had been reduced to £13.5m.

The DXI acquisition has increased growth in Maxima's contracted revenue base and enlarged the scale of the business, allowing the provision of a full managed service business model. Maxima was able to form a new infrastructure business unit based on the DXI, 3Net and Centric acquisitions, which were merged and are already delivering an improved service to customers.

In the course of the year Maxima received a number of significant awards, including:

- QAD – Distributor of the Year Award
- Oracle-IBM Partner of the Year category of the 2009 Oracle UK Partner Awards ceremony
- Microsoft – achieved the first milestone in achieving the Certified for Microsoft Dynamics Accreditation.

In the light of the Distributor of the Year Award, the announcement in October 2009 that the company's agreement with QAD Europe to distribute QAD Enterprise Software in the UK and Ireland would not be renewed on expiry at the end of January 2010 was an unwelcome surprise. As well as reductions to the cost base, this necessitated a revision to the current year forecasts (Maxima estimates a reduction of up to £1.3m in operating profits despite vigorous action to mitigate the impact of this action). Despite a very successful 20 year relationship, it would appear that Maxima has been a victim of the particular market conditions faced by QAD. QAD's reaction to them has been a radical change in business model, and it will begin servicing its clients directly from 1 February 2010.

While causing pain in the short to medium term, this action frees up Maxima to focus on other, larger technology partners, including leading global companies like IBM and Microsoft who increasingly recognise the potential Maxima and its customer base holds for them.

Moreover, it is well worth pointing out that a significant number of customers use other Maxima products in addition to QAD. Maxima is aiming to retain and grow business among this customer base.

Security will play an increasingly wider role as virtualisation grows, and the inclusion of Maxima by Crossbeam Systems as a strategic partner in its Crossbeam Accredited Service Program (CASP), announced on 4 November 2009, provides further enhancement of Maxima's infrastructure offering. Crossbeam is a leading provider of next-generation security platforms for high-performance networks, and its X-Series security platform is recognised as an innovative technology leader. Maxima will provide support to Crossbeam customers in the UK and Portugal.

STRATEGY

Maxima has defined a three-pointed strategy for customer engagement:

1. **Extension** – Maxima will offer to extend the life of existing technologies and provide managed migration to new technology;
2. **Expansion** – providing selected industry-specific business solutions and up-selling support and enablement services;
3. **Partnership** – working with selected technology partners.

Partnership is a key factor for Maxima's future growth, and with the company firmly on the radar screens of the leading players, Maxima can focus on partners who can provide growth and longevity.

In terms of acquisitions, Maxima's acquisitive growth over recent years has, with current economic and financial considerations, given way to an organic growth strategy focusing on properly shaping the company before making further additions to it. In the future, we would expect to see further acquisitions, but with a more measured approach and only after thorough validation and scrutiny.

Outlook

While the economic backdrop has impacted Maxima, the company's future performance is more geared to the rediscovery of its business than the emergence of many green shoots. A large part of Maxima's operation is in businesses which look for ways to lower IT expenditure, which Maxima can deliver at lower cost and higher performance, and should thus see maintained progress in new wins and up-selling to existing customers despite the difficult market.

In the short term there will be an adverse impact from QAD's move, but it should be remembered that for a good number of affected customers Maxima provides other products, and there is good scope to retain and up-sell to those customers. Also, Maxima has the opportunity to strengthen its relationships with other enterprise software vendors, including major companies like Microsoft.

In the medium to long term, following the restructuring and rebranding already under way, together with the focus of business and product development on strong technology partners, Maxima can be expected to achieve an enhanced strategic positioning and strong growth in revenue and profitability.

HISTORIC FINANCIALS

Table 2: Income Statement

Year to 31 May	£ 000s	2008A	2009A
Revenue		46,657	56,609
Cost of sales		-13,240	-17,192
Gross profit		33,417	39,417
Gross margin, %		72%	70%
Administrative expenses		-23,739	-31,160
EBITA		9,678	8,257
Amortisation of intangibles		-3,410	-4,031
Impairment of goodwill		0	-8,413
Share based payments		-137	-93
Exceptional redundancy/ reorg costs		-143	-3,652
Operating profit / (loss)		5,988	-7,932
Excptl adjustment for hedging instruments			-551
Finance costs		-906	-1,176
Finance income		126	27
Profit / (loss) before income tax		5,208	-9,632
Tax		-1,463	400
Profit / (loss) after income tax		3,745	-9,232
EPS basic, p		15.1	-36.8
EPS diluted, p		14.8	-36.8

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Table 3: Balance Sheet

Year to 31 May	£ 000s	2008A	2009A
Assets			
PP&E		1,024	1,361
Goodwill		41,434	41,021
Other intangible assets		10,513	8,880
Total intangibles		51,947	49,901
Total non-current assets		52,971	51,262
Inventory		312	405
Trade and other receivables		12,997	14,363
Cash and cash equivalents		4,202	2,421
Total current assets		17,511	17,189
Total assets		70,482	68,451
Liabilities			
Trade and other payables		-3,809	-4,153
Deferred income		-10,379	-10,653
ST Borrowings		-754	-1,096
Accruals		-3,234	-4,218
Current tax liabilities		-1,122	
Short term provisions			-804
Total current liabilities		-19,298	-20,924
LT Borrowings		-12,063	-16,812
Deferred tax		-3,115	-2,899
Long term provisions		-500	-2,640
Total non-current liabilities		-15,678	-22,351
Total liabilities		-34,976	-43,275
Net assets		35,506	25,176
Share capital		250	253
Reverse acquisition reserve		-9,180	-9,180
Share premium account		28,624	28,794
Capital redemption reserve		50	50
Merger reserve		11,022	4,595
Currency translation reserve		152	193
Retained earnings		4,588	471
Total equity		35,506	25,176

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Table 4: Cash Flow

Year to 31 May	£ 000s	2008A	2009A
Profit/(loss) before tax		5,208	-9,632
Interest paid		906	1,176
Exceptional redundancy and reorg costs			3,652
Exceptional hedging instruments			551
Interest received		-126	-27
Depreciation		477	620
Share based payment expense		113	93
Impairment of goodwill			8,413
Amortisation of intangibles		3,410	4,031
Operating cash flow before working capital changes		9,988	8,877
Movement in Inventories		-206	-93
Movement in receivable		-770	1,070
Movement in payables		-210	-2,629
Tax paid		-1,861	-2,049
Net cash from operations		6,941	5,176
Interest received		105	27
PP&E		-404	-614
Proceeds from sale of PP&E		20	57
Acquisition of subsidiaries (net of cash acquired)		-6,131	-8,485
Development expenditure		-432	-391
Net cash from investing		-6,842	-9,406
Interest paid		-749	-1,103
Proceeds from long term borrowing		4,750	6,000
Repayment of long term borrowing		-1,450	-1,000
Repayment of finance leases		-66	-143
Dividends paid		-1,347	-1,405
Proceeds from issue of shares		104	100
Net cash from financing		1,242	2,449
Net increase/(decrease) in cash and cash equivalents		1,341	-1,781
Cash and cash equivalents at beginning of period		2,861	4,202
Cash and cash equivalents at end of period		4,202	2,421

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I certify that this report represents my own opinions

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