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UK Tech Sector: Sleeping giant or hibernating bear?

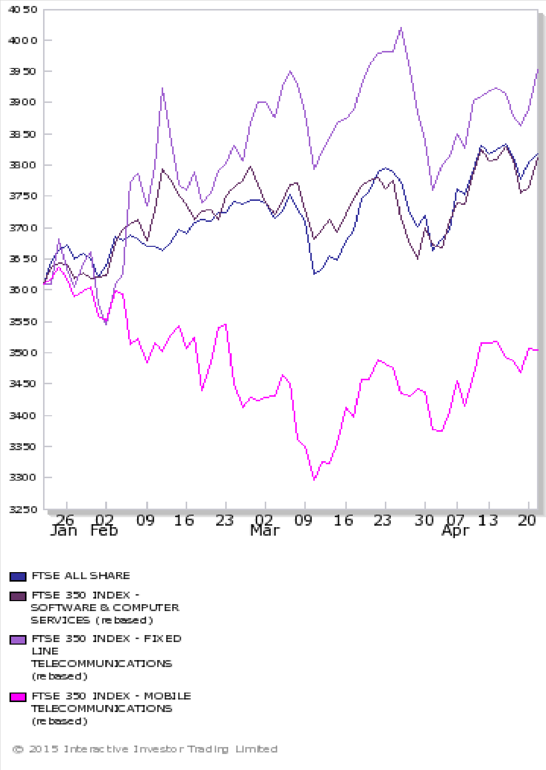
Investors can be forgiven for getting excited about the global tech sector with the recent news from the NYSE that another company has gone flying out the tech IPO gates; this time it was internet domain behemoth, GoDaddy. The company raised $460 million as part of the IPO and with the shares rallying more than 30% on their first day, reached a valuation of around $6 billion. Considering the company lost $143 million last year it shows us the US tech boom is far from over.

Looking ahead; the US tech IPO queue is far from empty with hopefuls such as Pinterest, Dropbox, Snapchat, Airbnb and Uber all eager to emulate their predecessors' success. Many of these companies, including room-letting giant Airbnb have received overwhelming support from private financing deals last year with them raising $475 million which would beg the question do many of these IPO candidates actually need to come to market? I'm sure many of Wall Street's finest would beg to differ.

Here in London, we couldn't be further from the current sector sentiment towards tech in the US. In our previous tech reports we documented the performances of companies such as Monitise, Quindell, Blinx, Outsourcery and MoPowered to name but a few and the effect these share price demises had towards the overall sector. Six months on and the tide is far from changing; there are no shortage of good quality companies in the tech sector looking to AIM for support despite receiving a frosty reception. During sector downturns companies lose their unique value proposition with investors; they are unfairly put in buckets of "payments" or "cloud computing". Not only is this hugely frustrating for the companies themselves when they genuinely have something unique to offer the sector but more importantly this could start to have wider implications for the industry. Prohibiting access to financing in a fast growing and vibrant sector has the danger of affecting industry innovation or even worse, moving elsewhere.

One should always err on the side of caution when drawing comparisons on the sector between the US and the UK – we should not strive to be embroiled in the hype of bubbles because they are never sustainable; whereas sensible company valuations are. Slowly the sell side are starting to learn from mistakes made throughout 2014 where the dialogue between issuer and investor was lost when it came to formulating company valuations. Looking at the lack of deal flow in the sector so far in 2015 it would appear the wounds inflicted from certain company performances are etched into investors' minds and therefore they continue to be wary of the sector.

Unfortunately the sector has been victim to a few high-profile failures over the past year which has resulted in other companies being tarred with same brush. As yet there is still no end in sight as to when the "sleeping giant" will awake. Across 2014 it was a record year for venture capital investment into London-based technology companies attracting $1.4bn from investors. If AIM's frosty reception continues towards the sector it will offer promising technology companies little incentive to IPO; causing many missed opportunities for AIM investors. ***By Niall Pearson***



Fixed Line Telecommunications	**CY2015E**	**CY2016E**
PE	15.16	13.85
P/Book	17.36	10.07
EV/Sales	2.29	2.14
EV/EBITDA	6.96	6.45

Software & Computer Services	**CY2015E**	**CY2016E**
PE	18.61	16.88
P/Book	4.76	4.67
EV/Sales	2.90	2.56
EV/EBITDA	12.14	10.13

Mobile Telecommunications	**CY2015E**	**CY2016E**
PE	39.11	34.04
P/Book	1.12	1.00
EV/Sales	2.09	2.05
EV/EBITDA	7.14	6.80

Source: Bloomberg

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Economic Review

The economy of the United Kingdom has been on the road to moderate recovery since early 2013, and according to the Quarterly National Accounts (QNA) the UK economy grew by 0.6 percent in the final three months of 2014, the eight successive quarter of GDP growth.

However, it has not been without its struggles.

The UK general election is just around the corner, which according to PWC's report on the UK Economic Outlook has caused a feeling of uncertainty and, therefore has caused caution within households and companies with regards to spending and investment. The latest spend report by Barclaycard (surveying 2000 consumers) put forward that consumer spending climbed by 3.8 percent in Q1 of 2015 compared to the same period last year. The report also found that consumer confidence within the UK is rising, with 45 percent of Britons feeling optimistic about Britain's economic outlook. Nonetheless, the report also suggested that 56 percent of consumers are concerned about the upcoming election and its potential impact on their personal and household finances, no matter who wins. Almost one in five (19 percent) are preparing to put off major purchase decisions until the outcomes of the election are known.

The Office for National Statistics (ONS) recently announced that the UK's inflation rate remained at a record low of 0 percent in March, for the second month in a row. One of the biggest contributors to this is the overall fall in oil and gas prices over the past year. This has been positive news for businesses and households, with the latter seeing the weakness in the inflation rate helping to raise the real value of earnings. However, North Sea oil firms have taken a massive hit on the low prices of oil and gas, which has not only affected the firms involved in explorations and development of fields, but those who engage in providing support services to these firms. Nevertheless, inflation should start to increase towards the second half of the year as the downward pressures from oil and gas prices ease.

Britain's index of foremost shares has in recent weeks arrived at record highs, shares across European markets have climbed to new peaks in recent weeks too as investors, encouraged by European Central Bank’s quantitative easing programme, pile into equities. The FTSE 100 has been rising to new heights in spite of the impending general election, which is set to be one of the most uncertain for years. Yet, stock market players in general are sanguine about the vote; given that many of the companies in the leading index create most of their revenues overseas.

The 7,000 barrier has been accompanied by a flurry of activity dominated by blockbuster deals throughout 2015 (Royal Dutch Shell and BG Group, BT and EE, Majestic Wines and Naked Wines) fuelling opportunities of further M&A activity. IPO activity on the main market has been buoyant with 17 IPOs accomplished in 2015, the stand out ones being Wizz Air Holdings, Auto Trader Group, Aldermore Group, John Laing Group and DFS Furniture Limited.

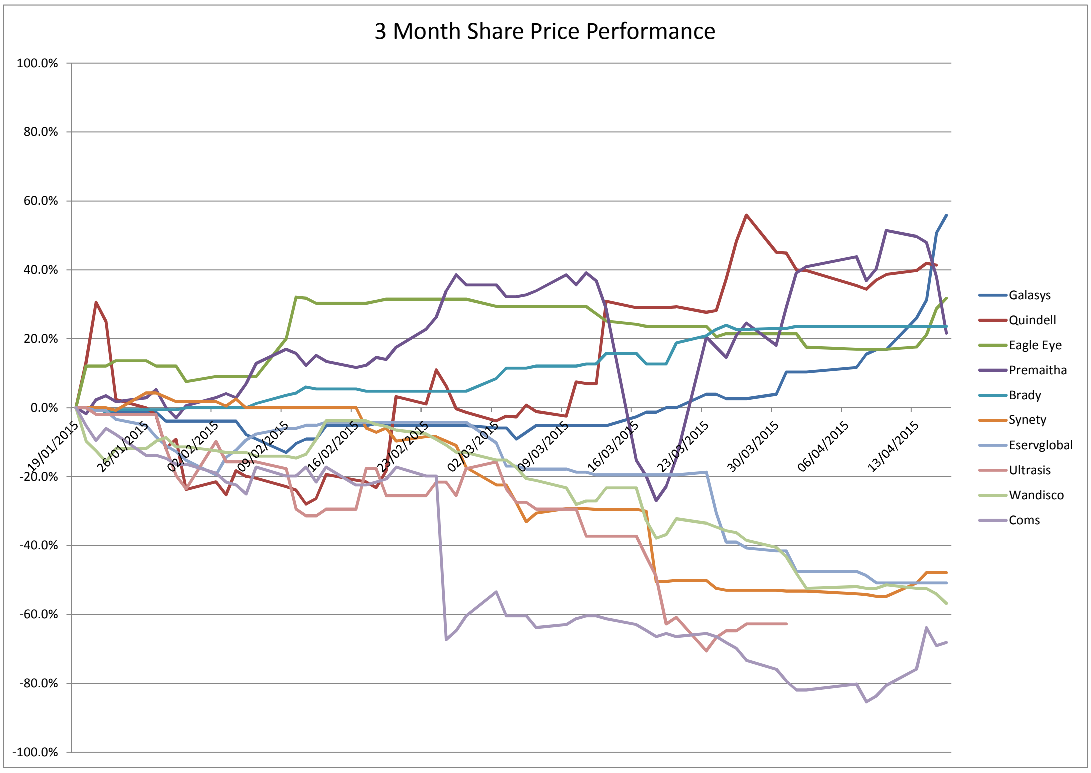
Positive investor sentiment towards large caps is yet to filter through into the Alternative Investment Market. Since the turn of the year, only 9 IPOs have materialised, and in total, 27 companies delisted from AIM in the first quarter of 2015 from 19 in the previous quarter, leaving the market with 17 fewer companies by the end of the quarter, the biggest shrinkage since the first quarter of 2012. However, it can be said in recent weeks there has been more optimism within the FTSE AIM All Share Index up 6.7 percent in the past three months, but down 10.2 percent compared to the same period a year ago.

As things begin to settle down in the economy, and normality is resumed in the latter half of the year post-general elections, the AIM may see activity beginning to accelerate as a result of a change in investor sentiment. ***By Darshan Patel***

Top 5 risers and fallers

As at 17 April 2015	*3 month Share price movement*
Galasys	53.85%
Quindell	41.40%
Eagle Eye	31.82%
Premaitha	28.40%
Brady	26.71%
Synety	(48.10%)
Eservglobal	(50.85%)
Ultrasis	(57.78%)
Wandisco	(58.97%)
Coms	(68.38%)

Source: Fidessa



Source Fidessa

Galasys (LON:GLS 30p/£22.97m 3mth +53.85%)

The provider of ticketing systems and solutions to the fast growing amusement park industry in Asia, in January, provided a trading update stating that results for FY Dec 2014 would be ahead of expectations, and that a maiden dividend would be declared. Subsequently in February and March contracts with a total value of over £0.5m were announced. Final results showed revenue for 2014 up 45% at RM38.62m with Profit Before Tax up 35% at RM11.34m. EPS was RM0.16, or c. 2.91 pence and a final dividend of 1.084 sen, c. 0.2 pence per share was declared. On the day of the results (13 April) Galasys also announced a placing of new shares and collaboration agreement with Chinese based Focus Information Technology Co raising £3m at 30p at a 33.5% premium to the prevailing price. The funds will enable the Group to accelerate the delivery of its growth strategy. The two groups will cooperate in the tourism and leisure industry in Asia by selling, bundling and, where possible, integrating their respective technology solutions, Internet ticketing platforms and payment services for the Asian market.

Quindell (LON:QPP 131.5p/£583.98m 3mth +41.4%)

On 30 March the global provider of professional services and digital solutions, announced the conditional sale and purchase agreement to dispose of the Professional Services Division (PSD) to Slater and Gordon Limited for an initial cash consideration of £637 million and further contingent cash consideration payable in respect of the future settlement of its clients' noise induced hearing loss ("NIHL") cases. In view of the size of the PSD relative to the Group, the Disposal will result in a fundamental change in the business of the Company for the purpose of Rule 15 of the AIM Rules and it is therefore conditional upon the approval of Shareholders, amongst other matters. On 17 April the disposal was approved at a general meeting of the company.

Eagle Eye Solutions (LON:EYE 217.5p/£48.15m 3mth +31.82%)

On 12 March the UK provider of digital consumer engagement solutions to the retail and hospitality industries, announced HY 2015 results for the period ending December 2014. The results were ahead of management expectations. Group revenue increased 276% to £2.3m. Organic revenue increased 81% to £1.1m and gross profit was £1.5m, an increase of 200%. The loss per share was down to 7.1p from 10.65p and net cash was £1.4m. Post period end Eagle Eye was delighted to announce, in conjunction with Toshiba Global Commerce Solutions, the signing of a minimum two-year contract for the deployment of the Eagle Eye AIR platform within Asda stores in the UK, and the company announced a placing of new and existing shares for an aggregate of £6m at 200p.

Premaitha Health (LON:NIPT 26p/£m 3mth +28.4%)

In February the innovative molecular diagnostics company employing the latest advances in DNA analysis technology to develop tests for non-invasive prenatal testing announced the receipt of CE mark approval and launch of the IONA® test, the first CE-marked in vitro diagnostic (IVD) Product for NIPT. In March the company announced an agreement under which Genoma the fully owned subsidiary of Esperite will have the right to use Premaitha's CE-IVD IONA® test for its non-invasive prenatal testing (NIPT) service called TRANQUILITY®. Premaitha was also awarded the contract to provide the IONA® test, to St George's Hospital, SW London, following a competitive tender process as well as signing up a partner in Poland.

Brady (LON:BRY 102p/£83.7m 3mth +26.71%)

The global provider of trading, risk management and settlement solutions to the energy, metals, recycling and soft commodities sectors announced FY Dec 2014 results on 16th March. Revenues were up 13% to £31.0 million (on a consistent currency basis). Recurring revenues were £15.9 million and deferred licence revenue £1.7 million. EBITDA (before exceptional items) were up 80% to £6.3 million and net cash at year end increased by £2.4 million to £9.6 million. The proposed dividend increased by 9% to 1.85p per share. Looking ahead Brady stated that it had started 2015 with good visibility and was confident of further growth and profit in the years to come.

Synety (LON:SNTY 102.5p/£12.43m 3mth -48.10%)

In March, the cloud-based software and communications business, announced its final results for the year ended 31 December 2014. Revenue was up 198% to £1.63m. Gross profit was up 217% to £1.18m. Operating loss before non-recurring items increased to £5.35m and cash and cash equivalents were £2.36m. While disappointed that progress has been slower than originally anticipated, the Board was encouraged by the KPIs and what it believes to be the significant opportunity in the marketplace. The Board is excited about the prospects for 2015 and is viewing Synety's future with optimism. On the same day as the results the company announced that it had conditionally raised £2.8m at 90p, a 34.55% discount to the prevailing share price.

eServGlobal (LON:ESG 14.5p/£38.5m 3mth -50.85%)

The provider of end-to-end mobile financial services to emerging markets announced full year results in January 2015 for the year ending October 2014. The consolidated entity achieved sales revenue for the year of $31.3 million (2013: $31.0 million). EBITDA was $28.6 million after foreign exchange losses of $0.4 million, share based payments of $0.4 million, gain on disposal of Homesend business of $31.7 million and share of loss of associate of $2.3 million. The net result of the consolidated entity for the year to 31 October 2014 was a profit after tax and minority interest for the year of $14.1 million. The operating cash flow for the year was a net outflow of $4.1 million. Total cash flow for the year was a net outflow of $1.3 million.

The CEO commented that 'In 2014 we finalised the creation of the HomeSend associate entity, with our partners MasterCard and BICS. This has opened a new chapter for the multilateral international remittance and payments hub. Our core business of delivering mobile financial services in emerging markets is also showing positive progress. We enter 2015 with a stable and diversified customer base, high proportion of recurring revenues, and a healthy backlog of work.' In March the company announced progress in the Middle East and Cabo Verde. In April the company confirmed its trading outlook in the light of its share price weakness and the move of Non-executive Director John Conoley, to Executive Chairman. John Conoley was formerly CEO of Psion.

Ultrasis (LON:ULT 0.095p/£1.7m 3mth -57.78%)

The provider of interactive health care services in January announced results for the year ended 31 July 2014. Revenues increased 94% to £1.8m and costs went up 80% to £3.8m, However the proposed £5m refinancing announced in December 2014 will no longer be proceeding as per the 17th April announcement due to the position of key shareholder Paul Bell. Trading in the Company's shares remains suspended pending clarification of the Company's financial position.

WANdisco (LON:WAND 200p/£m 3mth -58.97%)

In January the Company announced a proposed placing to raise approximately $24.8m at 375p. The provider of non-stop Big Data announced results to FY December 2014 on 17 March. Sales bookings were up 18% to $17.4m and revenue up 40% to $11.2m as well as deferred revenue from booked sales up 47% to $19.3m. However adjusted EBITDA losses widened from $7.8m to $17.9m. WANdisco began 2015 by winning one of the world's top ten banks as a Big Data customer, and stated that it is addressing a number of exciting new sales opportunities, made more tangible by powerful references from 2014's new customers.

Coms (LON:COMS 0.925p/£9m 3mth -68.38%)

On 25 February the provider of of end-to-end communication, connectivity and business services updated on trading for the financial year ended 31 January 2015.The increases in revenue reported for the six months to 31 July 2014 continued during the second half of the year and as such the Board expects to report revenues in line with market expectations. However the Board expects that the Company will report a substantial loss for the financial year ended 31 January 2015 of at least several million pounds.

A general meeting was requisitioned by the CEO for the purpose of considering resolutions to make several Board changes. Within the same announcement it was mentioned that the Board was investigating the late disclosure of a share purchase by Dave Breith. Mr Breith resigned on 1st March and the requisition was withdrawn. An interim management team and new non-executive directors have been appointed.

On 17 April the company responded to recent speculation concerning the future of the Group's telecoms operations. 'The Company has in recent months received a number of expressions of interest concerning various Group businesses. The Board has appointed an adviser to assist in evaluating its business opportunities. This process may or may not result in the disposal of one or more of the Group's businesses.'

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