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megabyte scorecard

UK Tech Quoted Company Scorecard **2016***

The UK's **top performing** quoted
technology companies

megabyte



* The UK Tech Quoted Company Scorecard
report was rebranded in 2017 as the
Quoted25 award series.

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megabuyte 25 awards

Launched in 2015, and rebranded in 2017 as part of the formalisation of our Megabuyte award series, the Megabuyte **Quoted25** awards (formerly the **UK Tech Quoted Company Scorecard**) identify the UK's best-performing.

Companies' performance is scored using our proprietary **megabuyte scorecard** benchmarking methodology which assesses companies against 7 growth-related KPIs. Companies are awarded a Scorecard rating (a mark out of 100) and then ranked against their peers. Notably, the awards provide a unique independent measure of public

company performance, looking beyond share price, which is highly valued by companies, investors and advisers alike.

Inclusion in any Megabuyte award series is an accolade highly sought after by companies as an independent validation of their performance.

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About megabuyte

➤ Megabuyte is an independent research provider servicing the UK's leading technology sector CXOs, investors and advisers.

We deliver expert, independent and strategically actionable insights addressing the financial and corporate affairs of some 600 of the UK's key public and private technology companies in the ICT Services and Software sectors. A combination of our proprietary content, rigorous analytics and deep domain experience make our research and opinions highly sought after by those seeking incisive and unvarnished intelligence and insights.

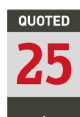
Our research is available on-line, through subscription or pay-as-you-go, or on a retained or ad-hoc consultancy basis.

Megabuyte Award Series

Identifying the best-performing companies in the UK technology sector



Talent spotting the UK's future mid-market leaders among earlier stage public and privately-owned companies.



Looking beyond share price to identify the UK's best-performing, publicly-listed mid-market technology companies.



Revealing the UK's Top 50 best-performing, privately-owned, mid-market technology companies.

Glossary

Peer Group Acronyms

Software

AES	Accounting & Enterprise Software
BIS	Banking & Insurance Software
GHS	Government & Healthcare Software
SA	Specialist Applications
SIS	Security & Infrastructure Software

ICT Services

CSI	Consulting & Systems Integration
DCH	Data Centre & Hosting Services
IS	Infrastructure Services
MWS	Mobile, Wireless & Satellite
TN	Telecoms & Networks

Report Acronyms

MBO	Management Buyout
SBO	Secondary Buyout
P2P	Public to Private
FF	Follow-on Fundraising
IPO	Initial Public Offering
FPO	Follow-on Public Offering

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Document Information

All share prices and valuations quoted are as at the close of business on 29 April 2016.

Significant institutional investment is classified as investment of greater than 3% of issued share capital.

Market capitalisation boundaries are defined as follows:

Small Cap	<£50m
Mid Cap	£50m<£200m
Large Cap	>£200m

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Tech company health check

What does good look like?

Since its launch in 2015, the Megabuyte Scorecard has rapidly established itself as the go-to benchmarking methodology for mid-market tech companies in the UK. Proprietary to Megabuyte, the Scorecard systematically assesses relative financial performance using seven KPIs, and then applies a carefully developed weighting on each to provide a score out of 100. In this, the second year of the Megabuyte Quoted Company Scorecard, we look again at how the 70 or so UK listed companies in our universe perform under the spotlight of the Scorecard, to definitively understand what good looks like.

Congratulations to the quoted best

As we run the numbers, there has been a fair bit of movement in the top 20 companies, with a total of six new entrants. Of these six new top 20 companies, three are recent IPOs - Kainos, Sophos and Softcat – all of which were Megabuyte50 companies in 2015. Microgen, PROACTIS and Craneware are also promoted to the top 20. The six new entrants replaced Amino (15th in 2015), Eckoh (8th), Idox (16th), Telit (12th), Anite (20th) and IMI mobile (9th). All but one of these companies has been relegated down the order, except Anite, which was acquired in the year. Of the top 50 companies, three have been acquired in the last year; in addition to Anite, Innovation Group and Xchanging have both been taken over, the former by private equity (Carlyle) and the latter by trade (CSC).

Public companies draw level with private players

The sister research programme to the Megabuyte Quoted Company Scorecard is the Megabuyte50 Awards, which identifies the top 50 owner managed and private equity-backed tech businesses in the UK. In the 2015 Quoted Company Scorecard report, we highlighted a significant difference between quoted and private companies, with the private companies significantly outperforming their public company counterparts. However, in this updated analysis, this gap has largely closed with both groups averaging a Scorecard rating of 58. However, privately owned software companies still significantly outperform their public company peers.

Megabuyte Scorecard as an investment tool

While the Scorecard was not specifically conceived as an investment tool, it is interesting to see how the share price performance of individual companies compares to their Scorecard performance. When we analyse the share price performance of companies included in this analysis, over a variety of timeframes, relative to their Scorecard rating, it clearly shows that companies with a higher Scorecard rating have substantially outperformed those with a lower rating, in every time frame shown.

Stockmarket drain continues; but some quality arrivals

While tech company share prices have remained strong on average, and substantially outperformed the wider market again in 2015 and into 2016, there continues to be a net drain of tech companies from the stockmarket. While there were four significant IPOs in 2015, there were double the number of company exits, either from public to private transactions or M&A. Before any share price moves are taken into account, this market exit activity resulted in nearly a £3bn net reduction in market cap, or around 10% (excluding BT and Vodafone), of tech sector market cap.

Sector relatives

In our analysis, we also drill into the relative performance of our two main sectors – Software and ICT Services – as well as the performance of the five individual peer groups within each. Perhaps unsurprisingly given their IP-rich business models, software companies perform slightly better than ICT services companies, with an average score of 60, compared to 57 for ICT services. Interestingly, however, ICT services companies enjoy significantly stronger organic growth than software companies – 10.7% vs 6.9% – but software companies outperform on most other measures, especially on margins.

The Megabuyte Scorecard

What does a 'good' tech company look like?

Whilst the need to build a position in a new market or technology may require a technology company to lose money during its formative years, we feel strongly that, once this stage has passed, high growth, high margin, cash generative businesses will always provide better long term returns for investors. But how does one go about assessing which companies are performing better than others? The Megabuyte Scorecard provides technology companies, their investors and advisers a standardised methodology to help them benchmark their performance against similar companies.

How does it work?

The Megabuyte Scorecard is a proprietary benchmarking methodology developed by the research team at Megabuyte, pooling over 50 years of combined experience assessing the performance of software, IT and telecoms services companies. The Scorecard assesses companies using a combination of seven key measures, covering: growth, margins, cash flow and overall size. These measures are then weighted to provide what we feel is the optimum balance for mid-market companies. A summary of the KPIs used is as follows:

- **Growth:** In assessing a company's revenue growth we have struck a balance between our view that organic (or underlying) growth is preferable, whilst acknowledging that acquisitions are also an important additional way to grow. Growth in EBITDA is also a key measure in the Scorecard.
- **Profitability:** When evaluating profitability, we look at adjusted EBITDA margins as the optimal measure of P&L profitability.
- **Operating cash conversion:** A central tenet of our view of optimal financial performance is that as much as possible of reported EBITDA profit is converted to operating cash flow (OCF) over time.
- **FCF conversion:** We also look at the conversion of EBITDA to FCF over time, using (OCF-capex)/EBITDA. This is the truest measure of a company's ability to generate free cash flow, taking into account how capex-heavy the business model may be.
- **Size:** While size does not, in itself, mean that a company is good or bad, the law of large numbers does mean that it is harder to generate organic growth, in percentage terms, as a company gets larger. As a result we feel that it is right to give some credit to larger companies.

Inclusion Criteria

In identifying the top performing quoted companies, we first looked at over 300 UK-headquartered public and privately owned software, IT and telecoms services companies on the Megabuyte database. We then apply our primary inclusion criteria whereby, in summary, companies must meet the following criteria:

- More than £10m of revenues but no more than £100m of EBITDA in the most recent financial year, and with at least £1m of EBITDA in one of the last four years.
- Detailed and meaningful accounts available for up to four years for revenues and profitability and at least two years for cash flow.
- Not a subsidiary of a much larger organisation.
- Have not been through very significant M&A recently or other such transformational events.

Importantly, we reserve the right to adjust financials in cases where this provides a more accurate reflection of the true underlying performance of a business. We also reserve the right to exclude companies where we feel that published accounts are not consistent across time, for example, if a company has sold an asset but has not clearly restated previous accounts for discontinued activities.

What does good look like?

Assessing Megabuyte's UK Universe

The Megabuyte Scorecard looks at over 300 UK public and privately owned Software, IT and telecoms services companies on the Megabuyte Database

Subscribers can access the Database to view information on our companies [here](#).

Once our primary inclusion criteria has been applied, the companies are positioned within quartiles for each of the main measures, and then assigned a score within its quartile. The quartiles are based on the total UK universe of Megabuyte companies. The result is that each company achieves a primary score for its financial performance, and we then apply the Megabuyte proprietary weighting to arrive at the final Megabuyte Scorecard result, out of 100. A score of 50 would thus translate into an average performance across the board. A score of 100 would require a company to be the top-performing company in each category, which is very unlikely to happen (in practice, no companies achieve top quartile in all measures).

TABLE 1: Scorecard: Factor Quartiles

	Size (Revenues £m)	Organic Revenue Growth	Revenue CAGR	EBITDA CAGR	EBITDA margin	OCC	FCF Conversion (to EBITDA)
1 st Quartile							
Boundary	19	-0.2%	3.6%	-1.2%	7.3%	80.5%	41.9%
2 nd Quartile							
Boundary	30	5.5%	11.0%	8.9%	14.7%	93.2%	63.2%
3 rd Quartile							
Boundary	60	14.1%	21.0%	23.5%	22.7%	105.4%	89.0%
4 th Quartile							

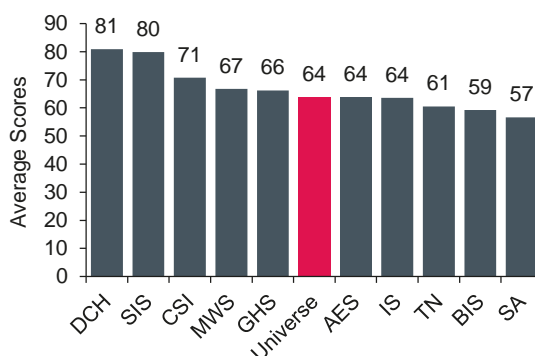
Source:
– Megabuyte

The boundaries for the quartiles of the various measures are shown in the table above. So, what does good look like? Well, in order to be in the top quartile for each of the seven KPIs, a company needs to have revenues of over £60m, organic growth in its last year of over 14%, three year revenue CAGR of over 21%, EBITDA margins of over 22%, free cash flow (FCF) conversion of over 89% and operating cash conversion of over 105%.

Peer group performance

Having calculated individual company scores, it is then interesting to look at the averages for each of the ten peer groups in the Megabuyte universe. These are shown in Figure 1, and the number of top 50 companies in each peer group is shown in Figure 2. The analysis throws up some interesting results. Given that IP-rich software companies tend to deliver higher margins, it is interesting that three of the top five peer groups are from the ICT Services sector. This reflects the specialist nature of many of these business, whether from a business model or vertical market perspective. Equally, it is interesting that the bottom two peer groups are from the Software sector, although for BIS, this also reflects the relatively poor scores for the quoted companies in this group as BIS achieves an above average score when private companies are included.

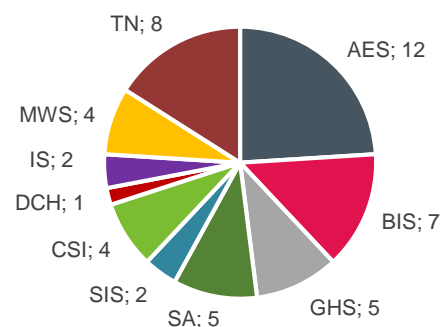
FIGURE 1: Top 50 quoted companies: average peer group performance



Source (left):
– Megabuyte

Source (right):
– Megabuyte

FIGURE 2: Composition of top 50 quoted companies by peer group



Peer Group key: AES: Accounting & Enterprise Software; BIS: Banking & Insurance Software; GHS: Government & Healthcare Software; SIS: Security & Infrastructure Software; SA: Specialist Applications; CSI: Consulting & Systems Integration; DCH: Data Centre & Hosting Services; IS: Infrastructure Services; MWS: Mobile, Wireless and Satellite; TN: Telecoms & Networks

Quoted Company Rankings

Financial Results

Company financials used for analysis in this report are sourced from publicly available accounts filed as of 29/04/2016

Rank	Company	Peer Group	Revenue (£m)	*Organic Growth	Revenue CAGR	EBITDA CAGR	EBITDA margin	OCF Conv	FCF Conv	Score	Previous Score
1	Quartix	AES	19.7	28%	33%	28%	32%	111%	108%	92	90
2	FDM Group	CSI	160.7	30%	16%	16%	19%	96%	90%	82	73
3	GB Group	SIS	57.3	15%	22%	43%	21%	103%	88%	81	77
4	Iomart Group	DCH	65.8	7%	25%	37%	44%	94%	54%	81	78
5	Kainos Software	CSI	60.8	45%	34%	70%	20%	85%	77%	79	-
6	dotdigital	AES	21.4	32%	31%	31%	32%	91%	53%	79	79
7	Sophos	SIS	279.4	10%	11%	21%	16%	109%	90%	79	-
8	Tracsis	SA	25.4	1%	43%	26%	26%	105%	98%	78	93
9	Servelec Group	GHS	63.1	-2%	17%	15%	27%	103%	95%	73	64
10	EMIS Group	GHS	155.9	5%	22%	16%	33%	93%	57%	72	80
11	Sapura	MWS	103.3	11%	16%	12%	23%	91%	30%	70	74
12	NCC Group	CSI	133.7	18%	15%	6%	22%	92%	59%	70	77
13	Softcat	IS	596.1	18%	25%	22%	7%	104%	95%	70	-
14	Craneware	GHS	27.1	5%	3%	6%	32%	102%	96%	70	62
15	PROACTIS Holdings	AES	17.2	12%	32%	66%	27%	84%	22%	69	53
16	Gamma Communications	TN	191.8	11%	12%	25%	15%	92%	54%	68	65
17	Zamano	MWS	16.0	24%	10%	-	14%	107%	86%	68	71
18	Microgen	BIS	32.0	2%	0%	-4%	27%	95%	90%	67	62
19	Fidessa Group	BIS	295.5	4%	2%	1%	27%	100%	51%	67	66
20	Manx Telecom	TN	79.6	0%	3%	5%	36%	95%	61%	67	69
21	Alternative Networks	TN	146.8	3%	9%	11%	15%	96%	88%	66	56
22	IMImobile	MWS	48.9	4%	8%	14%	19%	100%	74%	65	75
23	Redcentric	TN	94.3	8%	58%	182%	23%	66%	29%	65	-
24	First Derivatives	BIS	83.2	15%	22%	11%	19%	65%	5%	65	61
25	Telit Communications	MWS	227.1	13%	17%	38%	14%	104%	18%	64	72
26	Netcall	AES	17.2	4%	6%	14%	30%	91%	74%	64	62
27	Sopheon	AES	14.2	14%	4%	16%	20%	100%	24%	64	-
28	Ideagen	AES	14.4	5%	53%	51%	28%	73%	51%	64	-
29	Maintel Holdings	TN	50.6	3%	22%	15%	15%	81%	77%	63	58
30	Eckoh	AES	17.2	13%	18%	28%	26%	78%	16%	63	76
31	Dillistone Group	AES	9.4	3%	10%	4%	25%	98%	56%	62	-
32	Adept Telecom	TN	22.1	0%	0%	8%	21%	96%	93%	61	49
33	Aveva Group	SA	208.7	-7%	2%	0%	31%	85%	80%	61	60
34	Lombard Risk Management	BIS	21.5	5%	19%	15%	21%	94%	-5%	59	57
35	Instem	GHS	16.3	22%	15%	19%	17%	64%	36%	59	47
36	IDOX	GHS	62.6	-6%	4%	3%	29%	71%	67%	57	67
37	RM	IS	178.2	-12%	-15%	2%	12%	116%	108%	57	57
38	Gresham Computing	BIS	14.8	16%	13%	9%	19%	74%	-49%	56	-
39	Trakm8	AES	17.9	73%	51%	-	15%	77%	26%	55	-
40	Bond International Software	AES	40.1	2%	3%	15%	21%	91%	31%	53	53
41	Sanderson Group	AES	19.2	5%	13%	21%	21%	78%	56%	53	57
42	K3 Business Technology	CSI	83.4	16%	7%	-5%	13%	74%	33%	52	55
43	Amino Technologies	SA	41.7	-31%	0%	6%	18%	96%	54%	52	68
44	StatPro Group	BIS	30.2	-1%	-2%	-16%	13%	160%	65%	50	61
45	Telecom Plus	TN	729.2	11%	16%	18%	7%	80%	57%	50	47
46	Xchanging	BIS	400.5	-9%	-9%	1%	20%	86%	49%	50	54
47	1Spatial	AES	19.6	3%	55%	-	16%	-166%	-	50	48
48	Kalibrate Technologies	SA	20.4	13%	15%	-	13%	11%	-40%	48	53
49	Escher	SA	15.0	4%	-1%	-14%	18%	91%	32%	45	-
50	Kcom Group	TN	348.0	-6%	-4%	-2%	21%	77%	41%	43	47

*Organic (or underlying) Growth may reflect estimates made by Megabuyte based upon the best available data and knowledge.

Top Performing Companies

Looking at the changes in top 20 companies over the last year, as summarised in Figure 3, there are six new entrants. Three of these six new top 20 companies are recent IPOs - Kainos, Sophos and Softcat – all of which were Megabuyte50 companies in 2015. Microgen, PROACTIS and Craneware are also promoted to the top 20.

These six new entrants replaced Amino (15th in 2015), Eckoh (8th), Idox (16th), Telit (12th), Anite (20th) and IMI mobile (9th). All but one of these companies has been relegated down the order, except Anite, which was acquired in the year. Of the top 50 companies, three have been acquired in the last year; in addition to Anite, Innovation Group and Xchanging have both been taken over, the former by private equity (Carlyle) and the latter by trade (CSC).

FIGURE 3: Scorecard top 20 ranking changes

Company	Score	Current Rank	Previous Rank	Change
Quartix	92	1	2	+1
FDM Group	82	2	11	+9
GB Group	81	3	6	+3
Iomart Group	81	4	5	+1
Kainos Software	79	5	New Entrant	-
dotdigital	79	6	4	-2
Sophos	79	7	New Entrant	-
Tracsis	78	8	1	-7
Servelec Group	73	9	19	+10
EMIS Group	72	10	3	-7
Sepura	70	11	10	-1
NCC Group	70	12	7	-5
Softcat	70	13	New Entrant	-
Craneware	70	14	21	+7
PROACTIS Holdings	69	15	41	+26
Gamma Communications	68	16	18	+2
Zamano	68	17	13	-4
Microgen	67	18	22	+4
Fidessa Group	67	19	17	-2
Manx Telecom	67	20	14	-6

Source:
– Megabuyte

Top ten companies

There is more detailed analysis of the Scorecard ratings and KPIs of the top 20 companies in the appendix to this report but here we review the top 10.

Quartix

After another positive year of trading, Quartix finds itself at the top of this year's rankings, having been in second place for 2015. Within a competitive fleet tracking technology market, Quartix's ongoing success is a result of supplying a high quality product to the SME market with fleets of 3 to 50 vehicles. To augment continued growth in the UK, Quartix entered the French fleet market in 2010 and completed its first full year of trading in the US during 2015. The company has also reported strong growth in the insurance telematics market, but this market is less of a strategic focus due to higher pricing pressures and greater levels of natural churn.

FDM Group

FDM has not skipped a beat since it listed on the LSE in 2014. Organic growth accelerated in 2015 from already-high levels as international expansion of the company's unique Mountie model continued to gain traction, especially in the US. As legacy contracting revenues are run down, margins should improve even further going forward. All of this has propelled FDM from its eleventh place position in 2015 to second place this year, and the highest placed ICT Services company.

GB Group

GB Group is another AIM listed company which has transformed its scale and organic growth rate with a successful M&A strategy in recent years. The company's clear strategy to build a portfolio of software products and related services around a common theme of identity verification has pushed it from the bottom of AIM to one of the leading companies. Continuing strong financial performance across the board has helped GB Group to maintain a solid top 10 position.

Iomart Group

Since divesting its web listing business to BT in 2008, Iomart has successfully invested in data centre and hosting activities, including multiple well-priced acquisitions, to establish one of the UK's largest independent managed hosting businesses. Iomart's financial performance remains solid, and indeed has bounced back from the December 2014 revenue warning, though the share price remains below the failed £3 per share approach from Cinven-backed Host Europe in mid-2014.

Kainos Software

Kainos was a top ten company in last year's Megabyte50 Awards for the UK leading private tech companies, so it is no surprise that it has a similar positioning in the Quoted Company Scorecard. Within the public sector, Kainos is targeting two opportunities: first the drive to digitalise central government services and, secondly, the desire to transfer healthcare records into an electronic format. Meanwhile, in addition to its public sector initiatives, Kainos has increased its exposure to the commercial sector by positioning itself as a leading mid-market Workday implementation specialist.

dotdigital Group

In the fragmented and competitive marketing automation software space dotdigital is holding its own against a number of international well capitalised peers in the UK and, increasingly, internationally. An adjustment in its strategy to focus on mid-market businesses and small enterprises, alongside a strong partnership with e-commerce platform leader Magento, is clearly not only allowing dotdigital to win new business but also grow inside existing accounts.

Sophos

Sophos is one of the leading cyber security software vendors globally and is the third of our recently listed businesses to enter the Quoted Company Scorecard in a top 10 position. The leading cyber security software vendor delivered improved organic growth in 2015 which helped its rating to rise from 75 to 79, moving into a solid top ten position. While many of its US peers have seen very substantial pressure on their share prices, Sophos has remained relatively robust.

Tracsis

Tracsis is currently ranked eighth in the quoted company rankings, having claimed the number one spot last year. Despite the company's latest full year results showing another solid performance, with double-digit revenue growth, improving margins and strong cash conversion, the company's Scorecard rating was impacted by an anticipated decline in revenues for its Remote Condition Monitoring segment.

Servelec Group

Placed 19th in last year's rankings, Servelec has entered the top ten for 2016 with a score of 73. The company's recent performance has been driven by strength across its Health & Social Care portfolio. In particular, the business has performed well in the health and community care system refresh across England and has gained market share in social care with Corelogic. Conversely, trading conditions have been more challenging for Servelec's Automation business, which has been impacted by trading conditions in the oil & gas industry and delays in the UK water market.

EMIS Group

EMIS has maintained a top ten place for 2016, albeit with its ranking falling from 3rd to 10th as organic growth slipped from 11% to 5%, primarily reflecting the completion of the EMIS web roll-out in England and Wales. EMIS had hoped to offset some of this by a stronger performance in Secondary Care, namely with Ascribe, but this unfortunately did not come to fruition. However, a recent trading update suggests a more positive start to 2016 in the Secondary Care market.

Top public companies by peer group

The tables below show the top-performing public companies in each of Megabuyte's peer groups.

TABLE 2: Top five public companies by peer group

Accounting & Enterprise Software	Score	Banking & Insurance Software	Score	Government & Healthcare Software	Score
Quartix	92	Microgen	67	Servelec Group	73
dotdigital	79	Fidessa Group	67	EMIS Group	72
PROACTIS Holdings	69	First Derivatives	65	Craneware	70
Netcall	64	Lombard Risk Management	59	Instem	59
Sopheon	64	Gresham Computing	56	IDOX	57

Source:
– Megabuyte

TABLE 3: Top five public companies by peer group

Security & Infrastructure Software	Score	Specialist Applications	Score	Consulting & Systems Integration	Score
GB Group	81	Tracsis	78	FDM Group	82
Sophos	79	Aveva Group	61	Kainos Software	79
IndigoVision	31	Amino Technologies	52	NCC Group	70
		Kalibrate Technologies	48	K3 Business Technology Group	52
		Escher	45	Parity	30

Source:
– Megabuyte

TABLE 4: Top five public companies by peer group

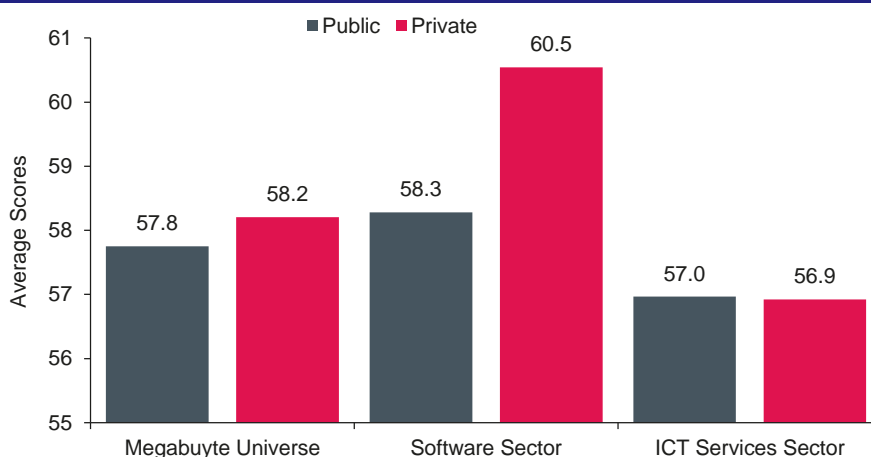
Data Centre & Hosting Services	Score	Mobile, Wireless and Satellite	Score	Telecoms & Networks	Score
Iomart Group	81	Sepura	70	Gamma Communications	68
		Zamano	68	Manx Telecom	67
Infrastructure Services	Score	IMImobile	65	Alternative Networks	66
Softcat	70	Telit Communications	64	Redcentric	65
RM	57	Vislink	41	Maintel Holdings	63

Source:
– Megabuyte

Public vs Private Companies

Of the 220 companies currently with a Megabuyte Scorecard rating, less than two thirds are public (62). In addition to looking at the financial performance of stockmarket listed companies in isolation, therefore, it is also interesting to look at this performance relative to private company peers. Figure 4 shows analysis of the average Scorecard ratings of quoted vs private companies and the comparison is very interesting. While the overall scores are broadly similar, privately owned software companies score 2.2 points higher than their quoted counterparts, on average. It is also interesting to note that the gap between public and private companies has narrowed over the last year; we attribute this partly to the inclusion of top ten companies Sophos, Kainos and Servelec in the public company list this year.

FIGURE 4: Public versus Private company Scorecard performance

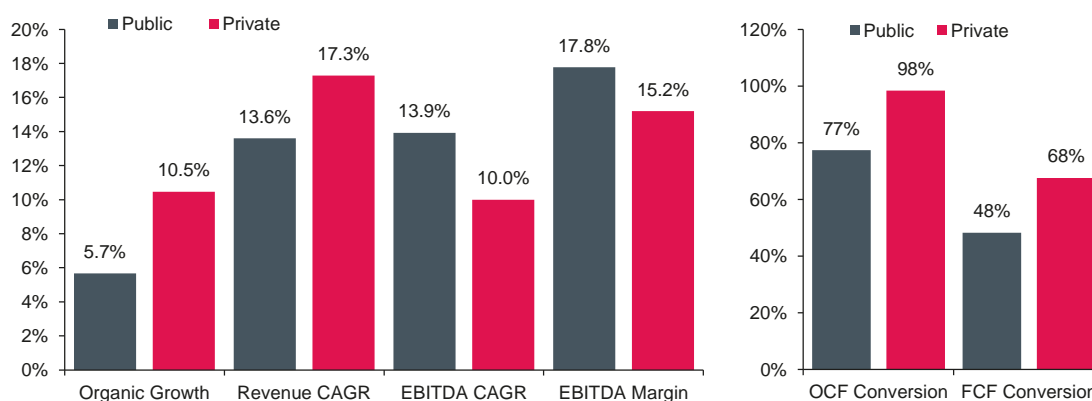


Source:
– Megabuyte

When we drill into the relative KPIs in a little more detail, we can see that there are material differences between public and private companies. While private companies enjoy nearly twice the organic growth and significantly stronger revenue CAGR, public companies generate, on average, higher margins and profit growth. Conversely, private companies provide much stronger cash conversion than their public company peers.

Thinking through these differences, they are perhaps not surprising. Private companies arguably have more freedom to invest from the P&L in growth; hence the stronger growth but lower margins. Also, while stockmarket listed companies are valued on a multiple of profit, and hence management teams are focussed on profit maximisation, private company shareholders are more interested in cash returns. This is particularly true of leveraged private equity backed businesses. This may explain the overall stronger cash conversion from private companies.

FIGURE 5: Public versus Private company performance across Factor Quartiles



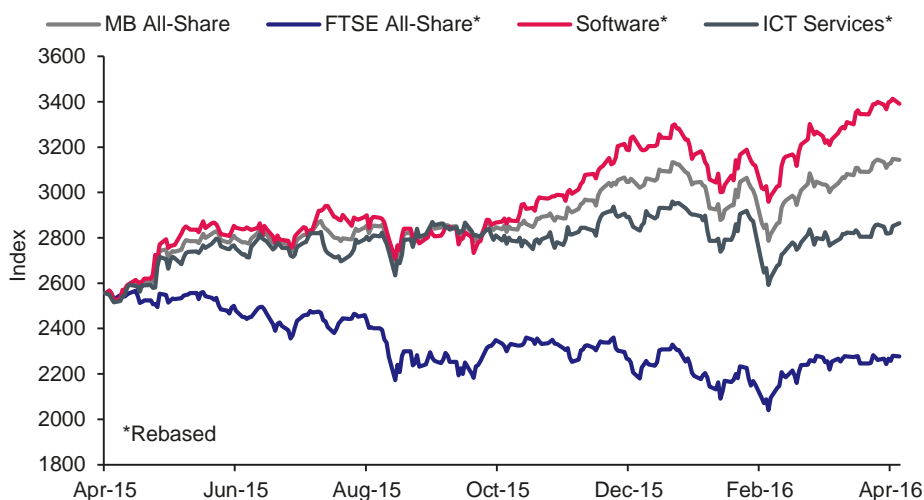
Source:
– Megabuyte

Valuation Analysis

Tech sector strength

Turning our attention to valuations, the first thing we can notice from Figure 6 is the continuing strength of the UK tech sector. While tech stocks dipped with the rest of the market in the first quarter of 2016, they have rebounded even more strongly than the rest of the market and are trading near their 12 month highs, whereas the FTSE All-Share remains well below its peak.

FIGURE 6: Index Performance

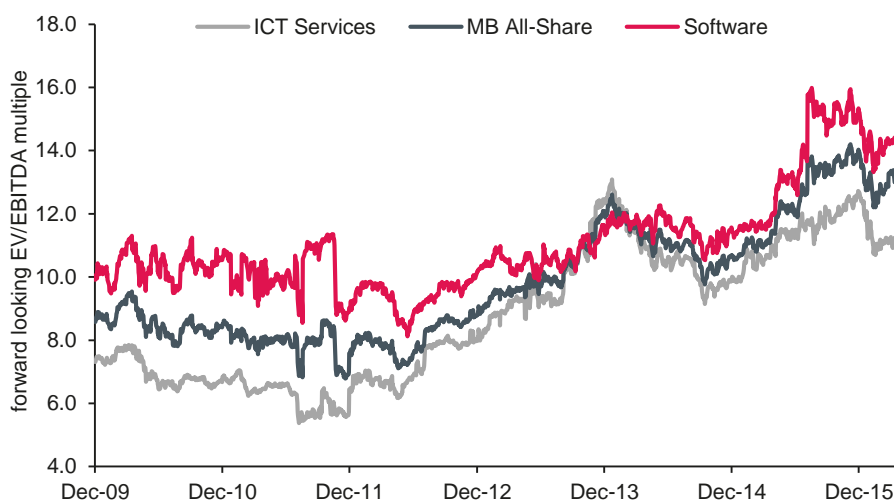


Source:
– Megabuyte
– Capital IQ

*Rebased

We can also see that, after a broadly similar performance for much of 2015, software stocks have materially outperformed their ICT Services peers since. Over the last 12 months, software stocks have risen on average by 33%, while ICT services stocks have risen by a much more modest 12%. Overall the Megabuyte All-Share Index is up 23% compared to a fall of 11% in the FTSE All-Share.

FIGURE 7: Forward looking EV/EBITDA multiples

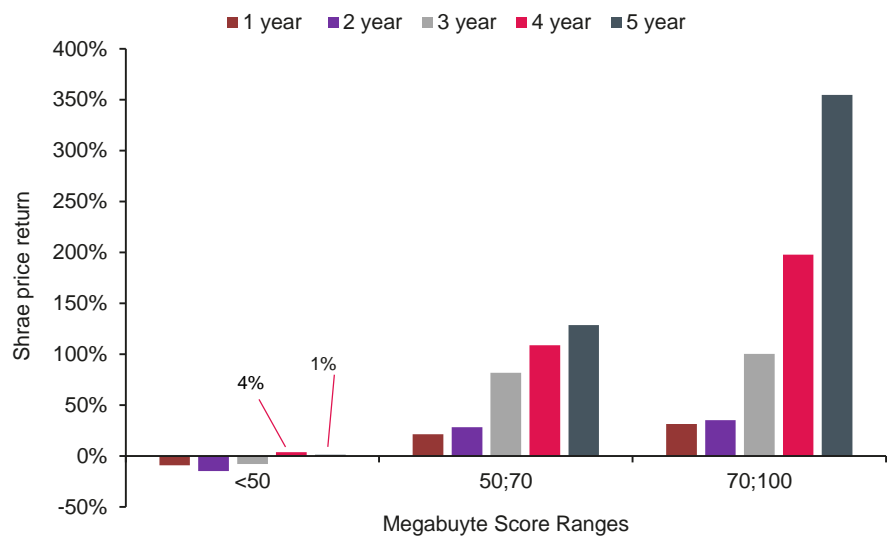


Source:
– Megabuyte
– Capital IQ

Unsurprisingly given the share price strength of the tech sector, valuations have also been on the rise over the last 12 month. Overall, valuations have continued a steady upward trajectory but have come off their 2015 cyclical highs. Listed Software stocks trade at an average of 14.4x while their ICT Services cousins trade at 11.2x. Interestingly, software stocks have emphatically reasserted their valuation premium over ICT services stocks over the last 18 months.

Having looked at the share price and valuation performance of the UK tech sector, it is interesting to see how the share price performance of individual companies, compares to their Scorecard performance. In Figure 8, we have shown the share price performance of companies over a variety of timeframes, relative to their Scorecard rating. And the analysis clearly shows that companies with a higher Scorecard rating have substantially outperformed those with a lower rating, in every time frame shown.

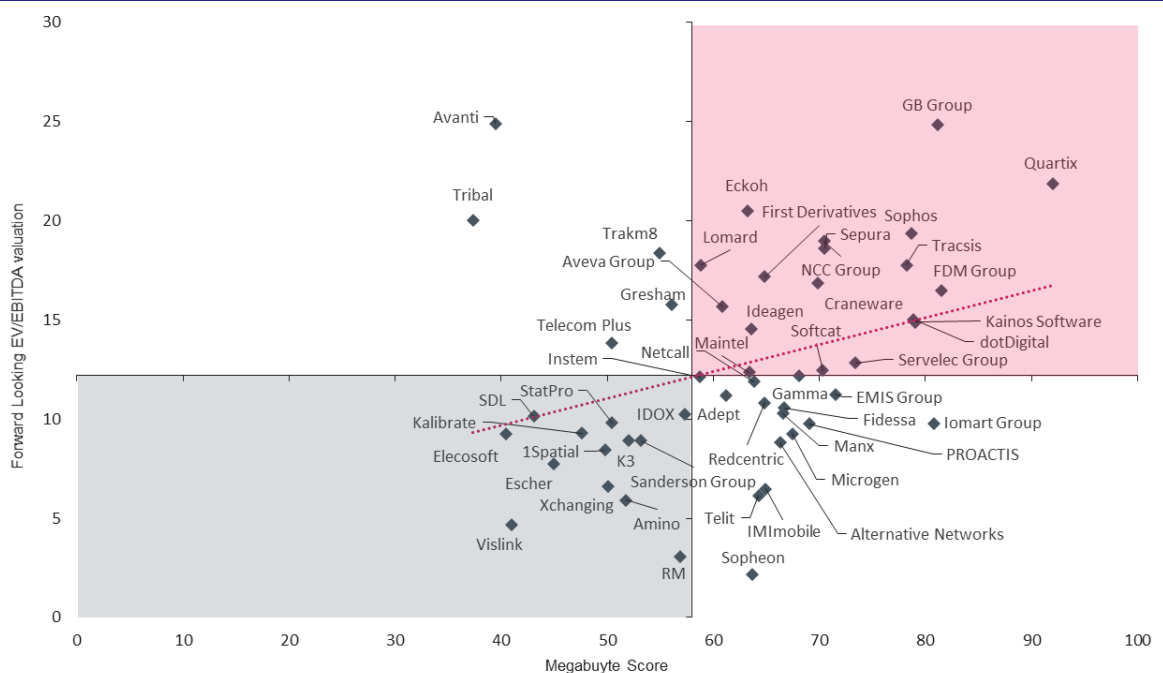
FIGURE 8: Share price returns versus Megabyte Score ranges



Source:
– Megabuyte
– Capital IQ

In Figure 9, we have plotted the Scorecard rating for all public companies in the analysis, against their valuation, as measured by EV/EBITDA. We have then indicated the average for both measures and a line of best fit.

FIGURE 9: Megabyte Score vs EV/EBITDA Valuation



Source:
– Megabuyte
– Capital IQ

Reassuringly expensive

While the correlation of the two measures is not particularly strong in this analysis, we do believe the groupings that the analysis creates are of interest. First we can look to the pink box; these are companies which we could describe as 'reassuringly expensive' as they enjoy both high Scorecard ratings and valuations. Conversely, we also see that those companies in the grey box are arguably 'cheap for a reason'

Overvalued / Undervalued?

However, it arguably gets more interesting when we look at the stocks in the white space outside the averages in the top left and bottom right of the chart. Of course there may be a very good reason why a company appears over or undervalued relative to its Megabuyte Score; the most obvious reason for this would be an expected material change in the financial outlook. Given that public companies are valued largely on what they *will* do, rather than on what they have done, any material change in financial performance in the current year or in future would likely be reflected in the valuation, but not the Scorecard rating.

However, in the absence of any expected material change in a company's financial performance, our analysis suggests that the Megabuyte Scorecard could be a useful guide to identifying over or undervalued companies. For example, in our report last year we highlighted Gamma Communications as looking undervalued relative to its Scorecard rating while Gresham Computing and Publishing Technology looked overvalued. Since then, shares in Gamma have risen by some 50%, to take it into the 'reassuringly expensive' bracket, while Gresham Computing and Publishing Tech have underperformed with broadly flat share prices.

FIGURE 10: Share Price Return: 1 year

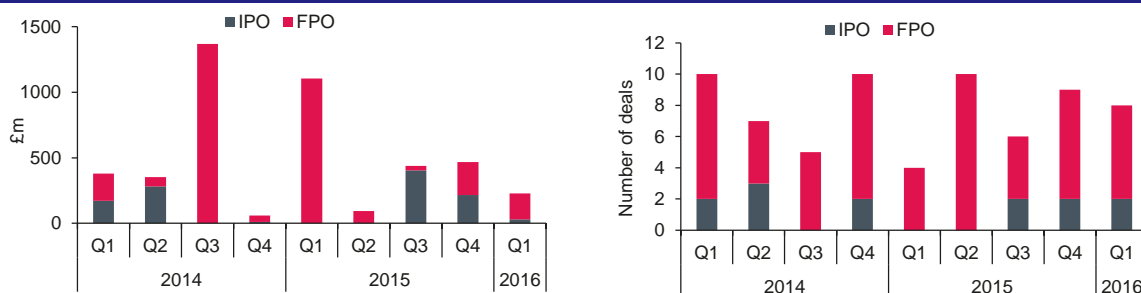


Source:
– Megabuyte
– Capital IQ

Fundraising and M&A activity

Turning to the level of fundraising and M&A activity on the market in 2015, we can see from Figure 11 that the total value of IPOs and FPOs (Follow-On Offerings) in 2015 was broadly similar to the year before. The total money value of IPOs in the sector in 2015 was £2,104m, against £2,159m in 2014, although the proportion of IPOs in 2015 was slightly higher. 2016 has got off to a solid but unspectacular start, although it can be considered strong in the context of poor market conditions.

FIGURE 11: Capital markets activity for 2014 and 2015



Source:
– Megabuyte

A recurring theme over several years now has been a reduction in the numbers of listed companies in the UK technology market, and the last couple of years have only added to this, as Figure 12 clearly demonstrates. The table shows that, in 2014, £1,397m of market value was removed by either take-private transactions or by trade sale. Reconciling this with our analysis above, we can see that there was actually an overall, modest increase in markets cap of £762m, in 2014.

FIGURE 12: P2P and M&A of public companies

Date	Target	Acquirer	Market Cap £m
16/01/2014	Pilat Media Global	SintecMedia	46.1
18/02/2014	Probability	GTECH	10.6
14/10/2014	Allocate Software	HgCapital	76.5
20/10/2014	Daisy Group	Toscafund, Penta Capital	415.8
17/11/2014	euNetworks	Columbia Capital	188.4
25/11/2014	Advanced Computer Software	Vista Equity Partners	573.9
18/12/2014	Incadea	Dealertrack Technologies	86.4
Total Market Cap Removed			1,397
2014 MB Universe Market Cap			32,150
24/03/2015	Kofax	Lexmark	447.7
24/03/2015	Accumuli	NCC Group	47.3
27/05/2015	Phoenix IT Group	Daisy Group	129.8
29/05/2015	Telecity Group	Equinix	2,186.4
17/06/2015	Anite	Keysight Technologies	298.0
19/06/2015	COLT Group	Fidelity Investments	1,405.1
28/08/2015	Innovation Group	The Carlyle Group	432.6
Total Market Cap Removed			4,946
2015 MB Universe Market Cap			36,591

Source:
– Megabuyte

However, the picture looks very different for 2015 as there were two £1bn plus deals which removed tech companies from the stockmarket; Telecity and COLT. As a result, while only one more player was taken over in 2015, compared to 2014, the amount of market cap taken off the market was nearly threefold that of 2014, at £4,946m. As a result, a further £2,842m was removed from the UK quoted tech sector on a net basis. The good news, however, is that strong average share price performance has meant that the overall market cap of listed companies in the Megabuyte universe continues to rise.

Peer Group Trends

Almost as interesting as the individual company Scorecards are the peer group trends that emerge from our study, which include private company as well as public company scores. Clearly, we are currently only looking at a subset of all UK companies in each of the ten Megabuyte peer groups, but it is still instructive to look at how the business model idiosyncrasies within peer groups manifest themselves in each peer group Scorecard.

Software peer groups

In broad terms, the software peer groups follow a similar pattern of financial dynamics; high but not exceptional growth and margins but, interestingly, mixed cash flow performance.

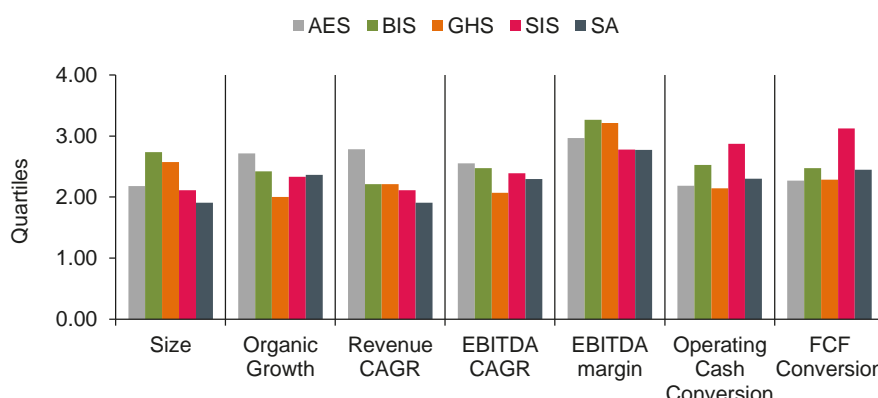
Accounting & Enterprise Software

The Accounting & Enterprise Software (AES) peer group is the highest scoring overall with the strongest organic growth and revenue CAGR, averaging 25% and 24% respectively. This performance is driven more by the specialist vendors in this peer group such as Quartix and dotdigital while some of the more traditional vendors such as Sanderson, Bond International and Dillistone recorded low single digit growth. All companies in the peer group reported positive organic growth. AES companies also generate the highest EBITDA margins – 23% on average – but relatively weak cash conversion.

Banking & Insurance Software

It is interesting that there is a particularly marked difference in average rating between quoted and privately owned BIS companies, with the former averaging 56 but the latter delivering 70. This drags down the overall performance of BIS companies which therefore score in the first quartile or at the lower end of the second quartile for all but one of the main KPIs. It is only EBITDA margins where they score into the third quartile. This clearly indicates that the companies in this peer group are ex-growth, high margin business. That said, against this backdrop, they should really be delivering stronger cash conversion.

FIGURE 13: Software sector peer group performance – universe of companies



Source:
– Megabuyte

Government & Healthcare Software

The GHS peer group achieves an average score of 58 although, in this group, the public companies are rated more highly than those that are privately owned, with an average score of 61 against 55. Indeed, out of the 14 businesses in the group, three out of the top 4 are publicly listed; Servelec (73), EMIS (72) and Craneware (70). More generally, the group scores particularly well for EBITDA margin and FCF conversion, but less so for organic growth, highlighting the relative maturity of the end market.

Security & Infrastructure Software

The SIS peer group is characterised by a very wide range of ratings, with Avecto at the top, with a score of 89, and 1E at the bottom with just 23. In our view, this reflects the fast moving nature of the underlying market which, in turn, creates a 'winner takes all' dynamic. Those companies that tap into the undoubted macro growth drivers thrive, but those that do not, can struggle. Overall, the peer group scores well across the board, on average, with solid growth and margins, and particularly impressive cash conversion.

Specialist Applications

Made up largely of a mixture of vertically focused software vendors, the SA peer group achieves a below average 55 rating as a whole. Moreover, five out of the seven public businesses in the group achieve particularly low scores within a range of 18 to 52, with Publishing Technology and Amino Technologies at the two extremes. The better performing public companies in the group are Tracsis and Aveva on 78 and 61 respectively. As a whole, the SA group scores below the average for the Megabuyte universe on six of the seven Megabuyte Scorecard KPIs, with EBITDA margins being the exception.

ICT Services peer groups

While the software peer groups score in quite a narrow operating window and the difference between them are modest, the same is certainly not true within the ICT Services sector. The market growth and business model dynamics are clearly visible from the Scorecards in these peer groups.

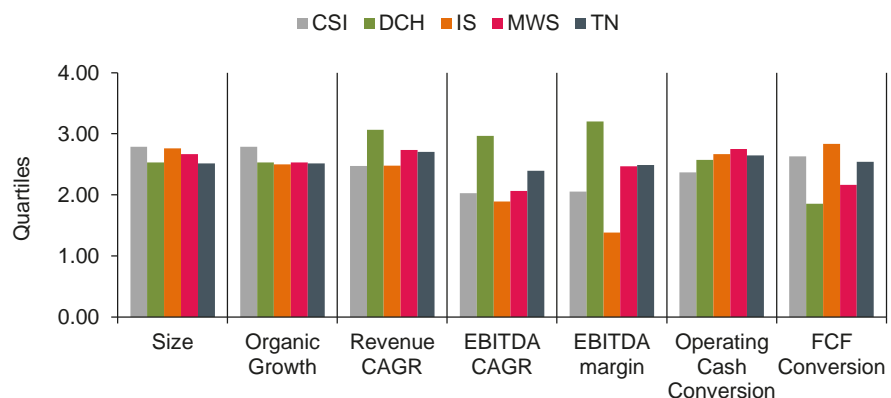
Telecoms & Networks

The Telecoms & Networks peer group is one of the largest in the Scorecard with 37 companies. On the whole, the peer group enjoys above average EBITDA growth and OCF and FCF conversion on about-average revenue growth and EBITDA margins, with the cash flow metrics reflecting the favourable characteristics of the predominant business comms reseller model. The league table is led by small business utility provider Verastar (formerly Universal Utilities) but most of the top ten specialise in connectivity services (eg Ask4 and Metronet), boosted by the growing internet and Cloud world. There is less of a pattern at the bottom of the table though second-last Azzurri (recently acquired by Maintel) has had well-known challenges.

Data Centre & Hosting

As befits a peer group at the heart of the internet and Cloud world, the Data Centre and Hosting peer group has one of the highest scores, reflecting above-average revenue and EBITDA growth and margins, with the score only let down by below-average FCF conversion. The table is dominated by the more hosting-focussed players, led by UKFast, which enjoy strong growth and cash flow. Meanwhile, those towards the bottom include several private-equity backed businesses (eg Adapt and UK2), with cash flows impacted by ongoing restructuring costs.

FIGURE 14: ICT Services sector peer group performance – universe of companies



Source:
– Megabuyte

Mobile, Wireless & Satellite

The slightly below-average score for this diverse peer group actually overstates its relative performance given that several companies do not qualify for the Scorecard due to having never made a profit or generated cash, suffering the Curse of Mobile. However, there are also some very strong companies, led by m2m platform provider Wireless Logic and corporate SMS provider Esendex, both backed by private equity. At the other end, location specialist Ubisense comes 219 out of 219 Megabuyte companies across all peer groups qualifying for a score.

Infrastructure Services

Infrastructure Services companies are generally low margin businesses, especially those at the reseller end of the spectrum, and this is reflected in their first quartile performance for margins. However, they do have highly cash generative business models and, therefore, perform particularly well for cash conversion, scoring top of the third quartile for OCF and fourth quartile for FCF; almost the inverse of the DCH companies with their high margin but high capex model.

Consulting & Systems Integration

Generalist Consulting & Systems Integration companies tend to deliver fairly poor organic growth and relatively low margins but, because our mid-market coverage is dominated by specialist players such as FDM and NCC, the dynamics are much more favourable in a Scorecard context. Organic growth is at the top of the third quartile, matching DCH companies. However, margins, profit growth and cash conversion are less impressive.



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Quartix

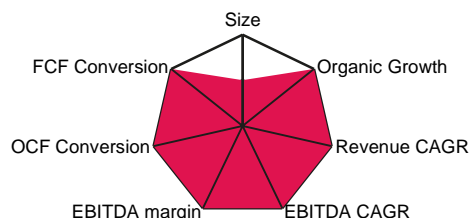
Megabuyte Score: 92.0

Quartix designs, develops, and markets vehicle tracking devices and the provision of related data services to the fleet and insurance sectors.

Megabuyte View:

After another positive year of trading, Quartix finds itself at the top of this year's rankings, having been in second place for 2015. Within a competitive fleet tracking technology market, Quartix's ongoing success is a result of supplying a high quality product to the SME market with fleets of 3 to 50 vehicles. To augment continued growth in the UK, Quartix entered the French fleet market in 2010 and completed its first full year of trading in the US during 2015. The company has also reported strong growth in the insurance telematics market.

Quartile Performance



FDM Group

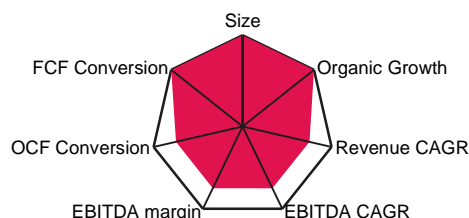
Megabuyte Score: 81.5

FDM provides IT services primarily to the financial services sector in the UK, the US and internationally, through its proprietary Mountie model.

Megabuyte View:

FDM has not skipped a beat since it listed on the LSE in 2014. Organic growth accelerated in 2015 from already-high levels as international expansion of the company's unique Mountie model continued to gain traction, especially in the US. As legacy contracting revenues are run down, margins should improve even further going forward. All of this has propelled FDM from its eleventh place position in 2015 to second place this year, and the highest placed ICT Services company.

Quartile Performance



GB Group

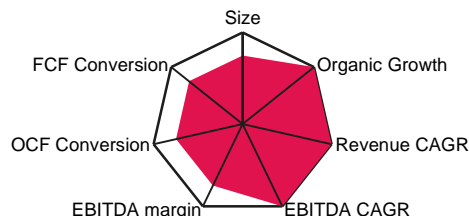
Megabuyte Score: 81.1

GB Group offers identity verification technology and related services.

Megabuyte View:

GB Group is another AIM listed company which has transformed its scale and organic growth rate with a successful M&A strategy in recent years. The company's clear strategy to build a portfolio of software products and related services around a common theme of identity verification has pushed it from the bottom of AIM to one of the leading companies. Continuing strong financial performance across the board has helped GB Group to maintain a solid top 10 position.

Quartile Performance



Iomart Group

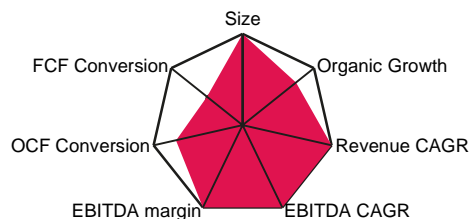
Megabuyte Score: 80.8

Iomart is a UK based hosting and managed services company.

Megabuyte View:

GB Group is another AIM listed company which has transformed its scale and organic growth rate with a successful M&A strategy in recent years. The company's clear strategy to build a portfolio of software products and related services around a common theme of identity verification has pushed it from the bottom of AIM to one of the leading companies. Continuing strong financial performance across the board has helped GB Group to maintain a solid top 10 position.

Quartile Performance



Kainos Software

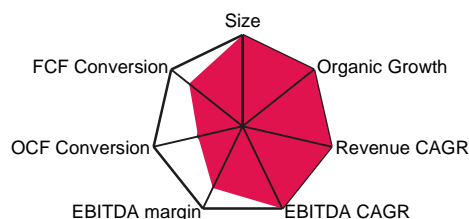
Megabuyte Score: 79.0

Kainos provides IT Services, consulting and software solutions primarily to the UK public sector.

Megabuyte View:

Kainos was a top ten company in last year's Megabuyte50 Awards for the UK leading private tech companies, so it is not surprising that it has a similar positioning in the Quoted Company Scorecard. Within the public sector Kainos is targeting two opportunities: first the drive to digitalise central government services and, secondly, the desire to transfer healthcare records into an electronic format. Meanwhile, in addition to its public sector initiatives, Kainos has increased its exposure to the commercial sector by positioning itself as a leading mid-market Workday implementation specialist.

Quartile Performance



dotdigital

Megabuyte Score: 78.9

dotdigital provides SaaS-based solutions and managed services to marketing professionals.

Megabuyte View:

In the fragmented and competitive marketing automation software space dotdigital is holding its own against a number of international well capitalised peers in the UK and, increasingly, internationally. An adjustment in its strategy to focus on mid-market businesses and small enterprises, alongside a strong partnership with e-commerce platform leader Magento, is clearly not only allowing dotdigital to win new business but also grow inside existing accounts.

Sophos

Megabuyte Score: 78.7

Sophos provides end point and unified threat management (UTM) solutions, primarily to the mid-market in Europe and North America.

Megabuyte View:

Sophos is the third of our recently listed business to enter the Quoted Company Scorecard in a top 10 position. The leading cyber security software vendor delivered improved organic growth in 2015 which helped its rating to rise from 75 to 79, helping it to achieve a solid top ten position. While many of its US peers have seen very substantial pressure on their share prices, Sophos has remained relatively robust.

Tracsis

Megabuyte Score: 78.2

Tracsis provides scheduling software and services primarily to transport markets.

Megabuyte View:

Tracsis is currently ranked eighth in the quoted company rankings, having claimed the number one spot at the time of last year's report. Despite the company's latest full year results to July 2015 showing another solid performance, with double-digit revenue growth, improving margins and strong cash conversion, the company's Scorecard rating was impacted by an anticipated decline in revenues for its Remote Condition Monitoring segment. We expect acquisitions to continue to play a significant part in Tracsis' growth strategy.

Servelec Group

Megabuyte Score: 73.4

Servelec provides software and IT systems to the healthcare and utilities sectors.

Megabuyte View:

Placed 19th in last year's rankings, Servelec has entered the top ten for 2016 with a score of 73. The company's recent performance has been driven by strength across its Health & Social Care portfolio. In particular, the business has performed well in the health and community care system refresh across England and has gained market share in social care with Corelogic. Conversely, trading conditions have been more challenging for Servelec's Automation business, which has been impacted by trading conditions in the oil & gas industry and delays in the UK water market.

EMIS Group

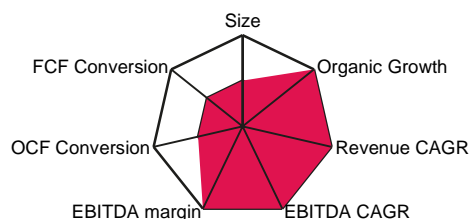
Megabuyte Score: 71.5

EMIS Group is the UK's leading provider of software to GPs to enable them to hold and manage patient records.

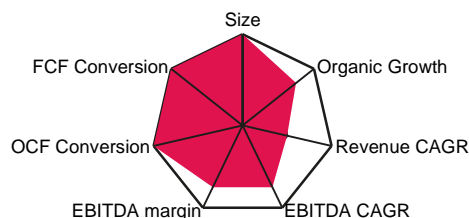
Megabuyte View:

EMIS has maintained a top ten place for 2016, albeit with its ranking falling from 3rd to 10th as organic growth slipped from 11% to 5%, primarily reflecting the completion of the EMIS web roll-out in England and Wales. EMIS had hoped to offset some of this by a stronger performance in Secondary Care, namely with Ascribe, although this unfortunately did not come to fruition. However, a recent trading update suggests that EMIS has made a more positive start to 2016 in the Secondary Care market.

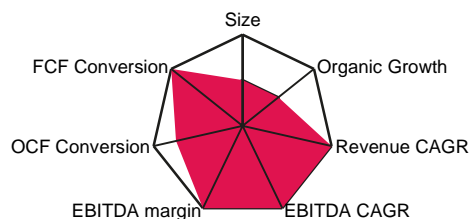
Quartile Performance



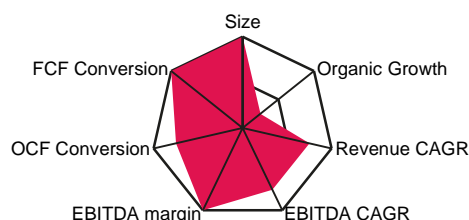
Quartile Performance



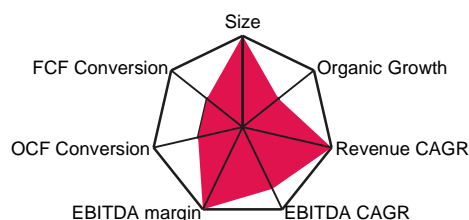
Quartile Performance



Quartile Performance



Quartile Performance



Sepura

Megabuyte Score: 70.5

Sepura specialises in the supply of terminals for TETRA radio services, with a focus on military, transport, utility, public safety and commercial users.

Megabuyte View:

Sepura merited this position on the back of a strong fiscal year 2015, when the company benefitted from M&A and adding services to its walkie talkie hardware base. However, the fiscal 2016 results are likely to knock the rating quite heavily due to a decline in EBITDA from delayed contracts and poor working capital, offsetting growth from last May's significant Teltronic acquisition.

NCC Group

Megabuyte Score: 70.4

NCC provides software escrow solutions, security testing and domain name services.

Megabuyte View:

It has been a very busy couple of years for NCC Group as its acquisition activity ramped up, first with the acquisition of Accumuli and then Fox-IT towards the end of 2015. While the company retains an impressive score, and is a top 5 company in its peer group, it has slipped from the QCS top ten in 2015 primarily because of weakening cash conversion. Organic growth remains top quartile, however.

Softcat

Megabuyte Score: 70.3

Softcat is one of the UK's largest and fastest growing IT reseller, focussing on the mid-market. The company listed on LSE in November 2015.

Megabuyte View:

Softcat was a top 25 company in last year's Megabuyte50 so it is no surprise that it has translated that into a strong performance in the QCS. Softcat delivers top quartile organic growth, revenue CAGR and FCF. However, while its margins are high for a reseller, they are still only first quartile against the wider Scorecard peer group. Looking at broker estimates for the current year, Softcat's rating is likely to fall next year.

Craneware

Megabuyte Score: 69.8

Craneware provides software solutions to US hospitals and other healthcare providers enabling them to price, charge, code and retain earned revenue.

Megabuyte View:

Craneware's primary scorecard strengths are its EBITDA margin and cash flow conversion on both an OCF and FCF basis, reflecting the strength of the company's annuity revenue model. Meanwhile, whilst growth has been relatively low, Craneware has a strong order book and pipeline. Interestingly, Craneware's strategy is to build out from its revenue cycle suite of solutions and into the cost management component of hospital operations. To help deliver on its strategy, Craneware announced a \$50m funding facility with RBS in January 2016.

PROACTIS Holdings

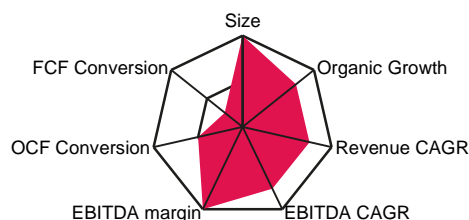
Megabuyte Score: 69.0

PROACTIS provides software that allows organisations to streamline, control and monitor all internal and external expenditure, other than payroll.

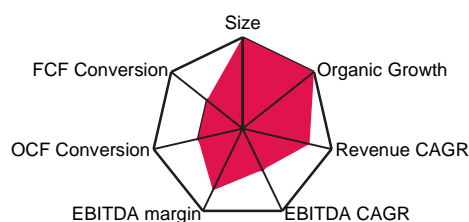
Megabuyte View:

Acquisitions have all but doubled PROACTIS' revenue base in recent years and, therefore, it is unsurprising that the company features in the top quartile for its three year revenue and EBITDA CAGR. However, performance has been less impressive from an EBITDA to cash flow conversion perspective. Equally, whilst organic growth remained strong in 2015, at 12%, it slowed significantly in the first half of the current year to 4%, which the company put down to a continued shift towards multi-year subscription revenues.

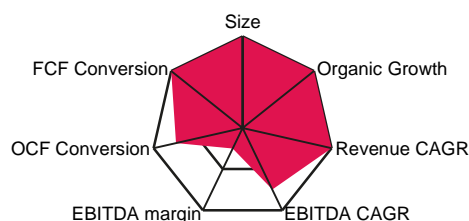
Quartile Performance



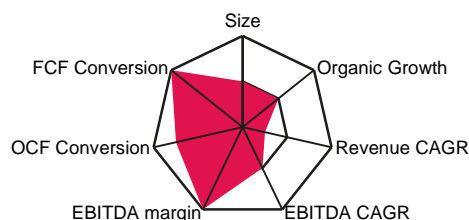
Quartile Performance



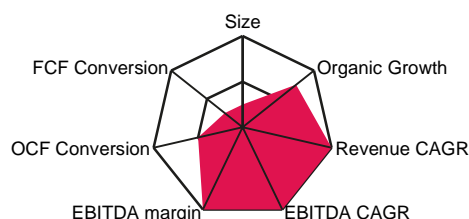
Quartile Performance



Quartile Performance



Quartile Performance



Gamma Communications Megabuyte Score: 68.1

Gamma is one of the UK's largest providers of telecoms services, mainly providing wholesale network services to other carriers, as well as direct to businesses.

Megabuyte View:

Gamma enjoys its good Scorecard position on the back of recent strong growth and rising margins, combined with solid cash flow dynamics. This is the result of investment in market-leading hosted voice, inbound calling and SIP products combined with a sizeable and expanding reseller channel and a growing direct presence among UK businesses.

Zamano Megabuyte Score: 67.6

Zamano provides mobile content and services, both direct to consumers and on a B2B basis.

Megabuyte View:

Zamano has had its ups and downs in recent years, with EBITDA peaking at €4.2m in 2009 before changing mobile content markets and regulation significantly hit revenues and, particularly, EBITDA. The above-average Scorecard rating reflects the subsequent recovery to 2014, which has continued in 2015, albeit that EBITDA of €3m is still below the 2009 high.

Microgen Megabuyte Score: 67.4

Microgen operates through two divisions; Aptitude is a very high throughput transaction processing engine and Financial Systems provides software for fund administration.

Megabuyte View:

While Microgen's revenue growth has been fairly weak, especially in its Financial Systems division, it delivers very strong margins and cash flow KPIs. The business went through an internal review recently but it was inconclusive. The architect of the business, Martyn Ratcliffe, has recently left, suggesting that a revised growth strategy may be on the horizon.

Fidessa Group Megabuyte Score: 66.7

Fidessa provides buy and sell-side trading software and related services on a global basis.

Megabuyte View:

Fidessa makes the top 20 primarily by virtue of its top quartile margins and decent cash conversion. However, growth remains muted as investment banks' spending on equity trading platforms has been weak. While Fidessa does generate strong margins, we believe that these could be higher, looking at similarly mature comparables in the fintech sector.

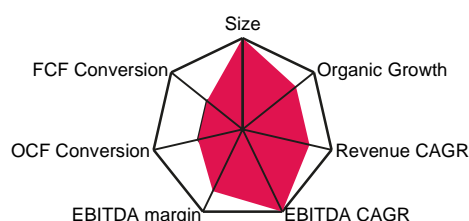
Manx Telecom Megabuyte Score: 66.6

Manx Telecom is the incumbent fixed line, mobile and data services operator in the Isle of Man.

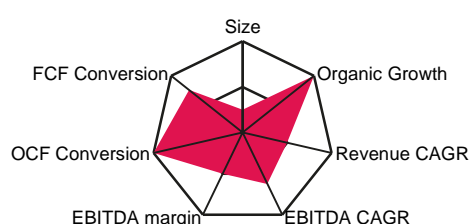
Megabuyte View:

Although Manx Telecom is on paper an incumbent telco, it enjoys a very strong market position due to limited competition and has above-average exposure to growth areas such as m2m and data centres compared with the usual incumbent. However, it is also expected to invest heavily in its network.

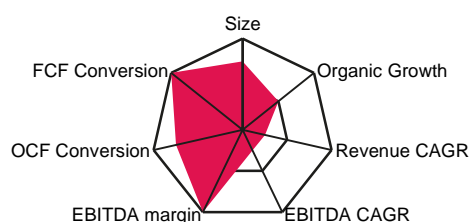
Quartile Performance



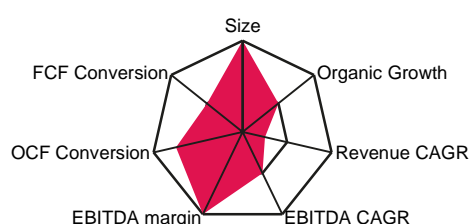
Quartile Performance



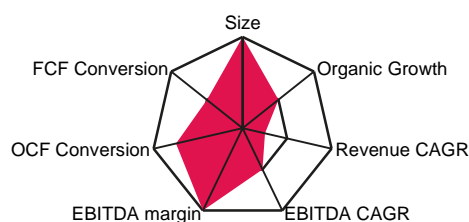
Quartile Performance



Quartile Performance



Quartile Performance



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