October 2022

A • GUIDE • TO • TECHNOLOGY • GROWTH • SHARES

TECHINVEST

Stockmarket Newsletter

MARKET COMMENT

Tech stocks made strong gains in the first half of September, but then fell back sharply in the second half. Since the last issue of *Techinvest* the FTSE techMARK Focus index has declined by 2.33%.

Tech has been in a bear market for around a year now. During that time the techMARK Focus has fallen by 28.1%, while the Nasdaq Composite index of US-listed tech stocks has lost nearly 35% of its value. Hopes that the worst of the selling might be over were raised in the summer when the Nasdaq Composite index staged a two-month rally that delivered gains of more than 20% from yearly lows in mid-June. UK tech followed suit with the techMARK Focus up around 8.5% over the same period. The gains occurred on the back of some positive news about inflation moderating in the US, raising hopes that the Federal Reserve would take a less aggressive approach to interest rate rises. However, a speech from Fed Chairman Jerome Powell last month made it clear that further sharp rate rises are likely to be needed in order to address the problem of stubbornly high inflation. Tech stocks in particular sold off on this news.

Last month we suggested that stock prices might need to fall further before the current bearish sentiment has been exhausted. Markets seemed too optimistic over the summer in assuming there would be a quick recovery from the economic damage inflicted by the Covid pandemic. Disruption to supply chains, labour markets, and the flow of capital has been longer lasting and more severe than many forecasters had anticipated when lockdown restrictions began to be lifted in 2021. These problems have been compounded by the conflict in Ukraine and the associated rise in energy prices this year. To combat soaring inflation, central banks have raised interest rates and warned that further monetary tightening may be required in the months ahead. This is happening at a time when global growth forecasts are being revised down, with consumer demand faltering under the impact of higher living costs and corporate investment declining in the face of challenging macroeconomic conditions. The overall picture is pointing towards stagflation where high inflation is combined with diminishing growth and eventually with rising unemployment. While that situation persists, equities will find it hard to make sustainable gains and are vulnerable to further bouts of selling as investors turn to perceived lower-risk assets, such as cash and bonds.

Generally speaking, technology companies are particularly susceptible to fears of rising interest rates because many of them are valued on projected profits delivered years in the future. The present value of those future profits is worth less as yields rise. Soaring interest rates also make financing operations more expensive. That is not an issue for companies like Apple and Microsoft that are flush with cash, but it increases risks for younger companies that are burning cash in pursuit of rapid growth. It is also the case that many tech stocks are still trading on high valuations despite the market de-rating. Higher valuations also increase the market reaction for small missteps in company trading performance. The expectations for growth stocks are much higher in the current environment, in part because investors demand more for the risk they are taking. As a consequence, listed tech companies currently have to contend with a tough mix of high scrutiny and high expectations.

A broad-based downgrading of earnings estimates is also hitting the tech sector due to falling semiconductor/hardware demand, weak online sales, declining capital investment, and ongoing supply chain issues. Smoothing out of the high demand unleashed during lockdown is a further negative for tech. Little wonder that the so-called FAANG stocks delivered negative 24% earnings growth in Q2. Pressure on tech earnings is starting to feed through to staffing levels. About 40,000 workers in the US tech sector have been laid off in mass job cuts so far in 2022. Cost reduction measures of this kind should help prop up near term profit performance, but may damage the ability of many tech operators to bounce back strongly once the business cycle turns up again.

It is worth pointing out, however, that some segments of the tech market are much more exposed to the latest economic challenges than others. Companies reliant on consumer spending and ad revenue (the likes of Facebook, Netflix, and Twitter) may be in trouble. Those with high borrowings and weak cash flow will also find things very tough when faced with the double whammy of rising costs and higher interest rates. By contrast, tech stocks with exposure to strong secular growth trends are likely to fare much better, particularly those that also have a strong balance sheet and good earnings visibility. Areas where demand can be expected to remain strong in the face of current economic challenges include cloud computing, digitalisation, automation, outsourced provision of specialist tech skills, the internet of things, and green technology. Tech for defence and health care is also supported by strong underlying trends. Throw in likely increases in infrastructure spending (projects that increasingly today include a significant tech component) as governments seek to combat declining growth and we are reasonably confident that significant parts of the tech sector will be able to deliver on investor expectations even while inflation and interest rates remain high. Selective buying of stocks in these better-placed tech segments while prices are depressed should produce good returns over the medium term.

IN THIS ISSUE

Aferian
Services revenue growth
CyanConnode
Record revenue
RM
Profit downturn
BATM
Solid results
Tracsis
Positive update
CentralNic
Strong performance
SmartSpace Software
Revenue growth
Kainos
Performing well
Alfa Financial Software
Further growth
GB Group
Takeover interest
IQE
Mixed results
Open Orphan
Continued profitability
Equals Group
Strong results
Computacenter
North American growth
Kape Technologies
Impressive growth
Spectra Systems
Continued growth
Beeks Financial
Cloud Multi-year contract
Eleco
Recurring revenue growth
Petards
Rail market challenges
EKF Diagnostics
Solid performance
SThree
Raises profit expectations
Pennant International
Signs of recovery
Keywords Studios
Trading well
AB Dynamics
Encouraging Update
Strix Group
Challenging markets
Ingenta
First half growth
Learning Technologies New Buy
Encouraging growth

FTSE 100	**6984.59**
FTSE Small Cap (excl Inv Cos)	**4688.88**
FTSE techMARK Focus (formerly techMARK 100)	**5979.70**

Figures are as of the close of business on Tuesday, September 27

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.

Aferian
131p (AFRN; AIM)

Aferian has reported a mixed set of results for the six months ended May 31. Revenue was down 2% to US$44.5m, though recurring revenue was up 49% to US$8.2m. Further momentum was demonstrated in improving the quality of earnings, with higher margin software and services revenue up 21% to US$12.0m. More than 116 customers have now deployed Aferian's SaaS device software management platform, with the number of installations managed growing by 48% year-on-year. As previously announced by the company, device revenues were negatively impacted (down 8% to US$32.5m) by delays in product shipments due to Covid-related supply chain issues. This contributed to a drop of 53% in adjusted operating profit to US$2.4m. However, Aferian added that management is confident that the order book and improved availability of components will drive higher device revenues in the second half. Net cash at the period end was 23% lower at US$7.8m (equivalent to 8.5p per share).

These results should be seen in the context of Aferian's transition to a software focused business, with good progress made in building recurring SaaS revenues and widening the customer base for the software management service. With improved availability of components, delays in device sales are unwinding in the second half and the company remains well placed to benefit from global growth in video streaming where consumption is currently growing by around 13% per annum. Continue to hold.

CyanConnode
12.625p (CYAN; AIM)

Results for the year ended March 31 showed revenue up 49% to £9.6m, which is the highest annual revenue for CyanConnode to date. Gross profit increased by 61% to £5.0m and there was a 62% decrease in operating loss to £1.0m as the group moves towards profitability. Cash at the year-end was up 58% to £2.4m (1.17p per share).

EDITOR	Andrew McHattie
PRINCIPAL CONTRIBUTOR	Michael Kirby
CONTRIBUTORS	Conor McCarthy Darren Freemantle
SUBSCRIPTIONS	Sarah McHattie

Two oversubscribed placings were completed during the period, raising £5.15m before expenses.

Operational highlights included shipping 612,000 Omnimesh Radio Frequency (RF) Modules against current contracts during the year, up from 481,000 a year earlier. Several new contracts were secured, including an order for 152,000 Omnimesh RF Modules from a customer in northern India and an order for 100,000 units for a new customer in Africa. There was also a follow-on order for 31,000 units for the MEA project in Thailand. Post-period-end a record order for one million Omnimesh RF Modules and associated products was received from Genus Power and two orders from IntelliSmart Infrastructure for 300,000 units. Further new orders with a total value of US$9.2m have also been secured.

Revenue generation is building nicely at CyanConnode and major new contracts are being won at an encouraging rate. In India, where the company has made significant breakthroughs, the market has continued to move forward with plans to implement 250m smart meters as part of a scheme to improve operational efficiencies and strengthen electricity supply infrastructure. The scheme has been costed at the equivalent of around £30bn over five years. CyanConnode is also making good progress in other territories with several large contracts secured in Africa and Asia. Broker consensus forecast is for continued small loss for the current year to March 31 and earnings per share of 1.81p for fiscal 2024. A prospective P/E of 7 for next year looks attractive, but it seems worth waiting for further evidence that a significant breakthrough into profit can be achieved over that timescale. Continue to hold.

RM
30.1p (RM.; Software & IT Services)

Increased investment in a comprehensive new IT platform and higher freight costs in RM Resources led to a sharp dip in profits for the six months ended May 31. Revenue for the period was up 4% to £100.3m, driven by growth in RM Resources and the return of UK school exams in RM Assessment. Adjusted operating profit fell by 42% to £5.0m and adjusted operating margin was 4 basis points lower at 5%. Adjusted pre-tax profit declined by 47% to £4.2m. Statutory loss before tax was £7.2m, down from a profit of £2.9m a year earlier. RM commented that implementation of the new IT platform proved more challenging than anticipated, leading to extended timelines and increased project costs. Net debt expanded to £41.5m from £10.5m at the end of the first half last time, again reflecting platform upgrade issues.

School funding is increasing in the UK, but school budgets have challenging headwinds, notably salaries, energy costs and inflation which will impact discretionary spend. Accordingly, trading in the near term is likely to remain difficult for RM. The company's share price has been hit first by school closures and suspension of exams during Covid lockdown period and then last year by a frank admission from new CEO, Neil Martin, that the business was being held back by a legacy technology estate and this would require a transition to a new system. The transition to the new system is proving costly and has met with some delays. While we feel that RM potentially has a good future through its exposure to powerful secular trends in education, the short-term difficulties are going to take some negotiating and debt is being stretched. Any significant reduction in the net debt situation in the near-term would likely see the share price bounce strongly. However, until there is greater clarity about the level of expenditure required to complete the IT system upgrades and the implications for current business operations, we feel that the shares are best avoided. Sell.

BATM
28.525p (BVC; Communications & Networking)

BATM has delivered a set of solid results for the six months ended June 30. Revenue from ongoing operations fell 4.8% to US$61.4m on a constant currency basis, reflecting an anticipated decline in revenue from the Bio-Medical division following exceptional Covid-related gains in the prior year. Gross profit slipped by US$6.5m to US$18.2m, with gross margin down to 31.6% from 38.4% a year earlier. Operating profit was 77% lower at US$1.5m. Cash and cash equivalents at the period end was US$47.4m (equivalent to 9.5p per share).

On a divisional basis, revenue from Networking & Cyber increased by 43.8% to US$13.1m, which primarily reflects substantial growth in revenue from the Cyber unit delivering on the high-value contracts won in the previous year. The Edgility edge-computing and network function virtualisation platform generated its first revenue and sustained engagement was reported with several potential customers worldwide. Post period, CityFibre, the UK's largest carrier-neutral full fibre platform, selected Edgility for piloting ahead of an expected national deployment. Revenue from the Bio-Medical division declined by 12.9% to US$48.0m on a constant currency basis. Sales of molecular diagnostic products not related to Covid-19 increased, but this was offset by market-wide reduction in prices, as well as lower demand, for Covid-19 products as the global pandemic subsided. A new multi-respiratory test was CE registered with initial sales expected to commence in the next few weeks, and progress was reported with developing a new tuberculosis test kit. BATM added that the company has entered the second half with sustained momentum and a significant backlog to be delivered against.

Stripping out the fall in revenue from Covid-19 related sales, BATM's first half financial performance was reassuring. The Bio-Medical division is expected to return to growth in the second half as diagnostic products remain in demand globally and the Cyber unit continues to benefit from the strong secular trend driving demand for security products. In Networking, piloting of the Edgility product appears to be going well and arrangements are in place to expand routes to market, which primarily involve Edgility being pre-integrated with, or pre-installed on, the partner's network appliances. Strong hold.

Tracsis
960p (TRCS; AIM)

Shares in Tracsis responded positively to a trading update during the month. For the year ended July 31, revenue is expected to have increased by around 37% to £69.0m, reflecting strong organic and acquisitive growth. Both divisions have experienced high levels of demand, which includes a strong post-Covid lockdown recovery of activities in the Events and Traffic Data business units, the contribution from the RailComm and Icon GEO businesses that were acquired in the year, and the initial benefit from multi-year Rail Technology software contracts. Tracsis also pointed to adjusted EBITDA being ahead of market expectations. Cash balance remains strong at around £17.2m (59.3p per share).

Tracsis' Rail Technology and Services division continues to trade well, benefiting from high levels

of recurring software revenue, a fast-growing user base, and a large pipeline of multi-year opportunities. Following the acquisition of RailComm, the division has won several new rail contracts in North America that will support ongoing revenue and profit growth in this market. The Data, Analytics, Consultancy and Events division has also delivered revenue growth ahead of expectations, with each part of the business performing well. Continue to buy.

CentralNic
111p (CNIC; AIM)

CentralNic has reported record revenue and adjusted EBITDA for the six months ended June 30, driven by a mix of organic growth and contributions from recent acquisitions. Revenue increased by 93% to US$334.6m, with organic revenue growth of 62%. Gross profit increased by 51% to US$82.1m and adjusted EBITDA was 97% higher at US$38.6m. Operating profit was US$21.7m compared to US$3.1m a year earlier. Adjusted operating cash conversion was 110% and net debt declined by 22% to US$63.6m. Management expressed confidence that the company is comfortably trading towards the high end of the recently upgraded forecasts.

On a divisional basis, the Online Marketing segment further accelerated its growth with revenues increasing by 167% to US$257.8m. Organic revenue grew at a rate of 98%, predominantly driven by the company's TONIC media buying business; inorganic growth was contributed by the Wando, White & Case, VGL and Fireball acquisitions. The number of visitor sessions also increased by 82% to 2.0 billion and the revenue per thousand sessions increased by 87% to US$106. The Online Presence division was impacted by exchange rates as foreign currency revenues translated into fewer US dollars in the period. As a result, revenue reduced by 1% to US$76.8m. Nonetheless, organic growth for this segment was 5% for the trailing twelve months ended June 30. CentralNic steered away from increasing sales through discounted bulk sales, improving the quality of revenue. The average revenue per domain year increased by 8% to US$9.60, while the number of processed domain registrations decreased by 0.5m to 6.0m.

Separately, CentralNic announced that it has agreed to acquire M.A Aporia for an initial consideration of US$11.2m in cash subject to customary adjustments for net cash and working capital. Aporia is a technology company operating in the fields of social media and native advertising. In 2021, Aporia generated revenue of US$35m, gross profit of US$3.5m and EBITDA of US$2.0m. CentralNic commented that the acquisition, which will be immediately earnings accretive, is part of a larger vertical integration strategy, providing the group's Online Marketing segment with more direct access to high quality traffic to monetise. Under the terms of the agreement, the sellers of Aporia may earn up to another US$7.8m payable over a performance period until and including 2024.

These results demonstrate the continued momentum within CentralNic's business and the significant potential of its strong marketplace model for online presence and online marketing services. The company has positioned itself to benefit from changing attitudes to online privacy, as none of its marketing platforms make use of third-party cookies or collect personal data on customers. This aligns CentralNic with restrictions placed on the use of cookies, such as the ban of third-party cookies in Google Chrome or App Tracking Transparency in Apple's iOS 14.5. Meanwhile, the acquisition of Aporia represents a significant step forward in CentralNic's vertical integration strategy which aims to create a more efficient ecosystem in the Online Marketing business, removing transaction costs and friction losses. The pipeline of future acquisition targets also remains strong, while the net debt level has substantially reduced and is now only 1.3x trailing 12-month EBITDA. For the current year, consensus broker forecast is for earnings per share of 14.2p, rising to 15.6p for fiscal 2023. On a prospective P/E of 7.1 for next year, we feel that the shares represent excellent value. Buy.

SmartSpace Software
38.5p (SMRT; AIM)

SmartSpace has issued a positive trading update for the six months ended July 31. Half year revenue is expected to be approximately £3.6m, up 46% on a year earlier. Recurring revenue is expected to be 49% higher at £2.4m. Revenue from SwipedOn is up 42.8% to £2.0m, with monthly average revenue per paying user (ARPU) increasing by 44% to £84. Space Connect recorded a 50% uplift in revenue and revenue from Anders & Kern was up 36% to £1.3m. Net cash at July 31 was £2.0m (7.1p per share).

It is good to see strong revenue growth across all three divisions of SmartSpace. Swiped On continues to win higher value customers and extend its geographical reach, with South Korea the latest territory to be successfully targeted. Anders & Kern benefited from a number of large hardware orders and implementations as businesses return to normal following the pandemic restrictions. Management believe that this momentum will continue in the second half. After a slow first quarter, Space Connect has experienced an uptick in demand and the company sounded confident about the outlook for further sales from the crucial Evoko Naso offering. SmartSpace's share price has fallen by 79% in just over a year, and the valuation now looks more reasonable, with a return to modest net profit anticipated for fiscal 2024. Hold.

Kainos Group
1309p (KNOS; AIM)

Kainos has reported that trading since the last financial year ended March 31 has continued to be strong across both business areas as new and existing clients maintained high levels of investment in digital solutions. Accordingly, the company expects that results for fiscal 2023 will be in line with current consensus forecasts, pointing to revenue in the range of £335.7m to £373.4m and adjusted pre-tax profit of £62.7m to £66.5m. Against a backdrop of sustained strong market demand in the UK, Kainos' Digital Services division continued to deliver major transformation programmes to new and existing clients across the public, commercial and healthcare sectors. The Workday Practice division has also maintained its strong growth trajectory as it continues to expand its international client base. Half year results are scheduled for release on November 14.

The update was short on detail, but confirmed that Kainos' businesses continue to perform well in markets that are showing strong growth. Strong hold.

Alfa Financial Software
166p (ALFA; Financials)

Alfa has reported a strong performance for the half year ended June 30. Revenue was up 7% to £43.9m and operating profit increased by 25% to £14.2m. Subscription revenues continued to grow strongly in the period, up 18%, and they now contribute 31% of total revenues. Pre-tax profit was 25% higher at £13.8m and earnings per share increased by 32% to 3.92p. Cash conversion was robust at 112% and net cash at the period end was £20.8m (6.9p per share).

Good progress with diversifying the customer base was reported, with the share of revenue generated from the top five customers declining to 35% from 43% a year earlier. There were fifteen customers contributing revenues of more than £1m in the period, up from thirteen in the first half of 2021. Total contract value was up 10% to £138m, driven by 16% growth in subscription contract value. Increasing access to partners is a key element of Alpha's strategy for expanding the number of implementations delivered. The company continued to make good progress in this respect with a 51% increase in partner chargeable days over the same period last year. Alpha's cloud hosting business is growing quickly, with a strong sales pipeline providing a platform for continued growth.

Late in the month, Alfa issued an update stating that the company has seen improved contractual certainty and strong trading through August and September. As a consequence, Alfa's expectations for full year revenue have increased by approximately £2.0m, with most of this benefit falling through to operating profit.

Alfa is now operational in 37 countries, helping to insulate the company from economic uncertainty in individual geographies and sectors served. The asset finance market that forms the core of Alpha's business is also a relatively secure form of lending and it has a history of gaining market share in uncertain times compared with non-asset backed lending markets. On that basis, we anticipate that Alpha will cope reasonably well with current economic pressures. The business is also supported by some powerful trends, including regulatory change, digitalisation, and the growing need for systems updating in the face of a rapidly changing economic landscape. Alpha's share price has risen by 25% since early July and the stock currently trades on a prospective P/E of 25.8 for fiscal 2022. That rating looks about right given that the business is showing good momentum currently. Strong hold.

GB Group
627.5p (GBG; Software & IT Services)

GB's share price jumped by around 40% during the month after the company announced a possible cash offer from US private equity business GTCR. Management added the usual proviso that there is no guarantee that an offer will materialise.

GB is the latest in a long line of UK tech stocks to attract takeover interest from companies based in North America. Valuations over here seem low by comparison with US-listed stocks and the pound is also trading at historically low levels relative to the US dollar, creating an added incentive for US companies to invest in the UK at this time. GB's shares were trading as high as 912p a year ago, but have fallen back with the market since. Taking account of the strong growth prospects for GB's business, our estimate of fair value for the stock is some way ahead of the current share price at 800p. Whether a potential buyer would be prepared to pay such a high premium for the shares in an ongoing bear market remains to be seen. Await developments, and meanwhile we continue to rate GB a buy for the medium to longer term.

IQE
35.475p (IQE; AIM)

IQE has reported first half trading in line with management expectations. Revenue for the six months ended June 30 benefited from a currency tailwind and was up 8.4% to £86.2m (1.4% growth at constant currency). Adjusted EBITDA was 6.2% higher at £12.3m and operating loss was £7.4m, up from a loss of £1.9m a year earlier. Reported loss after tax was £8.3m (H1 2021: £2.7m), reflecting the impact of increased investment and planned closure costs associated with exit of the Singapore facility as previously announced. Adjusted cash from operations was £8.3m, down from £9.1m in the corresponding period last time. The company slipped from a small cash positive position in June 2021 to net debt at period end of £6.7m.

Wireless revenue was up 12% to £46.6m (4.3% growth at constant currency), driven by GaN sales to aerospace and security customers. Resilient GaAs sales weighted towards 5G and WiFi 6 markets, countered a slowdown and inventory build in the wider handset market. Photonics revenue of £38.5m was up 5.7% on a reported basis and down 0.6% at constant currency, with IQE maintaining high market share in 3D Sensing VCSELs for consumer markets. Revenue from the smaller CMOS unit declined to £1.1m from £1.5m a year earlier. The fall was due to the re-phasing of a large customer order from the first half to the second half of the year.

The importance of compound semiconductors to a series of fundamental mega trends which will shape the global economy is gaining increasing recognition. On that basis we feel it is acceptable to look beyond IQE's current loss-making performance and mounting debt, to an exciting future where the strengths of the company's IP and the opportunities to diversify the business point to potentially significant gains for shareholders. It is worth adding that IQE also looks vulnerable to potential takeover offers given the current high rate of consolidation in the semiconductor sector. Hold.

Open Orphan
9.1p (ORPH; AIM)

Despite a fall in revenue, Open Orphan has reported continued profitability and double-digit EBITDA margin for the six months ended June 30. Revenue was down 18.5% to £18.9m, but management reiterated full year revenue guidance of £50m, underpinned by robust trading in July and August and a record contracted order book of around £70m at the end of the first half. EBITDA increased by 10% to £2.3m with significantly increased margins of 12.1% (H1 2021: 8.9%). The business was cash generative with cash equivalents at the period-end of £15.9m, with this figure having since risen to £20m (2.98p per share) at September 1.

Operational highlights in the first half included an agreement with Vaxart to develop an Omicron Covid-19 human challenge model with the intent to conduct a subsequent Omicron human challenge study in 2023. Open Orphan also commenced its first full-service influenza challenge model programme for a top five global pharmaceutical client, with a contract value of £14.7m. Other significant contract wins included a £7.3m influenza challenge trial signed with a European biotech, a £7.2m respiratory syncytial virus (RSV) human challenge study with a top five global pharma company and a £5m RSV challenge trial signed with a European Biotech. Post period end, Open Orphan has won a £10.4m contract for a new full-service challenge model development programme and a £6.2m Influenza human challenge study contract with US biotechnology company Cocrystal Pharma. The company also announced a name change to hVIVO, which is expected to take effect on October 26.

This was an encouraging financial and operational performance from Open Orphan. Over the period, the company has further grown its pipeline of new opportunities, with a number of advanced negotiations ongoing with new and existing clients across the group's portfolio of human challenge models. This growth is being driven by Open Orphan's competitive position as market leader (counting 4 of the top 10 global biopharma companies as regular repeat clients) coupled with the increasing demand for human challenge services in the rapidly expanding infectious and respiratory disease clinical trials market. We feel that the company remains well positioned and well capitalised to deliver sustainable long-term profitability, with double-digit EBITDA profit margins of at least 13-15%. Continue to hold.

Equals Group
83.5p (EQLS; AIM)

Equals Group has reported significant revenue growth and record adjusted EBITDA for the six months ended June 30. Revenue was up 86% to £31.4m, with £6.3m derived from the Solutions platform (H1 2021: £0.3m). Gross profit was 44% higher at £14.9m and adjusted EBITDA increased by 203% to £4.9m. Operating profit was £1.1m compared to a loss of £2.2m a year earlier. Basic earnings per share were 0.38p and operational cash inflow was £4.7m, up from £0.8m last time. Cash at bank increased by 63% to £16.5m (9.1p per share).

Revenue growth during the period was driven by a continued focus on sales and marketing to corporate (B2B/SME) customers. Fee-based revenues continued to increase, complementing the transactional and FX revenues, which is part of Equals' overall strategy for diversifying and de-risking its earnings streams. The quantum of underlying transactions through the company's platforms increased by 71%. In addition, the value of deposits through the banking platform rose by 55%. To support the growth, more investment was made into compliance via automation and hiring experienced staff. Development of the Equals Money card infrastructure has continued in the first half to replace legacy platforms with a single platform that supports a multi-currency card, which can be both virtual and physical, prepaid or debit, and is live in Apple Pay among other features and capabilities. Equals added that the strong first half performance has continued in the third quarter with revenues of £13.3m, an increase of 55% over the same period a year earlier. Year-to-date revenue has reached £44.7m, which already exceeds the full-year figure for 2021.

This was a solid financial performance from Equals, reflecting continued progress in transitioning from a foreign currency dealing business to a provider of financial services across a broad range of products. Equals' platform targeting larger corporates led the way with strong growth and a healthy pipeline of new customers. The company's corporate expenses product, Equals Spend, is also doing well and the new Equals Money card is another exciting development that appears to offer significant competitive advantages over rival products. Benefiting from a strong cash position, we feel that Equals is well positioned to make further investments in the core platform and associated products, as well as making suitable strategic acquisitions to capitalise on the company's success as an innovative provider of corporate banking services. Strong hold.

Computacenter
1956.5p (CCC; Software & IT Services)

Computacenter has demonstrated the resilience of its business model with a solid performance for the six months ended June 30. Revenue for the period was 16.6% higher at £2,826.7m. On a divisional basis, Technology Sourcing was the best performer with a 20.7% increase in revenue to £2,074.2m. Revenue from the Services division also grew, up 6.6% to £752.5m. Adjusted pre-tax profit for the group was 5.9% lower at £111.9m, with corresponding earnings per share down 4.5% to 69.8p. The small decline in profits was explained in terms of an unusually challenging, Covid-impacted comparative from the first half last year and a shift towards lower margin sales that reflects supply chain shortages. Net cash inflow from operating activities was £8.1m and cash at the period end was £193.5m (168.3p per share), up from £158.5m a year earlier. Product order backlogs across all geographies are at all-time highs and the committed order backlog at the period end was approximately £3.4bn, a 41.3% increase since the end of December.

The UK was a weak spot in the performance, with the Technology Sourcing business seeing a 10.5% reduction in revenue as the demand for workplace rollouts declined. Elsewhere, the German business saw revenues increase by 10.2% and revenues from the French business returned to growth as significant customers increased spend. In North America, the results were driven by continued extraordinary growth in hyperscale data centre customers, as well as new customer wins. Revenue was 48.3% higher and the growth was achieved in both Technology Sourcing and Services, as deployment project activity increased. With the exception of networking products where difficulties still remain, Computacenter reported that supply chain challenges have eased materially in the last three months. However, customers have become extremely sensitive about supply chain shortages, and as such require the company to hold more inventory. Total inventory across the group was £144.9m higher at the period end than a year earlier. While inventory growth has begun to settle across the business, Computacenter commented that inventory is not expected to return to normal levels until there is a longer-term supply improvement.

In terms of revenue growth and expansion of the order book, this was a strong set of results from Computacenter. The minor profit dip had been anticipated and largely reflects short-term factors, with the company confirming that it remains on track to deliver profit growth for the year as a whole. North America is now Computacenter's largest market, worth just over £1bn in the first half of the year, and we feel increasingly confident that the company has a strong platform in place to achieve multi-year growth in this key territory. For the current year, consensus broker forecast is for earnings per share of 165p, rising to 169p for fiscal 2023. On a prospective P/E of 11.9 for the current year, we view the shares as solid value. Buy.

Kape Technologies
251p (KAPE; AIM)

Kape has reported a strong performance across the first half ended June 30, underpinned by profitable

growth and integration synergies. Revenue was up by 216.6% to US$302.4m, a 19% increase on a pro forma organic basis. Recurring revenues showed particularly strong growth, up by 353.5% to US$59.1m. Most of the growth in recurring revenue was due to the acquisition of ExpressVPN in December 2021. Adjusted EBITDA was up 209.7% to US$88.9m, an increase of 17% on a pro forma basis, with operating profit up 333.8% to US$59.0m. Diluted adjusted earnings per share were 278.9% higher at 34.1 US cents. Adjusted cash flow from operations increased by 517% to US$90.1m.

Kape reported that ongoing demand for privacy and security products continues to drive both new customer growth and upsell opportunities from existing subscribers. The company now has around 7 million paying customers across its products, with the user base mostly consisting of 20-45 year olds, with over 45% from North America and around 30% located across Europe. Privacy segment revenues grew by 19% on a pro forma organic basis, with the security division growing 15.7%. Good progress was made in integrating ExpressVPN, the highly earnings accretive acquisition which significantly scales the group. Unified teams have been created across Kape's privacy business, with US$9.0m of synergies expected to be realised in 2022. Kape's content division, based on the Webselenese acquisition, generated significant organic growth, with revenues up 25% on a pro forma basis. For the year to December 31, the company expects to generate revenues of between US$610-624m and pro forma adjusted EBITDA of between US$166-172m.

Separately, Kape announced that it has raised gross proceeds of US$222.5m through a placing to institutional investors, and an offer to retail investors via the PrimaryBid platform, at a placing price of 265p per share. The fundraise was significantly oversubscribed. Proceeds will be used to enhance Kape's ability to accelerate growth through acquisitions.

As these results reveal, Kape is experiencing growing demand across the full range of its product suite, reinforced by a premium service offering. Substantial organic growth was achieved alongside the successful integration of ExpressVPN, a transformational acquisition that has made Kape a leading player in the global digital privacy and security segment. With phishing and social engineering attacks growing in sophistication, consumers are increasingly seeking to obtain more comprehensive cybersecurity coverage across their range of appliances. Moreover, the increase in remote working has made employers more aware of the need for strong digital security across the devices employees use to access company systems at home. These trends are particularly supportive for Kape's consumer focussed business, leading to both an increase in demand for digital privacy and security protection and a growing willingness from individuals to pay for enhanced services. Alongside this boost, the company also expects to realise further synergies from the ExpressVPN acquisition, with a figure of US$30.0m annualised synergies pencilled in for next year. Given Kape's record of success with acquisitions to date, the proceeds from the large fundraise last month are likely to be put to very good use. Continue to buy.

Spectra Systems
150p (SPSY; AIM)

Spectra has delivered further steady growth in the six months ended June 30. Revenue was 15% higher at US$9.26m, with adjusted EBITDA up 8% to US$3.81m. The Authentication Systems business generated revenue of US$8.56m and adjusted EBITDA of US$3.87m. On the software security side of Spectra's operations, the Secure Transactions division, formed around two gaming technology acquisitions made in 2012, generated an adjusted EBITDA loss of US$0.06m on revenue of US$0.7m. The small loss was in line with expectations as the company continues development of a new software platform with heavy staffing costs depressing EBITDA. Adjusted pre-tax profit for the group as a whole was US$3.7m, up 8%, and corresponding earnings per share were down 7% to 6.2 US cents. Cash generated from operations was US$7.2m, contributing to net cash at the period end of US$17.96m (equivalent to 34.6p per share).

Operational highlights during the period included a contract enhancement deal with a long-standing central bank customer that has increased the value of the sensor development work to US$14.4m. Based on the current program timeline, delivery for the first order of sensors is expected in 2024, with the total value of all units after delivery being approximately US$50.0m with additional ongoing service revenues. Good progress has also been made in other areas of the business, including the development of the world's largest capacity banknote disinfection machine, with the first unit sold to an Asian central bank. On the optical materials front, Spectra has significantly grown revenue from K-cup printers and has had successful TruBrand gravure print trials with a second major cigarette supplier in China. In addition, the company is commencing a new testing program with a large Japanese label supplier, and has executed a supply agreement for dairy products and transit vouchers with a strategic partner in India. The lottery security business has expanded into Canada with a new contract award and a long-term US customer has also renewed a key contract.

These latest results once again highlight the attractions of Spectra's business mix, which combines a solid cash generating banknote authentication unit with a range of IP development projects that offer exciting opportunities to attract new customers and expand into adjacent optical security markets. The contract enhancement with a key central bank customer underpins revenues from the banknote authentication side of the business for some years to come, while the strong growth in revenue from K-cup printers is further evidence of the significant benefits to be derived from widening the uses of Spectra's extensive IP portfolio. Consensus broker forecast points to earnings per share of 10.5p for the current year, rising to 11p for fiscal 2023. Continue to buy.

Beeks Financial Cloud
146p (BKS; AIM)

Beeks has delivered a record trading performance in the year ended June 30, the company reported in a brief trading update during the month. Annualised committed monthly recurring revenue at year-end was over £19.3m, representing growth of 40% on the prior year and providing a strong basis for further growth in fiscal 2023. Beeks also confirmed that the first customer for the company's recently launched Exchange Cloud is ICE Global Network. ICE has signed a multi-year deal with a period of exclusivity, with the collaboration enabling the customer to provide their client base with compute and analytics, on demand. Beeks describes Exchange Cloud as a multi-home, fully configured and pre-installed physical trading environment that has been optimised for global Exchanges to offer cloud solutions to their end users.

The ICE contract is a major breakthrough for Beeks and provides a strong endorsement for the Exchange Cloud product given that the customer is the world's largest exchange group and owner of the New York Stock Exchange. Strong hold.

Eleco
69.5p (ELCO; AIM)

Results for the six months ended June 30 showed revenue little changed on a year earlier at £13.4m. Recurring revenue was up 9% to £8.2m, reflecting delivery on Eleco's SaaS transition strategy. Adjusted EBITDA was down 22.2% to £2.8m and pre-tax profit declined to £1.7m from £2.3m a year earlier. Basic earnings per share were 27.2% lower at 1.6p. The business was cash generative with free cash flow of £2.1m.

Good operational progress was reported, reflecting the commencement of phase two of the company's SaaS transition where subscription licences will be offered to existing customers. Development continued on a new Permit to Work module for Eleco's scalable maintenance and facilities software, ShireSystem. The module, which will assist customers with managing safety and compliance procedures, is scheduled for release in the second half. Development also continued on the Last Planner web solution which will allow on-site and final stage planning for customers, with release planned for 2023. In line with Eleco's previously announced strategy to focus on core customer segments and businesses, the German ARCON architectural CAD business has been made available for sale.

Eleco previously stated that revenue growth will temporarily soften during the SaaS transition period and so the first half trading figures should be seen in this light. Growth in recurring revenue is encouraging and suggests that the SaaS offer to new customers is being well received. Management expressed confidence in delivering full year results in line with management expectations. Strong hold.

Petards Group
9p (PEG; AIM)

Petards' results for the six months ended June 30 reflect challenging conditions within the UK retail markets. Revenue was £5.5m, down from £7.7m in the first half last time. However, the result in the comparative period benefited from revenues of £1.8m from two individual shipments of equipment, one relating to Rail and one to Defence. Gross profit margin increased to 49.3% from 39.6% a year earlier due to enhanced contribution from higher margin engineering and support services and a lower cost base. Adjusted EBITDA was 35.4% lower at £0.61m and post-tax profit was £0.1m compared to £0.43m in the first half of 2021. Diluted earnings per share fell from 0.74p last time to 0.17p. Cash generated from operating activities declined by 32.9% to £1.12m, but net funds at the period end were up by £1.0m to £2.5m (4.3p per share).

One bright spot from the results was the improved performance from the traffic management systems unit, QRO, where revenues were up over 30%. Petards' defence business also traded above expectations in terms of revenue and margins and delivered a good result for the first half of the year. Activities in the period included the delivery of new equipment to the RAF as part of the JETS threat simulator systems five-year framework contract secured last year. The rail

market, by contrast, remains challenging for Petards and the period saw a marked reduction in eyeTrain revenues. However, revenues from spares and repairs services were back to pre-Covid levels and the company is experiencing a higher level of enquiries and tenders for rolling stock refurbishment and upgrade programmes. All expiring RTS software licenses and support contracts were renewed with an increased number of users, and the group order book at the period end was £6.0m. Petards added that it expects further progress in the second half, leading to a satisfactory and cash generative performance for the year as a whole.

Petards' activities generally performed well during the first half, apart from eyeTrain where delays in order placement for new systems reduced revenues. The order book at £6.0m remains supportive and should be bolstered in the second half by an anticipated increase in refurbishment and upgrade contracts, which management believe will prove a precursor to securing future larger contract awards as rail passenger journeys continue to recover from the extreme low of the Covid crisis in 2020. Continue to hold.

EKF Diagnostics
40.3p (AIM: EKF)

EKF has delivered a strong first half performance as the company continues to transition from the exceptional revenue boost provided by demand for testing equipment during the Covid-19 pandemic. Revenue for the six months ended June 30 was £37.5m, a fall of 2.8% from the first half in 2021, but up 74.8% on pre-pandemic levels in 2019. Excluding largely Covid-related activities in contract manufacturing and laboratory testing, revenue was up 11.5% in the period. Adjusted EBITDA was down 24.2% year-on-year to £9.7m, but up 73.9% from pre-pandemic levels. Gross profit was £17.7m with margin maintained at 47%. Pre-tax profit was £4.1m, down from £11.4m a year earlier, and net cash generated from operations amounted to £8.4m (H1 2021: £1.1m). Cash and cash equivalents at the period-end was little changed at £19.1m (4.1p per share).

On a divisional basis, Contract Manufacturing saw revenues halve to £8.6m, reflecting the expected drop in Covid-related business. Revenues from Point-of-Care grew by 9.7% to £13.8m and Life Sciences revenue doubled to £2.0m. Central Laboratory revenue was stable at £6.3m and Laboratory Testing (a new division that was acquired in the second half of 2021) contributed £2.1m. Other income amounted to £4.7m and included £3.5m relating to cash received from US inventory. In Life Sciences investment was made during the period to bring increased fermentation capacity online from 2023, with customer onboarding processes already underway. A new clinical toxicology testing service was launched in Laboratory Testing, and a non-invasive prenatal test service with Yourgene Health is to launch next month. The first half also saw the completion of a share buyback programme, with nine million shares cancelled, offsetting dilution from shares issued in 2021 as consideration for the laboratory testing business.

Considering that EKF is currently positioning the business for long-term sustainable and diversified growth following the exceptional demand for contract manufacturing during the pandemic, the strong first half was a pleasing performance. The company's plan from here is to drive organic growth from its established Point-of-Care and Central Laboratory businesses, leveraging existing products and routes to markets and expanding into new territories. Investment to expand fermentation capacity and capabilities in the highly-scalable Life Sciences division should also help to accelerate organic growth. Contract Manufacturing and Laboratory Testing will be pivoted to non-Covid activities with a particular focus on higher-value service offerings. We see considerable potential for growth across all of EKF's business units and the current strategy seems well conceived. Continue to buy.

SThree
345p (STEM; Industrials)

SThree has confirmed that trading in the third quarter ended August 31 has remained strong and consequently full year profit performance is expected to be at least 7% ahead of current market consensus. Group net fees for the quarter were up 19% against a strong comparative period in 2021, with the three largest geographical markets for the business each recording solid growth. Contract net fees were up 21% and Permanent fees 10% higher. The contractor order book was up 24% year-on-year, underpinning confidence in the full year performance. Net cash at the period end was £57.0m (41.9p per share).

SThree's third quarter builds on the strong performance delivered in the first half of the year. Growth is being driven by a strategic focus on STEM skills and flexible working, through both independent and employed contractors. Investment in talent acquisition and digital infrastructure is moving forward as planned, with costs starting to be incurred in the third quarter. We would expect some tightening in labour markets in the months ahead given the difficult macroeconomic conditions currently, but the STEM sector, while not unaffected, is likely to prove reasonably resilient taking into account ongoing shortages in supply of skilled engineering and IT professionals. Continue to buy.

Pennant International
31p (PEN; AIM)

Following a change in business mix, Pennant has reported a return to positive EBITDA and significant gross margin improvement for the six months ended June 30. Revenue for the period was down 6.7% to £6.9m of which circa 65% was recurring, up from 53% a year earlier. Reflecting the change in business mix, software licensing and associated activities contributed 52% of revenues compared to 35% in the first half of 2021. Gross margin doubled to 41% and EBITDA profit was £0.4m against a loss of £0.7m last time. Loss before tax was £0.8m (H1 2021: loss of £1.7m) and net debt at the period end was £4.1m (since reduced to £2.0m following the sale of a surplus freehold site for £2.1m). The three-year order book at the half year point stood at £27.0m and Pennant has unrelieved tax losses of £6.7m carried forward.

Operational highlights during the period included securing a major contract from Boeing Defence UK for the upgrade of Apache training equipment, worth £8.8m over three years. Factory acceptance was achieved on the UK Helicopter programme (overall contract value: £3.5m), with the training device delivered to the end user's site post period end. A second software and services order worth US$1.7m was secured in the commercial aerospace sector, a key target market for the group's IPS business line. Development work has also been completed on a prototype simulator for a rail infrastructure organisation which is intended to be rolled out to numerous sites in the future. Moving into the second half, Pennant has achieved circa £1.0m of orders for software and equipment upgrades, taking orders received during 2022 to approximately £12.0m.

Pennant's transition to a more software and services focused business looks to be progressing well. New customers are being secured for the company's IPS software and services lines in important adjacent sectors, including commercial aerospace, and good progress has been made towards the launch of the new GenS software suite next year. With the prevailing global security situation, management report that they are also seeing signs that defence procurement programmes are unlocking, with several new opportunities already being pursued. With a stable contracted order book, good forward visibility of revenues over the next three years, and a leaner, optimised organisational structure, we feel that the outlook for Pennant has improved considerably compared to a year or two years ago. Strong hold.

Keywords Studios
2286p (KWS; AIM)

Keywords has announced the acquisition of Smoking Gun Interactive, a video game development studio based in Vancouver, Canada. Industry veterans John Johnson, Drew Dunlop and Angie Pytlewski set up Smoking Gun in 2007 and will continue to manage the studio as part of the Keywords group. Smoking Gun's team has worked on a number of classic games including Microsoft Solitaire Collection and Microsoft Mahjong. Under the terms of the acquisition, Keywords will pay a maximum amount of CAD$40.0m, composed of initial cash consideration of CAD$16.0m, the equivalent of CAD$4.0m in new ordinary shares, and up to CAD$20.0m, in a mix of cash and new ordinary shares based on growth targets being met over the year following completion. Keywords added that Smoking Gun is expected to grow strongly over the next 12 months and deliver EBITDA of around CAD$6.0m.

Separately, the company released results for the six months to June 30. Revenue was up 34.5% to €321.1m, driven by sustained demand for high quality content and a continuing trend towards external service provision. Organic revenue growth of 21.7% reflected good contributions across all service lines. Adjusted EBITDA was up 38.3% to €70.1m and adjusted pre-tax profit was 38% higher at €54.8m. Earnings per share increased by 76.4% to 36.8 cents and net cash at the period end was €121.3m (equivalent to 133.6p per share).

These first half results provide further evidence of Keywords' ability to deliver reliable growth across both organic and acquisition-led metrics. The second half has started well, with continued strong demand across all service lines. Consequently, management is confident of delivering a full year performance in line with recently upgraded market expectations. Consensus broker forecast is for earnings per share of 86.46p for this year, rising to 95.1p for fiscal 2023. A prospective P/E of 24 for next year is quite high, but we feel justifiably so given Keywords' growing track record of delivering strong earnings growth year-on-year. Continue to buy.

AB Dynamics
1345p (ABDP; AIM)

In a trading update for the year ended August 31, AB Dynamics reported that the business performed strongly during the second half, managing continued supply chain disruption effectively to deliver good organic growth and another record

period for sales. As a result, the board expects to report revenue for fiscal 2022 of approximately £80m, representing year on year growth of 22%. With robust margin performance through the second half, full year adjusted operating profit is also anticipated to be ahead of current market expectations. The track testing sector delivered strong growth across all primary product lines throughout the year, while the laboratory testing and simulation sector showed more modest sales growth, predominantly due to timing on larger contracts. Net cash at the year-end was £29.0m (126p per share), after capex investment of £4.0m.

AB also reported the acquisition of Ansible Motion, a provider of advanced simulators to the global automotive market, for an initial consideration of £19.2m. Founded in 2009, Ansible Motion's products are used for a wide range of applications including evaluation of Advanced Driver Assistance Systems (ADAS), autonomy, vehicle dynamics, powertrain development and motorsport. For the year ended 31 March 2022, Ansible Motion generated revenue of £8.0m and operating profit of £1.8m. AB expects that the acquisition will be earnings enhancing in fiscal 2023 with revenues forecast to be approximately £12.0m, based on the existing orderbook and strong order pipeline, and adjusted operating profit of approximately £2.2m.

We made AB a New Buy at 1092.5p in the June issue, noting the strong growth metrics in the business and high quality of the customer base. The latest update from the company suggests that demand for its products and services remains robust and the upgrade to market expectations should bolster the share price going into the new financial year. The Ansible Motion acquisition will expand AB's product range in the simulation market, bringing that business unit closer to critical mass. There should also be synergistic benefits of shared services and access to the existing AB channels to market. Continue to buy.

Strix Group
111.8p (KETL; AIM)

As expected, Strix's results for the six months ended June 30 have been impacted by the challenging macroeconomic and geopolitical environment. Revenue was down 7.3% year-on-year to £50.7m and gross profit was 4.9% lower at £19.5m. Operating profit declined by £1.0m to £12.9m and pre-tax profit dipped by 12.1% to £11.6m. Basic earnings per share were 5.6p compared to 6.0p a year earlier. Net debt at the period end was up 33.3% to £61.3m as a result of further drawdowns to fund net working capital, capital expenditure and employment earn-out payments.

Reduction in demand for kettle controls in Strix's key export markets was the main reason for the first half dip in revenues and profit. However, management note that there has been a recent improvement in trading conditions within China and the company has been able to implement further product price increases across its full kettle controls range globally while maintaining market share. Other positive news was that sales in the smaller water and appliances units continued to grow, as new distribution contracts and product launches take effect. Strix added that it remains on track to deliver medium-term targets to double revenues primarily through growth in its water and appliances categories. While the economic downturn is clearly affecting demand for kettles, in Strix's case a combination of price increases and rationalisation of the cost base should limit the pressure on profitability. The company has a highly cash generative model which incorporates a good return on capital employed, and a high proportion of cash in advance payment terms limits risk of non-payment and working capital fluctuations. We feel that the recent fall in the share price (down 68% since last October) represents a good entry point for investors with a longer-term horizon who are willing to sit out the trading challenges that affect consumer facing suppliers in an economic downturn. Buy.

Ingenta
91.5p (ING; AIM)

Results for the six months to June 30 showed revenues up 4% to £5.3m, with recurring revenues 89% of the total compared to 85% a year earlier. Growth has been driven by successfully expanding the company's Vista offering through the customer base, and by refining the fast-track deployment of its Edify content distribution platform. Gross profit margin increased to 53% from 47% last time and adjusted EBITDA was 67% higher at £1.3m. Earnings per share were up 44% to 3.23p. Cash from operations was 26% higher at £1.6m and cash balances increased to £4.4m (25.8p per share) from £3.1m at the end of December.

Cost efficiencies and enhancements to the product offering have combined to drive both top- and bottom-line growth in the first half. Ingenta also continues to target new sales opportunities in both traditional and adjacent vertical markets. Based on the progress made in the first half and taking into account a number of smaller non-recurring items, the board now anticipates that results for the full year will be ahead of current market expectations. We made the shares a New Buy at 72.5p in the January issue, with a gain to-date of 24%. Trading on a lowly prospective P/E of 11 for the current year, our recommendation is to buy the shares.

MARKET MOVERS

Two stocks from *Techinvest's* New Buy list were among the sparse selection of gainers in September. Shares in **GB Group** advanced by 41.7% after the company announced that US private equity business GTCR was considering a possible cash offer for the business. Strong institutional buying contributed to a 8.9% increase in **Cerillion's** share price during the month. The CRM software solutions provider is benefiting from news of larger contract wins earlier in the year and the defensive nature of its customer base in segments such as telecommunications and utilities. Other New Buy stocks to make gains in September included **Beeks** (up 7.4%), **SDI** (up 6.1%) and **Spectra Systems** (up 3.5%).

Micro-cap stock, **Westminster Group**, gained 45% to a price of 1.75p per share after announcing a 13% increase in revenue and a narrowing loss for the half year ended June 30. The provider of managed services and security technology has also won a number of prestigious contracts in recent months and looks to be on target to report a maiden profit this year after several years of losses. Shares in **Craneware** put on 27% after the company released a strong set of results for the year ended June 30. The leader in value cycle software solutions for the US healthcare market reported a 119% increase in revenue to US$165.5m and a 29% uplift in basic earnings per share to US$0.89. Growth was fired primarily by the transformational acquisition of a competitor, Sentry, for US$400m in July 2021.

Fallers during the month included cyber security specialist, **Darktrace**, down 38.7% after US technology investment specialist Thoma Bravo said it had failed to agree terms on a takeover of the company and would not be making an offer, dashing earlier hopes of a good bid premium for shareholders. Shares in **Ceres Power** hit a two-year low (down 40% in September) after announcing a delay in signing a joint venture in China and regulatory clearances. Revenue and operating income from the loss-making fuel cell technology specialist fell by 43% in the first half to June 30 and gross profit more than halved. The highly rated stock remains heavily loss-making and the share price is down by 82% over the last fifteen years. The biggest loser from the *Techinvest* list of New Buy stocks was **RM**, down 37% on rising debt levels and news of further delays and cost overruns affecting the implementation of a new IT platform.

TECHMARKET MISCELLANY

Learning Technologies Group (105.5p) has reported stronger than expected revenue and EBIT growth for the six months ended June 30. The provider of digital learning and talent management services is benefiting from the tailwind of a strong US dollar and the transformational acquisition last year of GP Strategies for £284m. LTG generated revenue of £281.8m in the period, up from £82.6m a year earlier. This included organic revenue growth of 5.2% plus the significant contribution from the GP Strategies acquisition which amounted to £184.9m including 4.6% organic growth in the first half. Adjusted EBIT doubled to £44.1m and cash generated from operations increased by 35% to £26.8m. Net debt at June 30 was £145.3m against a market cap of £960m.

Acquiring GP Strategies effectively doubled the size of LTG's operations, adding significant new capability in workplace learning services and technology. GP has also brought access to the fast-growing learning and talent management market in Asia, as well as increasing LTG's footprint in the large North American market. Moreover, a large share of GP's revenue is derived from multi-year recurring contracts, adding greatly to earnings visibility of the enlarged group. GP's client base includes Fortune 500 companies, automotive, financial services, technology, aerospace and defence industries, and other commercial and government customers.

With the acquisition of GP, LTG has become one of the largest providers of workplace learning and development globally. We feel that the achievement of critical mass will prove a game-changer for the group, scaling the cost base and greatly extending the accessible market. For the current year, consensus broker forecast is for net profit of £70.6m and earnings per share of 8.5p. These figures rise to £80.6m and 9.5p respectively for fiscal 2023, representing a modest prospective P/E of 11.1 for a little over 15 months out. Given the synergies to be released from the GP acquisition it would be unsurprising if current forecasts prove conservative. Overall, we feel that LTG is now exceptionally well placed to benefit from the strong secular trends supporting e-learning and in-service training and talent management.

Our advice is to start buying the shares around current levels and we will write more about LTG in next month's issue to provide a fuller picture of the company and its prospects.

Tech stocks resumed their downward trajectory towards the end of the month as investors worried about rising interest rates and stubbornly high inflation. The decline in the value of the Trader Portfolio in September was 3.6% compared to a fall of 2.3% in the benchmark FTSE techMARK Focus index. We feel that the bear market in tech may have a little further to run yet, though valuations for many stocks are now looking attractive on a longer-term perspective.

Takeover activity has picked up in the UK tech sector and one of the Portfolio's initial holdings, **Ideagen**, fell to an offer from investment house, Cinven, over the summer. Another holding, **GB Group**, also attracted takeover interest last month. The potential acquirer is US private equity business GTCR, though at this stage there is no certainty that an offer will materialise. GB's stock price has been falling with the market this year despite the company making good progress in its strategy to build critical mass in the key US market. The shares traded as high as 950p last year and our estimate of fair value for the business would be some way north of 800p per share. With the pound trading around historical lows against the US dollar, further bids for undervalued UK tech stocks from North American buyers look likely.

Several holdings in the Portfolio reported positive trading updates during the month. **Tracsis** announced it expects revenue to be up by around 37% to £69m for the year ended July 31. The company also pointed to adjusted EBITDA being ahead of market expectations. **CentralNic** reported record revenue and adjusted EBITDA for the six months ended June 30, driven by a mix of organic growth and contributions from recent acquisitions. Revenue increased by 93% to US$334.6m and adjusted EBITDA was 97% higher at US$38.6m.

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%**

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	**111**	6660.00
2,500	QinetiQ	QQ.	30/11/20	300	7549.45	**328.5**	8212.50
1,200	RWS	RWS	19/01/21	524	6331.39	**331.2**	3974.40
1,000	Cohort	CHRT	27/01/21	625	6293.20	**495**	4950.00
800	Tracsis	TRCS	23/02/21	641	5165.59	**960**	7680.00
8,000	MTI Wireless Edge	MWE	30/04/21	69.5	5599.75	**49.5**	3960.00
80,000	TP Group	TPG	30/04/21	5.7	4594.75	**1.475**	1180.00
2,200	Iomart	IOM	01/06/21	274	6070.09	**166.5**	3663.00
6,000	Smoove	SMV	01/06/21	87	5258.05	**32.5**	1950.00
2,000	TT Electronics	TTG	27/07/21	259	5217.85	**140.1**	2802.00
6,000	EKF Diagnostics	EKF	27/09/21	82.5	4986.70	**40.3**	2418.00
1,000	GB Group	GBG	26/11/21	751	7559.50	**627.5**	6275.00
3,500	Spectra Systems	SPSY	27/01/22	148	5217.85	**150**	5250.00
800	Cerillion	CER	25/02/22	674	5430.91	**980**	7840.00
600	FDM Group	FDM	25/02/22	844	5101.27	**653**	3918.00
1,400	SThree	STEM	26/05/22	360	5075.15	**345**	4830.00
15,000	Mercia Asset Management	MERC	25/07/22	30	4532.45	**25.25**	3787.50
250	Computacenter	CCC	12/09/22	2200	5537.45	**1956.5**	4891.25
1,000	Paypoint	PAY	12/09/22	603	6070.10	**604.5**	6045.00
All purchases adjusted for subsequent rights/scrip issues							
* Denotes part profits taken						Cash	£45,214
Starting Capital £150,000 (01/09/20)						**TOTAL**	**£135,501**

Management guided expectations for the full year towards the high end of recently upgraded forecasts. **Spectra Systems'** share price was initially boosted by news that first half revenue was 15% higher at US$9.26m, with adjusted EBITDA up 8% to US$3.81m. Cash generated from operations was US$7.2m, contributing to net cash at period end of US$17.96m (equivalent to 34.6p per share). **SThree** confirmed that trading in the third quarter ended August 31 has remained strong and consequently full year profit performance is expected to be at least 7% ahead of current market consensus. Net fees for the quarter were up 19% against a strong comparative period in 2021 and the contractor order book was up 24%, underpinning confidence in the full year performance.

Maintaining a large cash balance has helped support the Portfolio valuation as tech has de-rated over the last year. However, we aim to add to stock holdings when good opportunities come around. We made two additions to the Portfolio during the month, picking up 250 shares in **Computacenter** at 2200p and 1,000 shares in **Paypoint** at 603p. Computacenter is a provider of IT infrastructure and technology sourcing services. Established in 1981, the company has consistently delivered strong top and bottom-line growth, with excellent financial metrics such as a current return on capital (ROCE) of 25%. We like Computacenter's focus on strong cash generation, maintenance of a robust balance sheet and good mix of organic and acquisition-led expansion. Currently trading on an historically low prospective P/E of 11.8, the market is understandably cautious about near-term prospects for the business as the macroeconomic outlook deteriorates. However, Computacenter confirmed during the month that product order backlogs across all geographies are at all-time highs and the committed order backlog at the half year stage was approximately £3.4bn, a 41.3% increase since the end of December 2021. The company also has cash of £193.5m (168.3p per share) and trades on a lowly price/sales ratio of 0.38.

Paypoint began life as a provider of terminals that allowed convenience store customers to make cash payments for utility bills and mobile top ups. But when demand for cash bill payments began to fall a few years ago, the company diversified into a range of other retail services and digital platforms. The original payment terminals have evolved into a multi-featured point-of-sale system that replaces a conventional till, providing support for card payments, inventory management, reporting, vouchering, and ordering stock from selected wholesalers. Paypoint's technology is further used to provide flexible payment and banking services for convenience store customers and to support a parcel collection and delivery service under the Collect+ brand. The company has a strong track record as an innovator in both technology and service provision, and we see this as a key attraction with the stock. We also like the fact that Paypoint's network of customers currently covers over 28,000 convenience stores, creating a significant opportunity to upsell and cross-sell products as store owners become increasingly aware of the advantages of using an integrated technology platform for store management. Trading on a prospective P/E of 11 for the current year, we feel that the share price represents good value relative to the quality of the underlying business where return on capital is an impressive 51% and operating margin is high at 35%.

The Trader Portfolios are unaudited paper funds which are run to illustrate the dynamics of managing an active technology sector portfolio. No new share goes into a portfolio until after it has been rated as a New Buy in an issue of *Techinvest*. After that, a portfolio can act just like any subscriber, using its judgement to buy, hold or sell in accordance with subsequent price movements and news flow within the sector. All transactions take full account of prevailing bid-offer spreads. Commission is charged at a flat rate of £9.95 on deals of any size, to reflect current online dealing rates. No credit is taken for dividends paid by companies nor for interest on cash balances. Current holdings are valued using mid-market prices.

The next issue of *Techinvest* will be published on Saturday 5th November.

All enquiries to Techinvest, The McHattie Group, St Brandon's House, 29 Great George Street, Bristol, BS1 5QT, UK. Telephone 0117 407 0225; email techinvest@mchattie.co.uk.

Warning: the price and value of all shares may go down as well as up, and you may not get back the full amount invested. You should not buy equity securities with money you cannot afford to lose. Technology companies may exhibit greater than average volatility, meaning your investment may be subject to sudden and large falls in value and you may get back nothing at all. Changes in rates of exchange may have an adverse effect on the value or price of the investment in sterling terms. As with other investments, transactions in technology securities may also have tax consequences and on these you should consult your tax adviser. We have taken all reasonable care to ensure that all statements of fact and opinion contained in this publication are fair and accurate in all material respects. Investors should seek appropriate professional advice if any points are unclear. This newsletter is intended to give general advice only, and the investments mentioned are not necessarily suitable for any individual. It is possible that the officers of the McHattie Group and their associates may have a beneficial holding in any of the securities mentioned in this guide. Andrew McHattie is responsible for the preparation of the research recommendations contained within. Data and privacy policy: as you have subscribed to this newsletter, we will retain your data for the purpose of sending you the product for which you have paid, and we will retain those details indefinitely in order to offer you renewals, offers from our business, and any other products we think may be of interest to you. We will not sell or otherwise distribute your data to third parties. We take all reasonable precautions to ensure the security of personal data stored on our system, which is only accessible to staff of The McHattie Group. You should contact us if you wish your details to be removed from our database. Published by The McHattie Group, St Brandon's House, 29 Great George Street, Bristol, BS1 5QT. Tel: 0117 407 0225. E-Mail: techinvest@mchattie.co.uk. Web Site: http://www.techinvest.co.uk. All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form by any means, electronic, mechanical, photographic, or otherwise without the prior permission of the copyright holder. ©2022. The McHattie Group offers restricted advice on certain types of investment only. Authorised and regulated by the Financial Conduct Authority.