



Ubika Tech 20

October 11, 2016

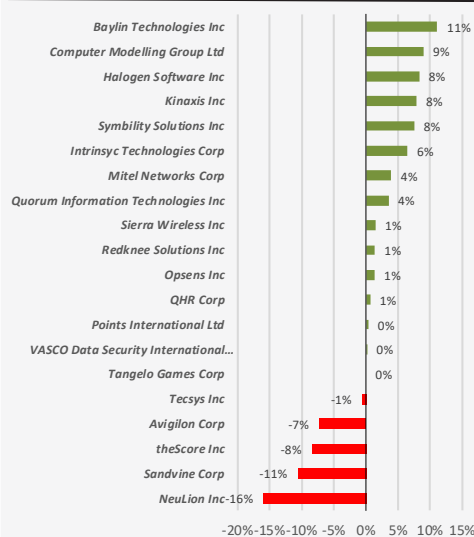
Ubika Tech 20

Sept. 6, 2016 - Oct. 11, 2016

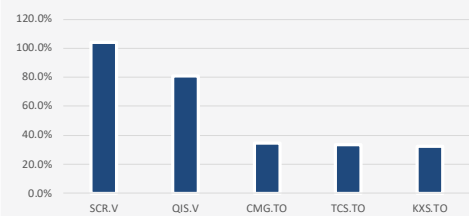
UT20: +2.0% (+7% Y/Y)
 TSX Venture: -5.8% (+40% Y/Y)
 TSX Info Tech: +1.7% (+14% Y/Y)



Ubika Tech 20: Performance Distribution



Top Volume Gainers (m/m)



Alex Cutulenco | Analyst | Gravitas Financial Inc. | alex@gravitasfinancial.com | 1 (416) 992-6731
 David Bar | Analyst | Gravitas Financial Inc. | dbar@gravitasfinancial.com | 1 (647) 284-8485

The UT20 Welcomes a 1st U.S. Constituent!

It was a steady month for the Ubika Technology 20 (UT20) index, climbing 2.0% over the period of September 6th to October 11th, 2016, in line with the TSX Info Tech index's 1.7% gain. The Toronto Venture exchange performed poorly, dropping 5.8%.

That being said, it was a busy month for big tech firms as shops were closed, others were sued, and products went up in smoke. In addition, we had to say goodbye to SMART Technologies (TSX:SMA), but welcomed aboard VASCO Data Security International (VDSI:OQ), a first U.S. stock addition!

Industry Highlights

- The original smartphone maker, Blackberry (TSE:BB) has officially announced that it will stop developing and producing smartphones. CEO John Chen made the announcement on September 28th, after losing \$8 million on the sale of 400,000 smartphones last quarter (Apple Inc. has sold no less than 30 million phones per quarter since 2013). Blackberry's battered legacy as a 'has been' manufacturer still struggling to maintain relevance will cease and the company will begin to focus on software with an emphasis on mobile security.
- Microsoft (NASDAQ:MSFT) is creating a brand new artificial intelligence (AI) research group unit called Microsoft AI and Research Group. The industry, which was only \$8.3 billion in 2013, is expected to grow to \$70 billion by 2020. Microsoft has made a number of acquisitions to help bolster its AI portfolio as it acquired LinkedIn Corp for \$26.2 billion to help with analytics, machine learning and AI as well as acquiring SwiftKey, a predictive keyboard app, and Gencee, an AI-based scheduling service.
- Samsung's value went up in flames much like the battery on the new Note 7 after being forced to recall 2.5 million units, effectively wiping over \$26 billion worth of equity value on September 12th.
- As of September 19th, SMART Technologies (a UT20 Index company) has been officially delisted from the TSX, after the closing of the deal that saw Chinese giant Foxconn Technology Group buy all outstanding shares at a price of \$4.50 in an all-cash deal. A detailed description of our new addition VASCO Data Security Int. can be found on the last page of the report.

Upcoming Tech Events:

- Techtoberfest - October 12 & 13, 2016 at the Communitech Building in Kitchener
- iTech Conference - November 17, 2016 at the Metro Toronto Convention Center
- Canadian Innovation Exchange (CIX) - November 21 - 23, 2016 at the MaRS Discovery District in Toronto.

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Notable Performers

Baylin Technologies Inc. (TSE:BYL)

Baylin Technologies Inc., is a world leader in the wireless world, which heads Galtronics, a 37-year-old antenna company focusing on radio frequency (RF) engineering and manufacturing for the mobile, infrastructure and networking marketplace. During the past month Baylin climbed over 11% to top our Ubika Technology 20 index.

On October 3rd, Baylin Technologies announced that their earnings for Q3/2016 were going to be in the range of \$16.5 million to \$17 million. This absolutely smashes the consensus estimate of only \$2.5 million, signaling a significantly material difference. Upon release of the news Baylin's stock jumped \$0.40 before settling down at \$2.32. On top of that release, the same day Paradigm Capital released its top picks for Q4 2016 and Baylin Technologies found itself at the top of that list. The stock had been quite flat for the month prior but got a jolt right when it needed it, to take the top spot. Below is an excerpt from an article from "Cantech Letter" complete, with Paradigm Capital analyst Daniel Kim's price target for the stock.

Figure 1. Excerpt for Cantech article from Oct 3rd, 2016

"Q2 was a massive beat as BYL continues to capitalize on growth opportunities, with Q3 likely another strong quarter," says the analyst. "The Samsung Note 7 recall, while posing headline risk, has not presented a business risk to BYL. Rumours of an early Galaxy S8 release could provide an incremental boost to Q4 revenue. In the meantime, volumes with Indian and Chinese mobile OEMs is growing."

Kim has a "Buy" rating and a \$5.00 target on Baylin, which closed Friday at \$2.00.

Source: Paradigm Capital Research

Baylin is still operating at a negative net margin of -2% and -3.7% for the Q1 and Q2 2016, respectively, but it is an improvement from a negative 34.1% margin in 2015 and the revenue surprise that occurred this quarter may be enough to push the Company positive for Q3. Where Baylin's operational efficiency really stands out is when you analyze the Company's cash conversion cycle (CCC), which went from 152 days to 32 days. This is an incredible increase as Baylin has become more efficient at turning its products into the lifeblood of any business, cold hard cash. The meaning of the CCC decrease is that Baylin is collecting its receivables faster, holding its inventory for a shorter period of time while still maintaining longer payment terms on its accounts payable, which gives the Company more opportunity to use the cash for other business needs before it pays off the accounts.

Halogen Software Inc. (TSE:HGN)

Halogen Software Inc. ('Halogen') is a software company that provides Cloud-based talent management solutions, with industry specific configurations for its solutions in healthcare, professional services, financial services, manufacturing, education, public sector and hospitality. Halogen saw some great positive growth this month, taking the third spot in our Ubika Technology 20 with overall growth of 8% for the period.

The month of September saw a couple of positive events that had a play in pushing this Company's stock through the upswing. On September 6th, Halogen announced the appointment of two new executives, Paul Fitzpatrick and David Mennie as Chief Marketing Officer and VP of Product Management and Strategy, respectively. Mr. Fitzpatrick has an extensive background in senior sales and marketing roles on a global scale, having previously been at IBM, Cognos and ResponseTek. Mr. Mennie comes from one of the fastest-growing platform and software as a service companies (Acquia), where he ran the global product marketing department.

In mid-September Halogen announced that the Fidelity Group of Companies ('Fidelity') had taken a material position with the purchase of 12,600 shares. As of August 15th, 2016 Fidelity held 2.17 million common shares representing approximately 10%, which puts them as the 3rd largest shareholder, as can be seen in Figure 2 below. With Halogen announcing that the acquisition of the shares by Fidelity was simply due to the natural course of business for investment purposes, it makes you think they see the value in this stock.

Figure 2. Halogen Software's top 10 Shareholders

#	Investor Name	% Outstanding	Position (M)
1	Slaunwhite (Michael)	31.95%	6.87
2	EdgePoint Investment Group Inc.	10.24%	2.20
3	Fidelity Institutional Asset Management	10.17%	2.19
4	JMI Equity	8.88%	1.91
5	1832 Asset Management L.P.	5.36%	1.15
6	Loucks (Paul)	4.47%	0.96
7	Hoult (Peter)	1.14%	0.24
8	Ashe (Robert Gerard)	0.50%	0.11
9	Rechan (Leslie)	0.26%	0.06
10	BlackRock Institutional Trust Company, ...	0.10%	0.02

Source: Thomson Reuters, Ubika Research

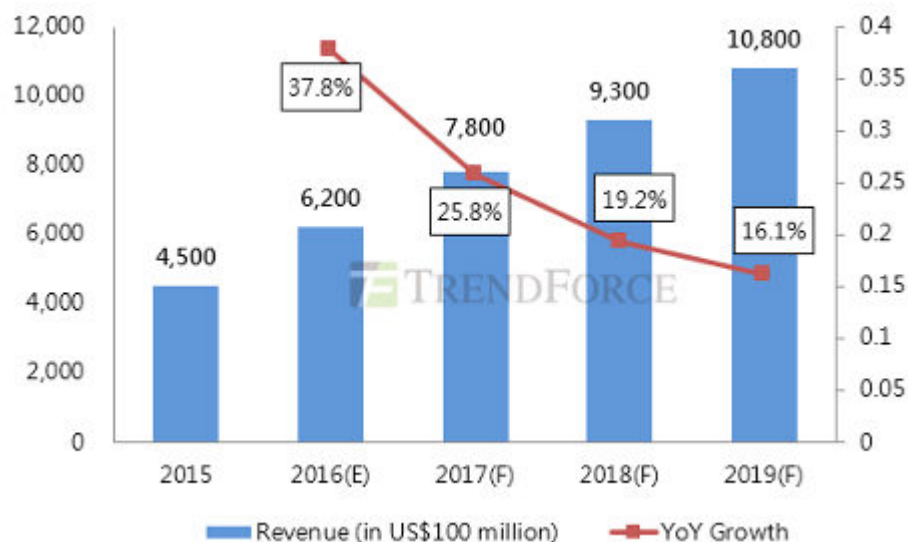
Finally, the announcement of a new contract with the Manatee County Sheriff’s Office out of Bradenton, Florida has also helped bolster performance. For the contract, Halogen will be providing its Halogen Performance™ solution for the optimization of ongoing performance management for the 1200 officers and civilians that are employed by the Manatee Sheriff’s Office.

Halogen recently produced its first positive income of \$280,000 this past quarter ending June 30th, 2016, which can be attributed to sales growth as well as overall operational efficiency. Halogen’s gross margin has swelled to 76.5%, up from 68.6% in September 2014, beating the industry median of 67.7%. Its EBITDA margin more than doubled from the previous quarter’s 3% to 8.7%, which is also above the industry median of 7.8%. When small companies make the transition into positive income it is a big deal and with improvement like Halogen has had over the past quarters with the new management, these results are expected to continue and improve further.

New Addition: VASCO Data Security Int. (VDSI.OQ)

VASCO Data Security Int. (‘VASCO’) is an Internet security provider that designs, develops and markets security solutions to secure and manage access to digital assets, protect and facilitate transactions online, through mobile devices, and in person. VASCO has a market capitalization of CAD\$967 million with 40 million shares outstanding and is up 8.3% year to date with a solid growth outlook, and for that reason we are adding VASCO to our Ubika Technology 20 Index as the first U.S. stock to find its way onto any of the Ubika indexes.

Figure 3. Total Revenue of Global Mobile Payment Market, 2015-2019



Source: TrendForce, Feb. 2016

Major catalysts for VASCO moving forward is that it is out of the proof of concept phase for one of its products with many major banks, including US Banks, and has a large network of customers (approx. 10,000) in 100 countries throughout the world. As a company that deals primarily with financial solutions having applications for e-signature and transactions, there is significant growth opportunities in the mobile transaction market. With smartphones becoming increasingly more affordable, mobile transaction volumes are expected to grow from an estimated USD\$620 billion in 2016, to over USD\$1 trillion as is shown in Figure 3.

In addition, as the world becomes increasingly connected the demand for strong security products like VASCO's will only increase. In 2015, the market for cybersecurity solutions grew to USD\$75 billion and is expected to grow to USD\$170 billion by 2020, according to Forbes.

Over the past year VASCO has underperformed when looking at the bottom line. Revenues dropped from USD\$130 million in H1/2015 to USD\$101 million in H1/2016, and net income went from USD\$27 million to \$5 million for the same periods, respectively. However, this shouldn't be of much concern as the major revenue drop can be attributed to a one-time delivery of VASCO's Cronto card reader (pictured below) that was delivered to Rabobank in H1 of 2015, and the decrease in profitability can be explained by both the increase in sales and marketing expense and an increase in R&D spending, both of which are positives to drive future growth.

Figure 4. VASCO's Cronto Card Reader, Used for Online Banking Transactions



Source: Company Website

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