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A • GUIDE • TO • TECHNOLOGY • GROWTH • SHARES

TECHINVEST

Stockmarket Newsletter

MARKET COMMENT

London-listed tech stocks made solid gains during the month, more than reversing the small fall in April. Since the last issue of *Techinvest* the FTSE techMARK Focus index has risen by 2.39%.

Much of the buying strength came in the last few days of the month, with the index setting a new all-time closing high of 6762 on May 30. By contrast, US stock prices were less perky and the tech-laden Nasdaq Composite dropped around 6% mid-month before recovering to end the period fractionally down. We expressed the view late last year that the valuation gap between London-listed tech stocks and their US counterparts would close a little in 2021, and that seems to be happening. Tech stocks often perform less well when investors fear rising interest rates, but this particularly applies to shares that are trading on exceptionally high multiples. There are more of those highly rated tech stocks in the US and prices have been drifting lower recently as evidence of rising inflation unsettles the market. Some high-flying London-listed tech stocks have also conceded ground, but this has been balanced by a spate of takeover approaches for lower rated UK-based tech businesses that is reminding investors there is still plenty of value in the sector on this side of the Atlantic.

Tech stocks to receive takeover offers recently include **Senior**, the engineering solutions operator, and **Vectura**, the respiratory medicines specialist. In late April, procurement software provider **Proactis** also announced a recommended cash offer. Vectura and Proactis are current *Techinvest* New Buys, while Senior is a stock we have been monitoring closely for some time as a contrarian play on recovery in the aerospace and motor vehicle markets. As these takeover approaches reveal, experienced industry insiders still see significant value in some segments of the UK small cap tech sector, despite the record highs being set by the FTSE techMARK Focus index. The number of tech stocks trading at a significant discount to their real worth (the intrinsic value of the underlying business) has certainly declined as the market has re-rated in recent years, but the search for value today is by no means fruitless. In fact, we have been increasing our focus on identifying value over the last few years as a counter to the inflation seen in the share prices of more highly rated tech stocks. Put simply, some ratings have looked too high in recent times to recommend the shares and our inclination has been to search among more overlooked stocks for fresh buy recommendations.

Since January 2019 we have added 19 stocks to our list of current New Buys. The investment case for at least nine of these recommendations has rested primarily on valuation grounds allied to sound business fundamentals, while the other ten are better described as 'growth at a reasonable price' situations. Among the stocks we felt offered outstanding value at the time of recommendation are **Universe Group**, **Cohort**, **Strix**, **MTI Wireless Edge**, **Concurrent Technologies**, **EKF Diagnostics**, **SDI**, **TP Group**, and **TT Electronics**. Seven of these stocks have made strong price gains since they were added to the New Buys list, and accordingly they no longer represent such exceptional value. Universe and TP are currently trading close to the price at which each was recommended, and we feel that both are under-priced relative to their intrinsic value. We also raised our rating on Vectura to Buy in April on valuation grounds primarily (the share price at the time was 119p). Trading on a price to book value of just 1.29, the shares looked too cheap, particularly as the long-running legal dispute with GSK had recently been resolved and current trading was ahead of expectations. The investment house Carlyle had clearly also spotted the value and launched a bid in May pitched at 155p per share. The offer for Vectura illustrates once again the significant discount on some small cap tech stocks, relative to the price industry buyers and investment groups will pay to acquire the assets.

Other New Buy stocks that we feel currently have a good profile on valuation grounds include **Iomart**, **Amino**, **Clinigen**, **Pennant International**, **CML Microsystems**, and **Petards**. Iomart currently trades on a price to book value of 2.61 and an EV to EBITDA ratio of just 7.67, one of the most attractive ratings in the software and IT services sector. Amino's price to book value is 1.97 and the price to sales ratio is an attractive 2.1. Clinigen, a 2021 New Year Tip, has been on a strong run this year, but the valuation metrics still look good with a price to book value of 2.58 and price to sales of 2.18. Pennant is a quality operator that has been undermined by some trading headwinds over the last two years or so; in valuation terms, the shares look a steal given the price to book value of 1.23 and the price to tangible book value of 3.39, both figures being extremely low for a high-tech company. Petards is recovering from a trading setback last year, but several metrics currently point to exceptional value; the price to book value is 0.94, price to free cashflow is 3.6, and price to sales just 0.47. Deep value of this kind is no guarantee that the shares are worth buying, as stocks can remain undervalued for many years or the value can be eroded over time by poor trading performance in the business. But we feel there is a margin of safety in holding a basket of stocks that exhibit strong valuation metrics allied to good business fundamentals, particularly in sectors such as tech where growth prospects are also attractive. We'll keep up the search for just this type of stock to recommend as we move into the second half of the year.

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Amino
Danish acquisition
FDM
Strong business model

FTSE 100	**7080.46**
FTSE Small Cap (excl Inv Cos)	**6218.25**
FTSE techMARK Focus (formerly techMARK 100)	**6739.52**

Figures are as of the close of business on Tuesday, June 1

UPDATES

New subscribers should note that these Updates provide comment and reviews of previous Techinvest New Buy ratings until they are no longer worth holding in our view. This is a service to regular readers and as such the notes are written in the context of the original tip.

A rating such as "Hold" means that someone who bought at or close to the tip price is advised that the shares are worth holding, as we feel that the prospects for the underlying business remain good. Sometimes a previous tip is again rated a buy. This normally arises where for no apparent reason the price is below the original tip or where subsequent good news justifies a further purchase at a higher price. Except where noted shares are on the London Official List.

Pennant International
42p (PEN; AIM)

Pennant has announced a resilient performance for the year ended December 31. Covid-19 disruption had a significant impact on revenues across the group in the first half which resulted in an underlying EBITA loss of £2.0m for the period. However, trading improved significantly in the second half, producing an underlying EBITA profit of £1.0m for the final six months of the year. Revenue for the twelve-month period was £15.1m, down from £20.4m a year earlier and a loss before tax of £3.1m was recorded compared to a loss of £1.6m in fiscal 2019. Underlying EBITDA loss was £0.3m (2019: EBITDA profit of £2.4m). Net debt at the year-end was £1.4m.

The three-year order book at December 31 stood at £31m (2019: £33m) of which £14m is scheduled for recognition within one year. A cost review was completed resulting in circa £1m of annualised savings from 2021. The acquisition of Absolute Data Group for an initial consideration of around £1.7m was completed during the period, adding high-margin software product and recurring services revenues to the group. An amendment was agreed on the General Dynamic contract, with a £1.5m uplift secured and the same customer placed an order for virtual training and computer learning modules, with an aggregate value of £0.9m. Progress was made on Pennant's Virtual Training solutions, including an order for the Virtual Parachute Training device from Morocco.

Pennant has maintained a strong order book despite the challenges arising from the pandemic, and continued to deliver on the critical strategic objective of increasing the visibility and recurrence of earnings, especially those derived from software and services. The cost reduction programme is delivering helpful savings and there were useful extensions to contracts with key customers that illustrate the strengths of the company's long-term commercial relationships. Continue to hold the shares.

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Eckoh
67.5p (ECK; AIM)

Trading has been in line with market expectations for the year ended March 31, the company has reported. Revenue and order momentum in US Secure Payments has been strong and UK performance was described as resilient. Operating profit slightly exceeded the prior year total of £4.7m, despite the planned exit from US Support, a significant negative currency movement, and the challenges of the Covid-19 pandemic. US Secure Payments grew by more than 50% and now accounts for nearly 80% of total US revenues. Eckoh signed new Secure Payments contracts worth US$11.6m in the year (2020: US$10.7m), and the highest number of contracts in a year since the company entered the US market. Total business contracted by the UK division was £18.9m compared to £20.1m a year earlier. There was strong cash generation during the period and Eckoh's balance sheet remains robust with net cash of £11.7m (4.61p per share).

Following record order levels last year of £35.9m, Eckoh secured orders in fiscal 2021 of £30.7m, with £16.7m in the second half. That looks to be a strong performance given the disruption caused by Covid-19 during the year. The company also reported a rapid increase in the number of Secure Payments contracts won and delivered through its cloud platforms. These accounted for more than half the contract value Eckoh has won, and more than 80% of the number of contracts. While cloud contracts reduce the upfront payments for implementations, they increase the proportion of recurring revenue and improve the operational gearing, earnings quality and visibility in the business. We anticipate that the pandemic will continue to impact on Eckoh's business in the current year and the company has indicated that fiscal 2022 performance will be comparable to fiscal 2021. However, demand for secure payments, particularly in the US, is on an upward curve and this should enable Eckoh to return to strong growth in fiscal 2023. The pandemic has accelerated the move to the cloud for many organisations and this pattern of adoption is unlikely to be reversed. It augurs well for Eckoh's longer-term prospects. Continue to buy.

Eleco
121p (ELCO; AIM)

Eleco has made a strong start to the year, building on its resilient performance in 2020. Revenues for the first quarter ended March 31 were £7.0m, an increase of 9% to compared to the same period in 2020. Recurring revenues also increased by 9% to £3.7m. Pre-tax profit was 21% higher and Eleco ended the period with a net cash position of £7.9m (9.5p per share), up from £6.2m at the end of December.

Operational highlights for the period included the Turkish Minister of Transportation approving Powerproject as an accepted project scheduling software for public projects in Turkey. Kingspan continued to expand its use of ShireSystem by adding another site in Poland and a large Powerproject Enterprise order was placed by an Austrian company specialising in intelligent automation of factories. In addition, Asda reported that it had increased equipment ordering accuracy by 35%, lowered material wastage and dramatically cut data administration using Eleco's IconSystem.

Management noted that the strong first quarter puts the company well on track to deliver in line with market expectations for the year as a whole. That news helped push the shares to a new all-time high at the start of the month. We feel that the market opportunity for the company is compelling, with clients reporting outstanding efficiencies from deploying Eleco's innovative software solutions. Competition exists in the markets the company targets, but not as intense as in some other software segments and the quality of Eleco's product offering is a significant commercial advantage. Continue to buy.

Universe Group
5.1p (UNG; AIM)

Revenues for the year ended December 31 declined by 12% to £19.75m, reflecting a downturn in customers' fuel retailing activities due to the impact of Covid-19. Recovery is expected in 2021. Gross profit margin dropped from 51.8% to 43.5%, reflecting a planned reduction in consultancy and software licence revenue during the period. Adjusted EBITDA was £1.94m compared to £3.89m a year earlier. Loss for the period was £0.62m, down from a loss of £1.03m in 2019. Investment in inventories resulted in net debt of £4.69m against net cash of £0.37m at the previous year-end.

A number of new payment clients were secured in the period, reflecting the company's work in extending its payment offering. Renewal of a payments contract with a substantial grocery retailer was also announced and this was followed post-year end with renewal of a loyalty contract with a major international oil and gas group in a 5-year deal. Integration of Celtech, the Dublin-based developer of cloud retail and wholesale management solutions, has been completed.

Universe experienced some Covid-related disruption to project implementation and early-stage engagement with customers during the year, but overall appears to have coped with the challenging trading environment adequately. Winning new, multi-year contracts and contract renewals with major customers sets the business up well for 2021 and beyond. The company's product offering in both payments and loyalty looks attractive, and we anticipate that the appointment of a new CEO, Neil Radley, earlier in the year will add a fresh perspective and impetus to the business. Strong hold.

SmartSpace Software
155p (SMRT; AIM)

Results for the year ended January 31 highlighted the benefit of SmartSpace's transition into a pure play SaaS business. Revenues from continuing operations fell 9.8% to £4.6m, reflecting the impact of Covid-19 lockdowns. However, recurring revenues increased by 64% to £2.4m and exit annual recurring revenue at January 31 was up 50% to £3.0m, primarily driven by SwipedOn. SaaS revenue made up 49% of total revenue, up from 26% last time. Gross profit was 28% higher at £2.6m and gross margin improved from 41% to 57% driven by the increase in SaaS revenues. Adjusted loss before interest, tax, depreciation and amortisation was £2.1m (2020: £1.7m), with loss per share from continuing operations of 7.54p, down from 8.05p in the prior year. Cash and cash equivalents at January 31 was £4.5m (15.5p per share) compared to £2.6m a year earlier.

During the period the company completed the sale of SmartSpace Global and certain contracts of its US subsidiary to Four Winds Interactive for an initial cash consideration of £4.6m, plus a further deferred payment of £0.3m received in

May 2021. The sale was in line with SmartSpace's strategy of focusing the software business on a SaaS model. SwipedOn, the company's visitor management software, made good progress with customer numbers up 21.5% to 4,735. The number of locations using SwipedOn increased by 27.7% to 6,741 locations. A focus on higher value mid-market customers generated positive results with a number of significant new multi-location deals. Space Connect, the company's cloud-based space management software, signed a number of key distribution agreements during the year, with orders now shipping.

It is good to see SmartSpace's business gaining traction, and the transition to a SaaS model looks to be paying off. Covid-19 has changed working practices and many businesses have indicated plans to reduce their real estate. We feel this will likely result in more people than available desks which, in turn, creates a significant opportunity for SmartSpace's space management software. Moreover, as businesses reopen and staff return to the office, the importance of creating a controlled and Covid-19 secure work environment is being recognised, SmartSpace's products are particularly suited for this purpose. We believe the company is at the start of a multi-year growth phase driven by strong distribution partnership agreements and considerable scope for international expansion. Buy.

TP Group
5.35p (TPG; AIM)

TP has won a £1.1m contract from the MOD to support next generation military communications. The company will be working on the MOD's £3.2bn Morpheus Programme to scope applications that will be used by military personnel to exploit information faster and enable better decision making.

This work adds to a number of smaller contracts for TP Group's emerging Digital Services Delivery offering that combines activities previously provided separately by its Consulting and Software & Digital Solutions businesses. TP believes that this holistic approach to implementing complex digital programmes balances technical, commercial and user aspects to help customers use information and make better decisions in critical activities. We feel that TP's offering is well-timed to support the current demand for responsive software that can be developed and updated at pace, coupled with an acceleration in digital transformation across multiple sectors. We added a small holding in TP to the Trader Portfolio 5 last month, noting the company's exposure to the clean energy market and to the defence sector where demand for high-tech solutions to various military requirements is showing strong growth. The shares look modestly rated on an historically low price-to-sales ratio of 0.7 and price-to-book value of 1.4. Buy.

Open Orphan
38.5p (ORPH; AIM)

Open Orphan's subsidiary, hVIVO, has signed a contract with Imperial College London, as part of a Wellcome Trust funded initiative to manufacture a SARS-CoV-2 challenge virus. The contract is worth £3.0m and the SARS-CoV-2 challenge virus will be based on new emerging variants of the virus, which will be used in future hVIVO-run human challenge trials to allow direct comparisons of vaccines or antivirals against different Covid-19 variants. The manufacturing project will begin immediately and is expected to complete before the end of 2021. Open Orphan has already developed the initial circulating Covid-19 virus as part of the Human Challenge Programme in partnership with the UK government.

This contract is a good example of how Open Orphan's capabilities to provide an all-encompassing solution for human challenge trials is attracting prestigious contracts from leading research organisations and health establishments. Open Orphan is able to support its customers from the beginning of the process by developing challenge study models, including the manufacture of the challenge virus, as well as taking responsibility for full trial recruitment and using the company's London based quarantine facilities to run the human challenge studies. This is a unique service that gives Open Orphan considerable competitive advantage. Continue to buy.

ULS Technology
86.7p (ULS; AIM)

In a trading update for the year ended March 31, ULS reported that it is trading ahead of management expectations. Performance in the second half was strong as the housing market materially improved following the easing of lockdown restrictions and there was a significant recovery in volumes from the company's broker channel following management focus on this area. Revenues in the second half were circa £10.6m versus £6.3m in the first half, resulting in total revenues of £16.9m for the year (2020: £20.7m). Due to the lower annual revenue and a significant investment in DigitalMove, ULS now expects to make an underlying pre-tax loss for the period of £0.8m compared to an underlying pre-tax profit of £2.4m in 2020. IFRS reported pre-tax profit for fiscal 2021 will be substantially higher as it will include the profit from the sale of CAL for £27.3m. Cash balances at period end were circa £24.0m (37p per share) with no debt.

ULS has done well to avoid significantly lower revenue figures in fiscal 2021 given the challenges to the housing market posed by Covid-19. Management deserves particular credit for growing the broker channel, with the number of active users up by 21% to 1,998. There was a significant increase in operating expenditure investment in DigitalMove in the final quarter, which makes sense given the fast growth in this part of the business. By the end of the period, over 40,000 instructions had gone through the DigitalMove legal process of buying and selling a home. ULS' flagship eConveyancer product had a particularly strong second half, recovering to above pre-Covid levels, and the company reports that current levels of business as well as the pipeline remain buoyant. Forecasts suggest that the UK housing market is set for a sustained recovery starting this summer and that should be supportive for ULS' performance in the current year and beyond. Buy.

Ideagen
256p (IDEA; AIM)

Performance has been in line with expectations for the year ended April 30, Ideagen has reported in a pre-close trading update. The company's SaaS model is driving organic growth and this was supplemented by the addition of three acquisitions during the year. Ideagen expects to report revenue up 16% to £65.6m and adjusted EBITDA 24% higher at approximately £22.9m. Annual recurring revenue recognised during the year is expected to be £54.2m (2020: £43.1m), representing 83% of total revenues compared to 76% a year earlier. Organic growth was driven by both customer expansion and new customer logo wins across verticals including Life Sciences, Healthcare and Financial Services. The company won 557 new customers in the period, including KPMG, St James Place, Bank of Greece, Staffordshire County Council, Covance and Morningside Pharmaceuticals.

Ideagen's customers operate in highly regulated industries, and the company's software and services are crucial in providing assurance in critical areas such as sustainability and supply chains. This has clearly helped the business come through the disruption caused by Covid-19 in good shape, with strong growth in organic and recurring revenue, in addition to excellent cash generation (which was circa 105% of adjusted EBITDA). We made shares in Ideagen a New Buy at 16.5p in September 2012. The gain to date is 1452%. Trading on a prospective P/E of 35.3 for fiscal 2022, the shares are not cheap, though this reflects the high quality of the business and the excellent rates of growth generated over the last few years. We view the stock as a core long-term holding in a UK-oriented tech portfolio. Strong hold.

TT Electronics
256.5p (TTG; Electronic & Electrical Equipment)

In an AGM statement, TT has reported that trading in the first four months of the calendar year has continued to strengthen with group revenue 7% above the corresponding period last time on an organic basis, building on the strong start made in the first two months of the financial year. As the market recovers, the company has seen strong growth across healthcare, automation and electrification markets as demand for products that enable a smarter and healthier environment continues. Book orders are ahead of revenue, with strength across all three divisions. As a result, the board now anticipates adjusted operating profit for the full year to be towards the upper end of market expectations.

TT's ongoing self-help programme continues to progress well, supporting the company's plans to deliver double digit operating margins, with preparations underway for planned site closures to improve efficiency further. Recent acquisition, Torotel, is performing above expectation and it is reassuring to learn that all three business divisions are trading strongly. We made shares in TT a New Buy at 203.5p in the February issue, commenting on the company's exposure to structural growth drivers and the strong fundamentals of the business. The gain to date is 26%. Continue to buy.

Cerillion
770p (CER; AIM)

Cerillion has reported a strong set of results for the six months to March 31. New orders were at a record high, up 148% to £23.6m, with the back-order book 74% higher at £42.1m. Revenue increased by 26% to £12.8m and annualised recurring revenue was up 43% to £9m. Services income was up 7% to £6.5m and software income rose by 77% to £5.8m. Adjusted pre-tax profit grew by 124% to £3.8m, with corresponding EPS up 105% to 11.5p. Net cash at the period end was up to £7.7m (26.1p per share) from £4.8m a year earlier.

Cerillion's existing customer base accounted for 71% of revenue in the first half, down from 82% a year earlier, reflecting recent new customer wins. Major new contracts implemented in the first half included a £11.2m contract with a major UK provider of enterprise connectivity solutions and a US$18.4m contract with Telesur in Latin

America. Equally significantly, a key channel partner relationship yielded its first contract in early March, worth £5m, for a publicly-owned network operator in the Middle East. Cerillion's new business pipeline is 9% higher year-on-year at £130.8m, even after recent new customer wins.

These record interim results demonstrate Cerillion's continued upward momentum. Over the last three quarters, the company has signed two of its largest contracts ever, which we feel reflects the strength of Cerillion's solutions and services capability, increasing market profile, and the significant investments being made by telecommunication providers in infrastructure and systems. The importance of broadband infrastructure has never been more obvious and the current health emergency has served to support significant on-going investment in 5G and broadband infrastructure by providers, flowing down to the support systems that Cerillion provides. The record order book looks exceptionally strong and the sales pipeline offers scope for further growth. The share price ticked up following the results announcement and the stock currently trades on a prospective P/E of 42.9 for the current year. That rating does not seem unreasonable for a business that is growing at such a rapid rate and also taking into account the high level of investment occurring in the company's core telecommunications market. Strong hold.

Blue Prism
949p (PRSM; AIM)

Updating the market on trading for the first half ended April 30, Blue Prism reported that first half bookings were £98m, up 35% from last year. Gross and net retention rates were 98% and 115% respectively, and there was a closing cash position of £126m (132p per share). Closing annual recurring revenue was circa £168m and order backlog totalled £322m. During the first half, Blue Prism Cloud represented 22% of new bookings, an increase of 65% on the prior period. Based on the first half run-rate and currently prevailing foreign exchange rates, management believe that full year revenue is likely to be towards the lower end of the £170-£180m guidance range. FX is estimated to have negatively impacted original guidance by around £2m. The company continues to expect an EBITDA loss for the year of around £25m.

Blue Prism reports that it has prioritised investment in product development, with the release of nine new products which are to be followed by a major platform release. This is expected to take the company towards programmable infrastructure, with enhanced cloud offerings and a new tier of intelligent enterprise automation technology. Management report that feedback from customers suggests that the company's move towards a greatly enhanced model for robot productivity is very welcome, though the additional investment will keep the business further away from break-even in the near term. Blue Prism's share price has been weak in recent months, reflecting a decline in investor appetite for what are seen as more speculative high-flying tech stocks. However, we anticipate that the shares will perk up again once investors have time to assess the longer-term implications of the enhanced product development pipeline and strategy. Continue to hold.

First Derivatives
2110p (FDP; AIM)

Despite the impact of Covid-19 and unfavourable fx movements, First Derivatives has reported a robust performance in line with market expectations for the year ended February 28. Revenue and gross profit were unchanged on a year earlier at £237.9m and £101.0m respectively. Increased investment in R&D and sales and marketing resulted in adjusted EBITDA declining by 11% to £40.5m. Pre-tax profit was 39% lower at £11.1m and earnings per share fell by 41% to 32p. Cash generated from operating activities was £46.7m representing 115% conversion of adjusted EBITDA (2020: 75%). The performance during the period benefited from lower growth rates which improved working capital, as well as an increased focus on cash collection. Net debt at the year-end was £9.9m, down from £49.4m in 2020. The stronger balance sheet reflected the increase in cash generation during the period together with an inflow of £11.0m from the partial sale of Quantile Technologies.

First Derivatives comprises three business division: KX, First Derivative and MRP. KX revenue increased by 4% to £74.3m, driven by growth in recurring licence revenue of 10% to £37.7m. Pre-sales, implementation and support services revenue increased by 3% to £25.9m, but perpetual licence revenue decreased by 10% as the transition to focus on recurring revenue started. Growth was strongest in the core FinTech market, where recurring revenue increased by 12%. Industry revenue declined by 23% to £9.0m, reflecting a lengthening of sales cycles as potential customers focused on transitioning their existing operations to remote working rather than transformational projects. Revenue from First Derivative was unchanged from the prior year at £119.4m, reflecting the long-term and mission-critical nature of the services provided and the strength of client relationships. Revenue from the marketing technology division, MRP, was down 7% to £44.2m as the impact of Covid-19 was felt in reduced marketing budgets and customer uncertainty about the macroeconomic outlook. Management report that towards the end of the period and in the current year so far, there has been a rebound in marketing spending, particularly in the key North American market.

These were solid results from First Derivatives at a time of transition for the company as changes in the operating structure are implemented with the aim of accelerating the growth strategy. The restructuring includes a proposed renaming of the group as FD Technologies, linked to the realignment of business operations into three business units: KX, First Derivative and MRP. KX is seen as the key growth driver and ongoing investment will be provided with the goal of enabling KX to become the market-leading technology for real-time streaming analytics, which the company says represents a US$39bn addressable market by 2025 growing at 30% per annum. The aim with the First Derivative division, which comprises the managed services and consulting business plus elements of software services revenue, is to focus more sharply on target markets where the division has the greatest in-depth expertise and client demand. MRP will seek to consolidate its position as a market leading digital platform in account-based marketing where management say it offers the only enterprise class, predictive solution. First Derivatives has grown rapidly in recent years and the restructuring of operations and refinement to strategy looks to be a sensible move at this stage in order to set the business up well for the next stage of expansion that is underpinned by outstanding opportunities in real-time streaming analytics. Management reported improved momentum across the business units since the start of the new financial year and anticipate at this stage that revenue will be in the range of £255m to £260m, with adjusted EBITDA in the range of £31m to £33m. Strong hold.

Dialight
333p (DIA; AIM)

In a brief statement on trading at the AGM, Dialight reported that current trading is in line with management expectations, with orders ahead of expectations. Covid-19 disruption continues to impact on demand, but longer-term, management sounded confident that the efficiencies made during 2020 position the business for a return to significant growth once the pandemic eases. Dialight has increased its inventory to guard against potential raw material shortages. As a result, net debt at April 30 was £14.4m compared to £11.4m at the end of calendar 2020.

Dialight has endured a torrid time over the last few years, hit first by a problem with an outsource manufacturing partner and latterly by Covid-19. However, the demand for more environmentally friendly lighting products continues to grow as the focus on net zero gains momentum around the globe. On that basis, and with actions taken by the company to reduce the cost base and strengthen operations by bringing manufacturing in-house, we view the shares as a Hold.

MTI Wireless Edge
62p (MWE; AIM)

Results for the three-month period ended March 31 showed revenue growth of 4% to US$9.95m. Operating profit was up 14% to US$0.96m, reflecting the benefit of increasing scale on profit margins. There was also a significant increase in pre-tax profit, up 25% to US$0.9m. Earnings per share increased by 20% to 0.80 cents. Strong cash generation was reported with net cash up 10% to US$9.5m (equivalent to 7.61p per share).

With new mobile devices now incorporating 5G connectivity as standard, network operators are responding by rolling out higher bandwidth 5G services. This is increasing demand for MTI's backhaul antenna solutions, although the company reported that the legacy antenna market was slower as implementation of projects was delayed due to the pandemic. Demand across the company's three business units was strong during the period and the growth in scale is helping to improve the profit margin, up an impressive 25% against the 4% rise in revenues. Trading on an EV to EBITDA valuation of 13.77, we continue to view the shares as good value. Buy.

Idox
61.3p (IDOX; AIM)

Idox has built on the momentum achieved in fiscal 2020 by delivering a strong performance for the six months ended April 30. The company expects to report a 4% increase in revenue to £31.1m, with adjusted EBITDA up 17% to £10.1m. On a reported basis (including the disposed Content businesses), revenue decreased by 0.3% to £35.0m and adjusted EBITDA increased by 8% to £10.4m. Net cash at period end was £7.6m, a significant improvement from net debt of £16.1m at the end of fiscal 2020. Strong cash generation and the proceeds of £12.6m from the disposal of the Content businesses explains the transition from net debt to a net cash position.

The disposal of the Content businesses simplifies Idox's operations and will allow management to focus on the core software activities. Idox also reported good progress with its sales and marketing initiatives implemented last year, with significantly increased levels of customer engagement and improved revenues as a consequence. Management mentioned progress with M&A prospecting and we feel that the right bolt-on acquisitions could

add the scale the company requires to win larger contracts and reach further afield geographically. Strong hold.

Kape Technologies
330.5p (KAPE; AIM)

In an AGM statement, Kape has reported that it made a strong start to 2021, buoyed by sustained demand for its digital privacy products globally, as well as the acquisition of Webselenese, which was completed in March. The company is on track to deliver revenues of between US$197-202m, which is a circa 65% increase on the prior year. Adjusted EBITDA is expected to be up around 90% to between US$73-76m. Since the beginning of the year over 12% of new CyberGhost customers and over 20% of new Intego users are now purchasing more than one product, resulting in an increase in average order value (AOV).

Kape now supports 2.61 million paying subscribers globally. Since the beginning of the year, the company has been adding around 25,000 new customers a month, on a net basis, in the digital privacy division, and management expect this to accelerate. Kape also reports that the Webselenese acquisition is working out well, with several cross-company initiatives launched in order to benefit from Webselenese's technology know-how in the space. We believe that this will help Kape to enhance its product development roadmap and go-to-market capabilities. Strong hold.

QinetiQ
355p (QQ.; Software & Computer Services)

QinetiQ has reported a strong operational and financial performance for the year ended March 31. Revenue was up 19% to £1278.2m, with recent acquisitions contributing £117.2m. On an organic basis, revenue was up 10%, with a 15% increase in EMEA Services primarily offset by a 6% decrease in Global Products due to Covid-19 related impacts in QTS, OptaSense and the US business. Orders in the year totalled £1151m compared to £972.1m a year earlier. This included £158m of Typhoon phase 1 orders under the EDP framework contract in EMEA services. Underlying operating profit was up 14% at £151.8m. The majority of the increase was due to a full year contribution from businesses acquired in the prior year but the organic performance was still an increase of 6% (£7.3m). The underlying profit margin was at the top of the company's short-term range at 11.9%. EMEA Services operating profit grew 18%, while Global Products underlying operating profit was up 2% reflecting a full year of trading from the fiscal 2020 acquisition of MTEQ. Group pre-tax profit was £146.2m (2020: £123.1m). QinetiQ also delivered a strong cash performance with 131% underlying cash conversion before capital expenditure.

Good strategic progress was reported across the business. Capabilities in the test and evaluation (T&E) sphere that QinetiQ honed in the UK are now being leveraged into the global market, with the company securing new business in both Australia and Canada. International usage of UK LTPA ranges is also increasing, including a five-year contract signed with the US Air Force in Europe (USAFE) to train at MOD Aberporth and MOD Hebrides. The now-combined US business made strong headway, delivering the RCV-L prototypes, winning a number of notable sensor and autonomy contracts and developing strategic relationships for key future programs. Portfolio optimisation also continued with the disposal of non-core assets Boldon James, Commerce Decisions and OptaSense, for a combined enterprise value of £69m. This was balanced by the acquisition of Naimuri for £25m to support growth in the data intelligence and analytics domain.

Achieving organic growth against the challenges of the pandemic is testimony to the quality of QinetiQ's business. The company is targeting a sizeable growth opportunity as issues of information management, cyber security and autonomous systems become increasingly important in defence planning. Interoperability between platforms to create integrated systems and seamless co-ordination between forces and nations, to ensure a concerted approach to countering modern threats, represents a further growth area for QinetiQ. Appropriately, the company has been moving beyond its UK origins in recent years in order to establish a credible presence across the global defence market. International sales now represent 33% of total revenue, with overseas revenue growing from £158m to £420m in just five years. The speed of transition at QinetiQ is impressive and management are proving adept at delivering good strategic progress while maintaining a solid financial performance. We made the stock a New Buy at 270.4p in October 2020. Continue to buy.

Kainos
1428.5p (KNOS; AIM)

Kainos has reported continued strong growth for the year ended March 31. Revenue was up 31% to £234.7m, with a 28% increase on an organic basis. International revenues climbed 48% to £59.0m and the group also benefited from a 27% uplift in SaaS and software-related revenue to £31.6m. Supporting the NHS response to Covid-19 contributed to a 106% increase in Kainos' healthcare revenues to £48.1m. Adjusted pre-tax profit was 124% higher at £57.1m and corresponding earnings per share were up by 122% to 36.8p. Cash conversion was 112% (2020: 97%) and period-end net cash increased to £80.9m (65.8p per share) from £40.8m a year earlier. Bookings were up 6% to £258.8m and there was a 15% increase in the contracted backlog to £206.2m.

Both operating divisions (Digital Services and Workday Practice) delivered an impressive performance. In Digital Services, revenue was up 32% to £161.6m, helping lift the five-year compound annual growth rate (CAGR) for the division to 24%. Workday Practice continues to be the leading European Workday specialist and the division is building strongly in North America. Workday reported revenue growth of 30% (18% organic) to £73.1m. Within this, revenues from the company's proprietary software tool, Smart, increased by 27% to £24.2m. Workday's five-year CAGR is 49%. Active customers across the group increased from 465 to 546 in fiscal 2021. Kainos reported the percentage of customers rating its service as good or better was 98% in the period.

This was the eleventh consecutive year of growth from Kainos. A focus on revenue diversification has enabled the company to build a robust and well-balanced business. From a sector perspective, 45% of revenues are from public sector customers, 35% from commercial organisations, and 20% from healthcare customers. While the UK & Ireland accounts for 75% of sales, international revenues are growing strongly, particularly in North America which accounted for 16% of revenues in fiscal 2021. The rate of international expansion in the business is reassuring, helping to prove that the formula for success developed by Kainos in the UK can be applied successfully to other countries with different work cultures and practices. Bolt-on acquisitions are also helping Kainos to extend its range of services, moving into areas of the market that are fast-evolving (such as data analytics and cloud processing) in order to enhance core services to customers and create cross-selling opportunities. In short, the business looks in excellent shape and well set to deliver further growth in fiscal 2022 and beyond. Strong hold.

SDI Group
188.5p (SDI; AIM)

In a trading update for the year ended April 30, the company reported that sales and order intake have remained robust across all group businesses in the final two months of the year. SDI now expects to report revenue of approximately £35.3m and adjusted pre-tax profit of approximately £7.4m, with both figures higher than those provided in the company's last trading update in February. Management also guided expectations for fiscal 2022 higher, indicating revenue of at least £42m and adjusted pre-tax profit upwards of £8.7m.

This further increase in performance in a challenging year underlines the strength of the SDI operating model and the defensive qualities of the businesses within the group. We made shares in SDI a New Buy at 55p in August 2020. The gain to date is 245%. The broker consensus forecast for the year just ended is earnings per share of 5.5p, rising to 7.05 for the current year. On a prospective P/E of 26.7 for fiscal 2022, the shares continue to look reasonable value. Buy.

Oxford Metrics
97.5p (OMG; AIM)

Oxford Metrics has traded well in the first half, delivering both revenue and profit improvements for the six months ended March 31. Revenue was up 2% to £15.3m, with recurring revenue up 4.4% to £7.1m. Adjusted pre-tax profit was £1.3m compared to £0.3m in the corresponding period a year earlier. Corresponding basic earnings per share increased to 1.08p from 0.17p. On a statutory basis, profit was £1.0m against a loss of £0.1m in the first half of 2020. Operating cashflow showed a strong increase to £4.2m from £1.0m. Net cash at the period end was £15.9m (12.6p per share) compared to £10.8m a year earlier.

OMG's Yotta division reported software revenues up 11.1% to £4.1m. Annualised recurring revenues grew 4.7% to £7.1m. The customer retention rate also improved to 97.5% from 95.8% a year earlier. Adjusted pre-tax profit was £0.4m compared to a loss of £0.5m in the first half of 2020. Vicon, the motion measurement division, reported revenues broadly unchanged on the previous first half at £11.2m. Adjusted pre-tax profit was up 10% to £2.2m, helped by pandemic-related cost savings. Both Yotta and Vicon continue to see an acceleration in favourable market dynamics and enter the second half with promising sales pipelines. Accordingly, the board expressed confidence in meeting current full year expectations.

It is good to see Oxford Metrics edging back to a growth trajectory after Covid-19 adversely impacted the company's results in fiscal 2020. Going forward, we feel that both the Yotta and Vicon businesses should benefit from positive market drivers that have been accelerated by the pandemic. With a broader range of motion measurement applications continuing to emerge, including taking virtual production to new heights, Vicon has continued to innovatively push boundaries. Similarly, the need for Yotta's software solutions continues as customers look to digitally

transform and seamlessly manage their public assets remotely. The strong balance sheet with no debt, together with a high level of recurring revenue and well-established customer and partner relationships, provides a robust platform from which the company can prosper as more normal trading conditions return. Buy.

Cohort
619p (CHRT; AIM)

In a market update for the year ended April 30, Cohort confirmed that its trading performance was in line with management expectations. The period saw a record order intake of around £210m (2020: £124.4m) and a closing order book of circa £240m, up from £183.3m a year earlier. The closing order book underpins £100m (63%) of the market revenue expectations for fiscal 2022. Net funds were stronger than expected at £2.0m, an improvement on net debt of £6.1m just six months earlier.

The strong growth in Cohort's order book gives enhanced visibility across the group's businesses. This is particularly so at Chess, ELAC, MASS and SEA. However, Cohort has seen some potential orders delayed over the course of the year, notably at EID, in part arising from the impact of the pandemic. Some of these orders are now expected to be secured in 2022 and 2023. For the current year, management reaffirmed current expectations for revenue growth, but added that the mix of revenues is expected to see a reduction in the overall margin and accordingly a lower rate of profit growth. The strong order book and move to net funds were the main positives to take from the update; the order delays at EID are disappointing, but understandable in the context of the pandemic. Fortunately, the other businesses in the group seem to have emerged from the disruption caused by Covid-19 in better shape and this underpins a positive outlook for revenue growth in the current year. Continue to buy.

Playtech
461.6p (PTEC; Travel & Leisure)

Playtech has announced that it has signed a new, expanded long-term strategic software and services agreement with Holland Casino. Under the agreement Playtech will become Holland Casino's strategic technology supplier delivering its full turnkey multichannel technology as well as certain ancillary services. Holland Casino is the state-owned, land-based casino operator in the Netherlands. It operates 14 casinos across the country and will also expand into the online space offering betting and gaming products. The online gambling market in the Netherlands is currently expected to launch in October 2021.

Playtech has also announced the proposed sale of its financial trading division, Finalto, to a consortium led by Barinboim Group for up to US$210m. The consideration comprises cash of US$185m, of which US$15m is deferred for up to two years, plus US$25m contingent on certain cash flow or other criteria being met by Finalto. However, net cash proceeds from the deal would be lower than US$210m, as an amount of around US$109m that Finalto currently holds as cash relating to regulatory and operating requirements will be transferred to the consortium on completion.

The proposed sale is in line with Playtech's strategy of simplifying the group so that it become a pure play technology provider in the B2B and B2C gambling markets. Significant capital will be unlocked for the company if the deal completes and it is also likely to increase the predictability and stability of Playtech's cash flows going forward. In a brief trading update during the month, the company confirmed that its gambling-related businesses have performed well in the first four months of the current year, buoyed by strong online growth. There remains work to do before all of the issues that have dogged Playtech's business performance over the last two years are resolved, but the sale of Finalto is a major step in the plan to focus down operations in order to capitalise on the company's well-established lead in gambling-related technology. New legislation is also opening up the gambling market in a range of countries, with the Netherlands and the US two particular examples. Regulated markets offer stricter protections for gamblers and there are opportunities in this for a responsible provider like Playtech to win new business by ensuring that its technology and software help clients satisfy all compliance requirements. We rate Playtech shares a Hold.

Strix Group
300p (KETL; AIM)

In an AGM statement, Strix reported that the improved performance in the business in the second half of 2020 has continued so far during the first half of 2021. The company now anticipates delivering revenue growth of 30% for the current financial year, driven by strong growth in the kettle controls category, particularly within the regulated segment. Strix also announced that it has successfully implemented price increases on some legacy products in both kettle controls and the water division, which alongside a range of other efficiency measures, including continued automation and strategic initiatives, has offset cost inflation. In the water category, sales of new products launched recently is starting to accelerate with additional product launches from LAICA implemented in the first half including GlaSSmart (instant water filtering bottle), tap filters and the myLAICA sports bottles. The new manufacturing operations in China remain on target and budget to be fully operational by August as originally scheduled.

Strix is making good progress towards achieving its target of doubling revenue over the next five years. The company continues to consolidate its position as the global leader in advanced kettle controls, while also building out its water division through acquisitions and the launch of a range of innovative new products. We continue to rate the company highly in terms of marketing strength, product development, and the general efficiency of operations, among other attractive qualities. Strong hold.

Vectura
138.6p (VEC; AIM)

Vectura has announced a recommended cash offer for the company from global investment group, Carlyle, pitched at 155p per share, representing a premium of 32% on the prior closing price. The offer comprises 136p in cash plus payment of a 19p dividend. The dividend payment was triggered on June 1 and so the current share price of 139p is the ex-dividend price.

Shares in Vectura traded above the offer price following the takeover announcement, indicating the possibility of other interested parties emerging or an improved offer from Carlyle. We raised our rating on Vectura to Buy in the April 2021 issue after the company reported results ahead of expectations for the year ended December 31. We wrote that both the valuation and quality metrics for the business were looking attractive. Trading at 119.6p per share at the time, the price to book value was a lowly 1.29. Return on capital at 22.9% was impressive and the operating margin at 69.7% was high, even for the pharmaceutical industry where margins tend to be rich. Overall, we felt the shares were flying under the radar and the current bidder, Carlyle, appears to share that view. The current offer leaves plenty on the table for the bidder, we would argue. Following the strong results and positive update from Vectura last April, we anticipated an upward re-rating of the shares and had in mind a medium-term price target of 180p, which would still have seen the stock trading on a modest price to book value of just under 2. As Carlyle's offer has been recommended by Vectura's board, other potential bidders might be deterred. Nevertheless, we would suggest awaiting developments rather than selling the stock in the market at this stage, just in case another buyer should emerge.

Softcat
1807.5p (SCT; Software & Computer Services)

In an update for the third quarter ended April 30, the company reported that it continued to trade well, building on the strong first half performance. Revenue, gross profit and operating profit all recorded further double-digit year-on-year growth. Run-rate transaction volumes strengthened and cash collections and conversion have remained in line with normal trends. Consequently, the board anticipates that results for the full year ending July 31 will be ahead of expectations.

Encouragingly, the third quarter performance was more broad-based than in the first half when hardware drove the growth. However, Softcat cautioned that profits in the first half were supported by cost savings related to the pandemic, which are expected to reverse as travelling to see customers and internal events become possible again. Also, the first half included the company's largest ever deals, elements of which were one-off in nature. The result was a circa £12m boost to EBIT in the current year which will be normalised in fiscal 2022. Softcat has exposure to a number of strong market trends, including increased corporate investment in security, the management of remote workforces, and cloud migration. On that basis, we feel that prospects for the business remain attractive, although that is well reflected in the current share price, with the stock now trading on a prospective P/E of 38.8 for fiscal 2021. Strong Hold.

Amino
149p (AMO; AIM)

Amino has announced the acquisition of Nordija, a Danish streaming and Pay TV platform specialist for €5.3m. Nordija will be integrated into Amino's 24i business, enabling the latter to enhance its end-to-end video streaming portfolio, accelerating its progress in the TV as a Service (TVaaS) market. In fiscal 2020, Nordija achieved revenues of €3.7m. The acquisition is expected to be earnings enhancing in the first full financial year of ownership.

This deal supports Amino's aim to address the convergence of streaming services and traditional Pay TV, which in turn will help drive software and recurring revenues for the enlarged group. Amino is seeking to triple revenues and achieve recurring revenues in software of at least 70% by 2025. Acquisitions are likely to play a key part in reaching this target. The shares are rated a strong hold.

FDM

FACT FILE

Website:	**www.fdmgroup.com**
Telephone:	**02030568240**
Stockbroker:	**Investec**
FTSE Class:	**Software & IT Services**
EPIC Symbol:	**FDM**
Shares in Issue:	**109m**
Price:	**972.5p**
Market Capitalisation:	**£1.06bn**
Year-end:	**December 31**

Adjusted earnings per share:
2020: 28.1
2021: 31.2
2022: 35.3
Price Earnings Ratio:
2020: 34.6
2021: 31.2
2022: 27.5

Last month we made shares in FDM a New Buy at 1022p, promising to write more about the company in this issue. FDM is professional services provider focusing on the IT staffing market. The company's principal business activities are recruiting, training and placing its own permanent IT and business consultants (known as 'Mounties') at client sites. FDM also supplies contractors to clients, either to supplement its own employed consultants' skill sets or to provide greater experience where required. Mounties are deployed across a range of technical and business areas, including development, testing, support, project management, data services, business analysis, artificial intelligence and cyber security. Established for over 30 years, FDM operates across the UK, Europe, North America, and APAC.

With the market for IT staff and consultants showing signs of strong recovery following the easing of Covid-19 lockdown restrictions, we feel that now could well be a good time to gain exposure to FDM and the incredibly successful business model which has made the company one of the leading players in the tech recruitment sector globally.

Strong metrics
FDM is a quality operator in the IT staffing market and that is well reflected in a number of financial metrics. Return on capital is an outstanding 40.9%, which is close to the highest in the London-listed software and IT services sector. Operating margin is an impressive 15.6% and cash generation has been consistently strong, with free cashflow per share rising by a five-year CAGR of 14.6%. Growth rates in the business have also been above average and this has been achieved without any significant dilution of equity. Revenues and operating profit have risen by a CAGR of 10.7% and 7.2% respectively since 2015. Growth in dividend per share over the same period is an attractive 23%, with a prospective dividend yield of nearly 3% for the current year. In terms of quality, therefore, the investment case for FDM is relatively easy to make. Valuation, by contrast, poses a greater challenge as the shares have long traded on a premium rating, with the historic P/E mostly above 25 and often as high as 35-40. The P/E based on results for the latest full year is a demanding 34.6, although that partly reflects the downward pressure on profits from the impact of Covid-19.

Looking at the valuation in a broader perspective, however, the current share price becomes less of an issue. Compared to the high P/E, FDM's price to free cashflow rating for the last financial year is a more modest 20. Moreover, free cashflow per share has been consistently higher than normalised earnings per share over a number of years, which gives credence to using free cashflow per share as a key valuation metric for FDM. The price to sales ratio is also relatively low for the tech sector at a little over 4. Likewise, an EV to EBITDA rating of 21.56 places FDM comfortably in the upper half of software and IT services stocks for this widely used measure of financial value. We would also mention the strong balance sheet, with cash of £50m (45.9p per share) and no debt.

Competitive advantages
FDM trades on a higher rating than most recruitment specialists, but this seems justified by the focus on higher end IT staffing requirements and by the significant investment the company makes in recruitment and training. To address the shortage in IT specialists, FDM recruits, trains and hires graduates, ex-forces personnel and those looking to return to work after a career break. The company has around 4,500 employees globally and recruits from over 500 universities. Award-winning training is provided in-house to equip recruits with relevant technical skills and commercial experience. In return for the training, consultants are required to work for FDM for a minimum of two years, which ensures continuity of service for clients.

With flexible contract terms, FDM can provide scalable resources at short notice and across multiple client sites. Consultants continue to be supported whilst they are on client site, with professional and technical backup to underpin the training they receive with FDM. Clients can transfer their on-site FDM consultants to be part of their permanent teams after the agreed contractual time frames have lapsed. This enables clients to retain knowledge and skills whilst adding a broad mix of experienced professionals to their own talent pool. Unlike many staffing providers, FDM also has the ability to recruit and train for specific skills and requirements where the need arises.

Robust performance
Results for the year ended 31 December 2020 showed that FDM delivered a solid operational and financial performance in the light of challenges presented by the pandemic. Revenue fell 1% to £267.7m and pre-tax profit was 22% lower at £41.0m. Cash flow from operations was once again strong, increasing by 15% to £66.1m. FDM has not accessed the UK Coronavirus Job Retention Scheme nor taken any funding from the UK government during the pandemic, which we see as a sign of business strength and the mission critical role that many Mounties perform for clients.

The Mountie utilisation rate was lower in fiscal 2020 at 94.8% compared to 96.1% in the prior year, though a quick transition to remote working helped ensure that most placements were retained. FDM has since reported that Mountie utilisation rates, and the numbers of Mounties who are unallocated or who have completed their training but are awaiting their first placement, have normalised in the first quarter of the current year. Indeed, placement of Mounties with clients increased by nearly 5% in the period, reflecting the easing in lockdown restrictions globally. The company's recruitment and training programmes have also returned to pre-pandemic levels in order to meet rising demand for IT specialists.

FDM has a proven record as a nimble, high-quality business with substantial UK and overseas growth potential. An important part of the company's success is its scalable platform that provides multiple growth avenues at relatively low risk. An extra Mountie placement brings in considerable extra revenue per year with minimal additional operating expenditure, highlighting the scalability of the model. The business is also well diversified across a range of business sectors, including finance, media, retail, insurance, and government departments.

With digital disruption creating huge new demand for consultants to recalibrate IT requirements across the corporate world, we feel FDM is well positioned to benefit from this key growth trend. Continue to buy.

MARKET MOVERS

Synairgen, the company developing an inhaled formulation of interferon beta as an antiviral treatment for severe viral lung infections, received a 54% boost to its share price after announcing positive results from *in vitro* studies. The study reportedly showed that the treatment potently reduced the Covid-19 virus to undetectable levels in cells infected with various strains, including the UK/Kent variant and the South African variant. Synairgen's share price hit a high of 247p last August on hopes that its inhaled formulation of interferon beta would prove effective as a treatment against Covid-19. High-tech engineering solutions provider **Senior** was a major gainer during the month, up 40% after the company received a conditional offer from Lone Star at 176p per share. This is the third unsolicited proposal received from Lone Star. The board of Senior views the offer as fundamentally undervaluing the business and its future prospects. Senior was trading as high as 323p in 2018 but challenging trading conditions in the company's core aerospace and vehicle manufacturing markets since then, exacerbated by the impact of Covid-19, has seen a sizeable drop in the share price.

CyanConnode's share price continued to recover during the month, buoyed by the announcement of a strategic agreement with Smart Energy Water, a US-based cloud platform provider for the utility industry. The agreement will enable each company to promote and be authorised to sell the other's products and services, as well as refer potential customers to each other, expanding the geographical reaches of each business. Later in the month, CyanConnode also announced a memorandum of understanding with Intellismart, a meter asset provider with extensive operations across India. Other stocks from the New Buys list to make gains of 10% or more during May include **Cerillion, Kape Technologies, Gooch & Housego, Dotdigital, Dialight,** and **Shearwater.**

Shares in **Staffline** were among the biggest losers, down 29%, after the recruitment company announced a discounted placing at 50p per share to raise £44m. The proceeds will be used to strengthen the balance sheet and support a wider working capital refinancing. Staffline is undergoing a major transformation following a sharp decline in business fortunes in recent years. The shares were trading as high as 1294p in 2015. One of our New Buy list stocks, **First Derivatives**, featured among the worst performers last month. The shares fell by 26% despite reporting what we regarded as a solid set of results for the year ended February 28.

TECHINVEST TRADER PORTFOLIO 5

London-listed tech stocks performed well in May, with the FTSE techMARK Focus index rising by 2.39% to 6,739 and setting a new all-time high towards the end of the month.

Stock prices were buoyed by forecasts of a stronger than expected recovery in the UK economy in the second half of the year. Takeover activity in the tech sector also added to the bullish mood. In technical terms, the strength with which the FTSE techMARK Focus index has broken through a key resistance level at 6,600 indicates that a move to new high territory above the 7,000 level is likely in the near term.

To some extent, London-listed technology stocks are playing catchup with their more highly rated US counterparts. The bull run in US technology over the last year or so, led by some major high-profile firms like Tesla, has been nothing short of phenomenal and has far outpaced the performance of tech in other countries, including the UK. Some of the valuation differential between US- and UK-listed tech stocks is justified, but we think the divergence had become overstretched earlier this year and there is likely to be a readjustment now that will gradually see higher ratings attached to tech in Europe and Asia at the same time as there may be some cooling in the red-hot US market.

We also anticipate that the uptick in merger and acquisition activity seen in the European technology sector recently may gather pace in the second half of the year, particularly if lockdown restrictions continue to be eased and the economy returns to something closer to normality.

Number of Shares	Company	Ticker	Date Bought	Buying Price	Total Cost £	Present Price p	Value £
6,000	CentralNic	CNIC	02/11/20	78	4715.35	**86.4**	5184.00
2,500	QinetiQ	QQ.	30/11/20	300	7549.45	**355**	8875.00
1,200	RWS	RWS	19/01/21	524	6331.39	**640**	7680.00
1,000	Cohort	CHRT	27/01/21	625	6293.20	**619**	6190.00
800	Tracsis	TRCS	23/02/21	641	5165.59	**861**	6888.00
8,000	MTI Wireless Edge	MWE	30/04/21	69.5	5599.75	**62**	4960.00
80,000	TP Group	TPG	30/04/21	5.7	4594.75	**5.35**	4280.00
2,200	Iomart	IOM	01/06/21	274	6070.09	**274.75**	6044.50
6,000	ULS Technology	ULS	01/06/21	87	5258.05	**86.7**	5202.00
All purchases adjusted for subsequent rights/scrip issues							
* Denotes part profits taken						Cash	£98,422
Starting Capital £150,000 (01/09/20)						**TOTAL**	**£153,726**

There are two transactions to report for the Trader Portfolio this month. We added 2200 **Iomart** shares at 274p each and 6000 **ULS** shares at 87p each. Iomart provides secured managed hosting and cloud services, with a strong niche position in the market for small and medium size businesses. The company has proved a quality operator over the years, delivering a mix of both organic and acquisition-led growth. Revenue has risen by a compound annual growth rate (CAGR) of 11.3% over the last five years and operating profit in the same period has risen by a CAGR of 9.2%. The business has good defensive qualities and delivered a resilient performance last year in the face of the Covid-19 challenge. Revenue for the year ended March 31 is expected to be little changed from a year earlier at £112m and adjusted pre-tax profit will be around 12% lower at £20m. The profit dip partly reflects the impact of the pandemic, but also the company is transitioning away from legacy self-managed infrastructure revenue to managed cloud revenue. Cloud revenue tends to have initially lower margins which expand over time and represent a better long term growth opportunity.

Cash generation is reported to have remained strong and above the board's expectations in fiscal 2021, with the year-end cash position increasing to approximately £23m from £15.5m in fiscal 2020. On a free cashflow per share basis, Iomart's stock currently trades on a rating of 11.8, which looks particularly good value. Price to sales ratio is a lowly 2.61 and the EV to EBITDA rating of 7.67 is one of the most attractive in the software and IT sector. Return on equity is 10.4%, again placing Iomart among the upper quartile of performers for this metric in its sector. With a well-established customer base and strong cash flows, we feel that Iomart is well positioned to make a success of the transition to cloud-based managed services, gradually adding new products and extending the range of revenue generating customer engagements.

ULS provides a range of software and services to support the UK house conveyancing market. The company recently reported that it traded ahead of management expectations for the year ended March 31 and the upward momentum has continued into the new financial year as the UK housing market has continued to recover from the adverse impact of the pandemic in 2020. The processes involved in residential property transactions in the UK offer considerable scope for updating and ULS aims to play a leading part in the digital transformation of the conveyancing market, adding services that build into a comprehensive offering for all parties involved in the transactional chain, including estate agents, solicitors, insurers, mortgage providers, and consumers. Trading on a prospective P/E of 17.6 for the current year, the shares look inexpensive given the progress made in the business to date and the attractive prospects for further expansion. The company has historically generated strong free cash flow and the price to sales ratio is relatively low at 2.37. Operating profit has risen by a CAGR of 21.2% over the last five years and the operating margin is a healthy 8%. Return on capital impresses at 12.2% and the cash balance is currently around £24m (37p per share) with no debt. We like ULS' vision for transforming the transactional processes involved in conveyancing and have been impressed by the strong operational and financial progress achieved by the business to date. We feel that this is a well-managed business with an excellent understanding of the requirements of its client base and how technology can simplify and improve the contribution of all of the professions involved in the conveyancing chain. R&D investment has rightly been a high priority for management and it is no surprise that the company's latest product, DigitalMove, is proving popular, with 40,000 conveyancing instructions processed through this platform in fiscal 2021 alone. Overall, we see this as a stock worth backing for its long-term growth potential.

TECHINVEST TRADER PORTFOLIOS

Techinvest Trader Portfolio 1
Starting Capital (1.3.85): £20,000
Termination Value (31.3.93): £462,874
Gain (8 years and 1 month): 2214%

Techinvest Trader Portfolio 2
Starting Capital (1.1.93): £50,000
Termination Value (30.4.96): £276,691
Gain (40 months): 453.3%

Techinvest Trader Portfolio 3
Starting Capital (1.4.96): £50,000
Termination Value (27.3.00): £570,402
Gain (4 years): 1040.8%

Techinvest Trader Portfolio 4
Starting Capital (1.1.00): £100,000
Termination Value (1.12.20): £1,089,659
Gain (20 years): 989.7%

The Trader Portfolios are unaudited paper funds which are run to illustrate the dynamics of managing an active technology sector portfolio. No new share goes into a portfolio until after it has been rated as a New Buy in an issue of *Techinvest*. After that, a portfolio can act just like any subscriber, using its judgement to buy, hold or sell in accordance with subsequent price movements and news flow within the sector. All transactions take full account of prevailing bid-offer spreads. Commission is charged at a flat rate of £11.95 on deals of any size, to reflect current online dealing rates. No credit is taken for dividends paid by companies nor for interest on cash balances. Current holdings are valued using mid-market prices.

The next issue of *Techinvest* will be published on Saturday 3rd July.

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