TECHINVEST

The McHattie Group
STOCKMARKET INTELLIGENCE

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Andrew McHattie
Publisher

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February 2022

A • GUIDE • TO • TECHNOLOGY • GROWTH • SHARES

TECHINVEST

Stockmarket Newsletter

MARKET COMMENT

Diminishing appetite for risk saw tech stocks endure a further bout of selling in January. Since the last issue of *Techinvest* the FTSE techMARK Focus index has fallen by 7.04%.

Since recording an all-time high of 7683 in early September, the FTSE techMARK Focus index has retreated by around 15.5%. There was a brief respite to the selling in December when the index put on around 6%, but the fact that the downward spiral quickly resumed in January looks bearish. Smaller growth stocks generally have fallen out of favour as investors have sought safer havens in cash and blue-chip value stocks. Tech in particular has borne the brunt of the selling in both the UK and the US. The tech-laden Nasdaq Composite Index is down by around 10% since late November, and was 16% lower just a few days ago.

There are several factors behind the market jitters, including tensions between Russia and Ukraine, supply chain issues, rising energy prices, and the ongoing threat of Covid. However, the main concern has been inflation and interest rates. A long-delayed tightening of monetary policy, accelerated by mounting inflationary pressures, is focusing attention on the high levels of debt around the world. Higher borrowing rates at a time of rising costs represents a double whammy for heavily indebted companies with weak cash flows (which is typically the case with many speculative tech stocks). Balance sheets may need to be strengthened at a time when demand for equity is falling, and that can often lead to shareholdings being significantly diluted in a deeply discounted fundraise. Rising interest rates also mean that analysts and investors use an increased discount rate to calculate the net present value of future cash flows from long-term shareholdings. This has a generally depressing impact on the valuations attached to high flying growth stocks where significant cash generation may be some years off.

Given that forecasts for global growth rates in 2022 have been revised down in recent weeks, fears of runaway inflation and significantly higher interest rates may prove to be overdone. However, we might have to endure a short period this year when prices continue to rise, partly due to supply chain shortages, while growth slows. These are the conditions under which stagflation occurs, although there is little reason currently to think that we are about to enter a sustained and deep-seated period of economic stagnation allied to cripplingly high inflation. What seems more likely is that the next few months will contribute a muddling picture of where the global economy stands, with some countries and sectors performing much better than others as the recovery from Covid disruption gathers pace. Lack of clarity about exactly where the near-term economic needle is pointing appears to have been the main factor behind the recent edginess among investors. Selling has been driven by caution rather than conviction, with investors responding to uncertainty by increasing cash levels and trimming holdings in highly rated stocks that would be particularly vulnerable should the downward trickle in share prices accelerate.

That is not to minimise the significance of the latest sell-off. The 15.5% fall in the techMARK Focus index since the autumn is close to the 20% level that is generally seen as marking the onset of a bear market. However, at this stage we feel that it is valuations, rather than fundamentals, that are being questioned by investors. Selling has been most brutal among the more speculative growth stocks which may have a strong story to tell, but generate relatively little cash as yet and often have weak balance sheets. This type of stock had risen too steeply in the tech rally last year, particularly in the US market, and a correction was overdue and had been widely forecast. Tech stocks with stronger fundamentals have been less affected by the sell-off. Strong results from **Apple** late in the month helped restore some positive sentiment towards tech but we feel that further markdowns at the speculative end of the market may be required in order to shake out the remaining froth that built up in some share prices last year.

For the time being, our advice would be to avoid speculative stocks and treat sceptically recent market flotations (which may be considerably overvalued). Also, don't take peak prices as a reference point from which to judge current value. Just because a share is down 20-30% from its peak is no guarantee that it will rebound to that level any time soon. Focus instead on businesses that have sound fundamentals and where current trading remains positive. Some of these have been caught up in the wider market sell-off and now offer good value, we feel. For example, **SThree's** share price dipped by around a third between late September and the end of January without any negative news from the company. A trading update from SThree last week confirmed that momentum in the business remains strong and the share price duly spiked up nearly 15% on the day. Not all of our favourite *Techinvest* stocks will be able to perform in this way given the economic challenges arising in 2022, but we believe that many remain well placed to build on their strong financial record and defy the subdued sentiment towards tech associated with the current market correction. In that context, the next few weeks might be a good time to fill gaps in a long-term tech portfolio for those with surplus cash to invest. That is the approach we are taking for the Trader Portfolio, having added holdings in **Ideagen** and **Spectra Systems** in recent weeks.

IN THIS ISSUE

FTSE 100	**7535.78**
FTSE Small Cap (excl Inv Cos)	**6097.68**
FTSE techMARK Focus (formerly techMARK 100)	**6495.59**

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

UPDATES

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

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

Concurrent Technologies
88p (CNC; AIM)

In a brief trading update for the year ended December 31, Concurrent has announced that it expects to report revenues and profitability slightly ahead of market expectations despite ongoing supply chain challenges. The order book entering 2022 is robust and the company pointed to an exciting pipeline of innovative product releases with which to grow the customer base and revenues in the current year and beyond.

Separately, Concurrent announced the release of a new Plug in Card. The PR A11/61d-RCR provides resilient Position, Navigation and Timing (PNT) data for sensor-based solutions that are used in electronic warfare and intelligence, surveillance and reconnaissance applications. Concurrent explained that understanding where assets are within the battlefield environment is of vital importance and electronic warfare systems need accurate PNT information to ensure mission success. This new Plug in Card enables accurate PNT data to be provided to communication and control hubs even if the global navigation satellite signal system is jammed or spoofed by external forces.

Concurrent's share price has marked time over the last couple of years, partly reflecting a muted outlook for near-term trading. However, it appears that market expectations were pitched too low and the shares now look well positioned for an upward re-rating. Longer term prospects for the business also lend support to the investment case. Moreover, the development of the new PNT Plug in Card shows that the company is now investing in products that provide additional differentiated capability alongside its state-of-the-art single board computers. This is the type of electronic communications equipment that Western defence forces are increasingly seeking to source from security compliant suppliers in the West (as opposed to suppliers in other parts of the world where security concerns relating to the equipment/supplier are heightened). Buy.

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SDI Group
187.5p (SDI: AIM)

SDI has announced the acquisition of Scientific Vacuum Systems (SVS), a UK manufacturer of physical vapour deposition equipment. The total consideration, including earnout, is forecast to be approximately £4.9m, net of cash acquired. SVS specialises in custom physical vapour systems for the deposition of thin film coatings typically on semiconductor wafers, for use in scientific research, industrial and semiconductor manufacturing applications. The business is also a market leader in the manufacture of production sputter coaters for premium brand razor blade coating. Revenues for the year to September 30 were approximately £2.5m with EBIT of £0.7m. The acquisition is expected to be immediately earnings enhancing.

SVS looks a good fit with SDI's other group companies and overall investment strategy. The scope for further acquisitions of this kind in the scientific equipment sphere is considerable and we remain confident in the ability of SDI's experienced management team to pick out the best opportunities as it continues to expand the asset base of the business. SDI also confirmed during the month that its Atik Cameras division has received a further firm order for cameras to be used in PCR machines, for delivery in fiscal 2023, extending the series of orders related to the Covid-19 pandemic. Strong hold.

TT Electronics
234p (TTG; Electronics & Electrical Equipmt)

TT Electronics has announced the acquisition of the Power and Control business of Ferranti Technologies for £9.0m in cash. Ferranti P&C, based in Manchester, designs and manufactures mission-critical complex power and control sub-assemblies for blue chip customers in high-performance end markets, primarily aerospace and defence. The acquisition is expected to be modestly earnings enhancing and generate mid-teens operating margins in the first year of ownership. TT anticipates achieving cost synergies of circa £0.4m by year three.

Ferranti P&C has valuable long-term customer relationships and programmes with leading global aerospace, defence and industrial OEMs operating in highly regulated markets with significant barriers to entry. The acquisition will add further technology capability, IP and scale to TT's Power Solutions business, which is one of TT's focus areas for structural growth. We made TT a New Buy recommendation at 203.5p per share a year ago. The share price has made steady gains since then and the upward re-rating should have further to run once global demand for electronics recovers from the pandemic disruption and related supply chain issues. Continue to buy.

Vianet Group
88.5p (VNET; AIM)

Vianet has secured a significant new contract for its Smart Machines division. The three-year contract is to provide Lavazza Professional with contactless payment, telemetry, and data services across their unattended retail estate. Included in the deal is a commitment to provide Vianet's services to 3,000 units in Lavazza Professional's managed estate and gives Vianet preferred supplier access to a further 10,000 machines in Lavazza Professional's direct estate providing coffee solutions to vending operators and end-users.

Smart Machines is the faster-growing part of Vianet's business currently and the three-year contract with Lavazza Professional is one of the largest deals signed by the division to date. No financial details were disclosed and there will be no material impact on the current financial year. Vianet has reported a strong pipeline for its core SmartVend solution following significant investment in the product over the last eighteen months, and further orders on the scale of the latest deal look a distinct possibility as we move further into 2022. Strong hold.

Gresham Technologies
172.5p (GHT; Software & Computer Services)

In a trading update for the year ended December 31, Gresham has reported continued strong growth, with revenues, earnings and cash ahead of market consensus. The company expects to report revenues up 48% to £36.8m, including a contribution of £5.4m from Electra since acquisition. Clareti revenues, up 63% to £25.2m, once again accounted for much of the growth. Forward-looking Clareti annualised recurring revenue at December 31 was 95% higher at £24.0m, including £9.2m acquired with Electra. Adjusted EBITDA was up 58% to £7.1m and net cash at the year-end was up £0.2m to £9.1m (13p per share).

This was an encouraging update from Gresham. Excluding the contribution from Electra, the year-on-year revenue growth rate was a record 27%. With its expanded offering following the purchase of Electra, we feel that Gresham remains well placed to continue to grow its service provision and total contract value within existing clients in 2022 as well as add further new customers. Strong hold.

Equals Group
77.5p (EQLS; AIM)

Equals has pointed to a strong trading performance for the financial year ended December 31 resulting in a 52% increase in revenue to £44.1m. Fourth quarter growth was particularly strong, with revenue up 96% to £15.3m. Revenue from the Solutions product stream generated £3.5m since its introduction in May 2021, demonstrating the revenue potential of the investments made in technology and product in 2019 and 2020. Overall earnings in fiscal 2021 were reported to be in line with management expectations and the group ended the year in a strong financial position with £13.2m of cash (7.4p per share).

Equals continues to execute well as it transitions to a broader-based B2B financial services provider. Early trading in fiscal 2022 has extended the strong trend seen last year and the group expects to continue to invest between 20% and 25% of its headcount costs into further technology and product developments in the period. In addition, the group will be increasing its sales and marketing activities to maximise B2B revenue growth from its payment platforms, Equals Money, targeted at SME's, and Equals Solutions, targeted at larger corporates. Continue to hold.

Alfa Financial Software
163.75p (ALFA; Software & Computer Services)

Alfa has announced a strong close to the year ended December 31 with good revenue generation across all business streams. Software revenue has been higher than expected with continued strong delivery of development days alongside additional licence income recognition from incremental licence sales. Three go-lives for new Alfa Systems v5 customers were secured in the fourth quarter, along with ten other go-lives, making a total of twenty-seven for the year as a whole. Overall, management expects full year results to be towards the upper end of current market expectations, which are for revenue of £80m to £82m and operating profit of £19m to £22m.

Alfa's share price advanced by 53% in 2021, reflecting the strategic progress made by the business and an improved financial performance. For the current year, the consensus broker forecast is pointing to earnings per share of 5.4p, representing a prospective P/E of 30.3. With Alfa's business continuing to show strong momentum, we think the upward re-rating of the shares may have further to run. Strong hold.

Ideagen
271p (IDEA; AIM)

Continued success with the transition to a SaaS model was evident in Ideagen's results for the six months ended October 31. Revenue increased 33% to £38.8m, with recurring revenues up 41% to £34.2m. Recurring SaaS revenues were up 76% to £23.6m. Adjusted EBITDA increased by 32% to £13.2m with adjusted diluted earnings per share up 31% to 3.41p. Cash generated by operations in the first half was £13.6m, representing 103% of adjusted EBITDA. Net cash at the period-end was £4.4m compared to net bank debt of £27.9m a year earlier. An equity fundraise completed post period-end raised gross proceeds of £103.5m.

Progress was made with international expansion and complementary acquisitions during the period and post-period end. International revenues were up 32% and now account for 57% of total revenue. Six highly complementary acquisitions were completed for a combined consideration of £102m, three in the first half and three completing post-period end. In aggregate, the acquisitions have added £18.4m of annual recurring revenue. The sale of Pentana Compliance was also completed with proceeds of approximately £15.6m. Ideagen also announced a three-year strategy to reach an annual recurring revenue target of £200m by April 2025.

These were impressive results from Ideagen, with strong demand from new and existing customers alongside a useful contribution from recent acquisitions. The company continues to be particularly successful in combining solid organic growth with a regular stream of successful acquisitions. This approach has rapidly made Ideagen a market leader in the circa US$30bn regulation and compliance software market. With a robust balance sheet that has been boosted by the recent £102m fundraise, there is ample liquidity to make further acquisitions, adding adjacent capabilities and broadening geographic reach. Strong hold.

CentralNic
125.25p (CNIC; AIM)

Following a strong fourth quarter, CentralNic has once again raised expectations for the year ended December 31. Revenue of around US$410m and adjusted EBITDA of US$45m are now anticipated for the period, with these figures around 5% ahead of current broker consensus of US$383m and US$42.9m respectively. This represents growth of 70% in revenue and 47% in adjusted EBITDA compared to the prior financial year. Organic revenue growth for the period reached a record 37%. Cash has increased from US$28.7m at the end of December to US$55.6m and net debt has reduced over the same period from US$85m to US$76m despite spending around US$19m in the year on four acquisitions (Safebrands, Wando, a Publishing Network, and NameAction). Adjusted operating cash conversion continues to be well in excess of 100%. Full year results are scheduled for release on February 28.

Credit to CentralNic for comfortably exceeding the high end of market expectations for fiscal 2021, even while those expectations have been revised upwards repeatedly over the course of the year. The strong increase in organic revenue growth was particularly impressive. We feel that CentralNic has the tools to grow organically at above-market rates for some time to come. However, acquisitions are likely to continue due to the sticky nature of customer bases in the online marketing and services segments that the company targets. The shares were included in our list of 2022 New Year Tips. Continue to buy.

Kape Technologies
372.5p (KAPE; AIM)

In a trading update for the year ended December 31, Kape reported that it achieved significant strategic progress and delivered a record financial performance. Revenue for the full year is now expected to be substantially ahead of previous guidance at circa US$230.5m, representing an 89% increase on the prior year. Adjusted EBITDA is expected to be in line with guidance at US$77.0m (2020: US$39.0m). Organic revenue growth, excluding the ExpressVPN acquisition, reached US$212.5m, which is 5% ahead of the upper range of previous guidance. The group's subscriber base increased 158% to a total of 6.5 million, of which 0.5 million paid subscribers were added organically, representing 18% growth. Simultaneously, Kape has been able to reduce its average customer acquisition costs.

Kape's robust performance in 2021 has enabled the company to accelerate investment in product development, future-proofing the group's position as a market-leader and underpinning its growth prospects. On the operational side, two highly strategic acquisitions were completed, Webselenese and ExpressVPN. Webselenese adds the scale that Kape requires in order to become a world leader in consumer digital privacy and security. ExpressVPN is one of the most recognised brands in the digital privacy space and provides significant cross selling and revenue opportunities for the enlarged group across the platform. The acquisition of ExpressVPN is anticipated to be highly earnings accretive, with Kape's revenues and adjusted EBITDA for the current year expected to be in the range of US$610-624m and US$166-172m respectively. A key challenge for Kape now is to integrate the latest acquisitions while retaining a high number of the newly acquired subscribers. Continue to hold.

Pennant International
36.5p (PEN; AIM)

In a brief trading update, Pennant has revised down expectations for the full year ended December 31. While trading improved in the second half, with the group generating positive EBITA of circa £0.4m, the improvement was lower than previously anticipated due to supply chain issues and Covid disruption affecting the MTE Programme and a slight delay to a software and services contract with a new customer in the commercial aviation sector. Revenues for the year are expected to be around £16.0m with a loss before interest, taxation and amortisation of circa £0.6m. The three-year order book at year-end was £22m, of which £10m is scheduled for delivery in 2022.

Later in the month, Pennant confirmed that it has signed a long-term services contract with Boeing Defence UK for the UK's new Apache helicopter fleet. The work will involve delivering several new and upgraded Part Task Trainers which are compatible with the new fleet.

Covid has generated a range of challenges for Pennant and that is reflected in a share price decline of around 50% over the last two years. On the positive side, the trading update noted that momentum has started to build again in the core product offerings and bid activity is increasing across the group. Winning the major programme contract with Boeing Defence will be a further boost to the business, helping to underpin services revenues for some years ahead. Continue to hold.

Photo-Me International
74.7p (PHTM; Leisure & Travel)

Photo-Me's CEO, Serge Crasnianski, has lifted his stake in the company by acquiring around 7.7% of the issued share capital from the Dan David Foundation at 70p per share. The transaction was completed through Crasnianski's investment vehicle, Tibergest. As the deal increased Crasnianski's stake in Photo-Me to over 30% it triggered the requirement under the City Code on Takeovers and Mergers to make a mandatory offer. The offer price has been pitched at 75p per share, which is a premium of around 15.9% to the volume weighted average price of 64.7p per Photo-Me share for the three months prior to receipt of the offer.

Photo-Me's business was badly affected by the adverse impact of Covid-19 lockdown restrictions on retail and leisure activities. However, a trading update from the company in December pointed to an improved performance in the second half of 2021 and a small beat to expectations for the full year. In that context, the offer from Tibergest may seem opportune, coinciding with the start of what looks set to be a recovery phase in the business. Photo-Me's shares were trading as high as 189p just four years ago compared to the 75p per share offer that is now on the table. Our own estimate of fair value for the business at this point in time is closer to 100p per share (which is equivalent to a prospective P/E of around 12 for the current year). We feel that 75p per share is a poor offer and would advise awaiting developments rather than selling the shares in the market. Hold.

Playtech
575.5p (PTEC; Leisure & Travel)

Some of the takeover premium in Playtech's share price fell away during the month after JKO play confirmed that it does not intend to make an offer for the company. JKO had emerged in December as a possible counter-bidder to the recommended cash offer at 680p per share from Aristocrat.

With JKO out of the picture, the offer from Aristocrat is in a strong position to go through. However, other interested parties may yet emerge, so our recommendation to await developments remains. Hold.

Spectra Systems
149.5p (SPSY; AIM)

Spectra's share price received a boost during the month after the company announced three new contract awards. One of the awards is an additional order for covert materials from the company's largest central bank customer, increasing this year's initial order by 20%. The increase in order size brings the aggregate order for the current year to 75% of last year's record order size. In addition to the increased order for covert materials, the customer renewed its sensor service contract at nearly double its historical annual value. This service contract will continue through the deployment of new sensors which are currently being developed and will overlap with an anticipated service contract specific to the new generation of sensors. Finally, Spectra's Secure Transaction business has entered into a new contract for an existing US state lottery customer worth at least US$0.5m for the ten-year contract period. In total, these three new contracts will generate US$0.7m of additional revenue for the current financial year.

It is good to see the strong underlying progress in Spectra's business continuing into 2022. The additional revenue adds around 5% to the figure that was being forecast for the current financial year prior to the announcement of the awards. We included Spectra in our list of New Year Tips last month and the share price has held steady since despite the general sell off in smaller cap stocks in January. Continue to buy.

Computacenter
2710p (CCC; Software and Computer Services)

In a pre-close trading update covering the year ended December 31, Computacenter reported that trading in the fourth quarter was ahead of management expectations. The company now expects adjusted pre-tax profit for the year to be slightly in excess of £250m. Total revenue grew by 23% including the effects of acquisitions made since the beginning of 2020, and by 27% in constant currency. Growth in Services revenue was the highest for the last 20 years, coupled with continued strength from Technology Sourcing product sales which was more broadly based in 2021 than the previous year. Adjusted net funds at year end were around £241m (80p per share).

In spite of the challenges of the pandemic, Computacenter was able to maintain its outstanding record of financial progress, with 2021 being the seventeenth consecutive year of earnings per share growth. The robustness of the business throughout last year and particularly the strength of the fourth quarter provides a strong platform for further success in 2022. Moreover, product order backlog is at an all-time high and considerably larger than a year ago. The company reports that this is due to product supply constraint meaning customers are ordering earlier and also there is a significant underlying strength to the market. Demand is also underpinned by the Services pipeline which is stronger than a year ago. Computacenter's share price has drifted down with the market in recent weeks, creating a good buying opportunity in our view in the context of the encouraging trading update and positive outlook statement for the current year. Buy.

EKF Diagnostics
63.1p (EKF; AIM)

EKF has confirmed that continued strong trading will result in its performance for the year ended December 31, including adjusted EBITDA, being ahead of already upgraded market expectations. Trading in EKF's core business in the final quarter continued to be robust and ongoing demand for sample collection kits and testing remained strong through to the end of the year. For the full year, core business revenues grew by over 13% compared with the prior year. Cash, net of borrowings, was £19.6m (4.3p per share), reflecting further strong operational cash generation offset by substantial investment in the business.

Covid-related demand has provided a major fillip for EKF's business over the last two years, and the benefits for the company are likely to be felt for many years to come. In particular, management has made good use of the additional cash generated during the pandemic to fund the expansion of EKF's fermentation capabilities and move further into the contract manufacturing market where there is significant growth potential. Continue to buy.

Eleco
104p (ELCO; AIM)

In a trading update for the year ended December 31, Eleco has reported that revenue is expected to be £27.3m, an increase of 8% compared with the same period in 2020, and above market expectations. This has been underpinned by double-digit sales growth from the core Building Lifecycle portfolio. Recurring revenue overall increased by 9% to £15.4m, following the successful launch and acceleration of the company's SaaS/Subscription strategy. EBITDA is also ahead of expectations at £7.0m, (2020: £6.7m) and free cash flow is expected to be in line with the prior year at £5.5m. Prior to the trading update, market consensus forecasts for 2021 pointed to revenues of £26.9m, EBITDA of £6.7m and free cash flow at £3.6m. Bank debt was cleared during the year and the period-end net cash balance was £10.0m (12.2p per share).

Eleco's transition to a subscription-based business model looks to be progressing well and the inevitable impact on near-term revenues is being partly offset by continuing strong demand for the company's products and services. The move into a net cash position strengthens the investment case and we feel that the shares represent good value on a cash-adjusted P/E of 21.5 for the year just ended. Buy.

Instem
745p (INS; AIM)

Instem has issued a trading statement for the year ended December 31, reporting a 64% increase in total revenue to £46.1m. Organic growth was 6.4% to £30.0m, driven by both increased cross-selling and further new client wins. Continuing transition to a SaaS model underpinned organic margin growth and increased revenue visibility. Three acquisitions (The Edge, d-Wise and PDS) were completed during the year and are reported to be integrating well. Revenue from the acquisitions was £16.1m. Management added that the business continued to generate strong profits and operating cash during the period, with a closing cash balance of £15.1m (79.5p per share).

This was a reassuring update from Instem. The acquisitions of The Edge, d-Wise and PDS during the period have transformed the scale of the business, broadening its reach across the drug discovery and development lifecycle, as well as strengthening relationships with existing clients. All three acquisitions have added strong management teams and synergies to the existing business and client base. Organic growth was supported by strong market trends, and a clear preference for new clients to deploy Instem's software using a SaaS model. As we noted when making Instem one of our New Year Tips in the January issue, we feel that the company remains well placed to take advantage of a growing pipeline of opportunities generated by new and existing clients while continuing to complement organic growth with selective acquisitions in a sector that remain ripe for consolidation. Following the update, broker Singer Capital Markets reiterated its Buy rating on the shares and raised its target price to 1000p from 977p. Continue to buy the shares.

FDM Group
1076p (FDM; Software & Computer Services)

Updating the market on performance for the year ended December 31, FDM reported that the business performed well in the second half and full year performance is expected to be comfortably in line with management expectations. The UK and APAC operations showed the highest growth in Mounties deployed and the group ended the year with 4,033 Mounties placed with clients, an increase of 13% on the prior year. Revenue for the year is expected to be flat in comparison to the prior year at £267.4m, though up 2% on a constant currency basis. The balance sheet remains strong with closing cash balances of £53.1m (48.7p per share) and no debt.

Demand for Mounties was strong during the year across the majority of FDM's markets and this trend is expected to continue in the current year. Fortunately, through its academy and accreditation programmes, the company is particularly well placed to meet this growth in demand, with 2,410 new Mounties trained during the year compared to 1,341 training completions in the prior year. This is the highest number of completions in the group's history and FDM confirmed that it has entered the current year with a record number in training. The highly successful training programmes that underpin FDM's business model are a major asset and give the company a significant competitive advantage at a time when skilled IT staff are in short supply. Wage inflation in the IT consultancy market should also play to FDM's advantage over the next year or so. Continue to buy.

Strix Group
237.25p (KETL; AIM)

Strix has reported that it has experienced continued positive momentum in the six-month period ended December 31. Revenue growth on a constant currency basis was circa 30% and post-tax profit was in line with market expectations for 2021 at around £31.4m. Strix added that the results underpin management's confidence in delivering on the medium-term target to double the group's revenue by the end of 2025, primarily through organic growth in the Water and Appliances categories. Net debt (excluding the impact of lease liabilities) at the period end was £51m, which is higher than previous guidance as Strix has proactively invested in inventory to minimise the future impact of continued commodity price inflation.

Strix continues to proactively manage and mostly offset the impact of a number of headwinds that continue to persist, including supply chain issues, currency rate fluctuations, and freight cost inflation. This is being achieved effectively through price increases on some of its legacy products, implementing hedging strategies as well as a range of other efficiency measures and strategic initiatives. Additionally, the company crystallised a tax benefit in relation to the factory opening in China which is expected to result in a lower effective tax rate in 2021. Overall, we feel that Strix's business model has a lot of inbuilt resilience, benefiting from geographical and product diversification and strengthened further by the group's high cash generation and robust balance sheet. Strong hold.

Dotdigital Group
150.3p (DOTD; AIM)

Dotdigital has reported continued organic growth underpinned by strong recurring revenues for the six months ended December 31. Revenue for the period increased by 10% to £30.9m, driven by growth in sales from both new and existing customers. Against a strong prior year comparator based on early pandemic-related activity, revenue from SMS sends is now at more normalised levels. R&D continues to underpin Dotdigital's growth strategy, with recurring revenues from enhanced product functionality growing by 22% to £10.8m. Annual revenue per customer (ARPC) was up by 19% to £1422 per month and sales through connectors into strategic partners increased by 9% to £13.9m. The cash balance at the period end was 25% higher at £32.0m (10.6p per share).

Dotdigital's organic growth strategy, which is based on ongoing product innovation, geographic expansion and growth through strategic partnerships, has once again delivered low double-digit revenue growth and over 20% operating margin. An expanded partnership network is helping to drive brand awareness, particularly in the key US market, and the company has increased its investment in adding new channel managers into its international operations. Overall, we feel that the fundamentals of the business are strong and the market opportunity for Dotdigital's digital marketing technology remains considerable, particularly if further progress can be made in the large US market. The circa 51% fall in the share price since September reflects primarily a valuation issue, with investors reluctant to chase highly rated growth stocks in the current economic environment. Trading on a prospective P/E of 33.8 for the current year, the rating for Dotdigital's shares is starting to look more reasonable, though may need to fall a little further yet before a fresh intake of investors is attracted. Sales figures for the US market should be monitored closely over the coming months for confirmation that Dotdigital's products can gain significant traction on the international front. Overseas expansion is likely to prove crucial if Dotdigital's share price is to stage a sustained recovery. Demonstrating that the business can cope with growing competition across the expanding range of digital marketing platforms will be another important factor in maintaining a high growth rating for the stock. Sentiment is against highly rated tech stocks currently, but we remain cautiously optimistic about the longer-term prospects for Dotdigital's business. Strong hold.

Idox
68.5p (IDOX; AIM)

Idox reported results for the year ended October 31 last week. Revenue was up 9% to £62.2m, including 5% organic growth. Recurring revenue was 2% higher at £36.3m. Adjusted EBITDA increased by 13% to £19.5m, with margin improving to 31% from 30% last time. Operating profit was up 90% to £7.6m on a 12% margin (2020: 7%). Adjusted diluted earnings per share increased by 54% to 2.27p. Disposal of the Content businesses generated net proceeds of £10.7m and three acquisitions were completed in the year with initial net consideration of £10.5m. Net debt at the period-end was 50% lower than a year earlier at £8.1m.

Idox's Public Sector Software (PSS) unit had a strong year, with 12% revenue growth taking sales to £54.1m. The level of recurring revenue was modestly higher, and the group benefited from acquisitions during the period to the tune of £1.8m. The core Idox Cloud product saw wins from a number of government customers, as well as a number of cloud conversions being booked. Health & Social Care, Elections and CAFM also delivered well, with a range of client wins, product evolution and project delivery across the group. The Engineering Information Management (EIM) unit performed better in the second half as lockdown restrictions were eased globally. Revenue and EBITDA were down 9%, with a revenue fall of 11% in the first half narrowing to 6.6% in the second half as the unit won 11 new customers and projects, including work around the Doha International Airport expansion and with engineering groups Rosetti Marino and Audubon.

Idox has maintained good progress against the group's strategic goals whilst delivering successful operational execution. Despite the Covid pressures, both PSS and EIM delivered well; the former moving forward materially and the latter mitigating pressures evident across the market, and both showing clear improvement across the course of the year. Strategically, Idox's business has effectively been reshaped through the disposal of the Content businesses, and three acquisitions relating to mapping, GIS and environmental data. The net effect has been to focus the group more clearly on its core software businesses with high margin operations and good growth potential. All offshore activity has been consolidated in a single Idox centre in Pune, India, and improvements have been made to the product portfolio and go-to-market efforts. Earnings visibility for fiscal 2022 is good given the company's strong recurring revenue stream, an order book boosted by significant recent contract wins, and resilient public sector markets. The consensus broker forecast for the current year is earnings per share of 2.77p for a prospective P/E of 24.7. Strong hold.

SThree
482.75p (STEM; AIM)

SThree has reported a record profit performance for the year ended November 30 and upgraded its fiscal 2022 forecast to double-digit growth. Revenue for fiscal 2021 was up 11% to £1,330.7m, with net fees 15% higher at £355.7m. Pre-tax profit was £60.0m compared to £30.1m a year earlier. Basic earnings per share increased by 129% to an all-time high of 31.8p. Net cash at the period end was 15% higher at £57.5m (42.3p per share).

As the market rebounded in 2021 following the impact of Covid-19, SThree reported that demand for STEM skills increased across all its key markets. Contract net fees, which represents three-quarters of the company's business, increased by 17% during the year and the contractor order book was up 43%. Permanent fees were 24% higher. Net fees from the SThree's three largest geographical markets all increased strongly: Germany up 23%, USA 24% and the Netherlands 19%. By sector, demand was strongest in the technology, life sciences, and engineering sectors. On the ESG front, the company's renewables business (6% of net fees) was up 22% versus 2020, ahead of the target to double the share of this business from 2019 to 2024. SThree added that its Employed Contractor Model (ECM), where contractors are directly employed by the company rather than the client, is proving an increasingly compelling proposition alongside freelancing. At the beginning of the year the mix was 46% independent contractors and 30% ECM. Now it is 43% independent contractors and 32% ECM.

Results in fiscal 2020 were impacted by Covid and so provided a weak comparative for the 2021 results. Nevertheless, SThree has delivered a strong performance even when compared with the pre-Covid results for fiscal 2019. Against the latter, net fees in 2021 were up 9% and adjusted pre-tax profit increased by 7%, which is an impressive level of growth given that the pandemic continued to have a depressive effect on markets in 2021, albeit at a reduced level compared to the prior year. Key to SThree's success is taking share from competitors in several key markets, partly reflecting the company's deep understanding of the STEM sector and the importance attached to flexible working in the modern, high-skilled economy. Sustained investment in staff training, leadership development, and IT infrastructure is also helping the business stay ahead of the competition. We made SThree a 2022 New Year Tip at 457.25p. The share price followed the market down during January, but bounced strongly following the results announcement at the end of the month. As long as the Covid threat continues to retreat, we anticipate that 2022 will be another year of financial and operational progress for SThree, buoyed by strong secular growth trends in the STEM market. Continue to buy.

Osirium Technolgies
11p (OSI; AIM)

In a trading update for the year ended December 31, Osirium reported that it expects to report bookings and revenue of at least £1.6m and £1.45m respectively, in line with the prior year. Deferred revenue at the period-end was £1.66m, providing visibility as the group starts the new financial year. Debtors and cash balances at December 31 were £0.7m (3p per share). On a positive note, the customer base more than doubled to over 100 customers during the year. New customers signed in the final quarter included two more NHS trusts, an international telecoms operator and a London-based law firm. The customer retention rate for the period was a reassuring 95.4% by value. Osirium sold through 28 resellers in 2021, and the company's increasing emphasis on its reseller and distributor model means it achieved a number of sales in new territories across Western Europe, Central and Eastern Europe, and South Africa.

Osirium remains a loss-making business and progress towards profitability has been disappointing, calling into question whether the company may simply be too small to succeed in the highly competitive cyber-security software space. On the upside, however, the steadily increasing customer base is likely to prove sticky and provide increased up-sell opportunities, in line with Osirium's 'land and expand' strategy. Making greater use of the reseller and distributor model also looks a good move for a business with a relatively small operating budget. On a price-to-sales ratio of 2.48 for the year just ended, the shares are starting to look reasonable value relative to many other smaller cap software providers, and the fact that the company has delivered a compound annual growth rate in revenues over the last five years of circa 26% is encouraging. However, other metrics need to improve from here if an upward re-rating of the stock is to be justified and, overall, we feel that it is too early to average down on what has been a disappointing stock performer for us to date. Hold.

Tribal Group
93p (TRB; AIM)

Cloud expansion has driven growth in annual recurring revenue (ARR) for Tribal in the year ended December 31. Consequently, the company anticipates that fiscal 2021 results will be in line with market expectations. ARR increased by 7% to £50.3m in the year and the balance sheet remained robust with net cash of £5.9m (2.8p per share) after the payment of £6.4m on acquisitions and deferred consideration payments and £2.5m in payment of dividends. Multiple new customer wins were secured throughout the year, including two new SITS:Vision customers and three major Tribal:Cloud migrations. The company has also signed up four early adopters to its newly developed Cloud-based Tribal Edge Admissions module. Semestry, acquired in April 2021, accelerated its historic growth rate by securing nine new customers, expanding its ARR by over 30% to £1.2m.

This positive performance provides an endorsement for Tribal's cloud strategy and product investment programme as the company transitions to become a SaaS business, with global reach. Broker consensus forecast for the current year is pre-tax profit of £9.9m and earnings per share of 4.96p. A prospective P/E of 18.8 looks reasonable value for a business that has grown earnings per share at around 15.5% over the last three years and is well placed to at least maintain that trend in the medium-term. Strong hold.

XLMedia
34.5p (XLM; AIM)

XLMedia has reported that it anticipates full year results for the year ended December 31 to be in line with expectations, delivering revenue up 21.5% to approximately US$66.6m. Adjusted EBITDA of approximately US$17.2m is a 41% increase on a year earlier. Cash balances at the period-end are expected to be circa US$24.7m (equivalent to 8.2p per share).

The company's Sports vertical performed well during the year, with revenue of approximately US$25.2m (2020: US$11.3m), buoyed by two US sports acquisitions and a number of publishing partnerships. Personal Finance generated revenues of approximately US$8.8m, up 5% on the prior year. However, XLMedia indicated weakness in the division in the second half and confirmed that fiscal 2022 revenue is expected to be less than 2021, with trading continuing to be challenging. The company's European casino assets, which generated revenues of approximately US$23.2m (2020: US$31.7m), will also continue to face trading pressures as tail revenues decline further. Moreover, the Finnish casino assets are facing negative regulatory change which will likely significantly impact revenue performance in the coming year.

This was a disappointing update from XLMedia overall. On the one hand, the company continues to make good progress in the US sports market where it now has coverage across 15 states, with an increasing market opportunity as more states legalise online sports betting. Other parts of the business are being rationalised and reorganised to further capitalise on the US market opportunity and to reduce risk from legacy areas of the business. However, challenging market conditions in the legacy areas are denting market sentiment towards the stock and highlighting the considerable scale of the transition required to set the company on a recovery path. Weak hold.

GB Group
665.5p (GBG; AIM)

GB has announced the acquisition of Cloudcheck, a New Zealand-based provider of electronic identity verification and anti-money laundering solutions. The upfront consideration for the acquisition is NZ$20.0m (approximately £10.0m), of which two thirds is cash payment and the rest new shares in GB. Contingent on Cloudcheck's revenue growth, two further payments totalling up to NZ$8.0m may become payable in the medium term. Founded in 2012, Cloudcheck operates a SaaS revenue model which is based on an annual subscription plus volume-based usage fee. In the year to 31 March 2022, the business is expected to generate approximately NZ$5.0m revenue and NZ$2.0m EBITDA.

This looks a promising acquisition for GB. Cloudcheck has an established leadership position in New Zealand's electronic identity verification market, offering strong technology-led solutions and benefiting from a loyal customer base. Before synergies, the acquisition is expected to be immediately enhancing to GB's overall revenue growth rate, operating margins and earnings per share. Cloudcheck will also provide customer upsell opportunities for GB's global identity data and adjacent compliance and fraud solutions. Continue to buy.

INGENTA

FACT FILE

Website:	**www.ingenta.com**
Telephone:	**01865 397 800**
Stockbroker:	**Cenkos Securities**
FTSE Class:	**AIM**
EPIC Symbol:	**ING**
Shares in Issue:	**17.0m**
Price:	**89.5p**
Market Capitalisation:	**£15.2m**
Year-end:	**December 31**

Adjusted earnings per share:
2020: 4.7p
2021: 5.2p (Cenkos broker forecast)
2022: 6.4p (Cenkos broker forecast)
Price Earnings Ratio:
2020: 19.0
2021: 17.2
2022: 14.0

Last month we made Ingenta a New Buy recommendation at 72p per share. We also added the stock to our list of New Year Tips for 2022, promising to write more about the company in this issue. A trading update from Ingenta last week added further support to the investment case, with management confirming that results for the year ended December 31 are expected to be slightly ahead of market expectations. Revenue has remained stable relative to the prior year at circa £10.1m while adjusted EBITDA has risen by around 25% to £1.5m. Closing cash balances were significantly above market expectation at £3.0m (2020: £2.3m) helped by strong cash collection at the year end. The company has no debt.

Publishing software specialist
Ingenta is a UK-based provider of software and related services for the global publishing industry. With the various businesses that have been integrated into the group, Ingenta has accumulated over 40 years' experience and has a deep understanding of the publishing industry and the various challenges facing publishing businesses in creating, managing, and distributing content. Historically, the company has focused mainly on developing software for the book side of publishing, which remains a steadily growing market despite the challenges posed by emerging digital forms of communication and entertainment. Customers in this sphere include many of the world's largest publishers such as Sage, McGraw Hill and, in print media, Hearst. These are long-standing relationships and Ingenta reports that its top ten customers have each used the company's products for 14 years or more. Customer stickiness is reflected in a high level of recurring revenue, currently 85% and rising as Ingenta moves increasingly to a SaaS business model. Ingenta has a well-established market position and requires minimal investment in its core products for future expansion, operating with relatively few fixed assets and requiring little ongoing capital expenditure. From a strong base in book publishing, the company has been gradually branching out into adjacent markets with similar business software requirements, such as music, film, and gaming. We feel there are excellent opportunities for growth with this multi-media approach that are not yet reflected in Ingenta's relatively lowly rated share price.

There are two main parts to Ingenta's business: Commercial and Content. The Commercial suite of products provides a comprehensive range of solutions for helping publishers manage their key business functions, such as royalty payments, permissions, editorial and production, distribution, online sales and subscription management. Once installed, customers tend to use the underlying systems for many years, purchasing upgrades and product extensions together with support services that the company also provides. Ingenta Commercial is used by many different types of publishers, including book publishers, book companies, publishing houses, scholarly and academic presses, other media industries and digital media sectors as well as distributors. The product suite is highly configurable and can be delivered as a SaaS model, depending on the customer's requirements. There remains a substantial proportion of group revenues that are generated by the forerunner of the current SaaS implementation, Vista, which is still used by long-standing customers and is highly integrated within these customer business operations.

The Content part of the business includes online and mobile hosting platforms that enable publishers to convert, store, deliver and monetise digital content. Ingenta hosts content for over 200 publishers on platforms that can be multi-tenant or bespoke. Content hosting solutions currently deliver over 700 million page views and data requests per year through the outsourced Ingenta Connect scholarly portal. This is a multi-tenant hosting solution. Users can also choose the dedicated Ingenta Edify platform which is a full-service custom hosting solution that supports and presents all the information that a data provider wants to publish. Alongside Commercial and Content, there are two smaller parts to Ingenta's business: Advertising and PCG. Advertising provides a complete browser-based multi-media advertising, CRM and sales management platform for content providers and caters for advertising and media products which are used by a variety of consumer, media, broadcast, and media organisations. Publishers Communication Group (PCG) is a consulting operation within Ingenta that provides a range of non-software services designed to expand and support the sales strategy of publisher clients.

Growth drivers
Ingenta's current CEO, G. Scott Winner, joined the company in 2016 and was acting CEO for a few months in 2018 before securing the post permanently in early 2019. CFO, Jonathan Sheffield, has been in position since January 2017. The main focus for the pair so far has been to drive efficiency gains and strengthen the internal systems of the business, including the development of a streamlined infrastructure and expanded offshore capability. This has resulted in improved cash generation and a return to net profit in the last

two years following a brief period in the red as the new management team were taking steps to improve the fundamentals of the business. Further efficiency gains are anticipated in the near term, but with much of the work on strengthening internal operations complete, the priority for management is now shifting towards growing revenues which have remained stable at around £10m over the last three years.

Growth drivers for revenue are numerous and are mostly linked in with the trend towards media convergence. Book publishing has become more closely aligned with other creative spheres, such as music, film, and performance, in recent years. High-selling books are often produced as part of a package that includes spin-offs such as films, songs, animation, character-licensing, and audio (related podcasts and audio books, for example). This is beneficial for Ingenta in a number of ways. First, it creates demand from publishers for additional applications to help them manage these emerging aspects of their business. Second, there is greater diversity in the business models available to publishers, which in turn expands the market for configurable software systems that can be applied in a variety of operational contexts. Ingenta has a particularly strong track record in this part of the market. Third, media convergence is generating numerous opportunities for Ingenta to adapt its products to meet demand in spheres that are adjacent to traditional book publishing. These include film and music, together with many digital offerings such as podcasts, e-books, e-journals, digital art, and potentially creative work within the metaverse. Managing IP rights in this new world of convergent media is complex, and sophisticated software of the kind that Ingenta has already developed for the book publishing segment will be required to help publishers and other creative producers keep track and run their businesses effectively. Applications to assist in licensing and sub-licensing media assets is another major growth area from which Ingenta will likely benefit.

New customers

Significant further opportunities for Ingenta to drive revenue growth also exist. These include scope to expand the services side of the business as publishers and media operators increasingly seek to outsource the day-to-day management of their technology infrastructure. Linked to this is the provision of content management platforms where Ingenta already has established customers and a strong pipeline of further opportunities among both book publishers and wider media organisations. Management have also mentioned targeting a wider range of organisations that are responsible for producing significant amounts of published material. This includes non-governmental organisations (NGOs) and trade associations. Geographical expansion is another potential avenue of growth and with this in mind the company has been taking steps to strengthen its presence in the huge US market.

Ingenta's trading update last week confirmed that the company has achieved further traction in its efforts to diversify its revenue base beyond the core book publishing market. This includes signing the first music customer for the company's conChord IP management product and adding two major NGO customers for the web-based digital content distribution business. As business returns to greater normality following the easing of Covid lockdown restrictions, we anticipate that Ingenta's new sales and marketing approach will secure further breakthrough deals in markets adjacent to book publishing.

Modest valuation

The latest results are for the six months ended June 30. Revenues were little changed on a year earlier at £5.1m, with 85% recurring in nature (2020: 82%). Gross profit margin increased to 47% from 44% in the corresponding period last time and adjusted EBITDA was up 34% to £0.7m. Cash from operations was 10% higher at £1.3m and cash balances increased to £3.1m from £2.3m six months earlier. Around a quarter of a million shares were repurchased under a share buyback programme in the period.

For the year ended December 31, broker Cenkos Securities is forecasting adjusted pre-tax profit of £0.9m and corresponding earnings per share of 5.2p. These figures rise to £1.1m and 6.4p respectively for the current year. Profit growth in 2022 is expected to be driven mainly by ongoing efficiency gains. From 2023 onwards, we anticipate that profits will be further supported by higher revenue as the company expands into adjacent vertical markets and capitalises on its market-leading content hosting platforms. On a prospective P/E of 14 and a PEG of 0.6 for the current year, the shares trade on a modest rating compared to many other software specialists on the London market. This is partly explained by the low market cap which we understand is deterring some institutional investors who would otherwise be interested in taking a stake. But we also feel that the shares are neglected due to a lack of awareness of the growth potential within the business. Media convergence is a game changer for Ingenta, creating a much larger potential market for its software and services than that represented by the traditional book publishing segment alone. Management have taken sensible steps to prepare for the enlarged market opportunity by strengthening internal processes and ensuring a secure base for the company's hosting infrastructure. With that work largely complete, Ingenta is in a strong position to seek out new customers and increase sales to the existing customer base.

We like the growth story that is unfolding at Ingenta and we also feel that the current share price offers good value given the stable, high level of recurring revenue and strong cash generation that the business enjoys. Continue to buy.

MARKET MOVERS

Ingenta was among the main market movers last month, up by 23.5%. We made the shares a New Buy and one of our 2021 New Year Tips in the January issue, impressed by the low valuation and encouraging growth prospects for the business.

Other *Techinvest* New Buy stocks to perform well in January included **Pennant International**, **Photo-Me**, and **Equals Group**. Shares in the training simulation provider, Pennant, rose by 14% even after the company revised down expectations for the year ended December 31. Covid-related supply chain issues and order delays appear to have been the main factors hampering performance in the second half of the year. However, the market was cheered by management comment that sales momentum has started to build again in the core product offerings and that bid activity is increasing across the group. News of a long-term services contract win with Boeing Defence UK towards the end of the month also boosted the share price. Vending machine operator, Photo-Me, made gains after CEO, Serge Crasnianski, lifted his stake in the company by around 7.7% of the issued share capital at 70p per share. As the deal increased Crasnianski's stake in Photo-Me to over 30% it triggered the requirement under the City Code on Takeovers and Mergers to make a mandatory offer, which was subsequently pitched at 75p per share. We feel that the offer undervalues Photo-Me's assets and would be surprised if there are many takers among the shareholder base. Shares in the B2B financial services provider, Equals, rose 14.8% after the company pointed to a strong trading performance in its Q4 ended December 31. Revenue for the period was up 96% to £15.3m. Overall earnings in fiscal 2021 were reported to be in line with management expectations and the group ended the year in a strong financial position with £13.2m of cash. Investors also responded positively to news that the group will be increasing its sales and marketing activities to maximise B2B revenue growth from its payment platforms for SMEs and larger corporate clients. Other *Techinvest* New Buy recommendations to finish in positive territory after a difficult month for small cap stocks included **Vianet**, **Concurrent Technologies**, **ULS**, **Eleco**, and **Idox**.

Two gainers from outside our *Techinvest* stocks were **Brave Bison** and **Digitalbox**. Brave Bison is a digital marketing company that has a network of over 650 social media channels and produces social media advertising campaigns for a range of well-known consumer brands. The share price soared by 29.8% during the month after the company confirmed that trading in the second half ended December 31 had been strong. Revenues and viewing numbers across the company's advertising network were robust and several new customer wins were recorded in the final quarter of the year. Pre-tax profit for the year is expected to be £0.4m, up from a loss of £2.3m last time, with adjusted EBITDA per share of 0.16p. On a prospective P/E for the year just ended of 10.6 the shares are modestly valued, but the low market cap and mixed record of previous trading temper enthusiasm at this stage. Digitalbox is also a digital media company, operating brands such as Entertainment Daily, The Daily Mash, and The Tab. The share price sprang forward during the month after the company confirmed that results for the twelve months ended December 31 would be significantly ahead of recently upgraded market consensus of £0.85m EBITDA. Broker consensus forecast earnings per share for the year just ended is 0.66p, putting the shares on a prospective P/E of 16.3. We feel the shares are worth monitoring, though again the market cap is small at £12.5m and the company has only a short history of trading.

Shares in the fuel-cell technology specialist, **Ceres Power**, slipped back after the company released an in-line trading update for the year ended December 31. The business remains loss making, though revenue has been building at a three-year compound annual growth rate of around 70%. That growth rate is impressive, but needs to be maintained for some years to come if the price-to-sales ratio, which is currently 34.8, is to fall to a more reasonable level. High-flying, speculative tech stocks are out of favour currently and that makes for a difficult background for Ceres Power's shares even after the recent price dip. The same can be said of shares in **Ilika**, another heavy faller during the month, down 23%. The loss-making company focuses on solid-state battery technology and recently reported solid operating progress for the half year ended October 31. However, EBITDA loss widened to £2.7m from £1.0m, highlighting the long runway to profitability that businesses in the battery technology sector face and the uncertainty about how many of them will ultimately succeed.

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	**125.25**	7515.00
2,500	QinetiQ	QQ.	30/11/20	300	7549.45	**268**	6700.00
1,200	RWS	RWS	19/01/21	524	6331.39	**509.5**	6114.00
1,000	Cohort	CHRT	27/01/21	625	6293.20	**470.5**	4705.00
800	Tracsis	TRCS	23/02/21	641	5165.59	**995**	7960.00
8,000	MTI Wireless Edge	MWE	30/04/21	69.5	5599.75	**68.5**	5480.00
80,000	TP Group	TPG	30/04/21	5.7	4594.75	**3.6**	2880.00
2,200	Iomart	IOM	01/06/21	274	6070.09	**164**	3608.00
6,000	ULS Technology	ULS	01/06/21	87	5258.05	**84.3**	5058.00
2,000	TT Electronics	TTG	27/07/21	259	5217.85	**234**	4680.00
6,000	EKF Diagnostics	EKF	27/09/21	82.5	4986.70	**63.1**	3786.00
1,000	GB Group	GBG	26/11/21	751	7559.50	**665.5**	6655.00
2,000	Ideagen	IDEA	09/12/21	272	5479.15	**271**	5420.00
3,500	Spectra Systems	SPSY	27/01/22	148	5217.85	**149.5**	5232.50
All purchases adjusted for subsequent rights/scrip issues							
* Denotes part profits taken						Cash	£69,961
Starting Capital £150,000 (01/09/20)						**TOTAL**	**£145,755**

US tech stocks have sold off strongly since November and that has dented sentiment in the London market too. January was a particularly savage month, with the FTSE techMARK Focus index losing 7% of its value. Holdings in the Trader Portfolio suffered along with the market, though the defensive nature of some of the stocks helped contain the damage.

Fortunately, around half of the value of the Portfolio at the start of the month remained in cash. We have taken a conservative approach to adding holdings over the last year or so, wary of the high valuations on which many tech stocks have been trading and conscious that the economic backwash from the pandemic disruption could be an obstacle to global growth for many months to come. After the recent share price falls, however, we are seeing more opportunities to invest and there are several stocks on our radar that are close to triggering what we would regard as an acceptable entry price. Some of these stocks score highly in terms of quality and growth prospects, but are never going to be cheap in terms of the multiples on which they trade. We are happy to invest a significant proportion of the Portfolio's capital in that type of highly rated, long-term growth stock as long as we avoid paying exorbitant prices. However, we also want to include some positions that score highly on value criteria, alongside offering some prospects of growth in the underlying business.

That was our thinking behind adding a holding in **Spectra Systems** this month, a global leader in providing technology for secure transactions, such as banknote authentication and product brand protection. Far from being an ex-growth market, the number of banknotes in issue globally continues to increase year-by-year and this trend is likely to continue well into the current century despite increasing competition from digital currency and payment methods. Spectra's customers include many of the major central banks, and recurring revenues from this part of the business provide a strong platform from which to commercialise a range of other uses for the company's highly-regarded IP. Brand protection and gaming/lotteries are two additional sectors that the company has successfully targeted and where sales are rising strongly. Another growth market for Spectra is K-cups, the single-serve coffee container pioneered by Keurig Dr Pepper. Spectra has developed a coating formulation to allow K-cups to be authenticated to prevent counterfeiting and allow complete functionality in the Keurig-K-cup system. Initial orders for the product have been encouraging and show potential for considerable expansion for Spectra in this segment.

Progress is also being made in developing a machine-readable polymer substrate product by integrating the opacification and conducting layers into Spectra's finished banknote authentication product. The substrate is a major advancement that the company reports will allow direct competition with current industry suppliers of polymer banknotes, such as De La Rue and CCL. Winning even a small share of the multi-billion-dollar banknote production market could be a game-changer for Spectra, and direct marketing efforts for the new product is already underway. On several measures, the shares offer excellent value. Stripping out cash, the prospective P/E for the current year is undemanding at just 14, and the shares also come with a 5% dividend yield. A price/free cashflow (PCF) ratio of 11 is also attractive and return on capital is a market-leading 24%. An operating margin of nearly 40% is one of the highest among London-listed stocks and helps to illustrate the high quality of the business. Further support for the investment case comes from Spectra's record of growth, with earnings per share having increased by a 15.1% compound annual growth rate (CAGR) over the last three years. We believe that rate of growth is likely to be maintained, or even exceeded, in the medium term as the company continues to launch new products and target a wider range of markets for its proprietary authentication technology.

January was a quiet month for company news flow across the other stocks in the Portfolio. However, **Ideagen** released excellent results for the first half ended October 31. Revenue increased 33% to £38.8m and adjusted EBITDA was up 32% to £13.2m. Strong cash flow enabled the company to pay off debt and end the period with net cash of £4.4m. A trading update from **CentralNic** pointed to a strong fourth quarter and an upwardly revised estimate for the fiscal 2021 revenues and adjusted EBITDA. Likewise, **EKF Diagnostics** confirmed that continued strong trading will result in its performance for the year ended December 31, including adjusted EBITDA, being ahead of already upgraded market expectations. In more buoyant market conditions, we think the share prices for these companies would have moved up strongly on the back of such robust news. However, tech is out of favour for the time being and so the share prices remained subdued. We feel that situation may continue for a few weeks more while stocks in other sectors that are perceived to offer better value are upwardly re-rated. We would then anticipate a bounce back in tech later in the year, as long as fundamentals remain supportive.

TECHINVEST TRADER PORTFOLIOS

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

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

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

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

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

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