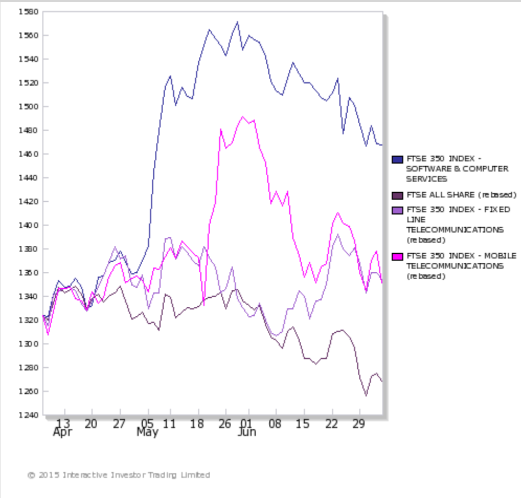
Technology Review

7 July 2016



FTSE ALL Share	CY 2015	CY 2016
PE	16.1	14.3
P/Book	1.9	1.8
EV/Sales	1.5	1.4
EV/EBITDA	9.1	8.1

FTSE 350 Fixed Line Telecoms	CY 2015	CY 2016
PE	15.6	14.7
P/Book	15.9	10.3
EV/Sales	2.4	2.2
EV/EBITDA	7.1	6.4

FTSE 350 Mobile Telecoms	CY 2015	CY 2016
PE	40.7	35.5
P/Book	1.0	1.1
EV/Sales	2.2	2.2
EV/EBITDA	7.6	7.3

FTSE 350 Software & Computer Services	CY 2015	CY 2016
PE	20.5	18.9
P/Book	5.1	5.6
EV/Sales	3.0	2.9
EV/EBITDA	12.4	11.6

Source: Bloomberg

HYBRIDAN LLP
20 Ironmonger Lane,
London, EC2V 8EP
Website: www.hybridan.com

Derren Nathan
Tel: 020 3764 2344
Email: derren.nathan@hybridan.com

HYBRIDAN

Hunting the next unicorn

In our previous Technology Review, we mentioned the American internet domain leviathan, **GoDaddy (GDDY)**, which flew out the blocks in April 2015 raising $460 million as part of an IPO on the New York Stock Exchange, reaching $6 billion in valuation and is currently sitting at $4.5 billion. Well the London Stock Exchange (LSE) was not too far behind.

UK Technology Company **Sophos (SOPH)** launched on the LSE with a frenzy of investments that raised total gross proceeds of £352 million, valuing the company at £1 billion towards the tail end of June 2015 on a historical revenue multiple of 3.53x. Over the past decade, the UK digital technology industry has been considered by some as also-rans on the global stage, overshadowed and looking enviously at our American counterparts' domination of the industry, nevertheless we have spawned some success stories (e.g. **ARM Holdings (ARM)**).

However, could the tide be changing? Though the USA remains in pole position in terms of investor sentiment, a new breed of British entrepreneurs has helped create an ever more promising home-grown technology sector. The majority of these utilise the frameworks and platforms conceived by the US giants (eg Gfinity with its hosting and broadcasting of international gaming tournaments), but that should be seen as a sign of ingenious adaptability, not a failing. UK Technology Companies do not need to reinvent the wheel to earn a living.

According to accountancy giant, EY, London took control of 1,009 investment technology projects in the past 10 years, more than Paris, Dublin, Madrid, Amsterdam and Munich combined. Technology firms in London raised a record £640 million in 2014, 44 percent more than 2013 at £444 million. It is fair to say that London has fast become the European grazing ground for unicorns - billion dollar start-ups - accounting for 17 of the 40 produced in Europe, of which 8 UK technology businesses have reached a valuation of at least $1 billion in the last year alone (e.g. Shazam and Powa Technologies) .

This surge in unicorns is largely a result of the meteoric growth of London's financial technology (fintech) sector, which accounted for almost a third of Europe's unicorns. This sector has witnessed exponential rates of growth over the past few years; between 2013 and 2014 the value of global fintech investment shot up by 201 percent to reach more than $12 billion, with Europe leading the highest level of investment growth with 215 percent year on year. The British technology industry has prospered over the past five years; generating thousands of jobs and surpassing the rest of the economy.

However, if this growth is to continue, easier and wider access to funding and support is required for the UK technology industry in order for Silicon Roundabout to genuinely challenge Silicon Valley and emerging Tech centres in Asia. Tech companies will by definition always struggle to get non-equity funding as they have no tangible assets and no earnings. They are therefore reliant on equity funding from Private Individuals, "Angel" collectives and some smaller institutions (mainly tech VCTs), particularly where there are tax break incentives to encourage these parties.

Meanwhile, in the US, investors are piling in; Silicon Valley is at the centre of another surge in investment, on a scale bigger than ever before with $24.5 billion last year, and with $6.039 billion already invested in Q1 of 2015, compared to $24bn in the tech boom of the late 90s. Is another bubble forming reminiscent of the 90s? This time the party is in full swing behind closed doors and valuations, once again, are rocketing (e.g. Snapchat, Palantir Technologies and Uber). But we must not become bogged down in comparisons between the UK and US, and rather focus on the companies' investment merits in their own right.

Rather, one must remember that investors have been burnt badly in the past falling victim to some high profiles falls from grace (e.g. Quindell and MoPowered), particularly on AIM, which has resulted in some very good quality companies with huge potential being caught in the crossfire. Despite the fact that there has been much progress to date, there is no room for complacency. British firms still remain miniscule compared to the Silicon Valley's second or even third tier firms, let alone against the behemoths of **Apple (APPL)**, **Facebook (FB)** and **Google (GOOGL)**.

Reviewed by Darshan Patel

For analyst certification and other important disclosures, refer to the Disclosure Section

Economic Review

The UK economy did much better at the start of 2015 than previously expected. The Office for National Statistics (ONS) revised upwards its main measure of UK growth, saying GDP expanded by 0.4 percent in Q1 of 2015 compared to the earlier estimate of 0.3 percent. The ONS also amended growth in year on year terms to 2.9 from 2.5 percent, a far more solid increase than economists had expected. For 2014 as a whole, growth was adjusted to 3.0 percent, its fastest rate since 2006. There are strong suggestions that, in 2015, the UK could become the fastest growing economy in the G7 group of nations. This surge in growth, optimism and alteration in figures is largely due to an increase in activity in the construction industry, which grew at the fastest pace since February. The Markit/CIPS Purchasing Managers' Index (PMI) increased to 58.1 in June from 55.9 in May, with a reading above 50 indicating expansion.

However, a thunderstorm is brewing over horizon and we could soon see it hit UK shores. The Bank of England governor, Mark Carney, has stated that the outlook for the UK's financial stability has worsened in the light of events in Greece. Though the UK does not have much direct exposure to Greece, the UK has huge exposure to the rest of Europe, where emotions are evidently sensitive to the complicated dealings and circumstances of the ongoing Greek tragedy. The UK markets are also vulnerable to a slow down, not too surprising seeing as Europe is one of our largest trading partners. Economic misery there will undoubtedly have some impact here, how much remains to be seen. When Greece sneezes, will the UK catch a cold?

Despite the dark clouds gathering over Greece, domestic demand in the UK remains relatively strong, driven by solid employment growth and the recent upturn in real incomes rising 4.5 percent. According to the GfK confidence index, consumer confidence in the UK is at its highest level for 15 years. UK GDP now stands 4.5 percent above its pre-crisis peak, with business investment estimated to have increased by 2 percent compared to Q1 and 5.7 percent compared to Q1 2014 according to ONS.

But figures released by the ONS showed that the current account deficit has hit 5.9 percent of GDP, the highest since records began in 1948. Many economists say this gap is too high for comfort and could become an increasing problem if the markets lose confidence in the British economy. The size of the gap has made it hugely susceptible to unexpected external shocks and should be setting off alarm bells.

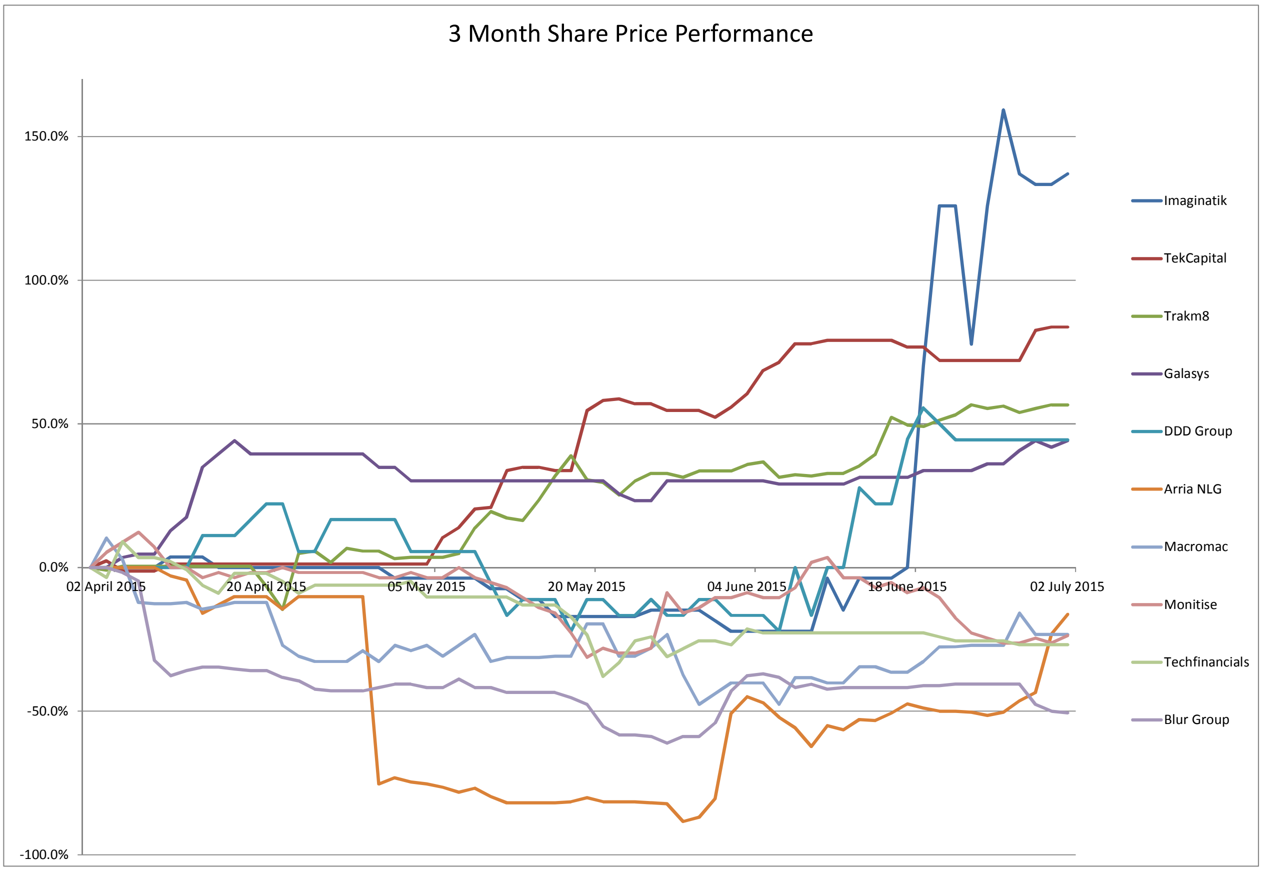
The Greeks have voted to reject the terms of an international bailout in a referendum, refusing a multi-billion Euro deal in exchange for more cuts and austerity measures. Many of Europe's policymakers have suggested that Greece has torn down its last bridges, and that the 'Grexit' could now be inevitable. There is no doubt a messy 'Grexit' would at least put something of a brake, even if only temporary, on Britain’s recovery. This may weigh down sentiment but we must ask ourselves to what extent this drama would affect specific companies in the small-cap universe, especially those at a developmental stage not affected by consumer demand (e.g. biotech and resource development companies).

Reviewed by Darshan Patel

Top 5 risers and fallers

As at 2 July 2015	***3 month Share price movement***
Imaginatik	133.33%
TekCapital	83.72%
Trakm8	56.64%
Galasys	43.53%
DDD Group	36.84%
Arria NLG	(22.40%)
Macromac	(23.20%)
Monitise	(26.30%)
Techfinancials	(26.90%)
Blur Group	(50.00%)

Source: Fidessa



Source Fidessa

Top 5 Risers

Imaginatik (LON:IMTK 8p/£7.2m 3mth +133.3%)
In April the full service innovation provider offering a range of technology products and consultancy services announced two contracts, one following an initial consultancy engagement on two specific projects for a US based higher educational institution and another signed with a global retail consumer products company following a competitive tender, involving Imaginatik providing its consultancy services in furthering the development and valuation of the client's portfolio of potential future disruptive technologies. On 14 May the company announced £504K placing at 2.7p. On 22 June the company confirmed it knew of no reason for the significant rise in share price. On 29 June a stake of 5.08% was declared by Robert Terry, reported in the press to be the former director of Quindell. On 1 July the company announced an addition to one of its contracts worth US$250k over three months.

Tekcapital (LON:TEK 39.5p/£12.8m 3mth +83.7%)
The international provider of technology and intellectual property services announced several technology acquisitions over the period including the exclusive license to a patent-pending technology for the measurement of glucose in breath from Purdue University, which could potentially be used for routine monitoring of the blood glucose concentration in diabetic patients. Currently, there is no commercially available device to collect exhaled breath condensate and measure its glucose level. The company also acquired 13 optical technology patents in the 'augmented reality' space. A £2.15m placing at 20p was announced in May. In June Tekcapital acquired the licencing rights to two technologies that are intended to enable the commercialisation of energy harvesting from human movement to power mobile technologies.

Trakm8 Holdings (LON:TRAK 177p/£51.2m 3mth +56.6%)
On 23 April the telematics and data provider released a FY March 2015 trading update. Group revenues up c.95% year on year. Annualised recurring revenue was up 60% to £7.3m - Trakm8 orders received were up 38% year on year (like for like basis) - Trakm8 revenues were up 73% year on year (like for like basis). Strong traction in new contract wins announced in recent months. The results will be released 6 July. On 16 June the £3.3m acquisition of DCS Systems was announced. DCS specialises in the design and distribution of camera systems for the motor vehicle, bicycle and security markets. DCS trades under three main brands: RoadHawk, Dogcam and Lawmate. DCS's last unaudited accounts for its financial year ending 30 April 2015 reported revenues of £2.8 million and profit before tax of £0.6 million. On 26 June a £1.1m contract with Bibby Distribution was announced.

Galasys (LON:GLS 31p/£23.7m 3mth +43.5%)
In April the provider of integrated amusement park solutions and services to the fast growing amusement parks industry in Asia released FY December 2014 results. Revenue for 2014 was up 45% at RM38.62m. Gross profit was up 83% at RM19.52m and PBT was up 35% at RM11.34m. Simultaneously Galasys announced a placing of 9.9m shares at 30p and a collaboration agreement with a subsidiary of Shiji Information, a company listed on the Shenzhen Stock Exchange who has also been granted a seat on the Board. In May a £280k contract was announced awarded by Wanda Xishuangbanna Theme Park and Wanda Kids Park, both operated by Dalian Wanda Group, currently China's biggest private property developer and the world's largest cinema chain operator. In June a £0.5m contract with Yinji Water Park was announced and at the end of June Galasys announced new contract wins in China and Malaysia with a total value of c. £457k.

DDD Group (LON:DDD 3.25p/£5.4m 3mth +36.84%)
In May the advanced imaging and 3D solutions company, announced its final financial results for the year ended 31 December 2014. Revenues were down to $2.5m from $3.4m and continuing losses were $2.2m vs $2.4m. We were reminded of the post period end $1.1m fund raising (convertible debt and equity). The outlook hinted at the launch of PC and mobile versions of the new 2D products which will be made

available to device manufacturers, software developers and directly to consumers using existing online distribution channels already used by the Group. Beta testing of these new products commenced in late 2014 with key prospective licensees and partners and successful conclusion of commercial agreements is expected to augment the current licensing revenue from 3D technologies while reducing the Group's reliance on the performance of the 3D market and creating diversified licensing income.

Later in the month the company launched TriDef SmartCam, DDD's first software solution which is targeted at growth markets with a total addressable market forecast to exceed 1.8Bn units per year by 2018 in the 2D video conferencing and game video creation markets. It turns a conventional PC webcam into a powerful compositing tool that can replace the user's immediate environment with alternative background images and filter effects in real time. In June the product was the subject of a distribution agreement with a Hong Kong based software developer.

Biggest 5 Fallers

Arria NLG (LON:NLG 26.75p/£27.7m 3mth -22.4%)
The company focussed upon the development and deployment of Natural Language Generation ("NLG") technologies announced its Interim Results for the six months ended 31 March 2015 on 30 June. Revenues were up 174% to £904k (£330k HY14). Operating costs excluding amortization and share based payment charges were down 41% to £2.3 million (£3.9 million HY14). Operating losses excluding amortization and share based payment charges were down 51% to £1.9 million. It was a strong period for client wins across multiple sectors and revenue generating clients have more than doubled to five in the period and standing at ten at the time of release. The company also raised £3.75m at the end of June through loan notes convertible at 40p. The Company will also be listing on the New Zealand Stock Exchange, with the fund raising activity to date being led by New Zealand based MSL Capital markets.

Macromac (LON:MACC 20.5p/£20.7m 3mth -23.2%)
The company principally engaged in the business of mobile messaging services and software solutions, announced in April a new subsidiary to make strategic investments and/or acquisitions in early stage businesses in areas complementary to Macromac's existing business operations which the Board granted an initial £550k to invest. In May the first investment was made for 25% of Skyztree for £120k. Skyztree, based in Kuala Lumpur, Malaysia, is a recently formed private limited company with its main business being the development of mobile applications and at the time of announcement was pre revenue. Skyztree recently launched its first mobile application, First Smile, a parental application, in beta version for Android phones. First Smile is a mobile application designed for parents to capture, organise and share precious memories of their babies. On 29 May the company released FY Dec 2014 results with revenue up 23.7% to £5.3m but EPS down 29.5% to 1.27p. The Group has recently diversified from being solely Malaysia focussed to also targeting the Thai Market.

Monitise (LON:MONI10.88p/£235.29m 3mth -26.3%)
In May the Mobile Money company announced a new mobile banking operation launched by Societe Generale with support from IBM. Later in May the company restructured its LTIP award to focus on Revenue, EBITDA and user number targets as opposed to share price targets of between 55 and 75p. During the period a total of 11.6m shares were issued as deferred consideration for earlier acquisitions.

On 1st July Monitise announced a fintech JV with Banco Santander aimed at investing in, building and scaling fintech businesses with the potential to redefine and support financial services globally. In addition to its 50% ownership interest in the joint venture, Monitise will benefit from a multi-million pound upfront licence fee with further ongoing revenues expected to be generated by the initiative. Monitise is also expected to grow its client portfolio by providing services to the companies the joint venture will support. Both partners have committed to provide up to a maximum of £10 million of capital each to the joint venture over two years dependent on the scale and nature of opportunities identified.

Techfinancials (LON: Tech 26.5p/£18m 3mth -26.9%)

The software developer that supplies simplified trading solutions to online brokers, today announces its maiden set of final audited results for the year ended 31 December 2014. Revenue increased by 85% to US$15.5 million (2013: US$8.4 million). Operating profit before exceptional items was US$2.1 million (2013: operating loss of US$0.3 million) and pre-tax profit was US$0.8 million (2013: pre-tax loss of US$0.3 million). TechFinancials has entered several high growth binary options market during 2015. Whilst Europe continues to be the main focus of the Group, TechFinancials has made significant progress to penetrate the US, and Asian markets. The Board is confident that through increasing sales and marketing efforts, TechFinancials will successfully leverage on its already established brand in these international markets.

blur Group (LON:42.5p/£20m 3mth -50%)
In April the online marketplace for business services announced that following discussions with its auditors that a number of older projects started between late 2013 and early 2014, which have experienced delays, have shown a lower likelihood of completion. As a result the recognised revenue for the full year would be substantially lower than previously expected. blur's objective remains to drive the business to profitability in early 2016. As previously announced the new revenue recognition policy has been rigorously applied from mid-2014. blur's net cash position remained in line with expectations at $17.4 million as at 31 December 2014. The results for FY Dec 2014 were released on 30 June with restated revenues up 35.5% to $4.72. EBITDA losses widened from $6.5m to $10.34m.The Board is confident that it has the cash resources to 'support blur's journey' and in H1 the company has won new Enterprise customers including Amazon, Argos and Danone. With the results the company announced the departure of a non-executive Director and appointment of Tim Allen as CFO, who joins the blur management team on 20 July 2015 from Cambium Networks. In May the former CFO Stephen Harvey stood down ahead of a personal bankruptcy hearing, a personal matter wholly unrelated to the Group.

HYBRIDAN

Disclaimer

This document, which does not constitute research, has been issued by Hybridan LLP for information purposes only and should not be construed in any circumstances as an offer to sell or solicitation of any offer to buy any security or other financial instrument, nor shall it, or the fact of its distribution, form the basis of, or be relied upon in connection with, any contract relating to such action. This document has no regard for the specific investment objectives, financial situation or needs of any specific entity and is not a personal recommendation to anyone. Recipients should make their own investment decisions based upon their own financial objectives and financial resources and, if any doubt, should seek advice from an investment advisor.

The information contained in this document is based on materials and sources that are believed to be reliable; however, they have not been independently verified and are not guaranteed as being accurate. This document is not intended to be a complete statement or summary of any securities, markets, reports or developments referred to herein. No representation or warranty, either express or implied, is made or accepted by Hybridan LLP, its members, directors, officers, employees, agents or associated undertakings in relation to the accuracy, completeness or reliability of the information in this document nor should it be relied upon as such.

Any and all opinions expressed are current opinions as of the date appearing on this document only. Any and all opinions expressed are subject to change without notice and Hybridan LLP is under no obligation to update the information contained herein. To the fullest extent permitted by law, none of Hybridan LLP, its members, directors, officers, employees, agents or associated undertakings shall have any liability whatsoever for any direct or indirect or consequential loss or damage (including lost profits) arising in any way from use of all or any part of the information in this document.

This document should not be relied upon as being an independent or impartial view of the subject matter and, for the avoidance of doubt, does not constitute "independent investment research" for the purposes of the Financial Conduct Authority rules. The individuals who prepared this document may be involved in providing other financial services to the company or companies referenced in this document or to other companies who might be said to be competitors of the company or companies referenced in this document. As a result both Hybridan LLP and the individual members, directors, officers and/or employees who prepared this document may have responsibilities that conflict with the interests of the persons who receive this document. Hybridan LLP and/or connected persons may, from time to time, have positions in, make a market in and/or effect transactions in any investment or related investment mentioned herein and may provide financial services to the issuers of such investments.

In the UK, this document is directed at and is for distribution only to persons who (i) fall within Article 19(5) (persons who have professional experience in matters relating to investments) or Article 49(2) (a) to (d) (high net worth companies, unincorporated associations, etc) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) or (ii) are Professional Clients or Eligible Counterparties (as those terms are defined in the rules of the Financial Conduct Authority) of Hybridan LLP (all such persons referred to in (i) and (ii) together being referred to as "relevant persons"). This document must not be acted on or relied up on by persons who are not relevant persons. For the purposes of clarity, this document is not intended for and should not be relied upon by persons who would be classified as Retail Clients (as defined by the rules of the Financial Conduct Authority).

Neither this document nor any copy of part thereof may be distributed in any other jurisdictions where its distribution may be restricted by law and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions. Distribution of this report in any such other jurisdictions may constitute a violation of UK or US securities law, or the law of any such other jurisdictions.

Hybridan LLP and/or its associated undertakings may from time-to-time provide investment advice or other services to, or solicit such business from, any of the companies referred to in this document. Accordingly, information may be available to Hybridan LLP that is not reflected in this material and Hybridan LLP may have acted upon or used the information prior to or immediately following its publication. In addition, Hybridan LLP, the members, directors, officers and/or employees thereof and/or any connected persons may have an interest in the securities, warrants, futures, options, derivatives or other financial instrument of any of the companies referred to in this document and may from time-to-time add or dispose of such interests.

Neither the whole nor any part of this document may be duplicated in any form or by any means. Neither should this document, or any part thereof, be redistributed or disclosed to anyone without the prior consent of Hybridan LLP.

Hybridan LLP is a limited liability partnership registered in England and Wales, registered number OC325178, and is authorised and regulated by the Financial Conduct Authority and is a member of the London Stock Exchange. Any reference to a partner in relation to Hybridan LLP is to a member of Hybridan LLP or an employee with equivalent standing and qualifications. A list of the members of Hybridan LLP is available for inspection at the registered office, 2 Jardine House, The Harrovian Business Village, Bessborough Road, Harrow, Middlesex HA1 3EX.

If you would like to unsubscribe, please email enquiries@hybridan.com with "unsubscribe me".