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A • GUIDE • TO • TECHNOLOGY • GROWTH • SHARES

TECHINVEST

Stockmarket Newsletter

MARKET COMMENT

Following a period of profit taking in June, equity prices bounced back last month on an improving outlook for the global economy as we start to look ahead towards 2025. Since the last issue of *Techinvest* the FTSE techMARK Focus index has risen by 2.60%.

UK-listed tech stocks have been locked in a narrow channel in recent months, with the techMARK Focus oscillating between 6600 and 7100. We are currently towards the top of that range, a little short of the year high that was set at 7136 in early June. Making a decisive break through the 7000 level has proved elusive in the current bull run which dates from last October. In fact, the last time that the techMARK Focus drove markedly higher than 7000 was September 2021, when the index set a new all-time high of 7645.

Back then, demand for tech was benefiting from a temporary boost linked to the Covid pandemic and the increase in the number of people working from home. By contrast, the near-term outlook for tech spending today is less certain, with many corporates remaining cautious on budget allocations in a challenging macroeconomic environment. That situation is forecast to ease as the year progresses and, in any case, downturns in IT spending tend to be short-lived, not least because upgrade projects can only be delayed for so long. We feel that the market will soon begin to price in a recovery in tech spending next year and that could be the trigger allowing the techMARK Focus to drive through 7000 decisively and establish a new point of support at a higher level. London-listed tech stocks could also be boosted by the rotation out of US big tech stocks (the so-called 'magnificent seven') into smaller cap positions that is currently underway.

Our North American New Year Tips are already seeing the benefit of increased demand for small and medium sized tech stocks in the US, with the six picks delivering an average gain of 23.7% in the year to date. London often lags a few months behind the US, but generally follows in the same direction. The increasing perception that UK stocks are cheap by comparison with stocks in other major global economies should also provide a boost for the London market as the year unfolds. Corporate raiders have already been lining up to take advantage of depressed valuations ahead of a likely upward re-rating of stock prices in the coming months. Gresham Technologies, Equals, Darktrace, Keywords Studios, and Ascential are some of the UK listed stocks to attract bids since the start of the year. We suspect this trend has much further to run, not least due to China losing some of its attraction as a location for Western investment.

The type of stocks we think will perform well if momentum continues to build in the London tech sector are those that are closely aligned with key secular trends and/or own technology that is having a disruptive impact in markets where legacy installations are losing their attraction. Stocks we like that are benefiting from strong secular trends include **Filtronic** (explosive growth in the satellite market), **AB Dynamics** (innovation and regulatory drivers in the automotive industry), **SThree** (expanding market for high skills in science, technology, engineering and mathematics), **hVIVO** (growing demand for human challenge trials) and **Porvair** (tightening environmental regulation and the replacement of plastic and steel by aluminium). Defence spending by Western governments is also in a strong uptrend and much of the investment is being directed at high tech solutions for security and rapid response to military threats. Stocks from the *Techinvest* New Buys list that are positioned to benefit include **QinetiQ**, **Cohort**, **Concurrent Technologies**, and **MTI Wireless Edge**.

Disruptive technology is generally defined as an innovation that significantly alters the way that consumers, industries, or businesses operate. Stocks from our New Buy list that are seeking to benefit from a competitive edge linked to disruptive technology include **Corero Network Security**, **Beeks Financial Cloud**, and **Me Group**. Corero has spent over US$35m developing a solution to protect against Distributed Denial of Service (DDoS), an increasingly prevalent form of cyber security attack. Various reports suggest that the technology is a superior alternative to the installed base of current solutions. Beeks' innovative use of cloud technology and ultra-low latency connectivity to win major contracts in the financial services sector is also helping to reshape the way businesses receive and process time-sensitive financial data. Me Group's highly successful roll-out of laundry sites may appear low tech, but it is underpinned by extensive investment in IP that makes possible the successful operation of self-service laundrettes in convenient outdoor locations. The cost advantage for Me Group over the established business model that involves retail premises and some staffing for laundrettes is considerable.

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Market Movers

FTSE 100	**8274.41**
FTSE Small Cap (excl Inv Cos)	**5939.45**
FTSE techMARK Focus (formerly techMARK 100)	**6970.86**

Figures are as of the close of business on Tuesday, July 30

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.

Triad Group
292p (TRD; Software & IT Services)

Triad has delivered results in line with expectations for the year ended March 31. Revenue was £14.0m, a fall of 6% from the prior year. Gross profit was 20% lower at £2.8m, primarily as a result of reduced levels of consultant utilisation, particularly in the first half of the year. The loss before tax was £1.3m compared to breakeven in fiscal 2023. The loss reflected the decision in the first half to retain a large number of off-charge consultants alongside a renewed focus on work winning activities. New business wins in the second half generated an improved revenue performance utilising in part the previously benched employees, with a large increase in the number of fee-consultants which reached 116 by the close of the year (2023: 94). Management added that the majority of these new consultants were fee earning immediately. Cash reserves at the year-end were £2.1m (12.3p per share).

Triad's shares have been on a strong run since January, up by 98%. Buyers have been encouraged by guidance for a stronger end to fiscal 2024, which Triad has now delivered. Momentum in new contract wins built through the year and the total award value was over £25m, which is towards the upper end of previous years' figures. Triad added that the new financial year has also started well, with the company recruiting at pace and bidding for further major contracts. Recent contract wins have made Triad's client portfolio more diverse and the business is now less reliant on individual contracts. Building long-term client relationships is a key part of Triad's strategy and strong execution on the new contracts should lead to further follow-on contracts in due course. Much of this looks priced into the shares, however, and there seems limited scope for a further upward re-rating at this stage. We made the stock a New Buy at 102.5p in August 2021, with a gain to-date of 185%. While the underlying business is performing reasonably well, on valuation grounds we feel that the balance of risk and reward has deteriorated. Hence, we feel now would be a good time to lock-in profit. Our recommendation, purely on valuation grounds, is Sell.

Thruvision
17p (THRU; AIM)

Results for the financial year ended March 2024 reflected the previously announced lack of further significant orders from US Customs and Border Protection (CBP) in 2024. Revenue of £7.8m was down 37% from fiscal 2023. However, adjusting for the revenue that came from the CBP contracts last time, revenue growth was 85% to £7.6m. Approximately 70% of revenue came from the existing customer base, where there was significant upgrading to Thruvision's flagship WalkTHRU solution. Adjusted gross margin improved by 1.5 percentage points to 53.0%, mainly due to higher performance product sales. The adjusted EBITDA loss was £2.5m (2023: loss of £0.2m), while the operating loss was £3.0m compared to a loss of £1.0m a year earlier. Net cash at March 31 was 46% higher at £4.1m (2.7p per share).

Although the results for fiscal 2024 were dominated by the lack of a previously anticipated material follow-on contract award from the CBP, Thruvision was able to report significant progress on a number of strategic and commercial initiatives in the period. Growth in revenue from customers other than CBP was a particular highlight and the business is also achieving a high level of repeat business now, with more than 700 of its units deployed in over 30 countries. Another positive is the increased use of channel sales partners, which is helping to drive international growth. That development was strengthened post-period end with the announcement of a strategic sales partnership with Sensormatic Solutions, a leading retail solutions company that is owned by Johnson Controls. Trading in the current financial year is in line with expectations, Thruvision reported, and the sales pipeline points to a return to activity levels the group achieved in fiscal 2023. There were strong indications with these results that Thruvision is succeeding in its efforts to create a more diversified customer base and extend its international reach. Strong hold.

Porvair
655p (PRV; Industrials)

Porvair has announced in-line results for the six months ended May 31. Revenue was up 5% to £94.6m, or 8% on a constant currency basis. Adjusted operating profit was 2% higher at £12.5m and adjusted pre-tax profit was down 3% to £11.5m. Adjusted basic earnings per share were 19.5p compared to 20.3p in the first half last time. Net closing cash was £4.1m (8.9p per share) after investing £12.7m in capital expenditure and acquisitions. Ben Stocks, CEO, described the trading outlook for the second half as positive, with order books across the group strengthening and lead times returning to more normal levels.

Porvair commented that trading in the first half was mixed across its segments. Stronger demand in aerospace and petrochemical markets has continued and the laboratory consumables businesses started to see more consistent order patterns in the second quarter. However, demand for industrial consumables, notably in the US, remained patchy for most of the period. Inconsistency in trading patterns across the group is not unusual. Porvair serves a range of markets in different parts of the world and trading can be affected by both local and global events. Despite this established pattern of fluctuating demand across sectors, the company benefits from underlying growth trends that have not changed: tightening environmental regulation; the growth of analytical science; the need for clean water; the development of carbon-efficient transportation; the replacement of plastic and steel by aluminium; and the drive for manufacturing process quality and efficiency. These are the trends that have driven the group's consistent longer-term trading record and which underpin the good prospects for further growth this year and beyond. The consensus broker forecast is for net profit of £17.5m and earnings per share of 38.1p for the current year, with these figures rising to £18.6m and 39.7p respectively for fiscal 2025. Trading on a prospective P/E of 16.5 for sixteen months out, we feel the shares represent excellent value on a medium-term perspective. Continue to buy.

Mercia Asset Management
34.75p (MERC; AIM)

Set against another year of subdued inflows for the asset management sector, Mercia has announced record fund inflows of £562m during the financial year ended March 31. Revenue for the period was also higher, up 17.3% to £30.4m. Adjusted operating profit increased by 27.6% to £9.7m and there was a realised gain on sale of direct investments of £4.5m. Cash at the year-end was £9.1m higher at £46.9m (10.5p per share). Assets under management were up 26.5% to £1,818.8m, with third-party funds increasing by 32% to £1,630.0m and no redemptions. However, net asset value per share declined to 43.4p from 45.4p last time, partly resulting from the full impairment of the group's direct investment in Impression Technologies.

Mercia also announced a proposed reclassification as a trading company. When the company joined AIM in 2014 it was established as an investment company providing direct financial support to early-stage SMEs. Since then, Mercia has successfully grown its FuM to £1.6bn, which now dwarfs the value of the direct investment portfolio which is fair valued at £116.9m. The intention from here is to focus on the fast-growing FuM part of the business and to no longer make new direct investments from the company's balance sheet. Existing direct investments will continue to be supported, but the number is expected to reduce as the investments are realised.

Over the next three years, subject to shareholders approving the proposed plan to become a specialist alternative asset manager, Mercia announced that it will seek to drive AuM to more than £3bn whilst doubling EBITDA. That looks feasible given the current rate of growth in FuM, and the gradual move out of direct investment activity should allow management to focus more on improving the returns from the third-party fund management activities. The switch to a trading company will help de-risk the balance sheet too, while also retaining the potential upside that comes from successful investment activities, which will now be derived primarily from performance fees and growth in AuM as opposed to profitable realisations of direct investments. On a 20% discount to NAV, we maintain our Buy recommendation.

Spectris
2929p (SXS; electronic & Electrical Equipmt)

Spectris has announced the acquisition of SciAps, a US-based provider of handheld instruments leveraging X-ray Fluorescence (XRF) and Laser Induced Breakdown Spectroscopy (LIBS) techniques for materials analysis. SciAps instruments identify compounds, minerals and elements in materials in major industries and high-growth end markets including those relevant to the circular (recycling) economy and energy transition. For year ending 31 December 2024, the business is expected to deliver sales of US$70.0m, representing an historic 5-year revenue CAGR of over 30%, and adjusted EBITDA of US$12.1m. Consideration for the acquisition will be funded through cash and SciAps will be integrated into Malvern Panalytical in the Spectris Scientific division.

Later in the month, Spectris announced that it has agreed to acquire Micromeritics Instrument for an upfront consideration of US$630m plus a deferred element up to US$53m based on agreed financial performance metrics in 2024 and 2025. This consideration equates to a multiple of under 14x based on expected 2024 EBITDA of US$35m and run rate cost synergies of US$12m. Headquartered in Norcross, Georgia, with 470 employees, Micromeritics is a global leader in analytical instrumentation for the physical characterisation of particles, powders, and porous materials across research, product development, and quality control. The company serves a diverse customer base in a range of end markets, with over 80% of sales sold directly to customers, with 40% of sales in the fast-growing clean-tech sector and 60% of sales in industrial-tech covering chemicals, pharmaceuticals and semiconductors, plus a diverse set of other high-growth industrial technology end markets. During the full year ended 31 December 2023, Micromeritics generated sales of US$117.0m and EBIT of US$30.5m, and the business had gross assets of US$173.0m. Like SciAps, Micromeritics will be combined with Malvern Panalytical and is expected to be accretive to earnings per share in the first year of ownership. Funding for the acquisition will be a combination of existing cash resources and new external debt.

With respect to the SciAps acquisition, Spectris stated that the combination is expected to conservatively generate synergies of around US$6.0m, which, when applied to the expected outturn for 2024, represents an EV/EBITDA multiple of around 14 times. That looks a reasonable valuation for a fast-growing business with specialist technology and IP and a strong CAGR record. Synergies will be derived from combining SciAps' handheld portfolio used in the field with Malvern Panalytical's range of laboratory and benchtop equipment. The acquisition should also help accelerate Malvern Panalytical's digital strategy and solution offering with access to a greater volume and variety of measurement techniques and input data. In particular, it will allow Malvern to move analysis 'closer to the sample', while enabling customers near real-time evaluation and decision making.

Adding Micromeritics also looks a shrewd move, not least because of the acquired company's strong track record of innovation and pipeline of new products. Like SciAps, it is a high-growth, high-margin business with forecasted mid-teens revenue CAGR over the medium-term. Through combination with Malvern Panalytical's complementary product portfolio, the acquisition will strengthen Spectris' offering in the rapidly growing clean tech markets and create a global leader in particle characterisation for advanced materials analysis, with a highly differentiated offering. There also look to be significant opportunities to sell new instruments to existing customers that only buy from Micromeritics or Malvern Panalytical today. Together with the SciAps acquisition, we feel that this lends considerable support to Spectris' medium-term objective of achieving 6-7% growth and margins in excess of 20%. By comparison, the company's operating margin over the last five financial years has averaged 14.6%.

These latest acquisitions provide a reminder of the considerable opportunity available to Spectris to act as a consolidator in a sector that still consists mainly of a fragmented group of relatively small-size operators. The company has a good track record of integrating acquisitions successfully and delivering significant synergies, without over-stretching the balance sheet. Overall, we see Spectris as a very solid, long-term investment with the underlying business enjoying a good runaway for growth for many years to come. Continue to buy.

CML Microsystems
310p (CML; AIM)

Against a trading background that continues to be challenging, CML has delivered results in line with market expectations for the year ended March 31. Revenues increased by 11% to £22.89m, helped by six months' contribution from MwT. Gross profit was up 4% to £16.1m, though margin was lower in part due to the addition of the MwT portfolio. Operating profit was £1.94m, down from £2.93m last time. Pre-tax profit declined by 20.3% to £2.52m and basic earnings per share were 33% lower at 13.0p. Net cash at the period-end was £18.21m (113.8p per share), which was down from £22.26m a year earlier following a share buyback of £1.75m, dividend payments of £1.74m and capital expenditure investments of £1.54m.

CML's profitability for the year was adversely affected by continuing macro headwinds and over-stocked inventory levels with some customers. However, the top line performance from the group was resilient and the contribution to date from MwT has exceeded management expectations. Moreover, the secular trends driving the markets CML serves point to an ever-growing opportunity as inventory levels return to more normal conditions. Management emphasised that the inventory headwind is likely to remain a factor in the current financial year, but acknowledged the difficulty in forecasting the exact turning point in the market. CML currently has 15 acres of land at its Essex headquarters, with planning permission, which is earmarked for disposal along with a vacant commercial property in Fareham. Disposal of either or both assets will help boost CML's balance sheet, which already has significant net cash from the sale of the Storage business in fiscal 2021. Further acquisitions to support the company's market expansion strategy look likely and depressed valuations currently should help generate longer-term value for the business. Trading on a cash-adjusted prospective P/E of 27 for the current year, we feel that the share price represents good value on a medium-term perspective when taking into account the potential for recovery in earnings and the underlying value of the surplus land and commercial property on the balance sheet. Buy.

Celebrus Technologies
275p (CLBS; AIM)

Celebrus has reported a strong second half and further growth in annual recurring revenue (ARR) for the year ended March 31. Revenue was up 52.3% to £32.6m, with ARR increasing by 20.9% to £20.2m. Software revenue was up 14.7% to £22.0m, of which 92% was recurring revenue. Gross profit margin fell to 52.7% from 60.2% due to a greater proportion of lower margin third party hardware revenue. Adjusted pre-tax profit was £6.0m (2023: £3.8m) and adjusted diluted earnings per share increased by 38.3% to 10.71p. The normalised cash balance at the year-end was £24.7m (60.2p per share).

These results mark the completion of Celebrus' refocusing into a software sales business with a sizable ARR base supporting earnings visibility. The company also continues to grow the customer base beyond banks and financial services, with recent customer additions including an online gift experience retailer and a US-based healthcare group. This is helping to demonstrate the broad applicability and versatility of the Celebrus platform, as well as raising the global profile of the business. Celebrus' software is now deployed in over 32 countries. A good proportion of revenue for the new financial year has already been contracted, management report, and trading to date is in line with market expectations. Continued investment into sales and marketing to drive organic growth is planned in fiscal 2025, and acquisition opportunities will remain under review, supported by a healthy cash balance and no debt on the balance sheet. The broker consensus forecast for the current year is for net profit of £4.2m and earnings per share of 10.6p. Trading on a prospective P/E of 25.9 for the current year, the shares remain highly rated but that looks justified given the successful transition to a largely software-based business and the significant growth in recurring revenues. Strong hold.

Synectics
177.5p (SNX; AIM)

Synectics has reported a strong first half performance for the six months ended May 31. Revenue increased by 20% to £26.3m. Underlying operating profit was up 183% to £2.2m and underlying EBITDA was 67% higher at £2.8m. Earnings per share increased to 10.0p from 3.7p last time. Net cash at the period-end was £6.4m (37.6p) with no debt. The order book was £30.2m and Synectics has since reported a major contract worth US$10.0m for a high-profile Asian gaming resort.

Synectics' strong results were bolstered by the early delivery of several projects by the Systems division. The board expects financial

performance in fiscal 2024 to be more evenly weighted than in prior years and comfortably in line with market expectations. Synectics' proprietary software, Synergy, now manages and records over 250,000 channels across 270 locations worldwide, mostly high-security environments such as casinos, town and city centres, stadiums, and critical infrastructure sites. The large installed base provides a strong foundation for follow-on sales, as well as being a significant reference point for attracting new customers. Impressed by the financial and operational progress Synectics has achieved in recent years, we made the shares a Second Half Best Buy last month at 190p. Continue to buy.

Equals Group
113.5p (EQLS; AIM)

The long-running strategic review at Equals took a step forward during the month when the company reported that it has now received an improved and indicative non-binding takeover proposal from the consortium comprising Embedded Finance and TowerBrook Capital Partners. The all-cash proposal has been pitched at 135p per Equals share, representing a premium of 15% to the share price on the last trading day prior to the announcement.

There was not much for investors to get excited about in terms of the premium offered by the consortium and it all still sounds quite preliminary, with a further extension granted to the takeover panel (PUSU) deadline to allow further time for the consortium to complete due diligence and arrange acquisition financing. Equals' board clearly sees some value in entertaining these drawn-out takeover discussions, but at the current offer price shareholders must be wondering if the better option might not be for the company to continue as a standalone entity. The fundamentals of the business look strong and there are significant growth opportunities in the transitioning financial services market, as reflected in the financial progress the company has delivered in recent years. On that basis, we rate the shares a Strong Hold and suggest awaiting developments with the takeover approach.

Me Group International
190.1p (MEGP; Industrials)

Me Group has reported another period of good financial and operational progress. For the six months ended April 30, revenue increased 4.6% to £150.4m, driven by growth in core laundry and photobooth operations, despite adverse foreign currency rate movements. Excluding the impact of foreign currency rate changes, revenue growth was 8.6%. EBITDA was up 11.1% to £51.2m and pre-tax profit was 10.3% higher at £30.0m. Growth in these metrics at constant currency was 14.8% and 13.6% respectively. Diluted earnings per share increased to 5.97p from 5.34p in the corresponding period last time. Cash generated from operations increased by 13.3% to £41.7m and net cash at the period end was £21.7m (5.7p per share).

Wash.ME laundry operations delivered a strong performance, with revenue up 16.7% to £44.1m. Revolution laundry units in operation grew by 18.0% and represented 12.4% of the total group vending estate, driven by strong demand and record machine installations of 420 Revolution machines in the first half. Photo.ME vending revenue was up 2.4% to £85.9m (up 7.5% excluding foreign exchange impact), reflecting quieter volumes in the first quarter followed by a strong performance since the start of the second quarter, with increased activity across almost all territories, particularly Continental Europe and Asia Pacific. The number of Photo.ME machines increased by 12.6% to 30,708.

It is good to see both of Me Group's main divisions, laundry and photobooths, making solid progress in the first half. We feel that the market has underestimated the growth potential in the laundry operations, being slow to recognise that at current rates of expansion Revolution laundry could soon be contributing more than one third of Me Group total revenue. An even split of revenue between laundry and photobooths looks possible within a few years, given the scale of the installation pipeline for Revolution machines and the increasing popularity of the units, which are typically sited in car parks and filling station forecourts. Management confirmed with these results that the group is on track to deploy a record number of Revolution machines during fiscal 2024, targeting 80-90 per month. Capital expenditure relates primarily to the cost of the machines and is being funded from group cash generation.

Cash from operations is also funding the rollout of next-generation multi-service photobooths, with the company planning to install 2,000 to 2,500 machines by the end of fiscal 2024 and approximately 8,000 in fiscal 2025. This is breathing new life into the estate, capitalising on the latest digital technology and broadening the range of services that can be offered at each site. Me Group has also developed new systems that respond to the growing demand from governments for greater security in official document applications. These systems use 3D technology in advanced security standards and securely link the company's booths to administrative repositories. Interestingly, Me Group also announced with the half year results that its R&D team has devised new production techniques to reduce the cost of the next-generation photobooths by 28% (effective immediately) and the Revolution laundry machine by 13% (effective fiscal 2025). A new generation solar panel, which delivers twice the power generation of the current model, is also in development and will be utilised by the group's Revolution machines.

Historically, the second half of the financial year is seasonally the strongest for Me Group in terms of financial performance, with higher demand for photo ID for passports and from students at the start of the new academic year. Furthermore, Revolution laundry operations tend to see higher machine usage during the summer months. The company reported that the second half has started strongly and trading is in line with market expectations and on course to deliver another year of record profitability. There is a lot to like about Me Group's business, not least its ability to generate sufficient cash to fund such a large roll-out of new machines while still delivering positive returns for shareholders in the form of dividends and stock buybacks. It is also a more tech-laden business than is often appreciated, with the next-generation booths in particular incorporating a range of proprietary technology that has been developed through the company's own R&D activity. We feel that the updating of the photobooth estate, together with the scale-up potential of the laundry operations, merits a higher rating for the shares than the market is currently awarding. That anomaly should correct in time if the company continues to deliver such strong growth in earnings and machine installations. Buy.

Spectra Systems
270p (SPSY; AIM)

Shares in Spectra moved sharply higher during the month after the company confirmed that the anticipated major contract to manufacture sensors for a key central bank customer has been finalised. The deal is worth an initial US$37.9m, with a further US$1.7m expected later this year in relation to a related manufacturing contract. The bulk of the revenue is expected to be received from the first quarter of 2025 through to the fourth quarter of 2027, with trailing manufacturing contract revenues of approximately US$4.5m thereafter until 2029. Spectra added that the contract margin is expected to result in profits over its term that are significantly higher than previously estimated. Moreover, a service agreement relating to the new sensors is expected to be signed with the customer in the first quarter of 2025.

This long-awaited contract for the third generation of sensors comes after the customer funded over US$14.8m of development cost and reflects both the continued need for banknotes as well as the strength of the well-established customer relationship. Earlier in the month, Spectra announced that it has been selected to provide lottery gaming software to a major western state lottery in the United States. The five-year contract renewal's base value is for US$0.64m. Some elements of the sensor contract appear to have been in broker forecasts before the recent confirmation of the deal, but the good news is that profits are now expected to be significantly higher than previously anticipated. Consequently, broker Zeus Capital raised its forecast for fiscal 2025 from 20.3 cents per share to 37.1 cents, giving a prospective P/E for next year of 9.3. That makes the shares look excellent value, even taking into account the lumpiness of the large sensor contract that will inflate earnings in 2025 especially. CEO, Nabil Lawandy, mentioned that he anticipates renewed growth in the lottery line of business, following on from the latest renewal contract in the US. That is just one of several business lines that we believe will drive growth beyond 2025, helping to bolster the contribution from the core banknote authentication operations. Spectra's share price has risen by 17% in the year to date, but that looks more than justified given the strong financial and operational performance the company is delivering. Continue to buy the shares.

Corero Network Security
19.25p (CNS; AIM)

Corero's share price continued to head north during the month, up by 24%, helped by news of further new orders for its SmartWall One DDoS protection solutions. Four orders were reported.

One of these is a US$1.0m-plus contract over three years with a top ten US fibre provider. Notably, Corero is replacing the incumbent solutions provider in a number of related data centres. Corero is also replacing the existing DDoS protection provider in a contract signed with another new customer, a North American network neutral interconnection, co-location and data centre specialist. Two other new customers added in recent weeks are a Canadian regional communications and internet service provider and a UK provider of B2B connectivity solutions and services. In total, the four recent contracts are worth around US$2.2m and all of the contracts involved the customers replacing their existing solutions with SmartWall.

Later in the month, Corero released a positive trading update for the six months ended June 30. Revenue for the period is expected to be up 16% to US$12.2m, with annualised recurring revenue increasing by 12% to US$17.2m. Gross margin remained stable at 91% and EBITDA was US$0.7m compared to a loss of US$0.2m a year earlier. Cash balance at the period-end was a record US$7.9m (equivalent to 1.25p per share). Order intake, which reflects revenues recognised over the lifetime of each of the contracts, increased 10% to US$14.2m. Regional expansion saw new deals secured in eight countries across four continents, and success in renewing long-standing customer agreements and successfully upselling into the existing customer base was also reported.

Targeted investment in marketing and sales looks to be paying off for Corero, with the company adding ten new direct customer wins in the first half in addition to new deals from strategic partners. The further new deals added last month suggest that momentum in the business continues to be strong moving into the second half. We made the shares a New Buy at 13.25p in the June issue, with a gain to date of 45.3%. We were impressed, among other things, by the rate at which the company is winning renewals business from incumbent operators, which we feel lends support to Corero's claims that its SmartWall One DDoS solution has the edge over legacy offerings from major competitors. Good execution with the new orders will be all important, but assuming this is managed well the prospects for Corero's business are exciting. After a strong run in the shares since our recommendation in June, the price looks up with events for the time being. Strong Hold.

hVIVO
29.75p (HVO; AIM)

In a trading update for the first half ended June 30, hVIVO has pointed to record revenue and EDITDA margin. Revenue for the period is expected to be 30.6% higher at £35.6m, with an EBITDA margin of 24% compared to 19.1% in the first half last time. Cash has risen during the period to £37.1m (5.4p per share) from £31.3m a year earlier. The weighted contracted order book going into the second half is £71.0m. The quarantine facility in Canary Wharf is now fully operational, providing the capacity for future growth. Full year revenue guidance of £62.0m was reaffirmed with EBITDA margins anticipated to be at the upper end of market expectations.

As evidenced by the strong growth in revenues in the first half, hVIVO's services continue to be in high demand across several different challenge models and there was a record number of volunteer inoculations across multiple studies in the period. We feel that the increase in EBITDA margin is a positive indicator of the margin achievable in the medium-term for the business with the Canary Wharf site expected to deliver improved operational efficiencies. The move to the new facility in Canary Wharf also enables hVIVO to broaden its core human challenge trial offering to include new pathogen models. Additional service offerings to further diversify the business are in the pipeline, including Phase II and Phase III field group studies, volunteer recruitment services, and standalone hLAB services. Moreover, hVIVO recently announced its largest field study contract to date, which is a multicentre study to enrol up to 1,000 volunteers. With a sizable order book, the company has good visibility for the remainder of fiscal 2024 and through in to 2025. We made the shares a Second Half Best Buy last month at 27.35p. Continue to buy.

Cohort
837p (CHRT; AIM)

Cohort has reported record revenue and adjusted operating profit for the year ended April 30. Revenue was up 11% to £202.5m, driven by strong growth from Sensors and Effectors and improved performances from Chess and SEA. Adjusted operating profit was up 11% to £21.1m and adjusted earnings per share increased to 42.9p from 36.5p last time. Statutory pre-tax profit was up 42% to £19.8m. Order intake was 78% higher at £392.1m and the closing order book was £518.7m compared to £329.1m at the end of the prior financial year. Net funds were above market expectations at £23.1m (51.9p per share), up from £15.6m.

Separately, the company announced that its subsidiary Marlborough Communications has been awarded two orders with a total value of £21.4m by a UK government customer. Work will commence immediately and is expected to be complete within one year. Cohort also reported that EID has signed a contract with the NATO Communications and Information Agency to supply the Portuguese Army with a tactical deployable communication and information system. The value of the contract is €33.0m with delivery over a three-year period. Together with recent contracts to provide its integrated communications system to Damen for the Portuguese Navy´s multi-purpose vessel and to the Chilean Navy, this win takes EID's order intake to over €45.0m in the last 4 months.

This was a strong performance from Cohort, with the order book exceeding half a billion pounds for the first time, with deliveries now extending out to 2037 and covering 90% of current market revenue expectations for fiscal 2025. New orders included a £135.0m Royal Navy contract awarded to SEA in March 2024. In May, the company acquired Interactive Technical Solutions (ITS) for a cash consideration of £3.0m, with the business expected to be immediately earnings enhancing within the Communications and Intelligence division. ITS specialises in providing technical support, publications and services to the UK MOD and prime contractors, particularly in the area of military vehicles. The invasion of Ukraine in 2022 and persistent tensions in the Asia-Pacific region have driven continuing impetus for defence spending globally. Cohort is benefiting across its range of businesses, with a particularly strong increase in demand for drone and counter drone systems, together with secure communications and electronic warfare. Management commented that the increasing order book is driving a need to add to the workforce, particularly for engineers and related technical skills. Recruitment challenges remain in some areas, especially high-level security-cleared individuals, but the company still managed to increase its headcount from 1132 to 1309. Cohort was included in our 2024 New Year Tips at 554p and the gain to date is 51%. Trading on a prospective P/E of 19.1 for fiscal 2025, the shares are no longer the bargain they were at the beginning of the year. However, the rating is underpinned by the strong order book and sizable contract wins in recent months. Strong hold.

QinetiQ
478.7p (QQ.; Software & IT Services)

QinetiQ has reported a good first quarter performance to June 30. Order intake was particularly strong, with revenue under contract for the full year increasing to 73%, up from 64% a year earlier. EMEA Services continues to deliver good operational progress with revenue growth in line with expectations. In addition, a new framework contract for NATO customers to utilise the division's Test & Evaluation services in the UK has been won under the long-term partnering agreement. Global Solutions delivered strong order intake with revenue performance in line with management expectations. Overall, QinetiQ announced that it remains on track to deliver high single digit organic revenue growth at stable margin and good cash conversions, in line with guidance for fiscal 2025.

Demand for QinetiQ's products and services remains high in the elevated threat environment resulting from increased global tensions. The board expressed confidence in delivering the fiscal 2027 target of £2.4bn of organic revenue at c.12% margin. A £100m share buyback programme is also on track to be completed in the current financial year, with £32m of shares purchased by the end of the first quarter. The shares were included in our 2024 New Year Tips at 310.2p, with a gain to date of 54.3%. Continue to buy.

Beeks Financial Cloud
238p (BKS; AIM)

Beeks has released an update on trading for the year ended June 30, stating that results are expected to be in line with consensus expectations. Revenue is expected to be approximately 27% higher than in the prior year, with underlying EBITDA growth of over 27% and underlying pre-tax profit up 67%. Annual cloud market recurring revenue was 18% higher at £28.0m, with significant wins secured in the second half, including the Johannesburg Stock Exchange's (JSE) Exchange Cloud Contract Extension and a Proximity Cloud Win with one of the world's largest banking groups. Net

cash at the year-end was £6.58m (9.7p per share) compared to £4.41m a year earlier. Full year results are scheduled for release in early October.

This was a reassuring update from Beeks, underlining the strong operational and financial progress over the last twelve months. As announced in February, the company conditionally secured a third Exchange Cloud contract with one of the largest exchanges globally. Completion of the contract with the exchange is subject to regulatory approval, but Beeks confirmed that significant progress has been made on the approval process, with a hint that the outcome will be known shortly. JSE is providing a strong reference to other potential customers of Exchange Cloud and management indicated that discussions are at an advanced stage with other major global exchanges. With increasing levels of contracted, multi-year recurring revenue, Beeks looks to have a strong base for accelerated growth. The broker consensus forecast for the year just ended is for net profit of £4.59m and earnings per share of 5.2p. These figures rise to £5.55m and 7.48p respectively for fiscal 2025. A prospective P/E of 31.8 for the current year is demanding, but the corresponding PEG at 1.0 is supportive and reflects the rapid growth in earnings the company now looks capable of sustaining in the coming years. With the pipeline for Exchange Cloud continuing to build, our recommendation for the stock is Buy.

SThree
415.25p (STEM; Support Services)

Against a challenging recruitment market, SThree continues to be one of the more resilient performers. Results from the company for the six months ended May 31 showed revenue down 7% to £763.4m, with net fees 10% lower at £188.7m. The Engineering segment performed strongly, with net fees up 8%, but Technology was down 9% and Life Sciences 16% lower driven by global sector trends. Group operating profit was down 1% at £37.7m and pre-tax profit increased by 1% to £39.0m. Basic earnings per share edged higher to 21.2p from 20.0p last time. Net cash at the period-end was up 24% at £90m (67p per share).

Net fees are a key metric for SThree and the 7% year-on-year decline was to be expected given underlying market conditions. Contract net fees, which now represent 84% of group net fees, were down 4%, reflecting ongoing softness in new business activity. But there was good news about strong client extensions, demonstrating that clients need to retain critical STEM skills and flexible talent even against a sluggish macroeconomic environment. It was also encouraging that the contractor order book of £182.1m was down only 2%, against a strong comparator in the first half of fiscal 2023. Adding this together with the strong balance sheet, bolstered by £90m net cash, and we feel that SThree is more than living up to expectations as a quality operator in technology recruitment. Continue to buy.

Filtronic
70p (FTC; AIM)

Shares in Filtronic were boosted during the month by news of a follow-on production order, worth US$9.0m, from SpaceX. The contract represents a continuation of demand for the E-band solid state power amplifier (SSPA) modules to support the ongoing deployment of SpaceX's Starlink constellation. Filtronic anticipates that the order will be fulfilled within the current financial year.

This latest order for SSPA modules has been placed under the framework of the Strategic Partnership, signed with SpaceX in April 2024. The contract includes the vesting of a further 2.17 million share warrants. A total of 8.68 million share warrants have now vested with SpaceX to date, representing 4% of the maximum 5% of Filtronic's share capital at the time of the signed agreement. The contract win is further evidence of the significant role Filtronic is playing in supporting the rollout of the Starlink constellation, while the warrants vested with SpaceX points to the possibility of a longer-term partnership with Filtronic, extending beyond the current run of SSPA orders. Strong hold.

Nexteq
84p (NXQ; AIM)

Shares in Nexteq fell back sharply during the month after the company reported that trading in the first half had been more challenging than previously anticipated. For the six months to June 30, the company now expects to report revenue down 15% to US$48.2m. The better news is that adjusted pre-tax profit margins are expected to remain at double-digit level due to record gross margins and effective cost management. Cash flows remain healthy in the first half, with net cash at the period-end of US$36.9m (equivalent to 43p per share), up from US$27.9m at the end of December.

Unfortunately, Nexteq expects demand to remain depressed in the second half and broadly in line with the first half outturn. As a consequence, adjusted pre-tax profit is expected to be 30%-40% below the US$14.9m market expectations for the current year. Order intake is expected to improve in 2025 as buying patterns normalise after a period of destocking and the group benefits from a healthy pipeline of new customers across both divisions, Quixant and Densitron. Nevertheless, the trading update was accompanied by an announcement of significant directorate changes, with the non-executive Chair, CEO and CFO stepping down once appropriate successors are appointed. Nick Jarmany, founding Director and Deputy Chair of Nexteq, commented that the directorate changes had been carefully considered over some time. Mr Jarmany is the largest single shareholder in Nexteq, with a stake of around 17%.

This looks to be a case of market guidance having been poorly handled, as the projected fall in pre-tax profit for the current year is significantly higher than could have been anticipated from the recent trend in market forecasts for the company, and from the company's outlook statement at the time of the full year results in March, when the board referred to confidence in meeting full year expectations for fiscal 2024. Looking beyond that mistake, the fundamentals of the business remain attractive given the strength of the balance sheet, with net cash of around £29.0m and solid tangible asset backing, and the launch of new, higher margin offerings. Moreover, the current trading problems appear to relate mainly to wider market factors, which should correct in due course given that the sectors which the company serves are supported by strong secular growth trends. A radical overhaul of the boardroom (new Chair, CEO and CFO to be appointed) in the longer term may prove a positive bold move, but for the time being it is likely to act as a disincentive to buy the shares until the new executive team is in place and proving their worth. Broker Cavendish responded to the profit warning by reducing its forecast for fiscal 2024 pre-tax profit and adjusted earnings per share by 39% to US$9.1m and US$0.11 respectively. That equates to a prospective cash adjusted P/E of 4.2 for the current year, which would represent good value if the forecast figures can be achieved. On balance, we feel that the investment case for Nexteq remains favourable on a medium-term perspective, but until there is clarity about the new leadership team the shares are likely to remain friendless. Strong hold.

Shearwater
46p (SWG; AIM)

Shearwater has reported a 15.3% fall in revenue to £22.6m for the year ended March 31, impacted by a period of cautious customer spending. Adjusted EBITDA returned to profit at £0.9m compared to a £0.2m loss in the prior year and recovering margins were delivered through an improved profile of business and cost control following the restructuring earlier in the year. The adjusted pre-tax loss was £0.6m against a loss of £1.3m in fiscal 2023. Net cash at the period-end was £5.0m (20.8p per share), which was £3.0m higher than the cash position at the half year.

Shearwater has streamlined its operations and generated synergies following the successful integration of Xcina into Brookcourt Solutions and GeoLang into SecurEnvoy. However, the company's financial performance continues to be adversely affected by customers deferring budget allocations. There were signs of hope though in notable contract wins and renewals in Services across the banking, telecoms and retail sectors, alongside a significant new focus on central government departments. The board also reported that the new financial year had started well, with clear signs that customer budget allocation is starting to be released at a modest pace. With a significant restructuring completed and improvements to the product set in place, Shearwater's board will be hoping that the current year delivers a sustained improvement in revenue and customer acquisition numbers. Weak hold.

Learning Technologies
72.3p (LTG; AIM)

In a trading update for the six months ended June 30, Learning Technologies confirmed that revenue is expected to be not less than £248m on a like-for-like basis. First half revenue last time was higher at £268.2m, but the result this time was adversely impacted by a foreign exchange headwind due to a weaker US dollar. SaaS and long-term services contracts, which account for around 75% of revenues, continue to be resilient. However, the company continues to

experience subdued transactional revenues, in line with the broader market. EBIT for the first half is expected to be not less than £43.0m, up from £41.1m a year earlier.

While trading in the first half was pretty much in line with market expectations, the update contained the surprise news that recent US acquisition, GP Strategies, has been suspended from working on new classified (government) contracts. The suspension appears to be a procedural matter linked to the takeover GP by LTG as a non-US domiciled company. GP Strategies will continue to work on existing classified contracts, subject to the customer's agreement, and the board believes that the value of the contracts is not material in the context of total group revenue and profit. Nevertheless, the surprise news was a key factor in depressing LTG's share price following the trading update, with the stock down 14.5% in July. Adjusting for the sale of VectorVMS, which was completed on 1 July, revenue for the full year is expected to be in the range of £480m to £500m and adjusted EBIT in the range of £88m to £93m. Net debt was £57.2m at the end of June, but has since fallen substantially to around £6.0m, following the disposal of VectorVMS and a voluntary debt repayment of US$25.0m. The debt overhang has been one of the factors adding to the downward pressure on LTG's shares in recent months, and with the balance sheet now looking much stronger the conditions look right for an upward re-rating of the shares once the cyclical headwinds affecting demand in the sector abate. Strong hold.

MARKET MISCELLANY

Netcall (NET; 93p), the provider of automation and customer engagement software, has announced a positive trading update for the year ended June 30. Subject to audit, revenue is anticipated to increase by 9% to £39.1m, with adjusted EBITDA up 5% to £8.4m. Revenues from Cloud customers showed strong growth, with annual contract value up 23% to £22.3m. Cash flow was ahead of expectations, resulting in an improved year-end cash position of £34.0m (20.7p per share) compared to £24.8m at the beginning of the period.

Netcall describes itself as an enterprise software company that helps organisations achieve digital transformation. Essentially, this means developing and marketing software that enables businesses to automate their interactions with customers. Through access to Netcall's Liberty platform, companies are able to build chatbots, manage call centre workflow, simplify sales management processes, and create software to analyse their data. The productivity gains for users of the platform can be substantial and this is proving a major selling point for Liberty, particularly in the context of rising wage inflation. Customers are drawn across industries, from councils and hospitals to financial institutions, and include blue-chip names such as Legal & General, Lloyds Banking Group, ITV, Nationwide Building Society, Santander and Aon. Two-thirds of NHS acute health trusts also use the Liberty platform, and other public sector clients include Network Rail and Transport for London.

Netcall is investing heavily in the Liberty platform to boost growth. Research and development costs (including those that were capitalised) were up 22% to almost £5m in fiscal 2023. This level of investment is equivalent to 14% of revenue, which is above the industry average, and it looks justified given the growth opportunities that the company is successfully unlocking with its proprietary technology. Due to the sizable R&D spend, return on capital has been below 10% in the past. But that situation is changing as revenue grows and the benefits of operational leverage kick-in. Return on capital in fiscal 2023 reached 10.1% and is expected to be in the region of 12% for the year just ended. Likewise, operating margin has more than doubled in the last five years and now stands at around 13% on a trailing twelve-month basis. Cross/upselling is proving a major contributor to the growth in Netcall's revenue and profit, with an increasing number of customers deploying upgrades and new solutions from the company. For example, the number of Customer Engagement clients who have also purchased Intelligent Automation solutions increased in fiscal 2023 to 21% from 15% in the prior twelve months.

The broker consensus forecast for the year just ended is for net profit of £5.5m and earnings per share of 3.3p. These figures rise to £5.7m and 3.4p for fiscal 2025, putting the shares on a prospective P/E of 27.4. That is a comparatively rich rating, though it looks more acceptable when adjusting for net cash on the balance sheet where the multiple falls to 21.7. Also, broker forecasts for the current year have been edging up in recent months and we feel there is a reasonable chance of further upward revisions as the financial year progresses, reflecting the sizable order book and the significant growth in demand for the Cloud platform.

Strong cash generation further supports the investment case for Netcall and free cashflow has consistently been ahead of reported profits in recent years. Based on the fiscal 2023 figure for free cashflow, the stock trades on a price-to-free-cashflow ratio of 17. We feel that the benefits of Netcall's long history of heavy investment in R&D are now starting to show through, with profit margins growing substantially and contracts of an increasingly large scale being secured. An expanding partner network and the addition of AI solutions across the product range add to the general sense that the upward momentum in the business has further to run.

Netcall is rightly known as a quality operator given the financial and operational progress that the company has delivered in recent years. On balance, we feel that now could be a good entry point for opening a position in the stock. Buy and we will write more about the company in the September issue.

MARKET MOVERS

Ascential was one of the top market movers in July, with the shares up 61%. This follows news that the provider of intelligence and advisory services for the marketing and technology industries has received and recommended a cash offer from Informa at 568p per share. Ascential's business was badly impacted during the Covid pandemic, with the share price declining to an all-time low of 185p in October 2022. A steady recovery has been in place since late last year and the stock was trading around 370p on the day before the announcement of Informa's takeover interest. At the proposed offer price, the premium would be 53%, which looks quite full for a business that has reported heavy losses over the last two financial years. Once again, however, the approach from Informa demonstrates the disparity between the value the market is assigning to the shares of small- and medium-size UK stocks and the price a trade buyer is willing to offer to secure the underlying assets.

Surgical Innovations and **Blackbird** were two other technology stocks that made strong gains in July. Both are loss-making minnows where the respective share prices have been in a long-term downtrend. There has been little in the way of market moving news from the two companies in recent months, so the bounce in their share prices would appear to be the result of bottom-fishing by investors who are encouraged by improving market sentiment towards small cap stocks this year. Even a small uptick in investor buying can trigger a large rise in the share price of thinly traded stocks like Surgical Innovations and Blackbird, but the gains can also evaporate just as quickly in such volatile and higher risk situations.

Among stocks from *Techinvest's* New Buy list, the top gainers during the month were **Beeks Financial Cloud** (+42%) and **Corero** (+24%). A market update from Beeks confirmed that trading in the year ended June 30 has been in line with market expectations. Buyers of the stock seem to have been encouraged by the additional news that discussions relating to the signing of a third Exchange Cloud contract are progressing well. Moreover, advanced discussions are taking place with other major exchanges across the globe. Corero is a recent addition to our New Buy list and we wrote an extended introduction to the company in last month's issue. The share price has entered a strong uptrend in recent months, driven by the announcement of a series of major contract wins for the company's innovative DDoS protection solutions. A trading update last month confirmed that order intake in the first half ended June 30 was up 10% to US$14.2m.

Other stocks from the New Buy list that made strong gains in July include: **Eleco** (+23%), **Playtech** (+21%), **Spectra Systems** (+20%), and **Shearwater** (+15%).

The life sciences micro-cap **Aptamer** headed the list of stocks making losses during the month, with the shares down 60%. The drop was precipitated by a deeply discounted placing from the loss-making company at 0.2p, which raised £2.83m gross. In terms of *Techinvest* New Buy stocks, the biggest loser in July was **Nexteq** following a warning from the company that revenue and profit for fiscal 2024 will be below market expectations. See our comments in the Update section on page 6 for a review of Nexteq's disappointing trading statement. It sent Nexteq shares down by 34.4% over the month.

TECHINVEST TRADER PORTFOLIO 5

Number of Shares	Company	Ticker	Date Bought	Buying Price	Total Cost £	Present Price p	Value £
6,000	Team Internet Group	TIGL	02/11/2020	78	4715.35	**179**	10740.00
2,500	QinetiQ	QQ.	30/11/2020	300	7549.45	**478.7**	11967.50
1,200	RWS	RWS	19/01/2021	524	6331.39	**180.6**	2167.20
1,000	Cohort	CHRT	27/01/2021	625	6293.20	**837**	8370.00
800	Tracsis	TRCS	23/02/2021	641	5165.59	**620**	4960.00
8,000	MTI Wireless Edge	MWE	30/04/2021	69.5	5599.75	**38.5**	3080.00
2,200	Iomart	IOM	01/06/2021	274	6070.09	**125.75**	2766.50
2,000	TT Electronics	TTG	27/07/2021	259	5217.85	**148.75**	2975.00
6,000	EKF Diagnostics	EKF	27/09/2021	82.5	4986.70	**27.15**	1629.00
1,000	GB Group	GBG	26/11/2021	751	7559.50	**346.3**	3463.00
3,500	Spectra Systems	SPSY	27/01/2022	148	5217.85	**270**	9450.00
800	Cerillion	CER	25/02/2022	674	5430.91	**1765**	14120.00
600	FDM Group	FDM	25/02/2022	844	5101.27	**414.75**	2488.50
1,400	SThree	STEM	26/05/2022	360	5075.15	**415.25**	5813.50
15,000	Mercia Asset Management	MERC	25/07/2022	30	4532.45	**34.8**	5220.00
250	Computacenter	CCC	12/09/2022	2200	5537.45	**2693**	6732.50
1,000	Paypoint	PAY	12/09/2022	603	6070.10	**696.5**	6965.00
1,000	Gooch & Housego	GHH	31/10/2022	480	4833.95	**465.5**	4655.00
4,500	Oxford Metrics	OMG	24/02/2023	106	4803.80	**92**	4140.00
10,000	Centaur Media	CAU	02/05/2023	49	4934.45	**32.5**	3250.00
1,000	CML Microsystems	CML	24/07/2023	452	4552.55	**310**	3100.00
500	Gamma Communications	GAMA	05/09/2023	1083	5452.03	**1484**	7420.00
250	AB Dynamics	ABDP	26/01/2024	1681	4233.46	**1935**	4837.50
130	Spectris	SXS	02/04/2024	3315	4341.00	**2929**	3807.70
6,000	SDI Group	SDI	01/07/2024	65	3929.45	**65**	3900.00
All purchases adjusted for subsequent rights/scrip issues							
* Denotes part profits taken						Cash	£13,953
Starting Capital £150,000 (01/09/20)						**TOTAL**	**£151,971**

Sentiment towards smaller cap stocks has been improving in recent months and that was seen again in July with solid gains for several of the Trader Portfolio stocks. Assuming that interest rate cuts arrive as forecast later in the year, the outlook for equities as we start to consider the prospects for 2025 is encouraging.

The best performing holding in the Portfolio last month was **Spectra Systems**, up 20% after the company confirmed it has secured a major contract to manufacture sensors for a key central bank customer. Worth an initial US$37.9m, the order also includes a further US$1.7m from a related manufacturing contract. The contract is transformational when considering that Spectra's total reported revenue in the last financial year was just US$20.3m. Another holding, **Cerillion**, made a gain of around 10% in July. Defence stocks have performed well this year and our exposure to the sector includes positions in **Cohort** and **QinetiQ** (share price chart below), which delivered gains of 8.0% and 8.5% respectively last month.

The Portfolio is maturing now, with several stocks that have delivered good share price appreciation and more than justified the original investment case. **Team Internet Group** and **Cerillion** have made returns in excess of 100% and other strong performers include **QinetiQ**, **Cohort**, **Spectra Systems**, **SThree**, **Computacenter**, **Gamma Communications**, and **AB Dynamics**. There is also a mix of laggards where the share price is in negative territory. Some of these are stocks which were added near the height of the bull run in 2021. In most cases, the performance of the underlying businesses has been solid, but the decline in bullish sentiment since 2021 has led to some de-rating in the stocks. **MTI Wireless Edge** and **TT Electronics** are two cases in point. We feel that there is good recovery potential with both stocks.

There are other Portfolio holdings, however, where company specific factors alongside weaker equity market conditions have contributed to a poor share price performance. **RWS**, **Iomart**, **EKF Diagnostics**, **GB Group**, and **CML Microsystems** fall into this category. In each case, the original investment case is weakened, though redeeming features remain. RWS has been sold off largely on fears that generative AI will undermine the company's business model. But we are not so convinced by the potential of AI at this stage, and the picture is also clouded by RWS itself claiming to be a leader in automated translation technology.

We overpaid for EKF, but the main downward pressure on the share price has come from delays in the projects the company has funded from the exceptional profits it generated during the pandemic. Nevertheless, the direction of travel still looks promising and we are inclined to give the company more time to capitalise on its recent investments. GB's share price is recovering following a period of weakness in some of its end-markets and CML has been hit recently by destocking and order delays in its sector, which we anticipate will prove no more than a short-term problem. Iomart looks excellent value on several metrics, including price to free cashflow, and we see solid recovery potential in the stock.

There was one change for the Portfolio in July. The cash proceeds from the takeover of **Gresham Technologies** at 163p per share was received, representing a return of 19.8% since we added the position eleven months ago.

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.

The next issue of *Techinvest* will be published on Saturday 7th September.

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