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TECHINVEST

Stockmarket Newsletter

MARKET COMMENT

Equity prices continued to fall during the month as investors worried about the impact of rising inflation on business performance. Since the last issue of *Techinvest* the FTSE techMARK Focus index has declined by 3.47%.

Since reaching a high of 7683 last August, the techMARK Focus has reversed sharply, losing nearly 24% of its value in just ten months. Over the same period the FTSE All Share Software & Computer Services index has fallen by 30.5%. That places tech firmly in bear market territory (defined as a reversal of 20% or more from a recent peak). In technical terms, it looks significant that the techMARK Focus has now fallen decisively below 6000, a level at which there had previously been significant support. The next support level is 5400 and a fall below that would bring into view 4600, the level at which prices bottomed out in March 2020 during the last major sell-off in equities. The 4600 mark is also significant as a resistance level that took many months to break through during the long bull market that began in 2008.

The average bear market since 1926 has lasted thirteen months with an average accumulated loss of 30%. Were the techMARK Focus to slip back to 4600 this time around, it would represent a fall of circa 40% from the peak reached in August 2021. That would be higher than the average bear market loss, but then the gains achieved in the prior bull market were also above average. Dating from the end of the financial crisis in 2008 to August 2021 the techMARK Focus appreciated by 561% (compared to the average bull market gain of circa 112%). After such a steep and prolonged rise in prices, we might also expect the slide in a subsequent bear market to be deeper and more protracted than the average. Comparison can be made here with the dot.com bubble in the late 1990s. Between 1994 and 2000, the gain on the Nasdaq index was circa 590%. It subsequently lost around 76% of its peak value in the tech stock crash that played out over the next three years.

As we have commented before, however, we doubt that the bear market this time will follow the path taken during the unwinding of the dot.com bubble. For one thing, current tech stock valuations are not as stretched as they were back then. Also, tech is a much more established part of the economy today, benefiting from developments such as digitisation, automation, and cloud services upon which modern enterprises are increasingly reliant. The dot.com crash was driven primarily by realisation among investors that a speculative bubble had formed in tech stock prices. By comparison, tech stocks are selling off today in response to concerns about events in the real world, chiefly supply chain shortages and rising inflation. Fears of a looming recession in particular has dented risk appetite and made investors cautious about backing growth stocks at a time when the outlook for the economy is turning down. Investors are also showing preference for safe haven blue-chip stocks at the expense of the smaller cap sector. Unfortunately, most tech companies with a London-listing are small cap and have suffered accordingly due to their perceived lack of defensive qualities relative to larger cap brethren in old economy sectors.

Given that most tech operators continue to report strong results and appear to be absorbing the impact of supply shortages and rising operating costs reasonably well, the current sell-off may seem irrational. But markets look ahead and try to discount events that appear likely to occur in the medium term. A worsening economic situation later this year and into 2023 does seem likely and therefore needs to be discounted in current stock prices. Whether this justifies the heavy falls seen in tech stock prices, however, is questionable. After all, tech would seem to have the wherewithal to come through a downturn in better shape than many other parts of the economy. Balance sheets are generally strong in the tech sector and many operators have good cash generation and high levels of reliable recurring revenue. Secular growth trends, such as automation and digitisation, also provide a strong underpinning for tech demand even if IT budgets become more constrained in a downturn. While we recognise some justification on economic grounds for the sharp de-rating of tech stocks since last year, we also feel there is an element of overreaction driven by fear and short-termism. Good stocks have been pulled down alongside ones that have weaker fundamentals, creating some attractive buying opportunities.

Industry buyers and private equity investors have been noticeably quick to pounce on selected opportunities as stock prices have fallen. **EMIS** is the latest example from our list of recommended stocks, with the company recently announcing a recommended cash offer from United Health Solutions pitched at 1925p per share. We made the shares a New Buy at 1267p in the April issue, and the gain at the offer price is 52%. While that is a pleasing return over just a few months, we also note that this is another highly successful UK tech stock set to be acquired by an overseas buyer. For the long-term health of the London-listed tech market, it would be good to see a few of the UK's innovative mid-cap tech stocks, such as EMIS, make it through to large-cap status without losing their independence. ARM made the FTSE 100 a few years ago before being acquired by Softbank for US$32bn, but since then the London market has lacked an outright tech champion to help promote the importance of the sector within the UK investment horizon.

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Second Half New Buys

FTSE 100	**7323.41**
FTSE Small Cap (excl Inv Cos)	**5328.84**
FTSE techMARK Focus (formerly techMARK 100)	**5860.87**

Figures are as of the close of business on Tuesday, June 28

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.

Photo-Me International
75.9p (PHTM; Travel & Leisure Services)

Shares in Photo-Me rose 8.7% during the month following a positive trading update for the six months ended April 30. Revenue was up 24.2% compared to the same period last year, with a consequential beneficial (but unstated) impact on profitability. Net cash at the period end was £41.4m (10.9p per share). With the lifting of Covid restrictions, trading has returned to pre-pandemic levels across all of Photo-Me's markets with the exception of Asia where some lockdown measures remain in place. Growth was driven by a significant increase in photobooth revenue, particularly in France and the UK, as the company benefited from pent-up demand for passports and other official documentation. The laundry business continues to perform well and further investment was made in growing the division, with 53 machines per month installed throughout the period. A new low-cost laundry machine, the 'Flex', has been successfully installed across several sites in Europe. Photo-Me report that early trading results have been extremely positive and the plan now is to deploy the new product rapidly across the continent. Management added that the food business, including the new pizza vending offer, is also proving very attractive and represents a strong future development opportunity.

Photo-Me's strong start to 2022 is pleasing against a backdrop of economic and consumer uncertainty. While the company is facing increases in supply chain and raw material costs, this is balanced by having significant pricing power in the core photobooth and laundry markets. For the full year, management is now guiding revenue to be at least 20% higher compared to fiscal 2021, with adjusted pre-tax profit in the range of £47m to £50m. Broker FinnCap is forecasting adjusted earnings per share up 46% to 9.8p for the current year. The broker raised its price target for the shares to 123p (from 105p) following the positive first half update. On a prospective P/E of 7.7 for fiscal 2022 the valuation looks undemanding. We also like the strong balance sheet and the largely self-funding rollout of the laundry and food vending businesses, which are adding diversification to the group. Buy.

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Gooch & Housego
898p (GHH; AIM)

As Gooch & Housego had previously guided, results for the six months ended March 31 were impacted by pandemic related factors. Revenue was down 7.4% to £54.1m, with the decline primarily driven by weakness in the Aerospace & Defence business. Adjusted pre-tax profit fell by 26.6% to £3.6m, with corresponding earnings per share of 11.8p compared to 15.7p a year earlier. Adjusted pre-tax profit was down due to lower volumes, and investment in R&D and manufacturing capacity. However, order intake for the period increased significantly on the second half of fiscal 2021, reflecting accelerating growth in demand for the company's products and services as the global economy emerged from the pandemic restrictions. Accordingly, the order book was at a record level of £119.9m at March 31, an increase of 29.2% compared with the same time last year.

Demand from Gooch & Housego's industrial laser and semiconductor markets continued to be strong in the first half, with revenue up 4.4% to £27.7m. In the company's life sciences markets demand for medical laser products used extensively in cosmetic surgery has returned strongly, offsetting reductions in shipments for some medical diagnostic products that returned to good, but more normalised levels of demand post pandemic. Revenue from Life Sciences was down 1.4% to £13.3m. Aerospace & Defence revenues fell 28.8% to £13.1m, affected by customer driven delays and new programmes not yet progressing to volume phase. Recent order intake in the division has been strong, including a £4m upgrade of an optical imaging system for the UK MOD's Challenger upgrade programme.

Covid-related staff absences, supply chain disruption, and delayed customer orders in Aerospace & Defence particularly, have been the main bugbears for Gooch & Housego over the last eighteen months or so. Against that tough background, therefore, it was good to see order intake accelerating again in the first half of the current year and an improving outlook for the Aerospace & Defence business. Management is sticking to the long-term strategic goals of diversification and moving up the value chain, complemented where appropriate by acquisitions. We continue to see Gooch & Housego as a quality operator with a strong product offering in several attractive niche markets. Trading on a prospective P/E of 24.3 for the current year, however, the shares are likely to mark time until there is clear evidence of a return to revenue growth and recovery in profits. Hold.

Keywords Studios
2266p (KWS; AIM)

After a few quiet months on the acquisition front, Keywords Studios has made another foray into the market with a conditional agreement to purchase Forgotten Empires, a full-service game development studio, for a total consideration of up to US$32.5m. Founded in 2013 by studio head Ryan Shepherd, who will continue leading Forgotten Empires within Keywords Studios, the studio specialises in the development of real time strategy games including Microsoft's classic franchise, Age of Empires. Headquartered in Ohio in the US, the company has a team of 53 game developers and has worked alongside Keywords' other game development studios Tantalus, Wicked Witch and Climax Studios on certain projects. Forgotten Empires generated revenue of US$7.2m in 2021 and is expected to grow strongly in the current year.

Separately, Keywords reported that it has made a positive start to the year with strong organic revenue growth in the first four months and management is confident that the performance for the full year will be in line with current expectations. The next scheduled update on trading from the company will be the interim results in September.

Forgotten Empires' skill in developing real time strategy games is illustrated by the hugely successful and expanding Age of Empire series. Accordingly, we see the acquisition as a significant addition to Keywords' current client offering and game development capability. Integration of the acquisition should progress well given that Forgotten has previously worked with some of Keywords' other game development studios and the founder of the business, Ryan Shepherd, will remain at the helm. Continue to buy.

RWS
355.9p (RWS; AIM)

First half results from RWS revealed a solid performance with profit ahead of expectations and progress with new strategic initiatives. Revenue for the six months ended March 31 was up 9% to £357.3m. This figure incorporates a full six months' trading of SDL compared with only five months in the comparative period. On an organic constant currency basis, and excluding acquisitions, revenues grew by 1%. Adjusted pre-tax profit was 20% higher at £60.7m and corresponding basic earnings per share increased by 13% to 11.9p. Cash conversion was strong at 120% and net cash at the period end had reached £38.2m (10.1p per share).

Organic revenue growth was actually 3% across the three divisions that make up 85% of group revenues: Language Services (+2%), Regulated Industries (+5%) and Language & Content Technologies (+2%). In line with management expectations, continuing weakness in demand resulted in an 8% fall in revenues from IP Services, which accounts for circa 15% of group revenues. The main bugbear for the IP Services business currently is related to the impending introduction of the Unitary Patent in the EU, which has led some clients to delay patent applications ahead of the change. The Unitary Patent is expected to come into effect no earlier than the final quarter of 2022. RWS has taken actions to lower the cost base in IP Services and to deliver significant operating efficiencies and a stronger sales capability.

These results demonstrate early progress in increasing the proportion of revenues coming from higher growth segments, with the software driven Language & Content Technologies division now representing 17% of group revenues in the first half compared to 15% a year earlier. The full effect of synergies following the SDL acquisition are now coming through, with a strong increase in adjusted pre-tax profit. IP Services has been subject to what looks to be a short-term setback and management reassured that the division saw a record month for research revenues in March, indicating an improvement in market conditions as implementation of the Unitary Patent comes closer. RWS also confirmed that the full year outlook remains in line with current consensus market expectations, which are for revenue of £746.5m and adjusted pre-tax of £134.2m. A prospective P/E of 13.4 for fiscal 2022 looks undemanding. Continue to buy.

Synectics
105p (SNX; AIM)

In a trading update for the half year ended May 31, Synectics has reported that activity levels in the major end-user markets that the company serves generally continue to gather momentum. Oil & Gas and the US gaming markets are performing particularly well. However, recovery is as yet less evident in casinos and gaming resorts in Asia-Pacific where leisure travel has remained subdued. Trading in the period was in line with the board's expectations, with operating profits of approximately £0.4m compared to a loss of £0.8m a year earlier. Revenue is expected to be 4.5% higher at £23.0m driven mainly by growth of around 20% in the company's core Systems division. Synectics Security, the group's UK-focused integration division, experienced a decline in revenues due principally to customer-led delays on several major projects that had been expected to be largely completed in the half. However, an improvement in the mix of business resulted in higher gross margins and an operating profit that is expected to be at a similar level to the result achieved in the first half last year. Net cash at the period end increased to £3.9m (22.9p per share) compared to £3.5m at the end of the first half last time. Interim results are scheduled for July 12.

This was a broadly positive update from Synectics, confirming that most of the company's core markets are returning to normality following the disruption caused by the pandemic. Good progress was also reported with the group's large projects for advanced infrastructure surveillance, including Deutsche Bahn in Berlin and the cloud-based deployment of Synergy for the City of London Corporation and City of London Police. These continue to act as important reference sites as Synectics targets larger contracts for its advanced surveillance technology. Strong hold.

Aferian
133.5p (AFRN; AIM)

Aferian has announced an encouraging update for the six months ended May 31, pointing to improving quality of earnings and enhanced revenue visibility. Annual recurring revenue for the period increased by 16% (26% in constant currency) to US$15.8m. Revenue is expected to be similar to the first half last time at US$45.0m. Higher margin software and services revenue is expected to be up 21% at US$12.0m, with Device revenues down by 8% to US$33.0m after being affected by shipping and production delays linked to pandemic related lockdowns in China. Management expects the order book to drive device revenues higher in the second half of the year. Net cash at the period end was US$7.6m (equivalent to 7.5p per share).

It is good to see continued growth in Aferian's higher margin software and services revenue. An upward re-rating of the shares is likely to follow in due course if the company can maintain the rate of progress in expanding the software part of its business. The recent acquisition of The Filter will allow Aferian to further address the convergence of streaming and Pay TV and the launch of an advanced personalisation service, 24iQ, in May also looks a helpful move in that direction. Overall, the company looks to be in a strong position both financially and operationally. Strong hold.

Vianet
80.5p (VNET; AIM)

Reporting results for the year ended March 31, Vianet has announced that momentum is gathering towards a return to pre-pandemic trading levels around mid-year fiscal 2023. Revenue for the period increased by 58% to £13.22m, representing 81.2% of pre-pandemic levels. Recurring revenues remained strong at 88% (2021: 89%) and gross margin increased to 65% from 60%. Adjusted operating profit was £2.36m compared to a loss of £0.69m a year earlier. Statutory loss fell to £0.17m from £2.82m last time. At the year-end, net borrowings were £3.0m and the company had a gross cash balance of £1.58m (2021: £1.89m).

Smart Machines adjusted operating profit was £1.82m, representing a 19% increase on pre-pandemic fiscal 2020 of £1.53m. Smart Machines added 12,895 new connected devices, 6.9% ahead of pre-pandemic levels despite the backdrop of the slow recovery from Covid-19 restrictions. Smart Zones revenue increased to £7.83m (2021: £3.95m), as the hospitality sector recovery gained momentum. Smart Zones net installation base held at 10,100 as ongoing investment and a pipeline of new installations offset a slowing rate of hospitality sector closures. With both divisions capitalising on new vertical opportunities and the group on track to continue strong earnings growth, Vianet's board said that it anticipates a return to pre-pandemic levels of trading in fiscal 2023 and double-digit growth in 2024.

Vianet's core hospitality and leisure industry markets were severely disrupted by Covid-19 and in that context the company has performed well in achieving results only a fraction below pre-pandemic levels. Smart Machines is benefiting from the growing trend towards non-cash transactions and this helped drive a 6.9% increase in new connected devices compared to pre-pandemic levels. The Smart Zones division has emerged from the pandemic with a strong second half rebound and management report that they are encouraged by the slowing of pub closures in the UK and now feels there is a base from which to grow the company's sites, notably across the UK and Europe. Continue to hold.

Iomart
172.9p (IOM; AIM)

Iomart has reported an 8% decline in revenue for the year ended March 31. The fall reflected a weak first half where lower non-recurring revenue and consultancy sales, combined with lower customer renewals, dragged the top line down. Revenue for the period was £103.0m compared to £111.9m a year earlier. Recurring revenue increased to 93% from 90%. Adjusted pre-tax profit fell 13% to £17.1m, with corresponding diluted earnings per share 17% lower at 12.0p. Margins remained stable with adjusted EBITDA margin and adjusted pre-tax profit margin at 36.9% and 16.6% respectively. Cash generation from operations declined by 13% to £37.9m.

Cloud Services, which is by far the largest of Iomart's two operating segments, saw a 9% reduction in revenues to £91.2m. The division has three main offerings. Cloud managed services achieved revenue of £55.7m, 3.8% down from the prior year. Revenue from self-managed infrastructure fell by 6.3% to £28.4m and non-recurring revenue was 39.3% lower at £7.1m due to lower equipment reselling and the end of a large-scale consultancy project. Non-recurring revenue relates primarily to on-premise equipment and software reselling. Management points out that these non-recurring activities provide a useful initial introduction to the wider Iomart offering and the opportunity for upselling to a higher level of recurring services. The smaller Easyspace division performed well, with revenue little changed at £11.8m and a 7.5% increase in EBITDA to £5.7m.

While Iomart continues to benefit from strong cash generation and the highly recurring nature of its business model, the reduction in revenues is disappointing at a time when demand for cloud infrastructure services has been growing strongly. At the same time, the company has been implementing a refreshed growth strategy over the last year or so, with an enhanced product offering and general upscaling of the business that includes the addition of a hybrid cloud proposition. Iomart also reported that the sales team is now back at full strength following the pandemic disruption and the first two months of the new financial year are in line with management expectations. The new strategy aims to create a £200m revenue business within five years through a focus on new services and geographies, complementary acquisitions, and expansion of the existing base of run rate revenue and EBITDA. We feel that the refreshed growth plan looks credible, but investors will be looking for a return to top line growth before chasing the share price higher. Continue to hold.

Eckoh
40.5p (ECK; AIM)

Eckoh has reported an encouraging set of results for the year ended March 31. Revenue was up 4% to £31.8m, with gross profit 5% higher at £25.4m. Boosted by the transformational acquisition of Syntec, annual recurring revenue growth from US secure payments was particularly strong, up 82% to US$11.9m (38% growth on an organic basis). Total annual recurring revenue growth was 48% to £25.2m, reflecting the shift to cloud and the strong market opportunity in the secure payments domain. Adjusted operating profit increased by 10% to £5.2m, with corresponding earnings per share up 5% to 1.57p. The profit increase was driven by higher quality earnings following the completed exit from US and UK Support, which contributed £2.0m to prior year adjusted operating profit. Net cash at the year-end was £2.8m (0.9p per share).

Eckoh's UK business returned to growth with strong second half revenues as most client activity recovered following the ending of Covid lockdown restrictions. Revenue in the year was £18.6m, an increase of 3% on the prior year. When the third-party Support revenue is excluded, the underlying growth was 9%. Recurring revenue has decreased to 80% from 84% in fiscal 2021 partly due to the planned exit from third-party Support. In the US, Secure Payment revenue was US$13.8m, an increase of 8.1%, and 88% of total US revenue compared to 78% a year earlier. Recurring revenue increased to 65% of total revenue from 52% in 2021. The planned transition to Secure Payments and ultimate exit from the Support activity is now completed, with only $0.5m of revenue in the year coming from Support.

Eckoh has had a successful year consolidating its powerful position in the growing Customer Engagement Security market. Investment in the company's multi-platform cloud-enabled offering is driving competitive advantage and scalability to attract larger clients on an international basis. Significant cross-sell opportunities and faster deployment is also expected to increase client value. There has been a good start to trading in the first quarter of the new financial year with order levels already substantially exceeding the outcome for the same period in the prior year. Management confirmed that current year revenue and profit is expected to be significantly higher than fiscal 2022, driven by strong organic ARR growth, operational efficiencies and synergistic

benefits of the Syntec integration. Further out, we feel that progress in Eckoh's business should be supported by long-term structural growth drivers and increasing cloud adoption, coupled with the benefits of new products and operational gearing. Continue to buy.

Idox
59.7p (IDOX; AIM)

Idox's increasing focus on software activities helped underpin a solid performance from the business for the six months ended April 30. Revenue increased by 7% to £33.2m, driven by double digit growth in Public Sector Software. Recurring revenues advanced by 13% to £19.8m and now account for 60% of total revenue (H1 2021: 57%). Adjusted EBITDA was 8% higher at £11.0m and operating profit was up 3% to £4.3m. Adjusted diluted earnings per share increased by 7% to 1.21p. Cash generated from operating activities before taxation as a percentage of adjusted EBITDA for total operations was 122%, and net debt reduced by 54% in the period to £3.8m.

Growth in order intake was encouraging, up 15% to circa £40m. Contract wins and extensions with increased average tenure were achieved across both the Public Sector Software and Engineering Information Management (EIM) businesses. The three acquisitions made in the second half of fiscal 2021 (Aligned Assets, thinkWhere and exeGesIS) helped drive double-digit growth in revenue and profit in Public Sector Software, while a weaker performance in EIM was due to continued global uncertainties. Management report that the integration of fiscal 2021 acquisitions is now substantially complete and to plan. They also pointed to good progress on furthering the M&A pipeline with a strengthened and dedicated team, led by former CFO Rob Grubb.

A strong order book and exposure to resilient public sector software markets gives Idox good revenue visibility for the remainder of fiscal 2022. EIM is expected to deliver an improved second half performance on the back of some good contract wins recently and margin momentum is likely to be maintained across the group as further operational efficiencies are implemented. Further out, we anticipate more acquisitions as the company seeks to complete its transition to a specialist software provider following exit from the Content business last year. Hold.

Spectra Systems
134p (SPSY; AIM)

Spectra has announced an amendment to a contract with a central bank customer, increasing the sensor development phase revenues by an additional US$2.0m, bringing the total value of the contract to US$10.8m. The contract centres around expanding the flexibility of use for the new sensors being developed.

This announcement underlines the importance of Spectra's expertise in sensor development as central banks seek to increase the security features embedded in banknote printing. Operating in markets that seem well insulated from macroeconomic woes and with a strong balance sheet, Spectra's shares look modestly rated on a prospective P/E of 13.9. Buy.

GB Group
444p (GBG; AIM)

Against a strong comparative in fiscal 2021, GB has reported a solid set of results for the year ended March 31. Revenue increased 11.4% to £242.5m, which represented growth on an organic constant currency basis of 10.6%. Underlying growth was 15.5%, excluding the substantial one-off benefit related to the US stimulus package in the prior year. Adjusted operating profit was up 1.6% to £58.8m, while adjusted diluted earnings per share fell by 9.8% to 20.2p. Adjusted operating margin was 24.3% compared to 26.6% in fiscal 2021, with the decline reflecting investment in the business and the unwinding of prior year cost-saving measures taken during the Covid-19 pandemic. On a statutory basis, operating profit decreased to £23.4m (2021: £35.5m), principally due to the increase in amortisation of acquired intangibles and costs related to the acquisition of Acuant in November 2021. Strong cash generation enabled repayment of £30.1m of the £157.0m of debt drawn to finance the Acuant acquisition, and year-end net debt of £107.0m is expected to reduce further during the current year.

GB reported that integration of Acuant has progressed well and is on track to deliver circa £5.0m in synergy benefits in the current year plus a strong pipeline of cross-selling opportunities. Acuant has been combined with GB's IDology team to form the largest pure-play identity verification provider in the US, the world›s largest identity market. Organic investment in fiscal 2022 focused on the company's data and solution portfolio, securing new customers and extending geographic reach. This includes the bolt-on acquisition of Cloudcheck, a leader in New Zealand›s identity verification market. GB also strengthened its fraud portfolio with the successful integration of the Investigate platform. Employee numbers increased to over 1,250 people during the year, including team members joining through the Acuant and Cloudcheck acquisitions.

With record revenue and adjusted operating profit ahead of original market expectations, this was another good financial performance from GB. The company has also made important strategic progress through the acquisitions of Acuant and Cloudcheck. We feel that GB now has more relevant technology and expertise than ever before to execute on the attractive long-term market opportunity through leveraging the company's strong operating margins and cash generation to achieve geographic and sector expansion. The identity verification and adjacent identity fraud markets are expected to reach US$25bn by 2025. With a strong base in the key US market following the acquisition of Acuant, GB looks particularly well placed to play a leading role in the expansion of identity services globally. The company also offers good revenue visibility, with growth across all segments underpinned by subscription and consumption revenue that currently represents around 94% of total revenue. High customer retentions levels also add to the secure base of the business. Buy.

Kape Technologies
340p (KAPE; AIM)

In an AGM statement, Kape reported a record first quarter performance driven by robust organic growth. Management added that this leaves the company well-positioned to deliver revenues of between US$610-624m and proforma adjusted EBITDA of between US$166-172m for the full year 2022. For the prior year ended December 31, Kape achieved revenue of US$230.7m and proforma adjusted EBITDA of US$78.0m. The integration of ExpressVPN, acquired in December 2021, is underway and has strengthened Kape's go-to market and R&D capabilities. Moreover, operational benefits have already been realised, including cost-savings on back-office consolidation and leveraging economies of scale as well as ongoing synergies in the infrastructure and marketing spheres.

Following a transformational 2021, Kape looks to have continued the positive momentum as recent acquisitions bed-in and further products are added, generating additional cross-sell opportunities. Now serving around seven million paying subscribers worldwide, we believe that Kape is in a strong position to lead the fast-evolving market for consumer security and privacy services. Buy.

EMIS
1869p (EMIS; AIM)

Shares in EMIS soared during the month after the company announced a recommended takeover offer from Optum Health Solutions, a subsidiary of US multinational United Health Solutions. The offer price is 1925p per share, valuing EMIS at approximately £1,243m. On the last business day prior to the offer announcement, EMIS's shares were trading at 1292p, so the offer represents a premium of 49%. Optum has been operating in the UK for nearly twenty years, delivering population health management programmes and medicines optimisation services. With revenues of £63.6m, Optum represents a relatively small part of United Health's business, where turnover was US$226.2bn in 2021.

Despite the uncertain economic outlook, high-quality UK businesses keep attracting takeover interest, with EMIS the latest example. We recommended buying the shares at 1267p in the April issue, pointing to the excellent financial performance of the underlying business over many years. EMIS' embedded position in the fast-growing market for connected healthcare systems and data analytics also pricked our interest. At the offer price, the gain since the recommendation in April is 52%. We feel that EMIS' business is worth circa £19 per share on a standalone basis over the medium term, so would be in no hurry to sell the shares in the market now in order to book a quick profit. Our recommendation therefore is to await developments with the offer process.

Filtronic
11p (FTC; AIM)

Filtronic has reported positive trading momentum in the second half of the year ended May 31. The company now expects to report top line growth, with adjusted EBITDA exceeding market expectations despite the challenges of the global semiconductor shortage. Revenue is expected to be up 10% at £17.1m, with adjusted EBITDA around 50% higher at £2.7m. Net cash at the year-end was £3.1m (1.4p per share). Filtronic also reported that it closed the year with some significant repeat orders for delivery in fiscal 2023 giving a stronger order book and greater visibility than was the case a year earlier.

This looks to be a strong financial performance given the headwind from post-covid material availability in the semiconductor supply chain. Management has done well to secure inventory early, in addition to having product design under direct control which allows the company to be agile in both sourcing inventory and requalifying alternative sources of supply. Demand for 5G infrastructure and a recovering defence and aerospace market are helping Filtronic and we also note that the operational base of the business has been significantly strengthened by the current management team. We would continue to hold the shares.

SysGroup
26.5p (SYS; AIM)

SysGroup has reported that disruption linked to the pandemic resulted in a 19% drop in revenue to £14.75m for the year ended March 31. Recurring revenue increased to 87% compared to 79% of total revenue in fiscal 2021. Adjusted EBITDA was 3% lower at £2.82m and adjusted pre-tax profit was £2.04m compared to £2.09m last time. Adjusted basic earnings per share were 3% higher at 3.6p, giving an historic P/E of 7.2. Cash generation from operations was down 16% to £2.47m, although net cash at the period end was 59% higher at £2.99m (5.7p per share).

Despite the pandemic challenges, SysGroup continued to make good operational progress. The group's project to deliver a unified platform of systems was completed, delivering benefits across all parts of the business. Multi-tenanted cloud platform, SysCloud 2.0, went fully live recently and is reported to be delivering higher efficiency with greater capacity from less physical space. Office rationalisation was completed with a refurbishment programme in Newport and closure of the Telford office. Post period-end, two acquisitions have been added, Trustream Security Solutions and Independent Network Solutions. Trustream is a provider of cyber security solutions and gives the group a presence in Scotland from which to grow. Independent Network Solutions, which trades as Orchard Computers, further enhances the group's presence in the Southwest region and complements its South Wales based operations. Both acquisitions are expected to be immediately earnings enhancing.

Despite the short-term disruption caused by the pandemic and wider economic uncertainty, the market opportunity for SysGroup continues to grow. Success for the business in the competitive and highly fragmented IT managed services domain will be greatly aided by building scale. In that respect, the acquisitions of Truststream and Orchard look well-timed, adding customers, technical expertise, and geographical reach to the enlarged group. SysGroup's ambition to be a consolidator in the UK market is supported by the success of the business in lifting recurring revenue close to the 90% mark. Cash generation also remains strong, contributing to a robust balance sheet that provides ample scope for further acquisitions. The pandemic has greatly enhanced the demand for digital transformation and managed IT services with businesses needing reliable technology solutions to ensure the continued smooth running of their operations in an increasingly hybrid working environment. That provides an encouraging background for SysGroup's ambitious expansion aims, but management now needs to prove that recent operational improvements and strengthening of sales teams can restore top line growth. Failure in that regard could make SysGroup itself an acquisition target for a larger IT managed services operator. Hold.

EKF Diagnostics
33.5p (EKF; AIM)

EKF has announced the intention to distribute shares in its investment, Verici Dx, to the company's shareholders who will receive one investment share for every 50 ordinary shares held in EKF. In order to maintain an orderly market in Verici's shares following the distribution, the shares will be held in trust for shareholders for a period of a year. During the lock-up period, EKF Shareholders will not be permitted to transfer the legal or beneficial ownership of their Verici investment shares.

Verici is a developer of advanced clinical diagnostics for organ transplant. The company is one of three business that have emerged so far from EKF's preferred partnership agreement to develop healthcare technologies alongside Mount Sinai Health System. The other businesses are Renalytix, which is currently trading on AIM and Nasdaq, and Trellus Health. Both Trellus and Verici are listed on AIM. EKF reported owning around 5.7% of Verici's shares at the time of the company's final results announcement in March. The partnership with Mount Sinai is proving fruitful and represents an asset that investors may be overlooking when valuing shares in EKF. We feel that the company's core business alone is somewhat undervalued by the current share price. Stripping out net cash of 4.6p per share, the shares trade on a prospective P/E of 14.1 for the current year, falling to 11.4 for fiscal 2023. Add in the projected value of the business investments in the Mount Sinai partnership and the stock looks excessively neglected. Buy.

SThree
361.75p (STEM; AIM)

In a trading update for the half year ended May 31, SThree reported double-digit net fee growth across all regions and sectors. Results were ahead of market expectations and the company now anticipates that pre-tax profit for the year as a whole will be at least 5% above current market consensus. First half net fees were up 25% year-on-year, with strong growth in the company's three largest markets: Germany up 22%, USA up 21%, and the Netherlands up 41%. These countries represent 73% of group net fees. There was also strong double-digit growth across all key sectors: technology up 30%, life sciences up 16% and engineering up 27%. Contract and Permanent net fees were up 30% and 11% respectively. Encouragingly for earnings visibility, the contractor order book increased by 35%, underpinning continued confidence in the near- term outlook. The balance sheet remained robust with net cash at the period end of £48.0m (35p per share).

SThree's share price has been marked down in recent months on the back of recession fears. We feel that this has created an excellent buying opportunity in a company that consistently meets or exceeds targets, and has the benefit of operating in the STEM sector where demand for contractors and permanent staff is likely to remain high even if there is a modest downturn in economic growth in the medium term. As yet there are no signs of demand for SThree's services slowing. In fact, the company recorded net fee growth of 23% in the recent second quarter. Continue to buy.

IQE
35.875p (IQE; AIM)

IQE has announced a multi-year, high volume supply agreement with Lumentum for the supply of epiwafers supporting the development of laser products, in particular to enable LiDAR for autonomous vehicles. There is also further provision for multi-year joint research and development initiatives.

The agreement is an extension of the strong partnership between IQE and Lumentum. The two companies are industry leaders in the 3D Sensing space, where demand for autonomous vehicles is providing a valuable new market. The partnership is also designed to enable leadership across a wider range of cutting-edge technologies such as biometric security, data communications, and extended reality. We continue to believe in the quality of IQE's product offering and the considerable opportunities that exist for further commercialising the company's technology. However, investors will want to see improvement in the financial performance to match the undoubted operational progress IQE is making. Hold.

MTI Wireless Edge
63.5p (MWE; AIM)

MTI's Mottech Water Solutions division has secured several orders through its Italian resellers, totalling approximately €1.0m, all for delivery during the third quarter of 2022. Italy has been a successful market for Mottech, operating through long-term resellers of the Mottech product range. These recent orders are from both existing and new agricultural and water distribution customers.

Although this is a comparatively small order in financial terms, it demonstrates the customers' satisfaction with Mottech's solutions and ongoing support. Water management has been described as the most pressing environmental consideration worldwide and that represents a huge market opportunity for operators like Mottech. Continue to buy.

Oxford Metrics
106.5p (OMG; Software & IT Services)

Oxford Metrics has reported its first results since announcing the transformational disposal of its Yotta division for a cash consideration of £52.0m. For the first half ended March 31, revenue was 11.8% higher at £12.5m. The company reported an adjusted pre-tax profit of £0.3m (H1 2021: £1.0m) reflecting a planned increase in R&D investment, together with operating costs returning to more normal levels since the lifting of Covid restrictions. Adjusted earnings per share hit 0.41p compared to 0.69p last time. Operating cashflow was £3.2m and net cash at the period end was £19.6m. The cash position has since increased to £67.7m (53.3p per share) at the end of June, reflecting the Yotta sale proceeds. The order book at the end of the first half was £12.9m, up from £0.7m a year earlier.

Vicon's revenue grew 11.8% to £12.5m despite some supply chain constraints that are now beginning to ease. The location-based entertainment market continued to recover with growth of 131.3%, as all market partners restarted their experiences venues. Life sciences revenue grew by 11.0%, and accounts for a quarter of orders in hand. Engineering grew 8.3% with good wins at Cranfield University and ICAI Madrid. Entertainment revenue was flat although buoyant virtual production and animation growth continues, with Entertainment accounting for half of the orders-in-hand. Before group costs, Vicon reported an adjusted pre-tax profit of £1.8m (H1 2021: £2.2m) reflecting a change in product mix and some increases to operating costs.

Oxford Metrics has traded successfully in an important development period for the group. Last October the company announced a new five-year plan to both grow revenues by 2.5x and to deliver adjusted pre-tax profit margins of 15% by the end of the plan. This was followed by the decision to sell Yotta to Causeway Technologies, leaving Oxford Metrics focused on the larger and higher growth Vicon business. We feel that the company achieved a good price for Yotta and the sale provides increased firepower to invest in organic growth and build scale in due course through appropriate acquisitions. We rate the shares a strong hold.

AB DYNAMICS

FACT FILE

Website:	**www.abdynamics.com**
Telephone:	**01225 860200**
Stockbroker:	**Peel Hunt**
FTSE Class:	**AIM**
EPIC Symbol:	**ABDP**
Shares in Issue:	**23m**
Price:	**1145p**
Market Capitalisation:	**£239.8m**
Year-end:	**August 31**

Adjusted earnings per share:
2021: 37.4p
2022: 41.0p (broker consensus forecast)
2023: 46.9p (broker consensus forecast)
Price Earnings Ratio:
2021: 30.6
2022: 27.9
2023: 24.4

Last month we made automotive testing systems provider, AB Dynamics, a New Buy at 1092.5p, promising to write more about the business in the July issue. The stock has been on our radar for many years, but the sky-high rating always seemed too rich to get involved. Since reaching an all-time high of 2,759p in September 2019, however, the share price has fallen by around 60% and the company now trades on a prospective P/E of 24.4 for fiscal 2023, which is close to the average for its market sector. The share price decline appears to have been triggered partly by a change in business strategy following the appointment of new senior management in 2018 and 2019. Essentially, the new team proposed increased investment to broaden the product range and to add scale through selected acquisitions. Investors, who were sitting on significant share price gains since the stock joined AIM in 2013, turned cautious while the plans were being implemented and some chose to take profit at that point. AB's share price has come under further pressure since then due to the de-rating of high-flying tech stocks that began last autumn.

On valuation grounds, we feel that much of the decline in AB's share price is justified. However, it is worth noting that operational performance within the business has remained impressive over the last three years and top line growth has been maintained despite the period of Covid disruption. Operating profit dipped in 2020 and 2021 due mainly to the increased level of investment in expanding the business, but interim results released in April pointed to a return to significant bottom line growth in the current financial year as the benefits of recent acquisitions (VadoTech, Dynamic Research, and fPRO) are realised and market demand returns to more normal levels following the pandemic. While supply chain disruption remains a challenge for AB, management reports that operating output has not been adversely affected to date and inflationary cost pressures have been mitigated through achieving price increases for new orders. Overall, we feel that AB's business remains well on track to achieve ambitious growth targets and become a leading consolidator in the highly fragmented market for automotive testing systems.

Specialist Equipment Provider

Founded in 1982 as a vehicle engineering consultancy, AB joined AIM in 2013 at a share price of 86p and market capitalisation of only £14.0m. Although some way down on their all-time high, the shares are still up 1231% on the price at which they came to market. AB is an international group of companies providing testing systems and measurement products for the automotive industry. Examples include driving simulators, steering robots and driver assistance testing instruments. The company's unique technology is used by customers to develop suspension, brake, chassis, and steering systems. Other uses include evaluating vehicle dynamics and safety systems on the track, developing next generation safety systems in vehicles, and large-scale virtual testing (in simulators) for prototyping ADAS and driverless car technology. Customers include the top 25 global vehicle manufacturers, leading tier 1 parts suppliers, all eight Euro NCAP laboratories, numerous global testing facilities and autonomous vehicle developers.

AB's business is split into two segments, which are then further broken down by product line. The main part of the business is Track Testing, which is accountable for roughly 76% of revenues. This segment includes products that test ADAS (Advanced Driver Assistance Systems) and autonomous vehicle systems, as well as vehicle dynamics testing solutions such as suspension effectiveness testing. Until recently, AB Dynamics was solely a products supplier to manufacturers and track testing facilities. However, through the acquisition of Dynamic Research and Vadotech, AB has acquired some physical testing track space, which it uses to provide its services. The second segment of the business is Laboratory Testing and Simulation, which represents a much smaller 24% of revenues. This division offers products that simulate environmental effects and their impacts on the vehicle such as noise, weather conditions and light conditions, as well as simulating the performance of specific parts of the vehicle. The product range includes physical equipment that vehicle manufactures can use to test production or motorsport cars with, as well as software packages that provide simulation, an area AB recently built into their product offering with the acquisition of fPRO.

Growth Drivers

AB has a good record of investing in the business for future growth, backed by a strong balance sheet with net cash of £27.7m (120.4p) at the last count. This has enabled the company to produce a suite of unique testing systems that are critical in the development of more sophisticated vehicles. Reviewing the investment profile of the business, broker Berenberg believes the company can deliver annual organic revenue growth of 10% to 15% in the medium term while also improving margin performance. Demand for AB's products is underpinned by a number of factors, one of which is the electric vehicle revolution. The motor industry is experiencing significant change with both traditional car manufacturers and new entrants developing electric vehicles. All these vehicles need to be tested for safety and efficiency, either in a live environment or using a simulator. Not only does AB have the requisite testing systems, it also has established relationships with most of the top automotive companies who are already using the company's products and services.

Regulation to improve road safety is another driver of growth for AB. Automotive manufacturers are under increasing legislative pressure to adopt new technologies that can help reduce the number of accidents involving motor vehicles. ADAS, in particular, is viewed by road safety authorities as a major breakthrough in helping to better protect vehicle users and pedestrians. In 2019, the UNECE announced a new regulation that all new vehicles sold in 40 countries worldwide, including the EU and Japan, would have to be fitted with a minimum set of ADAS systems, including Automatic Emergency Braking (AEB). Efforts to ensure uniformity across standards for advanced safety features such as ADAS are ongoing, and those standards are likely to be set high given the issues at stake with vehicles that incorporate autonomous features. A lot of testing and experimentation will be required to develop autonomous systems that meet acceptable safety requirements while also ensuring that the technology is affordable for the average consumer. There is no point in fitting highly effective AEB, for example, if the safety feature proves too expensive for the vehicle owner to maintain and repair properly. This means a significant increase in the demand for testing equipment and specifically for services such as AB's fPRO simulator, which can make progress on testing even prior to production.

The global ADAS market size was US$27.5bn in 2021 and is projected to reach US$58.6bn in 2028 at a compound annual growth rate (CAGR) of 11.4%. Driving the adoption of ADAS technology is not just road safety legislation, but also fuel efficiency considerations. Recent energy prices inflation, alongside growing environmental concerns about air pollution and resource depletion, will only add to pressures on automotive manufacturers to meet ambitious targets for fuel-efficient vehicles. AB's test equipment and simulation products are particularly suited to the type of advanced testing required for ADAS, and that suggests the company will benefit both from exposure to a growing overall market and an ability to take market share within the addressable space. Asia Pacific is expected to emerge as the fastest growing market for ADAS over the next few years, with a CAGR of 14.8%. That too should benefit AB as the company is already well positioned in Asia Pacific, deriving around 50% of its revenues from the region in fiscal 2021.

New Opening

There is also scope for AB to grow through leveraging its core technologies into markets that are adjacent to the automotive segment. To that end, the company recently established ABD Solutions, a new business unit focused on the application of robotics technology and control to automate selected vehicle applications. Initial market sectors for ABD Solutions are mining, agriculture, materials handling and defence applications. Earlier this year the business was awarded its first development contract by an industrial equipment supplier in Japan for a driverless retrofit solution for mining vehicles. Some further investment will be required to support ABD Solutions' development, but we feel that in the medium-term the new business unit has the potential to be a significant contributor to group earnings.

With a strong balance sheet and healthy operating margin (around 15% currently and targeting the high teens in due course), AB is in a good position to maintain its competitive advantage through investment in product development and diversification into suitable adjacent markets. It also helps that investment in the commercial and operating platform under the new management team is largely complete now, allowing for greater operational leverage going forward. Acquisitions made by the company over the last two years are working out well and have strengthened both

the product range and the geographical reach of the enlarged group. We anticipate that AB will look to acquire further businesses in due course, acting as a consolidator in a market that is large and fragmented, and where the benefits of scale are increasingly important to financial success.

As automotive manufacturers embrace the opportunities afforded by the transition to electric and autonomous vehicles, AB is in an excellent position to profit from the corresponding increase in demand for advanced measuring systems and testing facilities. Diversification into retrofit solutions for selected industrial equipment adds another interesting angle to the business.

Continue to buy the shares for exposure to the strong growth trends in next generation vehicle manufacturing.

SECOND HALF BEST BUYS

Company	Price (p)
CentralNic	**122.5**
EKF Diagnostics	**33.5**
Photo-Me International	**75.9**
RWS	**355.9**
SDI	**154**
Spectra Systems	**134**

For many years, the July issue of *Techinvest* has included a list of stocks that we think will perform well in the following 6-12 months. The portfolio of six stocks recommended a year ago is currently showing an average loss of 7%. By comparison, the benchmark FTSE techMARK Focus index has fallen by 13.8% over the same period. **CentralNic** and **Kape Technologies** have been the best performers with gains of 44% and 11.7% respectively. **CML Microsystems** (after paying a special dividend of 52p) and **Synectics** are marginally in negative territory, while **Iomart** and **RWS** have disappointed with losses to date of 36.6% and 36.1% respectively.

Tech stock prices have been tracking down since last September and valuations are now more tempting than this time a year ago. However, the economic environment remains challenging, beset by rising interest rates, high inflation, and supply chain bottlenecks. Against that backdrop, shares in highly rated growth companies may struggle to advance in the second half of the year and what we are likely to see is continued rotation into value stocks that offer good defensive qualities. In selecting our six picks for the Second Half Best Buys this year, therefore, we have given particular emphasis to factors such as strong balance sheet, good cash generation, stable recurring revenues, and a secure market position that is allied to pricing power. We have also looked for stocks that seem modestly valued relative to their forecast growth prospects for the next year and beyond. **CentralNic** and **SDI** are following a 'buy and build' strategy, acting as consolidators in markets that remain fragmented and where opportunities for further acquisitions are rife. **Photo-Me** falls into the category of 'special situation' where we feel increasingly optimistic that diversification into the laundry and food vending segments will drive a significant upward re-rating of the stock in due course. **RWS** and **Spectra Systems** are solid businesses that currently look under-priced, and shares in **EKF Diagnostics** look a bargain given the cash on the balance sheet and recent expansion of the core businesses using funds generated from success in supplying sample collection kits during the Covid pandemic.

CentralNic (CNIC; 122.5p) develops and manages software platforms allowing businesses globally to buy subscriptions to domain names that are used for their own websites and email, as well as for protecting their brands online. These platforms can also be used for distributing domain name related software and marketing services, an opportunity that contributes significantly to CentralNic's organic growth. Results for the year ended December 31 revealed a pleasing mix of organic and acquisition-led growth. Revenue was up 71% to US$410.5m, with adjusted EBITDA 57% higher at US$46.3m. Strong demand was reported for the company's online marketing division where revenues increased by 133% to US$261.3m. Organic revenue grew at a rate of 65%. Strong cash conversion (116% on an adjusted basis in fiscal 2021) is an attractive feature of the business and free cashflow per share for the last year was circa 15.9p, which equates to an undemanding price to free cashflow figure of 7.3. Broker consensus forecast for the current year is earnings per share of 12.2p, rising to 13.7p for fiscal 2023. On a prospective P/E of 10 for fiscal 2022, we feel the shares represent excellent value. The FT has listed CentralNic among the top 50 fastest-growing tech companies in Europe.

EKF Diagnostics (EKF; 33.5p) is a designer and manufacturer of a range of equipment and chemical products for use in laboratories and health care settings. The company's point-of-care business provides a portfolio of analysers and consumables for use in the areas of haematology and diabetes primarily. There is also a life sciences division specialising in enzyme fermentation, custom products and bulk fermentation, and a central laboratory division that is focused on clinical chemistry, small lab analysers, and centrifuges. Completing the group is an expanding contract manufacturing operation that generated significant revenues during the Covid pandemic from providing sample collection kits. The core businesses, excluding contract manufacturing, achieved revenue growth of 14% to £42.1m in the year ended December 31. Covid-related contract manufacturing generated an additional £36.3m, but that figure is expected to reduce in the current year as demand for sample collection kits moderates. EKF also benefits from a technology development partnership with the prestigious Mount Sinai Health System (MSHS). The partnership has already produced three successful spin-offs, all listed on AIM, from which EKF has benefited financially: Renalytix, Trellus Health, and Verici. We feel that the quality and potential of the agreement with MSHS adds significant value, alongside the design and manufacturing operations that make-up EKF's core business. Stripping out net cash of 4.6p per share, the shares trade on a prospective P/E of 14.1 for the current year, falling to 11.4 for fiscal 2023.

Photo-Me International (PHTM; 75.9p) is best known as a provider of automatic photobooths, but in recent years the company has expanded into additional operations, including laundry machines, digital printing, and food vending equipment. The company has approximately 27,867 photobooths, 5,533 laundry units and 5,173 digital printing kiosks. Trading in the first half ended April 30 has been strong, with revenue up 24.2% to £117.5m and net cash 145% higher at £41.4m (10.9p per share). Growth was driven by a significant increase in photobooth revenue, particularly in France and the UK, together with a strong performance from the rapidly expanding laundry business. For the full year, management is guiding revenue to be at least 20% higher compared to fiscal 2021, with adjusted pre-tax profit of £47m-£50m. On a prospective P/E of 7.7 for the current year and with a debt-free balance sheet, the valuation looks attractive.

RWS (RWS; 355.9p) joined with SDL in 2020 to become a global leader in the market for language services and technology. Combining the complementary strengths of RWS' specialist technical translation and localisation capabilities with SDL's software, machine translation and AI technology has created a business with numerous competitive advantages across a range of language services, language and content software, and IP management. Trading for the six months ended March 31 has been strong, with RWS reporting revenue 9% higher at £357.3m. Adjusted pre-tax profit was up 20% at £60.7m, reflecting the full benefit of synergies from the combination with SDL. Cash conversion was 120% and basic earnings per share increased by 13% to 10.5p. RWS' client list includes 90 of the world's top 100 brands, which provides a good defensive base for the business should global growth continue to slow in the second half of the year. Trading on a prospective P/E of 13.4 for the current year, we see considerable upside in the shares as further synergies are generated from the SDL deal and recent acquisition, Fonto.

SDI (SDI; 154p) owns a group of businesses that design and manufacture scientific instruments and technology products for use in control applications and in digital imaging and sensing. We view the stock as an interesting 'buy and build' proposition in a sector that is ripe for consolidation. Four acquisitions have been added since December 2020, complementing strong organic growth achieved by earlier acquired businesses. Demand for digital imaging and sensing/control products remains high, particularly in the life science and medical industries. The company is also well placed to benefit from the global expansion of automation and in-process measurements and data collection. In a trading update for the year ended April 30, SDI said it expects revenues and profits for the year to be materially ahead of market expectations. Sales are expected to be up c.40% to £49m, with organic growth for the year to be in excess of 20%. Adjusted pre-tax profit is expected to be at least £10.5m (2021: £7.4m), which equates to adjusted earnings per share of 10.2p. On a prospective P/E of circa 15.1, the shares are modestly valued given the strong record of growth in the underlying businesses and the opportunity to add further earnings-enhancing acquisitions.

Spectra Systems (SPSY; 134p) is a world leader in providing technology for secure transactions, such as banknote authentication and product brand protection. Results for the year ended December 31 revealed revenue up 13% to US$16.6m and adjusted pre-tax profit 10% higher at US$6.6m. Cash generation from operations was up 45% to US$8.1m and the balance sheet remains debt-free, with cash of US$16.8m (equivalent to 26.7p per share). Growth is being driven by increased banknote demand from existing central bank customers, customer funded sensor development efforts, and increased sales of speciality optical materials. Spectra is also targeting a significant growth opportunity through the development of a polymer substrate for banknote printing. On a prospective P/E of 13.9 for the current year, the shares look excellent value, with the additional attraction of a near 7% dividend yield.

TECHINVEST TRADER PORTFOLIO 5

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	**122.5**	7350.00
2,500	QinetiQ	QQ.	30/11/20	300	7549.45	**363.2**	9080.00
1,200	RWS	RWS	19/01/21	524	6331.39	**355.9**	4270.80
1,000	Cohort	CHRT	27/01/21	625	6293.20	**486.5**	4865.00
800	Tracsis	TRCS	23/02/21	641	5165.59	**940**	7520.00
8,000	MTI Wireless Edge	MWE	30/04/21	69.5	5599.75	**63.5**	5080.00
80,000	TP Group	TPG	30/04/21	5.7	4594.75	**1.3**	1040.00
2,200	Iomart	IOM	01/06/21	274	6070.09	**172.9**	3803.80
6,000	Smoove	SMV	01/06/21	87	5258.05	**59**	3540.00
2,000	TT Electronics	TTG	27/07/21	259	5217.85	**183.7**	3674.00
6,000	EKF Diagnostics	EKF	27/09/21	82.5	4986.70	**33.5**	2010.00
1,000	GB Group	GBG	26/11/21	751	7559.50	**444**	4440.00
2,000	Ideagen	IDEA	09/12/21	272	5479.15	**349.5**	6990.00
3,500	Spectra Systems	SPSY	27/01/22	148	5217.85	**134**	4690.00
800	Cerillion	CER	25/02/22	674	5430.91	**960**	7680.00
600	FDM Group	FDM	25/02/22	844	5101.27	**878.5**	5271.00
1,400	SThree	STEM	26/05/22	360	5075.15	**361.75**	5064.50
All purchases adjusted for subsequent rights/scrip issues							
* Denotes part profits taken						Cash	£54,354
Starting Capital £150,000 (01/09/20)						**TOTAL**	**£140,723**

Equities came under selling pressure during the month as data pointed to a further deterioration in the economic outlook. Prices for London-listed tech stocks dropped sharply in mid-June before recovering some of the losses towards the end of the month. The return for the Portfolio in June was a negative 3.50%, almost exactly in line with the fall of 3.47% in the FTSE techMARK Focus index.

Since peaking towards the end of August 2021, tech stock prices have been in sharp decline, leading equity markets lower as concerns have mounted about rising inflation and disrupted supply chains for manufacturers. In London, the benchmark techMARK Focus index has fallen in eight of the last ten months, and is now down 23.7% from its all-time high of 7683. US tech stocks have been equally impacted with the Nasdaq down 28.4% since setting an all-time high last November. These are the classic signs of a bear market in tech and there may be more pain to come before the bottom is reached, judged by the heavy selling last month.

Bear markets typically last 13 months, although the duration can range from a few weeks to several years in cases such as the bear market that followed the Wall Street Crash in 1929 and the one precipitated by the bursting of the dot.com bubble in 2000. Taking the 13-month figure as a broad guideline, that would imply that the current bear market in tech has three more months to run, taking us through to October as the month when prices might be expected to move up again. That could prove a plausible scenario given that the last few months of the year has often been a positive period for tech stock performance. However, the global economic outlook may have worsened by autumn if inflationary pressures persist and further interest rate rises are required to combat the problem. That would almost certainly delay any significant recovery in the stock market, with investors waiting on the sidelines until there is clearer evidence that the challenges posed by rising inflation have been successfully negotiated by governments and corporates alike.

Our feeling is that present economic difficulties will extend into at least the first half of next year, but that any further selling in stocks will be more broadly based and less focused on tech. Many tech stocks are now priced as if recession is inevitable and earnings in the sector will struggle to match medium-term forecasts. One or both of those assumptions may prove wrong, and we certainly think that the market might be underestimating the ability of many tech operators to cope with the challenges posed by an economic downturn without a significant loss of momentum in their financial and operational performance. Moreover, component supply disruption, which tends to be a comparatively short-lived problem, may well ease by the end of the year. That too could help sentiment towards tech stocks improve, even if equity prices overall remain depressed. The absence of debt, which is increasingly a characteristic of many tech companies, could also see the sector outperform on a relative basis should fears of a recession encourage investors to place greater emphasis on solvency issues when making their investment decisions.

Balance sheet strength is one of the factors to which we pay particular attention in selecting stocks for the Portfolio. Twelve of the seventeen current holdings have miniscule or no debt; the other five have debt that we feel is well covered by tangible assets and/or high levels of free cash flow. Balance sheet strength is important both in providing a fallback for companies in hard times and also as a base from which trading opportunities can be more effectively exploited (for example, through having the firepower to secure beneficial acquisitions at a competitive price and/or to invest in new technologies ahead of the competition). Good cash generation and a strong balance sheet were factors that enabled **GB Group** to significantly strengthen its position in the key US market through the acquisition of Acuant last November. The deal has brought together two of the leaders in the global digital identity market, with combined revenue of circa £300m. GB reported during the month that integration of Acuant has progressed well and is on track to deliver circa £5.0m in synergy benefits in the current year plus a strong pipeline of cross-selling opportunities. Moreover, strong cash generation in the second half of fiscal 2022 has enabled repayment of £30.1m of the £157.0m of debt drawn to finance the acquisition.

In other news, recent addition to the Portfolio, **SThree**, released an encouraging first half trading update. Results were ahead of market expectations and the company now anticipates that pre-tax profit for the year as a whole will be at least 5% above current market consensus. Net fee growth was 25% year-on-year, distributed across all regions and sectors. Encouragingly for earnings visibility, the contractor order book increased by 35%, underpinning continued confidence in the near-term outlook, and the balance sheet remained robust with net cash currently equivalent to 35p per share.

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 £9.95 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.

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