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Andrew McHattie
Publisher

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Share prices ebbed and flowed during the month, struggling for any clear direction on trading volumes that are typically low during the August holiday season. Since the last issue of Techinvest the FTSE techMARK Focus index is up by 1.5%.

In order to make gains, equities are having to climb the proverbial wall of worry at present. Sentiment is being battered by a range of factors: global growth forecasts are being revised down, the trade war between the USA and China appears to be escalating, Brexit uncertainty is ongoing, and Asian markets have been unsettled by turmoil in Hong Kong. There are also concerns that if the global economy is moving towards recession, central banks will have less scope to remedy the situation by cutting interest rates this time, as rates are already at historically low levels.

Against these worries, equity markets seem to be taking reassurance from the ongoing strength of corporate results. Companies that are matching or beating analyst expectations continue to outnumber those that disappoint. We feel this may partly reflect a shift towards a more cautious approach in the way businesses are being managed. The impact of austerity that followed the banking crisis in 2007 has helped to keep a lid on corporate excess in the years since. Finances have been tightly managed and risks more carefully evaluated than was perhaps the case in the more carefree years of the new century. Low interest rates and an ultra-competitive credit market in recent years have also given companies more scope to bolster their results through financial engineering and by acquisitions directed at sector consolidation. Technological advance is a further factor contributing to corporate health today: developments such as cloud computing, robotics, and artificial intelligence are helping to trim the cost base for many companies.

While wary of complacency concerning the current economic and political uncertainty, we may find that the corporate sector has the depth of reserves at this point to remain resilient and thereby limit the impact of an economic slowdown. In fact, corporates could well prove more nimble than governments in addressing the difficulties of a faltering economy this time round; governments on the whole have been slower to embrace the breakthroughs of new technology, they have made less use of low financing costs to restructure their debt and to invest in modernising their operations, and their leaders often seem increasingly distant from the technological changes that are driving the modern world (contrast that with corporate leaders who must grapple with the consequences of technological advancement on a daily basis).

A two-speed world of rapidly evolving corporate structures and practices, propelled forward by technological innovation, and a political domain made to appear ever more daunting by comparison, is a scenario that may eventually necessitate deep changes in the way governments operate and how they interlink with the economy and society. Some transfusion of skills and approach from the highly successful tech behemoths (the likes of Amazon and Google) to the public sector, adapted creatively to serve the particular needs of government, is almost certain to happen if models of political administration are to remain credible and relevant in a digital age. This is likely to involve more than just a modernisation of government IT systems and communication processes. At the most fundamental level, it could lead to a wholesale re-working of the relationship between citizen and state, with new forms of political engagement and interchange emerging. Technology’s greatest challenge, and its largest market opportunity yet, could well be bound up with the way we are governed.

That is a longer-term prognosis, of course: no-one is expecting governments to reach deep into the coffers any time soon to fund ambitious tech-led strategies for radical transformation. However, we feel that the logic of governments moving in that direction eventually is inescapable. Not that tech companies need a lot of new business right now: many are already flat out serving existing demand in growth areas such as cloud computing and 5G. In the case of cloud infrastructure, the market opportunity is only just taking off, as nearly 75% of global IT spending is still on traditional IT. According to IDC, cloud deployment is expected to steadily accelerate over the next decade, and by 2020, more than 50% of IT spending will be on cloud-based infrastructure. The market for 5G is at a similarly early stage in terms of actual deployment, but it is estimated that 50% of the world’s population will have 5G coverage by 2027. While the previous four generations have all been about delivering faster connectivity, 5G is more enterprise focused. It will allow applications ranging from the IoT to connected cars, autonomous trucks and cloud-based AI assisted problem solving. These are all cutting-edge innovations with huge economic potential for a wide range of technological products.

One company set to benefit from the launch of 5G is MTI Wireless Edge, which is the subject of a New Buy recommendation in this month’s issue. MTI has been working successfully with telecommunication partners to develop wide-band and multi-band antenna systems for small cell and 5G cellular backhaul and fronthaul. There is also a separate business within the group that provides water management systems for parts of the world where water shortage is a critical concern.
New subscribers should note that these Updates provide comment and reviews of previous TechInvest New Bay 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, even though they could still be a worthwhile buy. 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.

Osirium can broaden its relationship with existing The latest contract is a good example of how the ability to combat privileged security threats.

minutes, Osirium point out. completed accurately and efficiently in just a few experienced IT engineers to perform software internal customer service and improve consistency was selected to reduce manual processes, speed up term contracts, worth £10m of revenue over three to five years, with leading vending operators. Craig Brocklehurst, currently Commercial Operations Director, has been appointed to head up the Smart Zones division, replacing Steve Alton who was recently appointed Chief Executive of pub industry body, the British Institute of Innkeeping. Good to see continued momentum in the Smart Machines division, with deal flow well up with expectations and further evidence of Vianet’s ability to secure higher value contracts following the acquisition of Vendman. Continue to buy.

Oosirium’s privileged account security strategy has been significantly strengthened with the launch of Opus and another related product PEM which, together with Osirium’s PXM platform, maximise the ability to combat privileged security threats. The latest contract is a good example of how Osirium can broaden its relationship with existing customers through follow-on sales of linked technology. Strong hold.

Osirium
56.5p (OSI; AIM)

Osirium has announced the first customer for its new innovative privileged robotic process automation solution, Opus, which was launched in May. The contract is with a leading asset manager who recently renewed Osirium’s full PXM platform for a further three-year term. Opus was selected to reduce manual processes, speed up internal customer service and improve consistency of service. The new technology will allow less-experienced IT engineers to perform software updates securely and reliably, with tasks being completed accurately and efficiently in just a few minutes, Osirium point out. Osirium’s privileged account security strategy has been significantly strengthened with the launch of Opus and another related product PEM which, together with Osirium’s PXM platform, maximise the ability to combat privileged security threats. The latest contract is a good example of how Osirium can broaden its relationship with existing customers through follow-on sales of linked technology. Strong hold.

Executing the acquisition of the international payments business of HermexFX, part of the FXPro Group, for a total cash consideration of £2.0m. HermexFX offers international payment services to a predominantly corporate client base through a personalised service offering. The acquisition, which is expected to be immediately earnings enhancing, will provide Equals with additional corporate clients and cross-selling opportunities for its expanding range of products. For the 12 months to June 30, HermexFX generated revenue of £1.8m and would have contributed £0.6m to pre-tax profit.

We made Equals a New Buy at 123p in the July issue, impressed by the company’s strong track record as a profitable, high growth e-banking and international payments specialist. Recent investment in technology and acquisitions have enabled Equals to develop bank level functionality and with it the potential to offer a wider range of services to its clients than many of its competitors in the payment services markets. The new funds will support a number of marketing initiatives designed to increase the number of corporates using the company’s core platform. This includes marketing initiatives in the US, where Equals has recently obtained a licence to trade via its relationship with Metropolitan Commercial Bank. Funds raised will also allow Equals to continue to pursue attractive acquisition opportunities in a highly fragmented payments market where there is great scope for consolidation of smaller businesses.

Promoting the company’s proprietary business expenses product is a key component of Equals campaign to attract more SME customers to use its banking and payment services. We see this as an exciting development whereby a fintech solution offering is made central to a wider marketing strategy aimed at meeting key service requirements for SMEs across a range of financial products. In particular, the company has referred to the possibility of a freemium model whereby access to the business expenses product will be free to customers who pay for other services on the core platform, such as fees for payments and FX margin. It is just this type of innovative approach to business banking for SMEs that could see Equals deliver on its ambitious plans to move beyond its origins in the FX segment. We continue to recommend a small interest in the shares, taking the view that further investments might be considered in due course, if and when the company achieves key milestones in its expansion strategy. Buy.

Revenue for the six months to June 30 was US$56.2m compared to US$58.2m a year earlier. The slight reduction was due to lower sales in the Networking and Cyber division whilst sales in the Bio-Medical division increased over the same period last time. However, the Networking and Cyber division entered the second half with a substantially higher backlog and BATM expects to deliver significantly higher revenue in this division in the second half of the year. Adjusted operating profit increased to US$1.6m compared with a loss in US$0.6m at the interim stage a year earlier. This includes a capital gain of US$5.2m from the participation in a £4.7m secondary ADS. BATM expects another US$0.6m in the Ador Network profit after tax increased to US$0.6m (H1 2018: US$1.4m loss) resulting in a 140% increase in basic earnings per share to 0.14 cents.

Growth in the Bio-Medical division was helped by a strong increase in the provision of cancer diagnostics tests in Israel and higher revenue under a contract with a Ukraine-based client. BATM also identified a number of new opportunities in Europe for diagnostic instruments and reagents. The Eco-Med Unit completed installation of a large agri-waste treatment solution at a bovine slaughterhouse and commenced delivery on a first agri-waste treatment contract outside of Israel with a major food manufacturing group in the Philippines. Progress in the diagnostics unit included increased sales of a new metabolite testing analyser, Hemo One, and sustained growth in sales of the new molecular biology diagnostics Adalitis product line.

Good operational progress was also reported in the Networking and Cyber division. Revenue from sales of the company’s NFV products commenced during the period and are expected to ramp up from the second half of the year. BATM stated that it has developed new technology to enable significant increase in network traffic when licensing NFVTome on certain NXP Semiconductors processors. Substantial progress was also reported in the partnership with Arm to expand the NFVTime ecosystem optimised for Arm’s Cortex-A. The Cyber unit reported a strong increase in revenue under previously-awarded contracts and received new orders worth US$8.5m that are expected to be delivered during the second half. An initial US$2.0m contract with a branch of a national armed forces was secured for a new combined cyber security and networking solution. Post period-end, the Networking unit launched T-Metro 8104, a new ultra-high capacity service aggregation and cloud gateway platform that is NFV-ready and is designed to leverage 5G and Multi-access Edge Computing (MEC).

These were solid results from BATM, with good underlying progress in all parts of the business. The company is gaining increasing commercial traction in two key areas where growth prospects are particularly attractive: in the Networking and Cyber division, the NFV strategy is well placed to leverage the transformation brought by 5G, while in the Bio-Medical division the new NATlab molecular biology solution is attracting prominent US-based investors as well as several leading research institutions. The first NATlab instruments are being installed later this year. Opportunities in cyber security, which is the third main area of BATM’s operations, also add to the positive outlook for the company. Strong hold.

Pennon International
63.5p (PEN; AIM)

Pennon expects to report results for the six months to June 30 that are slightly better than management’s expectations of revenue of £7.25m and an EBITA loss of £1.49m. With reference to the company’s contract for electro-mechanical trainers for the Ajax armoured fighting vehicle, however, Pennant reported that it is currently in the process of assessing and
responding to a customer request for additional and amended functionality for the training devices. Consequently, it is now anticipated that progress on delivering the contract may be slower than budgeted for the second half, with material uplift in revenues not envisaged until the contract is re-based towards the year-end. In addition, the expansion of the Aviation Skills Partnership business was not realised as substantially as anticipated primarily due to decisions regarding the allocation of public funding of projects being delayed due to the current focus on Brexit. With the change to revenue expectations on the Ajax programme and in the Aviation Skills Partnership business, together with the timeline for the award of certain potential contracts moving into 2020, Pennant now expects its results for 2019 to be materially lower than current market expectations and anticipates reporting EBITA for 2019 as a whole of £1.8m. Contract delays are a bugbear for Pennant and partly reflect the public sector environment in which many of the its key customers operate. However, the three-year contracted order book currently stands at £56.0m, which provides strong underpinnings for the business. Well-established customer relations and a market leading position in a technology-driven segment also add to our confidence that the shares can bounce back from this short-term setback. Overall, we feel this is a very strong business operating in a relatively secure and stable niche. Recurring revenue from services and maintenance is building as the installed base grows and this should increasingly help offset the lumpiness in revenue from large sales contracts. We suspect the shares are likely to mark time now, but with a longer-term horizon in mind we continue to rate the shares a Buy.

Elecosoft

76p (ELCO; AIM)

In a trading update for the six months to June 30, Elecosoft reported that revenue for the period increased by 20% compared with the same period last year when revenue was £10.55m. At constant rates of exchange, revenue would have increased by 22%. Cashflow has remained strong, allowing Elecosoft to reduce net debt by £1.5m to £6.6m at period-end. Trading margins for the period were consistent with the prior year and the company added that the outlook for the full year remains in line with market expectations. The sizeable reduction in net debt indicates a strong first half performance from Elecosoft. Continue to hold.

CentralNic

55p (CNIC; AIM)

CentralNic has taken a further step in its strategy to consolidate the market for premium domain name retailers by acquiring Ideego for up to NZD$5.2m. Ideego is a privately-owned domain name retailer serving an international customer base from New Zealand. For the year ended March 31, Ideego’s revenues were circa NZD$6.2m, with an EBITDA of NZD$0.9m. Ideego operates the website iwantmyname.com, which is a leading innovator in the application of User Centered Design to the retailing of domain names with 180,000 domains under management. CentralNic intends to deploy the design solutions developed by Ideego across its retail websites, noting that high usability is perhaps the most ideal for customers in emerging economies, which is a key target market for the company. CentralNic is retaining the staff of Ideego and appointing one of Ideego’s founders as Customer Engagement Product Planner and Manager across its retail brands.

This looks another shrewd move by CentralNic. Ideego is one of the largest customers of Hexonet, which was also acquired by CentralNic earlier this year. The acquisition is therefore expected to deliver operational cost savings through vertical integration as well as locking in an important revenue stream for CentralNic. Moreover, as Ideego currently only sells domain names, CentralNic believes that there are cross selling opportunities to provide Ideego’s 80,000 customers with CentralNic’s extended product offering, including hosting, SSL certificates and other additional subscription products and services. Continue to Buy.

SDL

88p (SDL: Software & Computer Services)

Results for the six months to June showed strong progress across all parts of SDL’s business. Benefiting from the acquisition of Donnelly Language Services (DLS) in July 2018, revenues grew by 28% to £182.5m and by 6% on a proforma basis. Operating profit was up 53% to £11.9m and pre-tax profit was 40% higher at £10.9m. Basic earnings per share climbed 31% to 8.9p. Penetration of SDL’s target premium sectors of financial services, life sciences, legal services and marketing, has increased, with sales growing from £52.0m to £18.6m in the same period last time. This has been achieved organically and through the acquisition of DLS.

Revenue from SDL’s top 10 customers grew by 20% over the same period last year, with 145 cross-sell and up-sell deals compared with 88 in the first half of 2018. Language Services revenue grew by 40% to £128.4m, aided by DLS, with a repeat revenue rate of 96%. Operating profit from the division was up 21% to £12.0m. The Language Technologies division grew revenue by 7% to £25.6m, with sales of SDL Machine Translation up by 10% year-on-year. Operating profit increased by 41% to £5.2m. Revenue from the Content Technologies division was up 4% to £28.5m, with operating profit down 4% to £7.2m. Increasing demand for language services is being driven by globalisation and international trade, the trend towards digitisation and greater use of technology. Outpacing by corporates of all or part of their translation, localisation and linguistic processes is also helping. SDL is particularly well placed to benefit from these trends given its leading position and reputation in premium regulated sectors and the ability to broaden and deepen client relationships through the sale of additional products and services. Management also report that more customers are recognising SDL’s ability to work with them strategically and bring a solutions approach to a broad range of content challenges. Trading on a prospective P/E of 14.7 for fiscal 2020, and with the transformative DLS acquisition working out well, we feel that the current share price looks undemanding. Strong hold.

Dialight

349.5p (DIA; Electronic & Electrical Equipmt)

As Dialight had previously warned, results for the six months to June 30 were disappointing. Revenue of £76.1m was 2% lower than the same period last time due to some softening of end markets and delayed market share recovery. Underlying operating profit was £9.0m compared to £2.8m in the first half of 2018, with results adversely affected by additional costs incurred due to the exit from an outsourced manufacturing agreement with Sammina totalling around £2.7m. Underlying basic earnings per share fell to 1.5p from 6.4p. On a statutory basis, the company reported a loss of £1.6m compared to a profit of £2.0m in the prior corresponding period. Net debt at period end was £11.0m.

In terms of operational progress, Dialight reported a number of achievements in the first half. Late order cancellations were reduced and first half order wins for the contract manufacturer Sammina has been wound down, and measures to increase the output of new products are on track. Operational performance from the company’s Mexico facilities is now significantly better than it was before the move to the contract manufacturer, Dialight announced, and the new Penang facility is expected to be fully operational within the next two months.

After two years of operational difficulties, repairing customer confidence was always going to be a difficult task and first half results suggest that Dialight is not quite there yet. Nevertheless, terminating the outsourced manufacturing agreement with Sammina and clearing the order backlog are important steps towards improving the future financial performance of the company. Dialight’s brand is well established and the markets served by the company remain attractive with conversion to LED technology still well under 10%. New product launches this year also look promising and will support the company’s current strategy of expanding its product offering in order to maximise sales opportunities with customers and channel partners. Overall, we think that Dialight’s shares are worth sticking with, though it may be a few more quarters yet before the full benefits of the company’s recovery programme are reflected in the top and bottom line. Hold.

Tracsis

612.5p (TRCS; AIM)

In a trading update for the year ended July 31, Tracsis reported that there has been a good mix of organic and acquisitive growth across the group. Revenue, EBITDA and adjusted EBIT are expected to be in line with market expectations and ahead of the previous year. The year-end cash balance remained strong at circa £24.0m (£4.5p per share) and the company remains debt free.

Since we made Tracsis a recovery Buy in October 2017, the shares have motored ahead, with a gain to date of 39.6%. All parts of the business appear to have traded well again over the last year and the order book remains robust. Continue to buy.

Tribal Group

65.75p (TRB; AIM)

Tribal has announced that it expects full year results to be in line with expectations after announcing a solid set of results for the six months to June 30. Revenue for the first half was down 4% to £40.4m, with annual recurring revenue increasing by 5% to £19.9m. Adjusted EBITDA increased by 5% to £8.3m and statutory profit after tax was up 24% to £3.6m. Basic earnings per share climbed by 14% to 2.5p and net cash at period end was £6.0m (3.0p per share).

On a constant currency basis, Student Information Systems revenue remained consistent with the previous year at £28.7m. Activity levels in this segment remain stable and Tribal reports a steady flow of new opportunities from new and existing customers. During the period, the company won two new Further Education college contracts, including a significant win at Capital City Colleges Group, one of the largest college groups in the UK. A large contract was also signed with

September 2019
Sopra Steria to implement the Maytas product to manage the apprenticeship program for the Construction industry Training Board. Revenue in the Education Services division decreased by 9% on a constant currency basis to £11.7m. The decline was partly due to the AbuDhabi Ministry for Education curtailing the existing contract for school inspections early, to redefine its requirements for future inspections. In the UK, a new three-year contract worth £9.0m was agreed with the DfE for the National Centre for the Excellence in the Teaching of Mathematics (NCETM), and in the US a new customer was secured with a US$1.6m contract to review the teacher training in the State of Louisiana.

This was a solid performance by Tribal against a difficult backdrop, with the market for large new licence opportunities in Higher Education remaining depressed. The bright spots going forward include the growing demand for moving existing systems into the public cloud, providing an opportunity to drive incremental revenue by adding cloud services to a range of existing products. Tribal also reports that demand for its Tribal Dynamics products is strong, with universities increasingly looking to invest in CRM for their Marketing and Recruitment requirements.

Trading on a prospective P/E of 15.0 for the current year, we feel that the shares represent good value and remain an attractive play on the longer-term growth opportunities in the market for educational software and services. Strong hold.

Sanderson Group 140p (SND; AIM)

A cash offer of 140p per share has been recommended by Sanderson. The bidder is Apteon, a US business controlled by funds managed and advised by TA Associates and Vista Equity Partners. The consideration represents a premium of 9.8% to the closing price of Sanderson’s shares on the last business day prior to the announcement of the offer. Apteon has a leading position in the US market for mission critical ERP and supply chain management software.

We made Sanderson a New Buy at 70.5p in January 2017, so the gain at the offer price is 91.5%. Given the relatively modest rating of Sanderson’s shares (currently trading on a prospective P/E of 15.4 for fiscal 2020), we continue to recommend the price that the shares offer good value presently and there looks a reasonable chance that any agreed offer would be pitched somewhat higher than the current share price. For the more risk tolerant, we would suggest adding to shares around the current price, but emphasise that this is a cautious recommendation as the company’s balance sheet remains at the weaker end of the spectrum with net debt of circa £36.5m against a present market capitalisation of £46.6m. Speculative Buy.

Kape 73p (KAPE; AIM)

Kape has reported that it continued to trade strongly through the first half to June 30, with revenue expected to be around US$29.6m, a 23.% increase on the corresponding period last time. Adjusted EBITDA is expected to be up 40.2% to US$5.8m. Growth has been driven by sales of Kape’s suite of digital privacy products, with all revenues collected in advance and recognised along the contract period.

Kape’s end-markets continues to experience strong growth and the company is acquiring an impressive record for product innovation in the consumer digital privacy and security domain, which was enhanced by the launch of new ZenMate solutions in the period. Continue to buy.

Proactis 45p (PHD; AIM)

Proactis has announced that it has received a preliminary unsolicited approach from a US-based investor with regard to an offer for the company and a number of preliminary unsolicited expressions of interest from other parties. Accordingly, the company has initiated a formal sales process in order to review the options available.

Separately, Proactis issued a trading update for the year ended July 31, announcing that it expects to report an increase of 4% in revenue to £54.1m. Adjusted EBITDA is estimated to be £15.0m compared to £17.3m a year earlier. Net bank debt has reduced following the generation of £5.1m of adjusted net free cash flow in the second half of the year and is expected to be £36.5m, which the company reports remains fully serviced and within covenants. Deal intake for the year was solid and the company secured a total contract value of £11.3m (2018: £12.1m) from 60 new names and 127 upsell deals. The contribution of Esire, acquired in August 2018, was in line with expectations with revenue of £5.3m and Adjusted EBITDA of £1.9m.

The trading update was encouraging, particularly news of the strong cash generation in the second half of the year and it was also good to see deal intake stabilising after a challenging period for the company when some key contracts were lost. With the debt level also falling, the shares are beginning to look interesting again as a recovery play. The expression of interest from potential corporate suitors also supports the view that the shares offer good value presently and there looks a reasonable chance that any agreed offer would be pitched somewhat higher than the current share price. For the more risk tolerant, we would suggest adding to shares around the current price, but emphasise that this is a cautious recommendation as the company’s balance sheet remains at the weaker end of the spectrum with net debt of circa £36.5m against a present market capitalisation of £46.6m. Speculative Buy.

Softcat 1019.5p (SCT; Software & Computer Services)

Following a strong third quarter, Softcat has announced that it has continued to trade well during the final quarter of the year to July 31. As a result, the company now expects that full year operating profit will be ahead of its prior expectations. Preliminary results are scheduled for release on October 23.

We made shares in Softcat a New Year Tip at 591p, with a gain to date of 72.5%. Updates from the company since then have been very positive and the shares have duly been upgraded. Trading on a prospective P/E of 28.7 for the current financial year, we feel that Softcat remains reasonably valued given the strong growth rate the business is generating. Buy.

MImobile 326p (IMO; AIM)

The company has acquired 3CInteractive, a private US cloud-based customer engagement platform business with a leading position in Rich Communication Services (RCS). Total consideration for the deal is US$5.2m, which will be funded by a combination of the proceeds of a placing and the drawdown of new debt facilities. The acquisition is expected to be immediately earnings accretive. In the year to 31 December 2018, the core services of 3C generated revenues of US$24.2m and gross profit of US$15.7m. On a standalone basis the core business was expected to be EBITDA break-even in the period.

3C is a pioneer for deployment of RCS solutions. The acquisition provides MImobile with an opportunity to establish a global leadership position in the RCS market which is forecast to grow at a CAGR of 40.5% from 2019-2024, with North America comprising the largest market share. Following the acquisition MImobile will have direct SMS short code connectivity to all major US and Canadian carriers which is very difficult to achieve organically, making 3C a highly strategic asset. We anticipate that this will help accelerate MImobile’s growth strategy and further strengthen the company’s position in North America, the largest addressable market for its software. We also like the fact that 3C adds complementary product capabilities and a blue-chip customer base which provides significant opportunities to cross and upsell MImobile’s cloud product set. Moreover, significant cost synergies have been identified in technology development and central management, adding to the attractions of the deal. Continue to buy.

Gresham Technologies 115.5p (GHT; Computer Software & Services)

Results for the six months to June 30 have shown revenue up 36% to £12.4m, with revenues from lead product Clariti up 50% to £8.3m. Clariti annuity and recurring revenue was up 47% to £9.1m. Adjusted EBITDA increased by 52% to £2.5m.

Six new Clariti customers were signed in the first half as well as a number of new licences and upgrades with existing customers. The new contracts included four strategically important Clariti wins, each with a total committed software value exceeding £1.0m representing, collectively, a combined value in excess of £7.8m. Three of these wins were for Clariti Transaction Control (CTC) and were concluded following detailed evaluation and tendering processes featuring all the main competitors. The fourth strategic contract was for the company’s cash management initiative with ANZ. During the period Gresham also completed the sale of the non-Clariti VME business for a net amount of £1.7m.

The investment case for Gresham rests mainly on the potential to build sales of the high-margin Clariti software and cloud service subscriptions. Progress in transitioning to Clariti from older lines of business has been impressive in recent years, with Clariti now representing 67% of group revenues and having delivered software revenue CAGR of 72% over the last five years through a mix of upfront licences and subscriptions. We continue to view Gresham’s shares as undervalued relative to the progress made with the Clariti platform and the quality of the recurring revenues generated.

Beeks Financial Cloud 79.5p (BKS; AIM)

Beeks has announced that trading in the second half was strong and results for the year ended June 31 were in line with expectations. The company has also signed two additional substantial Tier 1 clients: a global investment management organisation and a global bank. Beeks will provide the global investment management organisation with managed connectivity to support its fixed income platform, with the contract worth approximately £0.5m over the initial two-year period. The global bank has contracted with Beeks
via a partner for the delivery of an initial proof of concept for a fixed income implementation. This proof of concept is revenue generating and is currently live with the bank. It is anticipated to be a pre-cursor to an extensive deployment with the client, Beeks reported.

These wins build on the announcement of Beeks’ first Tier 1 customer in December 2018, from within the insurance sector, and add to the company’s growing portfolio in the fixed income asset class. It is also good to see that Beeks is attracting growing interest from financial services organisations in managed cloud computing and connectivity. The resilience and scalability of Beeks’ network, combined with its specialist financial services expertise, means the company is increasingly well positioned to benefit from the growth of this market. Strong hold.

Syntechics 190.5p (SNX; AIM)

Syntechics warned in April that its UK trading was experiencing a pattern of order deferrals and customer-led delays in the progress of existing contracts that was likely to lead to profits being substantially more weighted to the second half of the current year than was initially anticipated. This apparent uncertainty among Syntechics’ private and particularly public sector customers in the UK continued in the remainder of the first half, though the impact was partly offset by positive developments elsewhere. Accordingly, for the six months to May 31, Syntechics has reported revenue of £33.6m, slightly down from the prior year figure of £34.7m. Pre-tax profit was 20% lower at £1.2m, with diluted earnings per share up marginally to 6.1p (2018: 5.9p). On a like-for-like basis, the order book increased by 23% and was £28.2m at the end of the period. Syntechics’ net cash position remained strong at £5.3m (30p per share) and the interim dividend was raised to 1.3p per share from 1.2p in last time.

Syntechics continued to enjoy strong revenues and profit contribution from global gaming surveillance systems, notably a large order in the second half of the year from a major European transport infrastructure project in the UK and continental Europe. Success in capturing major European transport infrastructure projects and particularly public sector customers in the UK and overseas. Overall, we feel that Syntechics is well-positioned to benefit from the growth of this market. Strong hold.

Dotdigital 89.5p (DOTD; AIM)

In a trading update for the year ended June 30, Dotdigital announced that revenues grew by approximately 19% to £51.3m, with organic revenue from continuing operations up by 15% to £42.5m. Average revenue per user (ARPU) continued its upward trend, growing by 14% from approximately £845 per month to £966 per month. Recurring revenue as a percentage of total revenue increased to 86% from 85%. Adjusted EBITDA and operating profit from continued operations are expected to be slightly ahead of market expectations. The year-end cash balance was £19.3m (£5.9p per share), which the company said is ahead of consensus due to effective cash conversion.

Dotdigital has a clear growth strategy which is based on product innovation, geographical expansion and EID de-protection partnerships. So far, the company has delivered on each of its strategic objectives very well. Support for the growth thrust is provided by a strong balance sheet and the high level of contracted recurring revenues that the company has secured. Dotdigital is also building a good record of successfully integrating bolt-on acquisitions to complement the organic growth we have been well positioned to benefit from. In terms of its dividend, we reaffirm our 2019 outlook of a 16p dividend per share and maintain our ‘Buy’ recommendation.

Cohort 462.5p (CHRT; AIM)

Cohort has delivered another solid set of results, further enhancing the company’s reputation for reliability and steady incremental growth. For the year ended April 30, revenue was up 10% to £121.2m. Adjusted operating profit increased by 6% to £16.2m and adjusted earnings per share climbed 16% to 3.6p. Order intake was strong and the closing order book was up 84% to £190.9m. The order book up 23% from the prior year, representing 55% of consensus forecast revenue for the year. This has risen to 60% as at the end of June.

Three of Cohort’s businesses, MASS, MCL and SEA, posted increases in profits and the results also benefited from the acquisition of Chess in December 2018, which performed ahead of expectations. These gains were partially offset by a weaker performance at EID caused by lower naval activity and slippage of deliveries on a major contract in its Tactical division. Cohort had a record year for order intake, securing £189.9m of orders (2018: £76.6m). This intake included £70.0m of important renewals, primarily at MASS, and also some key wins at MCL for submarine systems. In addition, EID is also doing well with significant deliveries of its Red Light System to Network Rail for improving safety at level crossings. Chess has deployed its C-UV system at major UK airports and has recently developed its product offering for this market and is looking for customers in the UK and overseas. Overall, we feel that Cohort is well-positioned to benefit from secular growth trends across a range of markets, with a good platform for future growth.

Idox 31.3p (IDOX; AIM)

During a period of significant transformation, Idox has managed to deliver a stable financial performance for the six months ended April 30. Consolidated revenue for the continuing operations, excluding the Digital business, was little changed on H1 2018 at £31.5m. Recurring revenue increased to 54% from 48% a year earlier. Adjusted EBITDA for the continuing operations, excluding the Digital business, amounted to £4.4m (H1 2018: £4.6m). Statutory loss after tax for continuing operations was £2.2m, down from a loss of £3.2m in the corresponding period last year.

Net debt at period end was £25.5m.

Actions taken in the first half to transform the business included the appointment of new Executive Directors, Chairman and Non-Executive Directors, the appointment of new senior managers throughout the company, and an exit from the loss-making Digital division. Steps have also been taken to rationalise the property portfolio, with ongoing work to manage down costs. As a contribution to financial stability, arguably the most significant change was a large increase in annuity revenue, providing improved visibility of recurring revenues and a strong platform for future growth. Idox reported that it is confident that all material legacy issues have now been identified and resolved.

Separately, Idox announced the acquisition of Tascomi for up to £7.15m and a placing to raise net proceeds of circa £7.0m at 28.5p per share to fund the transaction. Tascomi is a Northern-Ireland based software business that offers web and cloud-based software solutions to local authorities and government departments in the UK and Ireland. It is increasingly well positioned to benefit from the growth of this market. Strong hold.

SThree 263p (STHR; AIM)

For the six months to May 31, SThree reported a 10% increase in net fees to £163.3m. Three of the company’s four operating regions reported double-digit growth in net fees; the exception was the UK and Ireland (UK&I) where net fees fell by 9%, with recruitment in the region adversely affected by Brexit uncertainty. SThree commented that it has put significant work into stabilising the region, the benefits of which are beginning to show. Around 80% of net fees were generated outside of the UK, so the latter region has a relatively modest impact on the overall performance of the group. Adjusted pre-tax profit was up 18% to £24m and basic earnings per share jumped 16% to 13.5p.
A strategic focus on Contract continues to drive growth, with net fees from this part of the business rising 12% and showing particularly strong results across Energy, Engineering and Technology. Contract now represents 74% of group net fee, up from 72% a year earlier. Permanent net fees were down 1%, with good growth in DACH (Germany, Austria & Switzerland) and Japan offset by declines in the UK and USA. Average sales headcount across the group was up 7% year-on-year and STThree commented that the expected benefits are being realised from the relocation of the majority of its London-based support functions to Glasgow.

STThree is a unique recruitment business, working in high growth STEM markets with long-term structural drivers of growth. The scale of opportunities globally is enormous, with an ever-increasing demand for STEM workers across all verticals. In the USA, according to the US Bureau of Labor Statistics, all STEM occupations are projected to grow by 10.8% between 2016 and 2026 (compared to projected growth of 7.2% for non-STEM occupations). A recent study by Bertelsmann predicts that the demand for STEM experts in Germany will grow by 1.4 million by 2035. Alongside this, employment patterns are structurally shifting, with the ‘gig’ economy, flexible ways of working, and the changing role of contractors becoming increasingly important. This is closely tied into highly skilled roles, which underpin the STEM markets. These were the main considerations behind our recommending shares in STThree as a New Buy at 296.5p in the June issue. The positive first half results from the company reinforce our belief in the investment case on a medium-term view. Continue to buy.

Playtech

Playtech’s strategic decision to focus the business on the core gambling activities looks to be paying off. Results for the six months ended June 30 showed revenue up 69% to €736.1m. Adjusted EBITDA was 31% higher at €190.6m, though adjusted net profit fell by 13% to €70.7m. Adjusted diluted earnings per share were down 12% to €0.21. Growth in revenue and Adjusted EBITDA was driven by the acquisition of Snaitech results for the entire period (only consolidated from 5 June 2018), as well as growth from core B2B Regulated Gambling revenues. Regulated B2B Gambling revenue grew 8%, while Unregulated B2B Gambling declined 29% largely driven by a 36% decline in revenues from Asia.

Snaitech, Playtech’s B2C business in Italy, was the group’s standout performer in the first half with 26% growth in adjusted EBITDA to €17.64m at constant currency. Sun Bingo saw 20% revenue growth at constant currency to €17.5m. TradeTech delivered a strong second quarter performance following highly challenging conditions across the financial betting industry in the first quarter. Revenue from TradeTech was €39.1m, down from €52.3m in the corresponding period last year. Other sales headcount across the group was up 7% year-on-year and STThree commented that the expected benefits are being realised from the relocation of the majority of its London-based support functions to Glasgow.

Playtech first reported in late 2017, we believe the shares are starting to look undervalued given the strong performance in other parts of the business. A prospective P/E of 7.53 for the current year seems especially modest. Strong hold.

Parity Group

8p (PTY; AIM)

Updating the market for the six months ended June 30, Parity has reported that it expects results to be consistent with market expectations for the full year. Net debt was €1.2m at the end of the period, down from €1.9m a year earlier. A transformation plan to reduce costs and improve margin growth through winning new consultancy contracts was launched in the first half. Parity stated that the plan has already resulted in some encouraging new contract wins and renewals in recent weeks and cost savings are being delivered.

Parity’s transformation plan is timely as market conditions in the company’s traditional recruitment sector remain challenging with continued margin pressure being driven by new entrants and digital recruitment solutions. The company is aiming to move away from low margin recruitment to focus on providing solutions in the data market offering consultancy, learning and development and strategic recruitment. We feel that good execution on the transformation plan should unlock value in the shares given the potential to generate higher margins from Parity’s large customer base through forming closer ties between the recruitment and consultancy sides of the business. Strong hold.

IQE

47.66p (IQE; AIM)

IQE has announced the commencement of initial VCSEL production for a second major customer, serving the Android supply chains, at the Newport Mega Foundry. The company added that performance data from the Newport Foundry has exceeded previously attained performance levels, and several new qualifications are now in long term reliability testing. As a result, IQE has signed a contract extension with one of its largest VCSEL customers, extending the current contract until the end of 2021. In addition, two other existing contracts have also been extended with several other new contracts in final negotiations.

Vertical Cavity Surface Emitting Lasers (VCSELs) are a key component in multiple current and future 3D sensor systems, using both structured light and Time of Flight (ToF) technologies. Applications range from 3D Facial Identification (front facing) systems and world facing cameras on mobile handsets to LiDAR and in-cabin sensing for autonomous drive vehicles, range-finding, and 3D sensing systems for a wide range of industrial and commercial applications. Production volumes are expected to ramp up strongly over the next few years as adoption across multiple mobile platforms and other use cases proliferate. In anticipation of such strong growth, IQE has invested heavily over the last two years in building the world’s largest VCSEL epi-wafer facility in Newport. We believe that the availability of such large-scale production capacity, and consequently the potential in production efficiency and performance, will be highly valued by existing and potential customers as they address mass market adoption of VCSEL technology across multiple applications. The shares are a strong hold in our opinion.

StatPro

152p (SOG; AIM)

StatPro has reported further increase in profitability as cloud services continue to grow strongly. For the six months to June 30, revenue grew 3.7% to £28.25m. Annualised recurring revenue was up 8.1% to £56.48m. Adjusted EBITDA was 9.7% higher at £5.68m and corresponding earnings per share were up 15% to 3.8p. Free cash flow (before acquisition and restructuring costs) increased to £3.53m from £3.16m. StatPro Revolution annual recurring revenue growth accelerated by 22.9% to £17.64m at constant currency.

Operating highlights during the period included a strategic partnership signed with J.P. Morgan to develop Risk and Performance Attribution capabilities for portfolio managers and distribution through J.P. Morgan’s data and analytics platform. A fixed income module was released on StatPro Revolution, enabling final phase of conversions of clients from StatPro Seven to Revolution. StatPro further strengthened its position in environmental, social and governance (ESG) by acquiring the ESG research and index business unit of ECPI in July.

StatPro has continued to execute on its strategy to grow organically whilst switching clients from legacy software onto the expanding Revolution platform cloud service. As the end of the conversion programme approaches, a marked improvement in the company’s margins is anticipated. The new partnership with J.P. Morgan is also a highly significant development, strengthening StatPro’s market position and representing a step-change in the company’s distribution capacity. All this makes for a positive medium-term outlook for the business. Strong hold.

MTI WIRELESS EDGE

FAC T FILE

Website: www.mtiwirelessedge.com
Telephone: +972 3 900 8900
Stockbroker: Allenby Capital, Peterhouse Capital
EPIC Symbol: MWE
FTSE Class: AIM
Price: 87.73m
Market Capitalisation: £20.18m
Year-end: December 31
Adjusted earnings per share:
2018: 2.23p
2019: 2.85p (Allenby Capital estimate)
2020: 3.27p (Allenby Capital estimate)
Price Earnings Ratio:
2018: 10.31
2019: 8.07
2020: 7.03

MTI Wireless Edge is an Israeli-based company that develops and produces high-quality antennas for the commercial, radio-frequency identification (RFID), and military markets. The company also owns Mottche Water Solutions, a provider of water management systems for agricultural irrigation. Although the shares have been listed on AIM since 2006, analyst coverage has been limited and the company has generally had a low-profile among investors. With neglected stocks of this kind the market often reacts slowly to relevant news and the share price can remain unchanged for some time before the market eventually recognises the
true value of the underlying business. We feel that this is the case with MTI. Despite winning a series of major contracts since the start of 2019 and indicating last month that full-year results could beat expectations, the share price has barely moved. That might be justified if the shares were already highly rated, but on most metrics the stock actually looks undervalued. Return on capital is an above average 16%, the prospective P/E for the current year is just 8.07, and the balance sheet is bolstered by cash of over US$5.0m (around 4.8p per share). Growth prospects for the company also look healthy, with the antenna business well-placed to benefit from the 5G boom and demand for Mottech’s water management solutions supported by growing concerns about the impact of climate change.

Established Specialist

MTI Wireless Edge was created in Israel in 1972 with a focus on antenna technologies for both commercial and defence industries. On listing on AIM in 2006 the company has made two major transactions: the acquisition of Mottech Water Solutions in 2015 and a merger with its controlling shareholder, the Tel Aviv listed MTI Computers Software and Services in 2018. MTI Wireless and MTI Computers operated in complementary spaces in the military and communications markets and therefore worked closely together, operating from the same offices. The merger has simplified the investment case (making the shares more attractive for institutional investors), expanded the growth opportunity in complementary markets and created a number of cost savings. As a result, we expect operating profit growth to outstrip revenue growth and operating margins to expand in the medium term. In the longer term, the roll-out of 5G networks offers a substantial opportunity in MTI’s Antenna business and the deployment of test locations is an encouraging pre-cursor to potential volume orders of dual band antennas.

MTI’s business today consists of three main divisions: Antennas, Water Control & Management, and Distribution & Professional Consulting. In 2015, MTI’s business was recognised as a producer of commercial-off-the-shelf and custom-developed antenna solutions in a broad frequency range, MTI’s Antenna division addresses both commercial and military applications. Products supplied by the company include directional and omnidirectional antennas for outdoor and indoor deployments, including smart antennas for WiMAX, broadband access, public safety, RFID, base stations and terminals for the utility market. Military applications cover a wide range of broadband, tactical and specialised communication antennas, antenna systems and DF arrays installed on numerous airborne, ground and naval (including submarine), platforms around the world.

In 2017, MTI announced that it was developing, in partnership with Nokia, a set of ultra-high availability wide-band and multi-band antenna systems for small cell and 5G cellular backhaul and fronthaul. Nokia has been co-funding this project and is integrating MTI’s antennas into its next generation microwave transport portfolio to support Carrier Aggregation. MTI is a proven provider of dual band antennas in dish and flat formats. Although at an early stage, 5G represents a major growth opportunity as network operators look to deploy 5G networks to address the ongoing growth in demand for network capacity with new high capacity frequencies, such as E-band (80GHz), and carrier aggregation techniques for cellular back haul.

Huge Market Potential

Acquiring Mottech four years ago expanded MTI’s addressable market by increasing its presence across the wireless systems value chain and access to the global smart irrigation market. This represents a considerable growth opportunity as commercial and government organisations look to address the challenges associated with climate change and droughts that are being experienced across the world. Mottech derives its revenue from software licensing and recurring revenue from services. Its core offering is a high-end remote-control solution for water and irrigation applications. Over Motorola’s IRNet control, monitoring and communication technologies, Mottech provides comprehensive water management systems for agriculture, municipal and commercial landscape, water distribution as well as wastewater and storm water reuse. Water treatment/desalination and purification have also been added to the product set in order to offer a desalination system for small communities and farms. Earlier this year, Mottech signed a three-year deal worth more than US$3.0m in China, which is poised to become the division’s largest market. In July, Mottech also completed the acquisition of 50% of Parkland, a distributor for water management solutions in Australia. This earnings-enhancing deal is expected to provide a profitable platform from which to expand and grow Mottech’s business across the continent.

Through a subsidiary, MTI Summit Electronics, the group also offers representative and expert consultation services specialising in RF and Microwave solutions and applications. These services are provided to international electronics suppliers, with major customers being large companies in Israel (e.g. IAI, Rafael, Elbit and Cergon) as well as international conglomerates (Intel, Motorola, and others).

Encouraging Results

Results for the six months to June 30 showed a significant growth in MTI’s order book across all three divisions, driven by demand for efficient water management solutions, increased 56% to 1.47 US cents. Shareholders’ equity grew during the period to US$20.7m, pre-tax profit up 41% to US$1.5m. Pre-tax profit climbed 67% to US$1.43m and earnings per share increased 56% to 1.47 US cents. Shareholders’ equity grew during the period to US$20.7m, equivalent to 41p per share. Cash flow from operations also showed a healthy increase, up 22% to US$2.6m. Zvi Borowitz, MTI’s chairman, said that since the start of the year the company had seen significant growth in its order book with four large contract wins that totalled over US$66.0m. Borowitz added that solid progress had been made with the testing of MTI’s new 5G antennas with OEM vendors, and the company is seeing substantial interest and recurring orders as its network and small cell customers upgrade in order to address the ongoing growth in demand for network capacity. We believe this represents a major growth opportunity for MTI.

Other factors supporting the investment case include an adequately covered forecast dividend of 7.13% for the current year and the benefits the company gains from being a dollar denominated stock at a time when the value of sterling has been falling due to ongoing Brexit uncertainty. MTI has also been taking steps to attract more institutional investors which should help to buoy the share price in due course. Currently, there are two significant institutional shareholders, Miton and Herald, owning around 10% of the shares. With the prospect of further cost efficiencies from last year’s merger and growing interest in the company’s 5G solutions, the catalysts for an upward re-rating of MTI’s shares appear compelling. We feel that the current valuation simply fails to reflect the company’s consistent financial performance with revenue and profit growth, conversion into cash, excellent return on capital, and good prospects for margin appreciation as scale builds.

Buy for exposure to an undervalued play on two of the strongest secular growth trends today: 5G and water management.

MARKET MOVERS

<table>
<thead>
<tr>
<th>Risers Over the Month</th>
<th>Change %</th>
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<tbody>
<tr>
<td>Ixico</td>
<td>55.13</td>
</tr>
<tr>
<td>Accesso Technology</td>
<td>23.84</td>
</tr>
<tr>
<td>Quartz</td>
<td>22.55</td>
</tr>
<tr>
<td>Cloudbuy</td>
<td>21.52</td>
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<tr>
<td>Zoo Digital</td>
<td>19.58</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Fallers Over the Month</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corero Network</td>
<td>-57.89</td>
</tr>
<tr>
<td>Brady</td>
<td>-42.73</td>
</tr>
<tr>
<td>Blue Prism</td>
<td>-35.19</td>
</tr>
<tr>
<td>Pennant</td>
<td>-29.83</td>
</tr>
<tr>
<td>IQE</td>
<td>-27.01</td>
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Ixico, a data analytics company specialising in neurosciences, was one of the top share price performers during the month after announcing strong revenue growth in the second half of the year. Growth has been driven by new and expanded contracts coming on line, deployment of newly developed algorithms and faster turnaround times in trial initiation. For the full year to September 30, Ixico now expects to build on the breakeven position reported at the interim stage, with results materially ahead of current market expectations.

Investors in former high-flyer, Accesso Technology, have endured a torrid time over the last year with the share price losing almost two-thirds of its value. The sell-off was triggered after the supplier of software for leisure and entertainment venues terminated a major acquisition opportunity in October 2018. Fears about slowing growth in the business have also dogged the shares. News in late July that the company has received takeover approaches from a number of parties and entered a formal sales process to address the situation, has seen the share price rise by 23.8%. Takeover approaches were also behind the share price rises in two of our New Buy stocks during the month, Sanderson (up 7.7%) and Proactis (up 11.1%).

There were some heavy fallers in August, led by Corero Network Security whose share price more than halved after releasing a disappointing trading update. Revenue in the half year to June 30 was down 34% to £0.5m, with management now forecasting revenue and profit growth in the full year and the conversion of the company’s Juniper pipeline of opportunities into orders and revenue. Shares in Brady, a provider of risk management and settlement solutions to the energy and commodities sectors, were sold down after the company warned that the pipeline of revenue from new customers previously forecasted will not materialise during fiscal 2019. Revenue growth in the business had more than halved after releasing a disappointing trading update. Revenue in the half year to June 30 was down 34% to £0.5m, with management now forecasting revenue and profit growth in the full year and the conversion of the company’s Juniper pipeline of opportunities into orders and revenue. Shares in Brady, a provider of risk management and settlement solutions to the energy and commodities sectors, were sold down after the company warned that the pipeline of revenue from new customers previously forecasted will not materialise during fiscal 2019. Revenue growth in the business had more than halved after releasing a disappointing trading update.
Shares prices fell only moderately over the month despite ongoing Brexit uncertainty in the UK and escalating trade tensions between China and the US. Larger cap stocks performed marginally better than small cap stocks, which we feel partly reflects a lowering of risk appetite among investors.

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