megabuyte
Technology Sector Intelligence

The megabuyte scorecard

The technology sector's most respected financial benchmarking methodology

An expert tool enabling companies and the investor and advisory communities to understand companies' performance relative to peers.

WHERE CAN I FIND MEGABUYTE SCORECARD RATINGS?

1 **Subscribers to the Megabuyte research service**
Individual company Scorecard ratings and peer group ratings are available, and updated dynamically, across our published research content.
www.megabuyte.com/subscription

2 **Non-subscribers**
Peer group ratings are referenced in our company and peer group reports which are available to buy on-line on a pay-as-you-go basis.
www.megabuyte.com/reports

3 **Megabuyte award series**
The Megabuyte award series use companies' Megabuyte Scorecard ratings to compile their league tables. Full results for current and previous years' award winners are available online.
www.megabuyte-awards.com

How to use our megabuyte scorecard ratings

Companies: Communicate your competitive positioning to customers, prospects, partners or the financial community.

Advisers: One-off or quick 'first pass' reports where you need to be 'instantly' and credibly informed about a customer or prospect and their competitive environment.

Investors: Monitor the relative performance of portfolio companies or assess potential investments.

The Megabuyte Scorecard is a proprietary methodology developed by the research team at Megabuyte and **pools over 60 years of combined experience assessing the performance of ICT Services and Software companies.**

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megabuyte scorecard

What does a 'good' technology company look like?

Mid-market companies

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 is passed, high growth, high margin, cash generative businesses will always provide better long term returns for investors.

Scale-up companies

The Scorecard Lite retains many of the core tenets of the main Scorecard methodology in analysing what a great business looks like, although it has been adjusted to reflect the differing priorities of earlier stage companies - namely focusing more on growth.

How does it work?

The megabuyte scorecard

SIZE x1
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.

GROWTH x3
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.

MARGINS x1
When evaluating profitability, we look at adjusted EBITDA margins as the optimal measure of P&L profitability.

CASH FLOW x2
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. 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 actual operating cash flows rather than EBITDA.

The megabuyte scorecard *Lite*

SIZE x1
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.

GROWTH x2
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.

MARGINS x2
Whilst scale-up companies quite often lose money during their formative years to support growth, we reward companies who also do so profitably, using EBITDA margins as the optimal measure of P&L profitability. Margin improvement is also a key measure used in Scorecard Lite.

STAGE 2: Primary Score - Quartiles

STAGE 3: Weighted Score - Weighting of Quartiles

STAGE 4: Megabuyte Scorecard Rating - Positioning within Quartiles

The Scoring Process

A FOUR STAGE PROCESS

STAGE 1
DATA CLEANSING
In order to calculate the scorecard KPIs, we need to ensure that company data is comparable across our selected company universe. For this reason we require clean and consistent company accounts for a minimum of three years. 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 inconsistent over time. For example, if a company has sold an asset but hasn't clearly restated previous accounts relating to discontinued activities.

STAGE 2
DATA ANALYSIS
Once we have calculated the KPIs for our selected universe, we calculate the quartile performance for each KPI. Companies are then positioned within quartiles, with each company being assigned a score of one (bottom quartile) to four (top quartile).

STAGE 3
WEIGHTING OF QUARTILES
We then apply a proprietary weighting to the seven KPIs. While we do not disclose exact weightings, priority is given to organic growth over reported growth and the extent to which profits are cash-backed.

STAGE 4
RELATIVE POSITIONING
Finally, a company's performance within each quartile is taken into account. Therefore, if a company is in the top quartile it will be given a score of between three and four. If it is in the bottom quartile, it will receive a score of between zero and one.

Inclusion criteria

Mid-market Companies

- ✔ UK domiciled and headquartered companies
- ✔ Private and public companies
- ✔ Not a subsidiary of a much larger organisation
- ✔ Has not been through very significant M&A recently or other such transformational events
- ✔ 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.
- ✔ Up-to-date profit & loss accounts, or full financials, for three consecutive years prior to the most recent year reported

Scale-up Companies

- ✔ UK domiciled and headquartered companies
- ✔ Private and public companies
- ✔ Not a subsidiary of a much larger organisation
- ✔ Has not been through very significant M&A recently or other such transformational events
- ✔ Revenues of £3m to £10m in last reported year
- ✔ Up-to-date profit & loss accounts, or full financials, for three consecutive years prior to the most recent year reported

Please note that all figures supplied must be verifiable.

OUR DEFINITION OF A SCALE-UP BUSINESS
We have a broad definition of a scale-up. You may be a company who has been founded in the last few years, but equally you may have been operating for many years but recently found a rich growth stream. We are particularly interested in a record of revenue growth and margin improvement.