Date: 2 February 2015

HYBRIDAN

Technology review and outlook

2014 was an active year for tech stock trading. Turnover by value for the broader sector doubled, though technology hardware and equipment showed relatively little activity.

Turnover £m

Business Sector	*2014*	*2013*	*Change*
Support Services	3,109	1,393	123%
Mobile Tel	2,679	1,227	118%
Software	6,864	3,060	124%
Tech Equip	895	795	13%
Total	13,547	6,475	109%
AIM	42,861	27,564	55%

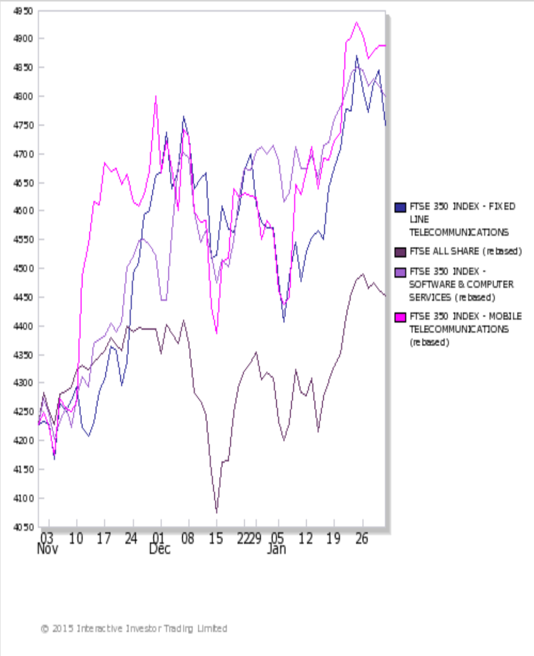
Source: London Stock Exchange

Performance within this group was mixed and often turbulent, with some big shocks from the likes of, Blinkx, Blur, and Mo-Powered who lost more than 85% of their values and some strong winners too, Fitbug, Tracsis, Proactis and TrakM8, all of whom more than doubled. There was a similarly diverse performance from the AIM IPO newbies. Already the 2015 Consumer Electronics Show in Las Vegas has been and gone, and shown us the gadget themes for 2015. The 'Internet of Things' (smart cars, smart homes etc.), is vying with 'Wearable' technology (Smart watches, Activity trackers etc.) for retailers' attention. These trends build on the 'Computing Everywhere' theme, as computing requirements adapt to the requirements of the mobile user. On the software side this is already generating demand for data analytics, and data protection, which in turn will trigger risk-based security and self-protection products. We would expect to see plenty of new companies – or new segments within companies - focused on these areas looking at coming to the market.

Expect also to see some second wave companies arriving in the Fintech and m-Commerce space, as the business models become more defined and the products more honed. The surge in online shopping that occurred on Boxing Day - m-commerce activity, for the first time ever was higher than the use of desktop PCs and laptops - shows that there is a real sea change in the way that people shop. Some of the early players – who have found a viable model - and new entrants in this field could be interesting. Google's Chrome Developer Summit in December pointed at significant investments in improving the performance of mobile web apps to bring mobile web functionality up to level of native Android apps. With improved functionality we would expect to see a movement away from 'banner ad' type marketing towards more effective bespoke marketing, across devices this year. Particularly proximity marketing which will grow as shopping centres, sports stadia and leisure complexes begin to get the hang of using the beacon technology that they are busy installing.

Likewise where investors have become somewhat jaded with some of the older themes; 'Big-data' and 'Cloud' for example, have had a couple of years of experimentation and deployment and the novelty (amongst investors at least) has waned a bit, yet the number of Companies in the US reporting Big Data projects deployed to production, has increased from 8% to 13%. This is a sizeable increase, but with plenty of scope for growth.

By William Lynne



FTSE ALL SHARE

Fixed Line Telecommunications	CY2014	CY015
PE	18.1	14.9
P/Book	44.7	29.0
EV/Sales	2.1	2.2
EV/EBITDA	6.5	6.8

Software & Computer Services	CY2014	CY015
PE	26.5	17.9
P/Book	5.2	4.9
EV/Sales	2.7	2.4
EV/EBITDA	13.8	11.8

Mobile Telecommunications	CY2014	CY2015
PE	58.0	39.2
P/Book	0.9	1.0
EV/Sales	2.2	2.1
EV/EBITDA	8.3	7.5

Source: Bloomberg

HYBRIDAN LLP
Birchin Court, 20 Birchin Lane,
London, EC3V 9DU
Website: www.hybridan.com

Derren Nathan
Tel: 020 3713 4584
Email: derren.nathan@hybridan.com

UK Economy 2015

In 2014, GDP growth within the UK outperformed the rest of Europe and was higher than many observers had expected it to be. The UK is further down the road to recovery and is now beginning to offer more credit and support to activities, such as SME lending (Anderson, 2014), as employment and confidence has grown within the economy. Cheaper fuel costs should also start to filter positively into households' 'disposable' incomes. Despite strong employment data there is still little wage growth and many households are still struggling. Consequently there has been little inflationary pressure, and with the collapse of oil prices even less pressure, for an interest rate rise.

However there are some moderating factors. House prices rises, that have been so key to UK confidence, are tailing off and even turning negative in some regions. Meanwhile Sterling has appreciated against the Euro as the EU economies dip into negative growth. This cannot help but increase the drag on the UK; despite the USA taking over as Britain's largest trading partner. Nevertheless, the EY Item Club has forecasted the UK economy to grow by 2.4%, which is a view supported by the British Chambers of Commerce who have envisaged a growth in the region of 2.5%.

There is a widening balance of payments situation and the government deficit is still significant, all of which still needs dealing with by whichever party wins the upcoming UK election: if indeed any party does win the election outright. This is likely to create uncertainty about the political outcomes and also creates concerns on the UK's ongoing relationship with the European Union, and the effect it will have on taxation within the UK. This air of uncertainty surrounding the elections cannot help but weigh on corporate investment decisions, which in turn will influence financial investors. The EY Item Club predicts that business investment will slow sharply from 9 per cent in 2014 to 5.8 per cent in 2015, though it is still fairly high in driving economic growth.

Businesses are also worried about UK's membership of the European Union, this is due to the fact that the comparative advantage the UK offers foreign investors is dependent on political stability and the UK's proximity to Europe, and if these are brought into question the UK may lose the confidence of foreign investors. Some managers of multi asset portfolios are already reducing their allocations in the UK in light of this uncertainty and there is concern surrounding the future of midcap companies who are less internationally focussed than their larger counterparts and are influenced more by the turbulence and volatility of domestic affairs (Fedorova, 2014).

Inflation in 2015 may well be subdued and below the Bank of England's target, in part due to the weakness of oil and food prices on a global level, thus giving the Bank of England the possibility to maintaining low interest rates. Some economists are also predicting further falls in inflation as it has in the Eurozone where deflation has become a problem. On the other hand, as the UK's economy begins to grow, unemployment levels decrease and stress on resources threaten to create more inflationary dynamics, the Bank of England may normalise monetary policy and begin to raise interest rates.

Some market commentators are backing the FTSE 100 to surpass the 7,000 mark in 2015, but the strong Pound has weighed down profits for many firms within the FTSE 100, and could therefore postpone this push for the 7,000 barrier.

Economies beyond UK in 2015

There are other factors beyond the UK that may influence the FTSE's constituents. Factors such as the oil price, geo-political tensions, particularly but not exclusively, in the Middle East and Ukraine. We expect the US economy to pick up in 2015, with many reasons for this growth such as an increase in home building, an increase in consumption and a rise in investments. The unemployment rate should fall as the economy picks up allowing for continued job growth and consumers who feel more secure may trigger more robust income and spending increases.

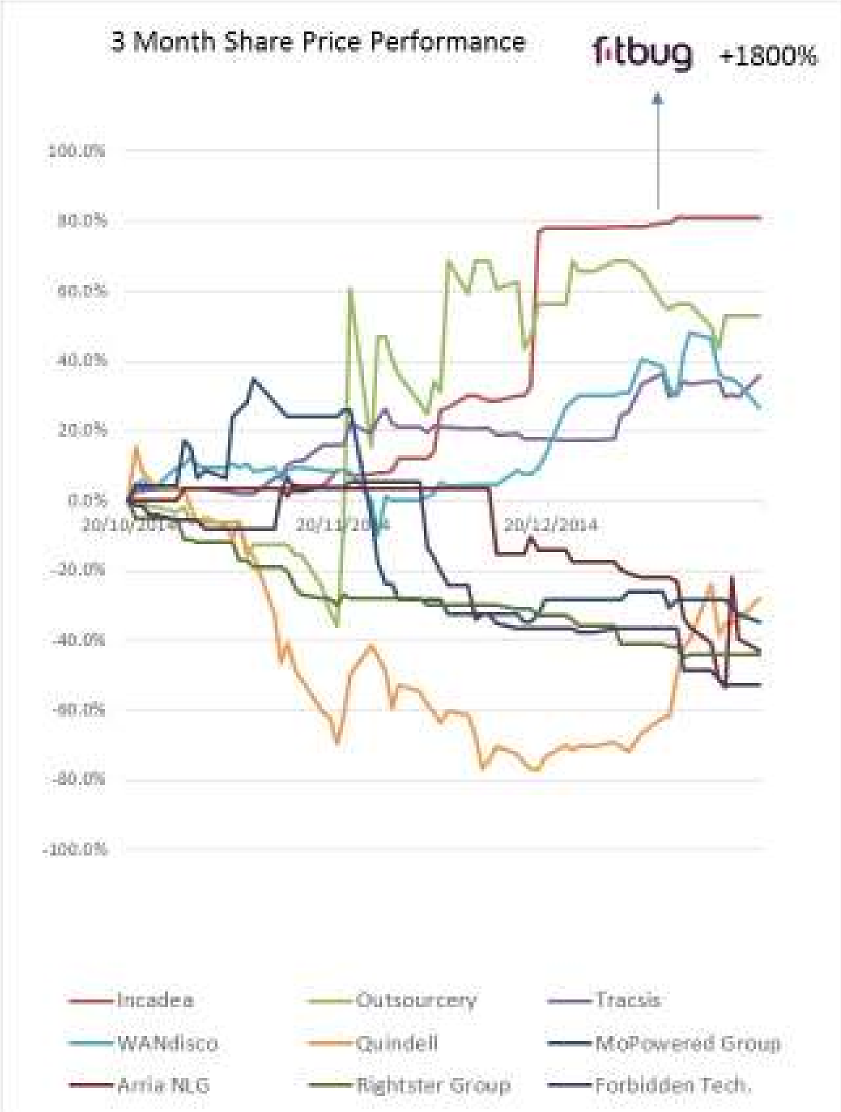
Investor sentiment towards small caps

Small-caps normally benefit from a recovering economy; however, smaller companies have seen a serious underperformance compared to their larger peers, with AIM struggling in particular in 2014 – though significant exposure to a struggling Resource sector is probably the largest component in this underperformance. We believe that small-cap companies are growing in importance as the engines of growth. And as the life cycles of organisations are accelerated by disruptive technologies the so called "safe and secure" large-cap companies are now more susceptible to big losses. Of course this is somewhat offset by smaller companies' need for investment by larger companies.

Top 5 risers and fallers

As at 20 January 2015	***3 month Share price movement***
Fitbug Holdings	1,800.00%
Incadea	80.86%
Outsourcery	53.13%
Tracsis	35.88%
WANdisco	26.71%
Quindell	(28.11%)
MoPowered Group	(34.78%)
Arria NLG	(43.02%)
Rightster Group	(44.00%)
Forbidden Tech.	(52.70%)

Source: Fidessa



Source Fidessa

FITBUG Holdings* (LON: FITB 7p/£18.36m 3mth +1,800%)

In November 2014, the provider of online personal health and well-being services, confirmed the launch of its "Kiqplan"TM digital health coaching platform, www.Kiqplan.com. Launching in US retailer Target, the first four KiQplans will include specific weight loss programmes for men and women called Beer Belly BlasterTM and Slim + TrimTM respectively, as well as a pre-natal regime called Healthy Baby Bump TM and a post-natal plan called Goodbye Baby Bump TM. Shortly after it was announced that Samsung Electronics (UK) was to include Kiqplan on the Samsung Digital Health Platform. In December, Fitbug raised £3.5m in a placing in order to scale up the sales and marketing push for both the Orb and the Kiqplan sides to the business. Later that month further retail and marketing deals were agreed with Amazon.co.uk, BestBuy.com and Target. In January at the Consumer Electronics Show in Las Vegas, Fitbug unveiled new functionality for Kiqplan that focuses on innovative new ways to manage nutrition using exciting emerging new technologies. These features that are currently being developed, include voice recognition, food label scanning and Connected Home functionality.

***** Denotes this is a Corporate Broking client of Hybridan's.***

Incadea (LON: INCA 188.55p/£118.36m 3mth +80.86%)

In November 2014, the provider of enterprise software and services to the global automotive dealership industry, announced that it had won a multi-year agreement with Bosch China worth $20m and expected to commence towards the end of 2015. In early December 2014, Incadea confirmed that it was in discussions with Dealertrack Technologies regarding a potential offer for Incadea. Two weeks later the details of a recommended cash offer were released with an offer price of 190p, a 59 per cent premium to the closing price of 119p per Incadea Share on 3 December 2014, being the last Business Day prior to the announcement that Incadea and Dealertrack were in discussions regarding a possible offer. The shares are now expected to delist on 10 February 2015.

Outsourcery (LON: OUT 23.75p/£11.22m 3mth +53.13%)

In November 2014, the Cloud Services Provider seeking to help organisations of any size to reduce costs, increase productivity and work better, announced that the Outsourcery O-Cloud platform had gained "official" Pan Government Accreditation (PGA), meeting public sector security requirements to run government classified information at OFFICIAL and OFFICAL SENSITIVE levels over the internet. With this accreditation, Public sector organisations - such as local authorities, government bodies and 'blue-light' and emergency services - shopping on the government's Digital Marketplace will now be able to procure Outsourcery's cloud services, including Infrastructure-as-a-Service (IaaS) and a full suite of hosted Microsoft applications delivered as Software-as-a-Service (SaaS), including Exchange, Lync and Dynamics CRM. In December 2014, Outsourcery announced an Initial three-year contract, generating £1.1m of revenue, with its third FTSE 100 client secured via a key partner. Despite the share price rally, the shares are still 78% below the May 2013 IPO price.

Tracsis (LON: TRCS 451.5p/£119.4m 3mth +35.88%)

In November 2014, the provider of software and technology led products and services for the transportation industry announced final results for the year to July 2014, which saw revenues jump 106% to £22.4m and EPS rise 53% to 12.9p. Cash balances were £8.9m vs £6.6m and the full year dividend increased 14% to 0.8p. The year saw the Company's 6th acquisition since IPO. In the outlook Tracsis commented that looking ahead, the passenger transport markets both within the UK and internationally are experiencing record levels of government spending, rising passenger numbers, and regulatory change. This environment gives rise to greater demands for quality, safety, and the need from both passengers and operators for value for money. To this end, Tracsis is well placed to help solve some of these challenges and sees a wide range of opportunities for further growth across the Group. In the period ahead Tracsis intends to make further in-roads into overseas markets, most notably the US, whilst continuing to diversify its technology portfolio through a combination of in-house development and further prudent allocation of capital to fund new acquisitions.

WANdisco (LON: WAND 405p/£98.25m 3mth +26.71%)

During the period under review the provider of enterprise-ready, non-stop software solutions that enable globally distributed organisations to meet today's data challenges of secure storage, scalability and continuous availability, announced two separate Big Data contract wins, firstly a global US-based credit card and financial services company (initial subscription $250k pa) and latterly British Gas, the company's biggest deal to date worth $750,000 over three years. In January WANdisco reported fourth quarter sales bookings increasing by 8% compared with the prior year to $4.7m with bookings for the year of $17.4m, up 18% on the prior year.

Quindell (LON: QPP 105.25p/£459.36m 3mth -28.11%)

The global provider of professional services and digital solutions announced in November 2014, that Robert Terry, the Company's Chairman, had resigned from the Board of Directors with immediate effect. Mr Terry commented 'I entered into the share transactions announced on 5 November 2014, with the best of intentions for the Company and all shareholders and it would have been my intention to acquire more shares were it not for the restrictions due to the discussions leading to this announcement. I am clearly disappointed and sorry that events turned out as they did.' By December 2014, Mr Terry's shareholding had reduced to below 3% from 10.69% in November. In a December trading update it was reported that the Group's businesses remained robust and that PwC had been engaged to review, inter alia, the Group's main accounting policies and expectations as to cash generation into 2015. The Group has also announced that it may seek to dispose of certain divisions. More recently it was announced that Richard Rose will join the Board as non-executive Chairman (Booker Group, Crawshaw Group, Anpario Group) and Jim Sutcliffe, Chairman of Sunlife Canada will join as Strategy Director and Deputy Chairman.

Mopowered Group (LON: MPOW 3.5p/£3.45m 3mth -34.78%)

In November 2014, the mobile commerce specialist announced a trading update commenting on client wins since the placing in September. Total H" client wins had reached 17, lower than management expectations. The contract sizes for these new customers have also been somewhat lower. Accordingly, based on these factors and a delay in certain project revenues coming through, the revenue for the second half and therefore the year as a whole is expected to be lower than the market expectation of £1.6m. Consequently, as part of a strategic review, the Board has identified significant further cost savings which it is in the process of implementing to control cost and conserve cash. The Company is in the final stages of development of a major new product release, for which a trial site has demonstrated improved revenue-generation metrics for the Company's clients. The Directors believe the new technology will also deliver faster on-boarding times. Initial feedback from clients has been positive. Further details will be released in due course.

Arria NLG (LON: NLG 24.5p/£26.67m 3mth -43.02%)

The company focussed on the development and deployment of natural language generation (NLG) technologies, in December announced its final results for the year ended 30 September 2014. Revenue dropped slightly from to £0.79m from £0.82m and a pre-tax loss of £10.9m was reported vs £13.01m. Cash at 30 September 2014 was £1.7mi (as at 30 September 2013: £3.9m) and the company declared it had secured agreement on 30 September 2014 for £3.08m (US$5m) of future funding by way of convertible debt. Since the results Arria announced a project agreement with a leading global provider of services to the Oil & Gas industry. In light of contract activity during the second half of 2014, the Board of Arria NLG expects total revenue for the year ended 30 September 2015 will exceed £2m. This would represent a 153% increase on revenues in the year ended 30 September 2014. In January 2015 the company signed a new agreement with a major insurance company.

Rightster Group (LON: RSTR 28p/£54.26m 3mth -44.0%)

In November 2014, the cloud-based global video distribution and monetisation network that simplifies delivery to TV scale audiences in the complex online video market, released an update on its key business developments for the third quarter of 2014. The integrations of Viral Management Limited and Base79 Limited (which were acquired in July and August respectively) are progressing, with full integration expected to be complete by the end of the year. Average monthly video views for Q3 2014 have significantly increased to 1.2bn, a 211% increase on the 386m average monthly video views achieved in Q2 2014. Rightster is also pleased to report that during September 2014, it surpassed 53m subscribers across its YouTube network (a 430% uplift on June 2014) and reached 113m unique users (a 102% increase on June 2014). Rightster still considers scale to be the key determinant of success and in September, the Comscore results confirmed that, as expected, Rightster has secured a position as the largest YouTube multi-channel network (MCN) outside of North America and the fourth largest YouTube MCN within the US. Informa has estimated that global Over-The-Top video revenues will be worth £24bn by 2017 and the Company is focused on retaining a leading position in this highly competitive online video market over the next three to five years.

Throughout Q3 2014, the Company displayed positive signs of continued growth across the business with noteworthy wins including a partnership with Turkish Airlines for a global YouTube campaign, as well as a grant from the Arts Council England (worth £1.8m over 3.5 years) to establish and manage their MCN for the arts. By the end of the year, the Company is confident that it will see over 150% net revenue growth year on year. Despite continued variability in advertising CPMs (as mentioned in the Company's half year results), the Board remained cautiously optimistic ahead of the traditionally busy Q4 advertising period.

Forbidden Technologies (LON: FBT 8.25p/£10.87m 3mth -44.0%)

The owner and developer of the cloud video platform, Forscene, announced a trading update in December reporting on the platform upgrade of Forscene. Despite continuing price destruction in broadcast post production software, Forbidden has succeeded in maintaining prices over the past ten years by constantly increasing the benefits of the product. While market reports have indicated that the broadcast TV industry is preparing to move to the cloud, from Forscene's standpoint this has proved to be taking much longer than anticipated. As a result, sales during the second half of the current financial year are expected to be broadly in line with those sales figures reported by the Company in its interim report published in July 2014, which is below previous expectations. Cash outflow will however remain in line with previous guidance. An announcement in January that the business development director of 13 years, Greg Hirst, was moving on. The announcement included a strategic update hinting at a push into the broadcast and sports markets. In addition, it is looking to address the larger professional market for its cloud video post-production platform. Forbidden has assessed its needs and the likely return on its investments, and as a result it is reducing the size of its North American presence to focus on the areas most responsive to Forscene. The Company expect to realise cost savings of approximately £1.4m across its operations in 2015, following completion of the North American restructuring.

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